

**StreetSmart: Reinventing Retail Through Smarter Small Business**

by

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Submitted to the Department of Urban Studies and Planning on August 16,  
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Master in City Planning

## Abstract

Before the COVID-19 pandemic, the retail market in U.S. cities was widely acknowledged to be overbuilt by about one billion square feet<sup>1</sup>. The wave of lockdowns and restrictions on retail operations further exacerbated the distress in the retail market, with bankrupt major retail chains closing stores sending rents plummeting. Simultaneously, the rapid rise in eCommerce coupled with the COVID-19 pandemic exacerbated inequalities in minority-owned businesses, including ownership rates, revenue, and access to financing. The pandemic also led to the closure of street retail, increased demand for eCommerce and logistics space, and resulted in retail supply chain operational challenges and disruptions which disproportionately affected minority businesses. It is also estimated that the US may need an additional one billion square feet of logistics real estate to meet growing eCommerce demand. These trends taken together can have important implications for U.S. cities. Brick and mortar retail, storefronts, and street commerce, are critically important to the vibrancy of cities and a key social attraction of urban centers. This thesis explores a solution to the problems faced by minority-owned small businesses. By responding to changes and opportunities in the retail landscape, the competitiveness of minority-owned businesses can be strengthened. This thesis explores a solution—Venture Design—responding to changes and opportunities in the retail landscape designed to enhance the competitiveness of minority-owned businesses. The Venture Design framework developed by MITdesignX was applied to

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<sup>1</sup> Cody, Kevin. Retail Market May Be Overbuilt to the Tune of 1 Billion Square Feet, April 14, 2021. <https://www.costar.com/article/1488563638/retail-market-may-be-overbuilt-to-the-tune-of-1-billion-square-feet>.

create a proposed hybrid-retail approach as a venture opportunity. This thesis makes the case that minority small businesses are uniquely positioned to leverage such a solution to remain competitive in the changing retail landscape.

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MITdesignX

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## PREFACE

This thesis is a proposal for a new venture aimed at helping minority communities and businesses to retain their economic and social hearts in the face of existential forces from the COVID-19 pandemic, to racism, to technological disruption of eCommerce. The proposed venture *StreetSmart* demonstrates that an alternative approach to retail is possible and sustainable. *StreetSmart* combines a new spatial strategy, retail business model, and positive social impact that can serve as a catalyst to reclaiming declining neighborhood centers, not only in minority neighborhoods but more broadly across the country. Similar retail paradigm shifts have occurred throughout history, including suburban shopping malls in the 1950s and main-street management in the 1980s.

**Before reading this thesis, it is recommended that the final deliverable presentation should first be viewed at [www.streetsmart.dev](http://www.streetsmart.dev). The accompanying slide for the presentation is also available in the Appendix.** The following text details the research, methodology, and process involved in arriving at this final deliverable.

CHAPTER 1: **INTRODUCTION**

Retail businesses serve as the heart of most cities. Planners understand that bustling downtown streets with numerous amenities draw people in, regardless of class, age, race, or political affiliation. Local retail businesses encourage civil discourse and generate ties to other members in the community. Retail activity and street commerce also generate economic activity for surrounding communities and economic benefits through multiplier effects by keeping most of the revenue within the communities they serve<sup>2</sup>. Thus, recent trends in the retail industry, the emergence of the Covid-19 global pandemic, and longstanding issues of systematic racism should worry any planner. These trends pose an existential threat to the communities, businesses, and the very places the profession holds dear. In 2020 many small businesses reported lower revenue, layoffs, and struggled to survive<sup>3</sup>. Over 35% of small businesses would not have survived without stimulus funding from the federal government. The number is even higher for small businesses owners of color at 41%<sup>4</sup>. Some short-term solutions, such as the payment protection program, emerged specifically to help small businesses survive. However, as Small Business Majority observed, federal assistance helped larger, whiter companies with extensive networks,

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<sup>2</sup> Andres Sevtsuk, *Street Commerce: Creating Vibrant Urban Sidewalks* (Philadelphia: University of Pennsylvania Press, 2020), Pg. 4.

<sup>3</sup> Alexander W. Bartik et al., "The Impact of COVID-19 on Small Business Outcomes and Expectations," *Proceedings of the National Academy of Sciences* 117, no. 30 (October 2020): pp. 17656-17666, <https://doi.org/10.1073/pnas.2006991117>.

<sup>4</sup> "More than 1 in 3 Small Businesses Won't Survive Past the next Three Months without Additional Financial Relief" (Small Business Majority, October 20, 2020), <https://smallbusinessmajority.org/sites/default/files/research-reports/October-COVID-19-small-business-survey.pdf>.

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consequently disadvantaging minority competitors. **Minority businesses and communities have been disproportionately affected by structural racism, the COVID-19 pandemic, and retail restructuring. This thesis investigates how. It then proposes a design solution that helps minority-owned businesses remain competitive in a changing retail landscape.**

By leveraging the Venture Design approach developed by MITdesignX, an evidence-based method to addressing complex problems facing the world, a speculative future can be imagined. This thesis investigates how minority businesses and communities have been disproportionately affected by structural racism, the COVID-19 pandemic, and the restructuring of retail. At the heart of meeting these human needs is an understanding of how design can assist with these issues. Many facets of the problem are analyzed to uncover a practical solution that can help enhance current conditions. By leveraging this approach, this thesis concludes with a venture proposal to help minority businesses thrive. The proposed venture aims to help minority-owned companies remain competitive in a changing retail landscape.

This design thesis builds upon and combines subject areas explored throughout the writer's graduate school career, most notably coursework in New Enterprises, Real Estate Private Equity, and engagement with MIT CoLab, MIT Real Estate Innovation Lab, and MITdesignX Venture Accelerator

and Bootcamp. This thesis represents a culmination of these experiences. The thesis begins with a context chapter that provides background on the challenges faced by minority businesses. The methodology sections describe the MITdesignX approach to these issues, which was used in this thesis. The outcome of this process is described in the design solution section and further expounded upon in the subsequent discussion. Finally, the conclusion summarizes the main points of the thesis and the next steps.

CHAPTER 2: **CONTEXT**

There are 30.7M small businesses in the U.S. which account for 99.9% of all U.S. businesses<sup>5</sup>. Minority and Women-owned Businesses Enterprises (MWBE's) represent the fastest-growing category of American small businesses growing by 79% from 2007 to 2017 when these businesses reached 11.1 million. This growth is ten times faster than the 7.6% growth rate among all US small businesses<sup>6</sup>. In the last ten years, minority businesses made up over 50% of the two million new businesses opened in the U.S. Minority businesses are also significant contributors to employment and the economic vitality of many communities they serve<sup>7</sup>. Presently, they sustain 7.2 million jobs and generate over \$1.4 trillion in annual gross receipts<sup>8</sup>. Furthermore, racial and ethnic demographic shifts mean that by 2050 most businesses owners in the US are expected to be non-white.<sup>9</sup> It is estimated that the U.S. GDP could be 8 trillion dollars bigger if the U.S. racial equity gap were closed<sup>10</sup>. These estimates suggest that minority businesses represent a crucial and growing segment of the U.S. economy.

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<sup>5</sup> "United States Small Business Profile, 2019," *United States Small Business Profile, 2019* (Washington, DC: SBA Office of Advocacy, 2019), <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/04/23142719/2019-Small-Business-Profiles-US.pdf>.

<sup>6</sup> Steve King and Carolyn Ockels, "Number of Minority Owned U.S. Small Businesses Growing Rapidly," Small Business Labs, October 3, 2017, <https://www.smallbizlabs.com/2017/10/number-of-minority-owned-us-small-businesses-growing-rapidly.html>.

<sup>7</sup> Cathy Yang Liu, Jonathan Miller, and Qingfang Wang, "Ethnic Enterprises and Community Development," *GeoJournal* 79 (November 21, 2013): pp. 565-576, <https://doi.org/https://doi.org/10.1007/s10708-013-9513-y>.

<sup>8</sup> "Impact of Minority Businesses on the U.S. Economy," Impact of Minority Businesses on the U.S. Economy § (2017), <https://archive.mbda.gov/page/infographic-impact-minority-businesses-us-economy.html>.

<sup>9</sup> Vanessa Cárdenas, Julie Ajinkya, and Daniella Gibbs Léger, "Progress 2050 New Ideas for a Diverse America" (Center for American Progress, October 2011), [https://www.americanprogress.org/wp-content/uploads/issues/2011/10/pdf/progress\\_2050.pdf](https://www.americanprogress.org/wp-content/uploads/issues/2011/10/pdf/progress_2050.pdf).

<sup>10</sup> Ani Turner, "The Business Case for Racial Equity," vol. 590 (Battle Creek, MI: W.K. Kellogg Foundation, 2018), p. 3.



Despite this positive outlook, widespread under-investment in minority businesses has resulted in about \$300B in lost income and as many as 9 million jobs<sup>11</sup>. These “*missing businesses*” caused by structural racial disparities have been exacerbated by the COVID-19 pandemic, creating a drag on business formation and expansion, adding up to lost jobs, lost income, and lost wealth-building among not only disadvantaged groups but also for the economy overall<sup>12</sup>. Furthermore, of the US\$1.4T in annual gross receipts generated by MWBEs, the retail and wholesale industries represent the most significant segments of minority-owned businesses with gross receipts of US\$278B and US\$297B, respectively<sup>13</sup>. Consequently, the restructuring of the U.S. retail industry, which is now underway, dramatically affects minority communities and MWBE businesses.

While some of these statistics may illicit optimism and show future potential, economists agree “*much more still needs to be done to encourage and strengthen the minority business community.*”<sup>14</sup>

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<sup>11</sup> Algernon Austin, “The Color of Entrepreneurship: Why the Racial Gap Among Firms Costs the U.S. Billions” (Washington, DC: Center for Global Policy Solutions, 2016), pp. 3.

<sup>12</sup> Sifan Liu and Joseph Parilla, “Businesses Owned by Women and Minorities Have Grown. Will COVID-19 Undo That?” (Brookings Institute, April 14, 2020), <https://www.brookings.edu/research/businesses-owned-by-women-and-minorities-have-grown-will-covid-19-undo-that/>.

<sup>13</sup> SBA Office of Advocacy, “Impact of Minority Businesses on the U.S. Economy,”.

<sup>14</sup> “Minority Entrepreneurs,” U.S. Committee on Small Business & Entrepreneurship, accessed June 23, 2021, <https://www.sbc.senate.gov/public/index.cfm/minorityentrepreneurs>.

## 2.1 Structural Racism

*"To be a poor man is hard, but to be a poor race in a land of dollars is the very bottom of hardships" —W.E.B. Du Bois.*

Recent events of 2020 have brought a renewed interest to the condition of “*structural racism*” embedded in many US institutions, including the business engine of America. Although minorities account for 32 percent of the U.S. population, business ownership rates among minorities represent only 18% of the total number of businesses. If ownership rates were proportional among people of color, there would be one million more minority-owned businesses and 9 million more jobs<sup>15</sup>. Furthermore, despite growth in the number of minority businesses over the past ten years by 35 percent, the average gross receipts for these firms compared to non-minority firms was 16 percent less <sup>16</sup>. Minority-owned companies have historically faced systematic barriers to accessing capital and resources. Large banks, for example, approve about 60% of loans sought by white small business owners compared to 50% for Hispanic owners and 29% for black business owners<sup>17</sup>. Studies by the W. K. Kellogg Foundation show that Persistent racial inequity within the US has posed unique challenges to minority businesses that “that limit the growth, scalability, and sustainability of their businesses — [including] lack of access to favorable credit terms,

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<sup>15</sup> Ani Turner, “The Business Case for Racial Equity”, p. 30.

<sup>16</sup> “Minority Entrepreneurs,” U.S. Committee on Small Business & Entrepreneurship.

<sup>17</sup> Sifan Liu et. al., “Businesses Owned by Women and Minorities Have Grown. Will COVID-19 Undo That?”

funding, investors, and marketplace opportunities.”<sup>18</sup> For example, “minority-owned small businesses [typically] had 32 percent fewer employees and 47 percent lower receipts than nonminority-owned ones”<sup>19</sup> .

State-sanctioned discriminatory policies and white resentment have also adversely affected minority businesses. Black codes, vagrancy laws, and convict leasing, stymied the legal rights of black individuals and blocked many from access to skilled trades and owning businesses<sup>20</sup>. Historically, such discrimination was followed by Jim Crow and other restrictive laws that further stunted the growth of companies. Where black businesses attained some measure of success, “political intimidation, economic exclusion, and the erasure of communities...were the customary aims of a wave of massacres conducted by Whites”<sup>21</sup>. The destruction of Tulsa’s thriving Greenwood black business community is perhaps the most known occurrence of white mob violence. However, similar incidents happened throughout the USA in the 20<sup>th</sup> century in places such as Colfax LA, Wilmington NC, Washington DC, Elaine AK, Ocoee FL, and Rosewood FL<sup>22</sup>. White violence was not only limited to black businesses. Other minority

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<sup>18</sup> Ani Turner, “The Business Case for Racial Equity,” p. 29.

<sup>19</sup> André Dua et al., “COVID-19’s Effect on Minority-Owned Small Businesses in the United States” (McKinsey & Company, May 27, 2020), <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/covid-19s-effect-on-minority-owned-small-businesses-in-the-united-states>.

<sup>20</sup> Michelle Singletary, “Black Businesses Are Fighting for Their Lives. We Can’t Afford to Lose Them.,” *Washington Post*, November 20, 2020, <https://www.washingtonpost.com/business/2020/11/20/black-businesses-face-discrimination/>.

<sup>21</sup> William A. Darity and Andrea Kirsten Mullen, *From Here to Equality: Reparations for Black Americans in the Twenty-First Century* (Chapel Hill, NC: The University of North Carolina press, 2020).

<sup>22</sup> Gillian Brockell, “Tulsa Isn’t the Only Race Massacre You Were Never Taught in School. Here Are Others.,” *Washington Post*, June 1, 2021, <https://www.washingtonpost.com/history/2021/06/01/tulsa-race-massacres-silence-schools/>.

groups have also been subject to state-sanctioned violence. For example, the Chinese Exclusion Act of 1882 profoundly shocked Chinese immigrants and communities and shifted America's open immigration policy to exclusion based on ethnicity, gender, and class<sup>23</sup> that would later affect Latinx and other immigrant groups. Japanese Americans too were forced to forfeit their assets and incarcerated in concentration camps during World War II losing irreplaceable personal property<sup>24</sup>. These policies and violence worked together to undermine minority communities and businesses. "Access to credit—home mortgage and small business loans—is an underpinning of economic inclusion and wealth-building in the U.S."<sup>25</sup> Although laws were put in place expressly prohibiting lending discrimination, including the Fair Housing act of 1968, the Equal Credit Opportunity Act of 1974, and the Community Reinvestment Act of 1977, racial exclusion persists today. For example, 74% percent of communities denied financial services because of race and ethnicity, through a process known as *redlining* and ended by law in 1968, remain low-to-moderate income today. Some 80 years after the practice first started, 64% of the areas identified as *hazardous* are now minority neighborhoods. In contrast, 91% of the regions deemed the *best* in 1930 are still middle-to-upper income and still predominately white today<sup>26</sup>.

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<sup>23</sup> Yuning Wu, "Chinese Exclusion Act," in *Chinese Exclusion Act* (Encyclopedia Britannica, February 9, 2021), <https://www.britannica.com/topic/Chinese-Exclusion-Act>.

<sup>24</sup> Wendy L. Ng, *Japanese American Internment during World War II: a History and Reference Guide* (Westport, CT: Greenwood Press, 2002).

<sup>25</sup> Bruce Mitchell and Juan Franco, "HOLC 'Redlining' Maps: The Persistent Structure Of Segregation And Economic Inequality" (Washington, DC: National Community Reinvestment Coalition, 2018), p. 5.

<sup>26</sup> Mitchell, HOLC 'Redlining' Maps: The Persistent Structure Of Segregation And Economic Inequality, p. 4.

People of color are routinely denied loans across the US at higher rates than white applicants. In a troubling pattern of loan application denials documented in 2021, “black applicants were turned away at significantly higher rates than whites in 48 cities, Latinos in 25, Asians in nine and Native Americans in three.”<sup>27</sup> Black and Latinx loan applicants are charged 0.08% higher rates compared to white borrowers<sup>28</sup>.

Minority businesses also tend to be in inner-city communities, often the same neighborhoods eviscerated by white flight, suburban sprawl, the interstate highway system, and urban renewal. These forces led to purchasing power and businesses fleeing downtowns to the racially segregated lifestyles of the suburbs. Such actions cleared entire inner-city commerce and cultural life centers, eviscerated downtowns including their commercial districts, displaced innate social networks, and dismembered American city centers' social and economic fabric<sup>29</sup>.

*“Many historically vibrant retail clusters and commercial corridors fell victim to racially driven neighborhood redlining, demolition, community destruction, and the flight of purchasing power that these policies enabled.”<sup>30</sup>*

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<sup>27</sup> Aaron Glantz and Emmanuel Martinez, “Modern-Day Redlining: Banks Discriminate in Lending,” Reveal, January 6, 2020, <https://revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/>.

<sup>28</sup> Robert Bartlett et al., “Consumer-Lending Discrimination in the FinTech Era,” *Journal of Financial Economics*, 2021, <https://doi.org/10.1016/j.jfineco.2021.05.047>.

<sup>29</sup> Svetsuk, *Street Commerce*, p. 174.

<sup>30</sup> Svetsuk, *Street Commerce*, p. 174.

Today's shifting demographics are beginning to show a reversal of these trends in some American cities, returning to mixed-use centers and main streets<sup>31</sup>. This *great inversion* is not occurring equally. Older coastal cities such as New York, San Francisco, Los Angeles, Washington DC, and Boston benefit the most from this regrowth in inner cities<sup>32</sup>. However, it is not population growth or decline in these cities but the "movement of African Americans out of central cities and the settlement of immigrant groups in the suburbs"<sup>33</sup> that is the best measure of this inversion. On the neighborhood scale and broader demographic inversion, gentrification means central cities are becoming increasingly attractive to the affluent and well educated as places to live because of jobs, education, and lifestyle. Neighborhood small businesses are frequently referenced as a critical entrepreneurship vehicle for minority and immigrant populations<sup>34</sup>. However, commercial gentrification is disproportionately harmful to minority-owned establishments because of either a shifting market or rising rents<sup>35</sup>. Many entrepreneurs of color are also concentrated in the restaurant, retail, and personal services industries making them more susceptible to disruption. They also require physical proximity to others and are less likely to be

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<sup>31</sup> Svetsuk, *Street Commerce*, p. 176.

<sup>32</sup> Svetsuk, *Street Commerce*, p. 181.

<sup>33</sup> Alan Ehrenhalt, *The Great Inversion and the Future of the American City* (New York, NY: Knopf Doubleday Publishing Group, 2012). p. 13.

<sup>34</sup> Stacey A. Sutton, "Rethinking Commercial Revitalization: A Neighborhood Small Business Perspective," *Economic Development Quarterly* 24, no. 4 (October 2010): pp. 352-371, <https://doi.org/10.1177/0891242410370679>.

<sup>35</sup> "Transit-Oriented Development & Commercial Gentrification: Exploring the Linkages" (UC Connect, September 2017), <http://ucconnect.berkeley.edu/sites/default/files/research-papers/TOD%20and%20Commercial%20Gentrification.pdf>.

delivered remotely<sup>36</sup>. Small businesses face the same pressures of residents in gentrifying neighborhoods, with black and Latinx companies particularly vulnerable to displacement and closure as clients with different tastes and preferences move in<sup>37</sup>.

The replacement of historic minority retail business also results in an unequal restructuring of the retail market that undermines efforts to increase spatial equity and livability. For example, some online delivery services refuse to serve low-income and minority neighborhoods<sup>38</sup>. Lack of convenient neighborhood-serving retail “forces residents to travel longer distances, for goods and services, spending a disproportionate share of their income and time on transportation and lowering their productivity.”<sup>39</sup> Lower-income families, unable to afford yearly subscription services, who lack “access to credit cards and high-speed internet connections, who do not own cars and whose neighborhoods are poorly serviced by delivery companies are adversely impacted by the current restructuring of the retail market.”<sup>40</sup>

These structural factors taken together mean that minority businesses face underlying issues that make it more difficult for them to operate and scale. The result is that minority businesses are more likely to be classified *as at-risk* or *distressed* with shakier cash positions, fewer banking

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<sup>36</sup> André Dua et al., “COVID-19’s Effect on Minority-Owned Small Businesses in the United States”

<sup>37</sup> Lung-Amam, Willow. “Businesses Are Victims of Gentrification, Too.” Bloomberg.com. Bloomberg, May 29, 2021. <https://www.bloomberg.com/news/articles/2021-05-19/small-businesses-are-victims-of-gentrification-too>.

<sup>38</sup> Svetsuk, *Street Commerce*, p. 190.

<sup>39</sup> Svetsuk, *Street Commerce*, p. 191.

<sup>40</sup> Svetsuk, *Street Commerce*, p. 191.

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relationships and pre-existing funding shortfalls, and few resources to carry them in the case of the COVID pandemic through<sup>41</sup>.

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<sup>41</sup> Claire Kramer Mills and Jessica Battisto, "Double Jeopardy: COVID-19's Health and Wealth Effects in Black Communities" (Federal Reserve Bank of New York, August 2020), [https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy\\_COVID19andBlackOwnedBusinesses](https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses).



## 2.2 The COVID-19 Pandemic

*"There's an expression often repeated in the Black community: When White people catch a cold, Black people get pneumonia. This colloquialism equally applies to Black businesses struggling to survive the covid-19 recession."<sup>42</sup>*

The COVID-19 pandemic upended retail businesses across America. Closures and diminished operations because of the pandemic grounded many retail activities to a halt. Inequities among minority businesses, too, have been further exacerbated by the COVID-19 closures and decreased business activity. According to a survey conducted by *Small Business Majority*, as of October 2020, over 1 in 3 (35%) small business owners were not expected to survive the next three months without additional funding relief. This number was even higher for small businesses of color at 41%<sup>43</sup>. A subsequent survey conducted by *Small Business Majority* in partnership with *Start Small Think Big* found that most small businesses (78%) rent or own their own space. While nearly half of companies overall (40%) were one or more months behind on their rent, 46% of Black Businesses, 46% of Asian American and Pacific Islander (AAPI) businesses, and 45% of Latino

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<sup>42</sup> Michelle Singletary, "Black Businesses Are Fighting for Their Lives. We Can't Afford to Lose Them.,"

<sup>43</sup> "More than 1 in 3 Small Businesses Won't Survive Past the next Three Months without Additional Financial Relief" (Small Business Majority, October 20, 2020), <https://smallbusinessmajority.org/sites/default/files/research-reports/October-COVID-19-small-business-survey.pdf>.

businesses were behind on space costs, compared to 34% of white companies. A majority of small businesses also anticipated their commercial space needs would change because of COVID-19 and therefore would reduce their commercial space (12%), relocate (15%), exit their current mortgage or lease (17%), acquire a new space (13%) or didn't know (31%). Only a minority of businesses (41%) expected things to stay the same. Minority business owners notably responded in higher numbers that they intended to relocate (17%) or acquire a new space (16%) compared to white businesses at relocate (12%) and acquire a new space (7%) respectively. These numbers were noticeably higher among black businesses<sup>44</sup>.

According to the National Bureau of economic research, active businesses ownership fell by 22% in a crucial two-month window between February to April 2020. However, differences across racial groups are striking. Black businesses experienced the most acute drop at 41%, followed by LatinX business at 32%, Asian at 26%, and White business fell by 17%. Immigrant and female-owned businesses also experienced substantial losses at 36% and 25%, respectively.<sup>45</sup>

*"An under-appreciated point, underscored here, is the close ties between the health and economic effects of COVID-19 in specific*

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<sup>44</sup> "Survey: Smallest Businesses Face a Looming Rent Crisis" (Small Business Majority, May 20, 2021), <https://smallbusinessmajority.org/sites/default/files/research-reports/Survey-Smallest-businesses-face-a-looming-rent-crisis.pdf>.

<sup>45</sup> Robert Fairlie, "The Impact of COVID-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey" (National Bureau of Economic Research, June 2020), <http://www.nber.org/papers/w27309>.

*communities: counties with the highest concentration of COVID-19 are also the areas with the highest concentration of Black businesses and networks*<sup>46</sup>.

MBEs have not received adequate support and experienced disparities in access to federal relief funds. Minority business owners were less likely to apply for and less likely to receive assistance from the Paycheck Protection Program (PPP)<sup>47</sup> set up by the U.S. Government to deliver economic aid to small businesses adversely affected by the COVID-19 pandemic. Minority businesses were treated less favorably than white businesses for relief aid despite having more robust profiles. In a study of lending discrimination within the PPP program, the National Community Reinvestment Coalition found that “lenders not only discouraged the Black testers from applying for a loan but simultaneously encouraged similarly situated White testers to apply for one or more loan products.”<sup>48</sup> The Washington Post analysis of U.S. Treasury and Small Business Association (SBA) data showed that “nationally, about three-quarters of PPP loans of more than \$150,000 went to businesses in census tracts where a majority of residents are White”<sup>49</sup>. Of the minority businesses that did apply for relief through the

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<sup>46</sup> Claire Kramer Mills and Jessica Battisto, “Double Jeopardy: COVID-19’s Health and Wealth Effects in Black Communities” (Federal Reserve Bank of New York, August 2020), [https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy\\_COVID19andBlackOwnedBusinesses](https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses).

<sup>47</sup> André Dua et al., “COVID-19’s Effect on Minority-Owned Small Businesses in the United States”

<sup>48</sup> Anneliese Lederer et al., “Lending Discrimination within the Paycheck Protection Program” (National Community Reinvestment Coalition, 2020), <https://ncrc.org/lending-discrimination-within-the-paycheck-protection-program/>.

<sup>49</sup> Tracy Jan, “A New Gentrification Crisis The Coronavirus Recession Could Wipe out Minority-Owned Businesses, Fueling Displacement from Historic Ethnic Neighborhoods,” *Washington Post*, July 31, 2020, <https://www.washingtonpost.com/business/2020/07/31/ethnic-enclaves-gentrification-coronavirus/>.

program, only one-tenth received the requested assistance, despite the majority requesting temporary aid of less than 20k. Two-thirds received no assistance at all or were still waiting over three months later<sup>50</sup>. A year after the program's inception, it was found that "black- and other minority-owned businesses were disproportionately underserved by the relief effort, often because they lacked the connections...or were rejected because of the program's rules"<sup>51</sup>. The resulting impacts meant that the pandemic, especially hard-hit minority business owners. African American, LatinX, and immigrant ownership declined by an alarming 41%, 32%, and 36% compared to white business ownership, which fell by 17%. Additionally, fear, anti-Asian sentiment, and racist associations with the COVID-19 virus kept "people away from Chinese restaurants and other Asian-owned businesses." <sup>52</sup>

Ironically, nationally, MWBEs fueled the recovery after the great recession adding "1.8 million jobs from 2007 to 2012, while firms owned by white males lost 800,000 jobs, and firms equally owned by white men and women lost another 1.6 million jobs." <sup>53</sup>

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<sup>50</sup> "First COVID-19 Survey of Black and Latino Small-Business Owners Reveals Dire Economic Future," Color Of Change, accessed July 15, 2020, [https://colorofchange.org/press\\_release/first-covid-19-survey-of-black-and-latino-small-business-owners-reveals-dire-economic-future/](https://colorofchange.org/press_release/first-covid-19-survey-of-black-and-latino-small-business-owners-reveals-dire-economic-future/).

<sup>51</sup> Tracy Jan, "A New Gentrification Crisis The Coronavirus Recession Could Wipe out Minority-Owned Businesses, Fueling Displacement from Historic Ethnic Neighborhoods,"

<sup>52</sup> Tracy Jan, "A New Gentrification Crisis The Coronavirus Recession Could Wipe out Minority-Owned Businesses, Fueling Displacement from Historic Ethnic Neighborhoods,"

<sup>53</sup> Sifan Liu et. al., "Businesses Owned by Women and Minorities Have Grown. Will COVID-19 Undo That?"

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*Whether by necessity or ingenuity, minority-owned small businesses may be giving us an early sign of how US businesses will adapt in the wake of COVID-19.... More than 40 percent of minority-owned small businesses have added new services to support their communities and employees, compared with 27 percent of all respondents.<sup>54</sup>*

The recent wave of COVID-19 shutdowns threatens to “devastate black commercial districts and other ethnic enclaves that fuel the vibrancy, economies, and identities of American cities...[and] hasten the gentrification that has encroached on Black, Asian and Latino communities”<sup>55</sup>. However, minority businesses exhibit resourcefulness and resilience and often provide early signs of emerging problems and approaches to how companies can adapt to support their workers and communities.

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<sup>54</sup> André Dua et al., “COVID-19’s Effect on Minority-Owned Small Businesses in the United States”

<sup>55</sup> Tracy Jan, “A New Gentrification Crisis The Coronavirus Recession Could Wipe out Minority-Owned Businesses, Fueling Displacement from Historic Ethnic Neighborhoods,”

## 2.3 Restructuring of Retail

*"The coronavirus will radically reshape Main Streets across the country, accelerating changes long in the making — chain stores will replace mom-and-pop businesses, some storefronts will remain vacant, and cash that once went into local hands will be redirected to Amazon and Walmart. The pandemic will reinforce and exacerbate what were already the two key economic trends of our lifetime: consolidation and inequality."*<sup>56</sup>

Retail square footage grew twice as fast as the population from 1970 to 2015.<sup>57</sup> Today, there is about 8.5 billion square feet of retail space available in the United States. The U.S. has the highest square footage of retail space per capita worldwide at 23.5 square feet of retail space per person. This retail square footage is over five times the U.K. average of 4.6 square feet per capita<sup>58</sup>. The resulting oversupply of retail continues to place downward pressure on the retail sector. According to Loeb, the *retail apocalypse* began in 2010 when brick-and-mortar stores started closing, progressively worsening.<sup>59</sup> Before the COVID-19 pandemic, many retailers

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<sup>56</sup> James Kwak, "The End of Small Business. Giant Corporations May Be the Only Survivors in the Post-Pandemic Economy.," *The Washington Post*, July 20, 2020, <https://www.washingtonpost.com/outlook/2020/07/09/after-covid-19-giant-corporations-chains-may-be-only-ones-left/>.

<sup>57</sup> Derek Thompson, "What in the World Is Causing the Retail Meltdown of 2017?," *The Atlantic*, April 10, 2017, <https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-2017/522384/>.

<sup>58</sup> "Retail Space per Person Globally 2018," Statista (Statista Research Department, November 6, 2020), <https://www.statista.com/statistics/1058852/retail-space-per-capita-selected-countries-worldwide/>.

<sup>59</sup> Walter Loeb, "More Than 15,500 Stores Are Closing In 2020 So Far-A Number That Will Surely Rise," *Forbes* (Forbes Magazine, December 31, 2020), <https://www.forbes.com/sites/walterloeb/2020/07/06/9274-stores-are-closing-in-2020--its-the-pandemic-and-high-debt--more-will-close/?sh=4d68126e729f>.

struggled to stay afloat during upturns and downturns. Retail businesses experience high fixed costs, including rent, utilities, and labor.

COVID-19 has also permanently altered retail and rapidly accelerated long-term underlying trends<sup>60</sup>. Business shutdowns and store closures (exacerbated by COVID-19) have led to over 40 major retailers declaring bankruptcy.<sup>61</sup> More than 15,500 stores closed in 2020, estimated to total nearly 159M square feet of retail space.<sup>62</sup> These closes are leading to increased vacancy and downward rent pressure on retail. The inherent asset-heavy costs of physical retail, including rent, utilities, and labor, present a challenge with competing with the disruptive effects of e-commerce<sup>63</sup>. Despite the doom and gloom of physical retail, U.S. retail sales overall have consistently increased over the past ten years at a compounded annual growth rate of 3.9%. In 2020 retail sales amounted to a total of \$5.62T representing a 6.9% year-over-year increase and the highest growth in retail sales since 1999<sup>64</sup>, demonstrating overall resilience in the U.S. consumer economy. However, most of this growth has been led by E-commerce.

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<sup>60</sup> "COVID-19: How Consumer Behavior Will Be Changed" (Accenture, April 28, 2020), <https://www.accenture.com/us-en/insights/consumer-goods-services/coronavirus-consumer-behavior-research>.

<sup>61</sup> Dan Rafter and Ben Reinberg, "CoStar Report: The Retail Bankruptcies Keep Coming in 2020," REJournals, December 17, 2020, <https://rejournal.com/costar-report-the-retail-bankruptcies-keep-coming-in-2020/#:~:text=According%20to%20the%20latest%20data,a%20record%20set%20in%202018>.

<sup>62</sup> Walter Loeb, "More Than 15,500 Stores Are Closing In 2020 So Far-A Number That Will Surely Rise," Forbes

<sup>63</sup> Svetsuk, *Street Commerce*, p. 34.

<sup>64</sup> Justas Gaubys, "Total Retail Sales Worldwide (2018–2022)," Oberlo (Oberlo), accessed June 30, 2021, <https://www.oberlo.com/statistics/total-retail-sales>.

E-commerce sales have accelerated dramatically, growing by about 44% year over year in 2020. Consumers spent \$816 billion online with E-commerce penetration reaching 21.3% in 2020, up from 15.8% in 2019 and 14.3% in 2018.<sup>65</sup> This increase in E-commerce penetration represents the biggest gains in U.S. retail sales, where “all of the growth in retail came from eCommerce. Online sales accounted for 101% of all gains in retail in 2020”<sup>66</sup>.

In 2016 online purchases accounted for \$375B or 11.7% of total retail sales in the country<sup>67</sup>. In 2020 this number jumped to 21.3% of total retail sales<sup>68</sup>. Although E-commerce expansion accelerated dramatically in 2020, this growth is unsustainable over the long term. This untenable growth is primarily due to operational challenges and profitability limitations involved in shipment and logistics<sup>69</sup>. Despite the rapid rate of E-commerce growth, almost 9 out of 10 purchases are still made in physical stores, according to Andres Sevtsuk, a researcher at MIT.<sup>70</sup> The strong growth of non-store retailers in the fourth quarter of 2020 also represented a decline from the third quarter of 2020 driven by higher-than-expected physical store shopping and signaling the unsustainability of E-commerce growth (CBRE). Physical stores remain valuable in providing physical experiences, richer

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<sup>65</sup> 2021 Fareeha Ali | Jan 29, “US Ecommerce Grows 44.0% in 2020,” Digital Commerce 360, January 29, 2021, <https://www.digitalcommerce360.com/article/us-ecommerce-sales/>.

<sup>66</sup> Fareeha Ali, “US Ecommerce Grows 44.0% in 2020,”.

<sup>67</sup> Svetsuk, *Street Commerce*, p. 184.

<sup>68</sup> Fareeha Ali, “US Ecommerce Grows 44.0% in 2020,”.

<sup>69</sup> Richard Barkham and Spencer Levy, “2021 U.S. Real Estate Market Outlook,” CBRE US, 2020, <https://www.cbre.us/research-and-reports/2021-US-Real-Estate-Market-Outlook-Retail>.

<sup>70</sup> Svetsuk, *Street Commerce*, p. 184.



customer engagement, and increased profit margins through buy-online and pick-up in-store and curbside fulfillment models<sup>71</sup>.

Several non-store retailers are looking to open many brick-and-mortar retail locations off the back of their e-commerce success. Additionally, Jones Lang LaSalle found that gateway cities such as New York, Los Angeles, and San Francisco remain the top cities for both pop-ups stores and first permanent locations of businesses<sup>72</sup>. Technology is also enabling shoppers who want to research online and then purchase in-store. 78% of consumers conduct product research at home before visiting a brick-and-mortar store. Similarly, 72% of shoppers buy goods online after seeing the tangible item in-store.<sup>73</sup> “There has been a growing understanding that online and offline shopping are not two separate acts, but rather one customer journey that is often complex and may move between online and offline before purchasing.”

<sup>74</sup> COVID-19 has led brick-and-mortar retailers to rapidly experiment with services that will lead to compelling ways to shop locally in the online world<sup>75</sup>.

Change in retail and consumer behavior has also accelerated the evolution of omnichannel fulfillment. Omnichannel retail refers to a “type of

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<sup>71</sup> Richard Barkham and Spencer Levy, “2021 U.S. Real Estate Market Outlook,”

<sup>72</sup> “E-Commerce Retailers Plan 850 Physical Stores in the next 5 Years,” JLL (Jones Lang LaSalle, October 16, 2018), <https://www.us.jll.com/en/trends-and-insights/research/e-commerce-retailers-plan-850-physical-stores-in-the-next-5-years>.

<sup>73</sup> Svetsuk, *Street Commerce*, p. 189.

<sup>74</sup> Catherine Erdly, “Four Trends That Will Shape Retail In 2021,” *Forbes* (Forbes Magazine, December 18, 2020), <https://www.forbes.com/sites/catherineerdly/2020/12/18/four-trends-that-will-shape-retail-in-2021/?sh=4f49bc235add>.

<sup>75</sup> Catherine Erdly, “Four Trends That Will Shape Retail In 2021,” *Forbes* (Forbes Magazine, December 18, 2020), <https://www.forbes.com/sites/catherineerdly/2020/12/18/four-trends-that-will-shape-retail-in-2021/?sh=1d6f6415adde>.

retail that integrates the different shopping methods available to consumers.”<sup>76</sup> Click and collect, where consumers buy online and pick-up in-store (BOPS), is becoming a mandatory fulfillment model for retailers<sup>77</sup>. Shoppers are buying online and picking up in-store at four times greater volume than before the pandemic, with in-store pickup growing 554% year over year as of May 2020<sup>78</sup>. Customers sighted avoiding shipping fees (47%), getting products sooner (25%) and convenience compared to waiting for delivery (10%) for using in-store pickup. The potential for upselling is also significant, with over 50% of customers who use click and collect make additional purchases in-store<sup>79</sup>.

These changes in retail are leading to a new hybrid store model integrating retail and logistics real estate based on technology, consumer behavior, inventory, and design. These stores incorporate physical shopping, pick-up, and shipment services<sup>80</sup>. A confluence of industry trends creates opportunities for planners and business leaders to rethink and proactively plan for cities adapting to a 21<sup>st</sup>-century retail environment.

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<sup>76</sup> Oxford University Press. (n.d.). Omnichannel. *Oxford Languages*.

<sup>77</sup> Stephan Serrano, “[2021] Click and Collect Strategies: How Target +273% Sales Same Day Fulfillment,” Barilliance, January 25, 2021, <https://www.barilliance.com/click-collect/>.

<sup>78</sup> James Risley | Jun 25, “Buy Online, Pick up in Store Helps Ecommerce Grow 500% during Pandemic,” Digital Commerce 360, June 25, 2020, <https://www.digitalcommerce360.com/2020/06/25/bopis-grows-more-than-500-during-pandemic/>.

<sup>79</sup> Stephan Serrano, “[2021] Click and Collect Strategies: How Target +273% Sales Same Day Fulfillment,”

<sup>80</sup> Richard Barkham et al., “CBRE” (CBRE Research, December 2020), <https://www.cbre.us/research-and-reports/US-Future-Hybrid-Store-Integrating-Retail-and-Logistics-2020>.

CHAPTER 3: **THE VENTURE**  
**DESIGN METHODOLOGY**

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*"Design is what we do when we must move forward but cannot make sense of the data. Either there isn't enough, or there is too much to process." - Dennis Frenchman*

To address the research statement posited in the introduction, this thesis relied on a methodology developed by MITdesignX, an academic program in the MIT School of Architecture and Planning dedicated to design innovation and entrepreneurship. The methodology advocates for building ventures and forward-thinking solutions designed to "address critical challenges facing the future of cities and the human environment."<sup>81</sup> This method is rooted in design to solve complex problems and was developed to respond to the complex and critical challenges being faced today. These solutions exist at the intersection of design, business, science, and technology. After recognizing a need or complex problem one wishes to solve, it works backward towards a resilient solution that meets people's needs.

The MITdesignX method focuses on a human-centered approach rooted in design, whereby holistic solutions are framed, conceived, tested, and reiterated by multidisciplinary teams, in a continual process of evolution, rather than being built one element at a time according to a protocol. It

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<sup>81</sup> "About MITdesignX," MITdesignX, December 22, 2020, <https://designx.mit.edu/?o=dx>.

emphasizes exploring new ways of thinking centered on producing positive impacts for human life. In this collaborative problem-solving approach, design acts as a bridge between different disciplines and allows for quick exploration of many other solutions from different points of view. It is beneficial where data is lacking (nevertheless, one must decide how to move forward) or too much information (which clutters the path). This method contrasts with the traditional approach to innovation, where an idea is conceived and placed through a product development process. This contrast is depicted in Figure 3.1.

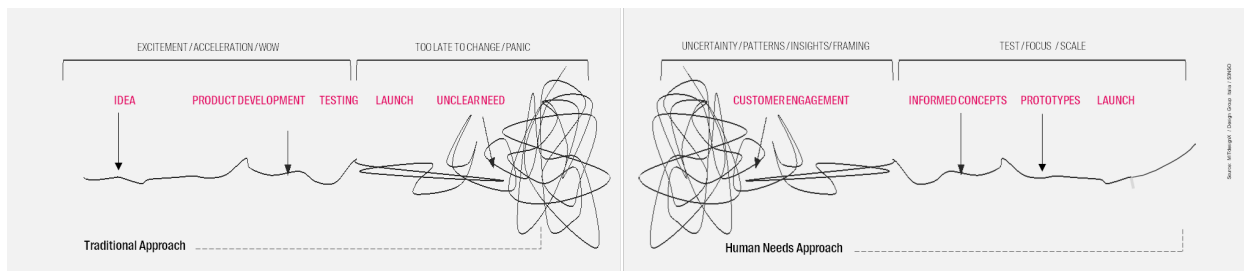


Fig 3.1 Traditional Venture Approach vs. Human Needs Approach. Source: MITdesignX

The conventional process can take months or years, and only after the introduction of the product do users report on its effectiveness. The most severe consequence here is that it is often too late to change if the need or problem being solved were not accurately diagnosed, which is costly.

According to CB Insights, the primary reason new ventures fail is that they launched a product or service for which there was little market need<sup>82</sup>.

It should also be noted that there are many different approaches to tackle similar issues, including the field of sociotechnical systems, systems thinking and design, transition design, and systemic design.<sup>83</sup> Disciplined Entrepreneurship is yet another systematic and rigorous 24 step process created to build new innovation-based ventures created at MIT. While all these approaches have value and pieces have been incorporated into this thesis, the MITdesignX methodology is adept at attacking significant problems and complex networked systems where the goal is to impact. As Don Norman and Pieter Jan Strappers have pointed out, the human-centered approach can be applied to “provide practical solutions that are of value today rather than relieving symptoms [based on] practical approaches that can help enhance current conditions.”<sup>84</sup> The DesignX approach was selected because of its suitability in tackling complex problems that mix human and societal needs with technology solutions. It emphasizes evidence-based design where situations for applying solutions are fully identified, understood, and validated. Furthermore, design accepts that there might be

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<sup>82</sup> Denise Lee Yohn, “Why Startups Fail,” *Forbes* (Forbes Magazine, May 1, 2019), <https://www.forbes.com/sites/deniselyohn/2019/05/01/why-start-ups-fail/?sh=109f1d7128a5>.

<sup>83</sup> Donald A. Norman and Pieter Jan Stappers, “DesignX: Complex Sociotechnical Systems,” *She Ji: The Journal of Design, Economics, and Innovation* 1, no. 2 (2015): pp. 83-106, <https://doi.org/10.1016/j.sheji.2016.01.002>. pg. 10.

<sup>84</sup> Donald A. Norman and Pieter Jan Stappers, “DesignX: Complex Sociotechnical Systems,” *She Ji: The Journal of Design, Economics, and Innovation* 1, no. 2 (2015): pp. 83-106, <https://doi.org/10.1016/j.sheji.2016.01.002>. pg. 2.

many best solutions to a particular problem, arrived at by different pathways. This process ultimately results in a human-centered approach and products meant to create meaningful, long-term impact.

The MITdesignX methodology uses four critical venture design “touchstones”; understand, solve, envision, and scale. The process is iterative, meaning that all touchstones must be “touched” at each iteration in the process of problem framing and solving.

### 3.1 Understand

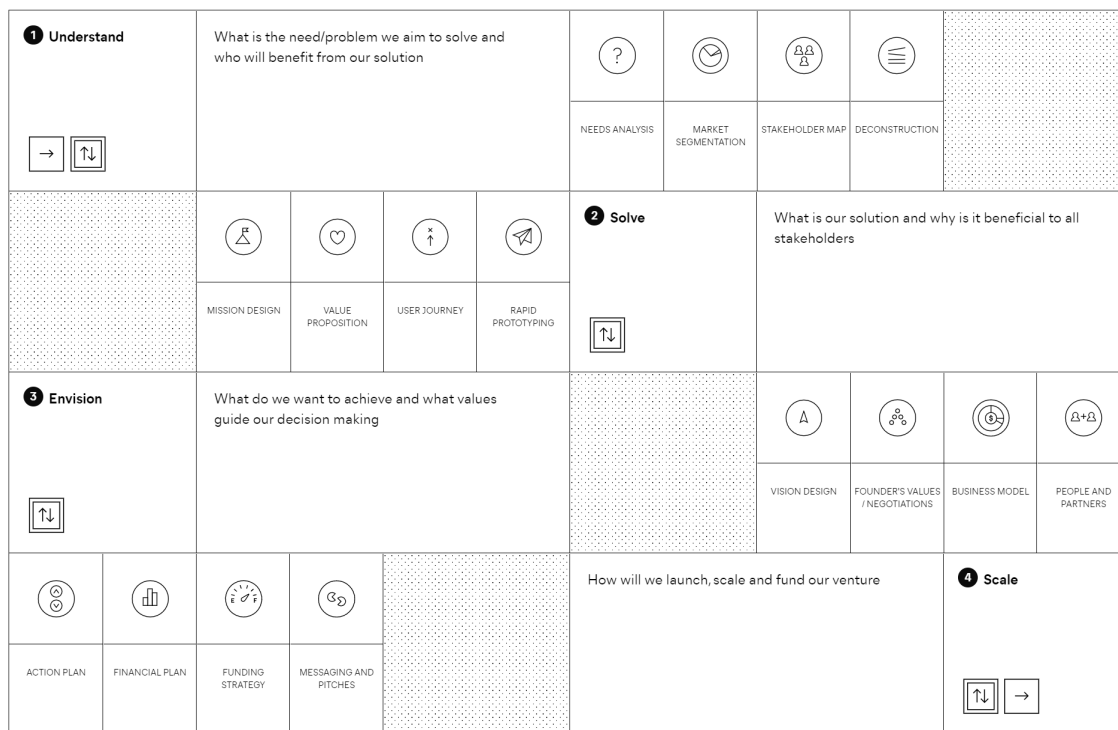


Figure 3.0 MITdesignX Venture Design framework. Credit: MITdesignX

The first touchstone of the framework involved understanding the need or problem the new venture is being designed to solve. In the first instance, this process required engaging directly with people and stakeholders to learn as much as possible about who they are, what their needs are, and their pain points. In the case of this thesis, a needs analysis was conducted to understand the underlying motivations and unmet needs of small minority businesses. In addition, one must understand the industry, topic, and broader context of what a venture is being designed to solve.<sup>85</sup> The goal here was to understand the context before framing a solution.<sup>86</sup> Understanding the context was achieved by leveraging practical techniques, including customer discovery, needs analysis, market segmentation, and stakeholder mapping. Empathy, observation, interviews and human-centered design, and rule-based decision-making allowed framing and testing a hypothesis about the problem and an approach to solving it. A market analysis then helped determine who the customer or user was and if the assumption is valid. The final phase of this step, stakeholder mapping, allowed for visualizing all the people, communities, and systems that our solution interacts with and understanding who benefits and who might be harmed. In this case, interviews were conducted with community members and stakeholders, including business owners, building improvement districts,

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<sup>85</sup> "About MITdesignX," MITdesignX, December 22, 2020, <https://designx.mit.edu/>.

<sup>86</sup> "Beyond Net Zero: A Systematic Design Approach," *Beyond Net Zero: A Systematic Design Approach* (London, United Kingdom: The Design Council, 2021).



minority business development agencies, chambers of commerce, city government, and university procurement staff. These ranged in formality from structured, recorded zoom interviews to informal conversations. Research was conducted into minority businesses to understand their unique situation and some of their pain points. This research was compiled and distilled into the context chapter. Visits and visual inspection were conducted to community main streets and locally serving retail in Boston and Cambridge. Figure 3.1 shows pictures of these visits.





Figure 3.1 Popportunity Temporary Pop-up shops in Cambridge, MA. Photos by Rhett James

Cultural anthropology, which looks at the cultural variation among humans, was performed by attending community meetings and reading newspapers and blogs. This immersion with stakeholders and actively observing in their environments were also performed. Finally, prior surveys and data on minority-owned businesses were compiled and analyzed. These, however, were all centered around helping small and minority-owned businesses to remain competitive in a changing retail landscape—the findings from this discovery process reported in chapter 4 of this thesis.

## 3.2 Solve

After carefully understanding the problem, the second touchstone was to make sense of these observations and clearly define a core conceptual approach to provide the required solution. This phase made the challenge

more concrete and reframed the problem as an opportunity by asking questions such as “how might we”<sup>87</sup>? This phase was characterized by iterative design decisions and testing ideas quickly for both impact and feasibility. The outcome was a clear and straightforward expression of what the solution is intended to do. This step of the process involved mission design, which is creating an action-oriented mission that gives the company purpose, explains its goals, and its core values. Once mission design was completed, it was possible to formulate the idea's value proposition and identify further who benefits financially, socially, or otherwise. The outcome helped to understand the most important value drivers for customers, prioritize value drivers by urgency and impact, and modifies outdated and narrow approaches to value creation to create shared value. The product and the value derived must also fit within the broader spectrum of individual users and their needs. Here mapping the user journey and identifying pain points by developing empathy with the target audience was critical to identify pain points, guide the user experience, and design of the product. Prototyping, the final phase of this step, enabled rapid and inexpensive experimentation using mock-ups of tangible products or services that users could understand and provide feedback on, creating a continuous iteration loop.

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<sup>87</sup> Maya Bernstein and Marty Linsky, “Leading Change Through Adaptive Design (SSIR),” Stanford Social Innovation Review, 2016, [https://ssir.org/articles/entry/leading\\_change\\_through\\_adaptive\\_design](https://ssir.org/articles/entry/leading_change_through_adaptive_design).

### 3.3 Envision

The third touchstone was envisioning what the venture could be in the future, what one wished to achieve and defining the fundamental principles that will guide decision-making, development, and operations, including financing the venture. Essential to envisioning was to build upon the mission design described earlier. Here a vision statement was created to tell the story and chart a directional and aspirational course for the venture<sup>88</sup>. This step was two-fold as it identifies the key risks that may prevent one from realizing the overall vision and became a vital messaging device helping inspire founding team members and others along the venture's path. For any venture to be successful, there must be an understanding of how value is created and captured. This touchstone also involved building a business model to answer the question of value creation by using patterns and lateral thinking. This approach involved attacking problems from non-obvious directions through questioning that forced reconsideration of issues from different angles.<sup>89</sup> Executing the solution involved a process of building a team/identifying staffing requirements, and defining the company culture. A venture is only as good as its team and the strategic partners and networks needed to support it.

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<sup>88</sup> Tim Berry, Jonathan Michael, and Varda Epstein, "How to Write a Mission Statement With 10 Inspiring Examples," Bplans Blog, January 14, 2021, <https://articles.bplans.com/writing-a-mission-statement/>.

<sup>89</sup> Shane Snow, *Smartcuts: the Breakthrough Power of Lateral Thinking* (New York: Harper Business, 2016).

### 3.4 Scale

The fourth and final touchstone was focused on identifying the priorities, people, processes, and funds needed to scale and launch the venture effectively. Essential to this touchstone was creating a goal-oriented action plan, prioritizing key objectives and actions related to scaling the venture using a scaling plan guide. The guide helped identify key performance indicators by drawing upon a strategic planning process of “looking into the future and identifying trends and issues against which to align organizational priorities.”<sup>90</sup> Once these were clearly understood, the next step involved sales and pricing. By understanding the fundamentals of pricing and the various sales channels, a draft pricing model and go-to-market plan for the venture were created. This draft pricing model allowed for a comprehensive financial plan using multiple assumptions, a discounted cash flow approach, and sensitivity analysis for numerous scenarios. This valuation approach looks at the revenue the “company generates each year, and figure(s) that you are, in effect, buying that stream of cash.”<sup>91</sup> This financial plan helped validate the business plan and business model. Finally, any successful venture requires capital. The final step involved creating a funding strategy appropriate for the venture.

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<sup>90</sup> “United Nations Strategic Planning Guide for Managers,” United Nations, accessed July 15, 2021, [https://hr.un.org/sites/hr.un.org/files/4.5.1.6\\_Strategic%20Planning%20Guide\\_0.pdf](https://hr.un.org/sites/hr.un.org/files/4.5.1.6_Strategic%20Planning%20Guide_0.pdf).

<sup>91</sup> Karen Berman, Joe Knight, and David Wachter, “Financial Intelligence,” in *Financial Intelligence* (Palo Alto, CA: SmarterComics, 2012), p. 12.



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Through this methodological approach, a speculative prototype, pitch deck, and a roadmap outlining the venture idea (including key actions and strategies) helped chart the course for a successful venture in the future.

It is important to emphasize that the touchstones do not define a linear process. Often entrepreneurial teams will revisit previous steps based on new information to move forward. Multiple may be necessary to arrive at a complete understanding of the problem and a viable, scalable solution. The approach is rooted in design because it does not think of solutions emerging from a formal protocol. It accepts that one cannot control everything and that there can be multiple successful solutions to a problem or need. This reality is supported by the involvement of multiple disciplines on innovation/entrepreneurial teams designing a venture to produce the solution (but not necessarily the solution itself), tackle challenges from multiple points of view, and using non-systemic thinking to solve problems. Involvement of different people from various backgrounds, including private equity and consulting—Diego Novoa, corporate finance and cloud technology—Taylor Carter, retail sales and marketing—Tomohito Okuda, and real estate investments and communications—Sho Tanaka were vital in helping advance the final proposal

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CHAPTER 4: **THE DESIGN**  
**SOLUTION**

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This chapter of the thesis document outlines the results of designing a venture to support minority businesses enterprises conducted from July 2020 to July 2021. It follows the same organizational sequence of the MITDesignX framework outlined in Chapter 3: understand, solve, envision, and scale. Seven potential venture solutions were iterated, eventually leading to one hybrid proposal. The venture design process aimed to rethink support for minority business enterprises (MBEs) to respond to their needs and helps make them more resilient.

While one solution can't solve all the problems of every business, an opportunity exists to help these businesses by leveraging various stakeholders' assets and capabilities, including the founding team. The needs analysis conducted as a part of this project laid bare how systematic racism, the COVID-19 pandemic, and changes in retail are affecting minority retail enterprises. Thus, the venture solution's emphasis was on minority businesses themselves, and new innovations were proposed to solve the challenges posed to MBEs.

## 4.1 Understand

While the preceding context chapter above neatly frames the issue into distinct buckets, in practice, the process to *understand* the issues at hand was far more experimental and circulatory. It involved additional research not included in the context as well as paths ventured and not



taken. At the onset, the idea was to develop a solution that responded to rapidly changing urban neighborhoods, high storefront vacancy, and lack of basic amenities. In the initial needs analysis process, it was discovered that as the demographics of communities begin to change, there is a lag in response from retailers—especially national chains who take fewer risks. Ironically, however, too many chain retailers and accelerated change due to gentrification mean that many neighborhoods lose the character that made them attractive in the first place. This model of retail real estate succession—opening discount chain stores (such as Family Dollar) to fill the gaps in failing main streets—can be questioned since, in many cases, storefronts in these communities remain vacant. Subsidizes and tax credits are given to lure retailers to underinvested areas and often unequally benefit newcomers and chain stores rather than long-term community-based businesses. The strategy usually leaves out local and minority entrepreneurs that do not have the same credit rating or sufficient assets as chain stores but cater better to the preferences of their existing customer base.

Given this, a typical approach to the problem is to 1) connect local minority entrepreneurs with vacant space, 2) provide them with design services and technical expertise to build out the space, 3) co-invest equity into the business. As is pursued by many community development agencies, this framing of the problem parallels the traditional approach to innovation

and entrepreneurship, where someone is excited about an idea and wants to implement the solution believing it to be the one and only.

The entry point of the Venture Design approach developed by MITdesignX requires placing the views of the founders to the side to understand the complex challenges of minority businesses. This reframed entry point to venture design profoundly impacted understanding and designing a venture to address the problem. Deploying this new approach over nine months resulted in different levels of engagement with various stakeholders identified in Figure 4.1.1 below. These stakeholders included minority entrepreneurs, real estate development and investment staff, mentors, community leaders, city officials, building improvement districts (BIDs), institutional procurement staff, and local chambers of commerce.



Figure 4.1.1 List of Key Stakeholders

The ultimate solution, called "StreetSmart," is not intended to replace organizations such as BIDs, chambers of commerce, or incubators, as they serve as valuable connection points to communities. In fact, in our engagement with the stakeholders, we learned that these organizations could be valuable partners in helping StreetSmart achieve its mission. Similar collaboration strategies among minority retailers could be used in a retail setting. The strategies below had the highest appeal to the retailers we interviewed:

1. *Sales to anchor institutions.* Institutions – particularly in a city like Boston, with its many universities and hospitals – generate enormous demands for local goods and services. Linking minority retailers in similar industries to each other could help them build and increase their capacity to service larger local institutional clients like universities and hospitals. However, one potential challenge to institutional procurement is that small businesses require quicker payment cycles to keep their operations afloat. Thus, a revolving credit facility among companies that pays these businesses immediately could be vital to increasing small businesses' ability to serve institutional anchors.
2. *Agglomerating demand.* Many enterprises achieve cost advantages due to the scale of their operations, decreasing the cost per unit of output.

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Traditionally, this was a forgone conclusion that minority businesses, which also tend to be small, are inherently more operationally inefficient. But does this have to be? Collaboration among small minority retailers could leverage their collective buying power to reduce the cost of goods and services, including utility costs and business supplies. This approach to agglomerating demand is best exhibited by buyer cooperates. Such a strategy could help minority businesses drastically reduce overhead costs and stay competitive.

3. *Agglomerating supply*: Products among minority retailers within a specific geographical area could be aggregated and cataloged, allowing local purchasers to discover a range of products available from multiple businesses. This strategy could enable customers to find new products and retailers and source more goods locally, thus creating a virtuous cycle of attracting new customers, revenue, and other businesses. Furthermore, it could reduce shopper's transportation costs by identifying products beforehand or coordinating pickup and delivery between multiple retailers.
  
4. *Sharing space*: Sharing space among multiple businesses could drastically reduce overhead costs and provide several efficiencies among retailers. Complimentary businesses could benefit from

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strategic opportunities for cross-sales. Co-retailing among multiple retailers reduce fixed costs, increases traffic, and extends a space's usable hours.

5. Logistics: A network of small businesses could serve as neighborhood hubs that connect people to goods and services. The highest cost of transportation is the last couple of miles. Last-mile collection of packages purchased from several stores or hosting evolving urban solutions such as docking stations or mobile vaccination sites could increase foot traffic to local stores and promote the discovery of new businesses.
  
6. Coinvesting: A network of small businesses could allow these businesses to pool resources to invest in projects that help make neighborhoods and cities better. This collective investment could involve funding street furniture, signage, storefront improvements, makerspace, communal kitchens, or other projects where all members benefit.

## 4.2 Solve

After quickly identifying and developing possible solutions, these were tested by applying the Needs Analysis Matrix shown in Figure 4.2.1. These tests narrowed optional approaches to the most urgent with the highest value for minority businesses, as assessed by the businesses themselves. While any or all these proposals could eventually be incorporated into a final solution, priorities needed to be identified due to any early-stage venture's limited time and resources. Additional filtering was performed based on the knowledge, capabilities, differentiation, and passion of the founding team.

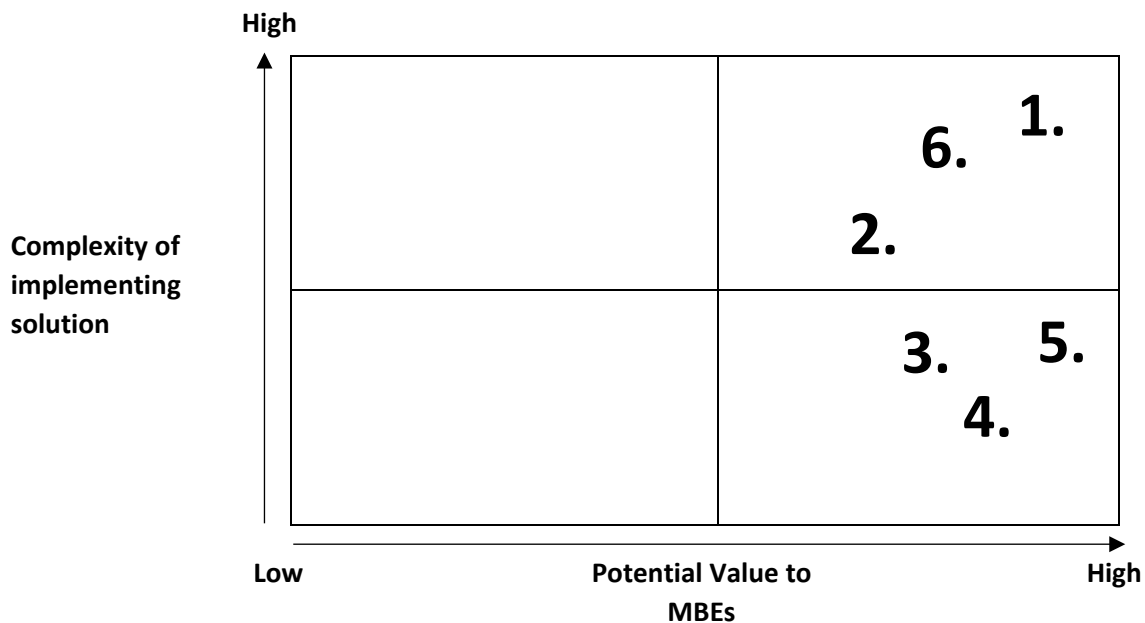


Figure 4.2.1 Needs Analysis Complexity Analysis Diagram.

This process helped narrow down the potential solutions most viable for further exploration to logistics and space sharing, bearing in mind that there might not be one optimal solution. Solution three involving agglomerating supply was investigated in parallel as part of the New Ventures class at MIT Sloan. This process was invaluable in ruling out agglomerating supply as the thing to do first primarily due to its higher than anticipated complexity in managing inventory and lower than necessary value creation to make this solution sustainable in the long run. It did, however, contribute to a deeper understanding of the problem and the need for the solution. Finally, some of this work is included later in the thinking about scaling StreetSmart.

Through the process of understanding and solving the problem, it emerged that minority retailers themselves were the key customers, not conscious consumers nor community organizations (non-profits, BIDs), etc., that would be the customer. Another critical stakeholder initially did not consider but emerged from the design process was struggling landlords. A solution could serve as a platform connecting minority retailers that need investment and exposure to landlords that needed to put their space to productive use. In addition, minority businesses are a broad category of businesses in industries including personal services and professional services, food, fashion, etc. Thus, further segmentation of this wider market became important. In an analysis of the market, the retail and wholesale industry represented the largest segment of MBE business with gross receipts of \$575B. This addressable market made the segment attractive as a beachhead market. The market was further segmented by focusing on 1) digitally native consumer goods brands (companies that began selling goods and services online) interested in scaling 2) local food and beverage vendors.

After identifying the key stakeholders as minority entrepreneurs and empathized with the needs and challenges of minority businesses, the venture was named StreetSmart. StreetSmart signaled both an association with the street—main street and everyday people and the anthesis to larger established retailers. Smart represented the potential to help these



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businesses adapt to 21<sup>st</sup>-century challenges by leveraging technological solutions. Taken together, a StreetSmart business is one in which has the tools necessary to deal with the potential difficulties or challenges of life in an urban environment. This exploration of solving the problem led to crafting a vision for the venture —*"to help minority retailers thrive."* The visional statement was central to this process and would serve as a guiding light and aspirational direction. Through mission designing, StreetSmart's mission became to help minority retailers thrive by *"providing technology connected spaces and retail services that lower the barrier of entry and add value for minority businesses."* This action-oriented mission statement became central to the purpose of this venture. StreetSmart envisions a future where cities thrive with diverse streetscapes, where you eat from local food vendors, not cloud kitchens. StreetSmart envisions a future where items arrive from your local store and not a suburban warehouse. StreetSmart envisions a future where communities thrive by creating a virtuous cycle, where money is returned to local communities not extracted from them. StreetSmart envisions a future where businesses sustain and reinforce the democratization of the economy and promote civic engagement.

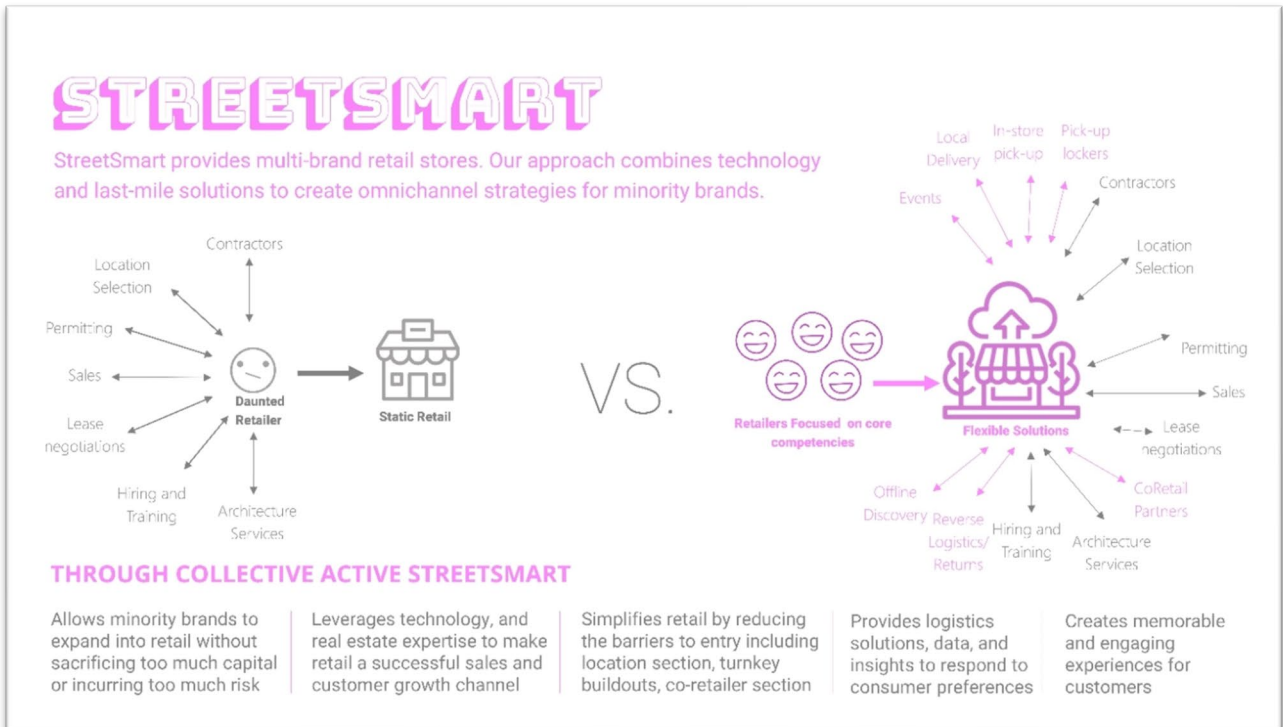


Fig 4.2.2 List of Features of StreetSmart

At a high-level StreetSmart's essential function is to provide technology-enabled space for retailers to enable omnichannel strategies. Currently, a retailer interested in expanding to a physical footprint would need to identify a suitable location, negotiate a lease, pay a substantial security deposit, handle renovations and permitting and finally hire and train salespeople. Many small MBE retailers, particularly non-store retailers, report that simply not knowing how to do these can be a daunting task. Others reported high existing costs and a strong interest in the StreetSmart model. MBE retailers partner with StreetSmart to reduce many of these frictions. StreetSmart identifies suitable retail locations, leases and renovates the base building, helps design and installs pop up shops, coordinate co-retailing activities,

handles in-store checkout and online pickups, hires and train location employees, curates retail tenants and events to create memorable retail experiences, coordinates same-day local deliveries, software services, and data analytics. Additionally, opening a conventional physical store can cost about \$150,000 minimum. StreetSmart lowers the barrier of entry for MBE retailers, bears most of the cost, and reduces risks by spreading these over a larger number of collective retailers. This structure allows these retailers to harness many of the benefits of a physical location—deeper customer engagement, testing concepts, visibility, logistic solutions. At the same time, StreetSmart frees up limited capital for these growing companies that would otherwise be caught up in security deposits, expensive leases, and complicated construction projects. It also overcomes another struggle of landlords—high retail vacancies by making it easier to open and operate shops in high-cost urban markets and serving as a high-credit primary tenant.

### 4.3 Envision

After understanding the user journey and the complex interaction among multiple stakeholders in the retail environment allowed for an initial prototype/venture design. Initially, StreetSmart would gain control of large retail spaces vacated by defunct legacy retailers and repurpose them to enable omnichannel strategies with characteristics suitable for newer

minority retailers. This large space will be split into smaller scalable areas making them more accessible to smaller MBE businesses. In the stylized example in Fig. 4.3.1 below, a 10,000 sq. ft. space could accommodate 28 retailers or pop-up shops branded as “Pops” with an average size of 225 sq. ft. of space each.

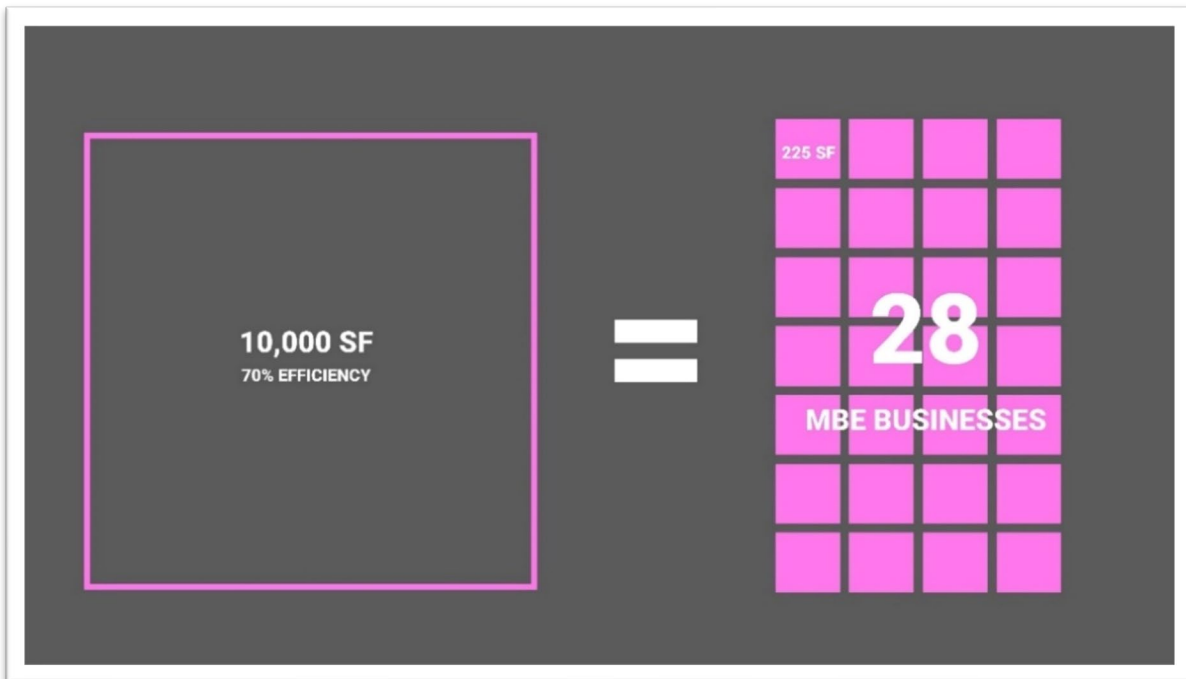


Fig 4.3.1 Division of larger space

These Pops Spaces could also be combined for retailers with more significant space needs, as shown in Fig 4.3.2.

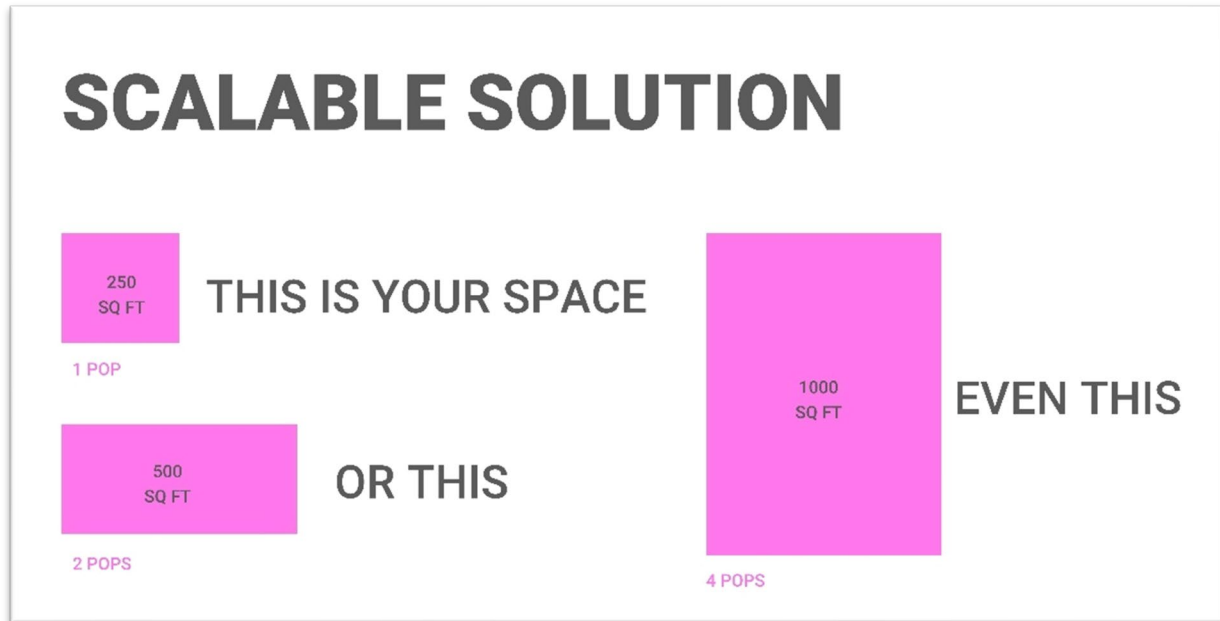


Fig. 4.3.2. Flexible Scaling Achieved by Combining Pops.

This repurposed space would enable a hybrid-retail model where Street/Smart stores also serve as micro-logistics hubs for retailers promoting multiple fulfillment opportunities and experiences for their customers. This reinvented hybrid-retail model would encompass:

1. Small and medium-size scalable spaces or “pops” curated in a market atmosphere, characterized by flexible layouts and lease terms, creating permanent sites for rotating retail partners.
2. Dedicated common spaces to fulfill online orders, returns and provide points of engagement for digitally native brands and their customers, enabling us to serve as a multi-brand co-retailer.

3. Software as a service (SaaS), which manages local sales and inventory both in-store and via eCommerce, providing a full range of solutions for MWBE retailers.

This technology-enabled physical spatial concept is illustrated in Fig. 4.3.3. Taken together, this approach creates a competitive omnichannel retail strategy for minority businesses allowing these retailers to foster discovery, drive sales, increase traffic, integrate digital and physical touchpoints, improve the overall customer experience, and remain competitive against larger retailers. This strategy also creates and captures value for many stakeholders. This value proposition which creates shared value across a range of stakeholders, namely minority retailers and their communities/customers, makes StreetSmart particularly attractive.

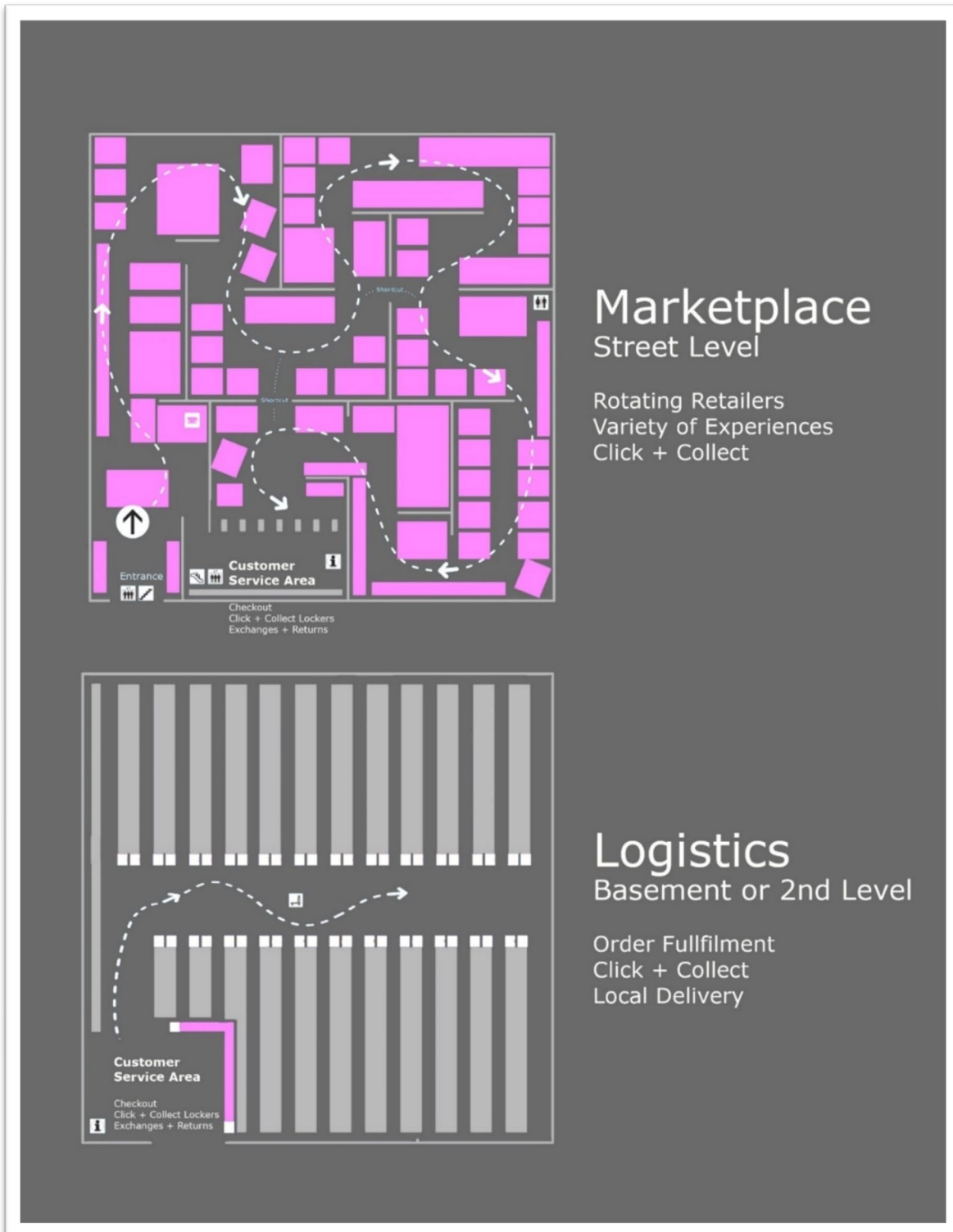


Fig. 4.3.3. StreetSmart Technology Enabled Store Concept

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StreetSmart leverages proximity to local communities and collective action to achieve economies of scale and unlock value for MBE retail. StreetSmart enables MBE retailers to approach the retail transformation with optimism and allows cities to continue to thrive. The alternatives—monopolistic suburban fulfillment centers and ghost kitchens (commercial kitchens optimized for food delivery)—represent a frightful dystopia and the antithesis of a human-centered approach. Figure 4.3.4 below shows how StreetSmart’s placed-based solution for minority businesses could also be leveraged to create *third spaces* for communities. These *third spaces*—places where people spend time between home and work—can play a crucial role in strengthening our sense of community, connect people, anchor communities, and inspire ideas through collaboration. Figure 4.3.4 shows how the retail level of a StreetSmart location could help activate streets and add vibrancy to communities. The precedent images captured in Figure 4.3.5 also show similar designs that successfully capture this spirit.



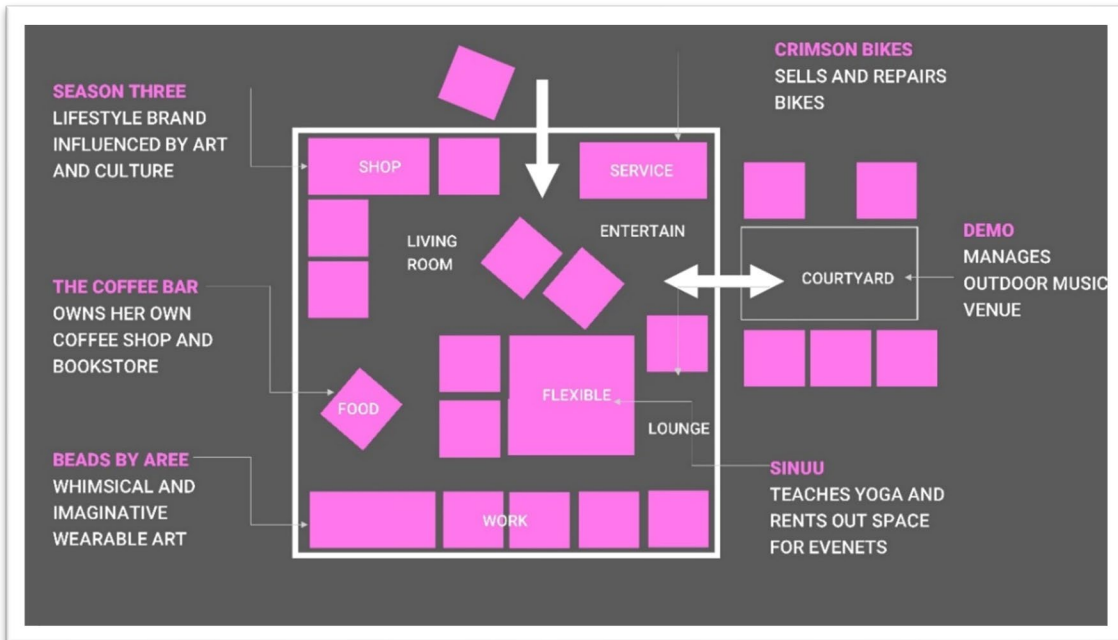


Figure 4.3.4. Activation of Market Level

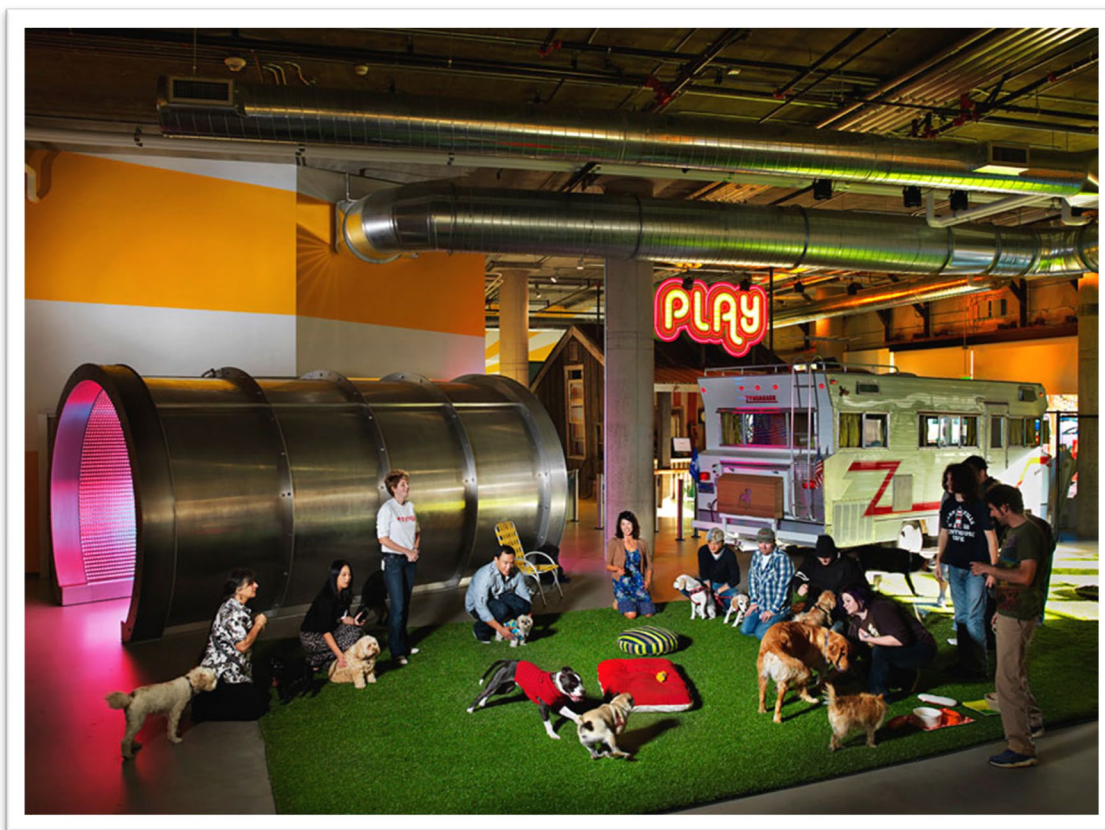


Figure 4.3.5. Precedent Image. Zynga Inc. Headquarters. Photo courtesy Zynga Inc.



Figure 4.3.6. Precedent Image. Photo courtesy Dover Street Market.

“These types of smaller Pop-up shops have become an increasingly popular way for new and existing retailers to introduce a business or test a new product or service. Due to its flexibility and lower initial costs, this service offering is anticipated to become increasingly popular in the recovery post-COVID-19. In addition to this move towards flexibility, brick and mortar retail also offers the opportunity to integrate digital and physical experiences which customers are demanding seamlessly. The solution strategically aligns incentives for multiple stakeholders, including retail partners, investors, and community, creating several value propositions:

- *"Last Mile Logistics:* MBE retail partners benefit from logistical solutions to help solve friction with last-mile operational challenges and logistics. These premium services include dedicated lockers for online order pick-up online and common areas to facilitate in-store checkouts, returns, ship from store, and storage.
- *"Flexibility:* The solution will allow retailers emerging post-COVID-19 to test the viability of concepts and products without making the more significant financial commitment of long-term leases. Retail partners place a more substantial value premium on this flexibility. StreetSmart also benefits by filling vacancies quickly from a larger volume of smaller creative retailers and lowering the risk of default on longer-term leases. StreetSmart serves as an intermediary between owners and operators of real estate who seek intuitional grade tenants and MBE retailers with limited resources. StreetSmart is also more agile and can determine if it keeps successful retail partners for more extended periods.
- *"Experiential Retail:* StreetSmart creates buzz for locations through constantly rotating new and novel experiences serving as anchor points to the community. Livestream booth marketing MBE businesses and influencers promote products, increase customer traffic, and attract other creative use retail partners to locations. In the long run,

this will create a virtuous cycle, reversing the static nature of more traditional retail.

- *“Discovery:* Creative layouts guiding shoppers, fear of missing out, mystery, and discovery of new products have been successfully implemented in retailers such as Ikea and Trader Joe’s to help drive sales. The mere act of touching products increases the perceived value of the product.<sup>92</sup> This experience is augmented by technology such as connected fitting rooms. Ultimately this allows StreetSmart to increase its sales per sq. ft. above traditional retail averages. Furthermore, according to a study of Business Insider Intelligence<sup>93</sup>, having a Pop-Up mainly helps businesses improve market visibility and increase social media engagement. A multi-retailer approach increases traffic to co-retailers. Each of these brands has a built-in customer base while creating new opportunities for cross-sales—as much as 50% of customers make additional purchases when picking items up in-store.
- *“Scaling:* StreetSmart helps eCommerce retailers scale and expand to a physical presence. For eCommerce and digitally native brands, brick and mortar stores serve as both a customer acquisition point and brand awareness and exposure. For these brands to scale, they must incorporate a digital and physical presence. StreetSmart provides smaller MBE retailers with the same digital and physical infrastructure

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<sup>92</sup> <https://www.bbc.com/worklife/article/20180201-how-ikea-has-changed-the-way-weshop>

<sup>93</sup> <https://www.businessinsider.com/pop-up-shops-are-an-effective-retail-tactic-2019-6>

as more prominent brands. Services such as order fulfillment and checkout across multiple retailers reduce fixed costs, operational costs, and employee overhead for individual partner retailers while allowing StreetSmart to leverage economies of scale.

- *“Community and Culture:* Pairing digitally native retailers with locally curated vendors creates dynamic environments and a deep connection to place and a sense of community. Creating a culture, vibrancy, and activity around a retail experience is the crucial differentiator for StreetSmart to become locally relevant within communities. StreetSmart also adds an exclusivity component to customers' lives, as their temporary nature creates excitement in people to visit StreetSmart and not to miss out. This exclusivity expands to products offered and experiences as their layout changes with store rotation.
- *“Connected Retail:* StreetSmart uses a live stream booth to market clients' products and hires popular local influencers to promote products and live stream the content to its website, social media accounts, and monitors strategically located within the retail level. These connected experiences showcase MBE retailers' products with options to purchase directly through content engagement.
- *“Reverse Logistics:* StreetSmart encourages customers to bring their returns to the store rather than mailing it, enabling retailers flexibility in handling returns. StreetSmart can store inventory, avoiding the

expensive process of moving products through the reverse logistics pipeline to recapture value. This benefit enables retail partners to have more competitive return policies, improve customer experience, reduce costs, and promote sustainability.”<sup>94</sup>

It was challenging to identify significant competitors to StreetSmart, given the unique strategy. However, in learning about potential competitors attempting to disrupt the retail market, three companies offered services like StreetSmart. These companies were Leap Inc., Showfields, and Guesst. Leap Inc. brands itself as “the scalable, turnkey platform for omnichannel retail.” At the same time, Guesst’s mission is to “foster trust and transparency between property owners and their tenants to help businesses thrive.”<sup>95</sup> Leap focuses on helping digitally native brands open physical locations by providing them with everything they need, including a shared pool of salespeople, management executives, and a toolkit of best practices in retail design<sup>96</sup>. Guesst, on the other hand, is a third-party verification platform that allows retailers to shared selected data with property owners for property owners to verify sales performance. Showfields is perhaps the competition closest aligned to street smart. It brands itself as “the most interesting store in the world.” They serve as a curator bringing together

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<sup>94</sup> James, Rhett, and Diego Novoa. “Popclick: Hybrid-Retail.” [Unpublished]. Real Estate Private Equity, Harvard Business School, May 16, 2021.

<sup>95</sup> “About Us,” Guesst, accessed July 15, 2021, <https://guesst.co/about-us>.

<sup>96</sup> Anne Kadet, “It’s Expensive to Open Stores in NYC. Help Is Here.,” The Wall Street Journal (Dow Jones & Company, June 22, 2021), <https://www.wsj.com/articles/its-expensive-to-open-stores-in-nyc-help-is-here-11624370401>.

“mission-driven, design-oriented, innovate, unconventional and relevant brands, artists and communities from around the globe.”<sup>97</sup> StreetSmart’s offering compared to these competitors is Shown in Fig. 4.3.6. below.



Fig. 4.3.6 StreetSmart Competitive Positioning

In this analysis, StreetSmart was unique in providing flexible experiences customers, and retail tenants desire when shopping. A unique mix of omnichannel solutions retailers, particularly smaller MBE retailers, must

<sup>97</sup> “About Us,” SHOWFIELDS, accessed July 15, 2021, <https://showfields.com/pages/about-us>.

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compete in the evolving retail landscape. Most competitors provide a mono-channel experience—usually a physical store—and not the full range of multi-channel approaches to sales and variety of experiences modern consumers expect. Executing this vision required several crucial skillsets of the founding team, partners to launch and scale the venture, and an alignment on essential values. Critical to the founding team would be a Chief Executive Officer, a Chief Financial officer, and a Chief Operating Officer (COO). Due to the nature of the venture, the COO, in particular, would possess at least five years of experience in a logistics company and have an undergraduate degree in engineering and software development. Due to resource constraints, other team members involved in the StreetSmart formation at one point or another would serve in advisory roles until such a time that it made sense to hire them full-time as the venture successfully scales.

Additional staff roles specific to each StreetSmart location are detailed later in this chapter under the Scale section. Two key partners were also identified as crucially important in successfully establishing StreetSmart. The first was a socially-oriented landlord, owner, or operator of an ample commercial space that would provide pivotal in enabling StreetSmart to test its concept. This partnership could include real estate professionals, municipalities, or local institutions, or non-government organizations. Secondly, building up a pipeline of MBE retailers partnering with



organizations such as the Center for Business Equity, the Ujima Project, and local business improvement districts and chambers of commerce would be essential to identify suitable tenants. The team identified Community, Trust, Communication, Honesty, Humility as the collective values that would drive both StreetSmart and its partners. These key pillars would enable the team to prosper and succeed in the marketplace.<sup>98</sup> The model assumes revenue will be generated from rents and a portion of sales that are detailed in the Scale section below.

## 4.4 Scale

StreetSmart's expansion strategy is to lease large spaces vacated by legacy retailers and repurpose them to offer a retail omnichannel service to MBEs. A criterion was developed to create a pipeline of potential locations for investment, allowing the venture to achieve scale. This proposed pipeline is shown in Fig 4.4.1. StreetSmart locations would target the following criterion:

- U.S. Gateway Cities.
- Easily accessible and high-visibility sites in densely populated areas.
- "*Transitional Areas*" and resourced constrained areas that could benefit from neighborhood-serving retail.

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<sup>98</sup> Rhett James et al., "[Unpublished]," [Unpublished] (New Enterprises, MIT Sloan School of Management, May 24, 2021).

- Store size between 25,000-35,000 sq ft. (about the size of a Trader Joe's)
- Existing construction (not new development) can be adaptively reused at an attractive price point.
- Base building requires no significant renovations to the structure and can leverage reuse of existing infrastructure.

Asset	Market	Type	Sq. Ft	Price/SF Proposed	Strategy	Transaction
Flagship Retail A	New York, NY	Retail	25,630	TBD	Reposition	Market
Adaptive Reuse Retail B	Brooklyn, NY	Retail	25,544	\$40	Reposition	Off-Market
Historic Downtown Core Retail B	Los Angeles, CA	Retail	26,000	\$24	Reposition	Market
Busy High Volume Retail A	Boston, MA	Retail	35,000	TBD	Reposition	Market
Downtown Creative Retail Space B	San Francisco, CA	Retail	27,787	TBD	Reposition	Market
Adaptive Reuse Retail C	Oakland, CA	Retail	22,211	TBD	Reposition	Off-Market
Downtown Fashion District Retail B	Washington, DC	Retail	31,000	TBD	Reposition	Market
Flagship Retail B	Chicago, IL	Retail	31,443	TBD	Reposition	Market
High visibility Retail A	Chicago, IL	Retail	24,033	TBD	Reposition	Market
High Identity Retail B	Los Angeles, CA	Retail	27,600	TBD	Reposition	Off-Market

Figure 4.4.1 Deal Pipeline for Investment. Source: Rhett James and Diego Novoa, Real Estate Private Equity

The above Figure 4.4.1 shows a theoretical deal pipeline of larger vacant retail spaces, between 25,000 to 35,000 sq ft, available in various cities.

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This exercise validated the hypothesis that appropriate spaces are available at attractive prices. The base building and existing infrastructure may be reused with limited modifications or tenant improvements.

StreetSmart's return is mainly driven by the arbitrage charged to retail tenants for rent and our value-added omnichannel offerings. Secondly, the operating expense efficiency in managing the logistical side of the business and inherent advantages of geographic proximity. Finally, the reduced repurposing cost to accommodate our retail and logistics space.

The total addressable market of StreetSmart, which encompasses revenue from MBE retailers and wholesalers across the U.S., is estimated at \$575B. As showing in Fig. 4.4.2, StreetSmart would target gateway cities with dense and highly educated populations. First New York, second Washington DC, and third Boston. After establishing an East Coast presence, StreetSmart will expand to the West Coast, fourth to Los Angeles, and fifth to San Francisco. Finally, StreetSmart enters the Midwest market of Chicago. These markets were picked because of familiarity with the founders, networks, geographic proximity, and desirability for pop-ups and first-time permanent retail locations.

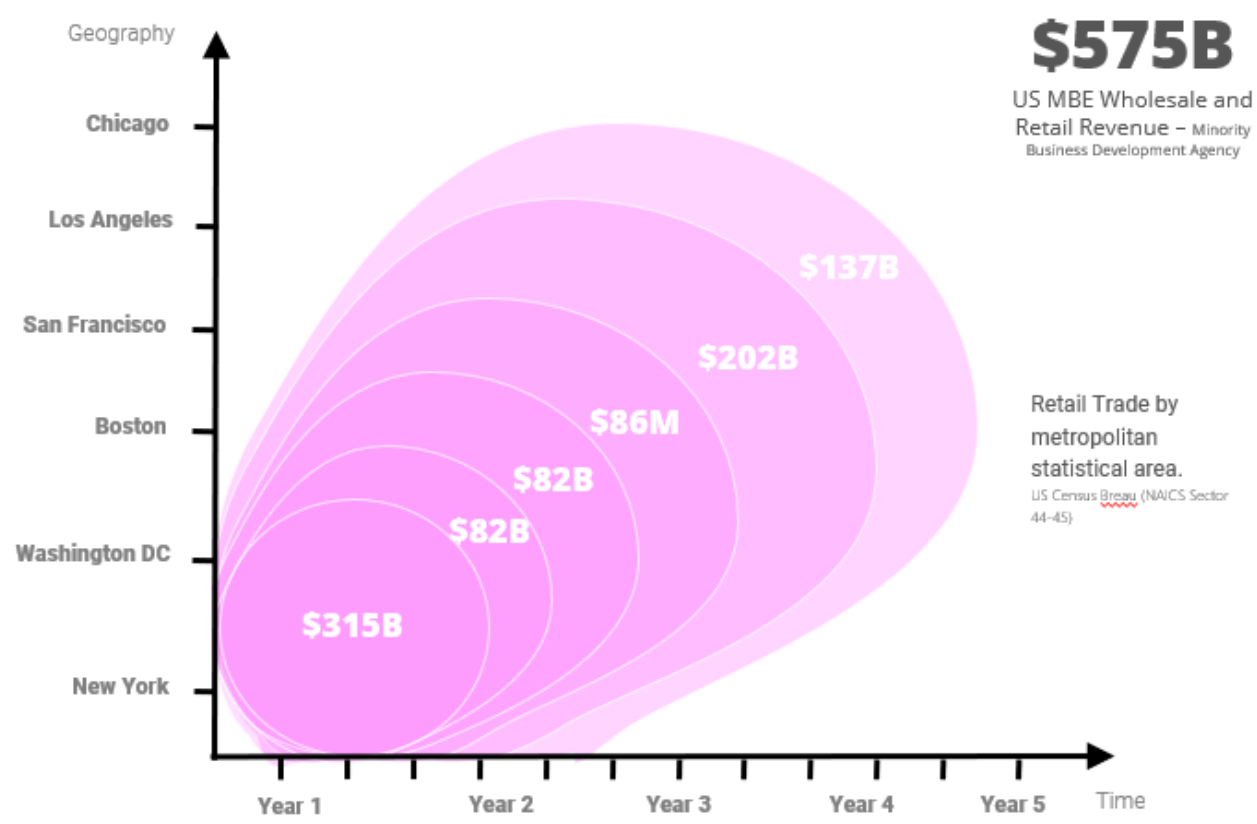


Fig. 4.4.2 Market Expansion Strategy by Location

Gateway cities also provide market access to dense high-earning populations within proximity to potential locations. StreetSmart’s strategy relies on segmenting the logistics market by focusing on delivering high-volume and high-margin retail goods and services in easily accessible urban areas while allowing traditional suburban logistics warehouses to focus on lower-margin goods and servicing far-flung destinations. Additional overbuilt retail is predominantly located in suburban malls but places downward pressure on the entire retail sector. Before COVID-19 urban environments were gaining

market share faster than their suburban counterparts. StreetSmart believes that the preference for denser, walkable urban environments will also lead to a disproportionate retail recovery. By investing in these areas will allow StreetSmart to capture upside during a recovery.

A discounted cash flow model was prepared to quickly test the solution's financial viability based on the subsequent sale and pricing assumptions summarized in Figure 4.4.21 below.

<b>Basic Assumptions</b>		<b>2%</b> inflation	<b>100%</b> equity	<b>7-10 YR</b> Master Lease	<b>30,000 sf.</b> Avg. Store Size	<b>250 sf.</b> Avg. size Pop	<b>70%</b> Utilization Rate	<b>42</b> Pops
<b>R e v e n u e</b>	<b>\$60</b> Psf. Rent	<b>\$1500</b> rent per pop		<b>\$22,341</b> Per store sales	<b>6.7%</b> of revenue	<b>Selling / General / Administrative</b>		
	<b>8%</b> Premium services + \$150 surcharge	<b>10%</b> Non-tenant Premium services				<b>3%</b> Variable costs	<b>\$1M</b> Operations	
	<b>labor</b>		<b>Retail Manager</b> @ 8K/mo.	<b>Logistics Manager</b> @ 8K/mo.	<b>Returns</b>			
<b>E x p e n s e s</b>		<b>Logistics agents</b> @ 4K/mo.	<b>Customer Service</b> @ 4K/mo.			<b>39.3% IRR</b> Internal Rate of Return		
	<b>\$20.5</b> Psf. Rent	<b>\$10 sf.</b> Operating Expenses	<b>\$500,000</b> Fixed Software Dev. Costs	<b>1%</b> Maintenance	<b>1%</b> Reserve			
			<b>\$80 /sf.</b> Tenant Improvements	<b>1%</b> marketing				

Fig. 4.2.21 Assumptions of StreetSmart Financial Model

### Basic assumptions

- “US Inflation of 2% of inflation across years 1-5
- “All capital requirements will be financed with equity meaning no debt and low leverage.
- “Spaced will be leased with long-term contracts, on average 7-10 years to lock in attractive recessionary pricing. This asset-light strategy limits risks and may be more attractive to retail REITs and other strategic players in the event of an exit.

### Revenue assumptions

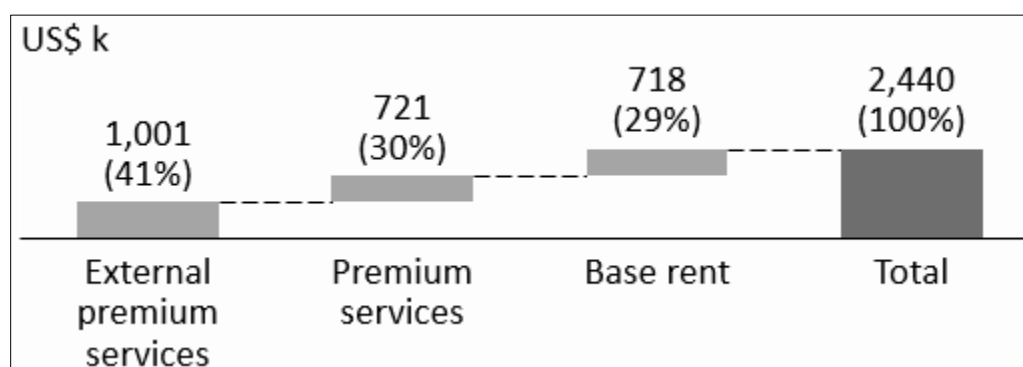


Fig. 4.4.3 Revenue unit economics. Source: Rhett James and Diego Novoa, Real Estate Private Equity

- “Locations of 30,000 sq ft with a 70% utilization comprised of 2 floors. The street level consists of retail and customer-facing areas, and the secondary level—a basement or second floor—would house logistics and fulfillment areas. Thus, approximately 10,500 sq. ft. of space is dedicated to *Pops*.

- “Average sized Pop of 250 sq. ft. These scale pops would be a minimum of 250 sq ft (min.) plus 250 sq ft increments. In a 30,000 sq ft. location, there would have approximately 42 Pops.
- “StreetSmart aims to have a dynamic rent pricing scheme depending on the calendar month (e.g., higher rents for December). For purposes of the discounted cash flow model, a rental rate of US\$ 60 per sq. ft. per month on average, which totals US\$ 1,500 per month for the average Pop. According to the Vend 2019 Retail Benchmark report, US small and medium retail stores, on average, have \$22,341 in sales.<sup>99</sup> Thus, StreetSmart’s average rent would only represent 6.7% of a potential tenant’s sales.
- “Premium services offering to tenants will generate additional revenue. The financial model assumes that 80% of MBE retail tenants will use our add-on omnichannel services, including the handling of pick-ups, returns, and optional Livestream promotion of products. For these services, StreetSmart plans to charge 8% of sales based on the assumption of average monthly sales of US\$ 22,341.
- “Premium services offerings to non-tenants will generate additional revenue. StreetSmart recognized that MBE retailers with no physical Pop could still leverage the premium benefits of StreetSmart’s logistics and omnichannel solutions. The discounted cash flow model assumes

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<sup>99</sup> Francesca Nicasio, “Retail Data 2019: 20 Retailer Stats You Need to Know,” Vend Retail Blog, July 29, 2019, <https://www.vendhq.com/blog/retail-stats/>.

35 businesses with no physical location but will utilize StreetSmart's premium omnichannel benefits. Thus, a 2-part pricing structure is envisioned for these retailers: US\$ 150 per month + 10% of sales managed through our system.

### Expenses

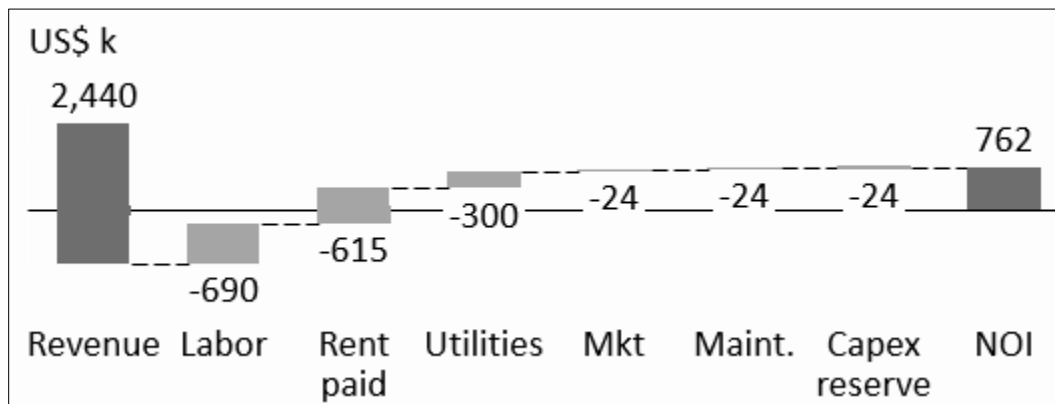


Fig. 4.4.4 Net operating income after expenses. Source: Rhett James and Diego Novoa, Real Estate Private Equity

- "Labor and staffing: Staffing assumptions were made for each location. These assumptions included two managers, one dedicated to the retail level and one to the logistics level. Both would earn a wage of US \$2k per week. Logistics agents would take care of the logistical operations on the secondary floor, making a wage of US \$1k per week. Customer service agents would take care of all the tenant and customer interactions on the first floor and earn a salary of US \$1k per week.
- "An average rental rate of US \$20.5/sq. ft. was assumed on a triple net basis, based on interviews and research with real estate brokers and indicative pricing in our target locations. Additionally, US \$10/sq.



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ft. was budgeted for other expenses (e.g., common area maintenance, property taxes, etc.).

- “Marketing: The financial model assumes that 1% of each location’s revenue will be spent on marketing and advertising.
- “Maintenance: The financial model assumes that 1% of each location’s revenue will be spent on cleaning and maintaining both spaces.
- “Capital expenditure reserve: The financial model assumes that 1% of each location’s revenue will be held as a reserve for capital expenditure and is a real estate industry standard.
- “Software cost: StreetSmart assumes that it will spend \$0.5M in fixed costs to develop software services to coordinate the hybrid retail model and integrate into retail partners' websites through APIs.
- “Capex: StreetSmart has assumed base-building tenant improvement costs of US \$80/sq. ft., for fitting out both the retail space and of the logistics space. In addition, it assumes the purchase of equipment and storage shelving. Flexible spaces and lack of highly configured spaces, an industrial feel with “Pops” inserted by retailers, and the reuse of existing retail infrastructure reduces capital expenditure and tenant improvement costs.
- “Retail Tenant Improvements: Tenants pay the costs of their Popup, which must be assembled and demounted before the start and

termination of a lease. This policy promotes off-site prefabrication and minimal disruption between leases.

### Selling, General, and Administrative Costs

- "Selling and marketing: A variable expense of 3% of total revenue was assumed for selling, sourcing tenants, and web maintenance.
- "Corporate General and Administrative expenses: US\$ 1M per year was assumed for day-to-day operations of the growing at US inflation of 2% per year.

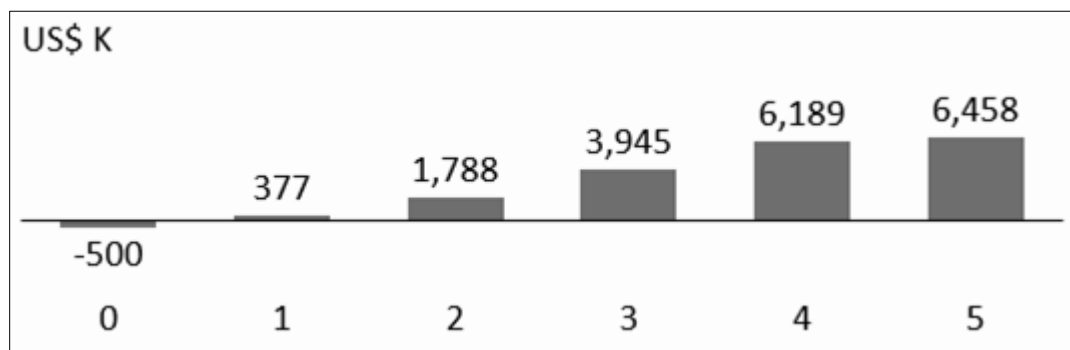


Fig. 4.4.5 EBITA projects. Source: Rhett James and Diego Novoa, Real Estate Private Equity

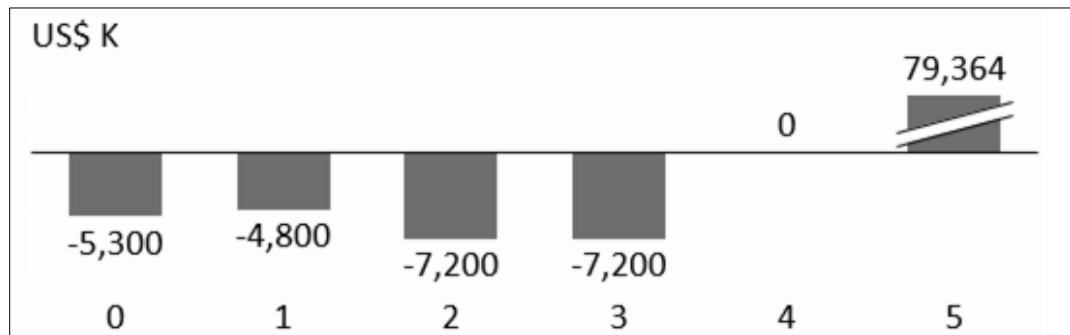


Fig. 4.4.6 Cash flow projections. Source: Rhett James and Diego Novoa, Real Estate Private Equity

"Based on the assumptions above in a base case scenario, an investment

into StreetSmart would return investors an internal rate of return (IRR) of 39.3% and a multiple on invested capital (MOIC) of 3.2x during the 5-year holding period. On the other hand, in a downside case scenario, that considers a base rent of US \$30/sq. ft. per month (slightly lower than cost) would return 10.1% IRR and 1.4x MOIC. The sensitivity table below shows that the returns are significantly sensitive to the rental rate charged to tenants. Additionally, these proceeds are only realized upon an exit of the investment. For a potential exit, it was assumed an EBITDA multiple of 12.3x<sup>100</sup>, which is in line with retail-oriented real estate companies. This multiple also represents a conservative assumption, as asset-light models typically demand higher multiples of approximately 15x<sup>101</sup>.<sup>102</sup>

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<sup>100</sup> "Welcome to Pages at the Stern School of Business, New York University," "Retail (General)", accessed April 15, 2021, [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/vebitda.htm](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/vebitda.htm).

<sup>101</sup> "Welcome to Pages at the Stern School of Business, New York University," "Real Estate (Operations & Services)", accessed April 15, 2021, [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/vebitda.htm](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/vebitda.htm).

<sup>102</sup> Rhett James and Diego Novoa, "[Unpublished]," [Unpublished] (Real Estate Private Equity, Harvard Business School, May 16, 2021).

## IRR

Triple net rent to landlord (add extra US\$ 10 for all in cost)	Exit Multiple							
	10.5x	11.0x	11.5x	12.3x	12.5x	13.0x	14.0x	15.0x
16.0	41.1%	42.9%	44.6%	47.1%	47.8%	49.3%	52.2%	54.9%
18.0		39.7%	41.3%	43.8%	44.5%	46.0%	48.8%	51.5%
20.5			36.9%	39.3%	40.0%	41.4%	44.2%	46.9%
22.0				36.4%	37.0%	38.5%	41.2%	43.8%
24.0					32.8%	34.2%	36.9%	39.4%
26.0						29.5%	32.1%	34.6%
28.0							26.7%	29.1%
30.0								22.9%

## MOIC

Triple net rent to landlord (add extra US\$ 10 for all in cost)	Exit Multiple							
	10.5x	11.0x	11.5x	12.3x	12.5x	13.0x	14.0x	15.0x
16.0	3.4x	3.6x	3.7x	4.0x	4.0x	4.2x	4.5x	4.9x
18.0		3.3x	3.4x	3.7x	3.7x	3.9x	4.2x	4.5x
20.5			3.0x	3.2x	3.3x	3.4x	3.7x	4.0x
22.0				3.0x	3.0x	3.2x	3.4x	3.7x
24.0					2.7x	2.8x	3.0x	3.2x
26.0						2.5x	2.7x	2.8x
28.0							2.3x	2.4x
30.0								2.0x

Rent for tenants US\$ per sqf	IRR	MOIC	Premium serv.	IRR	MOIC
20	-7.8%	0.8x	5.0%	-25.8%	0.4x
25	2.2%	1.1x	5.5%	-4.3%	0.9x
30	10.1%	1.4x	6.0%	9.0%	1.3x
35	16.6%	1.7x	6.5%	18.9%	1.8x
40	22.2%	2.0x	7.0%	26.8%	2.3x
45	27.2%	2.3x	7.5%	33.5%	2.8x
50	31.6%	2.6x	8.0%	39.3%	3.2x
55	35.6%	2.9x	8.5%	44.5%	3.7x
60	39.3%	3.2x	9.0%	49.1%	4.2x
65	42.7%	3.5x	9.5%	53.3%	4.7x
70	45.9%	3.9x	10.0%	57.2%	5.1x
75	48.9%	4.2x	10.5%	60.8%	5.6x
80	51.7%	4.5x	11.0%	64.1%	6.1x
85	54.3%	4.8x	11.5%	67.3%	6.6x
90	56.8%	5.1x	12.0%	70.2%	7.0x

Fig. 4.4.7 Return sensitivity analysis. Source: Rhett James and Diego Novoa, Real Estate Private Equity

To realize this solution, StreetSmart would raise a US\$25M series A from family offices and impact-oriented funds to open ten concept locations within U.S. gateway cities. To accelerate growth and mitigate risk,

StreetSmart plans to lease spaces at attractive prices for a long duration and investing in the software that enables our concept to function. StreetSmart anticipates successfully operating profitable locations in U.S. gateway cities by year five. While MBE retailers in gateway cities represent an attractive beach-head market, our goal is to grow to secondary markets and a broader range of businesses after year five. This growth strategy will be executed through strategic acquisition of our physical assets by a retail REIT interested in expanding its digital presence (e.g., Simon Property Group). Alternately an eCommerce platform (e.g., Shopify) seeking to harness the benefits of a physical presence and a hybrid-retail model may also see StreetSmart as a strategic acquisition.



Fig. 4.4.8 Left: API Integration to retailers' websites. Right: Platform serving multiple retailers. Source James, et al. *New Ventures*.

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After the hybrid model gains traction, StreetSmart plans to transition to an asset-light strategy entering into revenue-sharing agreements with retail operations and lessors of retail space. StreetSmart would license its technology and provide operations and management services for retail operators and small business owners interested in harnessing a hybrid model in the markets StreetSmart operates. This asset-light expansion strategy has been successfully implemented in the past by organizations such as Hilton Hotels, where the Hilton brand operates or “flags” the hotel and collects a management fee but no longer owns the underlying hotel asset. Such a B2B2C strategy also enables StreetSmart to fulfill our mission and vision by connecting shoppers to minority businesses, managing retail spaces, and the coordinated-clustering of retailers on a neighborhood scale. StreetSmart would provide management SaaS services to individual shop-owners and StreetSmart location able to provide real-time product availability across multiple local MBE retailers and coordinate same-day curbside pick-up or local delivery. It would drastically simplify shopping minority-owned businesses within cities, providing alerts and redirecting to StreetSmart companies when something is available locally. Figure 4.4.9 demonstrates one way in which consumers could be redirected to StreetSmart businesses.

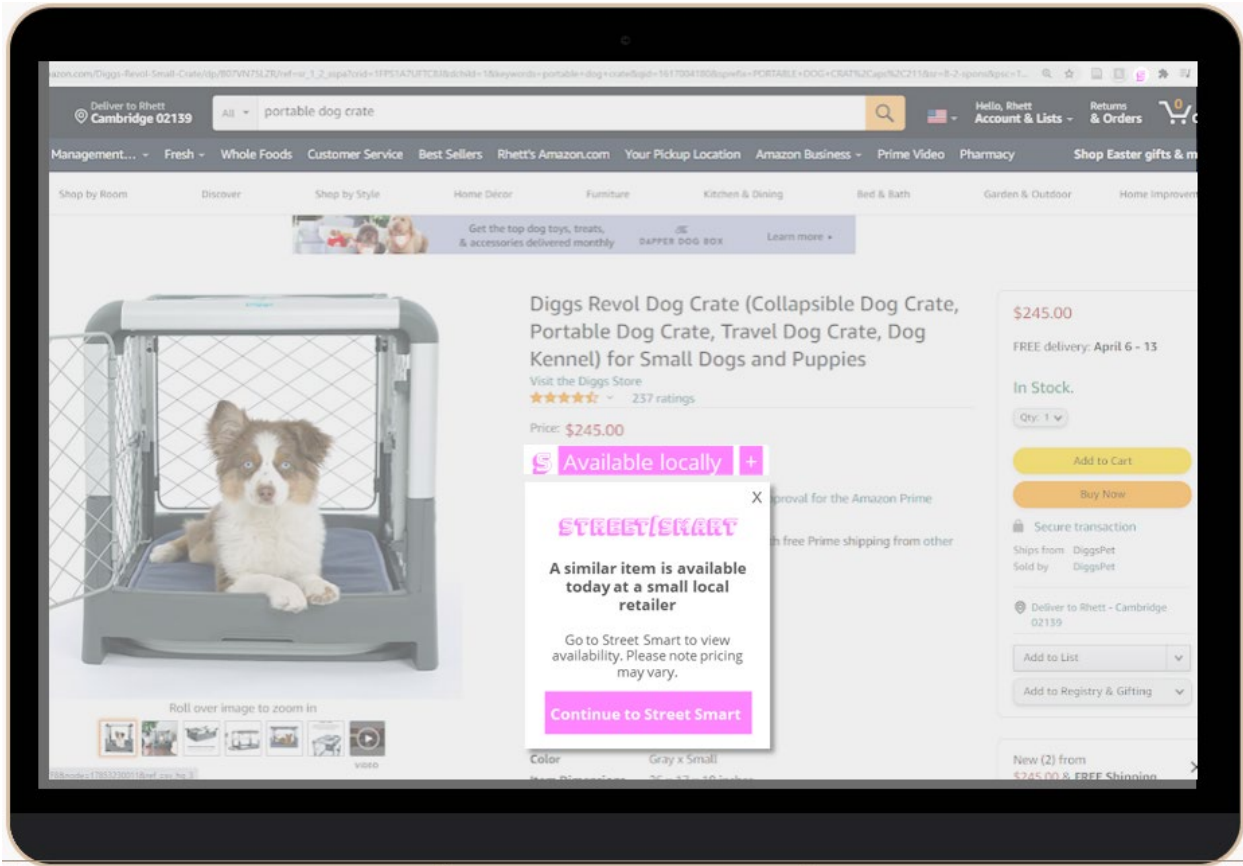


Fig. 4.4.9 Hypothetical SaaS Browser Plugin, redirecting shoppers to StreetSmart Businesses. Source James, et. al. *New Ventures*.

Additionally, this network of StreetSmart businesses would identify a business' attributes such as minority-owned, employer-owned certified B-Corporation, etc as shown in Fig 4.4.10. This tool will allow retail shoppers to determine track where they spend their money across different StreetSmart businesses. Saas offerings will continue to expand, offering conveniences such as checkout with local pick-up or same-day delivery directly from retailer websites.

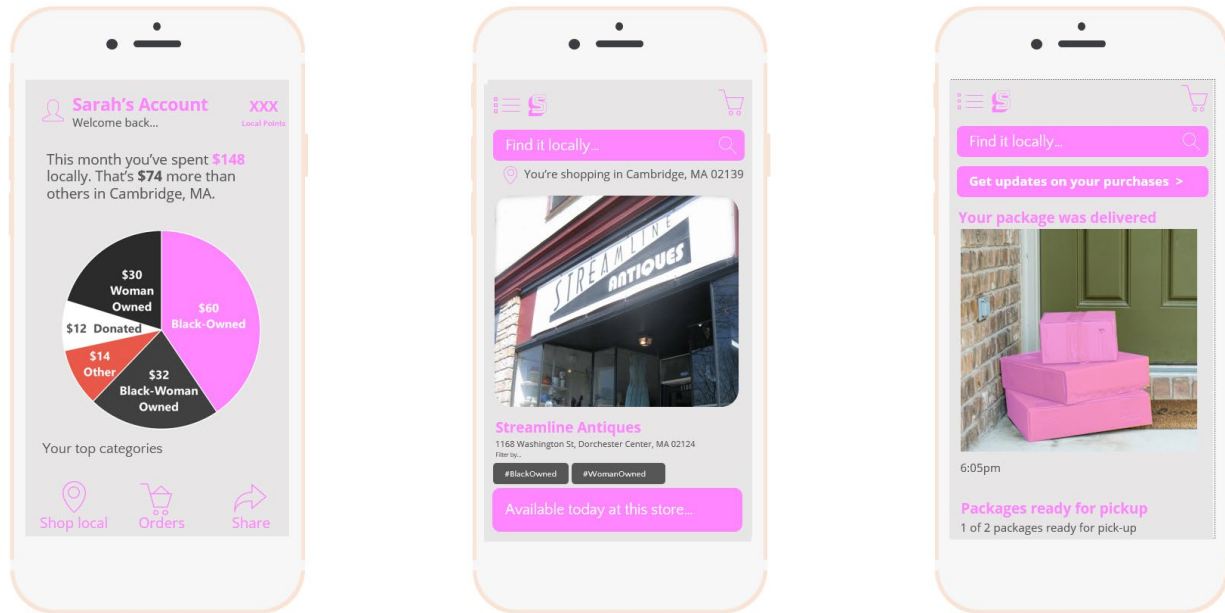


Fig. 4.4.10 StreetSmart SaaS platform enabling conscious consumerism. Source James, et al. *New Ventures*.

The key factors retail consumers said they considered when shopping online were ease of purchase and reliability. StreetSmart's SaaS offering would address both of these. In terms of reliability (expectation vs. quality gap) online purchases like Amazon present a potential gap between the item you thought you were getting and the item you receive. StreetSmart addresses this by connecting consumers directly to the local retailers to see & feel the products they are buying. Shopping MBE business can be complicated in searching for a specific product (vs. a list of shops) and the availability of products. By leveraging the aggregate effects of StreetSmart businesses, consumers can find what they are looking for online well while doing good within their communities.



The StreetSmart hybrid-retail model encompasses flexible pop-up layouts and lease terms, common areas for online order fulfillment, and SaaS services that manage local sales and inventory. This dedicated space for rotating temporary tenants provides MBE retailers with solutions that help them test and improve their businesses' competitiveness and financial viability. These services include rental and operating cost-saving, operational efficiency, marketing and visibility, discovery, scaling, incubation, and deeper customer engagement. This real estate solution's asset-light nature helps mitigate operational and financial risk while still achieving the vision of helping minority retailers thrive.

CHAPTER 5: **DISCUSSION**

The literature findings and the venture design process results provide a strong rationale for the StreetSmart venture proposal. In addition, StreetSmart is differentiated from other competitors in the market and seeks to drive social change within minority business communities. As the venture design process unfolded, key themes emerged, making the StreetSmart idea of reinventing retail compelling. These are discussed in the subsequent paragraphs.

*"Desire for flexibility* - With the economic pressure and uncertainty caused by COVID-19, businesses and commercial tenants are demanding greater lease flexibility and are seeking more agile solutions. The duration of lease terms fell 15%, accelerating a trend already building before the pandemic<sup>103</sup>. Similarly, as retailers determine that their property needs a higher demand for short-term space, providing the benefits of a physical location while minimizing overhead expenses is increasingly attractive. In an analysis of survey data from the *Small Business Majority*, it was discovered that many minorities small businesses were looking to acquire new space, exit a lease or mortgage, relocate, or reduce their commercial space<sup>104</sup>.

*"Conscious consumerism* - There has been a major shift in consumer attitudes with consumers more conscious of their shopping habits and

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<sup>103</sup> Tasha Norman, "Commercial Tenants Look For Lease Options Amid COVID-19 Uncertainty," *GlobeSt*, July 16, 2020, <https://www.globest.com/2020/07/16/commercial-tenants-look-for-lease-options-amid-covid-19-uncertainty/>.

<sup>104</sup> "Survey: Smallest Businesses Face a Looming Rent Crisis" (*Small Business Majority*, May 20, 2021), <https://smallbusinessmajority.org/sites/default/files/research-reports/Survey-Smallest-businesses-face-a-looming-rent-crisis.pdf>.

wanting to “do good.”<sup>105</sup> Trends show increasing interest in economic inequality and supporting local and minority-owned businesses. However, the discovery and ease of shopping at these retailers are challenging. In a survey of potential end-users in the Boston market, community members listed price, product availability, and convenience of eCommerce as a challenge when trying to shop at these businesses. There also cited features such as the discovery of minority and women-owned retailers to encourage shopping.

*“Glut in retail space - Before the COVID-19 pandemic, retailers were already struggling. Real estate owners and operators increasingly feel this pressure, having reported higher vacancy rates and increased losses since the pandemic. Creative amenity serving retail often also helps to active neighborhoods and attract more traffic. The upcoming decade will be a crucial transition period as customers choose denser, walkable urban environments. In fact, retail in urban environments prior to COVID-19 was gaining market share faster than their suburban counterparts in the country’s 30 largest metro areas<sup>106</sup>.*

*“Changes in customer behavior - COVID-19 permanently impacted shopper behavior, accelerating the evolution of omnichannel fulfillment. Click and collect or buy online pick-up in-store is becoming a mandatory*

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<sup>105</sup> <https://www.forbes.com/sites/catherineerdly/2020/12/18/four-trends-that-will-shape-retail-in-2021/?sh=495d447f5add>

<sup>106</sup> Gregory Scruggs, “How Municipalities Are Navigating the Changing Retail Landscape,” LILP, December 16, 2019, <https://www.lincolinst.edu/publications/articles/2019-12-unmallng-america-municipalities-navigating-changing-retail-landscape>.

fulfillment model for retailers, with in-store pickup growing 554%<sup>107</sup>. In a study by Forrester Group customers, 47 percent sighted that they used in-store pickup to avoid shipping fees, 25 percent to get products sooner, and 10 percent believed it was more convenient than waiting for delivery<sup>108</sup>. The potential for upselling and cross-sales is also significant, with over 50% of customers who use click and collect make additional purchases in-store<sup>109</sup>.

*"Lack of Resources* – Many minority businesses cited lack of sufficient capital, credit, or revenue as a significant challenge to operations. Additionally, most minority businesses are sole proprietorships, and those that do not still have few employees and lower receipts. This lack of resources forces many businesses to do more with less, which is incredibly challenging during COVID-19. Local businesses were forced to close entirely while larger retailers deemed essential could remain open. Non-store retailers also suffered from delays in delivery time and other logistics challenges because of the pandemic. Overall, this lack of resources also makes such businesses less attractive to larger lessors and operators of retail and logistics real estate who seek a steady stream of rental payments from institution-grade tenants. These factors also make leasing physical space challenging.

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<sup>107</sup> James Risley, "Buy Online, Pick up in Store Helps Ecommerce Grow 500% during Pandemic," Digital Commerce 360, June 25, 2020, <https://www.digitalcommerce360.com/2020/06/25/bopis-grows-more-than-500-during-pandemic/>.

<sup>108</sup> John Pincott, "Retailers Must Embrace in-Store Pickup," Retail Dive, accessed July 15, 2021, <https://www.retaildive.com/ex/mobilecommercedaily/retailers-must-embrace-in-store-pickup>.

<sup>109</sup> Stephan Serrano, "[2021] Click and Collect Strategies: How Target +273% Sales Same Day Fulfillment," Barilliance, January 25, 2021, <https://www.barilliance.com/click-collect/>.

*"Discovery and Scaling* – In an increasingly crowded retail landscape, both discovery and scaling represent a challenge to minority retailers. In a conversation with a co-founder of Season Three, Jared Johnson, he expresses that finding the first “hundred” or so customers within your immediate network is easy. However, finding the next hundred customers to scale and grow new companies because increasingly more challenging. Additionally, the discovery of minority-owned retailers is increasingly tricky on crowded social media platforms, which cities by most brands as their primary marketing tool for visibility. Many express a willingness or desire to have space that centers and highlights minority retailers and helps drive business sales.

*"Clicks to Bricks* - Despite the strong growth of non-store retailers in the first quarter of 2021, this was a decline from the third quarter of 2020 driven by higher-than-expected physical store shopping (CBRE). Brick and mortar stores will remain valuable in providing physical experiences and deeper engagement with customers in addition to increased profit margins through in-store and curbside pickup<sup>110</sup>. In-store fulfillment also highlights the unsustainability of eCommerce growth over the long term due to logistics and operations limitations. Typical online-order costs are 10% to 15% higher than in-store costs, where customers simply take their purchases home with them, according to CBRE Supply Chain Advisory. Thus,

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<sup>110</sup> Richard Barkham and Spencer Levy, “2021 U.S. Real Estate Market Outlook,” CBRE US, 2020, <https://www.cbre.us/research-and-reports/2021-US-Real-Estate-Market-Outlook-Retail>.

retailers are evolving their supply chains and fulfillment strategies which create incentives and experiences for customers to visit stores<sup>111</sup>. Several non-store retailers such as Casper, Allbirds, and Adore Me are all looking to open many brick-and-mortar retail locations off the back of their e-commerce success<sup>112</sup>. Jones Land LaSalle (JLL) also found that New York, Los Angeles, and San Francisco remain the top cities for first-time permanent locations as well as pop-ups a. The rise of eCommerce, social media and the concurrent demise of traditional brick and mortar stores and malls have led pop-ups to evolve to include all types of business<sup>113</sup>. Despite massive growth in eCommerce, consumers still want physical experiences, especially as lock-down fatigue after the COVID-19 pandemic.

*"Technology Reshaping Retail* - Technology continues to enable shoppers who want to research and search online and then purchase in-store or vice-versa. "There has been a growing understanding that online and offline shopping are not two separate acts but rather one customer journey that is often complex and may move between online and offline before purchasing."<sup>114</sup> Customers are also sometimes either uncertain of product

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<sup>111</sup> Richard Barkham et al., "CBRE" (CBRE Research, December 2020), <https://www.cbre.us/research-and-reports/US-Future-Hybrid-Store-Integrating-Retail-and-Logistics-2020>.

<sup>112</sup> Lindsey Peacock, "From Clicks to Bricks: Why Online-Only Brands Are Investing Big in Physical Retail," Shopify, April 3, 2019, <https://www.shopify.com/retail/clicks-to-bricks>.

<sup>113</sup>hObermayer Rebmann, "Pop-up Shops: Legal Considerations for a Growing Trend in Retail Leasing," JD Supra, December 9, 2019, <https://www.jdsupra.com/legalnews/pop-up-shops-legal-considerations-for-a-31973/#:~:text=Pop%20Dup%20shops%20require%20shorter,%E2%80%9D%20long%20term%20lease%20agreements.&text=Short%20term%20leases%20may%20range,to%20month%20basis%20until%20terminated.ttps://www.jdsupra.com/legalnews/pop-up-shops-legal-considerations-for-a-31973/#:~:text=Pop%20Dup%20shops%20require%20shorter,%E2%80%9D%20long%20term%20lease%20agreements.&text=Short%20term%20leases%20may%20range,to%20month%20basis%20until%20terminated>

<sup>114</sup> Catherine Erdly, "Four Trends That Will Shape Retail In 2021," Forbes (Forbes Magazine, December 18, 2020), <https://www.forbes.com/sites/catherineerdly/2020/12/18/four-trends-that-will-shape-retail-in-2021/?sh=1d6f6415adde>.

quality from non-store retailers or window shop locally then make purchases online later. In an increasing winner-takes-all approach to retail, retailers without an omnichannel strategy stood to lose the most. COVID-19 has also led brick-and-mortar retailers to rapidly experiment with services that will lead to some incredibly slick, compelling ways to shop locally in the online world<sup>115</sup>.

*"Changing Demographics* - In an analysis of past economic downturns conducted as part of the literature analysis, it was discovered that minority and women-owned businesses fueled the recovery after the great recession. These companies added, "1.8 million jobs from 2007 to 2012, while firms owned by white males lost 800,000 jobs, and firms equally owned by white men and women lost another 1.6 million jobs"<sup>116</sup>. Given the rapid growth rate of minority businesses and demographic trends that expect a majority non-white population by 2050, the recovery post-COVID-19 and growth in the future will likely be fueled by MWBEs, making it an attractive segment for investment.

StreetSmart's core belief is that American competitiveness and economic growth will be increasingly dependent on the development and expansion of MBE retailers. Amenity serving retail also plays a crucial role in the recovery

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<sup>115</sup> Catherine Erdly, "Four Trends That Will Shape Retail In 2021," Forbes (Forbes Magazine, December 18, 2020), <https://www.forbes.com/sites/catherineerdly/2020/12/18/four-trends-that-will-shape-retail-in-2021/?sh=1d6f6415adde>.

<sup>116</sup> Sifan Liu and Joseph Parilla, "Businesses Owned by Women and Minorities Have Grown. Will COVID-19 Undo That?" (Brookings Institute, April 14, 2020), <https://www.brookings.edu/research/businesses-owned-by-women-and-minorities-have-grown-will-covid-19-undo-that/>.



post-COVID-19, and they generally attract and service other uses, including offices, residential uses, and hospitality. This trend is especially true in urban areas.<sup>117</sup> However, it was also recognized that very few of these minority retail businesses have sufficient scale to compete with larger retailers, especially in terms of omnichannel fulfillment. Merely operating a physical location independently involved both uncertain and significant risks.

Additionally, an independent physical location may not necessarily be the most desirable. Many minority communities culturally tend to be more collaborative and exhibit a shared sense of culture and values. These businesses' locations in specific physical areas, such as Chinatowns, in many American cities, tangibly display this fact. The informal Sou-sou savings clubs, popular in many West African and Caribbean countries, are another tangible example of this sense of collaboration to achieve communal benefits.

This idea of cooperation is also not new. While not as popular in the U.S., many corporatives exist with the aims of helping its members, including worker cooperatives and housing cooperatives. Over the past decade, strategies have been emerging from inside communities and city governments that embrace participatory economics, economic localism, and

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<sup>117</sup> Rhett James and Diego Novoa, "[Unpublished]," [Unpublished] (Real Estate Private Equity, Harvard Business School, May 16, 2021).

community control, and other heterodox economic arrangements.”<sup>118</sup> In his book, *mutual aid a factor of evolution* Peter Kropotkin argues that the “most effective communities are cooperative rather than competitive.” James DeFilippis dedicates an entire chapter of his book *Unmaking Goliath*, to *Collective Ownership and Community Control*. In it he points out that the “most important of these is the history of black ‘organized communities’ of the nineteenth century”<sup>119</sup> where these organizations saw “the possibility of presenting a common front to a hostile environment. In a common effort, they recognized the virtue of mutual aid and assistance and the pooling of resources until such a time as the individual Negro settler could manage on his own.”<sup>120</sup> This sense of collective action—adopted by the solution—is seen as the only way to achieve self-determination.

One clear takeaway is that collaboration amongst minority businesses could lead to mutual benefits for all stakeholders. Thus, the initial solution of connecting singular local minority entrepreneurs with spaces, technical expertise, and investment was quickly broadened to strategies surrounding local collaboration between these businesses and collective action. Andres Sevtsuk suggests the idea of *coordinated clustering* suggest taking the idea of the coordinated leasing of shopping centers and applies it to retail streets. Historically building improvement districts and other community

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<sup>118</sup> Stacey A. Sutton, “Cooperative Cities: Municipal Support for Worker Cooperatives in the United States,” *Journal of Urban Affairs* 41, no. 8 (2019): pp. 1081-1102, <https://doi.org/10.1080/07352166.2019.1584531>.

<sup>119</sup> DeFilippis, *Unmaking Goliath: Community Control in the Face of Global Capital* (New York: Routledge, 2004).

<sup>120</sup> DeFilippis, *Unmaking Goliath: Community Control in the Face of Global Capital* (New York: Routledge, 2004).

organizations have traditionally done some of this coordination regarding upkeep, marketing, and placemaking services.<sup>121</sup> A myriad of organizations already exists to help minority businesses through cooperation. Two such organizations which emerged as part of this investigation were the BronXchange and the Boston Ujima Project. The Boston Ujima Project is a coalition of community members, small business owners, workers, grassroots activists, impact investors, unions, faith-based institutions, and civic organizations creating a community-controlled local economy led by working-class residents of color. The BronXchange “connects Bronx institutions and nonprofit organizations with high-road, local businesses to meet their local purchasing goals and support a more sustainable, equitable, and democratic local economy.”<sup>122</sup> Through discussions and working with both these organizations led to a recognition that similar collaborative solutions could help minority retailers. However, any solution must complement rather than compete with existing solutions. Such organizations should be considered valuable partners if the venture is to be successful.

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<sup>121</sup> Svetsuk, *Street Commerce*, p. 94

<sup>122</sup> “What We Do,” BronXchange, March 30, 2021, <https://bronxchange.com/what-we-do/>.

## 5.1 Limitations

The venture formation process is slow and complex. The iterative nature of the MITDesignX framework means that many facets of the venture design will be revisited as new information is discovered. This iterative nature also means that this thesis document is a living document. It is a snapshot of time at the end of the writer's academic career at MIT. In thinking about the continuation of this work, several potential limitations are presented for consideration.

This venture operates within the framework of the present conditions. The move towards an equal society—in business and our communities—requires broader challenges to the current systems. A question considered during this process is if minority businesses are the most effective way to address the socio-economic conditions of many minority communities. The answer is perhaps not. This solution simply represents a deliberate action to support minority retailers. Many similar measures will be required in additional spheres to solve the complex challenges minorities community face. This incremental approach of chipping away at the problem reflects the realities of society today.

Furthermore, the solutions run the risks of perpetuating a false ideal that hamstrung minority communities should bootstrap and work hard and pull themselves out of a situation they did not create. To achieve meaningful and

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lasting change will ultimately involve a broader coalition and a revisiting of how systems currently benefit the majority, including capitalism itself. Capitalism—black or white—typically functions by exploiting the surplus value created by workers. In such a system, someone always stands to lose, preventing us from ever achieving full equality.

*"America has given the Negro people a bad check, a check which has come back marked 'insufficient funds.'" — Martin Luther King Jr, I Have a Dream, August 28, 1963*

*Revisiting Human-Centered Design* – As the venture design progressed, stakeholders were engaged to arrive at the StreetSmart solution. Several stakeholders were contemplated at one point, including anchor institutions, local non-minority businesses, and surveys conducted with conscious consumers interested in supporting these businesses. These various engagements were critical in arriving at the final solution. However, additional work needs to be done in presenting this new solution to a more significant number of minority business owners, surveying MBEs, and soliciting feedback. Additionally, specific feedback should be requested from non-store MBE retailers to quantify the impact these omnichannel strategies could have on their businesses and MBE store retailers to fully validate the user journey and map how StreetSmart improves the user journey.

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Stakeholders other than minority businesses should not only be listed but also prioritized in this new solution.

*Measuring Success* – Many venture design frameworks explored, including MITdesignX, measure success strictly in the financial plan. Additional work and new frameworks must be created to measure and appropriately capture the value created by StreetSmart in terms of environmental and social benefits. StreetSmart undoubtedly also has a social mission and aims to create a social impact by supporting MWBEs. However, these metrics have not been appropriately captured in the evaluation of the solution. Such additional metrics could include the cumulative number of MBEs that have used our services, the number of MBEs that were created using StreetSmart as a first channel, the number of MBEs that subsequently introduced an omnichannel experience by leveraging StreetSmart, and the number of jobs created through our MBE retailers. This effort should be ongoing and continuous over the life of the venture. One such approach is a Randomized Controlled Trial to assess better the impact of the StreetSmart business model on MBEs after the first locations are mature. Such a study will help validate and continuously improve the impact case for StreetSmart.

*Risk Management* - StreetSmart's business model is asset-light and structured to limit specific risks to the overall venture and harm to the already vulnerable businesses that rely upon it. The business model makes controlling for risk, limiting potential downsides, and minimizing the risk of

failure even more critical. As part of this process, critical risks for the venture must continuously be evaluated. At the time of writing, several key risks were identified including 1) another health crisis or a resurgence of the COVID-19 pandemic 2) eCommerce may reduce the attractiveness of physical space 3) Bankruptcy or financial weakness of retail landlords or lessors of space might force some StreetSmart locations to close 4) Other operators, particularly malls, may try to replicate the concept at a lower price-point by leveraging their already idle space 5) retail MBE tenants may enter financial distress and stop paying StreetSmart and 6) revenues may have a strong seasonal component i.e., greater demand for services during the holiday shopping season.<sup>123</sup>

These risks were not simply contemplated but potential solutions were also considered that would help StreetSmart overcome these risks. These include separating each location as an individual profit center to ensure the entire business is not cross-collateralized limiting potential risks. The long duration of StreetSmart contracts with the master landlord will limit potential rental hikes and additional overhead. Services such as delivery and return handling can occur without tenants in place and the hybrid model allows StreetSmart to right-size its logistics and retail business model in the event of future public health and other crises. The StreetSmart business model has a differentiated advantage and unique positioning by leveraging omnichannel

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<sup>123</sup> James, Rhett, and Diego Novoa. "Popclick: Hybrid-Retail." [Unpublished]. Real Estate Private Equity, Harvard Business School, May 16, 2021.

features compared to pure-play retail players. Furthermore, eCommerce players still much solve logistics challenges and supply chain issues making StreetSmart more resistant as these features are embedded into the core business model. StreetSmart seeks long-term lease durations, in high-quality and creative use assets, in high traffic areas to lower default risks. StreetSmart also will maintain a robust pipeline of potential alternative locations in cities for worst-case scenarios. The comprehensive offering of add-on services to tenants, including delivery logistics, returns handling, inventory management and storage, software to manage sales, order fulfillment, and inventory management, is not easily replicated by others such as mall operators. In addition, this value proposition needs a dedicated team on the ground managing the services out of the wheelhouse of many organizations not embedded in the community. StreetSmart ingeniously segments the retail landscape by focusing on densely populated, high-income urban areas near our locations. The venture will also focus on higher-volume and higher-margin products while allowing traditional suburban logistics warehouses to focus on lower-margin goods and servicing far-flung destinations. Additionally, the short-term nature of contracts limits potential losses, with retail lease terms that can be paid in total upfront and a dedicated sales team seeking a higher volume of smaller-scale retail tenants. Discounts could be provided for tenant contracts with longer duration. Dynamic pricing of services could see higher prices in months with



higher demand and lower prices in months with lower demand to provide stable cash flows. Capital expenses are minimized by reusing existing retail space and holding the brands themselves responsible for the costs of Pops with setup and teardown included in the duration of the lease. This encourages offsite prefabrication and minimal disruption during turnover<sup>124</sup>.

This list of key risks and potential mitigants may not be exhaustive. As new potential risks are uncovered, these risks should similarly be considered and possible solutions contemplated. This evaluative approach for handling risks now and in the future must be maintained to ensure the viability of not only StreetSmart but also the many stakeholders that will rely upon it.

It is fully expected that this body of work will be built upon in the future. Addressing the limitations above will ensure that the StreetSmart venture has the greatest chance of success and creates value for retailers and communities. Through the MITDesignX process, a deeper appreciation that entrepreneurship is never complete was gained.

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<sup>124</sup> James, Rhett, and Diego Novoa. "Popclick: Hybrid-Retail." [Unpublished]. Real Estate Private Equity, Harvard Business School, May 16, 2021.

# CHAPTER 6: CONCLUSION

This thesis investigates a venture design solution that harnesses technology-enabled space and collaborative approaches to positively impact MBE retailers in a post-pandemic future with an increasing threat of eCommerce. These changes threaten to devastate street life and downtowns, which will be felt more acutely in communities of color. Promises have been made to address these disparities in the aftermath of the COVID-19 pandemic. Without meaningful action, this represents yet another blank check. Long-term solutions to build back better in black and brown businesses will be centered on new approaches to the challenges being faced. Rebuilding increases the urgency to begin finding real structural solutions to these challenges. This thesis exploration attempts to do this for small MBE businesses. For retail to thrive and vibrant communities to exist after COVID-19 and with the rise in e-Commerce requires both an understanding of the challenges these businesses face and an investigation of new retail approaches. These solutions also cannot come from the same systems that have proven to fail so many communities, particularly minority communities and other marginalized groups.

This integration of retail and industrial logistics leads to a new hybrid store model based on technology, consumer behavior, inventory, and design. These retail-to-industrial conversions, dark retail, and stories that support physical shopping, pick-up, and shipment services address the multiple challenges retailers need to succeed. A confluence of industry

trends supports this new model for retail and warrants consideration of how such a model could be adapted to serve MBE retailers. Today, however, many of these retailers' doors remain closed due to the COVID-19 pandemic. These trends represent an existential threat for cities and communities. The rapid rise in eCommerce coupled with the COVID-19 pandemic led to challenges in retail supply chain operations. Despite the quick acceleration of eCommerce, this growth is unsustainable in the long run due to operational and profitability limitations surrounding shipping and logistics. These facts taken together suggest a crucial inflection point. The uniquely collaborative history of minority communities and self-reliance in the face of injustice makes the proposed StreetSmart model particularly attractive at driving change within the minority retail.

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# APPENDIX

## List of Interviewees

1. Abe Menzin – Executive Vice President, Samuel Associates
2. Andres Sevtsuk – Associate Professor of Urban Science and Planning
3. Areeyl Goodwin – Founder, Beads by Aree
4. Barrie Scardina - Head of Retail for the Americas at Cushman & Wakefield
5. Christine McCall – Lowell, Director of Economic Development
6. Danielle McFadden – Greater Lowell Chamber of Commerce
7. Ellen Walker – Executive Director, Mission Hill Main Streets
8. Emma Homsta - Program Coordinator, Small and Diverse Business at Massachusetts Institute of Technology
9. Fidel Gomez-Torres – Program Manager at Your Friends In New York
10. Glynn Lloyd – Executive Director, Foundation for Business Equity
11. Guy Perry – Vice President, McKinsey & Company
12. Jared Johnson – Founder, Season Three
13. John Guinee - Plymouth Industrial REIT Board Member
14. Kerry Bowie – Founder, Msaada Partners
15. Kevin D. Johnson – President/CEO Johnson Media Inc
16. Leslie Salmon Jones and Jeff Jones – Owner, Afro Flow Yoga
17. Nia Evans – Director, Ujima Project
18. Nita Mariel - Owner, Mahogany Expressions
19. Nori Gerardo Lietz - Senior Lecturer of Business Administration in the Finance and Entrepreneurial Management, Harvard Business School
20. Matthew Boyes-Watson – Partner, Bow Market Somerville
21. Ogbogu Ukuku - Founder, Aziék Road
22. Rose Schutzberg and Lizzle4 - Owners, Black Matters
23. Ronald Manseau – Manager, Sherman & Cherie’s Beezy Bees
24. Samantha Pounder - Food Access Director at Arcadia Center for Sustainable Food & Agriculture
25. Sarah Wright – Manager, Boomerangs Thrift
26. William Kenneth Aulet - Professor of the Practice, Technological Innovation, Entrepreneurship, and Strategic Management





**STREETSMART**  
Reinventing Retail Through Smarter Small Business

- Hi everyone. My name is Rhett James, and my thesis is titled StreetSmart: Reinventing Retail Through Smarter Small Business
- Before we get started, I'd like to acknowledge and thank everyone for being here today. I'd also like to thank my advisor Svafa, reader Dennis, parents, family, friends and everyone else who has made this improbable journey at MIT possible

# THIS THESIS...

“ **investigates how minority businesses and communities have been disproportionately affected by structural racism, the COVID-19 pandemic, and the restructuring of retail.** ”

“ **While one solution can't solve all the problems, an opportunity exists for these businesses by leveraging the assets and capabilities of various stakeholders.** ”

“ **The proposed venture design solution aims to help minority-owned businesses remain competitive in a changing retail landscape. This thesis investigates a venture design solution that harnesses technology-enabled space and collaborative approaches to positively impact MBE retailers in a post-pandemic future with an increasing threat of eCommerce.** ”

“ **This thesis makes the case that minority small businesses are uniquely positioned to leverage such a solution to remain competitive in the changing retail landscape.** ”

- This thesis investigates how minority businesses and communities have been disproportionately affected by structural racism, the COVID-19 pandemic, and the restructuring of retail.
- While one solution can't solve all the problems of these communities' opportunities do exist. I use a venture design framework to propose a new business idea aimed, not only at helping minority-owned businesses remain competitive but also retain their economic and social hearts in the face of existential forces from a pandemic, structural racism, and disruption from eCommerce
- Finally, this Thesis a culmination of a lot of experiences explored at MIT including course work in New Enterprises, Real Estate Private Equity, engagement with MIT CoLab, MIT Real Estate Innovation Lab and most notably the MITdesignX Venture Accelerator & Bootcamp

# THE CONTEXT

US Businesses



**99.9%**

are small  
businesses

MBEs



**10x**

faster rate of  
growth at 79%



**7.2M**

jobs created



**\$1.4T**

generated

- I'd also like to frame the context of this Thesis.
- There are 30.7M small businesses in the U.S. which account for 99.9% of all U.S. businesses
- Minority Business Enterprises or MBEs are the fastest growing segment, growing at a rate of 79% or 10X faster than all small businesses.
- Over the last 10 years, minority business enterprises accounted for more than 50 percent of the two million new businesses started in the United States and created 7.2 million jobs
- They generate \$1.4T in annual revenue and are also significant contributors of employment and economic vitality to many communities.
- By 2050 the majority of U.S. Business owners are expected to be non-white

# RACIAL BUSINESS GAP

The Problem:



**\$300B**

Lost income



**9M**

missing jobs



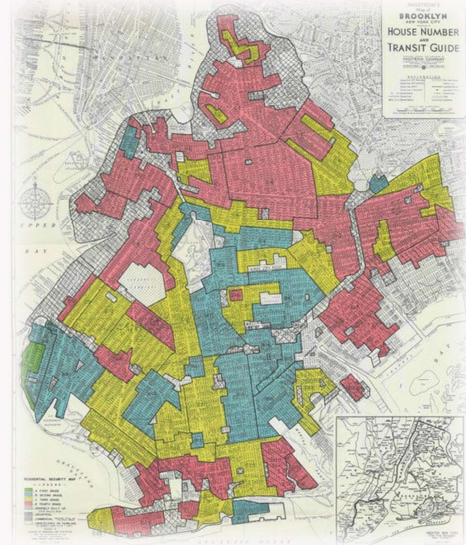
**1M**

More businesses

- Despite all this, underinvestment in these businesses have resulted in about \$300B in lost income and as many as 9M jobs.
- These “missing businesses” caused by structural racial disparities, have been exacerbated by the COVID-19 pandemic, creating a drag on business formation and expansion, adding up to lost jobs, lost income, and lost wealth-building among not only disadvantaged groups, but also for the economy overall
- If rates of ownership were proportional among people of color, there would be 1 million more businesses and 9 million more jobs.

# STRUCTURAL RACISM

- Lack of access to capital & credit
- State sanctioned discrimination
- Suburban sprawl and Urban renewal
- Demographic Inversion
- Concentration in certain industries
- Unequal structuring of retail market

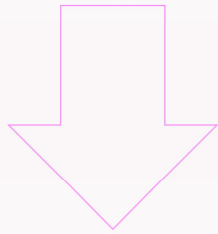


The 1938 Home Owners' Loan Corporation map of Brooklyn. Credit: National Archives and Records Administration, Mapping Inequality

- Minority-owned businesses have historically faced systematic barriers to accessing capital and resources. Large banks for example approve about 60% of loans sought by white small business owners compared to 50% for Hispanic owners and 29% for black business owners.
- State-sanctioned discriminatory have also adversely affected minority businesses. Black codes, Jim crow, Japanese interment, the Chinese exclusionary act are examples of policy exclusions based on ethnicity, gender, and class stymied the legal rights of individuals and blocked many from access to skilled trades and owning businesses.
- Seventy-four percent of communities that were denied financial services in the mid-20th century because of race and ethnicity, through a process known as redlining, are still low-to-moderate income today.
- Minority businesses also tend to be in inner-city communities eviscerated by white flight, suburban sprawl, the interstate highway system, and urban renewal.
- These actions cleared entire inner-city communities of commerce and cultural life, eviscerated downtowns including their commercial districts, displaced innate social networks, and dismembered the social and economic fabric of American city centers.
- Today a reversal of these trends are means central cities are increasing where the affluent and well educated want to live. This inversion is best measured not by population increases but the movement of “movement of African Americans out of central cities and the settlement of immigrant groups in suburbs.

- Neighborhood small businesses are frequently referenced as a critical entrepreneurship vehicle for minority and immigrant populations. However, commercial gentrification is disproportionately harmful to minority-owned establishments because of either a shifting market or rising rents.
- Many entrepreneurs of color are also concentrated in the restaurant, retail, and personal services industries making them more susceptible to disruption such as the COVID-19 pandemic. They also require physical proximity to others and are less likely to be delivered remotely.

# COVID-19



**22%**

Overall decline in active business ownership in 2020

**41%**

Black Business

**35%**

Immigrant Business

**32%**

LatinX Business

**26%**

Asian Business

**25%**

Women Business

**17%**

White Business

- Active businesses ownership during COVID fell by 22% in a crucial two-month window between February to April 2020. However, differences across racial groups are striking. Black businesses experienced the most acute drop at 41%, followed by LatinX business at 32%, Asian at 26%, and White business fell by 17%. Immigrant and female-owned businesses also experienced substantial losses at 36% and 25% respectively.

# COVID-19

- Businesses behind on space costs
- Change in commercial space needs
- Lack of federal support
- Minority neighborhoods more at risk
- MWBE historically fueled recovery



Brian Snyder/Reuters

- 78% of these small business owners rent or own their own space. I found that while 40% of businesses overall, were one or more months behind on their space costs 46% of Black Businesses, 46% of AAPI businesses, and 45% of Latino businesses were behind on space costs, compared to 34% of white businesses.
- The majority of small businesses also anticipated their commerce space needs would change because of COVID-19 either reducing their commercial space (12%), relocating (15%), exiting their current mortgage or lease (17%), acquire a new space (13%) or didn't know (31%). Only a minority of businesses (41%) expected things to stay the same.
- Minority business owners notably responded in higher numbers that they intended to relocate (17%) or acquire a new space (16%)
- An under-appreciated point, underscored here, is the close ties between the health and economic effects of COVID-19 in specific communities: counties with the highest concentration of COVID-19 are also the areas with the highest concentration of minority businesses and networks
- MBEs have not received adequate support and experienced disparities in access to federal relief funds. Minority business owners were less likely to apply for and less likely to receive assistance from the Paycheck Protection Program.
- This is ironic because MWBEs fueled the recovery after the great recession 2008 adding "1.8 million jobs from 2007 to 2012, while firms owned by white males lost



800,000 jobs, and firms equally owned by white men and women lost another 1.6 million jobs.

## RETAIL RESTRUCTURING

- Overbuilt Retail
- Store closures
- eCommerce Growth
- Unsustainable expansion
- Value of physical stores
- Integration of methods of shopping
- Changes in consumer behavior



John Keeble/Getty

- Before the COVID-19 pandemic, the retail market in U.S. cities was widely acknowledged to be overbuilt by about one billion square feet. The U.S. also has the highest square footage of retail space per capita worldwide. This overbuilt retail is placing downward pressure on the entire retail real estate industry and rents.
- Business shutdowns and store closures have led to over 40 major retailers declaring bankruptcy. In total, more than 15,500 stores have closed in 2020, estimated to total nearly 159M square feet of retail space.
- Despite the doom and gloom, E-commerce sales have led the growth of the retail sector, growing by about 44% year over year in 2020. E-commerce penetration reached 21.3% in 2020 up from 14.3% in 2018
- This growth however is unsustainable over the long term, largely due to operational challenges and profitability limitations involved in shipment and logistics
- Despite the rapid rate of E-commerce growth, most sales still happen in physical stores which remain valuable in providing physical experiences, richer customer engagement, and increased profit margins through fulfillment models such as buy online and pick-up in store
- There has been a growing understanding that online and offline shopping are not two separate acts, but rather one customer journey that is often complex and may move between online and offline before purchasing
- Change in retail and consumer behavior has also accelerated the evolution of

omnichannel fulfillment.

- Omnichannel retail refers to a “type of retail that integrates the different methods of shopping available to consumers”. Click and collect , where consumers buy online and pick-up in-store (BOPS), is becoming a mandatory fulfillment model for retailers. Shoppers are buying online and picking up in-store at four times greater volume than before the pandemic with in-store pickup growing 554% year over year as of May 2020
- The pandemic also led to the closure of street retail, increased demand for eCommerce and logistics space, and retail supply chain operational challenges and disruptions. It is estimated that the U.S. may need an additional one billion square feet of logistics real estate to meet growing eCommerce demand.

## A NEW APPROACH



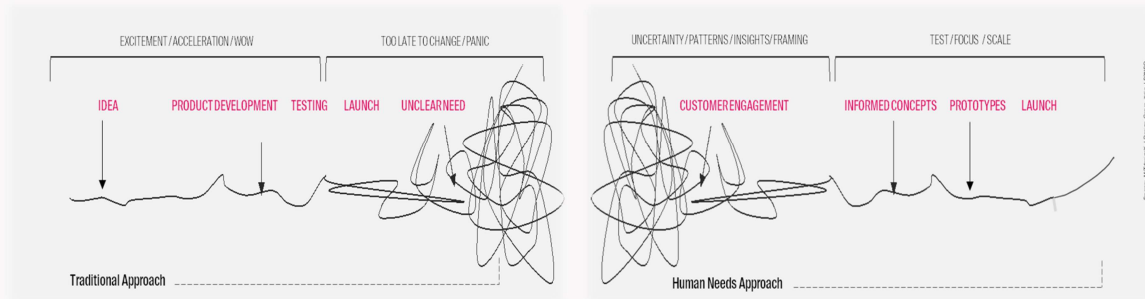
“

***These changes in retail are leading to a new hybrid store model integrating retail and logistics real estate, based on technology, consumer behavior, inventory, and design***

”

- These changes in retail are leading to a new hybrid store model integrating retail and logistics real estate, based on technology, consumer behavior, inventory, and design. These trends have important implications for U.S. cities. Brick and mortar retail, and street commerce are critically important to local economies, cities' vibrancy, and a crucial amenity for urban centers.
- Similar paradigm shifts when shopping centers were created in 1950s, festival marketplace and historic preservation in the 1970s, Main street Management in the 1980s a similar shift is occurring today in retail.
- The retail and wholesale industries also represent the largest segments of minority-owned businesses. Consequently, this restructuring of the U.S. retail industry which is now underway dramatically affects minority communities and MWBE businesses.

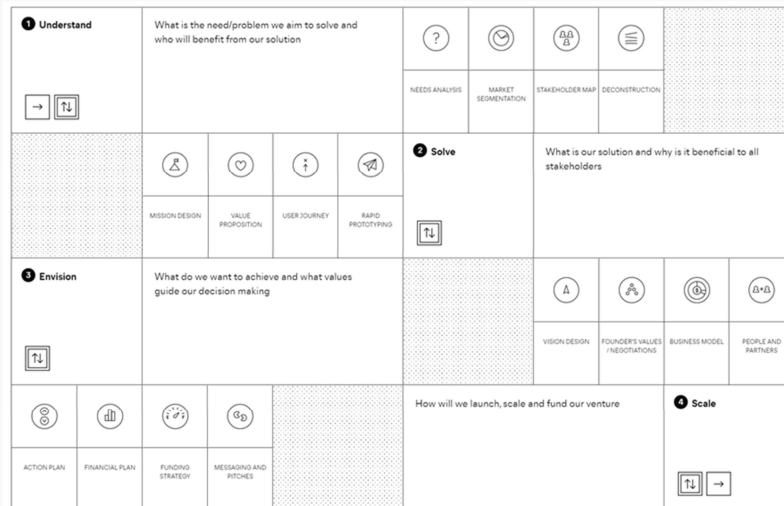
# METHODOLOGY



**Forward-thinking solutions designed to “address critical challenges facing the future of cities and the human environment”. This method is rooted in design to solve complex problems and critical challenges being faced today. These solutions exist at the intersection of design, business, science, and technology.**

- It is with this context that I began to tackle the problems faced by minority entrepreneurs. I decided to use the Venture Design framework developed by MITdesignX
- I choose this methodology because it
  - advocates for a human centered approach that uses design to solve complex problems, whereby holistic solutions are framed, conceived, tested, and reiterated, in a continual process of evolution, rather than being built one element at a time according to a protocol.
  - building ventures and for forward-thinking solutions designed to “address critical challenges facing the future of cities and the human environment

# MITDESIGNX FRAMEWORK



- The MITdesignX methodology is based on four critical “touchstones”; understand, solve, envision, and scale. The process is iterative, meaning that all of the touchstones must be “touched” at each iteration in the process
- The first touchstone of the framework involves understanding the need or problem the new venture is being designed to solve. This process required engaging directly with people and stakeholders to learn as much as possible about who they are, what are their needs, and pain points.
- After carefully understanding the problem, the second touchstone, Solve, was to make sense of these observations and clearly define a core conceptual approach that can provide the required solution.
- The third touchstone is to envision what the venture is, what one wishes to achieve, and define the fundamental principles that will guide decision making, development, and operations including financing of the venture.
- The fourth and final touchstone, scale, is focused on identifying the priorities, people, processes, and funds needed to effectively scale and launch the venture.

# MINORITY ENTREPRENEURS



## Priorities:

Growth & Discovery | Cash Flow  
| Time | Products | Community

## Psychographics:

- Never seriously considered it as costs seem prohibitive
- Reluctant to tie up the fast-growing company's capital in security deposits and renovation projects.
- Success or failure directly impacted by their access to capital, expertise, and networks
- Relies and trust her community of creators to help navigate industry and business



## Priorities:

Rebuilding | Finances | Safety |  
Psychological Health |  
Community

## Psychographics:

- Business permanently closed during COVID
- Tries not to feel hopeless. Believes we will get through this
- Feels broken right now and face uncertainties for the future
- Business was special to her and the community
- No protections for commercial tenants face legal disputes.

- Through this iterative process I heard from entrepreneurs like Aree who is a young non-store retailer that sells whimsical and wearable art. Aree dreams of a retail store but doesn't know where to start and is reluctant to tie capital up.
- Paul on the other hand owns a local personal care brand, who lost his business during COVID. He tries not to feel hopeless while figuring out how to rebuild

# UNDERSTAND

“ Good thing about Amazon is that you can look up everything. When I try to shop at local store website, it's only store-by-store ”

“ I make a comprehensive judgment based on price, delivery time, and effort to physically visit the store ”

“ The first set of customers are easy to find within your personal network. After that things plateau, and it becomes challenging ”

“ We've had major losses in revenue because of COVID. We've reduced staff and may close altogether ”

“ Try to shop minority- and women-owned stores as much as possible, but sometimes it's hard to find that information ”

“ Applying for loans were incredibly complicated. When we did receive assistance, it wasn't nearly enough. ”



25

interviews

2

surveys

8

Site visits

2

Community meetings

100+

Research hours

- I performed over 25 interviews with various stakeholders like these, not just minority business owners but also, customers, building improvement districts, procurement staff, chambers of commerce, community organizations, and real estate professionals to really begin understanding the problem
- I surveyed and analyzed survey data on minority businesses and customers, visited shops, attended community meetings and performed over 100 hours research to understand the problem.
- Structural factors mean that minority businesses face underlying issues that make it more difficult for them to run and scale. The result in minority businesses are more likely



to be classified as at-risk or distressed with "weaker cash positions, weaker network relationships and preexisting funding gaps" and little cushion

- COVID-19 shutdowns devastated black commercial districts and other ethnic enclaves that fuel the vibrancy, economies, and identities of American cities...[and] hasten the gentrification that has encroached on these communities
- And in the winner takes all approach to retail, and minority businesses reliance on the sector stand to lose the most.

# BRAINSTORM

Potential strategies for collaboration among minority businesses



## Agglomerating Supply

Products could be aggregated and discovery of a range of products across several minority retailers



## Anchor Institution Sales

Linking businesses to build and increase their capacity to service large local institutions



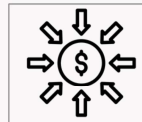
## Space Sharing

Sharing space to reduce overhead costs and provide efficiencies among many businesses



## Logistics

A network of small businesses could serve as hubs that connect people to goods and services



## Coinvesting

Pool resources to invest in strategic projects



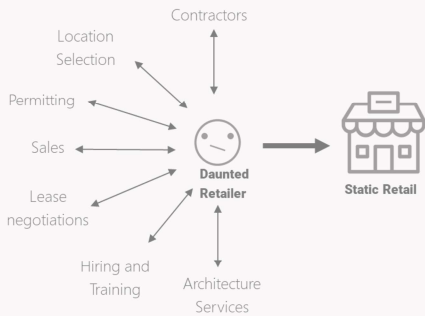
## Agglomerating demand

Leverage their collective buying power to reduce the cost of goods and services

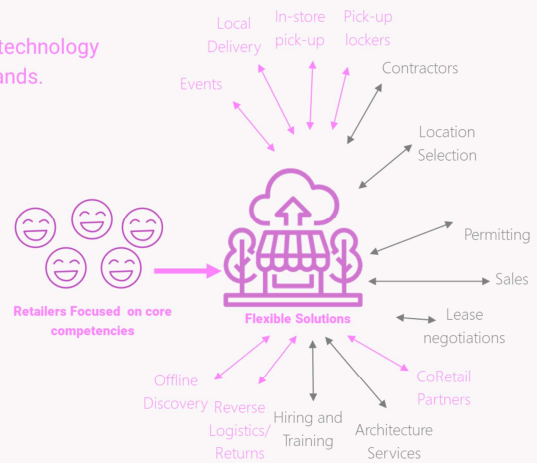
- In trying to understand the problem a key theme emerged. Strategies from inside minority communities that embrace collective action, solidity, participatory economics, economic localism, and community control, and other heterodox economic arrangements were being used in the face of adversity
- Peter Kropotkin in his book on mutual aid argues that the “most effective communities are cooperative rather than competitive”.
- The virtue of mutual aid and assistance, and the pooling of resources became a guiding pillar for the venture.
- As a result, I quickly brainstormed collaboration strategies that could help minority entrepreneurs such as Aree and Paul by either increasing their revenue, reduce costs or both.
- These options looked at agglomerating supply, sales to anchor intuitions, sharing space, creating a logistics network of businesses, co-investment and agglomerating demand.
- Through the process of identifying the most pressing needs with the highest value for minority businesses, and an acknowledgement of available resources resulted in StreetSmart

# STREETSMART

StreetSmart provides multi-brand retail stores. Our approach combines technology and last-mile solutions to create omnichannel strategies for minority brands.



VS.



## THROUGH COLLECTIVE ACTIVE STREETSMART

Allows minority brands to expand into retail without sacrificing too much capital or incurring too much risk

Leverages technology, and real estate expertise to make retail a successful sales and customer growth channel

Simplifies retail by reducing the barriers to entry including location section, turnkey buildouts, co-retailer section

Provides logistics solutions, data, and insights to respond to consumer preferences

Creates memorable and engaging experiences for customers

- StreetSmart provides tech-enabled multi-brand retail stores. This approach combines technology and last-mile solutions to create omnichannel strategies for minority brands
- Taken together StreetSmart creates a full omni-channel strategy for minority brands can foster discovery, drive sales, increase traffic, integrate the digital with physical all enabling these businesses remain competitive in an evolving retail landscape
- In the traditional approaching the complexity and cost of opening a shop including lease negotiations, professional fees, hiring and training staff made it prohibitive for many minority entrepreneurs especially after COVID-19.
- The StreetSmart approach leverages economies of scale realized when many brands run on the same platform, while sharing a common pool of management and salespeople and all aspects of physical retail
- StreetSmart customers are digitally native minority brands and local minority vendors

# SOLVE

StreetSmart leases spaces vacated by legacy retailers to repurpose them to provide omni-channel solutions for minority brands



Small and medium size spaces in a market atmosphere, characterized by flexible layouts and lease terms



Common spaces to fulfill online orders, returns, and provide points of engagement for digitally native & local brands and their customers

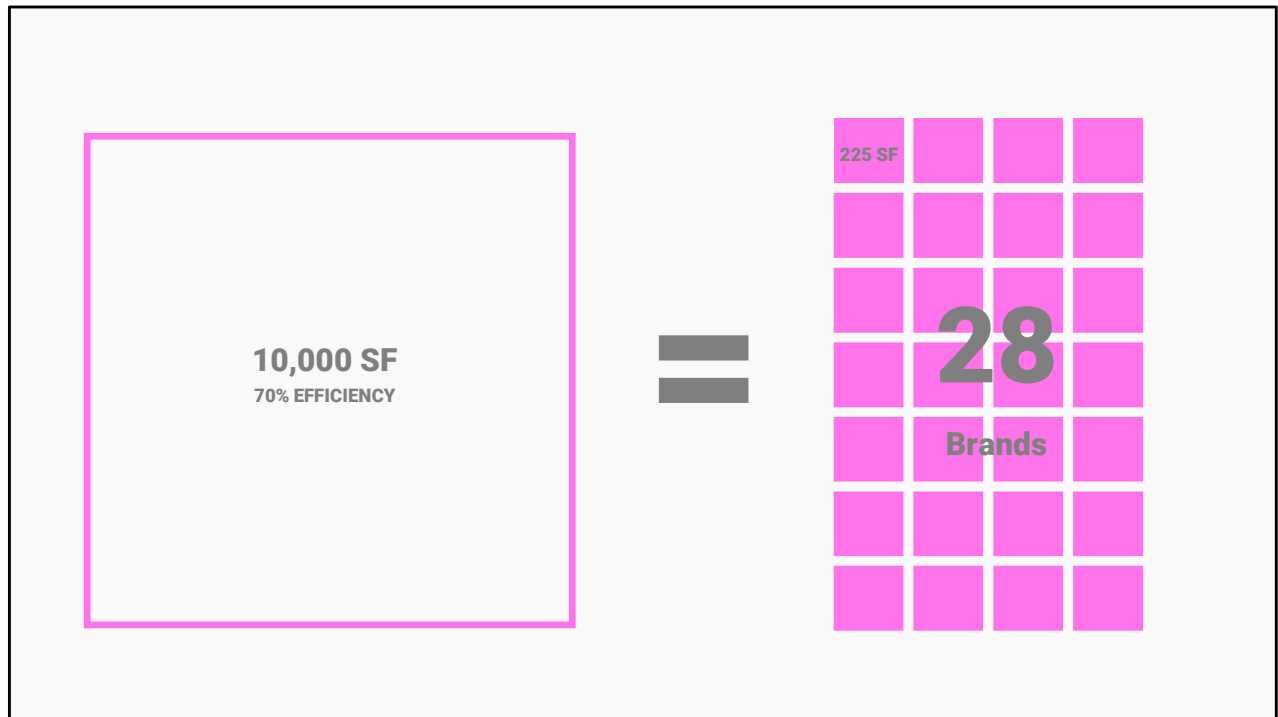


SaaS, which manages local sales and inventory both in-store and via eCommerce



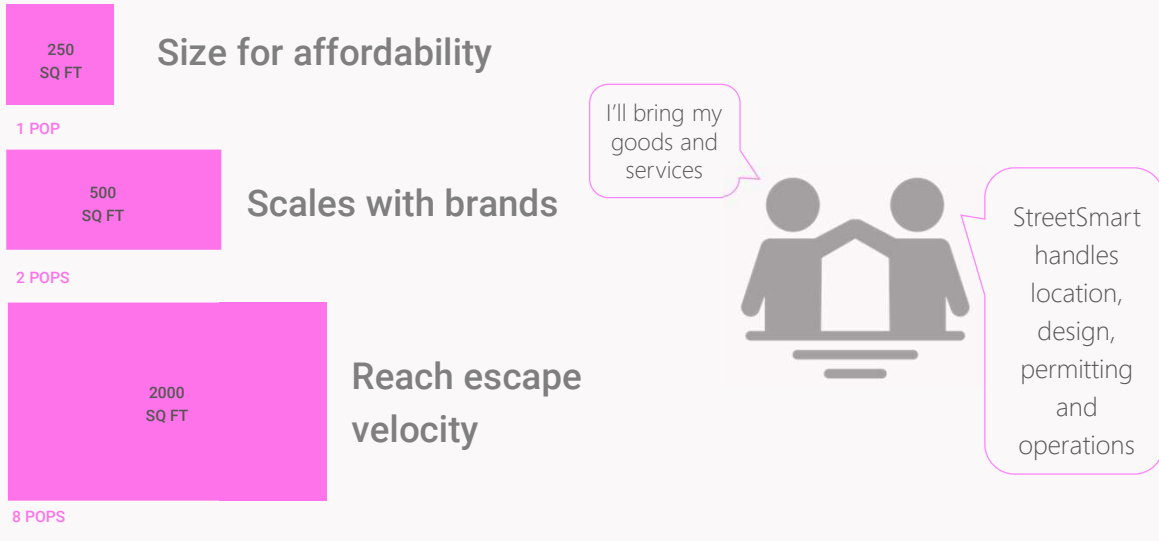
Jasmine Glasheen/ The Robin Report

- In a nutshell StreetSmart plans to repurpose urban spaces vacated by legacy retailers and adapt them to address the needs of newer-age MWBEs
- There would be 3 main features of our product offering;
- Small and medium size marketplace retail space with flexible layouts and lease terms
- Dedicated common areas to collect online orders, handle returns, and provide points of engagement for brands and their customers
- Software as a service to manage local sales and inventory across partner retailers
- Taken together we create a full omni-channel strategy for MWBE retailers can foster discovery, drive sales, increase traffic, integrate the digital with physical all enabling these businesses remain competitive against larger retailers

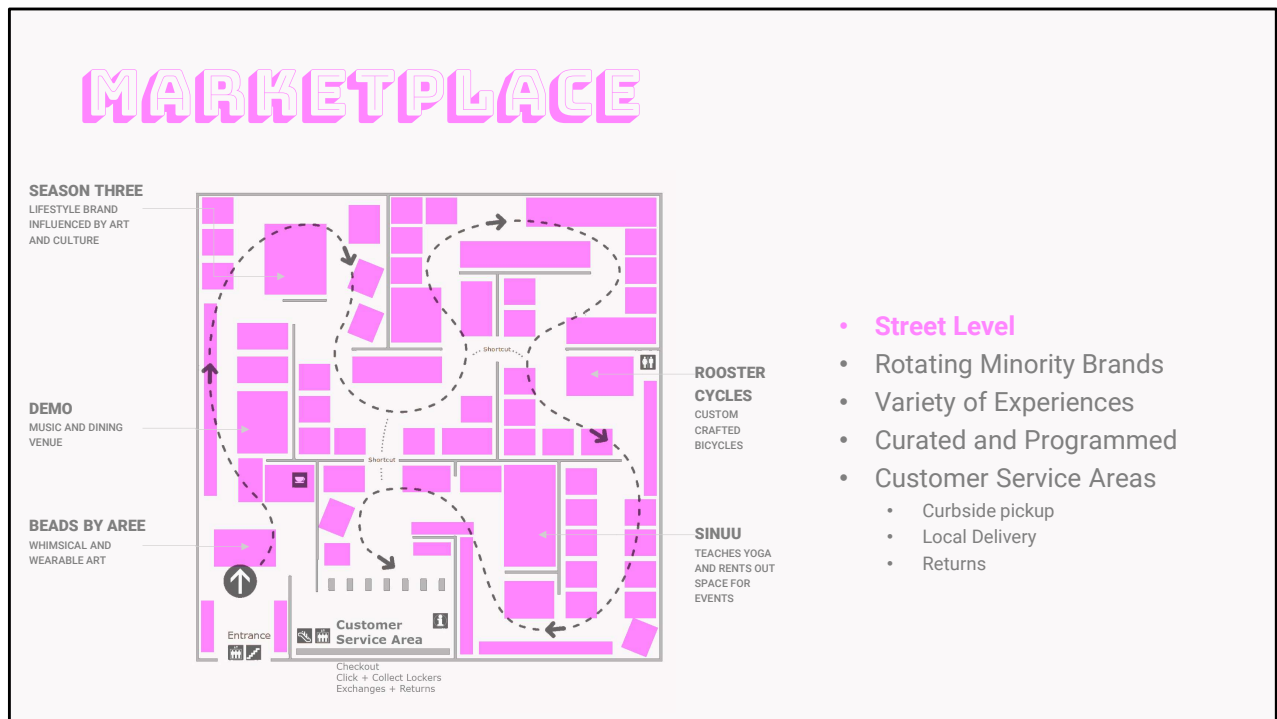


- You can see here how it works. We would take large, vacant, and difficult to lease retail space and divide it up to accommodate smaller minority brands based on the concept of pop-up stores
- In the example here a 10,000 sq ft space could potentially accommodate about 28 brands

# SCALABLE SOLUTION



- These flexible spaces or Pops can be scaled to fit the needs of individual brands
- Minority brands would only need to provide the goods or services while StreetSmart would handle other aspects of retailing including location selection, design, buildout, permitting, hiring and training staff, operations and technology.



- SteetSmart locations would be comprised of two levels.
- The Marketplace located at street level would serve as a permanent space for rotating popups.
- These types of Popup shops are an increasing attractive way for new and existing retailers to introduce a business, test new product and services, especially the uncertain environment post COVID, improve market visibility, and helps non-store retails scale to a physical presence.
- StreetSmart also benefits by filling vacancies quickly from a larger volume of smaller creative retailers and lowering the risk of default on longer term leases.
- Compared to the traditional static retail this dynamic nature, in addition to livestream booths, connected fitting rooms, and other integrated technology would create constantly new and novel experiences for customers fostering a sense of discovery and help driving foot traffic
- Stores benefit from cross-sales and an expanded customer base

# MARKETPLACE



SOURCE: ZYNGA INC

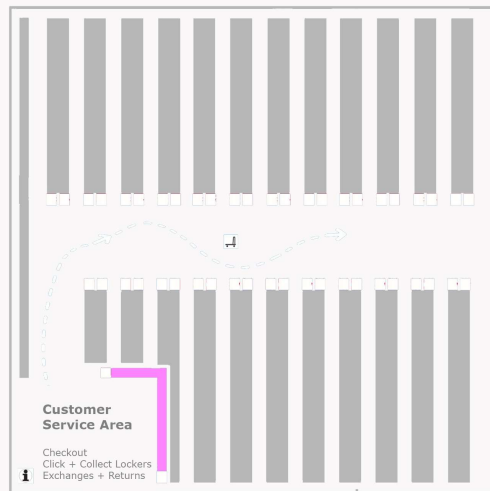


SOURCE: DOVER STREET MARKET

- The marketplace would create inspiring spaces that draw people in.
- This level is focused on minority retailers, eclectic culinary options, and celebrated cultural concepts that are true to the neighborhoods being served.
- This creates hubs or, gathering places, that cater to the unique needs of consumers, highlight minority businesses, non-store and local brands, and provide jobs and services to communities.



# LOGISTICS

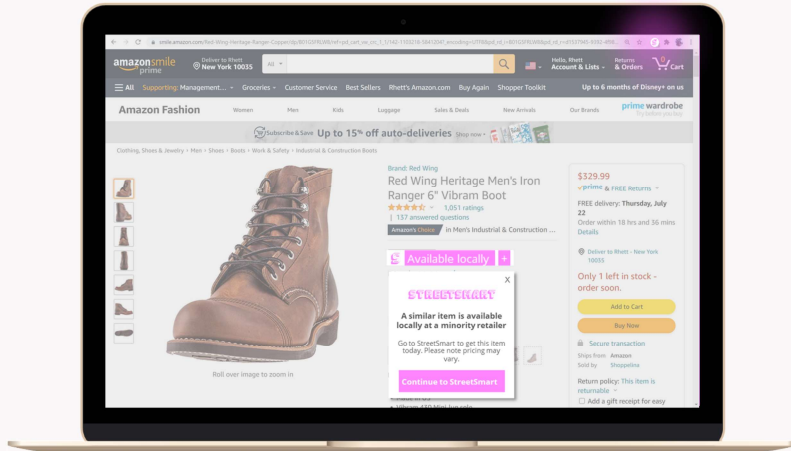


- **Basement or Second Level**
- Order Fulfillment
- Click and Collect
- Local Delivery
- Returns & Reverse Logistics

- The secondary level and common areas would serve as a logistics hub across all retailers ( or dark retail) providing last mile solutions such as in dedicated lockers for in-store pickup, local delivery of on-hand stock and simplify returns and reverse logistics costs for small retailers.
- Basement and second floor retail, that doesn't connect to the street, I learned typically does not perform well in U.S. markets so repurposing them to service as micro-fulfillment centers would help put them to better use.

# HOW IT WORKS

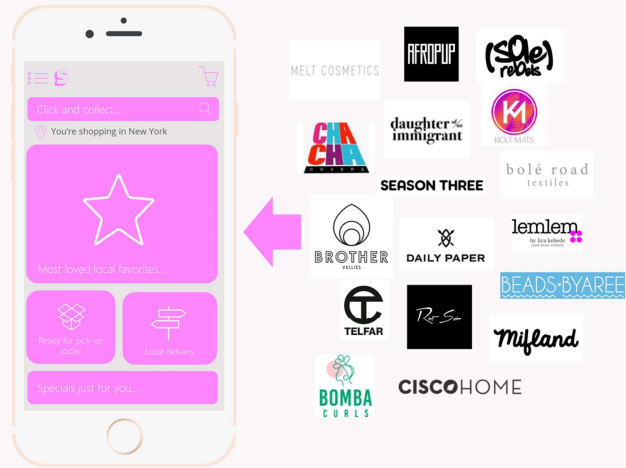
- Our browser plug-in makes shopping minority brands easy
- Get alerts across the web when something similar is available at a StreetSmart business



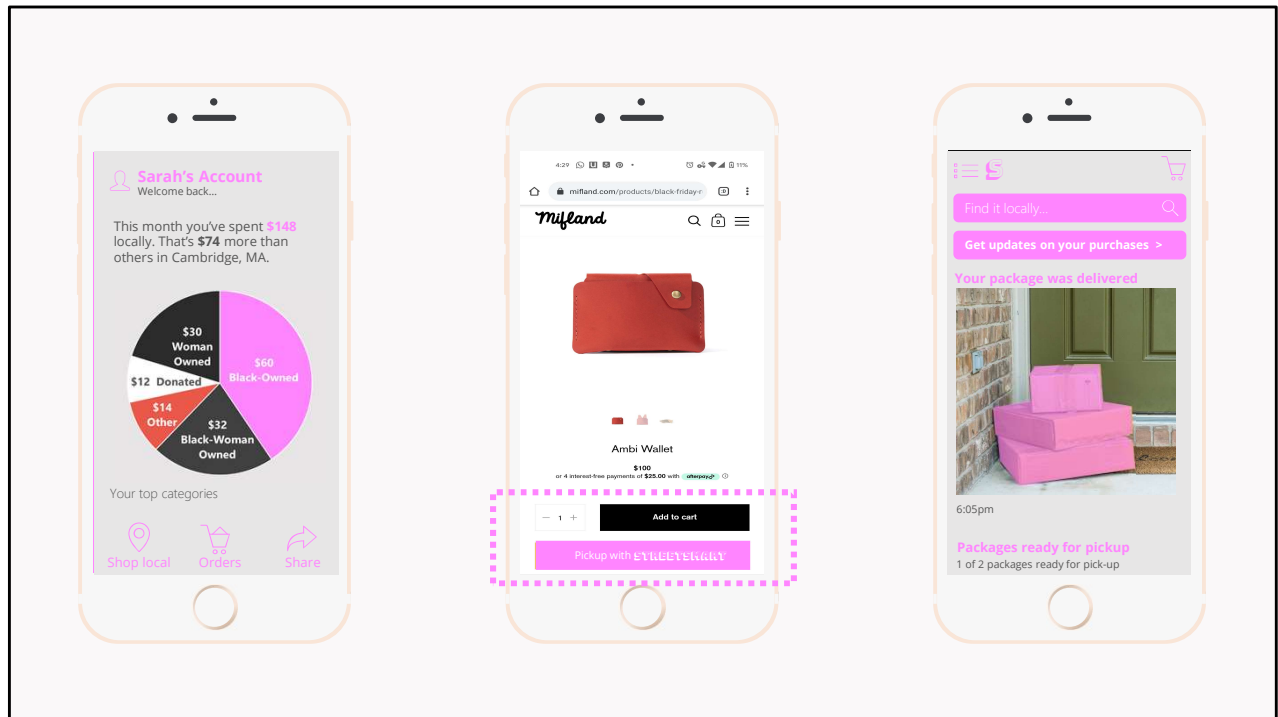
- StreetSmart locations would also be enabled by technology
- In terms of a use case on how this works; say a customer wants to buy a new boot for hiking. They searches a large e-Commerce website.
- StreetSmart's minimum viable software tool is browser plug-in lets them know a similar item is available locally at a minority retailer than they can get today.
- As the company grows it can incorporate product data across more and more minority retailers both in and out of streetsmart locations

# TECH ENABLED PLATFORM

- Real-time **product availability** across hundreds of minority brands
- **Same day** curbside pick-up or delivery
- Our badges help track and **identify businesses'** attributes so customers can shop their values



- Eventually the plan is to built out the software to a full platform where we can include things like real time product available across more minority retailers within a particular area, same day pick-up, or delivery from a local store.



- Badges identify attributes of each business, that allow customers to track where they spend their money responding to consumers becoming more conscious of their shopping habits. This was a feature that consumers were really excited about.
- Customers can determine how much of their monthly budget they've spent and across which stores; black owned, minority owned etc.
- As StreetSmart expand the product offering we plan to offer local pick-up at a StreetSmart locations or same day local delivery, directly from minority brands websites.
- We also plan to leverage unique and highly visible branding that lest the community know you support minority business

# VALUE PROPOSITION



## For Minority Retailers

- Flexibility
- Reduces Complexity
- Lowers entry costs/barriers
- Resources
- Community
- Offline Discovery
- Growth/Scaling
- Last-mile solutions/Logistics



## For Communities

- Convenience (Consumer Behavior)
- Conscious consumerism
- Vibrant streets
- Community serving retail
- Retail employment
- Gathering places
- Provides community
- Promotes local economies



## For Landlords

- Amenity serving retail
- Reduces retail vacancies
- Stable lease terms
- Lower asset management costs
- High-credit tenant
- Clicks to bricks

- StreetSmart strategically aligned incentives for minority retailers, their communities, and landlords by moving towards a flexible retail model integrating digital and physical experiences
- For entrepreneurs it would allow them to re-establish or expand into retail without incurring much costs or risks, the flexibility to test new concepts, and help with growth and scaling
- For communities it provides conveniences that respond to changing consumer behavior, serves as hubs, helps activate streets and promotes local economies.
- For landlords it would help reduce retail vacancies, provide them with a stable long-term tenant, lower asset management costs and credit risks and provide amenities to other building tenants

# ENVISION

## Vision

*“to help minority retailers thrive”*

## Mission

*StreetSmart’s mission is to help minority retailers thrive by providing technology connected retail spaces services that lower the barrier of entry and add value for minority businesses.*



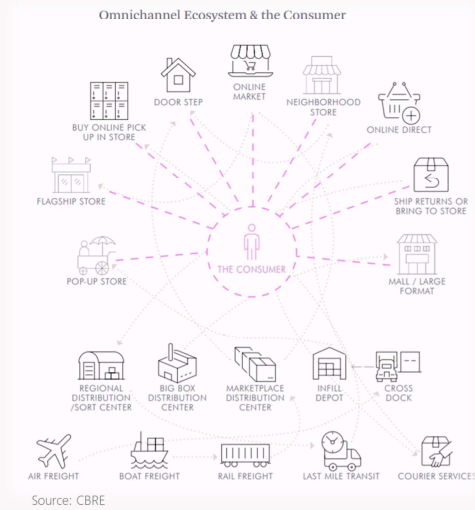
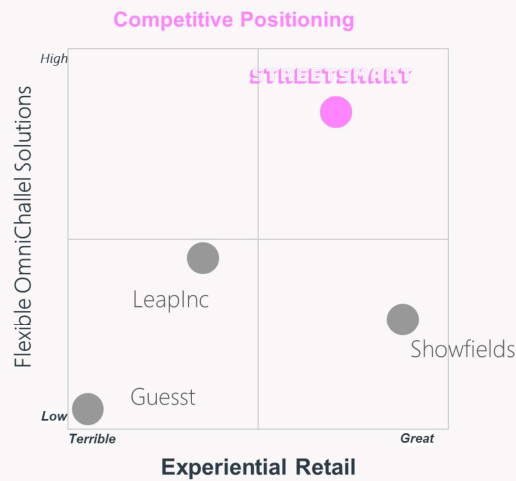
**StreetSmart envisions a future where cities thrive with diverse streetscapes. Where you eat from local food vendors, not cloud kitchens. Where items arrive from your local store and not a suburban warehouse. StreetSmart envisions a future where communities thrive by creating a virtuous cycle, where money is returned to local communities not extracted from them. StreetSmart envisions a future where businesses sustain and reinforce the democratization of the economy and promote civic engagement.**

StreetSmart Manifesto

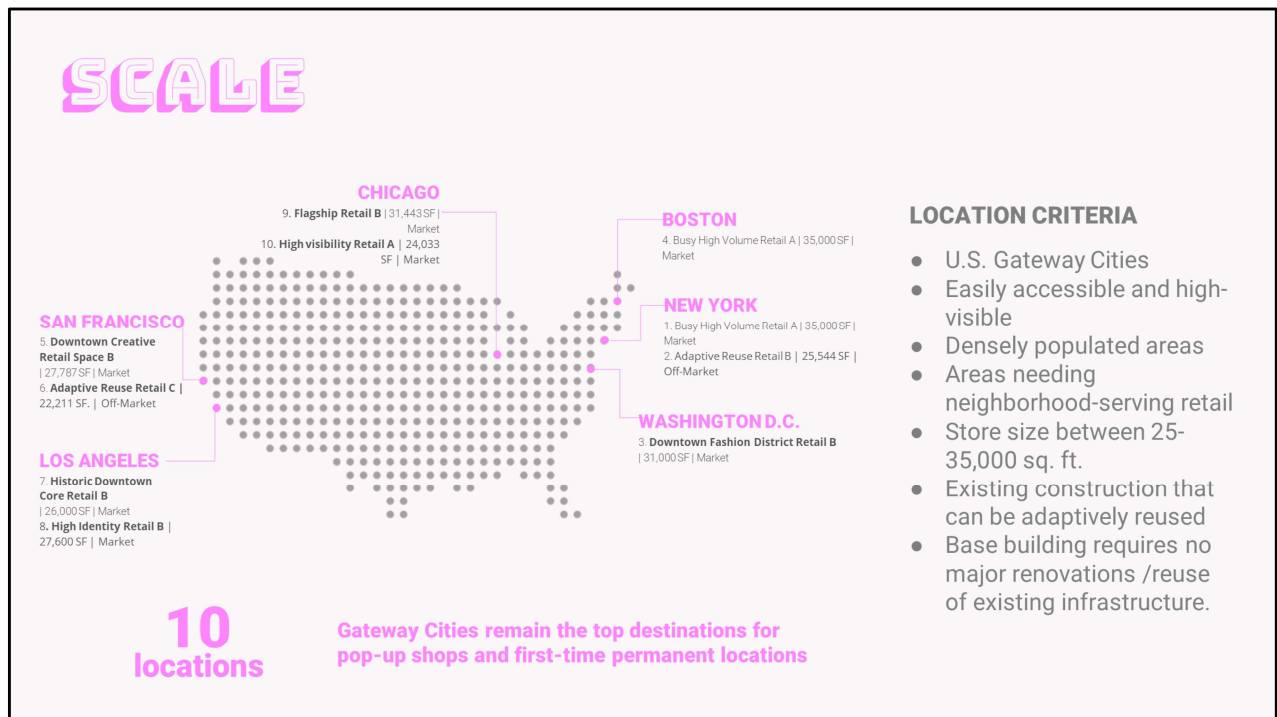


- StreetSmart’s core belief is that American competitiveness and economic growth will be increasingly dependent on the growth and expansion of MBE retailers.
- As part of envisioning, I also came up with a vision and mission as well as manifesto for StreetSmart.
- StreetSmart envisions a future where cities thrive with diverse streetscapes. Where you eat from local food vendors, not cloud kitchens. Where items arrive from your local store and not a suburban warehouse. StreetSmart envisions a future where communities thrive by creating a virtuous cycle, where money is returned to local communities not extracted from them. StreetSmart envisions a future where businesses sustain and reinforce the democratization of the economy and promote civic engagement.

# COMPETITIVE POSITION



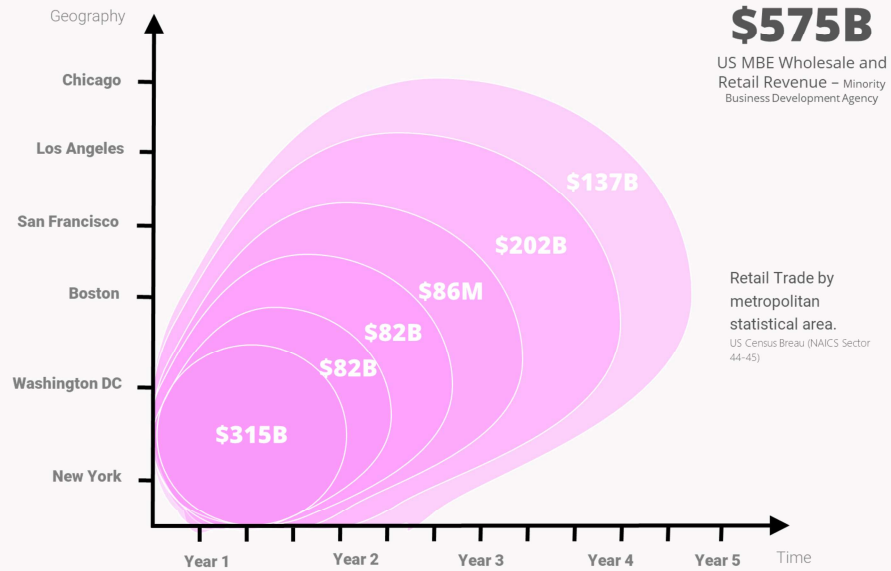
- There are two key factors in the evolving retail landscape
  - Flexible omnichannel fulfillment options that ease purchasing
  - Experiences that engage and connect with customers
- StreetSmart addresses these by providing a range of solutions allowing minority brands to expand from what typically is a single channel—online or a storefront—to a full range of solutions that mutually reinforce one another
- The clustering of multiple rotating retailers will create constantly evolving range of experiences and one where minority brands use their ingenuity to foster community
- In the competitive analysis you see here, no other solution currently provides these



- StreetSmart is targeting Gateway cities within the U.S. with a goal of opening 10 locations in U.S. Gateway cities, leasing retail space at currently attractive prices for a long duration
- These cities are the top destinations for pop-up shops and first-time permanent retail locations and provides market access to dense high-earning populations.
- StreetSmart focuses on delivering high-volume and high-margin products in easily accessible urban areas while allowing traditional suburban logistics warehouses to focus on lower-margin goods and servicing far-flung destinations.
- I believe the preference for denser, walkable urban environments will also lead to a disproportionate recovery of retail.
- I have identified a deal pipeline of potential in these cities of large vacant retail spaces, between 25,000 to 35,000 sq ft, that can be leased at attractive pricing validating this approach



# MARKET EXPANSION



- In terms of a market expansion, I considered the geography and size of each market.
- The approach to expansion would first look to help minority entrepreneurs first in New York and then expand to other cities along the east coast, west coast and finally the Midwest.

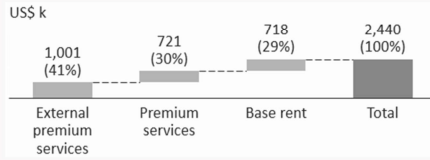
# FINANCIAL ASSUMPTIONS

<b>Basic Assumptions</b>		<b>2%</b> inflation	<b>100%</b> equity	<b>7-10 YR</b> Master Lease	<b>30,000 sf.</b> Avg. Store Size	<b>250 sf.</b> Avg. size Pop	<b>70%</b> Utilization Rate	<b>42</b> Pops
<b>R e v e n u e</b>	<b>\$60</b> Psf. Rent	<b>\$1500</b> rent per pop		<b>\$22,341</b> Per store sales	<b>6.7%</b> of revenue	<b>Selling / General / Administrative</b>		
	<b>8%</b> Premium services + \$150 surcharge	<b>10%</b> Non-tenant Premium services				<b>3%</b> Variable costs	<b>\$1M</b> Operations	
	<b>labor</b>		<b>Retail Manager</b> @ 8K/mo.	<b>Logistics Manager</b> @ 8K/mo.		<b>Returns</b>		
		<b>Logistics agents</b> @ 4K/mo.		<b>Customer Service</b> @ 4K/mo.				
<b>E x p e n s e s</b>	<b>\$20.5</b> Psf. Rent	<b>\$10 sf.</b> Operating Expenses		<b>\$500,000</b> Fixed Software Dev. Costs	<b>1%</b> Maintenance	<b>1%</b> Reserve		
			<b>\$80 /sf.</b> Tenant Improvements	<b>1%</b> marketing			<b>39.3% IRR</b> Internal Rate of Return	<b>3.2X</b> Multiple on invested capital

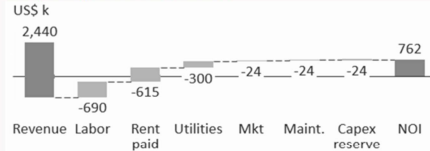
- To quickly test the financial plan of the solution a discounted cash flow model was prepared based on the following sale and pricing assumptions above
- I looked at basic assumptions such as average store size
- Revenue assumptions such as how much rent StreetSmart would need to charge and expenses such as labor costs and operating costs
- This validated my assumption that the business model can be a viable approach of doing well by doing good, generating attractive returns.

# SENSITIVITY ANALYSIS

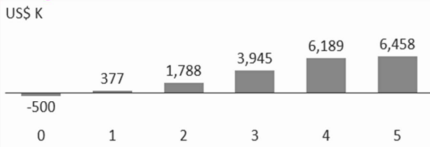
## Revenue Unit Economics



## Net Operating Income Unit Economics



## Earnings



## Rent Paid Sensitivity

IRR	Exit Multiple							
	10.5x	11.0x	11.5x	12.3x	12.5x	13.0x	14.0x	15.0x
16.0	41.1%	42.9%	44.6%	47.1%	47.8%	49.3%	52.2%	54.9%
18.0		39.7%	41.3%	43.8%	44.5%	46.0%	48.8%	51.5%
20.5			36.9%	39.3%	40.0%	41.4%	44.2%	46.9%
22.0				36.4%	37.0%	38.5%	41.2%	43.8%
24.0					32.8%	34.2%	36.9%	39.4%
26.0						29.5%	32.1%	34.6%
28.0							26.7%	29.1%
30.0								22.9%

MOIC	Exit Multiple							
	10.5x	11.0x	11.5x	12.3x	12.5x	13.0x	14.0x	15.0x
16.0	3.4x	3.6x	3.7x	4.0x	4.0x	4.2x	4.5x	4.9x
18.0		3.3x	3.4x	3.7x	3.7x	3.9x	4.2x	4.5x
20.5			3.0x	3.2x	3.3x	3.4x	3.7x	4.0x
22.0				3.0x	3.0x	3.2x	3.4x	3.7x
24.0					2.7x	2.8x	3.0x	3.2x
26.0						2.5x	2.7x	2.8x
28.0							2.3x	2.4x
30.0								2.0x

## Rent Charged Sensitivity

Rent for tenants US\$ per sqf	IRR	MOIC	Premium serv.	IRR	MOIC
20	-7.8%	0.8x	5.0%	-25.8%	0.4x
25	2.2%	1.1x	5.5%	-4.3%	0.9x
30	10.1%	1.4x	6.0%	9.0%	1.3x
35	16.6%	1.7x	6.5%	18.9%	1.8x
40	22.2%	2.0x	7.0%	26.8%	2.3x
45	27.2%	2.3x	7.5%	33.5%	2.8x
50	31.6%	2.6x	8.0%	39.3%	3.2x
55	35.6%	2.9x	8.5%	44.5%	3.7x
60	39.3%	3.2x	9.0%	49.1%	4.2x
65	42.7%	3.5x	9.5%	53.3%	4.7x
70	45.9%	3.9x	10.0%	57.2%	5.1x
75	48.9%	4.2x	10.5%	60.8%	5.6x
80	51.7%	4.5x	11.0%	64.1%	6.1x
85	54.3%	4.8x	11.5%	67.3%	6.6x
90	56.8%	5.1x	12.0%	70.2%	7.0x

- As part of the scale touchstone, I also looked at unit economics for the venture as well as sensitivity analysis. I don't want to bore you with the finances, but this was important for two reasons
- Because of the already vulnerable population being served it is important to understand and account for potential risks and understand how much wiggle room exists
- The financial analysis contemplates transitioning to an asset-light model after year five whereby StreetSmart would no longer rent the physical asset but rather focus managing retail spaces and this coordinated-clustering of retailers on a neighbourhood scale

# LIMITATIONS

## Measuring Success

- Framework's measure success in financial value
- Other continuous metrics of measuring success should be assessed
  - Cumulative MBEs using service
  - MBEs using StreetSmart as a first channel
  - MBEs which introduced omnichannel experiences
  - Randomized Control Trial

## Incrementalism

- Capitalism—black or white—functions surplus value by workers
- Lasting change will involve broader coalition and revision of underlying systems
- Perpetuates false ideal that hamstrung minority communities should bootstrap and work hard and pull themselves out of a situation they did not create.

## Further Human Centered Design

- Process doesn't end. Present revised solution to MBEs, validate user journey, greater MBEs surveyed

- The venture formation process is slow and complex. The iterative nature of the MITDesignX framework means that many facets of the venture design will be revisited as new information is discovered. This means that this thesis document is a living document. It is a snapshot of time at the end of my career at MIT.
- In thinking about the continuation of this work several potential limitations I identified:
- The fact that most venture frameworks measure success strictly in terms of financial performance. I want to incorporate other potential metrics that can help define success
- It falls prey to perpetuating the ideology that that hamstrung minority communities should bootstrap and work hard and pull themselves out of a situation they did not create.
- As I mentioned before the process is never complete. I hope to take this solution forward and present it to more stateholders, get their input and contemplate an action plan for moving forward.



- Lastly, For the communities we as planners love to prosper, small business must work. These businesses create vibrant cities and return 3X to local economies compared to other methods of commerce. This concerns everyone. That's why I'm proposing fixing it together to help minority communities and businesses thrive.
- With that this concludes the presentation and I want to open it up for questions

Q&A?

With that I would like to open it up for questions