



Local Business and Gentrification: Using Online Market to Increase Competitiveness

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Abstract. Local businesses in gentrifying areas face opportunities due to the changing pattern of consumers' demographic characteristics and increased purchasing power. At the same time, upgrading infrastructure leads to better connectivity and logistics, resulting in convenience for the online shopping experience. Often, this condition increases pressure for businesses to stay in the market. To explore threats and opportunities for businesses due to online shopping in gentrifying areas, we briefly look at characteristics of online users that local businesses can utilise to respond. This conceptual note provides insight into how gentrification is still required to increase the population's quality of life. At the same time, businesses should increase consumer experience in the online market through innovation, product diversification, and global orientation. Further investigation should be expanded by decomposition across classes, for example, business size, market size, and knowledge and technological levels, as the impact might be experienced differently across classes.

Keywords: Gentrification, Online Shopping, Consumer Experience, Innovation Introduction

1 Introduction

Gentrification brings infrastructure upgrading in the largely underdeveloped area, leading to more economic activities through the influx of new residents, especially those with higher purchasing power. With gentrification, neighbourhoods can gain better quality-of-life services and attract more businesses because of new consumption patterns and increased purchasing power [1,2,3]. Gentrification also benefits the local population living in the area through labour absorption in the construction phase and the establishment of new services [5,6].

Further literature about gentrification [7], notes that there are three main hallmarks of gentrification: (1) rising property values and rental costs; (2) renewal or creation of

new housing stock; and (3) changes in demographic composition, particularly income levels. This rising economic inequality can be explained by many factors, including shifts in industrial structure, technological changes, and globalization [7]. In addition to these factors, sorting economic classes across space and its accompanying residential segregation can play a pivotal role in entrenching and widening inequality. Based on demographics and population density, gentrifying areas are characterised by being less densely populated than non-gentrifying areas.

In contrast, gentrification increases living costs due to higher property prices, rents, and commodity prices than in non-gentrifying areas due to higher demand [1,8]. Local businesses in the gentrifying areas also face increased service costs, contributing to higher operational costs [1,9]. As a result, families and businesses that cannot keep up with the rising living and operational costs must move out from gentrifying areas to find other places that offer lower costs. Those displaced populations leave gentrifying neighbourhoods with disproportionately more vacant spaces and without the promise of new amenities, resulting in challenges of changing neighbourhood patterns and services [1].

Due to better infrastructure and logistic systems, gentrification also allows households to enjoy a more intensive online shopping experience. This condition is reinforced by the Covid-19 pandemic, where households with high purchasing power can fulfill their demand in mobility restrictions.

As online shopping becomes increasingly popular, local businesses in gentrifying areas face higher pressure than before as they must compete with other businesses nearby and from further distance.

This condition raises an important question: To what extent can local businesses in gentrifying areas stay competitive in the online shopping era?

This conceptual paper finds the answer by exploring ideas behind gentrification and its implications and identifying opportunities for businesses to increase competitiveness in the era of gentrification and online shopping.

We start this paper by presenting a theoretical framework of gentrification and online business. Next, we outline the relationship between gentrification and online business and identify the role of the online market in shaping contemporary urban landscapes in a gentrifying area. We conclude the paper by describing the actions businesses should take when using online shopping markets.

2 Literature Review

[1] mentioned that gentrification is a phenomenon of socio-economic transition: more affluent and educated gentry enter a low-income neighborhood. These changes can bring new services and access to a broader choice of essential goods, more vital and safer streets, and even local employment opportunities. Culturally, gentrification means displacing low-income residents to make way for mobile middle-class members who want to consume a certain lifestyle [10,11].

Some characteristics of gentrification are identified, where gentrification is a process involving reinvestment of capital after a period of disinvestment, the production of an aestheticised landscape, and lower-class displacement followed by middle-class replacement [12]. Gentrification is shown by upgrading or developing areas to improve with complete infrastructure, land conversion for housing and facilities, and enhancement of property prices. Gentrifying areas tend to be tidy. Based on population density, gentrifying areas are characterised by less densely populated areas than non-gentrifying areas [1,8]. A handful of studies focus on changes in commercial services in neighborhoods undergoing economic and demographic transitions. The economically upgrading neighborhoods tend to experience higher growth rates in local retail establishments and employment [13].

The causes of gentrification are debatable. Some literature shows that this is caused by social and cultural factors such as changing family structures, economic factors such as rapid job growth, high housing market, preference for city amenities, and public sector policies [14]. Gentrification can occur on a small or large scale. For example, individual newcomers can slowly populate an area because of renovations. Conversely, large-scale redevelopment and the accompanying regeneration can cause an immediate shift in neighborhood residents.

Furthermore, [14] explains that gentrification is a phenomenon of urban social change due to the growth and spread of a higher professional managerial class than the growth of professional and managerial employment. This implies that the transformation of the occupational structure is one of the determinants that can explain gentrification because of the transformation of the labour market structure. However, it does not entirely replace local businesses [15].

Considering the development of gentrification, it has some positive and negative implications. Some benefits of gentrification are as follows. First, gentrification causes higher levels of educated residents to grow faster, the poverty rate to decline, higher average income, lower unemployment rates, and higher racial/ethnic makeup [1,16]. With the number of college-educated residents growing faster, the poverty rate declined more dramatically in the gentrifying tracts. This condition also reduces crime in a new area experiencing gentrification as more affluent households move in. The property owners tend to increase security by enhancing the security system, recruiting more safety personnel, and empowering the local population to care for the area.

Second, gentrification incentivises residents and property owners to increase their quality of life continuously. This condition can be shown in establishing new businesses supporting its residents, such as food suppliers, retail, business, and housing agents. Gentrifying neighbourhoods are more likely to attract new types of non-gentrifying and higher-income services, and they more often attract multiple-establishment businesses (chains) to replace displaced businesses [1].

The negative impacts of gentrification are as follows: First, gentrification drives higher living costs through higher prices and rents of residential and businesses due to land conversion and increased demand. The improved infrastructure in the gentrifying areas increases local service costs, often not easily managed by existing residents. Often, gentrification means a zero-sum game for them. Families who cannot afford higher living costs will lose out on a place to stay and must move out of the area, look for jobs

and opportunities outside gentrifying areas, live elsewhere, and give land or homes to wealthier families [10].

Second, when businesses leave gentrifying areas, the spaces tend to sit vacant for relatively longer than in non-gentrifying ones [1]. Similarly, [9] found that business turn-over is higher in gentrifying areas than non-gentrifying areas. [1] and [9] found that the replacing business type is similar but in a broader version of the leaving ones. For example, a food establishment can return but may serve different kinds of food in different settings. Compared with non-gentrifying neighborhoods, a slightly larger shift exists toward new services in gentrifying neighbourhoods. Finally, the replacement businesses in gentrifying neighbourhoods are more likely to be chains than those in non-gentrifying areas, even though the trend is reversing. In the 1990s, replacement businesses in gentrifying neighbourhoods were less likely to be chains than in the 2000s [1].

Third, gentrification disrupts commercially driven neighborhood identities and introduces services and products that do not serve incumbent residents. Initially, a neighbourhood's commercial activity and residential composition are closely tied. When a neighborhood gentrifies, the local business's consumer base and operation costs can shift [1,16]. This disruption brings unmanageable demand for existing businesses and often results in the inability to stay in the market.

Previous studies on the link between gentrification and displacement have found mixed results. Several studies offer evidence that gentrification results in significant displacement [17], but some studies have found small or nonexistent links between the two [18]. The lack of consensus across these previous studies arises partly from inconsistencies in how gentrification and displacement are defined in different studies. The time scales of analysis also differ across studies and may not always capture the entire process of gentrification. The aerial unit may also differ, and studies using spatially aggregated data may mask local heterogeneity. Some literature investigates industrial revitalisation, displacement, and employment effects in gentrifying areas [7,19].

While gentrification brings positive and negative impacts, the trend is unpreventable, as it can increase population well-being in general. The implication is that entrepreneurs and decision-makers must innovate to lure wealthy investors, residents, and tourists and actively compete for mobile capital to stay competitive in gentrifying areas [20]. [21] mentions one example of innovation in the food-based entrepreneurship pattern. It is considered a long-standing recognised business initiated in the new gentrifying neighbourhoods that can create employment and business opportunities for long-term residents that enable them to stay in their hometown.

As gentrification and entrepreneurialism depend on the value of transformed landscapes and few landscape transformations are as valuable as an upgraded urban natural environment, economic success, quality of life, and a good environment are closely intertwined, resulting in the urban environment becoming a critical input in the competitive landscape of gentrifying areas [22]. Hence, it is important to provide examples of direct action and policy advocacy to deal with rising property values that even reduce the chance of long-term opportunities that can supplement these entrepreneurial approaches [21].

With the development of gentrification, online shopping is increasingly popular for these reasons: consumers tend to reduce costs associated with transportation, time and energy, hassles, and difficulties in getting to traditional stores or shopping malls. Besides, consumers can get complete information about the product with its reviews passed by existing users and experts, which cannot be obtained from offline market experience. Lastly, online shopping diminishes administrative borders and significantly increases cross-border shipping and payments, increasing product variety [23,24].

Other studies show that the motivation of consumers to do online shopping is not only affected by ease of use, usefulness, and enjoyment but also by exogenous factors like consumer traits, situational factors, product characteristics, previous online shopping experiences, and trust in online shopping [25,26]. From this perspective, [27] and [28] define the online shopping experience and propose a conceptualisation through four core dimensions: physical, ideological, pragmatic, and social, where those aspects are interlinked.

3 Result and Analysis

3.1 The link between gentrification and online shopping

In this section, we address the research question by examining how social media mediate gentrification—that is, reflect, reinforce, and reshape. A recent work states that digital technology does not erode but instead reinforces and complicates the experience of place; in this aspect, people use digital media to become place-makers [29]. Often, gentrifiers use social media to express their identity status and create posts that serve as advertisements for hip and high-class establishments [29].

The development of the digital era and online shopping experience reinforces pressure on existing local businesses in the gentrifying area through the mechanism: Improved product knowledge among consumers in the gentrifying area increases pressure for businesses to manage demand and stay competitive [30]. The competition is tighter with the establishment of new businesses in the gentrifying area that characterised as smaller, slimmer, and more effective than those that leave [1]. [1] and [9] found that chain business usually achieves slimmer and more cost-effective businesses.

As innovation is expensive and high-risk, companies choose business activities with lower risks, such as licensing, assembly, agency, and marketing goods and services abroad. Meanwhile, innovations in foreign goods and services marketed continue to experience innovation in their countries of origin. As a result, domestic companies are increasingly lagging in terms of being able to produce products of the same level.

Besides, when a market failure occurs, the government usually intervenes in policies and institutions. In this case, the problems faced by Indonesia are weak legal enforcement of intellectual property rights, low research budget, low quality of education, underdeveloped research universities, and lack of support for foreign trade policies.

Compared with other businesses in non-gentrifying areas, those businesses in gentrifying areas are not merely hardly hit by online shopping. Instead, businesses in gentrifying areas can use the large potency of buyers compared to non-gentrifying areas.

As some obstacles can be associated with the development of businesses in the online shopping era and gentrification, businesses must actively identify actions needed to stay competitive. Existing businesses must improve their products' added value and adjust marketing channels to meet consumers' needs. Further, businesses should provide a better consumer experience in online shopping through subsidised shipping costs, discounts, or cashbacks [31]. However, these efforts require capital, which the business cannot quickly fulfill.

Hence, scaling up businesses includes accessing information and researching to develop products, essential to achieving more efficient production processes and effective marketing efforts. Businesses should rely on four pillars: people, planet, profit, and future generation. Every business actor must pay attention to consumers and decision-makers (stakeholders), considering their satisfaction as the primary goal. Next, every business actor must not ignore environmental aspects, both the physical environment and the social environment. As profit is a natural thing to achieve, businesses should not forget to give attention to future generations to enjoy the same satisfaction that the current generation enjoys.

3.2 Consumer Characteristics in the Online Market

As digital platforms are woven into urban life, they become an intrinsic part of the urban experience [29]. Using digital media, users can express their identity status and use it to advertise locations [29,32]. Hence, using locality issue in a gentrifying area can be used as a marketing tool to promote businesses.

As residents in gentrifying area have wider product choices, the market should be reinvented for a wealthier type of customer interested more in local, environmentally friendly, ethical, and "authentic" shopping experiences [33]. Businesses can achieve this condition through some actions. First, product differentiation. Some products can last longer than others in gentrifying areas, such as food, particularly organic and ethnic cuisine. They have long been one of the amenities that drew early waves of artists and other cultural creatives to low-income communities [10]. This condition creates the demand for offline markets that accommodate developed products, like modern restaurants and cafes. Those kinds of businesses are often the first new residents open in their new neighbourhoods and create innovation for early gentrifiers.

To achieve long-lasting business, making a trend toward small, local, and artisanal products is essential [21]. To achieve this condition, moving beyond the traditional scale is effective. It creates living-wage green jobs and ownership opportunities for communities, enabling them to stay in the gentrifying areas while highlighting their visibility and contributions.

Second, toward a global orientation while promoting local elements. As online shopping seemed unpreventable, locality issues, which are characterised as being sold by local producers or made with local ingredients, imply no affinity for consumers with local products. This condition allows businesses to explore ideas sourced locally, resulting in unique products that differ.

The global orientation above has also expanded into global social networks essential to supporting businesses. Some components can be obtained from global linkages, such

as access to research personnel, knowledge, technology, equipment, and funds to conduct research and development sponsorship from global philanthropic foundations.

Third, focusing on innovation. The level of innovation is determined, among other things, by market failure factors, government and institutional policy intervention, global social networks, and creative insecurity factors. Market failure occurs when companies are not interested or unable to invest in research and development because other companies can easily imitate innovation results. Apart from that, the lack of ability to provide the resources (talent, finances, equipment, knowledge, and technology) needed to innovate is also an obstacle for companies.

A comparison between countries shows that Indonesia ranks at the bottom in innovation, as measured by the 2021 Global Innovation Index (GII). In this index, Indonesia is in the 87th position out of 132 countries surveyed. Meanwhile, the most innovative countries are Switzerland (1st position), Sweden (2), United States (3), United Kingdom (4), and South Korea (5). Among ASEAN countries, Indonesia is far below other countries like Singapore (8th position), Malaysia (36th), Thailand (43rd), and Vietnam (44th).

GII calculates various aspects of innovation, including institutions, human resources and research, infrastructure, consumer satisfaction, business satisfaction, knowledge and technology output, and creativity output. Indonesia is in a low position for each aspect, as measured in the lowest or second lowest quartile.

To sum up, innovation and global orientation should be used to explore locality issues to reinforce consumer experience in the online market. Therefore, local businesses can use the online market to reinforce their competitiveness when they have increased potential buyers due to gentrification.

4 Conclusion

The benefits of online shopping are enjoyed by businesses and residents in gentrifying areas due to increased infrastructure and logistics systems. However, rising competition from businesses nearby and elsewhere should allow them to accommodate users' experiences on online platforms. For this reason, we offer examples of direct actions and policy advocacy that can supplement these entrepreneurial approaches.

Further investigation on the impact of gentrification and online shopping on businesses should be expanded by decomposition by classes, for example, business size, market size, and knowledge and technological levels, as the impact might be experienced differently across classes. Identifying this issue can increase the chance of businesses staying competitive and minimise the impact of online shopping in gentrifying areas.

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