

Crossover Appeal
**Thanks to Mexican Shoppers,
Retail Booms on Texas Border**

Once a Backwater, McAllen
Is Seen as a Key Market
For Big National Chains
J.C. Penney's Bilingual Strategy
By **AMY CHOZICK**
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MCALLEN, Texas -- Hidalgo County, in the southernmost tip of Texas, is the poorest county of 250,000 or more people in the U.S., with nearly half its families living below the poverty line. Vendors hawk bootleg DVDs and homemade tacos out of the back of pickup trucks. Stray dogs roam the scrubland along highways.

Hidalgo is also home to one of America's highest-grossing shopping malls, the sprawling La Plaza Mall of McAllen, Texas. Owned by **Simon Property Group Inc.**, the nation's No. 1 mall developer, La Plaza features valet parking, trendy clothing chains like **Abercrombie & Fitch Co.** and Banana Republic, and high-end jewelers Swarovski and Helzberg Diamonds. La Plaza generates monthly sales of well over \$450 a square foot, compared with a national mall average of \$392. Next year, Simon, of Indianapolis, plans to open the 600,000-square-foot Palms Crossing shopping center a half-mile away. In nearby Mercedes, Simon is opening the \$68 million Rio Grande Valley Premium Outlets, a 400,000-square-foot, upscale outlet, in November.

The reason: Mexican shoppers, both rich and poor, are pouring into the area, making it the equivalent of Madison Avenue for northern Mexico's consumer class. Border agencies tally nearly 40 million legal visits a year by Mexicans coming to Texas for leisure activities. The Federal Reserve Bank of Dallas figures they spent \$3 billion on merchandise in Texas border counties in 2004, the latest data available, up from around \$1.6 billion a decade earlier. In the past 10 years, retail sales in McAllen have risen more than 75%, nearly double the nationwide pace of 40%. Per-capita sales here are twice the national average, according to the census.

The activity demonstrates an unexpected development in American retailing. While Mexican money has long flowed north, the current upsurge has turned South Texas' poor borderlands into the latest, and one of the last, ripe frontiers for big retailers. At a time when major retail chains are facing declining market share and tepid sales in America's affluent suburbs, they are finding unexpected hope in the Mexican consumer.

Forty of the nation's top 100 retailers have recently staked their claim here. When **Guess Inc.** launched its new clothing boutique, Marciano, in 2004, the company chose Los Angeles, Toronto and McAllen as its three test cities. Foley's, a chain of department stores in Texas owned by **Federated Department Stores Inc.**, Cincinnati, says operations in McAllen and nearby Laredo are its fastest-growing locations. **J.C. Penney Co.**, Plano, Texas, says about three quarters of customers at its McAllen store are from

Mexico and last year the chain allowed Mexican shoppers to apply for its gift registry and credit card. The store offers bilingual gift cards and an in-store beauty salon popular with Mexican women.

"We've taken every step to try to make that emotional connection with the customer in their language," says Manny Fernandez, manager of multicultural marketing for Penney. He says Mexican customers are "very important to the future of the company."

After the 1994 North American Free Trade Agreement drastically lowered the tariffs on American goods sold in Mexico, many people figured retailing on the U.S. border would dry up. That is because there no longer would be any apparent incentive for Mexicans to take a long trip to the U.S. to buy products they could get at home. But while some big U.S. retailers, such as **Wal-Mart Stores Inc.**, Bentonville, Ark., **Home Depot Inc.**, Atlanta, and **Office Depot Inc.**, Delray Beach, Fla., have expanded deep into Mexico, many others have found that setting up shop in McAllen enables them to target the same middle and upper-middle class Mexican customers while avoiding the red tape of operating in Mexico.

For Mexicans, a trip to McAllen yields a better variety of American products than they can get back home. The strong peso and steep tariffs on goods imported from China to Mexico make some items more affordable in the U.S. And U.S. retailers typically have more lenient exchange policies than do stores in Mexico.

"It's just nicer to shop here," says Rosalia Vincent Mabarak, a 25-year-old saleswoman for an auto-parts maker in Monterrey, who saves up all year to come shopping with her family. Laden with Victoria's Secret shopping bags and piles of Abercrombie & Fitch T-shirts over her arm, she adds, "I bring back underwear and makeup for my friends, whatever they want, I buy it."

Retailers work hard to keep people like Ms. Mabarak coming back for more. Foley's, J.C. Penney and Bealls buy print and radio advertising in northern Mexico. La Plaza Mall hangs fliers on the doorknobs of middle-class homes in Monterrey. La Plaza also pushes its shopping-and-travel packages with Drury Inn, a hotel chain. H-E-B, a San Antonio chain that has 38 grocery stores in Texas border communities and four stores in Mexican border towns, buys print, radio and television advertising in Mexico and hands out coupons in Northern Mexico and at border crossings. Many salespeople are bilingual, and U.S. stores accept payment in pesos.

The McAllen Chamber of Commerce does its part, too, spending more than \$1.8 million in northern Mexico in the past 12 years to promote the city as a retail destination. It has a satellite office in Monterrey.

New stores, hotels and restaurants added more than 8,000 jobs to McAllen's economy last year, according to the city. According to the 2000 census, McAllen is the fourth-fastest-growing metropolitan area in the U.S. Yet McAllen and Hidalgo County remain poor.

Even with new jobs, unemployment here is nearly twice the national average and per-capita income remains among the lowest in the nation.

Many of the new retail jobs pay minimum wage. Meanwhile, a large portion of sales-tax revenue goes into cleaning up downtown and funding other efforts to make the city more attractive to businesses. Like all Texas border counties, Hidalgo is dogged by the recent upsurge in drug-related violence in Mexican border towns.

Even during economic downturns, Mexicans have shopped in McAllen. The current upswing, however, is unlike anything locals can recall. Storefronts that had been boarded up for years now house thriving perfume emporiums and jewelry stores. An international airport that now offers service on four major airlines with daily flights originating in Mexico City is across the street from the La Plaza Mall.

"We're the only city with an airport attached to a mall," boasts Nancy Millar, vice president of the McAllen Convention and Visitors Bureau.

Many local businesses see the biggest threat to the bounty coming not from Mexico, but from Washington. About 85% of all Mexican citizens who cross the border into Texas to shop do so with a "laser visa." These tamper-proof visas implemented in 1998 cost \$100, require a background check and allow Mexican residents to travel within 25 miles of the border for as long as 30 days.

In January 2004, the Department of Homeland Security began rolling out a new initiative called US-Visit, short for the U.S. Visitor and Immigrant Status Indicator Technology program. The initiative involves taking finger scans and digital photos of anyone entering or leaving U.S. territory. As of now such checks are conducted only upon entry. While US-Visit doesn't currently apply to laser visa holders, the border community fears that adding exit interviews would congest crossings for everyone. Anything that costs Mexican residents time or money at the border could hurt local businesses.

"US-Visit could turn McAllen into a giant parking lot," says Garrick Taylor, director of policy development at the Border Trade Alliance, an advocacy group in Phoenix that represents border businesses and communities.

Over a plate of fajitas at the Costa Messa Mexican restaurant here, Steve Ahlenius, president of the McAllen Chamber of Commerce, grumbled, "Homeland security is supposed to help Americans. Well, we're the poorest county in the country and we need the help of Mexico."

Leah Yoon, a spokeswoman for U.S. Customs and Border Protection, says the agency doesn't want to impede economic growth. "But in order for those border communities to be economically sound, they also need to be safe," she says. "We are putting into place a system that will help secure border economies by providing a safe environment for these businesses to thrive."

For now, the Mexicans keep coming. Mexican workers, many of whom earn about \$2 an hour in foreign-owned export assembly plants, known as *maquiladoras*, often save all year for shopping trips north. For them, shopping on "el otro lado" or "on the other side," comes with built-in cachet. It has even given way to a new verb in Mexico: *Mcallear*, meaning "to go shopping in McAllen."

At 11 a.m. one recent Saturday, La Plaza's parking lot already was packed. A mix of beat-up jalopies and luxury sport-utility vehicles with Mexican license plates fought over the remaining spaces. Mexican nationals were buying clothes, accessories and electronics that are either cheaper in the U.S., given the recent strengthening of the peso, or not available in Mexico.

"It's like this every weekend," says mall manager Greg Noble, "Mexicans don't just buy an outfit, they come here to buy a whole wardrobe."

In 1980, Hidalgo County was 90% farmland and ranches. In the mid-1980s, cheap land and a nonunionized work force attracted food-processing, meatpacking and soft-drink-bottling factories. The county morphed from an agricultural economy to one based on manufacturing. A decade later, many of these factories relocated to Mexico and Central America seeking lower costs. Unemployment in Hidalgo reached 22.4%, the highest in the nation in February 1993.

When Mexico devalued the peso in 1994, Mexicans had less money to spend in Texas, sending the already depressed region deeper into poverty. Hidalgo and the surrounding counties became known for their deserted downtowns and ramshackle *colonias*, or shanty towns for Hispanic working poor that often lack electricity, running water and sewerage.

People in McAllen partly credit the town's evolution to Othal Brand Sr., a charismatic farmer who was the mayor from 1976 to 1996. In 1988, he founded the McAllen Economic Development Corp., which offers tax incentives and grants to attract companies that will bring revenue and jobs to McAllen.

To offset the cost of relocating and training an unskilled labor force, the Economic Development Corp. offers companies "job grants" of around \$1,000 per new job created in McAllen. It also will offer job-training allowances and tax breaks.

The retail bonanza has spread beyond the mall. One recent afternoon, 20 Mexican shoppers lined up outside the El Rey de Los Perfumes shop on McAllen's Main Street. The 2,000-square-foot store, brimming with colorful perfume boxes piled high on folding tables, had eight employees when it opened in 2003. It now has a staff of 30 catering to an almost exclusively Mexican clientele. "I have to let in a few customers at a time so the store doesn't get too crowded," says owner Suresh Mansinghani. "This is the busiest I've ever been."

Local business leaders hope that sprawling new malls and big-name chain stores will make McAllen appealing to companies looking to relocate call centers or factories. This, in turn, would bring higher-paying jobs to the region.

At the very least, the retailers are fueling a construction boom. Next year, **Stage Stores Inc.**, of Houston, will nearly double the size of its Bealls department store in McAllen. Patrick Bowman, a senior vice president at Stage, says the influx of Mexican shoppers has made the company's stores on the Texas border some of its highest-grossing, per square foot. Wal-Mart is building a 200,000-square-foot supercenter, scheduled to open in the third quarter. Nearby, **Target Corp.** is building its third McAllen location.

American stores that don't have Mexican outlets, such as Abercrombie & Fitch, **Gap Inc.**, **American Eagle Outfitters Inc.** and Victoria's Secret, are the most popular with Mexican shoppers, who buy large quantities of clothes to bring back to friends and family. The average Mexican shopper spends twice as much per trip as an American shopper, according to Simon Property Group.

Carmen Soto, mall manager at Valle Vista Mall in nearby Harlingen, says Mexicans sometimes buy clothes without even trying them on. "They think, 'It's American! It's authentic! So what if it doesn't fit?' " Ms. Soto says.

Write to Amy Chozick at amy.chozick@wsj.com