Retail Site Locations

CHAPTER 8
Retailing Strategy

- Retail Market Strategy
- Financial Strategy
- Retail Locations
- Retail Site Location
- Human Resource Management
- Information Systems and Supply Chain Management
- Customer Relationship Management
Questions

• What factors do retailers consider when determining where to locate their stores?
• What is a trade area for a store, and how do retailers determine the trade area?
• What factors do retailers consider when deciding on a particular site?
• How do retailers forecast sales for new store locations?
• Where can retailers get information to evaluate potential store locations?
• What issues are involved in negotiating leases?
Evaluating Specific Areas for Locations
Economic Conditions

• The growth of population and employment
• How long the growth will continue, and how it will affect demand for merchandise sold in its stores
• Which areas growing quickly and why
Some retailers are going urban:

- Lack of competition
- High level of disposable income
- Large, untapped labor force
Strategic Fit

- Demographic, lifestyle profile, size and composition of households in an area

McDonald’s – families with kids

REI – outdoor enthusiasts
Operating Costs

- Vary across areas
- Affected by proximity of area considered vs. other areas where retailer operates
- Local and state legal environment has effect
How Many Stores to Open in an Area?

Economies of Scale vs. Cannibalization

- One promotional costs for all stores
- Justifies cost of distribution center
- Increases sales per store
- Target needs of regional market
- Management has control of market

- open stores as long as profits increase
• When evaluating and selecting a specific site, retailers consider:
  • The characteristic of the site
  • The characteristic of the trading area
  • The estimated potential sales that can be generated
### Site Characteristics

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<th>Restrictions</th>
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<td>zoning</td>
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<table>
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<th>Costs</th>
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<td>rental fee</td>
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<tr>
<td>access to store entrance and exit</td>
<td>common area maintenance cost</td>
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<tr>
<td>visibility of store from street</td>
<td>local taxes</td>
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<tr>
<td>access for deliveries</td>
<td>advertising and promotion fees</td>
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<tr>
<td>size and shape of store</td>
<td>length of lease</td>
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<tr>
<td>condition of building</td>
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<td>adjacent retailers</td>
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Traffic Flow and Accessibility

- When traffic is greater, more customers shop
- Good for convenience retailers
- Not necessary for destination retailers
- Too much can impede access to store
- Accessibility to store is as important as traffic flow
Convenience of Going to Site Accessibility

- Road pattern and condition
- Natural and artificial barriers
- Visibility
- Traffic flow
- Parking
- Congestion
- Ingress/egress

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What Should Retailers Consider Regarding Parking?

- Observe shopping center at various times
- Employee parking availability
- Shoppers that use cars
- Parking by non-shoppers
- Typical length of a shopping trip
Adjacent Tenants

- Complementary (also competing) adjacent retailers build traffic
- What other retailers would Save-a-Lot want to be located near?
  - Big Lot, Family Dollar, or even Wal-Mart
  - All target price-sensitive consumers
- In an enclosed mall, what retailers would Abercrombie & Fitch want to be located near?
  - American Eagle Outfitter, Ann Taylor, Body Shop, Electronic Boutique?
- Principle of Cumulative Attractiveness
Restrictions and Costs

- Restrictions
  - Signage
  - Tenant Mix
  - Operating hours

- Costs
  - Rent
  - Common Area Maintenance Fee/Insurance
  - Advertising Fee
Locations within a Shopping Center

- Affects both sales and occupancy costs
- In a strip shopping center – closest to the supermarket for impulse buying
- In a enclosed shopping mall – retailers who sell comparison shopping goods locate close to the department store anchors
- Locate stores that appeal to similar target markets because consumers shop at places with a good assortment of merchandise
Trade Area Definition

- A contiguous geographic area that accounts for the majority of a store’s sales and customers
  - Primary zone
    - 60 to 65 percent of its customers
  - Secondary zone
    - 20 percent of a store’s sales
  - Tertiary zone
    - Customers who occasionally shop at the store or shopping center
Factors Affecting the Size of the Trade Area

- Accessibility
- Natural & Physical Barriers
- Type of Shopping Area
- Type of Store
- The nature of merchandise, assortment, location of alternative sources for the merchandise
- Competition
- Parasite Stores
Measuring the Trade Area for a Retail Site

- Customer Spotting
- Use Census Data (census bock)
- Geodemographic Information Systems
Demographic Data from U.S. Census Bureau

- Only once in 10 years.
- Each household in the country is counted to determine the number of persons per household, household relationships, sex, race, age and marital status.
Geographic Information System (GIS)

- GIS – a system of hardware and software used to store, retrieve, map and analyze geographic data along with the operating personnel and the data that goes into the system.
  - Coordinate system (latitude and longitude)
  - Spatial features (rivers and roads)
  - Some firms offer services combine GIS with updated census data, consumer spending patterns and lifestyles
    - ESRI (www.esri.com)
    - Claritas (www.Claritas.com)
Example: ESRI data

- For the potential site’s addresses, the system provides the data for 2009 and projected for 2014 on the people living within a three-, five-, and 10-mile radius from the sites

- Gender
- Income
- Disposable income
- Net worth
- Education
- Age
- Race/ethnicity
- Employment status
- Occupation
- Travel time to work
- Transportation mode to work
- Household composition
- Household expenditures by NAICS categories
- Geodemographic market segment
- Market potential index
- Spending potential index
Tapestry Segment

Example: Metro Renters

• Young – 20’s
• Well educated
• Professional
• Large cities
• Median income $50,000
• Spend on themselves
• Surf Internet
Competition in the Trade Area

- Need to Know Amount and Type of Competition
- Sources for Measuring Competition
  - The Internet - lists current locations and future sites.
  - Yellow Pages
  - Other Sources:
    - Directories published by trade associations
    - Chambers of commerce
    - Chain Store Guide
    - International Council of Shopping Centers
    - Urban Land Institute
    - Local newspaper advertising departments
    - Municipal and county governments
    - Specialized trade magazines
    - List brokers
Estimating Potential Sales for a Store Site

- Huff’s Model
- Analog Approach
- Regression Analysis
Huff’s Gravity Model

- Based on the premise that the probability which a given customer will shop in a particular store or shopping center becomes larger as the size of store or center grows and distance or travel time from customer shrinks
Huff’s Gravity Model

\[ P_{ij} = \frac{S_j \div T_{ij}^b}{\sum_{j=1}^{n} S_j \div T_{ij}^b} \]

Where

\( P_{ij} = \) Probability of a customer at a given point of origin \( i \) traveling to a particular shopping center \( j \)

\( S_j = \) Size of shopping center \( j \)

\( T_{ij} = \) Travel time or distance from customer's starting point to shopping center

\( b = \) An exponent to \( T_{ij} \) that reflects the effect of travel time on different kinds of shopping trips
Application of Huff Gravity Model

Rock Creek
Market size = $5 million annual sales

Existing Store

Oak Hammock
Market size = $3 million annual sales

New Store

10 minutes
5 minutes
15 minutes
5 minutes

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Application of Huff Gravity Model Continued

\[ P_{RC} = \frac{10,000/5^2}{10,000/5^2 + 5,000/5^2} = 0.889 \]

\[ P_{OH} = \frac{10,000/15^2}{10,000/15^2 + 5,000/5^2} = 0.182 \]

\[ 0.889 \times \$3 \text{ million} + 0.182 \times \$3 \text{ million} = \$4,910,000 \]
Regression Analysis and Analog Approach

• Multiple Regression Analysis = Factors affecting the sales of existing stores in a chain will have the same impact upon the stores located at new sites being considered.

• Analog Approach = retailer describes the site and trade area characteristics for its most successful stores and attempts to find a similar site.
Regression Model for Estimating Store Sales

- Stores sales = 275 x number of households in trade area (15 minute drive time)
- + 1,800,000 x percent of household in trade with children under 15
- + 2,000,000 x % of households in trade area in Tapestry segment “aspiring young ”
- + 8 x shopping center square feet
- + 250,000 if visible from street
- + 300,000 if Wal-Mart in center
Application of Regression Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Location A</th>
<th>Location B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households within 15 minute drive time</td>
<td>11,000</td>
<td>15,000</td>
</tr>
<tr>
<td>% of households with children under 15 years old</td>
<td>70%</td>
<td>20%</td>
</tr>
<tr>
<td>% of households in aspiring young geodemographic segment</td>
<td>60%</td>
<td>10%</td>
</tr>
<tr>
<td>Sq ft of shopping center</td>
<td>200,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Visible from street</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Wal-Mart in shopping center</td>
<td>yes</td>
<td>no</td>
</tr>
</tbody>
</table>

Store Sales \(A\) = $7,635,000

\[
= 275 \times 11,000 + 1,800,000 \times 0.7 + 2,000,000 \times 0.6 \\
+ 8 \times 200,000 + 250,000 + 300,000
\]

Store Sales \(B\) = $6,685,000

\[
= 275 \times 15,000 + 1,800,000 \times 0.2 + 2,000,000 \times 0.1 \\
+ 8 \times 250,000
\]
Types of Leases

- **Percentage Leases** - lease based on a % of sales.
- **Retailers also typically pay a maintenance fee-based on a percentage of their square footage of leased space.**
- **Most malls use some form of percentage lease.**
Variations of Percentage Leases

• Percentage lease with specified maximum - percentage of sales up to a maximum amount.
• Rewards retailer performance by allowing retailer to hold rent constant above a certain level of sales
• Percentage lease with specified minimum - retailer must pay a minimum rent no matter how low sales are.
• Sliding scale - percentage of sales as rent decreases as sales go up.
Fixed Rate Leases

- Fixed Rate Leases - used by community and neighborhood centers.
  - Retailer pays a fixed amount per month over the life of the lease.
  - Not as popular as percentage leases
  - Graduated Lease - a variation of the fixed rate lease
  - Rent increases by a fixed amount over a specified period of time.
Terms of the Lease

- **Prohibited Use Clause**
  - Limits the landlord from leasing to certain tenants.
  - Some tenants take up parking spaces and don’t bring in shoppers: bowling alley, skating rink, meeting hall, dentist, or real estate office.
  - Some tenants could harm the shopping center’s wholesome image: bars, pool halls, game parlors, off-track betting establishments, massage parlors and pornography retailers.
Terms of the Lease

- Exclusive Use Clause
  - Prohibits the landlord from leasing to retailers selling competing merchandise
    - Specify no outparcels
    - Specify if certain retailer leaves center, they can
    - terminate lease