

“Trading Area Analysis and the importance of location to Retail Companies”

by George Cosmin Tănase

Abstract

Retail location is considered to be one of the most important elements in retail marketing strategy, because it is a long-term decision, associated with long-term capital commitment. The selection of retail store locations is one of the most significant decisions in retail marketing, because in store based retailing, good locations are key elements for attracting customers to the outlets and sometimes can even compensate for a mediocre retail strategy mix. A good location therefore can lead to strong competitive advantages, because location is considered one of the elements of the retail marketing mix that is “unique” and thus cannot be imitated by competitors.

Keywords: location, strategy, retail, marketing mix, trading area

Location decisions are very complex, due to the large number of factors that have to be considered, and costs associated with, for example, the opening of new stores, can be very high. Site selection is therefore a *long term decision* that implies long term capital commitment. Once a retail site has been chosen, there is only little flexibility, because this decision usually cannot be changed easily without high losses. Because of its *fixed nature*, location cannot be changed in the short term, contrary to other elements of the retail marketing mix such as prices, customer service, the product assortment or advertising. These latter factors can be altered if the environment (e.g. consumer behaviour, competition) changes. The main attention in the context of retail location strategies usually focuses on the opening of new stores. However, location decisions relate to the entire physical structure of retail outlets and are thus more comprehensive. The main types of decisions are: (1) the *opening* of new stores, (2) the *extension* of floor space of existing stores, (3) the *relocation* or movement of a store from one place to another within a particular town or area where a better site is available, (4) *rationalization* decisions, e.g. the closure of individual stores, (5) *repositioning* of locations, e.g. altering of store image by changing the name or appearance, (6) *refurbishment* such as improving or updating the physical environment of an existing outlet or (7) altering the product range and assortment (“*remerchandising*”) to tailor the offer more closely to local customers. The opening of new stores comprises the most complex type of decision, because it is usually the starting point of activities in a specific geographic area. This section therefore focuses mainly on retail location decisions of this type.

There are three basic *types of locations* available for retail stores: (1) solitary sites, (2) unplanned shopping areas and (3) planned shopping districts. Each of the basic location types is associated with specific advantages and disadvantages according to, for example, the size of the catchment area, occupancy costs, pedestrian or vehicle customer traffic, restrictions placed on store operations or convenience of the location.

1. Solitary Sites (Free-Standing Sites, Isolated Sites)

This type of location relates to single, free standing outlets that are *isolated* from other retailers. They can, for example, be positioned on roads or near other retailers or shopping centres. Such sites are used, for instance, by large store formats in food and non food retailing or for convenience shops.

2. Unplanned Shopping Areas

Unplanned shopping areas are retail locations with several outlets in close proximity to each other that have evolved over time. The retail mix is not the result of long range planning and for such locations,

there is no centralized management. The main kinds of unplanned shopping areas are (1)*central business districts* (traditional “downtown” areas in cities/towns), (2)*secondary business districts* in larger cities and main street or high street locations in smaller cities, (3)*neighbourhood districts*, and (4)*strip or string* locations (locations along a street or motorway).

3.Planned Shopping Districts/Shopping Centres

Planned shopping areas are retail locations that have been architecturally planned to provide a unified theme for a number of outlets. These sites are developed deliberately and usually have some large, key retail brand stores (“anchor stores”) and a number of smaller retailers to add diversity and special interest. The basic types of shopping centres are *retail parks* that consist of a purpose built cluster of free standing retail outlets. There are (large) parking facilities and *shopping centres* that consist of single buildings which are marketed as a unified shopping destination, usually with one name and logo. The retail mix is different from retail parks, as the range of stores is wider and often includes luxury and leisure items as well as clothing, footwear and other typical central location merchandise. Several specific types of retail parks and shopping centres have been developed: (1) *neighbourhood or strip/community centres* that are typically anchored by a supermarket, (2) *power centres* that consist primarily of large format retailers, (3) *shopping malls* that are enclosed, climate controlled and lighted shopping centres (regional or super regional shopping malls), (4) *lifestyle centres* that encompass an open air configuration of upscale specialty stores, entertainment and restaurants, (5) *fashion/specialty centres* that comprise mainly upmarket clothing shops and boutiques carrying high quality and price fashion merchandise, (6) *outlet centres* that contain manufacturers’ and retailers’ outlet stores or off price retailers, and (7) *theme or festival parks* that typically employ a unified theme carried by the retail outlets, their architectural design and their merchandise and can be anchored by restaurants or entertainment facilities.

The decision as to which kind of retail location to select depends on the company’s strategy. It is an integral part of the retail location decision process.

Retail Location Decision Process

Retail location decisions typically follow a systematic process that starts with a *general* assessment of geographic areas and leads to a *detailed* assessment of specific site characteristics. This process can broadly be described as a three step selection process:

1. *Market selection*: The first step is the consideration of a region that has potential for a new retail outlet.
2. *Area analysis*: Within the chosen region, a potentially optimal area for the store is selected.
3. *Site evaluation*: In the chosen geographical area, the best available site(s) are examined in terms of all features that are relevant to potential store performance. This step concludes with a final decision as to the specific site.

Catchment Area

The analysis of the catchment area (*trading area, market area*) of a specific region or a specific site is of high importance in each phase of this retail location decision process. The *catchment area* is the geographic area that contains the customers of a particular site or region for a company or a group of companies for specific goods or services. Thus, it determines the potential demand at a particular site and, among other factors, influences potential sales and profitability. Usually, the catchment area is divided into three parts. The *primary trading area* is the zone in which the majority of customers are based. It encompasses 50% to 80% of the customers. The *secondary trading area* contains about 15% to 25% and the *fringe or tertiary trading area* includes the remaining customers that shop occasionally at a location as an alternative to local shopping. These catchment area segments are often described in terms of the *distance* between customers’ homes or work places and the area or site. Usually, either the

linear distance (e.g. concentric circles drawn around a site), the travel distance (by car or public transport) or time distance measures (by car or public transport) are used to delineate trading area segments. *Mapping techniques* are used to forecast or survey and map such store trading areas. *Geographical information systems* (GIS) are important support systems for location research and trading area analysis. These are software systems that combine digitalized mapping with key locational data in order to depict trading area characteristics such as population demographics, customer purchase data, competitor locations.

Location Assessment Techniques

The *appropriateness* of a specific site is based upon the retailer's strategy (retail formats, merchandise, pricing strategy, etc.) and is influenced by a substantial number of factors that need to be investigated. A selection of location factors is presented in Figure 1. In order to guide retail location decisions and to assess or forecast the potential sales or profitability of retail stores in a specific region, area or at a specific site, number of techniques have been developed to assess the sites.

Customers (potential/actual)	Accessibility	Competition	Costs
• numbers by demographics (e.g. population size, age profile, household size) • income level • disposable income per capita • employment by occupation, industry, trends • housing density • housing age/type • neighbourhood classification • home-ownership levels • building/demolition plans • main employers • spending patterns • shopping patterns • population growth, density and trends • lifestyle measures • cultural/ethnic grouping	• site visibility • pedestrian flows • pedestrian entry routes • barriers such as railway tracks, rivers • type of location zone • car ownership level • road network (conditions, driving speeds, congestion, restrictions, plans) • parking (capacity, convenience, cost, potential) • public transport (types, cost, ease of use, potential) • visibility • access for staff • access for transport and delivery	• existing retail activity (direct competitors, indirect competitors, anchor stores, cumulative attraction, compatibility) • existing retail specification (selling area, turnover estimates, department/product analysis, trade areas, age of outlets, standard of design, car parking) • saturation index • competitive potential (outlet expansion, refurbishment, vacant sites, interception, repositioning, competitor policy) • proximity of key competitors, traders, brand leaders	• purchase price • building costs • rent costs • leasing terms • site preparation • building restrictions • development concessions • rates payable • refurbishment needs • maintenance costs • security needs • staff availability • labour rates • delivery costs • insurance costs • promotional media/costs • turnover loss/other branches

FIGURE 1 – Selected Location Factors

Managers' Experience

Location is a retail function which requires knowledge and expertise. In practice, managerial experience (*"retail nose"*) plays an important role in assessing retail locations. For example, *rules of thumb* are often used as subjective and intuitive guidelines for site assessment. Such rules are developed from knowledge of the company.

Location Evaluation Checklists

Checklists consist of a number of chosen variables (e.g. location factors) to be considered when evaluating retail locations. One of the first detailed check list evaluation formats was developed by Nelson (1958).

Companies select factors that they believe to influence store performance. While some elements of such checklists are common to all types of retailers, each company is likely to have its own list with factors that reflect its particular strategy and situation.

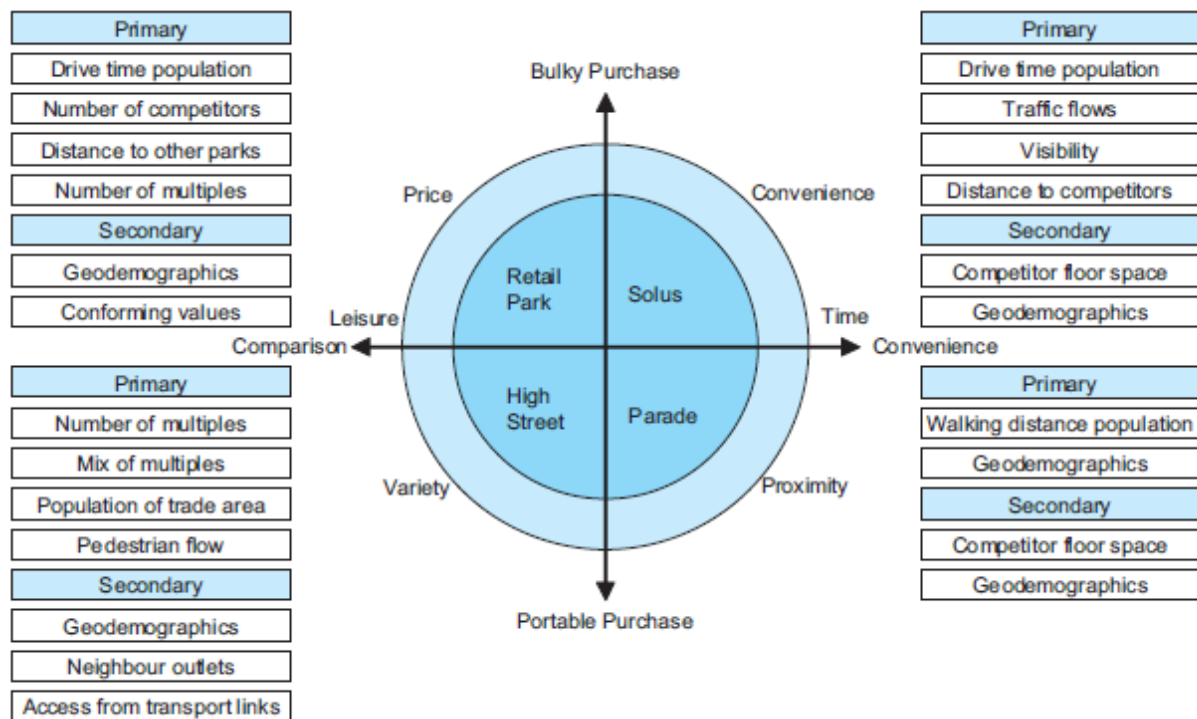


FIGURE 2 – Locational Positioning

Figure 2 illustrates linkages between retailers' strategic positioning, typical locations and major factors that are considered to be important influences and which should be analysed in the context of site assessment.

Analogue Method

The principle behind the *analogue method* is that new store sites are compared to existing ones that have many features in common with the new store (e.g. store size, merchandise or location characteristics). The likely turnover and profitability of the new store site are estimated on the basis of sales achieved and profits earned by similar stores in existing areas. Such comparisons can be done by *extrapolating* own store data or by comparing the new site with existing competing stores (e.g. stores at the prospective location).

Knowledge-Based Techniques

Knowledge based techniques are the most recent models that have been developed to assess retail store locations. The most important techniques are *expert systems* or models developed based on *artificial intelligence*, such as neural networks or computer systems modeling the retail environment and shopper behavior as "software agents" that simulate store performance at prospective locations. Such systems depend heavily on powerful computer capacities and immense data requirements and are still in the development phase.

Conclusion and Outlook

Location decisions have a major impact on a retail outlet's success, as location is an important factor in consumers' store choice. The location decision also has a *long term impact* as it is not very flexible. Thus, location decisions are of critical importance for retailers' competitive advantages. To guide and support retail site assessment, the various location assessment techniques have become more and more sophisticated. Such improvements have been triggered largely by advances in computer and software technologies (e.g. artificial intelligence).

It should be noted that retail location decisions consist not only of opening new stores, but that *monitoring existing stores* is of equal importance. This entails, for example, decisions concerning repositioning, relocation or closing outlets. This is important, as retail environments change rapidly (e.g. customer behaviour or competitive structure) and companies must also respond in terms of location decisions. However, retail location decisions cannot be made without taking into account the *retail environment* in terms of the interests of *towns/cities or residents*. Establishing a retail store can, for example, influence shopping patterns, traffic and pedestrian flows or the retail structure of a town.

A major concern of local communities is out of town vs. inner city retail centres. Also important in this context are *business improvement districts* (BID). BIDs are public private partnerships (PPP) that comprise property and business owners of a defined area, who try to improve it by collective contributions to the maintenance, development and marketing of their commercial district. To ensure that the specific objectives are met, retail locations are influenced or constrained by local or *central government planning policies*. Thus, the opening of new stores or even changing or extending existing stores may require planning permission. For example, most European countries have restrictions on setting up *large retail formats* and *out of town shopping centres*. The reason for these interventions is the potentially adverse impact of large stores on small businesses and of new shopping centres on old ones. However, local authorities not only restrict retail store settlement. In many *city marketing* initiatives, an attractive retail mix is known to be one of the key elements of attracting customers to a particular town or city. Local authorities, therefore, try to attract retailers with a good image so that retailers open stores in their towns or cities.

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