

Retail Site Location

CHAPTER 08



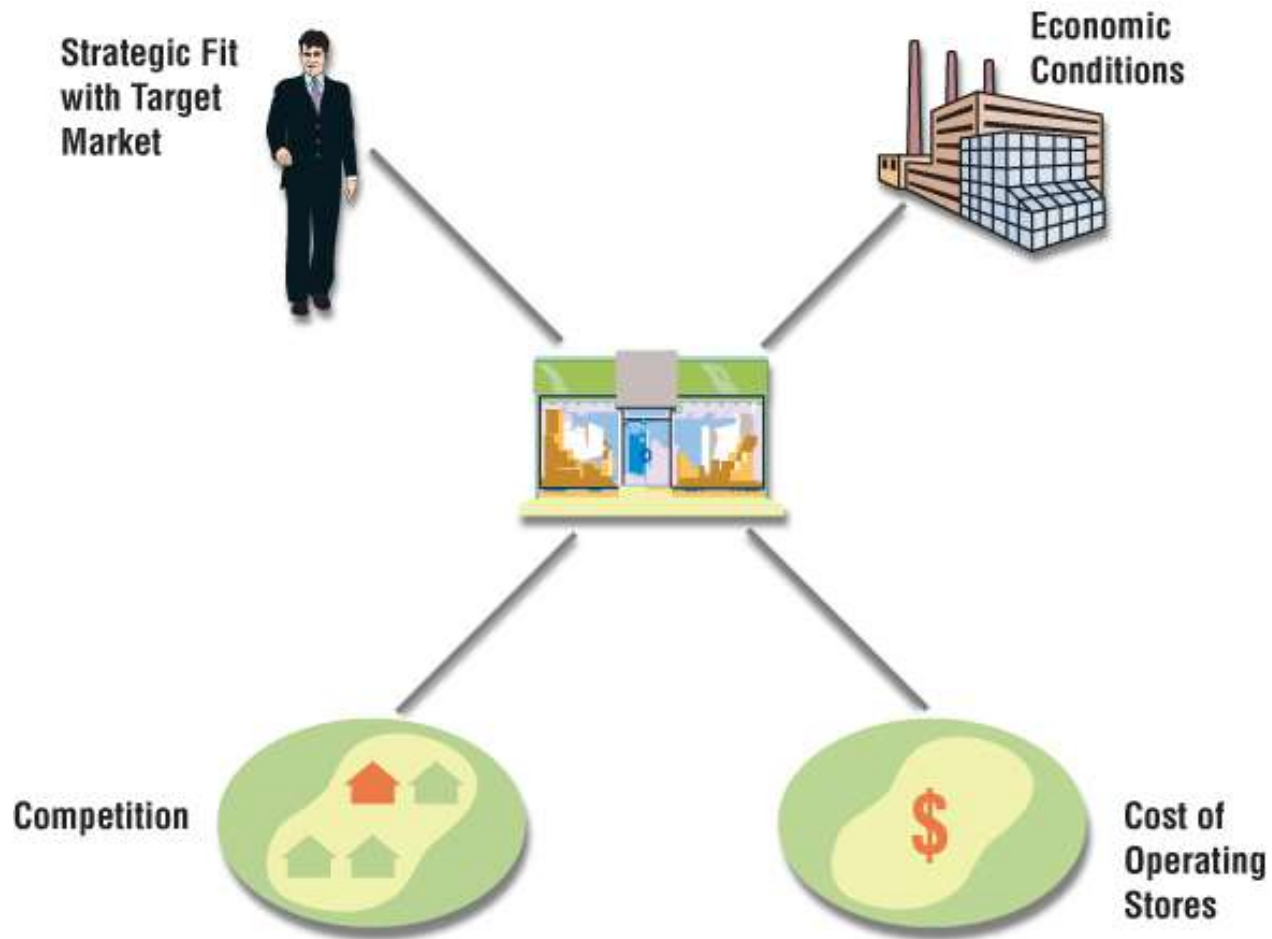
Questions

- 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?

Metropolitan Statistical Area

- Metropolitan Statistical Area- A city with 50,000 or more inhabitants or an urbanized area of at least 50,000 inhabitants and a total MSA population of at least 100,000.
- Micropolitan Statistical Area- A city with only 10,000 inhabitants in its core urban area.

Evaluating Specific Areas for Locations



Economic Conditions

- The growth of population and employment
- How long the growth will continue, and how it will effect demand for merchandise sold in stores
- Which areas growing quickly and why
 - Example- Seattle and proximity to Microsoft



Competition

- Level of competition affects the demand
- Some retailers are going urban
- Lack of competition
- High level of disposable income
- Large, untapped labor force



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Strategic Fit

- Demographic, lifestyle profile, size and composition of households in an area
- Area needs to have consumers in the retailer's target market

McDonald's – families with kids



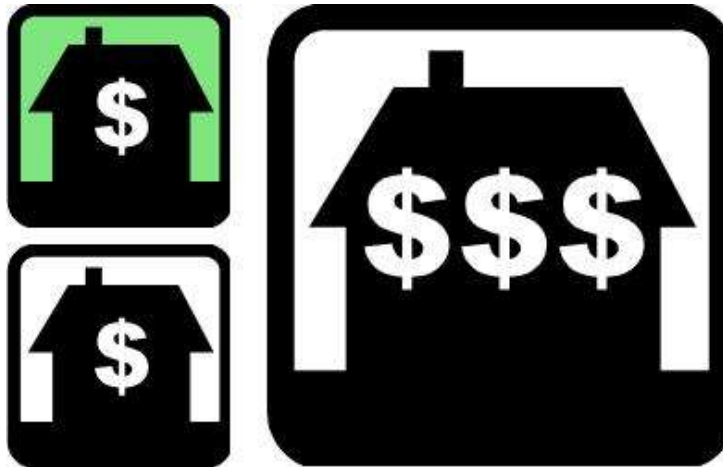
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REI – outdoor enthusiasts

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

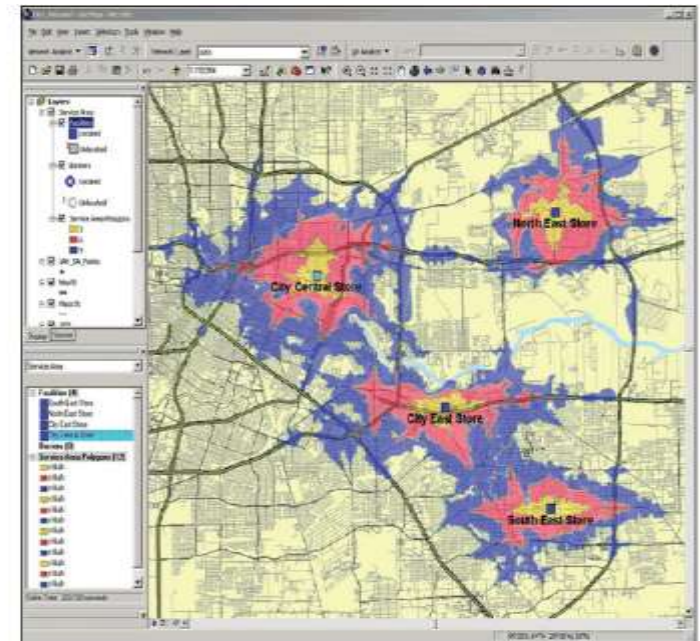


Management has control of market

open stores as long as
profits increase

EXHIBIT 8-2

Location of Customers
Patronizing a Retailer's
Stores



Evaluating a Site for Locating a Retail Store

- When evaluating and selecting a specific site, retailers consider:
 - The characteristic of the site (traffic flow, parking, visibility, adjacent tenants, and restrictions and costs)
 - The characteristic of the trading area
 - The estimated potential sales that can be generated



Site Characteristics

Traffic Flow and Accessibility	Restrictions
Vehicular traffic	Zoning
Ease of vehicular access	Signage
Access to major highways	Restrictions on tenant mix
Street congestion	Safety code restrictions
Pedestrian traffic	
Availability of mass transit	
Location Characteristics	Costs
Parking spaces	Rental fee
Access to store entrance and exit	Common area maintenance cost
Visibility of store from street	Local taxes
Access for deliveries	Advertising and promotion fees
Size and shape of store	Length of lease
Condition of building	
Adjacent retailers	

Traffic Flow and Accessibility



PhotoLink/Getty Images

- Traffic flow- the number of vehicles and pedestrians that pass by the site
- 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
- Accessibility is the ease with which customers can get in and out

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



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Adjacent Tenants

- Complementary (also competing) adjacent retailers build traffic



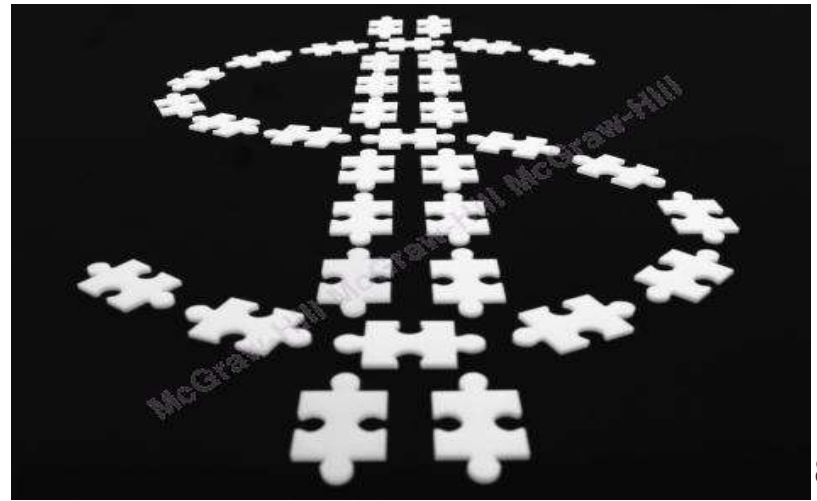
- What other retailers would Save-a-Lot want to be located near?
 - Big Lot, Family Dollar, or even Wal-Mart
 - All target price-sensitive consumers

Adjacent Tenants

- 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



EXHIBIT 8-3
Zones in a Trade Area

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- process of locating the residences of customers for a store on a map and displaying their positions relative to the store location.
- Use Census Data (census block)
 - 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)

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.
 - Some firms offer services combine GIS with updated census data, consumer spending patterns and lifestyles
 - [ESRI](http://www.esri.com) (www.esri.com)
 - [Claritas](http://www.claritas.com) (www.claritas.com)
 - [MapInfo](http://www.mapinfo.com) (www.mapinfo.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
 - Trade associations
 - Chambers of commerce
 - Chain Store Guide (csgis.com)
 - Government
 - Economic Development Councils



Estimating Potential Sales for a Store Site

- Huff's 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

- Analog Approach

- Regression Analysis



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Huff's Gravity Model

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

Where

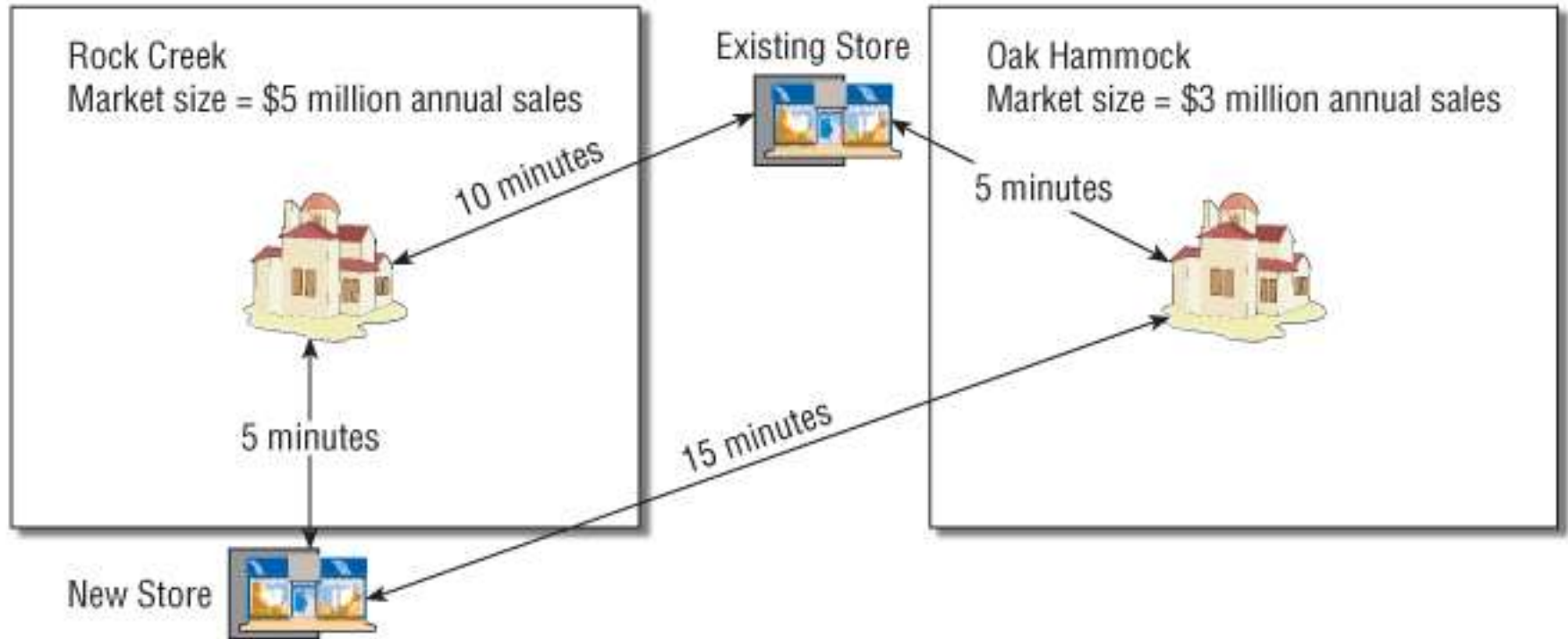
P_{ij} = Probability of a customer at a given point of origin i traveling to a particular shopping center j

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



Application of Huff Gravity Model Continued

$$P_{RC} = \frac{10,000/5^2}{10,000/5^2 + 5,000/5^2} = .889$$

$$P_{OH} = \frac{10,000/15^2}{10,000/15^2 + 5,000/5^2} = .182$$

$$.889 \times \$3 \text{ million} + .182 \times \$3 \text{ million} = \$4,910,000$$

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

Application of Regression Model

Variable	Estimated Weight	Location A	Location B
Households within a 15-minute drive time of the location	275	11,000	15,000
Percentage of households with children under 15	1,800,000	70%	20%
Percentage of households in the Aspiring Young Tapestry geodemographic segment	2,000,000	60%	10%
Gross leasable square feet of shopping center	8	200,000	250,000
Visibility of store (1 = yes, 0 = no)	250,000	yes	no
Walmart store in shopping center (1 = yes, 0 = no)	300,000	yes	no

$$\begin{aligned}\text{Store Sales}_A &= \$7,635,000 \\ &= 275 \times 11,000 + 1,800,000 \times 0.7 + 2,000,000 \times 0.6 \\ &\quad + 8 \times 200,000 + 250,000 + 300,000\end{aligned}$$

$$\begin{aligned}\text{Store Sales}_B &= \$6,685,000 \\ &= 275 \times 15,000 + 1,800,000 \times 0.2 + 2,000,000 \times 0.1 \\ &\quad + 8 \times 250,000\end{aligned}$$

Types of Leases

Percentage

Fixed - Rate

- 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 adult 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