UNIT 7 LOCATIONAL DECISIONS

Objectives

After going through this unit, you should be able to:

- appreciate the importance of store location;
- understand the process of choosing a store location and to discuss the various criteria's for evaluating locational aspects within them;
- understand the nature of store locations available to a retailer;
- appreciate how the types of goods sold influence the locational decision drivers in retailing;
- understand the concept of trading area and technique§ to analyze its potential; and
- understand the different theories which explain the historical patterns in retailing.

Structure

7.1 INTRODUCTION

The choice of location is the most vital aspect for any business that relies on customers of which retailing is the classic example. Deciding on location is the most complex of the decisions to be taken by a retailer. Firstly the costs are very high and once a location has been selected there is very little flexibility.

As you would agree that choosing a wrong location can lead to losses and even closure of the store. This makes the selection of the appropriate location the most critical aspect of retailing. Location of a store in an area depends on its type of business and the type of customers it wants to attract.

7.2 IMPORTANCE OF LOCATIONAL DECISIONS IN RETAILING

The importance of locational decisions as is due to the following factors:

1) Locational choice is a major cost factor.

2) It involves large capital investment (the high cost of land or building if it is being purchased of recurring cost of rent if it is leased).

3) It affects the transportation cost structure (Distance from the manufacturer, distributor etc. affects the total cost of transportation).

4) It has a significant bearing on human resources cost (if the retail store is located away from central locations i.e. areas where public transport is weak the cost of employees will be higher as employees will have to be provided with transportation or paid for transport).

5) It is dependable on the quantum of customer traffic (depending on the number of consumers who frequent the area).

6) It affects the volume of business (if the number of customers visiting the store are low then the volume of business done by the retail store is obviously affected)

Thus a locational decision as you would appreciate is influenced by the flow of vehicular and pedestrian traffic, which determines the footfalls in a retail store. It is very important to take pedestrian and vehicular traffic count of the location before choosing the location.

For determining the pedestrian traffic the following aspects are to be considered:

1) Age and gender of the pedestrians passing through the area(exclude very young children).

2) Count by time of day i.e. number of pedestrians passing through the area during different times of the day.

3) Pedestrian interviews i.e. ask random pedestrians their shopping habits etc

4) Spot analysis of shopping trips.

Further determining the vehicular traffic count is very important for convenience stores, Stand-alone stores and areas with limited pedestrian traffic.

As you would appreciate that it is possible for a store to have good locational characteristics and poor site characteristics and to have good site characteristics and not have good location characteristics.

For instance the store may have a good locational mileage i.e. in a prime area with good vehicular and pedestrian traffic, but may have poor site characteristics like not having parking space or the site may have all the facilities required but the pedestrian and vehicular traffic could be low and not generate enough volume of business.

Further one needs to appreciate that the location and site should interact in a positive way with a stores merchandise, operations and customer service. For instance if a convenience store is setup in a residential area with ample on site facilities and the location is a high traffic area then the store location can be described as a perfect location.

Example 1: Departmental stores like Lifestyle, Shoppers Stop, Pantaloon choose locations having right mix of location and site characteristics.

Example 2: Wal-mart, the world's largest retailer realized the issue of finding distributors for its scattered network of stores when it started moving into rural communities. To overcome this it setup regional distribution centers supported by a huge truck fleet to reap advantages of scale.

Example 3: Home-depot, the largest home center chain is seeking markets with significant aging suburban houses and apartments as it sees them as prime target for its “do-it-yourself ” proposition.

Activity 1

Talk to a few retailers in your neighborhood and understand the role of location in their business decisions.

....
....
....

7.3 ASPECTS OF LOCATION AL DECISIONS AND INFLUENCING FACTORS

The following factors play a significant role in the locational choice of a particular city:

Size of the City's Trading Area: A city's trading area is the area from which customers come to the city for shopping. A city's trading area could include its suburbs as well as its neighboring cities and towns.

Example: Mumbai, which attracts customers from all over India with its large numbers of trading centers.

The Population of the Trading Area: High growth in the population of an area can also increase the retail potential.

The Purchasing Power of the. Customers: Cities with a large population of affluent and upper middle class customers can be an attractive location for stores selling high priced products such as designer clothes or even high value cars which have limited retail outlets.

The fast growth in the purchasing power and its distribution among a large base of middle class is contribution to a retail boom.

Distribution Networks: A city may become specialized in certain lines of trade and attract customers from other city.

Number, Size and Quality of Competition: It is important to undertake a detailed study about the number of retail players across segments, their sales and quality of services before selecting a city.

Example: If a retail chain plans to set up retail discount grocery store they should avoid Kerala as Margin Free Market a retail discount chain has a strong retail presence in the state and has a very strong consumer base. It would be difficult for a retailer to compete in this market.

Cost of Land, Rent and Other Retail Development Costs: This is one of the key factors affecting the attractiveness of a city as a prospective retail location. If the cost of rental or the cost of land is very high it would be difficult for a retailer to break even especially if he is dealing in products with lower margins.

7.3.1 Evaluation of Factors for Location of the Store

Some of the factors that need to be evaluated for identifying the appropriate location of a store are as follows:

- Qualitative and quantitative dynamics of competitive stores.
- Prospective retailers to evaluate the product lines carried by other stores, number of stores in that area etc. before _selecting area...
- Whether the are or shopping center provides easy access routes.

- Whether there are any traffic jams or congestion on the routes to the selected location.
- Whether there are any zoning regulations in the city as per plans of zoning commission and municipal corporations regarding the development of shopping centers, residential areas, flyovers etc.

For instance if a flyover is being developed in front of the location selected the retailer will not be able to attract the vehicular traffic. The retailer should consider the direction in which the city is developing while selecting its location.

Additionally, the retailer needs to consider the following aspects too:

- If there is adequate traffic and if so the potential of the traffic passing the site is good.
- Whether the volume of vehicular and pedestrian shoppers who pass by the ` specific sites represent potential customers.
- Does the site have the ability to intercept the traffic flowing past the site.
- Whether the vehicular or pedestrian traffic moving past the site could be attracted.

Further the presence of other shopping centers or stores in the vicinity can also influence the ability of the site to attract traffic.

- Complementary aspects of adjacent stores
- Sufficient parking space
- Vulnerability of the site to unfriendly location

Thus before deciding on the chosen site it should be ensured that there are adequate parking facilities available in the vicinity, especially if the store expects vehicular traffic. The quantum of parking facility required for different types of stores varies as per size of retail store or mall.

For instance shopping centers require 4 to 5 spaces for every 100 square meter of gross floor space, Supermarkets require 10-15 spaces for every 100 square meter of gross floor space similarly Furniture Stores require ,2 to 3 spaces for every 100 square meter of gross floor space.

Finally the retailer also needs to consider if unfriendly competition could emerge in the shape of a large discount store, which resorts to aggressive pricing strategies, which can threaten its viability.

Example: In USA many retailers had to close or relocate when Wal-Mart set up its stores in the neighborhood. The same was repeated in India when Margin Free Markets set up its stores, in the wake of which the kirana stores and the supermarkets in the vicinity had to close.

Activity 2

Try and meet a few store managers of prominent retail chains in your town/city discuss with them and then prepare a list of activities that need to be undertaken for a proposed "food & groceries" chain of stores coming up across the country with respect to locational aspect?

....
....
....
....

....

....

7.4 NATURE OF RETAIL LOCATIONS

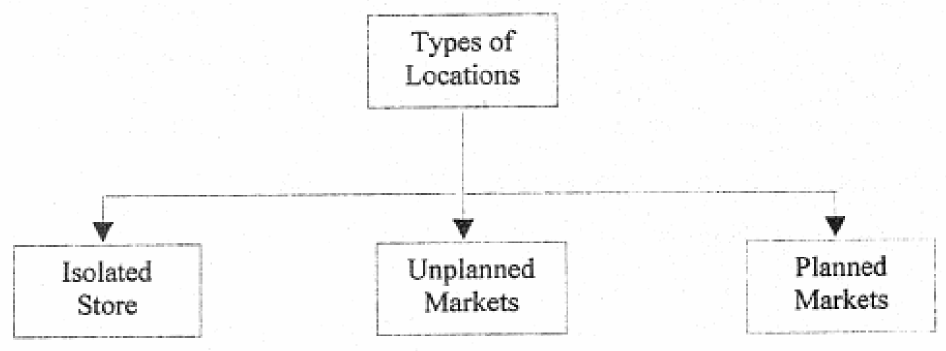

Figure 7.4

The types of retail locations can be classified as follows: Isolated Stores

These store have typically no other retail store in the close vicinity. Their location depends on their pulling power of customers. The advantages of isolated stores are that there is no competition, the rentals are low as it is not a commercial area, further it will be able to have better visibility than other stores, constantly upgrade its facilities as per the requirement.

The imminent disadvantages of this type of stores are:

- It is difficult to attract customers as the travel distance may be high,
- The lack of variety for the customers that has limited choice of merchandise to select from,
- High cost of advertising as initially a high budget will have to be allocated to attract customers to the store,
- Further there is no sharing of costs like in a shopping center. The isolated stores are the stores you usually find inside housing colonies, which is the local Kirana store, or on highways as a shopping destination.

Example: These stores are typically what we call "mom-n-pap" stores/ convenience surrounded by other non-competitive stores.

They can also be specialist stores like "gift stores" located in a densely populated area with no competition,

Unplanned Markets

Unplanned markets are basically the markets that come up with no systematic planning for example the markets in the older part of the cities or where planned markets over the time have become unplanned markets due to poor municipal lades and unplanned growth of the markets.

Here you also find that there are multiple stores selling the same products.

The advantages of unplanned markets for the retailer are that the rentals are very low, good access to public transport and availability of a variety of goods for the consumer.

The disadvantages are difficulty in attracting customers, lack of proper parking facilities, no sharing of costs and lack of space for the setting up larger outlets or for the expansion of the existing outlets.

Example: Chandini Chowk market in Deli one of the largest and oldest whole-sale markets attracts retailers, home buyers inspite of its poor approach, lack of parking facilities because of the range and price points it offers for all.

Planned Markets

The planned markets on the other hand are the shopping complexes, the Malls Etc The advantages of planned markets are that there is a well-rounded assortment of stores making it a one stop shopping experience for the entire family. The malls have very large anchor stores which are either departmental stores or stores which have the crowd pulling capacity.

Further in these malls you have a variety of stores, restaurants and services offered. There is high pedestrian traffic in these markets and all the retailers in the market share the costs like lighting up of the market for festivals or running of joint promotions to promote the market, which in malls is also supported by mall management.

The disadvantages of such a market are limited flexibility, the rents are higher compared to the earlier described markets, and it creates a highly competitive environment and domination of the market by the anchor stores.

Example: The Sahara Mall, Metropolitan Mall in Gurgaon and the upcoming malls across major cities and towns offering shopping, hospitality, entertainment and other personalized services.

Activity 3

On the basis of your discussion with the store managers evaluate the following case. A specialised "juices and salads" chain of stores is planning to open outlets across the major metros. Evaluate with detailing as to where it should be located (planned markets, unplanned markets, isolated stores)?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
………………………………………………………………………………………….

7.5 NATURE OF CONSUMER GOODS AND LOCATION DECISION AREA

Shopping goods usually imply products with a high unit price, which are purchased infrequently and involve more intensive selling effort on part of the store owner.

Shopping products we often sold in selected franchise outlets, Further it is the character of the retail store rather than the t)Te of goods it sells that governs the selection of the site.

The following are some of the characteristics of buyers of consumer goods:

- They compare Price, quality and features of such products across stores.
- While convenience goods are purchased by almost everyone, certain kinds of shopping goods are purchased by only certain -segments of shoppers

- The consumers buy goods infrequently and plan their purchase

7.5.1 Locational Decision in Retailing –Issues

It is important for your to understand the role of retail location in the context of business practice. To do this it is important for you to start with the broadest possible view on strategic planning .The assumption being that the organization can control its assets, the environment(s) it operates , but cannot control the environment

The following factors affect the choice of a retail location.:

Corporate Strategy

Wherein the retailer needs to ask himself the following:

Question 1: What business (es) should we operate? In what business environments are our core assets most valuable?

Question 2: What should we be doing internally, versus outsourcing or not being involved at all?

This is implemented through decisions to enter and exit industries, acquire firms/ closure of non-complementing businesses/vertical or horizontal integration or disintegration so on.

Business Strategy

Here the retailer needs to answer as to how he will compete in this line of business which leads to explore the following drivers:

- Product breadth,
- Target market, and
- Quality/price etc.

Functional Strategies (finance, production, marketing)

Wherein the retailer needs to evaluate the best ways for him to serve his target markets with the desired products.

Further, geography enters all three levels of strategy wherein the incumbent retailer needs to ask himself the following questions:

1) Are we a Indian company or a global company?

2) Do we have the assets to compete on the basis of worldwide low costs?

3) Where should we obtain financing, source inputs, locate production, and locate distribution or outlets? Given a production location, what technology and human resource policies can work best here? Given a retail location, what product mix and price points work best for us here?

4) Do we have the logistics to service these chosen markets.?

5) How many retail outlets do we need to cater to our chosen or desired market? ,

6) Where do we locate each retail outlet?

7) What is the product mix and level of product adaptation that is required for a - given retail outlet?

However, though location decisions are most often made explicitly at the level of functional strategy they must be in tune to the overall competitive strategy. (So if you want to become a CEO of a retailing venture you need to gain experience and expertise in additional contexts. Geography is generally a means to an end in an organization).

Also the choice of location means a basic economic-geographic trade-off between economies of scale and friction of distance; relative concern for cannibalization versus eliminating competition.

More ambitious retailers might change not just the product mix but the entire concept and even the brand name of the stores to serve their chosen market (without weakening brand image/positioning).

For this they need to introspect by asking themselves the following questions:

- Where are our current or desired markets in general located (assuming monopolistic market areas)?

- How should we go about dividing our market among our various outlets (assuming monopolistic market areas)?

- How and where should we locate ourselves, what will our market distribution look like, in the context of our competitors?

For instance an excellent site for a shopping goods store is next to a departmental store or between two departmental store where there is a flow of traffic between them. Another good site is between a major parking area and a departmental store.

Example: The recent phenomenon that departmental stores like Shoppers Stop and Pantaloon have started being one of the anchor tenants for malls coming up in close proximity is a case in point. A case observed in Mumbai, Gurgaon, Kolkatta on account of small catchment areas and range of complementary products and services offered in the vicinity.

Activity 4

Talk to the store managers of a sample of supermarkets in your area and discuss with them as to how they will go about evaluating if they want to be a "groceries discounter". Further try to understand as to what corporate, business and functional decisions need to be taken.

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

7.6 TECHNIQUES FOR LOCATIONAL ASSESSMENT AND INTAIL LOCATIONAL THEORMS

There are a lot of techniques used in choosing of a store location. Some of the techniques used in locational choice assessment are as follows:

Judgemental technique: Where there is a heavy relianc e on one's gut feeling through environmental scanning leading to one of the following possibilities of locational imitation of competitors(or nearby competitors).

Systematic screening technique: Where the incumbent/existing retailer assumes the size of the market area using general rules of thumb survey of current customers like:

1) What radius or drive time would encompass a certain percentage of all customers? (But would this be the same in a denser, less-dense, or less auto-prone region?)

2) How to identify (and perhaps rank) preferred market areas of the given size?

3) What patterns or indicators to look at in published data on the household income, consumer expenditures, business growth, or population growth by metropolitan area or broadcast media market?

Analog technique: Where the incumbent/existing retailer can look for market-area characteristics that are similar to the market areas of successful, analogous stores using the following techniques:

1) ***Differential analysis:*** This involves analysing characteristics like-market areas and nature of stores, their product mix, management strengths, size etc. Thus they go on to differentiate between the most-successful and least-successful locational choices.

2) ***Regression Analysis:*** This involves determining the level of profitability (or revenues) across all sites (perhaps sales per square foot) as a function of a set of characteristics, and use the location-specific variables that are most significant.

Further if the analysis also includes non-geographic variables (age or training or experience of managers, age of the store, years since last renovation, etc.), then he can assume that he has a reasonable level of control on some of the things that make stores disimilar to each other.

Note: Regression coefficients can be used to predict the level of profitability or revenues from each alternative format and location proposed for a new store.

In case of an incumbent retailer with no existing outlets to benchmark against with the following techniques can be used:

Market-area analysis: Where he can seek market areas that have generally desirable characteristics and then gradually build up his data from a small-area data. depending on what he sees is desirable for his product and marketing strategy.

This requires: Geo-demographic data (data on the median or average economic and demographic characteristics of inhabitants within small geographic areas), or

- Lifestyle data (data on the location and buying habits of individuals), or

- Geo-lifestyle data (data that draws inference about the buying habits of the inhabitants of small geographic areas).

Note: These techniques/approaches ignore two important caveats.

Firstly, the actual market areas are not "yes/no" delineations. (in real terms, they are not space oriented monopolies) as there are always some customers from outside the primary market area, and customers near the "edge" of the market area who are less likely to use your location than your more proximate customers.

Secondly, the actual market areas depend not only on his store/proposed store characteristics but also on his competitors locational dynamics and characteristics.

Retail Saturation Coefficient

This coefficient measures the potential sales per square foot of store space for a given product line within a particular market area. As a market area evaluation tool, it incorporates both consumer demand and competitor presence.

The coefficient of retail saturation depends on the size of the population, per capita expenditure on consumer goods, amount of retail space available for sales, and the maximum value each of these variables can be in a particular market area. This coefficient can take a value of between 0 and 1, but the key question to be asked is whether the retailer would be inclined towards a 0 or 1 value.

The formulation of the index of retail saturation is expresses as follows:

Retail saturation index /R3Dfor market area i.

$$RSIi = \frac{Ri / (Pi\ Ei)}{\max [R / (P\ E)]}$$

where P is a measure of population, E is a measure of per capita expenditure (on consumer items in general, or on your particular product category), and .R is a measure of the amount of retail space (or space devoted to your particular product category), each within the market area where *max* [R / (P E)]is the maximum value of R / (P $E_{,)}$, that can be achieved in any market area.

Example 1: In India for instance many consumer good conglomerates and merchandisers are moving towards down town areas for merchandising their goods with several specialist categories such as linen and items relevant to the area for consumption by the local populace.

Example 2: McDonalds in India is moving their retail outlets to suburban areas dependent upon the consuming population and the number of footfalls it envisages in the area. The evaluation of this coefficient is therefore important for the retailer to determine the market potential of selling its wares in the area and also McDonalds for setting up a food outlet.

7.6.1 Retail Locational Theories

Quality and Distance Theory: This theory suggests that the footfalls in a retail space has a direct correlation to the quality of the retailed item and inversely proportional to the distance of the retailer from the consuming populace. The most common measure of "quality" is the size, in square feet of retail space. Distance, of course, can use any number of metrics.

Land Value Theory: This is used for determining and explaining the arrangement of urban land usage and location of economic activity zones in a given area. It goes on to state that the competition for a given land area will determine the price of the urban land and therefore will have bearing on the nature, quality of the goods merchandised thereby ensuring that the best use of the retail space is effected.

7.6.2 Retail Market Identification

Retail market identification is the process of understanding the profile of likely customers in a chosen area through the following teehniques:

Customer Spotting: This involves observing and mapping the actual customer footfalls through the following data sources:

- In-store surveys
- Point-of-sale query (telephone nos.)
- bank account information
- redeemed coupons that had been mailed to the customer's address

- family size
- car/vehicle ownership

The mapping is done by dividing the entire region into zones (Census studies etc.).

Then the market penetration is computed as the ratio of the number of observed customers to the number of potential customers (population? number of households?) in each zone.

For Example: The identified and mapped zones with market penetrations that meet particular thresholds (60%, 25%, 10%, for example) across criterias like distance from the store, per capita income, etc. could be used for decision making using multiple regression.

Spatial Interaction Model: This theoretical model explains the relationship between metrics observed on the amount of demand a product has at the source and its destination, the distance between them and the impact of transport cost on the demand of the product at the retail store.

This model helps us to systematically estimate as to how much demand a given outlet will likely draw from each market area.

This may help us in estimating whether the sales can be expected to increase with any of the following factors and variables:

1) Attractiveness (e.g., square footage)
2) Demand
3) Distance (or cost of distance) between them
4) Nearby destinations etc..

Geo-demographic Marketing Approach: This approach to marketing recognizes that some part of the retailer's market may be highly fragmented geographically.

Further customers respond strongly, across various distances, to some specialized attribute of the retailer.

While the location of the retailer may not be affected, geographically targeted promotions (e.g., direct mail) may be arranged on the basis of geo-demographic data, targeting individuals by targeting neighbourhoods.

Further we can use geographic analog reasoning with the following possible scenarios:

1) Customer spotting to determine the sources of current customers.
2) Identifying the generalized characteristics of the neighbourhoods or zones housing concentrations of current customers.
3) Identifying other neighbourhoods or zones, with similar generalized characteristics, to target.

Activity 5

Visit a few of the stores selling kidswear and toys. After observing the location make a list of the factors which differentiate the location decision of a retailer of kids apparel and accessories and a children toys and gifts shop?:

………………………………………………………………………………………………

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

7.7 SUMMARY

The unit discusses the importance of location decision for an existing and one who is prospecting. Then we evaluated various levels of location decision and its determinant factors.

Then we went on the discuss about the various types of retail locations followed by the some of the common location assessment techniques used globally.

Finally we discussed about the various retail location theories, techniques and aspects of identification.

7.8 KEY WORDS

Analogue approach: A method of trade area analysis also known as the"similar store" or "mapping" approach.

Chain store: Any retail organization that operates multiple outlets offering standardized merchandise mix driven by a centralized form of ownership.

Location analysis: The use of demographics, economic, culture, demand data etc. to determine the area where a retail store will be placed.

Location: It is the area in which the store is situated and its trading area but a site is the building, or pat of the building in which the store is located.

Retail Format: The total mix of merchandising and operating tactics, practices used by a retail firm to distinguish and differentiate itself from retail competitors.

Strategy: It is the process of identifying organization-specific asses, understanding the organization's environment, and then deciding how to deploy or augment assets to earn the greatest return.

7.9 SELF ASSESSMENT QUESTIONS

1) Make a list of the various ways in which local markets areas are delineated? Further describe the variables used in screening of site alternatives?

2) Elaborate on the significance of locational decisions for an upcoming construction specialty mall coming up in your neighbourhood?

3) Describe the role of traffic arteries and lanes in determining the evaluation of a retail site?

4) Describe the role of the two locational theories and retail market Identification in the emerging Indian retail context?

7.10 FURTHER READINGS

Birkin, M., G.Clarke, M.Clarke, and A.Wilson. 1996. Intelligent GIS: Location Decisions and Strategic Planning. New York: John Wiley & Sons.

Ghosh,A. and S.McLafferty. 1987. Location Strategies for Retail and Service Firms. Lexington, Mass.: Lexington Books.

Jones, K. and J Simmmons. 1990. The Retail Environment. London: Routledge.

Thrall, G.l.,.C.de) Valle, and G. ffbuzmaoo. 1998. Retail Location Analysis, Step four: identify situation targets. GeolnfoSystems 8(6): 38-43.

Thrall, G.I.J.C.del Valle, and G.Hiuznouoo.l9g8.Retail Location Analysis, Step five: assess market penetration. GeolnfoSystems 8(9): 46 - 50.