

The 10 Common Mistakes in Retail Site Selection

Ways to identify prime locations and maximize market potential—
with confidence

WHITE PAPER:

LOCATION INTELLIGENCE

Al Beery • Director
Gary Fattler • Senior Manager
Pitney Bowes Software



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2

ABSTRACT

A NEW SET OF DYNAMICS ARE SHIFTING THE RETAIL LANDSCAPE AND MAKING SITE SELECTION MORE COMPLEX, INCLUDING THE INCREASE IN MULTICHANNEL OPTIONS AVAILABLE TO CONSUMERS. THE NEED TO CONFIDENTLY ANALYZE MARKET OPPORTUNITIES AND IDENTIFY PRIME LOCATIONS IS CRITICAL TO MAXIMIZING MARKET POTENTIAL. WHETHER YOUR PRIORITY IS FACILITATING AN AGGRESSIVE ROLL-OUT OR OPTIMALLY MANAGING AN EXISTING ARRAY OF LOCATIONS, IT HAS NEVER BEEN MORE CRITICAL TO EMPLOY SOUND ANALYTICS AND AVOID THE COMMON SNARES THAT PLAGUE REAL ESTATE DEPARTMENTS.

THIS WHITE PAPER OUTLINES THE TOP ISSUES FACING RETAILERS TODAY IN REGARDS TO SITE SELECTION AND NETWORK PLANNING, INCLUDING THE SUBTLE DYNAMIC OF POPULATION PROFILES, THE FREQUENT MISUSE OF PREDICTIVE MODELS, AND THE FAILURE TO RECOGNIZE THE INTERRELATIONSHIPS BETWEEN BRICK AND MORTAR, MOBILE RETAIL AND SOCIAL MEDIA CHANNELS. YOU WILL LEARN HOW TOP RETAILERS ARE ADDRESSING THESE BUSINESS CHALLENGES—AND HOW A NEW APPROACH CAN PROVIDE A CLEAR ADVANTAGE.

AVOID THE PITFALLS FOR TODAY'S RETAIL REAL ESTATE DEPARTMENTS BY DEPLOYING THE RIGHT ANALYTICS.

The top ten common mistakes

In recent years, blue chip retail and restaurant companies have encountered challenging new issues that can hinder growth strategies. New dynamics, such as multichannel consumer interaction are adding layers of complexity to the site selection process. This enhances the need to vet real estate opportunities and identify prime locations—often in a new and unfamiliar context.

In assessing expensive network planning decisions on where to open or close locations, it has never been more important to employ sound analytics and avoid the ten common snares that plague real estate departments. Although there are many factors to consider when selecting sites for retail expansion, these ten points encapsulate the range and scope of frequent hindrances to effective unit expansion planning.

1. Limitations of a forecasting model
2. The dynamics of multiple sales drivers
3. Unbalanced approach towards “optimal customers” and “overall populations”
4. Expectations that outpace reality
5. Emotion over analysis
6. Failure to recognize and capitalize on multichannel interactions
7. Cloudy view in competitive battle planning
8. Valuing form over substance
9. The alluring market with elusive returns
10. The siloed organization

This white paper examines each of these stumbling blocks—and how you can avoid the common snares that plague real estate departments.

1. Failure to understand the limitations of a forecasting model

Site selection models attempt to explain highly complex and changing retail environments. However, many factors that are not easily measurable (such as operations) can impact unit performance, while other factors (e.g., visibility ratings) can be measured only in an imperfect manner. While the model used may accurately assess standard locations, models will have less background and experience to adjust for atypical situations.

Because companies invest heavily in these tools, they have a tendency to become over-reliant on the modeling results, expecting too much of them. Models reflect a standardized reality of a given situation but cannot address all of the variations inherent in a given site. They represent the norm, which in many instances is essentially a starting point. Therefore, it is important to consider input from store personnel and management in each unique situation to gain a complete picture. To enhance the performance of your modeling, it is also critical to incorporate analog data that provides context and unique, unit-specific performance metrics. Such an approach as a complement to raw model output provides balance and additional insights when considering site selection and computing predictive results.

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The 10 Common Mistakes in Retail Site Selection

Ways to identify prime locations and maximize market potential—with confidence

4

2. Misunderstanding the dynamics of multiple sales drivers

Sales forecast models (especially for restaurants) often use day part sales as a proxy for the actual reason for patronage, resulting in incomplete conclusions. While day part behavior patterns can be very insightful, the issue is not really when they're coming, but why they will come to a particular location. In reality, the driver of the actual shopping occasion can vary considerably (proximate to work, shopping, or home.) Understanding why customers are shopping in a particular area is much more important.

Similarly, oversimplifying a target customer profile can be a problem. Many retail concepts have multiple lines of business and distinct sales drivers that may vary by line of business or category. Consider a drug store; the front of store is essentially a convenience store with broad-based profile, while the pharmacy has a fairly differentiated profile driven by age and propensity to use medication. Many models fail to address these distinct customer profiles within one store, and consequently fail to accurately predict draw and penetration.

3. Unbalanced approach towards “optimal customers” and “overall populations”

When seeking a balanced approach between targeting a particular customer profile and pursuing critical population mass, a retailer may ask such questions as “What is the minimal population required to support one of our units, or why would we risk deploying in a trade area with so many people who don't fit our profile?” To address these questions, successful profiling can convert raw population mass to effective population. Population mass is a less crucial factor if there are an adequate number of potential consumers that closely fit your customer profile—and therefore display above average purchase patterns—within the specific population mass.

By accurately quantifying sales lift for a given target customer profile, you can clarify minimum population requirements. Even thinly settled areas may achieve vibrant performance if a sufficient quantity of targeted customers reside in that area.

Conversely, an area that may appear to be unattractive when viewed solely by light of a customer profile may, nonetheless, have the sufficient raw population mass to drive successful opportunities. Typically suburban retail concepts may often find success in an urban site simply due to its population mass. The key to successful unit deployment is to strike the right balance between optimal customer profile versus critical population mass.

4. Growing chains rendezvous with reality

When a chain is growing, they almost inevitably push the outer limit of store size and store count—only to discover they've run out of ideas.

- Identifying the logical extent of productivity per square foot requires calculated trial and error while still in growth mode. Encouraging experimentation is critical in these early stages.
- Once a chain reaches maturity, right-sizing future units to the market potential is the key factor which will help optimize further growth.
- Evolving concepts inevitably push the outer limit of market penetration. It's important to maintain a measured perspective on new unit placement as market deployments approach full coverage. Lag time between the planning stage and actual deployment should preserve flexibility and monitoring of the performance of recent openings. Over-saturation of can be unexpected and traumatic.

Many retailers have begun to downsize their individual store footprint and rethink expansion strategies to best address market penetration, looking for measured progress. Unit expansion itself is not always a viable option for growth. Rather, the best option for growth may be through the enhancement of in-store productivity—often in a trimmed-down facility.

EARLY INDICATIONS ARE SHOWING THAT THE BRICK AND MORTAR LOCATION DOES, IN FACT, DRIVE THE ONLINE INTERACTIONS.

5. Poor decision structure; enabling emotion over analysis

A company's structure can impede objectivity in the site selection process. Often, the site evaluation is integrated with site development, which impairs neutrality. A sole decision maker, or a group of decision-makers, can have too much "investment" and not enough neutrality involved in site selection. A model can aid in gaining this objectivity, adding a third-party view, based on facts and empirical observations.

Assumptions or performance dynamics may change during the site selection cycle, but often the force of momentum can continue to drive the process. Site selection can be clouded by the personal investment in a "difficult deal" (e.g., negotiation hurdles, legal issues) which often leads to poor decision-making simply because the company or individual has so much time and effort invested.

Other similar risks involve buying-into a "great" site with all the other big names (typically with testimonials of strong performance) without recognizing the poor fit with your own store network. Companies must be able to step back and ask the question "Does this still make sense for us?" as the process rolls on and picks up steam. Conversely, a target area could be identified with high concentrations of in-profile customers, but no logical deployment to effectively serve them. A "compromise" site may emerge with weak site characteristics, accessibility or visible exposure—leading ultimately to a disappointing placement despite a promising trade environment.

All told—emotional investment must be balanced by critical empirical analysis.

6. Failure to recognize and capitalize on multichannel interaction

There increasingly tends to be a reflexive reliance on real estate considerations in market coverage, without sufficient consideration of the emerging relationship between brick and mortar versus online retailing. This dynamic is a recent development, and the drivers are often still in flux. The role of the physical unit is taking on new dimensions related to order pick-up, merchandise warehousing and product showrooming.

Consider these factors:

- Amazon, the 18th largest retailer in the U.S., does not employ a single store manager
- In order to evolve, the brick and mortar network has developed electronic lifelines, with varying degrees of success
- Do alternative channels cannibalize or complement the physical channel? Early indications are showing that the brick and mortar location does, in fact, drive the online interactions

Customers are showing an increasing desire to order online, yet use the brick and mortar location as a showroom, or as a point of delivery or pick-up of goods purchased online. For some categories of goods, such as electronics and power tools, showrooming presents a particular dilemma. Customers are, in effect, using their expensive real estate only for price checking and for a physical, tactile evaluation of a product, with the eventual purchase made online or elsewhere.

The 10 Common Mistakes in Retail Site Selection

Ways to identify prime locations and maximize market potential—with confidence

6

7. Competitive battle planning: stand your ground... or maybe not

The thriving presence of a competitor in a particular location doesn't necessarily mean that you need to be there as well. There is often an impulse to enter that territory and fight it out toe-to-toe, based on confidence in your ability to win business from that operator. However, this tendency may lead to disappointing results due to a failure to adequately quantify competitive impacts and relative positioning in network planning.

When one understands the relative strength of a concept and that of the competition, retailers can make better decisions on store placement. Effective modeling helps achieve this level of understanding. Adjacent, impacting and intercepting situations need to be quantified and addressed. By minimizing the subjective component of operational and merchandising evaluations, a well-designed model can literally quantify the factors, and can give important data and direction on how and why you can effectively position your sites within a given marketplace relative to your competition.

Specifically, effective modeling can help guide decisions on whether to challenge a competitor head-on or to concede a given territory. Armed with such a clear view of relative strength, predictive modeling can aid in geographic placement to serve your core target market and make these competitive decisions a predictable exercise in network planning.

8. Infatuation with form over substance in model selection

While a model solution may offer a sleek and attractive functional facade, it by no means necessarily promises to deliver an equally appropriate and reliable result for your company's decision process. It's easy to get caught up in the "wow" factor of a sleek-looking user interface, clouding your perceptions of the results that the interface delivers.

It is imperative to look closely into the model rigor and substance and the credentials of the analytic team. The field of experienced modelers for real estate predictive analytics is a small group—probably less than 100 in the U.S. can claim this expertise. The experience is forged by addressing real-world rather than academic issues confronting the retail real estate industry.

Poor modeling work, even delivered with high-efficiency and a sleek interface, will definitely compromise sound decision making.

9. The alluring market with elusive returns

At some point, most chains conclude that they need a Manhattan deployment—even if these chains had previously staked their development on a primarily suburban growth model. The allure of Manhattan, with all of its vertical density, makes companies believe that there is an opportunity for revenue and profit that often simply does not exist.

Frequently, there is also an agenda for greater national (or even international) exposure. Sometimes the calculation is not creating a store with exceptional returns, but simply the desire for a site with the exposure that Manhattan brings. This is an understandable goal, particularly for concepts related to fashion. Given the costs of entry, this can connote significant risk and retailers should proceed with great caution.

Manhattan is no guarantee of high volume performance and, even when it does often yield such performance, with wildly varying logistics, and a much higher expense structure than the balance of the chain, it is frequently a drain on profitability.

MANY OF THE BASIC ANALYTIC ELEMENTS THAT DRIVE REAL ESTATE MODELING ARE THE SAME FACTORS THAT DRIVE MARKETING.

10. Silos forever; not leveraging the real estate model throughout the organization

When attempting to disseminate insights from the real estate modeling throughout a company, proponents are often met with resistance in the form of questions on how a real estate model could possibly inform the marketing strategy or CRM.

This is, quite simply, one of the more egregious examples of how information gets “siloesd” as organizations get larger and more bureaucratic. Essentially, this means that the right hand doesn’t know what the left hand is doing, and the marketing and CRM departments end up acquiring the same types of data and analytics included in the real estate modeling process, effectively duplicating efforts, and duplicating capital expenditure.

This can be a huge opportunity for companies. Major portions of location-based forecasting systems can be repurposed throughout the organization. Customer profiles, sales distribution, trade area extents, market shares and void analyses can all be the source of shared insights. Many of the basic analytic elements that drive real estate modeling are the same factors that drive marketing. They can be extremely critical to both functions, and yet, this is often overlooked.

Proper use of real estate modeling enables improved customer targeting and provides business insights for site selection

Pitney Bowes Software offers the industry’s most comprehensive suite of retail modeling and market evaluation solutions, from powerful predictive analytics capabilities to the industry’s leading retail modeling software and data. We help retail and restaurant organizations of all sizes capitalize on market opportunities with custom or off-the-shelf solutions and support to make sure the best possible research plan is selected, resulting in the highest chances for successful deployment.

As the leading global provider of location intelligence solutions, Pitney Bowes Software has developed a unique array of market data, innovative software, display analytics, advanced modeling and service offerings for strategic real estate decisions. The world’s leading brands rely on our Predictive Analytics Services group to help select sites and markets for expansion, in-fill or deployment.

Our solutions provide the market understanding required for more profitable, fact-based decisions that justify substantial real estate investments. Our proven methodologies are supported by over 40 years of real-world successes, in-depth field experience and on-site consultations. This transparent process delivers more accurate results—for successful market expansions, site selection and network optimization decisions.

FOR MORE INFORMATION, YOU CAN VIEW AN IN-DEPTH WEBINAR ON SITE SELECTION. CALL US AT 1 800-327-8627 OR VISIT WWW.PB.COM/SOFTWARE



Every connection is a new opportunity™

UNITED STATES

One Global View
Troy, NY 12180

1.800.327.8627
pbsoftware.sales@pb.com

CANADA

26 Wellington Street East
Suite 500
Toronto, ON M5E 1S2

1.800.268.3282
pbsoftware.canada.sales@pb.com

EUROPE/UNITED KINGDOM

The Smith Centre
The Fairmile
Henley on Thames
Oxon
RG9 6AB
UK

+44.800.840.0001
pbsoftware.emea@pb.com

ASIA PACIFIC/AUSTRALIA

Level 7, 1 Elizabeth Plaza
North Sydney NSW 2060

+61.2.9437.6255
pbsoftware.australia@pb.com
pbsoftware.singapore@pb.com