Trading-Area Analysis

Location, Location, Location!!!

- Why is location so important?
  - Hard to overcome a bad location
  - Determines who you will attract
  - Long term commitment and not easily changed
  - Financial investment
  - Effects on strategy of retailer

Costly, Complex, Not Flexible

- Criteria to consider include
  - Population size and traits
  - Competition
  - Transportation access
  - Parking availability
  - Nature of nearby stores
  - Property costs
  - Length of agreement
  - Legal restrictions

If you have to move from one to another location, what kind of problems may occur?

- Some loyal customers may be lost
- Some employees may be lost
- A new site may not have the same traits
- Previous store ambiance may not transfer to new one

Choosing a Store Location

- Step 1: Evaluate alternate geographic (trading) areas in terms of residents and existing retailers
- Step 2: Determine whether to locate as an isolated store or in a planned shopping center
- Step 3: Select the location type
- Step 4: Analyze alternate sites contained in the specific retail location type

Trading-Area Analysis

A trading-area is a geographic area containing the customers of a particular firm or group of firms for specific goods or services.
Benefits of Trading-Area Analysis

- Discovery of consumer demographics and socioeconomic characteristics
- Opportunity to determine focus of promotional activities
- Opportunity to view media coverage patterns
- Assessment of effects of trading area overlap
- Ascertained whether chain's competitors will open nearby
- Discovery of ideal number of outlets, geographic weaknesses
- Review of other issues
  (e.g. transportation, supplier location)

The Trading-Areas of Current and Proposed Outlets

GIS Software

- Geographic Information Systems
  - Digitized mapping with key location-specific data used to graphically depict trading-area characteristics such as
    - population demographics
    - data on customer purchases
    - listings of current, proposed, and competitor locations

GIS Software in Action

The Segments of a Trading-Area

- Primary trading-area
  - 60-80% of a store's customers
- Secondary trading-area
  - 15-25% of a store's customers
- Fringe trading-area
  - all remaining customers
Figure 9-5: Delineating Trading-Area Segments

Destination Versus Parasite Stores

- **Destination stores** have a better assortment, promotion, and image.
- They generate trading areas much larger than competitors.
- Dunkin' Donuts: “It’s worth the trip!”
- **Parasite stores** do not create their own traffic and have no real trading-area of their own.
- These stores depend on people who are drawn to area for other reasons.

FORUM BORNOVA

Advantages of Forum Bornova location?
Which stores are destination stores which stores are parasite stores?

Trading Areas and Store Types

- **Largest**
  - Department stores
  - Supermarkets
  - Apparel stores
  - Gift stores
  - Convenience stores

- **Smallest**

Trading Areas and Store Types

- Store size ↑
- Distance between competitors ↑
- What about in populated cities???

Trading-Area of a New Store

Different tools must be used when an area is evaluated in terms of opportunities rather than current patronage and traffic patterns:
- Trend analysis
- Consumer surveys
- Computerized trading-area analysis models
Computerized Trading-Area Analysis Models

- Analog Model
- Regression Model
- Gravity Model

Elements in Trading-Area Selection

- Population Characteristics
- Economic Base Characteristics
- Nature and Saturation of Competition

Table 9-3: Selected Population Statistics for Trading Areas A and B

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Area A</th>
<th>Area B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population, 2000</td>
<td>13,732</td>
<td>15,499</td>
</tr>
<tr>
<td>Population change, 1990-2000</td>
<td>+8.2</td>
<td>+2.5</td>
</tr>
<tr>
<td>College graduates, 25+, 2000 (%)</td>
<td>41.4</td>
<td>39.2</td>
</tr>
<tr>
<td>Median household income, 2000</td>
<td>$61,236</td>
<td>$61,242</td>
</tr>
<tr>
<td>Managerial and professional occupations (%) , 2000</td>
<td>45.3</td>
<td>45.0</td>
</tr>
</tbody>
</table>

Overview

- Step 1: investigate alternative trading areas
- Step 2: determine what type of location is desirable
- Step 3: select the general location
- Step 4: evaluate alternative specific store sites

- We will discuss steps 2-4.
Three Types of Locations

Isolated Store

Planned Shopping Center

Unplanned Business District

Examples of Isolated Stores

- Large-store formats
- Convenience stores

Isolated Stores

Advantages
- No competition
- Low rental costs
- Flexibility
- Good for convenience stores
- Better visibility
- Adaptable facilities
- Easy parking

Disadvantages
- Difficulty attracting customers
- Travel distance
- Lack of variety for customers
- High advertising expenses
- No cost sharing
- Restrictive zoning laws

Unplanned Business Districts

Central Business District

Secondary Business District

Neighborhood Business District

Let’s Pin The Stores!

Figure 10-3: Unplanned Business Districts and Isolated Locations
### Planned Shopping Centers

**Advantages**
- Well-rounded assortments
- Strong suburban population
- One-stop, family shopping
- Cost sharing
- Transportation access
- Pedestrian traffic

**Disadvantages**
- Limited flexibility
- Higher rent
- Restricted offerings
- Competition
- Requirements for association memberships
- Too many malls
- Domination by anchor stores

### Location/Site Evaluation Checklist

<table>
<thead>
<tr>
<th>Pedestrian Traffic</th>
<th>Number of people</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Type of floor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vehicular Traffic</th>
<th>Number of vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Traffic congestion</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parking Facilities</th>
<th>Number of parking spots</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Distance to street</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transportation</th>
<th>Availability of mass transit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Access from major highways</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Store Composition</th>
<th>Number and size of stores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Affluent</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Specific Site</th>
<th>Visibility</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pedestrian in the location</td>
</tr>
<tr>
<td></td>
<td>Size and shape of the lot</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Terms of Occupancy</th>
<th>Ownership or leasing terms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Operations and maintenance costs</td>
</tr>
</tbody>
</table>

| Corner Influence and Hershey’s |

**Pedestrian Traffic**
- The most crucial measures of a location/site’s value are the number and type of people passing by.
- Proper pedestrian traffic count should include:
  - age and gender (exclude very young children)
  - count by time of day
  - pedestrian interviews
  - spot analysis of shopping trips

**Vehicular Traffic**
- Important for:
  - convenience stores
  - outlets in regional shopping centers
  - car washes
  - suburban areas with limited pedestrian traffic