

# Think Like a Retailer

## *What Communities Need to Know About Retail Site Selection Decisions*

Retail recruitment and retention is important to most municipalities, and as the economy continues to recover it will become even more important. While quality of life factors certainly play a role in a municipality's decision to develop its retail sector, the primary drivers are typically economic.

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### SHOW ME THE NUMBERS

Perhaps the primary driver of retail recruitment efforts is sales tax collection, which has played an important role in making up for shortfalls in other revenue streams. The U.S. Census Bureau reports that general state sales tax revenue collected across the nation totaled \$234.5 billion in 2011, and made up 31% of total tax revenue. Local governments using targeted retail attraction methods have benefitted as well. The City of Bloomington, Illinois recently saw sales tax revenue jump \$3 million dollars in the first year of implementing new strategies, and the City of Kingsport, Tennessee has seen FY 2014 sales tax revenues reach an all-time high.

Job creation is another important economic consideration for retail recruitment. According to the U.S. Bureau of Labor Statistics, retail trade is the largest non-farm employment sector nationwide. The retail sector is showing strong job growth, with a 10 percent year-over-year increase in retail jobs nationwide during the spring months of 2013. Retail supports 1 in 4 jobs in the U.S., directly and indirectly supporting over 41.6 million jobs total.

### GET IN THEIR HEAD

With all the reasons for communities to actively recruit retailers, it is no surprise that competition for retailer investment is fierce. How can a community stand out from a crowded list of municipalities vying for a retailer's attention?

The answer is surprisingly straightforward: communities that understand retail location drivers will be able to better position themselves to win new retailers and retain existing retailers.

Site selection for a store or restaurant is the most critical strategic decision a retailer has to make. Because location plays a significant role in the ultimate success and profitability of a store, retailers painstakingly evaluate many variables and potential sites before making a final decision.

How can you start to think like a retailer and position your community for retail success? The following guide, based on four insights identified in a past National Retail Federation report on the retail location process, is a good place to start:

## INSIGHT #1: SITE SELECTION IS AN ELIMINATION PROCEDURE

An average of 10 sites is analyzed for every 1 selected. The initial screening process is normally based on market potential and communities are often unaware that they are being considered or eliminated at this stage.

### The Strategic Community Response:

- *Define trade areas the way retailers do.* There is a gap between how most communities and retailers define their trade areas. In order to effectively present a location for consideration, you need to speak the retailer's language. Ring studies, license plate surveys, customer-level data analysis, and drive-time analysis are all ways to define a trade area the way retailers do – with the most impactful being drive-time analysis.
- *Market your community's generators.* Retailers often need to be near generators (big box stores, malls, downtown areas, etc.). Make it easy for them to find the best location by preparing materials with traffic counts/traffic flows, workforce concentrations, and transportation hubs.
- *Acknowledge existing competition.* While it may be tempting to hide references to existing stores, it's actually best to outline the locations of competitors. The retailer will appreciate this as it may present clustering opportunities, which drive sales.



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## INSIGHT #2: FINDING SITES WITH GROWTH OPPORTUNITIES IS A STRUGGLE

Finding retail sites that capture all available traffic, yet minimize cannibalization to existing stores, is difficult. Most rejections at this stage are due to access or visibility concerns, and real estate and energy costs – factors that communities have little, if any, control over.

### The Strategic Community Response:

- *Show them their customers.* Retailers looking for growth opportunities need to be near people who are either existing customers or match the profile of existing customers. Make it easy for them by having consumer profile information available on your citizens. Components to include are geographic variables, demographic variables, interview and survey results, and a segmentation analysis covering both psychographic and lifestyle characteristics. Segmentation analysis is especially powerful, as it shows the differences that exist between two people who have the same demographics but completely different shopping habits.

- *Show them the opportunities by day, and by night.* Daytime population is an incredibly important variable for expanding retailers because people tend to shop near where they work. Restaurants in particular rely heavily on daytime population concentrations as a predictor of success. While few communities have the dramatic daytime population swings of Manhattan, where the population nearly doubles from 1.6 million to 3.1 million during work hours, the impact of daytime population on local businesses can still be significant.
- *Show them the unexpected opportunities.* Many large-footprint retailers have started experimenting with smaller-footprint concepts. This presents tremendous opportunity for communities to recruit new grocery stores and big-box chains to areas that previously would have been considered unrealistic, like the Target and Wal-Mart stores opening in highly urban downtown areas across the country.

### INSIGHT #3: SPEED TO MARKET IS CRITICAL

The countdown clock for time to market starts when a property is acquired and ends when the store opens for customers. Any time shaved off the process goes directly to the bottom line. One company reported that the costs saved by cutting 15 months from the permitting process

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paid for the new store's construction. When you add up the time required to select a site (typically 6-12 months) and prepare it for business, the investment for retailers can be substantial.

#### The Strategic Community Response:

- *Take control of the compliance process.* Communities can do themselves a huge favor by using their control over compliance requirements to attract retailers. Lengthened permitting processes, time-consuming zoning and regulatory requirements, and restrictive regulations are compliance nightmares that can result in a community being screened out and another community selected.
  - *Prepare ready-for-business sites.* Assembling sites and making them available for immediate development is another way communities can shave time off the retail recruitment process. Making the investment to ensure these sites are clean, safe, and well-lit also goes a long way in attracting new retailers.

### INSIGHT #4: SITE ECONOMICS IS EVERYTHING

Site economics refers to the ability of a store at a given location to support the costs of land, building or rent, equipment and inventory, and to provide an acceptable profit and return on investment. Retailers calculate an ROI, factoring in their company-specific hurdle rate, to compare sites under consideration. At this stage in the process, specific locations are either given a green light to proceed, designated for more analysis and negotiations, or eliminated from consideration.

## The Strategic Community Response:

- *Prove your market potential.* It's not enough to talk about the intangible qualities of your community. Think like a retailer and present them with fact-based research to back up the argument that your community is the right fit for their brand.
- *Use incentives wisely.* Incentives have long been popular tools for economic development, with the New York Times estimating that \$80.4 billion in incentives are awarded in the U.S. each year. However, incentives come with tremendous risks as well, and must be carefully developed, implemented, and monitored. Communities can minimize the risks of incentives by defining public purpose and eligibility criteria, doing due-diligence, conducting cost/benefit analyses, requiring a performance contract, and monitoring both the company and contract.

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## BEAT THE ODDS

To attract new retailers, you have to think like a retailer. Understanding the importance that retailers place on site selection will help your community gain a competitive advantage and improve the odds of being the 1 in 10 selected for a new store.

## ABOUT THE AUTHOR

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