P08 – Where?

E352 – Retail Logistics

Selection of Retail Location (Area)

- Evaluating a specific area (6 factors)
  - Economic Conditions
  - Competition
  - Strategic Fit
  - Operating Costs
  - Economics of scale from multiple stores
  - Cannibalization

Selection of Retail Location (Area)

- Economic Conditions
  - Setting up a shop involves long term commitment of resources
  - An area with population that is fully employed will they have a higher purchasing power
  - Also must consider the economic growth of the area, how long will it continue and how does it impact the merchandise sold
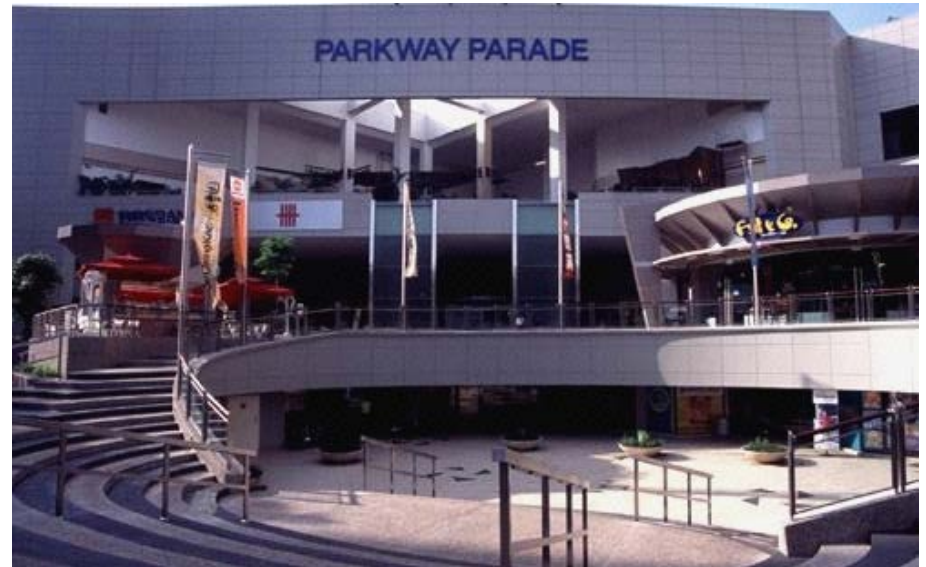
Selection of Retail Location (Area)

- Economic Conditions (Cont)
  - Does the area has a diversity of economic activities?
    - If the area depends on only one economic activity, and if this industry falls, the economic in that area will also fall, and this will impact your retailing business.
  - In most cases, areas with large and growing population are preferred to those with declining populations.

Selection of Retail Location (Area)

- Competition
    - Competition clearly affects a retailer.
    - Setting up in areas that do not have shops that sells similar merchandise will see no competition.
    - Eg, our neighbourhood shopping centers.
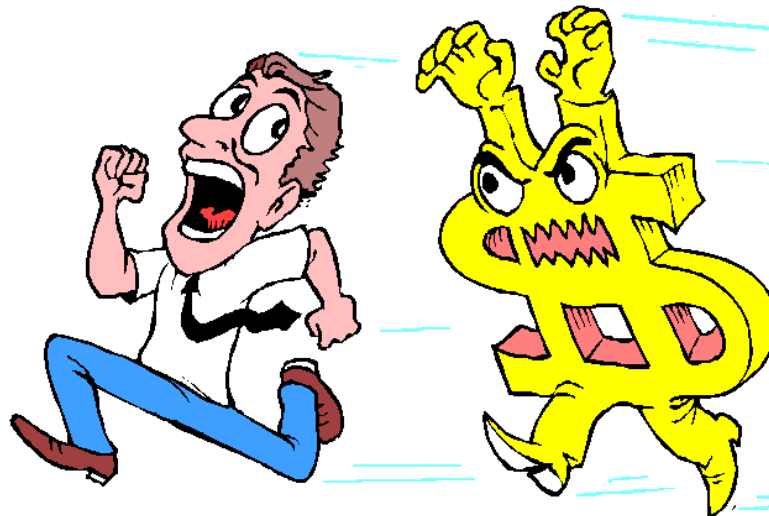
Selection of Retail Location (Area)

- Strategic Fit
  - After considering the economic conditions and competition:
    - Retailers also need to make sure that the consumers in the area are of their target customers.
  - No point setting up a shop in a place where there is a large population, with good economic and no competition but selling something that the population are not interested in.
  - Therefore the area must have the right demographics and lifestyle profile that suits the products that the retailers are selling.

Selection of Retail Location (Area)

- Operating Costs
  - Rental
    - Different location will have different rental cost.
    - Usually places with denser population will demand for a higher rent.
  - Close proximity to distribution centre
    - Being close the your distribution centre will mean shorter distant travelled. This will save on the cost of shipping.

Selection of Retail Location (Area)

- Operating Costs (cont)
  - Legal and regulatory environment of area
    - Laws can also impact operating cost.
    - Examples,
      - Areas that have laws that requires employers to pay OT even for managers
      - Have laws that dictates minimum wages
      - Environment that makes it very easy for employees to sue employers
    - This examples will raise the operating cost and retailers may not like these places.

Selection of Retail Location (Area)

- Economics of scale from multiple stores
  - Having multiple stores in the same area will help to reduce promotional and distribution cost.
    - Eg, having a newspaper advertisement for 20 stores in the same area will cost the same as running the same advertisement for 1 store.

Selection of Retail Location (Area)

- Cannibalization
  - Having store too near to each other will cause cannibalization.
    - Customers from that patronise shop A now patronise shop B although there are the same retailer.
  - So what is good about have shops close to each other?
    - If the sales volume is big enough, have shops close to each other will reduce congestion in the shops and customer will feel more comfortable shopping in a less congested shop.
    - It also makes it more difficult for competitors to enter the area.

Selection of Retail Location (Site)

- After the area is decide, the retailer must now select the site in the area.

- The site characteristics that should be considered are as follows:

    - Traffic Flow and Accessibility

    - Location Characteristics

    - Restrictions and Costs

Selection of Retail Location (Site)

- Traffic Flow
    - Most important factor affecting sales
    - Is about the number of people and vehicles passing the site
    - The greater the traffic the more customers are likely to stop and shop.
    - Note that more traffic is not always better
        - If the traffic is so much that it causes congestion, Customers may not want to come

Selection of Retail Location (Site)

- Accessibility
  - As important as traffic flow
  - It is about the ease of customers getting to the shop.
  - Sites located near major highways, on uncongested highway, with proper roads and lanes leading to the site give good accessibility.

Selection of Retail Location (Site)

- Accessibility (Cont)
  - Barriers are against accessibility
    - Natural barriers
      - Rivers, mountains
    - Artificial barriers
      - Railroad
      - Limited access highways
      - Parks
  - Barriers will impact the site but it depends on the merchandise and service provided.
  - If the appeal is strong enough, customers will cross the barriers to come to the site.

Selection of Retail Location (Site)

- Location Characteristics
  - These is further split into 3 areas:
  - **Parking**
    - No parking or parking too far from store will discourage customers to come
  - **Visibility**
    - Refers to customer's ability to see the store from the street.
    - Good visibility is less important to stores with well established and loyal customers, but most stores still wants good visibility.

Selection of Retail Location (Site)

- Location Characteristics (Cont)
  - **<u>Adjacent Tenant</u>**
    - Locations with complementing, as well as competing adjacent retailers, will have a potential to build up traffic.
    - This give convenience to shoppers.

Selection of Retail Location (Site)

- Restrictions and Costs
  - If the rental is so high that it does not make economic sense then of course you will not choose the site
  - Some sites may have restriction on the types or number of the some kind of retailers

Huff Gravity Model

- Where

  - P_{ij} = Probability that customer *i* shop at location *j*

  - S_j = size of the store at location *j*

  - T_{ij} = Travelling time for customer *i* to get to location *j*

$$P_{ij} = \frac{S_j / T_{ij}^{\lambda}}{\sum (S_j / T_{ij}^{\lambda})}$$

Huff Gravity Model

- λ reflects the relative effect of travel time versus store size.

  - $\lambda = 1$ means store size and travel time have equal but opposite effect.

  - $\lambda > 1$ means travel time has greater effect

  - $\lambda < 1$ means store size has greater effect

  - Generally, travel time is more important for convenience store as compared to specialty shops, thus a greater value of λ will be assigned to convenience store.

Suggested Solution

- There are 6 factors to consider when selecting as area.

  - May not need to consider cannibalisation and the economics of scale factors as currently there are no All Have in the area.

  - Will need to consider the other 4 factors.

- After deciding on the area, Joanne will have to decide on the exact site.

  - All the site selection factors are important and must be considered.

  - For example visibility, as shown in the video, out of sight , out of mind. This will impact sales.

Huff Gravity Model

- Based on concept of gravity
  - The bigger the store the stronger the pulling power
  - The further away, the lesser the pulling power.

Suggested Solution

Assume $\lambda = 2$

- *Convenient store, distant is important, so λ must be greater than 1*

Probability of sales site A from Clementi	0.38
Probability of sales site A from Jurong	0.50
Probability of sales site B from Clementi	0.29
Probability of sales site B from Jurong	0.45

Suggested Solution

- Site A Potential Sales
  - $0.38 \times 35\text{mil} + 0.5 \times 22\text{mil} = 24.3\text{mil}$

- Site B potential Sales
  - $0.29 \times 35\text{mil} + 0.45 \times 22\text{mil} = 20.2\text{mil}$

- Based on Huff Gravity Model, **Site A** is a better site as it has greater potential sales.

Learning Outcomes

- Explain and apply the factors affecting the selection of an area

- Explain and apply the factors affecting the selection of a specific location

- Application of the Huff Gravity Model