

Class Five: Theories of Retail and Identifying Retail Niches

- I. An Important Beginning for Economic Analysis of a Business District is Assessing its Existing Economic and Business Base. This analysis services several purposes:
 - Marketing of the district by helping to define who the customers are, where they may come from, and what draws them to the district
 - Identifying target niches and types of for business expansion and new businesses
 - Defining the districts special characters and strengths
 - Can also help assess opportunities and set an agenda for business technical assistance and employment development
 - This class focuses primarily on the supply side of the analysis—existing business base, what it offers, how it interacts with the market. Next class focuses on the demand side.
- II. Analytic Process is an Integrative One the Draws on Several Information Sources:
 - Inventory of Existing Businesses and Economic Uses
 - Analysis of Secondary Data Sources
 - Customer Surveys
 - Interviews/Surveys of Merchants
 - Comparisons with Nearby/Competing Business Districts and Shopping Centers
- III. Retail is a Critical Component for Most Business Districts, both as a primary economic activity and attraction for people to come to the district. Thus, it is important to understand the factors contribute to successful retail center. Retailing is different from other types of businesses in that it requires attracting consumers and sufficient customer traffic to be viable. Retail businesses won't succeed if they can't attract customers and their ability to attract customers is not simply a function of their own business; it depends on their inter-action with other businesses in their district. I learned this lesson the hard way as a lender to a shopping center in Fall Fiver: Flint Village Plaza. Andy Waxman's Thesis provides a useful framework. He applies four concepts:
 - Retail Linkages—the notion that shoppers seek to reduce shopping trips by complete multiple tasks in each trip. When a shopping district allows customers to complete multiple tasks, it has stronger appeal to customers. Can help to identify related business types for expanding a district's economic base. What are logical linkages to what is there now?
 - Anchors –not all stores are created equal; some have a much greater capacity to draw people to a district. Typically a function of size and diversity of product offerings. Traditional anchors are grocery store, and department stores. Urban neighborhoods also may have non-traditional anchors, e.g, Community Health Centers. Anchors attract shoppers, generate traffic that benefits other businesses. Several factors contribute to why a businesses functions as an anchors: its size, extent of advertisting, goods and services that draw a lot of customers. Implication –having one of more anchors is vital to a business district; need to attract and/or develop anchors.

- Convenience vs. comparison shopping. Shopping patterns and market potential differs for convenience goods versus comparison goods. Convenience shopping stores will draw from a limited market area. Minimize competition among comparable convenience goods stores. Strong comparison shopping areas can serve a larger market area and draw more shoppers—One of the most misunderstood things about retail. For some types of retailing—comparison goods, entertainment, more stores are better, they will attract more customers and generate more sales. Small retailers, however, often look at new stores of the same category as competition.
- Market Demographics and Segmentation. Shopping preferences and spending varies by demographic groups across multiple dimensions: age, income, gender, race/ethnicity, education, etc. Increasing demographic segmentation of markets by retailers. Retail stores and mix in a district should target and seek to match the shopping preferences of demographic groups in its market area. Issue of targeting drawing multiple demographic segments versus targeting one or two. Targeting certain segments can hurt your ability to target others: issues in Upham’s Corner, Tourists vs. residents in rural areas.

One implication of these theories is that retailing is based on agglomeration. Larger concentration of stores draw more shoppers and generate more sales. This is true both for convenience retail (e.g. convenience linkages and comparison shopping). Importance of generating a critical mass of stores/activities and scale of retailing for a district to be healthy.

IV. Additions to this Framework:

- Business districts can draw people for other purposes: social interaction, community space, leisure/entertainment activity. Important to incorporate these roles into the district and not simply think in a function way to expand retail activity. Effectiveness of district in these other realms can enhance its retail economy.

V. Related Concept of Retail Niche. Notion that downtowns/retail districts succeed by specialization, by serving certain specialized segments or niches that can be defined either by the product/service category or by the customer segment served. The role of niches and specialization has increased in importance with increasing retail competition, especially with the growth mass merchandising (e.g, Walmart, K-Mart, Target).

VI. Analysis Process and Tools:

- Secondary Data Sources and Classification Systems.
 - Data source: establishment versus household based data, geographic level of aggregation, scope, sample versus census
 - Classification systems: SIC and NAICS. Problems with shift to NAICS
 - Major economic data sources: ES-202 Series, County Business Patterns, Economic Census, Current Employment Statistics (CES), private sources
 - Limited availability of neighborhood-sub-municipality data: CBP Zip Code based data, private data sources.
 - Time-lag in compilation and among of change in urban areas
 - Example of CBD Zip Code Data

- Business Inventory—Best way to get current information and a richer sense of local business mix.
 - Visual inspection/survey of district, occupied spaces, and businesses
 - Collecting data from landlords/property owners
 - Data to collect: type of business (how to classify), address/location, square footage are key information to collect
 - Look for and think creatively about retail linkages, inter-related products/services and common themes, common demographic segments
 - Look for sub-district clustering and themes, especially in larger districts.
 - Identify anchors, convenience versus comparison segments.
 - Example of data from a district
- Customer Surveys:
 - Intercept versus telephone.
 - Helps identify anchors and primary economic uses and draws
 - Confirms trade/market area served
 - Helps identify competing area for different goods and services
 - Identify under-served product or customer segments, e.g., home furnishing stores in Brattleboro study
 - Can help identify different customer segments served
- Merchant Interviews/Surveys
 - Identify/confirm trade/market area
 - Identify demographic segments served
 - Uncover retail linkages
 - Perception of key anchors and draws
 - Data on store sizes and rents
 - Awareness of niches, markets served and strengths
- Comparison with nearby districts and shopping center.
 - Based on secondary data and visual inspection
 - Evaluate relative size and strength of district overall for different store/product categories
 - Identify geographic markets to target and strongest niches

VII. Integrating the Analysis

- Describe Primary Economic Uses and their Role in District
- Identify major anchors and uses that draw customers
- Relative importance of convenience and comparison retailing
- Components and potential gaps in convenience retail
- Major comparison shopping niches, their size and strength
- Key customer/demographic markets served and not served
- Opportunity for new businesses and growth—expansion of existing niches, related niches, convenience retail gaps, un-served markets