Getting More Fact into Fact-Based Location Decisions

A summary of selected best practices for putting more objective, relevant, consistent metrics to work for you when it comes to sizing up location opportunities.

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Having witnessed the challenges, approaches, and variability associated with the attempts by many brands to size up new location opportunities over the past couple of decades, this is certainly an area in which leaders are seeking ways to get an edge and know it will probably come from better deployment of data, analysis and technology. In this paper, what we're focused on are the typical scenarios that leaders of growth for strong organizations face. You know a good site when you see one already and don't need the fiftieth version of what attributes to seek. You're not quite ready to overhaul your processes and systems for the ideal long-term decision support capabilities just yet. You're in a comfortable routine and relatively satisfied with how decisions are made, perhaps with a few more locations going sour than you'd like over time and some things taking longer than they should.

1. Recognize the common pitfalls

It's one thing to start with the pool of all retail developments out there and take the time to recognize the select few that have just about everything going for them. That's where just about everyone in the industry is competent. It's quite another to face the inevitable situation where the opportunity at hand isn't quite at that intersection targeted, doesn't have that great site position anticipated and comes at a much higher than expected cost. Or perhaps there are five comparable opportunities and you are only choosing two of them. Well, a good starting point is merely the recognition of the common pitfalls others have experienced when faced with these challenges. Not to imply that this is the norm or even the most commonly occurring, but here are several of the key issues we've witnessed:

a. Placing too much focus on the best existing locations as benchmarks: As with most of these cases, the logic is compelling. That superstar we opened in Suburb X a year ago is earning two-and-a-half times our average store and we think we know why. So we can simply compare and contrast opportunity Y with that location and it's irrelevant how many other locations in similar markets are doing poorly. This logic isn't actually faulty. But in practice, there are too many pieces of critical decision support coming from the other locations that don't necessarily apply to that one over-performer, the case is extremely special, and the decision-makers somehow tend to downplay what are very significant discrepancies between the benchmark and the opportunity at hand.

b. Relevant supply and demand conditions are unfavorable: To grossly exaggerate this scenario, this would be described as the "lure of shiny objects", where excess emphasis is placed on the visuals associated with some thorough on-site fieldwork and only a quick "check" on selected demographics is made. When combined with other high profile retailers securing space in the attractive new development, the term we've heard frequently, "We've got to be there" often results. Sometimes the anxiety is warranted. But often the key driver of unexpected poor performance when these opportunities later unfold surrounds a proper assessment of supply and demand. For example, when one calculates the households really in the brand's target market, takes into account their accessibility to the location properly, and thoroughly assesses the level of direct competitive intensity involved, the pieces of pie to go around are simply smaller than expected. Merely assessing the on-site number of competitors and grabbing some population and average income figures for a large area around the site may not reveal these conditions.

c. Inconsistent assessment methods: Without proper processes in place, including the establishment of widely-supported scoring methods, automation, transparency, sufficient demand for in depth objective justifications, etc., organizations tend to rely even more on gut feel and case-by-case discussions of the information collected. The results are inevitably better processes and formulas for some opportunities versus others.

d. Believing that near the target location = nearly as much sales potential: It's true that a block away from that ideal location may still largely capture the trade area involved and still position you well when it comes to covering the market. But even that distance can have a dramatic impact on many key factors impacting sales potential - proximity to other retailers, traffic volumes, positioning versus competition, various site quality factors, etc. As a result, the same thoroughness needs to go into the location's assessment as was done to identify the nearby target location. You may find that one block away = 30% less sales potential!

e. Competing incentives: In some cases, an organization may reward those heading location growth based on volume of openings (deals that get done) and this can lead not necessarily to careless promotion of bad decisions, but leaning excessively toward the positive aspects of opportunities. What makes this more challenging is the fact that better development leaders will be more capable of generating higher volumes of openings when all else is held equal. So it's a natural "KPI" that's monitored for evaluation purposes. This is potentially a complex issue. As the development leader, being assessed on volume, especially when decisions aren't assessed carefully after the fact, any explanation outside of the decision-making processes are accepted, and extensive objective justifications are still not demanded for decisions, it can be an attractive environment. The point that can be made, though, is that you should expect this kind of scenario to shift in the next few years if it hasn't already, where more and more attention is placed on the business cases, the development leader's ability to avoid bad openings with good decision-making processes and methods to evaluate the functions themselves.

f. Condensed criteria deployed for targeted location plans: In many organizations, annual location plans will naturally come into the decision-making processes for the opportunities at hand. So if those "parent" processes aren't sound, it sets the stage for this next type of pitfall. We often see cases where detailed information about retail developments that have been experiencing frequent leasing opportunities is overlaid on market maps to compare against demographic information as a means of location planning. In the most severe cases, developments recommended by one broker are plotted on top of maps depicting one or two demographic statistics such as average income levels. Developments deemed attractive that are also located where these demographic statistics are favorable are identified and discussed as groups. This is certainly one good process to incorporate, but it just isn't enough...by a long shot. It can lead to quick acceptance of leasing opportunities when the locations are in or near these targets. However, a large array of important factors are underemphasized or omitted altogether. Again, relevant supply and demand conditions, traffic volumes quantified correctly, positioning versus shopping activity, thorough assessment of target consumer profiles, etc. have to go into the planning processes themselves.

g. Equating missed opportunities with the plague: OK that's overstating it, but there often tends to be a mindset that if a given opportunity is turned down that the organization could have had and another party comes in and performs surprisingly well, it's a disastrous failure. The way to avoid it for many? Just don't pass on anything that **might** fit this scenario in which "we get burned". Even though an ill-advised opening continues to haunt the organization's books for the very long-term, somehow that isn't given as poor a grade as "the one that got away". Recognize that the funds are still available for that next even better "free agency" opportunity.

2. Rid the Mindset that Fieldwork, local knowledge, and intuition <u>compete</u> with science

This is where many articles recommend the attempt to "complement" your decision-making efforts with the right data, models, analysis, etc. versus choosing between the two sides and end it there. But you already know that's the ideal scenario. The "me versus the system" mindset continues to thrive based on at least a couple of traditional limitations that have prevailed. First, more often than not, the metrics and/or models deployed typically aren't sufficiently comprehensive and well-designed to do the job effectively. So as these resources continue to provide questionable inputs, increased reliance on the non-scientific naturally builds. Secondly, it's fairly difficult to turn subjective site quality conditions into quantities in a manner that allows them to be integrated with other data. These things CAN be overcome, though, and in fact doing so effectively is a reality these days. This demands several additional articles to outline, but for now the message is to continue to seek out ways to better **combine** your relevant subjective and fact-based information.

3. Assess formulas for forecasting sales

Too often, we've seen organizations - even the largest, most reputable ones - establish innovative ways to combine quantitative information into some form of acceptable "scoring systems" but fail to adequately validate them using their existing locations' performance levels. If it's an effective formula for forecasting sales, a great test isn't whether or not Judy, Frank, and Carol think it seems reasonable for the opportunity at hand, but how well it would have worked using your last 20 openings or your entire set of locations. Almost with no exceptions, the degree to which such formulas explain the recent sales of existing locations involves dramatic inaccuracy if the formulas weren't originally calibrated with your sales history. If that hasn't been tested, it's an easy thing to have an analyst within your organization do one afternoon and is highly recommended.

4. Know what data is really out there

When it comes to location decisions, having key pieces of information missing or having any misunderstandings about them can hinder your effectiveness. Here's a list of some (but not all) of the useful sources out there. As a minimum, becoming familiar with these market data sources should be achieved:

- Census-based demographics
- Competitor locations
- Current-year demographic estimates and future-year projections
- Vehicle traffic volumes
- Shopping centre locations and attributes
- Daytime population estimates
- Business locations
- Consumer expenditure estimates
- Survey-based data on consumer attitudes, behaviors, product usage, etc.
- Neighborhood lifestyle segmentation systems
- Geographic reference data (boundaries, postal codes, satellite imagery, etc.)

5. Demand the right figures from your service providers

This is one of the simplest actions highlighted in this paper, but we still continue to see organizations accept simple, default pieces of data (for example, wide-area population and income figures for a given leasing opportunity) offered by service providers. In some cases, especially if you're paying for it directly, more comprehensive and specific metrics can be offered at no additional cost if they're simply demanded by the client. If you'd like the population aged 20 to 34 living within a 5 minute drive, don't settle for the total population within 15 kilometers.

6. Deploy multiple forecasting methods

As wonderful as that one formula is in helping you assess locations - and yes, it is a huge strategic advantage if it's predicting well for you - use it as merely one key input out of many for your decisions. This can include methods based on comparison to your existing locations that most closely match the conditions faced for the opportunity at hand, applying a more "generalized" scoring system that covers a range of market factors, some way of capturing your fieldwork-based assessments quantitatively, and innovative ways to incorporate "stakeholder voting" types of inputs to name a few examples. Keep it limited to the few most effective methods but take what each has to offer in arriving at your own final sales predictions for the location opportunity at hand. One formula should never go directly into the business case template unless you're trying to size up many locations efficiently at one time.

7. Track your decision-making processes over time and adjust

As decisions are made, it's important to keep track of how they were made over time in sufficient detail. Few do this well, with the extra efforts involved in an already very hectic schedule being one of the biggest reasons. The insights resulting and your ability to adjust to them are just too valuable, though. Most often there are patterns that emerge that can be corrected only when identified through this process. "Bob always over-estimates the sales potential of small-town locations." "We're continually surprised at how many more competitors open in the same development versus what we predicted." Done right, these methods don't need to even make anyone look bad. They represent money on the table in the form of improvements over time. Take advantage.

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To reference this paper, simply use "Market Forté's Smarter Growth Series of Whitepapers" where the publication name would normally go.