



# **The Intelligent Approach to Retail Site Selection in a Challenging Economy**

*A Mapping Analytics Executive Brief*

## **The Intelligent Approach to Retail Site Selection in a Challenging Economy**

Given the pressure on the retail industry during challenging economic times, no retailer can afford to make a costly mistake about where to place its next store or group of stores. When consumer spending slows, underperforming stores begin to close. The landscape is littered with failed store locations — from clothing chains to restaurant concepts, coffee houses to home furnishers.

The fact is, most retailers today perform some type of analysis to quantify the potential success of proposed retail locations and to avoid poor locations. At a minimum, retailers will perform visual analysis by creating demographic maps and reports around proposed locations, and will interpret the results to form a logical conclusion. They may look at demographics such as income, age, population density, as well the location of other stores and competitor units.

While this visual analysis approach has some merit, it may not be enough to ensure profitable locations, whether the economy is up or down, but especially now when every customer is precious. Using only visual analytics and a Geographic Information System (GIS), the retailer may not know which demographic variables are the key indicators of a store's success or failure. In addition, there are many other factors beyond demographics and existing store and competitor locations that determine the success of a proposed location.

### **Predictive Analytics Adds Accuracy and Efficiency to Site Selection**

To account for all factors impacting the performance of proposed retail locations, and to make accurate sales forecasts, many successful retailers use predictive analytics.

Predictive analytics is the process of applying statistical algorithms to identify and analyze the most important factors affecting site performance. These factors include demographics, work place information, consumer expenditure data,

segmentation data, customer data, real estate site attributes, existing stores, competitor units and more.

Predictive analytics offers a significant leap in the accuracy and confidence levels over simpler visual analytics that use only GIS and data. Predictive analytics provides answers — not just information that must be interpreted and can result in error.

### **Advantages of Using Predictive Analytics**

Retailers that use predictive analytics can gain three big advantages over those that don't:

- Develop proactive, long-term store network growth strategies that maximize coverage and potential within markets, as opposed to looking at expansion on a site-by-site basis.
- Quickly make decisions about prospective sites by relying on fact-based, standardized site analyses using a consistent set of the key criteria affecting store performance.
- Eliminate the time-consuming effort of creating maps and reports for individual locations by deploying an automated system that compiles pertinent information into an understandable, actionable format for decision makers.

### **A Building Block Approach to Predictive Analytics**

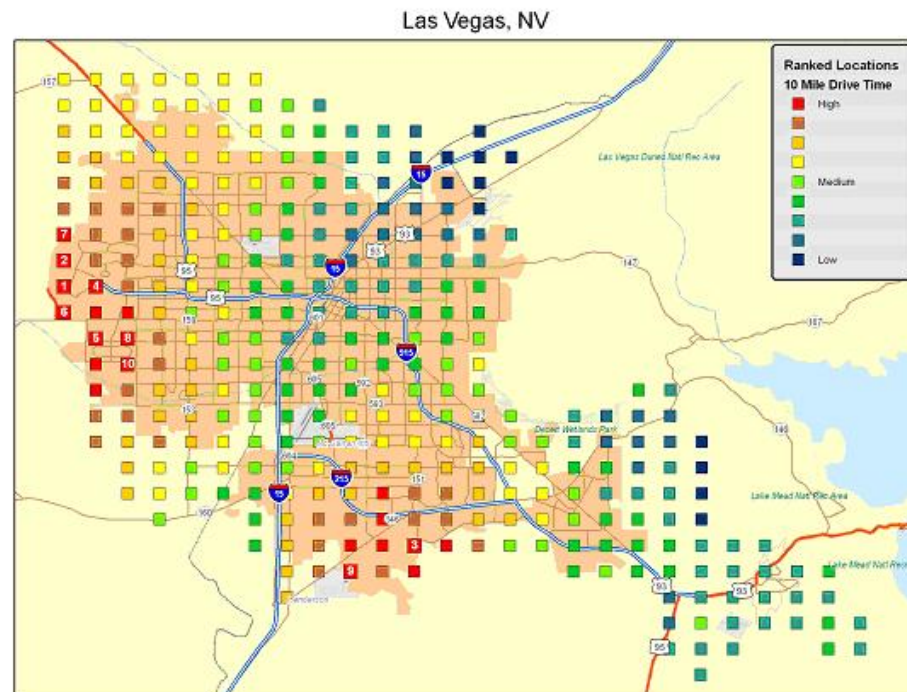
Within predictive analytics, a retailer can perform several levels of analysis, implementing a “Building Block” approach that adds levels of analytic sophistication to match your expansion goals, available data, and current store network.

At all levels, predictive analytics starts by identifying the key criteria that are most indicative of a retailer's potential for success, and then builds a database of those criteria that is used to evaluate locations. Key criteria are typically the 10-20 variables out of a field of more than 1,000 available ones that most accurately project the success of a location.

“Cliff” criteria can also be added to the model. Rather than analyzing only those factors that indicate the success of a store, cliff criteria define a group of factors

most indicative of a store’s potential for failure. Cliff criteria explain why some stores are laggards. Its name comes from the scary prospect of “sales falling off the cliff.” Cliff criteria may include demographics, real estate site attributes (ingress, egress, signage, parking, etc.), the presence of competitors or other factors.

*Predictive analytics allows you to rank areas within a market area, quickly spotting places with highest potential (in red).*

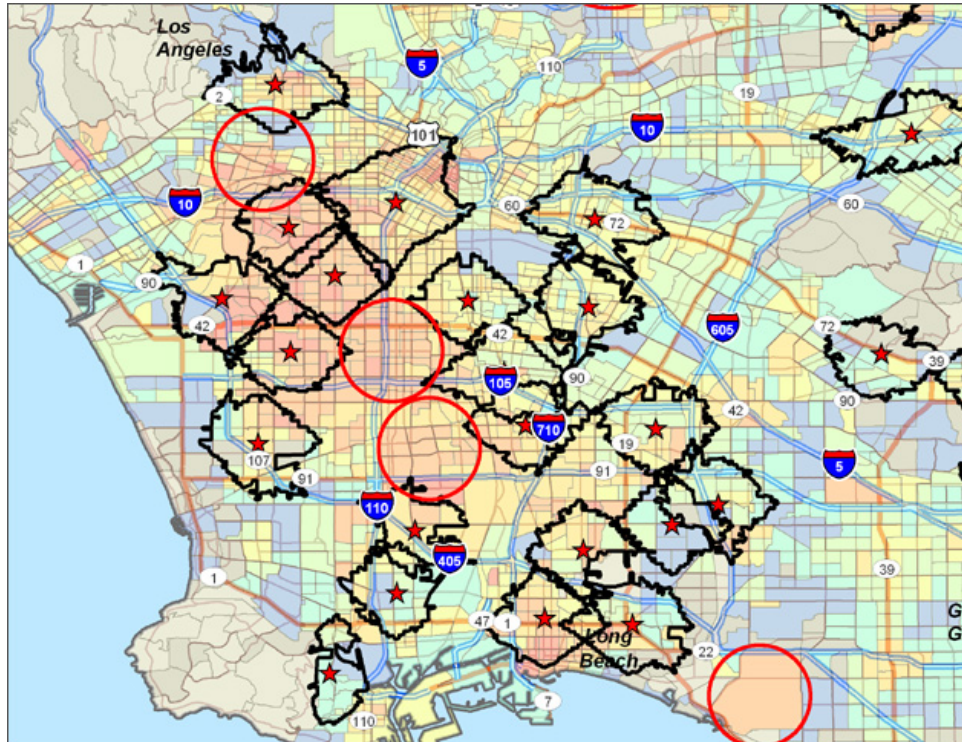


### Site Screening and Sales Classification Models

Once key criteria and cliff variables are developed and incorporated into a model, the retailer might deploy a site screening tool that provides a quick “pass/fail” grade for a proposed location, depending on which side of a success threshold a location falls on.

A retailer also could deploy a sales classification model that assigns a proposed location or area into one of several buckets, such as Exceptional, Above Average, Average, Below Average, or Fair. Sales classification goes beyond screening to provide a basic level of ranking.

*There may be untapped potential in markets where you already have a significant presence. Trade areas for existing stores (in black) reveal gaps in market coverage (red circles).*



### Sales Forecasting Models

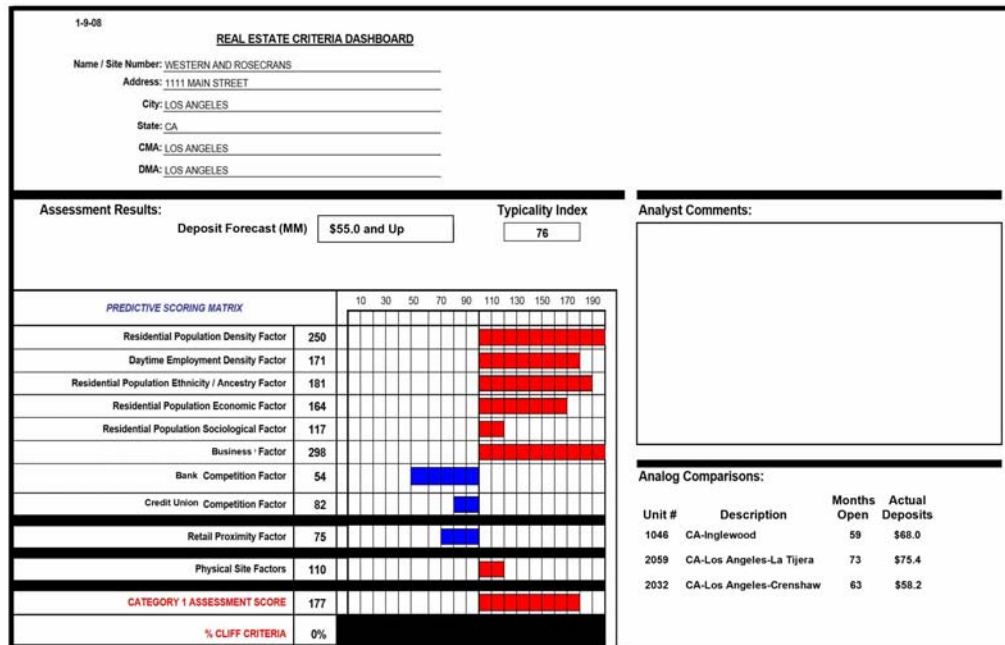
Retail operations with at least 60-70 stores need more robust tools that include customer data as an input into their predictive analytics model. Customer data allows you to create trade area boundaries around store locations. You can then analyze the trade area to more accurately estimate the number of potential customers and sales forecasts for new locations.

An added level of accuracy would include a store network evaluation along with the sales forecast. In this case, the impact of a potential new store on existing stores is taken into account. For instance, a new store may show good sales potential, but if it gets a high percentage of that potential by cannibalizing sales of other stores in your network, it's probably not a good location.

The most sophisticated predictive analytics approach provides a sales forecasting and network optimization tool. This type of tool identifies and ranks potential locations in a market, allowing you to determine the number and location of new

units that will lead to maximum market coverage; in other words, until the market is saturated. Retail expenditure and consumer segmentation data are typically part of network optimization models.

*A dashboard solution offers sales forecasting and comparative intelligence to decision makers.*



### Which Predictive Analytics Approach is Right for You?

Whether you need a site screening tool or a network optimization model, the key is to begin developing predictive analytics Building Blocks. Whatever the state of the economy, implementing predictive analytics in one form or another will help ensure you select sites that offer both immediate and long-term growth potential.

The best way to get started is to engage in a conversation with potential vendors who have expertise and experience creating predictive analytics solutions for retailers. The right partner can help you identify the appropriate level of analytics to match your objectives.

How you implement predictive analytics is another important decision. It is often driven by the retailer's size, internal resources, and time-frame for deploying a solution.

The three implementation methods are:

1. A retailer's internal modeling team procures the data manipulation and geographic tools required to build and deploy a model. This method requires less investment in analytical support than alternative methods but requires a larger and more experienced network planning team. When completed, this method can deliver fast, accurate answers, but to complete a deployable model may take a year or longer.
2. A retailer acquires a tool set that incorporates a model developed exclusively for them by an external analytical vendor. A retailer's internal resources are required for an initial data transfer and defining a successful store; the "heavy lifting" required to develop a solution is subsequently completed by the external team. This type of application can typically be deployed at a client's site within 3 – 4 months.
3. A retailer partners with a vendor who develops a model that is stored and run at the vendor's location. The retailer works with the vendor each time a network decision is required. This method eliminates the need to use an internal tool, but results in increased decision-making time caused by the "back-and-forth" between the two firms.

### **Benchmarking Performance of Existing Stores**

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An additional advantage of predictive analytics is that you can benchmark the performance of existing operations and stores. The intelligence provided by predictive analytics allows real estate and marketing departments to answer the following questions:

- Is a low-volume or lagging store in a bad location? Or are we not operating or marketing in a manner consistent with the area's potential?
- Should a unit be moved because the underlying composition of the trade area has changed? Or should it be remodeled to increase market share?
- Are there sub-areas within a store's trade area where we are not penetrating even though the area offers our target customers? If so, how do we effectively reach them?

- Are we rewarding store managers commensurate with their performance?  
For example, while manager A may operate a store that is below chain average and therefore does not receive a bonus, he may be exceeding his unit's capacity by 15%; while manager B whose unit is well above chain average is actually underachieving potential by 25%.

### **About Mapping Analytics**

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Mapping Analytics offers analytical consulting, software and data to help businesses profile customers, accurately assess market opportunity, plan territories, and select successful retail and franchise sites, helping contribute to overall growth and profitability for our clients.

To learn more about Mapping Analytics, please visit [www.mappinganalytics.com](http://www.mappinganalytics.com) or call toll-free (877) 893-6490.