

How to Choose a Retail Location

Written by: Women's Enterprise Centre

Location has a profound effect on the entire business life of a retail operation.

This article provides site selection criteria and questions you must answer before making the all-important choice of store location.

The first step in choosing a site takes place in your head. Before you do anything else, define your type of business in the broadest terms and determine your long-term objectives. Write them down. This exercise will help you later on.

In picking a site, many storeowners believe it's enough to learn about the demographics ('people information,' like age, income, family size, etc.) of the population, about the kind of competition they'll be facing, and about traffic patterns in the area they're considering. Beyond a doubt these factors are basic to all retail location analysis.

However, once you've spotted a tentative location using these factors, you've only done half the job. Before you make a commitment to moving in and setting up, you must carefully check several more aspects of the location to help insure your satisfaction with—and most importantly your success at—the site you've chosen.

1. FACTORS TO BE CONSIDERED

Three factors confront you as an owner-manager in choosing a location: selection of a city; choice of an area or type of location within a city; and identification of a specific site.

If you are going to relocate in another city, naturally you consider the following factors:

- Size of the city's trading area.
- Population and population trends in the trading area.
- Total purchasing power and the distribution of the purchasing power.
- Total retail trade potential for different lines of trade.
- Number, size, and quality of competition.
- Progressiveness of competition.

In choosing an area or type of location within a city you evaluate factors such as:

- Customer attraction power of the particular store and the shopping district.
- Quantitative and qualitative nature of competitive stores.
- Availability of access routes by car, bus and walking proximity to the stores.
- Nature of zoning regulations and future changes.
- Direction of the area expansion.
- General appearance and maintenance of the area.

Pinpointing the specific site is particularly important. In central and secondary business districts, small stores depend upon the traffic created by large stores. Large stores in turn depend on attracting customers from the existing flow of traffic. (However, where sales depend on nearby residents, selecting the trading area is more important than picking the specific site.) Obviously, you want to know about the following factors when choosing a specific site:

- Adequacy and potential of traffic passing the site.
- Ability of the site to intercept traffic en route from one place to another.
- Complementary nature of the adjacent stores.
- Adequacy of parking.
- Vulnerability of the site to unfriendly competition.
- Cost of the site.

2. TYPES OF CONSUMER GOODS

Another factor that affects site selection is the customers' view of the goods sold by a store. Consumers tend to group products into three major categories: convenience, shopping, and specialty goods.

2.1 Convenience Goods

Convenience goods usually mean low unit price, purchased frequently, little selling effort, bought by habit, and sold in numerous outlets. Examples: candy bars, cigarettes, and milk.

Convenience goods are often purchased on impulse in easily accessible stores. For stores handling convenience goods, the *quantity* of traffic is most important. The corner of an intersection, which offers two distinct traffic streams and a large window display area, is usually a better site than the middle of a block.

Downtown convenience goods stores, such as low-priced, ready-to-wear stores and drugstores, have a limited ability to generate their own traffic. In merchandising convenience goods, it is easier to build the store within the traffic than the traffic within the store.

If consumers must make a special trip to purchase staple goods such as food and drug items, they want the store to be close to home. One study of food store purchases in the central city area revealed that nearly 70% of the women patronized stores within one to five blocks of their homes. Another study of food stores indicated that for suburban locations the majority of customers lived within three miles of the stores, while the maximum trading area was five miles. For rural locations, the majority of consumers lived within a ten-minute drive to the store, with the maximum trading area within a twenty-minute drive.

2.2 Shopping Goods

Shopping goods such as men's suits, automobiles, and furniture usually mean high unit price, purchased infrequently. They require more intensive selling effort on the part of the storeowner, and are highly scrutinized, where customers compare price and features. These shopping goods are most often sold in selectively franchised outlets.

For stores handling shopping goods, the *quality* of the traffic is more important than quantity. While convenience goods are purchased by nearly everyone, certain kinds of shopping goods are purchased by only certain segments of shoppers.

Moreover, it is sometimes the character of the retail establishment rather than its type of goods that governs the selection of a site. For example, a conventional men's wear store should be in a downtown location close to a traffic generator like a department store. On the other hand, a discount store handling men's wear would prefer an accessible highway location.

In many cases, buyers of shopping goods like to compare the items in several stores by traveling only a minimum distance. As a result, stores offering complementary items tend to locate close to one another. An excellent site for a shopping goods store is next to a department store or between two large department stores where traffic flows between them. Another good site is one between a major parking area and a department store.

A retailer dealing in shopping goods can have a much wider trading area. Without a heavily trafficked location—but with the help of adequate promotion—this higher-end store can generate its own traffic. In this case, a location with low traffic density but easy accessibility from a residential area is a satisfactory site.

The consumer buys these goods infrequently and deliberately plans these purchases. Consumers are willing to travel some distance to make shopping comparisons; however, you should not locate too far from your potential customers

One study of a discount department store showed that 80% of the shoppers lived within five miles of the store and another 16% lived within a ten-mile radius. A customer survey, automobile license checks, sales slips, charge account records, store deliveries, and the extent of local newspaper circulation can determine the magnitude of the trading area for a shopping goods store.

2.3 Specialty Goods

Specialty goods usually mean high unit price, although price is not a purchase consideration. These items are bought infrequently, require a special effort on the part of the customer to make the purchase, no substitutes are considered, and are sold in exclusively franchised outlets. Examples: precious jewelry, expensive perfume, furniture and so on, of specific brands or name labels.

Consumers who are already “sold” on the product, brand, or both seek specialty goods. Stores catering to this type of consumer may use isolated locations because they generate their own consumer traffic.

Stores carrying specialty goods that are complementary to certain other kinds of shopping goods may desire to locate close to the shopping goods stores. In general, the specialty goods retailer should locate in the type of neighborhood where the adjacent stores and other establishments are compatible with his or her operation.

This type of retailer should be sure that the landlord is intent on keeping the site very well maintained to uphold that brand image.

3. RETAIL COMPATIBILITY

How important is retail compatibility? For a small retail store in its first year of operation, with limited funds for advertising and promoting, retail compatibility can be the most important factor in the survival of the store.

Will you be located next to businesses that will generate traffic for your store? Or will you be located near businesses that may clash with yours?

For example, if you offer shopping goods, the best location is near other stores carrying shopping goods. Conversely, locating your shopping goods store in a convenience goods area or center is not recommended.

Take a look at shopping centers in your area. Invariably, you'll find a clothing or shoe store—in trouble—in an otherwise convenience goods shopping center.

In a mall or shopping centre, it's still important to be located in a section of the shopping complex that is conducive to what you're selling. For example, a pet store should not be located immediately adjacent to a restaurant, dress shop, or salon. You would want to locate a gift shop near places like department stores, theaters, restaurants—in short, any place where lines of patrons may form, giving potential customers several minutes to look in the gift shop's display windows.

4. MERCHANT ASSOCIATIONS

Most first time business owners have no idea how effective a strong merchant association can be in promoting and maintaining the business in a given area. Always find out about the merchant's associations in the city. The presence of an effective merchant association can strengthen your business and save you money through group advertising programs, group insurance plans, and collective security measures.

A strong merchant association can accomplish through group strength what an individual store owner couldn't even dream of. Some associations have induced city planners to add highway exits near their shopping center. Other have lobbied for—and received—funds from cities to remodel their shopping centers, including the extension of parking lots, re-facing of buildings, and installation of better lighting.

Merchant associations can be particularly effective in promotional tactics such as “block parties” and small business showcases. The collective draw from these promotions is usually several times that which a single retailer could have mustered.

How can you determine if the retail location you're considering has the benefit of an effective merchant association? Ask other storeowners in the area and find the association website.

Find out:

- How many members the association has;
- Who the officers are;
- How often the group meets;
- What the yearly dues are; and
- What, specifically, it has accomplished in the last 12 months.

Ask to see a copy of the last meeting's minutes. Determine what percentage of the members was in attendance.

What if there is no merchant association? Generally (though not always) a shopping area or center with no merchant association, or an ineffective one, is on the decline. You'll probably see extensive litter or debris in the area, vacant stores, a parking lot in need of repair, and similar symptoms. You should shun locations with these warning signs. With a little on-site investigation, they're easy to avoid.

5. RESPONSIVENESS OF THE LANDLORD

Directly related to the appearance of a retail location is the responsiveness of the landlord to the individual merchant's needs. Unfortunately, some landlords of retail business properties actually hinder the operation of their tenants' businesses. They are often, in fact, responsible for the demise of their properties.

By restricting the placement and size of signs, by foregoing or ignoring needed maintenance and repairs, by renting adjacent retail spaces to incompatible—or worse, directly competing—businesses, landlords may cripple a retailer's attempts to increase business.

Sometimes landlords lack the funds to maintain their properties. Rather than continuing to invest in their holdings by maintaining a proper appearance for their buildings and supporting their tenants, they try to squeeze the property for whatever they can get.

To find out if a landlord is responsive to the needs of the retail tenants, talk to the tenants before you commit to moving in yourself. Ask them:

- Does the landlord return calls in a reasonable period and send service people quickly?
- Is it necessary to nag the landlord just to get routine maintenance taken care of?
- Does the landlord just collect the rent and disappear, or is he or she sympathetic to the needs of the tenants?
- Does the landlord have any policies that hamper marketing innovations?

In addition to speaking with current tenants, talk to previous tenants of the location you have in mind. You'll probably come up with a lot of helpful information. Find out what businesses they were in and why they left. Did they fail or just move? What support or hindrances did the landlord provide? If the opportunity presented itself, would they be retail tenants of this landlord again?

6. ZONING AND PLANNING

Your town's zoning commission will be happy to provide you with the latest mapping of the retail location and surrounding areas that you're considering. Here are some questions to consider:

- Are there restrictions that will limit or hamper your operations?
- Will construction or changes in city traffic or new highways present barriers to your store?
- Will any competitive advantages you currently find at the location you're considering be diminished by zoning changes that will be advantageous for competitors or even allow new competitors to enter your trade area?

Most zoning boards, along with economic/regional development committees, plan several years in advance. They can probably provide you with valuable insights to help you decide among tentative retail locations.

7. LEASES

Directly related to zoning is your intended length of stay and your [lease agreement](#). Before you enter into any rigid lease agreement, you must get information on future zoning plans and decide how long you wish to remain at the location under consideration:

- Do you plan to operate the business in your first location indefinitely, or have you set a given number of years as a limit?
- If your business is successful, will you be able to expand at this location?
- Is your lease flexible, so that you have an option to renew after a specified number of years? (On the other hand, is the lease of limited duration so, if need be, you may seek another location?)

Study the proposed lease agreement carefully. Get advice from your lawyer or other experts. Does the agreement:

- Peg rent to sales volume (with a definite ceiling) or is rent merely fixed?
- Protect you as well as the property owner?
- Put in writing the promises the property owner has made about repairs, construction and reconstruction, decorating, alteration, and maintenance?
- Contain prohibitions against subleasing?

Consider these factors before you settle on a location.

8. OTHER CONSIDERATIONS

A host of other considerations have varying importance in choosing a retail location, depending on your line of business. The following questions, while they certainly don't exhaust all possibilities, may help you decide on a retail location:

- How much retail, office, storage, or workroom space do you need?
- Is parking space available and adequate?
- Do you require special lighting, heating or cooling, or other installations?
- Will your advertising expenses be much higher if you choose a relatively remote location?
- Is the area served by public transportation?
- Can the area serve as a source of supply of employees?
- Is there adequate fire and police protection?
- Will sanitation or utility supply be a problem?
- Is exterior lighting in the area adequate to attract evening shoppers and make them feel safe?
- Are customer restroom facilities available?
- Is the store easily accessible?
- Does the store have awnings or decks to provide shelter during bad weather?
- Will crime insurance be prohibitively expensive?
- Do you plan to provide pick up or delivery?

- Is the trade area heavily dependent on seasonal business?
- Is the location convenient to where you live?
- Do the people you want for customers live nearby?
- Is the population density of the area sufficient?

9. TRAFFIC COUNT

First of all, be sure you need a [traffic count](#). Although knowledge of the volume and character of passing traffic is always useful, in certain cases a traffic survey may not really make any difference.

Other selection factors involved may be so significant that the outcome of a traffic study will have relatively little bearing on your decision. When the other selection factors, such as parking, operating costs, or location of competitors, become less important and data on traffic flow becomes dominant, then a count is needed.

Once you have determined that you really need a traffic count, the general objective is to count the passing traffic—both pedestrian and vehicular—that would constitute potential customers who would probably be attracted into your type of store. To evaluate the traffic available to competitors, you may desire to conduct traffic counts at their sites, too. Learn more about how you can do a traffic count at wec.ca/TrafficCount

10. HELP IN CHOOSING A LOCATION

Choosing a retail location is, at best, a risky undertaking. Considering the consequences of choosing a location that proves to be unsuitable, it pays to get as much assistance as possible.

The local chamber of commerce in a city of more than 125,000 usually has a division devoted primarily to assisting budding owner-managers in finding suitable locations for their businesses. This is a free service that surprisingly few people take advantage of.

You may wish to hire a consultant to analyze two or three locations that you have selected. It costs less if you provide the consultant with pre-selected potential locations than to have them initiate an open-ended search for a location. The business school of a nearby college or university may also be able to provide help.

Other sources of information on potential locations include bankers and lawyers, who may have been in position to observe over an extended period of time many locations where other clients previously did business. Realtors can also provide information on location. Remember though, their compensation is based upon commissions for renting property.

11. LOCATE IN HASTE, REPENT IN WASTE

Selection of a retail location requires time and careful consideration. It should not be done in haste just to coincide, say, with a loan approval. If you haven't found a suitable location, don't plan to open until you're sure you've got what you want. Put your plans on hold; don't just settle for a location you hope might work out. A few months' delay is only a minor setback compared to the massive—often fatal—problems that occur from operating a retail business in a poor location.

STILL HAVE QUESTIONS? CONNECT WITH US!

Women's Enterprise Centre is a non-profit organization devoted to helping BC women start, lead and grow their own business. If you own a business, or are thinking of starting one, connect with us for business loans up to \$150K, skills training, personalized business advice, mentoring, practical resources and a supportive community to help you realize your business potential.