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Evaluation of the Effect of Location on Retail Business Performance

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ABSTRACT

This paper discusses the effect of location on business performance in the retail environment. In deciding about the where to situate a business, the business owner takes into consideration a number of factors, one of which is strategic location. A business that is well located draws huge numbers of consumers, and boosts the transactions of retail outlets. This is why it is imperative to recognize the selection principles for a strategic location in order to achieve better results. This paper provided a general view of the criteria that influence shop performance. Retail store performance has been evaluated by using various measures such as sales volume, market share, retail patronage, price elasticity, and store profits. The paper drew conclusion from the fact that retailers must embark on performance evaluation and should be aware of the factors that relate to shop location. The paper additionally recommended for further research on the factors that affect different shop performance measures and their differential effects.

Keywords: Location, Shop, Performance, Effect, Business

INTRODUCTION

One of the most important factors of business development is the strategic location of the business which includes the nearness to raw material, accessibility to business premises, good road network, among [1]. [2], report that the strategic location of domestic firms have assisted them in achieving a positive performance. Thus, location provides domestic firms with strong force to prosper and succeed in their business. They equally note that location has helped firms in the area of sustainability which also implies performance. Accordingly, [3] also provides evidence of effect of location on emergence of entrepreneurs and consequently their performance. The study reports that location plays a vital role in entrepreneurship development. Thus, it can be seen that location is a vital factor in a retail business performance. It is against this backdrop that this study evaluated the factors that influence the selection of a particular location for situating of retail business, and the impact of such decision on the performance of such business.

Performance

The Oxford English Dictionary defines performance as both: [a] "carrying out of a command, duty, purpose... an act of execution, or fulfillment," and [b] "an accomplishment, something performed or done, an achievement, or a deed". In other words, performance may be used to refer not only to an act but, also to the result or consequences of the act. This implies that a retailer's positioning is not only communicated to its customers through its product and service offering strategy but also through the location and shop's characteristics.

Retail store performance is an extremely broad phenomenon which may take on an entirely different meaning, depending on how one views the retailing process and at what level of aggregation one chooses to analyze it [4]. The definition of store performance is a critical issue. However, several authors have advocated the importance of using multiple measures of store performance to determine the effects of different retailing action [5]. One of such action is the decision to strategically locate a business.

Location

According to [6], location is the physical space occupied by a business (shop). They note that it is the catchment area of a business which experiences intense economic and commercial activities. A business (shop) location incorporates trade area analysis and retail site analysis. A trade area as defined by [7] is a contiguous geographic area that accounts for the majority of a shop's sales and customers. The trading area analysis usually provides the basis for marking out both the trading area of a new shop and that of an existing shop. This is usually done by assessing the demographic characteristics of the area. In some climes, many retailers use the Geographic Information Systems (GIS) software to determine their trading areas. On the contrary, retail site analysis is the next step in evaluating alternative specific shop sites which can be an isolated shop, unplanned business district and the planned business district coupled with site characteristics, such as traffic flow, visibility, and terms of occupancy just to name a few.

Location is typically one of the most influential considerations in a customer's shop choice decisions. For instance, a working couple can easily decide to shop nearest to their bus station on their way from work. Most consumers similarly shop at the retail stores closest to them. Location decisions have strategic importance because if a retailer has the best location, the location that is most attractive to its customers, competitors are relegated to occupying the second-best location [8]. A good location may enable a retailer to succeed even if its strategy mix is ordinary. Conversely, a poor location can have liabilities that even the able retailer cannot overcome.

According to [9], there are three types of location available for retail shops which are: solitary sites, unplanned shopping areas and planned shopping areas. Each of the basic types is associated with specific advantages and disadvantages according to the size of the catchment area, occupancy costs, pedestrian or vehicle customer traffic, restrictions placed on shop operations or convenience of the location.

i. **Solitary sites (Isolated sites)**

This type of location relates to single, free standing outlets that are isolated from other retailers. They can be positioned on roads or near other retailers or shopping centers. Such sites are used by large shop formats in food and non food retailing or for convenience shops [10].

ii. Unplanned shopping areas

These are retail locations with several outlets, in close proximity to each other that have evolved over time. The retail mix is not a result of long range planning and for such locations, there is no centralized management. The main kind of unplanned shopping areas are (1) central business areas (traditional downtown areas in cities/towns), (2) secondary business areas in larger cities and main streets or high street location in smaller cities, (3) neighborhood area, and (4) strip or string location (locations along a street or motorway).

iii. Planned shopping centers

These are retail locations that have been architecturally planned to provide a unified theme for a number of outlets. These sites are developed deliberately and usually have some large, key retail brand shops (anchor shops) and a number of smaller retailers to add diversity and special interest. The basic types of shopping centers are retail parks that consist of a purpose built cluster of free standing retails outlets. There are (large) parking facilities and shopping centers that consist of single building which are marketed as a unified shopping destination, usually with one name and logo. The retail mix is different from retail parks, as the range of shops is wider and often includes luxury and leisure items as clothing, footwear and other typical central location merchandise.

Selection Criteria for a Retail Business Location

The selection of a shop location generally requires broad decision making by the retailer because of the number of factors or criteria to be considered. They are: the size and characteristics of the surrounding population, the level of competition, access to transportation, the availability of parking, and the attributes of nearby shops, property costs and the length of a lease agreement as well as legal restrictions [11]. Similarly, [12] note that decision on business locations is one of the most vital strategic decisions the retailer has to make for its long term success i.e. profitability. An evaluation of the market area in which the shop is located is critical strategic tool that enables retailers attract customers' attention to the shop [13]. Good locations allow ready access, attract large numbers of customers, and increase the potential sales of retail outlets. In the extremely competitive retail environment, even slight differences in location can have a significant impact on the market share and profitability,' [14]. As different from other marketing-mix elements that may be easily changed under changing environmental conditions, shop location is changed only at considerable cost; hence it represents a retailer's long-term fixed investment [15]. Since the 1920s, there has been a growing interest in the application of diverse models (i.e. Harold Hotelling's 1929 'principle of minimum differentiation', Huff's 1966 analog methods and the like) to solve location decision problems. Nevertheless, it has been observed that there is lack of well-rounded research into the selection criteria necessary for the evaluation of potential shop locations. [16] developed a model that presents varieties of factors affecting shop performance and therefore serves as a guide to retailers to evaluate their location decisions. The criteria that have been related to shop location based on shop performance are depicted in the Figure below as adapted from [17].

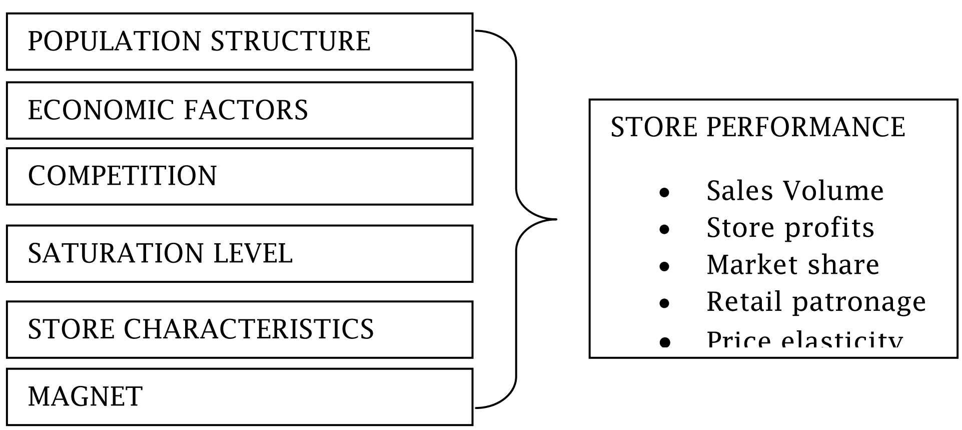

Fig. 1Theoretical model: shop location selection criteria based on shop performance

There are several yardsticks used in location analysis. These include: (1) population structure (2) economic factors (3) competition (4) saturation level (5) store characteristics (6) magnet (7) performance measures

Population characteristics

In creating a model for shop performance, the inclusion of population characteristics significantly improves the model's ability to make the choice of good shop locations. Population structure has been examined in many previous studies by a wide array of variables including demographic features (income, age, gender etc.) and some other information like travel time and shopping habits. According to [18], probably no variables are more important to retail managers than the demographic structure of the market in any potential location. Demography also provides the knowledge for understanding if the population residing in the location that a retailer decides to serve is in agreement with its target market [19]. Some people's consumption patterns are not easily changed or altered due to their financial circumstance or longstanding habits [20]. Therefore, in analyzing prospective location areas, purchasing habits of the people, who live and/or work in there, are important for retailers to describe customers (when they shop, frequency of shopping, how far they will travel, customers' preferred shopping place, and customers' preferred hours of shopping). The addition of the 'purchasing habit' variable to the model will significantly improve the location selection model's predictive power. Consequently, several factors such as the number of households, population size, population density, population growth rate, customer size and density, age, gender, education, occupation, marital status, household size, travel time (or distance), politic attitudes, social classes and cultures, and purchasing habit can be used to define characteristics of population residing in the proposed shop's location.

Economic factors

The economy of the population in the market area where a retail shop is located is usually taken into consideration. The decision to locate a shop is dependent upon some economic considerations [12], including household income, income distribution, mobility (autos-per-household), and residents' willingness to spend their money at the shop, the source of income, rentals and so forth. Also, the type of, and the prices of homes in the area that a retailer considers to locate, the proportion of home ownership (as opposed to families that are renting) and the per capita sales for that area reveals income pattern of the residents of a community and defines the retailer's direction in deciding for a location. Another valuable source is the 'Survey of Buying Power' which is probably one of the best sources for obtaining estimates of income distribution by countries. The number of persons employed in a family, the total average income for each family, and the regularity and frequency of their income are indicative of the ability of residents to purchase products [1]. The people residing in the area at which retailers consider to locate must have spending power (i.e. the amount of money that will be available to buy products), but whether the residents are willing to spend their money at the store is more important for retailers [6]. Economic features of a population are closely related to the total retail sales potential of an area in which they reside [19], profitability [10], retail patronage behavior [5] and price sensitivity [14].

Competition

In the search for good locations, the retailers need to consider competitive environment as a factor that determines shop performance [2]. To illustrate, [7] found that competitive factors account for the majority of the variation in price elasticity across shops. In direct competition, a new shop will be forced to enter into rivalry with available shops offering the same products in order to capture more shares from the market [16]. As for indirect competition, retailers who offer unrelated products are also viewed as the prospective competitors of new entrants into market because they are competing for the same consumer cash. Each retailer competes against other retailers to take away a portion of resident's expenditures in a given area [8]. Hence, they are competitors sharing the same market share, whether it is direct or indirect. To compete effectively, retailers should be wise concerning what happens when competitive factors are involved in the shop-performance model. In the context of retail-location selection, when evaluating competition, a series of facts or figures should be surveyed and analyzed for the eventual success of any location, thus: the spatial distance between retail shops, the size and number of competitor shops, shopping alternatives, settlement with comparison to competitors, relative competitive strength, competitors' sale volume, stiffness in competition, and the quantity, quality and extent of aggressiveness.

Saturation level

Analysts have traditionally used the index of retail saturation (IRS) to ascertain the attractiveness of a particular market. The index is quite useful in making decisions as to whether they will be able to achieve a higher profit in a market in which to locate. IRS is the ratio of demand for a product or service divided by available supply [5]. It can be measured as follows:
IRS = (P) (A.E.) /S
where IRS is the index of retail saturation for a specific area; P is the number of people in the area who are likely customers for the particular line(s) of merchandise; A.E. is the average retail expenditures in the area for a particular line of trade; and S is the total amount of space devoted to selling a particular line of trade in all shops in the area (in square feet) [14]. Accordingly, IRS equals to the total retail sales per square foot of its space in the marketplace for a particular line of retail trade [11]. Some researchers like [3] have offered to use a measure of the number and retail expenditures of 'households' instead of 'people' in a given geographical area.
IRS is the extent to which demand for goods and services in an area is being served by current retail facilities or establishments [18]. 'The supply of retail facilities is seen as either the number of shops in the geographic market or the total square footage of those shops,' and their use (demand) is perceived as total shop sales in the market [6]. The demand for goods and services in a particular market differs by the supply of retail facilities. A trading area when identified in terms of the number of shops per thousand households may be under-stored, overstored or saturated market. Under-stored market has very few shops selling specific goods or services to satisfy the needs of its population. For retailers to locate in such an area, profitability is quite large with a high degree of chance. When a trading area is the overstored market that has so many shops to serve the customers satisfactorily for specific goods and services, some retailers therefore cannot earn an adequate profit. Retail saturation exists when a market has just enough shop facilities to satisfactorily meet the needs of the population of the market and to enable retailers to yield a fair profit [10].

Shop characteristics

Undeniably, the competitiveness of retail shops is highly related to shop-specific characteristics. The important aspects of the shop itself are separated into three basic categories (1) ease in accessibility (2) shop-image attributes and (3) costs.
Basically, Ease of access which refers to the people's ability to find the shop easily and quickly [13], is one of the most discussed factors in literature for shop location-selection decisions. Considering that many consumers move about by car, particular attention should be paid on the roads, streets, and parking facilities to make easier their access to the shopping area. When the status of transportation facilities available are evaluated in terms of ease of access to the store, they are believed to favorably or unfavorably affect the sales potential of a community and, ultimately the shop in a given trade area [9]. Next, shop-image attributes such as atmospherics, assortments, quantity and quality of product are considered to explain a sizeable variance in the shop performance. Increasing merchandising assortments or improving shop atmospherics through better layout and shop-allocation techniques has an impact not only on revenue flows but also on expenses [15]. Thus, before any change to improve store-image is decided, retailers should take into account its impact on shop profits. Lastly, the shop location selection model should consider the effect of various costs on shop performance. These costs include building, renting, buying, renovating of the physical shop and so forth [19].

Magnet

A series of magnets recommended by [6], taking crowd point, culture and education organization, government and business organization, vehicle maintenance and relaxation factors into consideration, could help to improve a more complete model when evaluating optional locations for a shop. Till date, only few researchers have spoken to the magnets in making a true location-decision for a retail shop; most research in marketing on the other hand, have dealt with other factors' effects on performance. Out of them, [17] found that the presence of magnet shops in the marketplace seems to be an important factor in a retailer's location decision, at least for some retailers. [4], further recommends that all retailers should consider the presence of magnet shops as an advantage since the magnet shops attract more trade from greater distances. Pedestrian flows at a location containing the largest magnet shops potentially will become more widely. Thus, the location in which magnet shops are available has a potential to attract most of the trade [18]. [5], who thinks the same way, offers the relationship between magnet (i.e. crowd point) and the shop performance in terms of the number of visiting customers per day. As a result, retailers in attempting to attract customers to their shop should use the presence of magnet shop across optional locations as evaluation criteria to aid the location selection for a shop.

Performance Measures

Performance constitutes the basis of shop location selection. In effect, criteria necessary to be considered for selecting a shop location are the elements influencing a shop's performance. As a result, the quality of shop location selection models is dependent upon the ability to predict performance goals that are often set in the form of sales volume or demand [1], profits [6]; [14], the number of subjects patronizing the shop [7]; [10], market share [6] and price elasticity [2]. Using multiple measures of shop performance is deemed to be essential to determine the possibility of getting the largest value by a new shop or shops entering the area. Therefore, the most commonly used measures that appear in this study include: sales volume, store profits, market share, retail patronage and price elasticity.

Sales volume is the number of units sold within a reporting period. This figure is monitored by investors to see if a business is expanding or contracting. Within a business, sales volume may be monitored at the level of the product, product line, customer, subsidiary, or sales region. This information may be used to alter the investments targeted at any of these areas. A business may also monitor its break even sales volume, which is the number of units it must sell in order to earn a profit of zero. The concept is useful when sales are contracting, so that management can determine when it should implement cost reductions. This can be a difficult concept to employ when there are many different products, and especially when each product has a different contribution margin. The sales volume concept can also be applied to services [13].

In the same vein, [6] is of the opinion that retailers all have the same basic path to success, which is to increase sales and reduce expenses in order to improve profitability. According to him, the number of sales a retail store makes influences its profit margin. This is because a store with a high volume of sales can spread the cost of overhead over a larger sales base, and help reduce the margin it charges on each item purchased. Furthermore, [17] states that market share are the percent of total sales in an industry generated by a particular company. Market share increase allows a company to achieve greater scale with its operations and improve profitability. A company can try to expand its share of the market, either by lowering prices, using advertising, or introducing new or different products. In addition, it can also grow the size of its market share by appealing to audience demographics, one of which is the location of a shop.

In a similar vein, retail patronage is used to describe the share of an individual consumer's expenditures in an industry or retail sector that is spent at one company. The goal of many retail firms is to increase the patronage concentration ratio of its customers to 100%. Retail patronage is very similar to market share in that market share describes the percentage of all customers that patronize a company relative to the industry's total patronage. Hence, market share is the aggregate or macro version of the patronage concentration ratio.

Retail performance is further determined by sales numbers, and pricing strategy is an integral component of the health of a business unit. Gathering information about the consumer in terms of individual and household preferences, volume, interval of usage, location and price sensitivity at the product level allows insight from a bottom-up perspective. This insight supports micro-segmentation of customers for profile development that drives pricing and product design strategy. One of the most significant consumer-level variables as an input to both the segmentation and the sales forecasting models is price sensitivity. This is the marketing term for product- and consumer-level metrics that economists refer to as price elasticity. Price elasticity is used by economists to understand how supply or demand changes given change in price.

CONCLUSION AND RECOMMENDATION

This study has presented a wide range of factors that aid the retailer in making the decision whether or not to locate a shop in a certain market area. The criteria to consider while evaluating locations include population structure, economic factors, competition, saturation level, store characteristics, magnet and most importantly, shop performance. All of them should be considered to provide a useful insight into the choosing of good location among various alternatives; however they cannot all be equally important in all location decisions. By studying these factors, retailers see how desirable an area is for its success. The ability to strategically locate a shop allows retail shop owners to achieve better performance. Thus, a retailer must embark on performance evaluation and should be aware of the factors that relate to shop location. This will provide the information they need to carry out shop location selection effectively. In this way, they can obtain larger market share, profits, sales volume and a good number of patronisers by locating their shops strategically.

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