

# INTRODUCTION

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# 1

The books, *Retail Location and Retail Planning* (Guy 1980) and *Retail Geography*, (Dawson 1981), were landmark publications in the study of spatial variations in demand and supply of retail activity. The importance of retail location was firmly established in the literature, and from then on, a large number of urban and economic geographers began to take retailing seriously. Other important and explicitly geographical retail texts followed in the 1980s and early 1990s (Davies 1984, Davies and Rogers 1984, Jones and Simmons 1987, 1990, Ghosh and MacLafferty 1987). Since then, there has been very little except for Guy (1994) and Wrigley and Lowe (1996). Twenty years on from those first texts, we feel it is time for an updated book on retail geography and strategic planning. The motivation for writing this book has come from three main directions. The first is in response to the so-called *new retail geography*, which has become popular in the last five years or so. Within this geography there seems little place for traditional concerns with retail location, especially when it is addressed through geographical information systems (GIS) and spatial modelling. The second is the attack on store location research from those who believe that few retailers will be opening new outlets in already crowded or saturated markets, especially since e-commerce has begun to make serious inroads into the sales of traditional outlets. The third, which is linked strongly to the second factor, is the view derived from our experience over the last ten years of the continued importance of location to all retail organizations. This has been built up over many years through our consultancy work, using GIS and spatial models (both in the School of Geography and in the private company GMAP Ltd). In the late 1990s, when it peaked, this work was worth around seven million pounds per annum and employed over one hundred geography graduates. This, to us at least, is evidence that location issues in retailing have never faded away, and indeed, we might argue, have never been as important as they are today. We shall address each of these issues in more detail below.

The 'new' retail geography is a term first applied by Wrigley and Lowe (1996). In a review of recent trends in retail geography, Crewe (2000) describes this as a 'reconstructed' retail geography, giving an account of the transformation from the old 'boring' geography, which 'misrepresented both the wider structure of the commodity channel and the status of consumption in shaping retail change' (cf. D. Clarke 1996). There is no doubt that this new retail geography is theoretically well informed and is an extremely important

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development. Indeed, we draw upon a lot of this literature in the review sections of the book. A summary of all recent work will appear in another very useful and complementary reader to this book by Wrigley and Lowe (2002). That said, there is clearly no place in this new retail geography agenda for traditional concerns with store location research, GIS and models. This is a great shame! The kitbag of techniques for handling store location issues has developed rapidly, and there are as many theoretical developments in this area as there are in cultural and economic retail geography (e.g. Birkin *et al.* 1996, Fotheringham *et al.* 2000, Longley *et al.* 2001, Clarke and Madden 2001). The topic of store location research has certainly moved on from the days of simply assessing the impacts of new store openings. Models are commonly used now to address one or more of the following strategic issues:

- evaluating existing branch performance (comparing expected sales in a locality with actual ones)
- impacts of new store openings (revenue predictions and impact on retailer and competitors)
- impacts of store closures
- impact of relocations
- assessing the returns from an increase/decrease in store size
- finding the optimal location for a new outlet
- comparing the present configuration of stores with an 'optimal' distribution
- presenting the best set of locations to target an overseas market
- launching a new product in locations most likely to maximize sales
- finding the best geographical fit for possible merger/acquisition candidates
- optimizing the branch networks of two or more organizations following merger/acquisition
- defining store territories optimally (especially if required by law)
- assessing the likelihood of a merger or acquisition being referred to the authorities on the grounds of monopoly power
- maximizing the returns from different distribution channels in different locations
- impacts of changing the retail brand or fascia.

Examples of many of these will be presented in this book. Our argument is that what is increasingly required is greater intelligence on how to solve these problems. In an earlier work (Birkin *et al.* 1996), we argued for GIS to be more closely linked to spatial models in order to provide that intelligence. This volume continues from that, but concentrates on retail examples in order to more fully flesh out the concept of retail intelligence applied to network planning.

The argument against GIS and models is seemingly strengthened by recent events in retailing, which suggest that the traditional store is, or will be, less important in the retail scene of the future. To put it another way, as domestic markets are perceived to be getting more saturated, and because retailers are opening fewer new stores per year, the need for sophisticated store location research is getting less obvious (see Clarkson *et al.* 1996 for a good example of this viewpoint). In addition, according to many commentators, e-commerce will end the need for opening new outlets and will take

a significant amount of trade away from the brick and mortar stores. Indeed, there is the belief that e-commerce will ultimately mean the death of the importance of distance and geography (cf. Cairncross 1997). Our response to this line of argument is that we believe that the techniques of spatial modelling are even more important in the present and in the future, not less. First, we have no doubt that the physical store is still going to be the main retail location of the future, despite what even the most optimistic e-commerce analysts believe, and it is evident from the press and company web pages that many companies are committed to yet more store openings, even in the crowded UK market (see Chapter 3 for more examples of planned growth). Second, retailers will have to face a variety of distribution channels in the future. They will need to find some way of maximizing sales from traditional stores, e-commerce, telephone sales and even perhaps automated branches. This means that retail growth strategies will be more complex. Is such complexity impossible to deal with and to plan effectively for? Far from throwing location techniques away, we argue that what retailers will require are more sophisticated and intelligent spatial analysis techniques capable of dealing with multichannel networks. In Chapters 6 to 10 we hope to demonstrate that geographers are up to the task.

The overriding motivation for this book is to show the usefulness of our techniques to the kinds of questions raised in the preceding text. In that sense, this is not a purely theoretical book that concludes that these techniques could be used in planning. The examples in the book are based on fifteen years of retail consultancy by each of the authors. During these years we have built up expertise in a wide range of modelling techniques relevant to the retail industry. It is reassuring to see that there is also a growing trend elsewhere in academia to directly work with retail clients (see Jones and Hernandez 2002 for many US examples, Scholten and Meijer 2002 for Dutch examples, and more generally see the papers in Clarke and Madden 2001, Clarke and Stillwell 2002). Yet, despite this growing link between academia and the real world, it is interesting to reflect on why such methods are not in widespread use. Despite the great advances in geographical data handling, it seems that many retailers still rely on gut feeling and good old-fashioned retail nose (Hernandez 1998, Hernandez and Bennisson 2000). Why is it so? Cost is likely to be a factor, but it cannot be the complete answer because the price of even a national GIS and modelling system would be a fraction of the annual marketing budgets of most retail organizations. A more plausible explanation is provided by Clarke *et al.* (2000). They suggest that these more complex, sophisticated techniques either ignore or underplay the retailer's intuitive judgment in the location decision-making process. To this can also be added the observation that very often analysts do not want to support methodologies that might cast their previous decisions in poorer light. The response of Clarke *et al.* (2000) is to try and capture the retail decision process more effectively and then to provide a framework that maps the 'cognitive and intuitive constructs underlying the schemas of retail executives' (p. 266). From this, a set of factors key to the site location decision should appear, which can then be used as an alternative to 'normative procedures'. Fair enough, but this framework is unlikely by itself to produce better or more informed decisions because the subjective factors that retail executives use still lie at the heart of these frameworks! Our response is to try and demonstrate through the examples in the second half of the book that the benefits of using more sophisticated spatial analysis tools outweigh the costs many times.

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The rest of the book is set out as follows. In Chapter 2, we attempt a very broad-brush review of key retail trends. This has to be partial and selective, given space constraints, but we believe it is important as a backcloth to many of the examples given in Chapters 6 to 10. The review focuses on issues that are most likely to impact directly on retail location and store location research. In Chapter 3, we review what is happening to key retail destinations, and look at the emergence of new distribution channels, which potentially may threaten traditional outlets. Here, we have tried to reflect on past developments, but at the same time, we look ahead to see how important these destinations/new channels might be in the future. The focus in Chapter 4 switches to retail growth strategies and reviews growth from new store openings to growth through mergers, acquisitions, franchising and strategic alliances. This represents a very obvious geographical problem: where should we be and how shall we get there? In Chapter 5, given the rapidly growing literature, we take a deeper look at e-commerce and its growth. The argument we wish to make here is that geography will still be crucial to the success of e-commerce. This is because access to the technology of e-commerce is not uniform (and probably unlikely to ever be) and because retailers still have to get the goods to the consumer in a cost-effective manner.

In the second half of the book, we switch to spatial analysis methods and their usefulness in addressing retail growth strategies and the types of question listed in the preceding text. In Chapter 6, we begin with simple models of territory planning. This is important for a number of reasons. First, many organizations assign sales territories to their stores for operational management purposes. Second, in some cases, there is a legal requirement for stores to have an assigned territory that does not overlap with another sales area. Third, many retail organizations assign territories to warehouses for physical distribution purposes and/or area management/salesperson teams. This chapter introduces a number of methods for assigning territories, including GIS. This is followed in Chapter 7 by a broad review of store location methodologies, including deductive methods (which derive models from apriori theory of store performance) and inductive methods (which build theories of store performance based on the data). This chapter thus builds up a kitbag of methodologies in common practice, from gut feeling to more sophisticated spatial interaction approaches. The spatial interaction approach is described in more detail in Chapter 8. This has been our bread and butter methodology and we describe a number of case studies. We also argue that models often need to be highly disaggregated in order to replicate real-world customer flows. Chapter 9 looks at the issue of optimization and its usefulness in retail planning. Here we use two main examples: an optimization model that allows an organization to either add new stores in a sequential (but optimal) fashion or allows an entire network to be located optimally, given the usual variations in consumer demand and levels of competition. Direct marketing and geodemographics is the subject matter of Chapter 10. This is an increasingly important one because as the amount and quality of data increases, firms can now use the most up-to-date technology to profile their customers and then search out similar customers in other geographical locations. The benefits of analytical and model-based approaches to retail planning are summarized in Chapter 11. Some concluding comments are offered in Chapter 12. Inevitably, the book is biased to UK examples, but where possible we have added European and North American case studies.

The book is written for two types of readers. It might be optimistic, but we hope that people in retail location teams and consultancies will find much to interest them in terms of solving applied problems. Second, we hope geography and marketing students

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will find the material useful for their courses. However, more importantly, we wish to impress on these students that geography is a very applied discipline, and that the skills and techniques they learn in the classrooms can directly lead to jobs in retailing and marketing. Many of our former students are now in the retail business (either directly within companies or as part of consultancy teams). Indeed, some have even formed their own retail consultancy organizations. Read on and earn your fortune!