# Nine Tips For Great Site Selection

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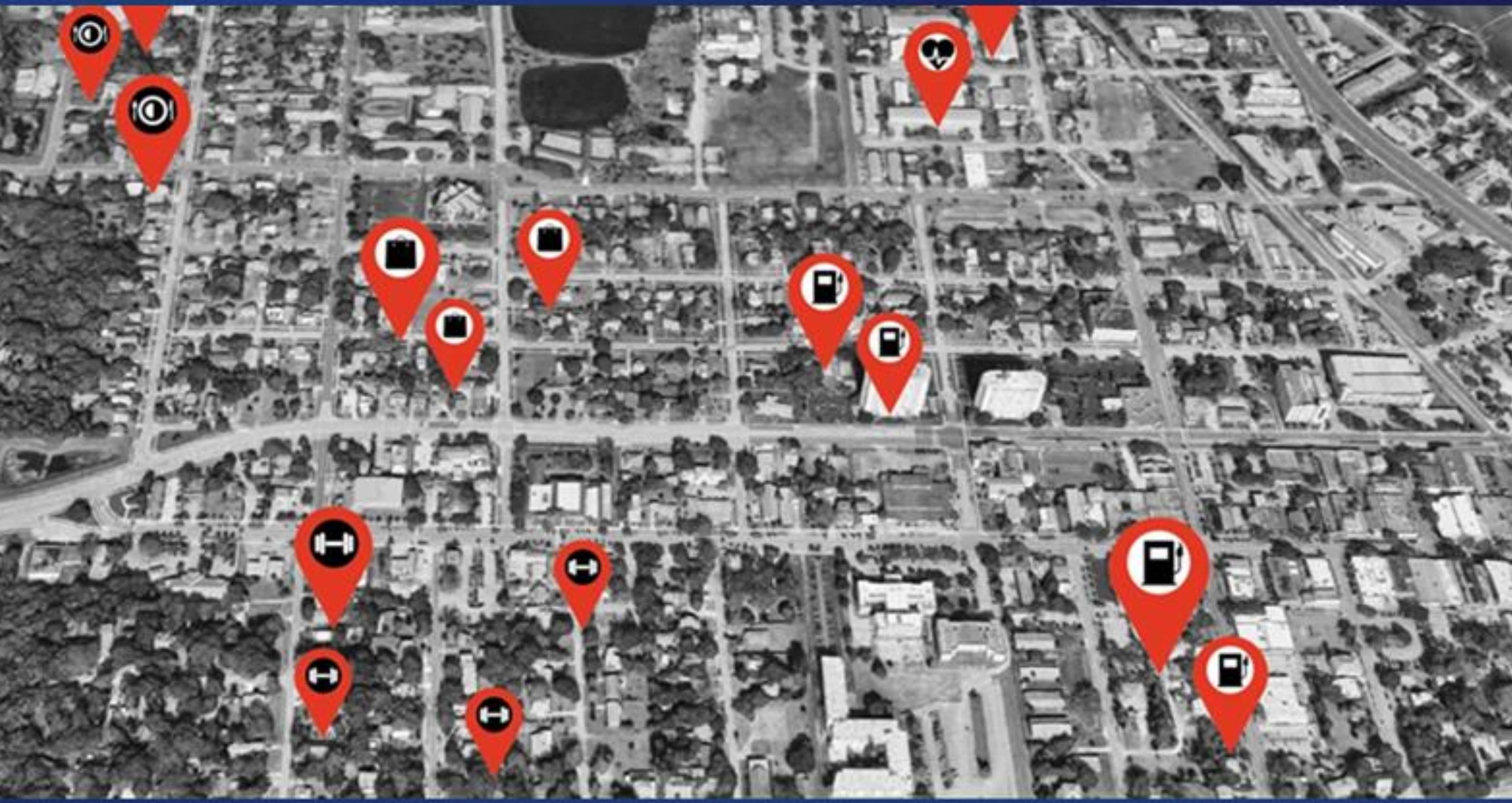

SPECTRUM ANALYSIS
Geodemographic Modelling & Analysis

Building a retail network of stores or franchises requires good quality site selection.

To do this, you need quality demographics and mapping data, analysis and reporting that can provide reliable information for the board and leadership team to make well-informed decisions.

*The choice to make good choices is the best choice you can choose. Fail to make that choice and on most choices you will lose.*

Ryan Lilly

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# 1. The Network Planning Process

**Tip 1:**
Understand where you are in the Network Planning Process before considering individual sites. Do not select and open a few random sites and then try to fit a Network Strategy around them afterwards.

Over the years, I have been involved in site selection for many different major brands. The issue of good site selection is one of the most critical factors in determining whether a business will be successful or not.

To understand the principles of site selection, you need to think in terms of the entire Network Planning Process. Site selection is one of the latter steps in the process.

The Network Planning Process can follow a series of steps from the macro level to the site-specific level.

1.. A company needs to decide to have a long-term presence in a country (Global issue) or a state within Australia. This can be decided by anticipated returns, political climate or priority of funding.

2. Once the long-term position is established, a macro plan is required to look at which areas to expand. This can include (a) the total number of sites, (b) total potential market, and (c) how to divide allocation (possibly at a regional level).

3. Plan which localised areas (maybe suburbs) where the company wishes to be represented and the priorities of these areas. In an established market, this can create a network purification process as we look for new opportunities whilst we cull out the lowest performers in the network.

4. Next we look at specific site selection opportunities and evaluate these using specific tools discussed later in this ebook.

5. Continual review, or post audit, is then undertaken to improve on the decision-making process. This involves bench marking and comparing to the original forecasts.

Once a site has gone through a three to five operation cycle, little else can be learnt from the original prediction, so we then need to keep a less strenuous review program in place to ensure it is economically viable to continue.

Once you see this as a Network Planning Process (that you are either consciously or unconsciously following), you can begin to break down the steps.

# 2. The Big Picture

**Tip 2:**
Think in terms of who your customers are (and where to find them) as the first way of selecting areas to look for individual sites.

When I was on a special worldwide project team with Caltex setting up tools for use around the Caltex network, a second group were addressing the start of the network planning process in China.

Caltex wanted to move back into China, and the issues they were looking at included:

- Where should we start as far as which province should we invest in?
- What level of investment do we begin with?
- Do we bring in product to start, or move to building a refinery?
- Where should we market initially?
- How should we market? (i.e. retail, wholesale, government use, etc).

These types of macro issues need to be addressed first if undertaking a start-up business. Caltex were very experienced across Asia and could apply a great deal of logic and science to their decision-making process.

Different types of business have a higher probability of success if the goods or services being sold match the type of person living or working in that area. Great site selection involves you matching your areas with those people.

In most countries (including Australia), we have a very thorough Census conducted by the Australian Bureau of Statistics (ABS) every five years. The Census allows us to look at particular areas and understand issues like:

- Population levels and population growth forecasts
- Marital status & family types
- Education levels
- Income levels (both household and individual)
- Age Profiles
- Ethnicity (i.e. language spoken at home, birthplace, etc)
- Housing structures
- Property Ownership (including levels of rent or mortgage payments)

There are many fields, and when we think of what we know of the people, we can start to match it with what they are most likely to buy.

We like to imagine that there is one person living in each area (be it a postcode, census collection district, council area, etc), and what is the likelihood of that ‘person’ wanting your goods or services.

If we imagine that the 'person' is worth, on average, one 'Unit of Demand' (UOD), then if the fit is good for the area, then the one 'person' may be worth 1.5 units of demand, and if the fit is poor, the 'person' may be worth only 0.5 units of demand.

**Example**

If I have a swimming pool cleaning company and have completed some market research with my customers, I may have concluded that my typical customer has the following attributes:

- Has a high level of income (because they can afford to have me do it, as they are time poor), and
- Is older than 50

If I look at the demographics, then my best customers will come from high income, older areas, and my worst customers will come from the opposite (i.e. a low income, young family area).

A person from an area like Toorak (in Melbourne) or Double Bay (in Sydney) probably has twice the chance of using a pool cleaning service than a person in Average Australia. Therefore, in these areas, our 'person' is worth two Units of Demand.

By contrast, a low income, young family area like Carrum Downs (in Melbourne), Beenleigh (in Brisbane) or Albion Park (in Sydney) probably only has half the chance of using my service than Average Australia.

If I now want to estimate the demand for my service, it becomes the 'Unit of Demand' for each area, multiplied by the actual population.

In Toorak for instance, I have decided each person is worth two Units of Demand, and if the population is 10,000 persons, then I have 20,000 Units of Demand in that suburb or postcode.

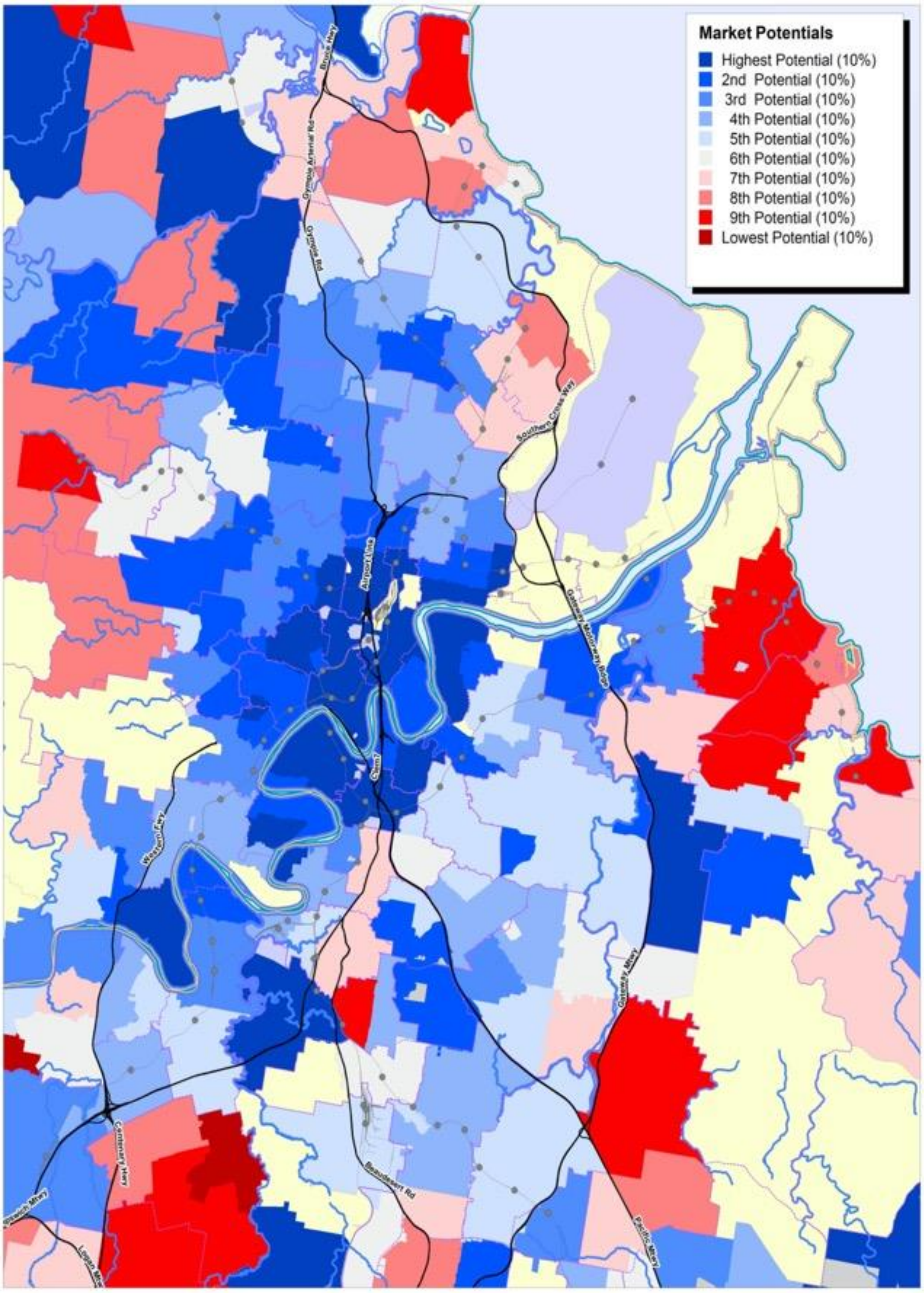
By contrast, an area like Albion Park, where we have concluded each person is worth 0.5 Units of Demand, and there are 25,000 persons, then I have only 12,500 Units of Demand in that suburb or postcode.

I can then see which areas are best for my product or service. As such, if I were going to open an up-market pool shop, and specialize in servicing the local pools, Toorak would offer a better opportunity than Albion Park.

## Target Market Index

The material above can then be displayed on a map, so that we can see which areas have the best probability of a person using our service. This is done using mapping software and Census data, so you can combine multiple variables to create a value for each area, and then show that on a map.

Below is an example of a Target Market Index (TMI) map. If we have undertaken a TMI map, we can then hot list the areas we believe are most appropriate for our goods or services, and begin the next step of looking for actual locations.



# 3. Shopping Centres versus Shopping Strips

**Tip 3:**
Are you able to afford the rents for a high exposure site, or should you be looking for lower exposure, lower rental stores in shopping strips? If you have a concept large enough to be in both, then be aware of the higher costs in shopping centres, as well as the normally reduced tenure and rarely offered option.

Many businesses have a preference to go into big Shopping Centres (or malls), whilst others believe shopping strips are the go.

Shopping Centres definitely have high attraction power for the customers, as the volume of traffic is normally very high. In Australia, we can gather the basic statistics on Shopping Centres from the Property Council of Australia. They produce a dataset giving a page of details for nearly every shopping centre in Australia (unless the owner is not a member of the Property Council of Australia, and does not wish to be included).

The Property Council data tells us the owner, manager and their contact details. It also tells us the GLAR (Gross Lettable Area Retail) and MAT (Moving Annual Turnover) of the centre, as well as details of the major tenants, number of car parks, specialty stores, estimated pedestrian traffic and details of major refurbishments of the centre.

Different owners may collect data in different ways, so we are at the mercy of the details supplied to the Property Council.

In the case of shopping strips, there is no formal collection procedure, or body, that acts like the Property Council. We use our own product called ‘StripLocator’, which is a method of comparing one shopping strip to another as an indication of the strength of the strip.

| | Shopping Centre | Strip Shopping |
|---|---|---|
| Traffic | Normally higher in a SC (and measurable) | Lower and unpredictable |
| Product mix (i.e. competitors) | Some governance in a Mall, depending on the owners, as they can limit the competition if they wish | No protection from your competition acting any way they wish |
| Rents | Normally much higher, with annual increases about 3 X CPI | Higher chance of a lower rental |
| Long-term renewals | Currently most SC's will give only a 5-year lease, with no options, so you are at their mercy at time of re-leasing | More likely to be able to negotiate longer tenure, including options for lease renewals |


# 4. Impulse versus Destination

**Tip 4:**
Do you understand where your concept lies in terms of ‘Impulse versus Destination’? The higher the product is an ‘impulse’, the more important it is to be in a high exposure location.

Before selecting a site, you need to think about how your product rates, in terms of ‘Impulse versus Destination’. If we think of it in terms of a line, where do we sit on that line?

High Impulse
Low Destination

Low Impulse
High Destination

**High Impulse items**

High impulse items are usually low cost, spontaneous purchases, such as buying a carton of milk, a packet of cigarettes, or a newspaper. You may make some decision where you go, but convenience normally drives this purchase.

When we look at the most High Impulse business we can imagine, think of a street busker. In this case, they are very mobile, and are able to move to the best traffic flow at no cost. Their only requirement is to move their instrument and case and walk to a different location.

As the cost of the goods you are purchasing increases, you move further along the line towards Low Impulse / High Destination.

### High Destination purchases

If the goods you want are reasonably expensive, and you have already predetermined where you will buy it from, then that is considered a 'high destination' purchase. If you want a specific type of car, such as a BMW, then you will travel to a BMW showroom.

### Giving a value to this 'Impulse versus Destination' ratio

Your business can normally be addressed as x% impulse; y% destination, and I shall give some examples:

| | | |
|---|---|---|
| Busker | 100% impulse | 00% destination |
| Rolling Stones Concert | 01% impulse | 99% destination |
| Buying Petrol | 80% impulse | 20% destination |
| KFC | 60% impulse | 40% destination |
| High-class restaurant | 20% impulse | 80% destination |
| Buying small electrical goods | 70% impulse | 30% destination |
| Buying a home theatre | 20% impulse | 80% destination |

As you can see, the more pre-meditated the purchase, the higher the probability you will look up where you want to go, not just spontaneously make a purchase from the first store you see.

### The decision

That being said, the higher the impulse value of the goods you are selling, the more important it is to be in a highly visible, high traffic location. If you have a very strong destination product, then you can take a more back-street approach.

The rental you pay for a property is often defined by the owner’s view on whether or not the premise is a high traffic / high visibility location. In shopping centres, most stores have a different rental rate per square metre depending on centre management’s view of these factors.

What you need to do is pay the appropriate rental for the appropriate store, and if you have a high destination type product, then you do not want to be paying top rental for the peak corner in the centre.

If you have a high impulse product, then you need high passing trade, or you will not sell your goods. There’s no point being down at the back of the shopping centre, paying cheap rental, if you have a high impulse product such as phone cards, sandwiches or other food items.

An exclusive restaurant that has a great reputation, as well as an excellent word of mouth reputation that tells people how good it is, can be in a lower rental street or area, as the public will find it and come to it.

A quick service restaurant (QSR), such as McDonald’s or KFC, must be in a high impulse area like a food court or a high exposure road.

# 5. Friend or Foe? Is Clustering Good or Bad?

**Tip 5:**
It is normally far better to be in a cluster with your competition than out on your own, trying to draw customers to you. Think of being in a cluster as being near a friend, and on your own as being near a foe, as the power of the group is far stronger than the individual.

Have you noticed that a lot of fast food restaurants appear to group together? Or that Telco stores are often all in a row (or in very close proximity)?

Our research has shown that for most concepts, there is a definite advantage from being in a common locality. We believe that if a cluster of four fast food restaurants is built together, and if the total business each could have expected was $50,000 per week, then having four in a grouping will not generate a total of $200,000, but more likely $250,000 per week.

In other words, 'The total is greater than the sum of the parts.' We believe that when a choice is available, more people will come to the area to buy than the total patronage the individual sites would have attracted at separate locations. Have you ever wanted fast food, and the best way to solve the family's needs was to go to a Quick Service Restaurant (QSR) Cluster so that the children could have McDonalds and you could then have KFC or Pizza Hut?

We believe that, in general, working in a cluster has been a ‘Friend’ where as being one to two kilometres away from a cluster of like-goods acts as a ‘Foe’, as the power of the “QSR Cluster” attracts more business away from you.

A recent trend has been the development of Alfresco Centres, where a major shopping centre will install cinemas, and dedicate an area to Casual Dining clients. These locations are normally anchored by Grill’d, Nandos, GYG, Zeus Street Greek and other outlets. In my view, this trend is taking over from the traditional food court in many larger centres.

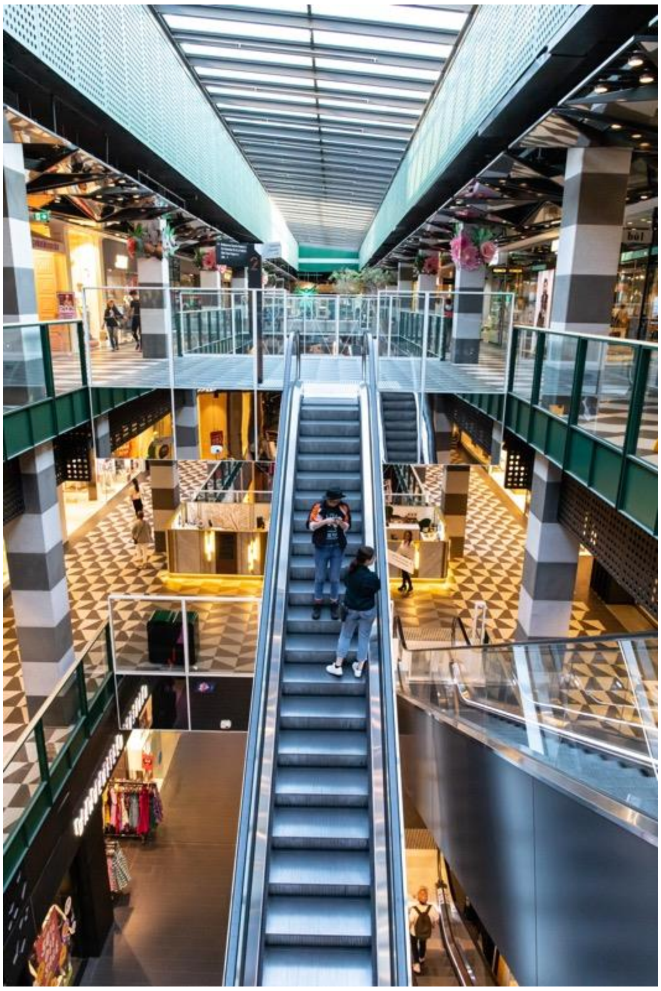
For years in the oil industry, there have been strips that are known as ‘gasoline alleys’, and these have always had the reputation of discount petrol, and drawn people to them. Examples of this have been Canterbury Road in Sydney, Ballarat Road in Melbourne, and the Darlington strip in Adelaide.

The only exceptions (or where we have felt it diminishes) are where you are by far the strongest in the market, and you may be bringing competition to you, so that your competitors are essentially ‘running off your coat tails’. A prominent example of where we have seen this occurring is with Telstra stores, where competitors such as Optus, Vodaphone and Virgin Mobile benefit from the power, presence and market share that Telstra has.

For several years, Homemaker Centres have been popular, but their rapid expansion seems to have slowed, possibly due to online shopping and a general saturation of many of the products they sell.

# 6. Finding the Appropriate site in a Shopping Centre

**Tip 6:**
Decide on the precinct you feel is most appropriate for you to operate. In large centres, look where that precinct is, and what opportunities are available in it. If it is a general concept, then look to where other general stores are operating, so they are also similar in the 'Impulse versus Destination' ratio.



You can now understand the concept of finding the best area for your products. You have decided if your goods or services are 'Impulse versus Destination', and where they fall on the line.

There are different types of customers coming into a shopping centre and you need to consider their needs. I believe the two ends of the spectrum are:

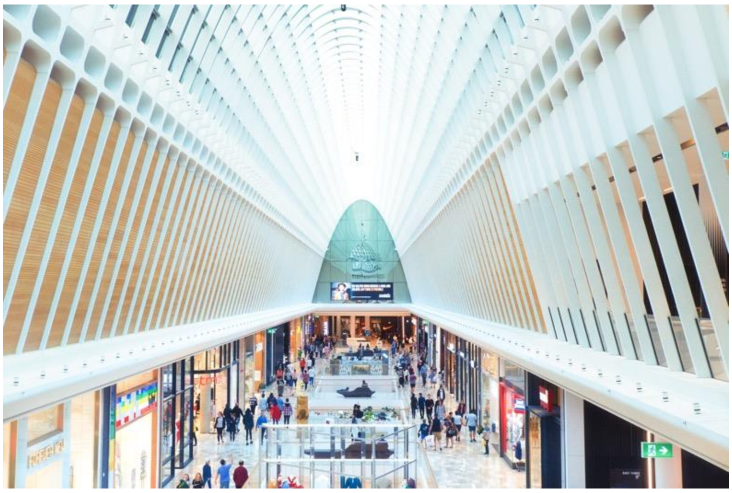
- The 'Quick' shopper (i.e. the person who comes into the centre to go to the supermarket and the fresh food area). This person is buying their weekly needs, and will have little time or desire to wheel their purchases around the centre whilst looking at other goods.

- The ‘Retail Therapy’ shopper (i.e. the person who comes to the centre to browse for bargains and looks in many stores over a couple of hours). This is very common on weekends in the large Shopping Centres.

Some people are in between, but in a big centre, they may have pre-conceived ideas of where they are going.

Large Shopping Centres tend to have precincts, and if your goods fall into a specific group, then it is often an advantage to be in the correct precinct. Examples of precincts we are starting to see are:

- Fast Food (i.e. the Food Court of a shopping centre). This is the traditional area people gravitate to for a quick lunch. Since COVID-19, this has definitely been on the decline.
- Casual Dining or Alfresco area. This is the new growth area, often anchored by the Cinema, attracting you to the area, sit down, enjoy the well priced food (with a drink) and the casual atmosphere. You may see Grill’d, GYG, Fratelli Fresh, Nandos and Zeus Street Greek in this area.
- Fresh Food (i.e. often a precinct where you have vegetables, green grocers, specialty produce stores, butchers, fishmongers, hot bread shops etc). It is often near the entrance to a supermarket.
- Fashion (i.e. areas that attract the high-end fashion names). Many boutique fashion stores intermingle with the big names.
- Telcos (i.e. telephone stores often gravitate together, normally as the smaller players have come to be near the Telstra store).



- Precincts are now very important and some can operate completely different hours to the general shopping centre they are in. For example the Alfresco area may operate from 11:00am until 10:00pm whereas the general shops will have closed at 5:30pm.

- General areas (i.e. mixed business). These have many different tenants including bookshops (such as Dymocks), Foot Locker, T2, Specsavers, OPSM and many others. This area normally contains all the stores where a separate precinct is not easily identifiable and it may include clothing and fashion stores.

- The Cheap areas (i.e. discount retailers). In the back or lower section of many shopping centres, you will find the areas where there is low traffic and the owners will take a low rent. Stores that need this low rent are often the $2 shops, rug shops, or stores selling to people looking for a bargain. These stores may need a reasonable size but cannot afford much rent.

Being within a precinct can act as a Generator for your business. We look at many businesses as a ‘Friend or Foe’ situation, and if, for example, you are a Quick Service Restaurant, it is normally felt that you need to be in the Food Court, as this is where your customers will be. If you were a KFC out of the food court, with no other food options around you, you would not expect to do as well as a store that is in the food court.

# 7. Finding the Appropriate site in a Shopping Strip

**Tip 7:**

Look for the precincts within the strip where you want your concept to be. Think of the ‘day time versus night time’ traffic, and be aware of the different rentals the different precincts charge you.

Shopping strips vary in shape and size and the configuration depends on issues like parking and cross streets. Most strips have an identifiable centre and one of the best ways of seeing this is to look where the banks and supermarkets are located.

Strips are normally daytime activity centres, however there are strips that are night centres or food centres. Examples of these across Australia would include Fitzroy Street St Kilda (Melbourne), Oxford Street Darlinghurst or Kings Cross in Sydney and the Northbridge precinct in Perth.

The normal daytime strip is active due to people shopping and visiting during the day. Some of the main areas you are able to see are:

- Banks – normally all located in a close area
- Market and fresh food
- Telecommunications – phone shops tend to congregate
- Newsagents and Chemists tend to be near the centre
- Outer, lower rental stores normally nearer the ends
- Cafes and restaurants may be grouped or scattered throughout. If there is a theatre, then this will be a prominent part of a restaurant or café precinct.

If you are going into a strip, we believe you need to consider the 10 nearest stores as an indication of the precinct you are within. If you have four cafes or restaurants, then this is a sign that you are in a restaurant precinct, or similar if there are four or five fashion or shoes stores close together.

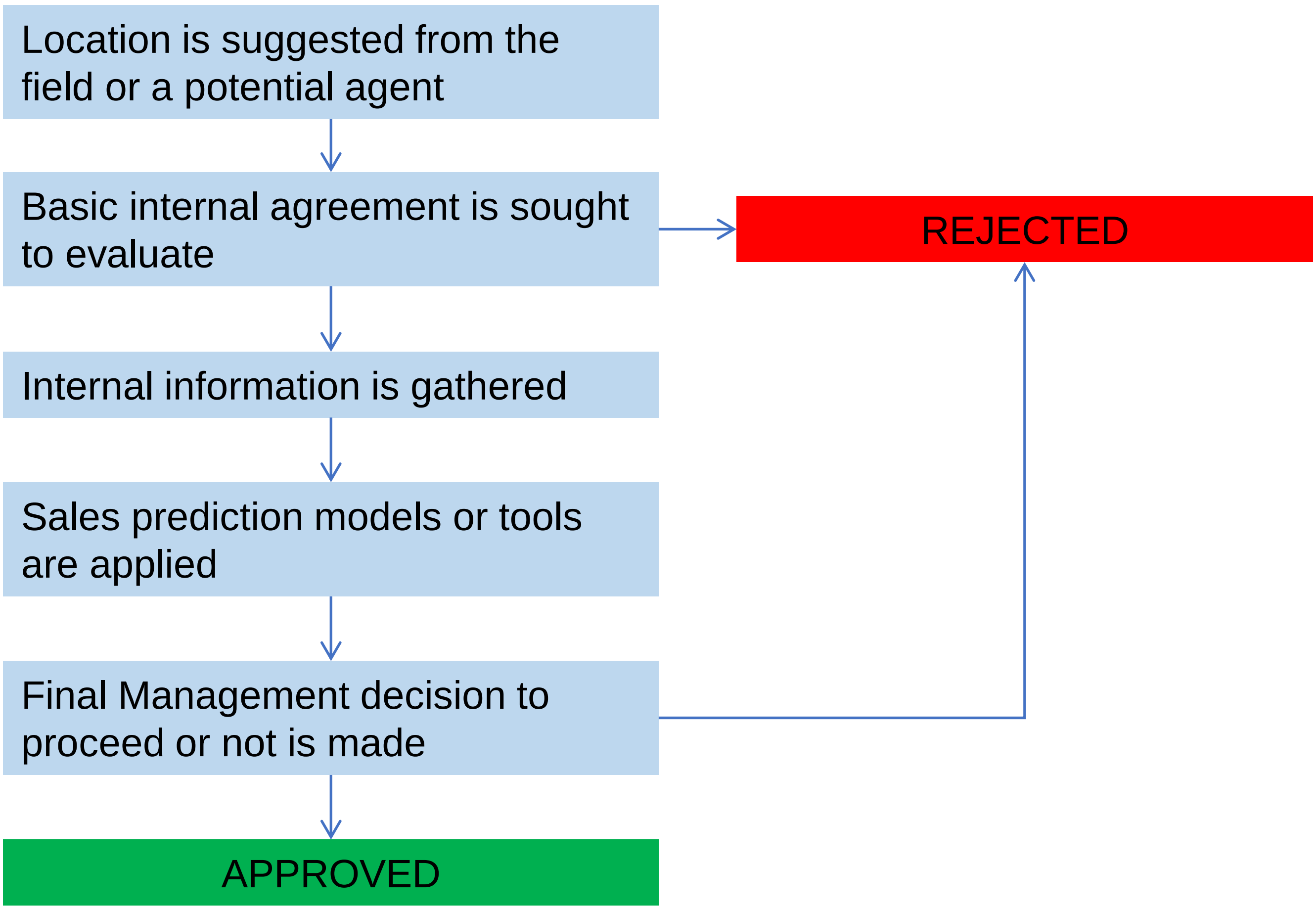
Think about what you are selling and see if there are precincts that will support your product or service.


# 8. Establishing a Process

**Tip 8:**
Once you have a management approved process, it is extremely important that you are honest to yourself in applying it, and that you keep records of the decision-making process, as well as the outcomes, so if you are challenged in the future, you can explain your process.

It is essential that if you are building a retail network, you have a process that you use for selecting all of your stores.

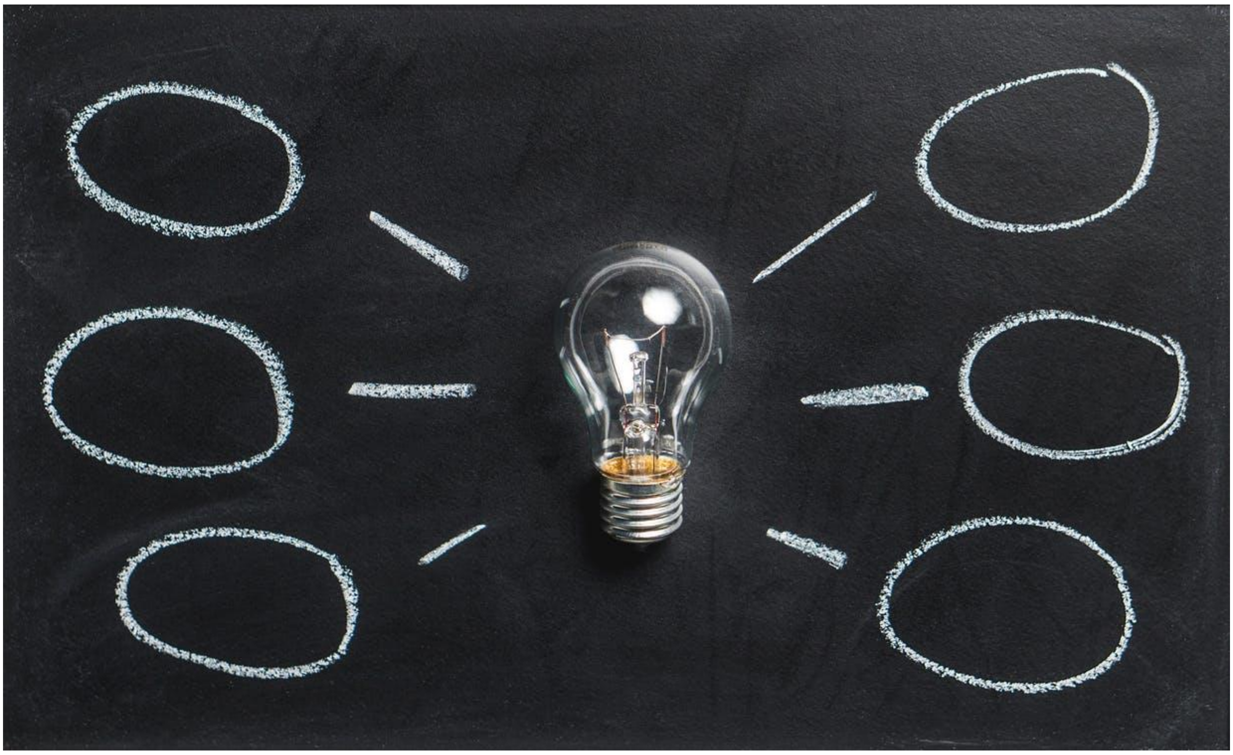
Here is a simple overview flowchart:



The way most property people think is probably quite similar to this, in that a site can either be (a) quickly eliminated, (b) eliminated after some initial management consideration, or, once past these two hurdles, (c) undergo a rigorous examination to decide whether to proceed or reject.

Most of our work occurs once a site has preliminary interest to being either approved or rejected.

Depending on the size of the existing network, we can help you decide what process to apply to evaluate a potential new site. This ranges from looking at the demographics, to building a set of analytics that give sales predictions based on certain factors that have been established (ideally by statistically evaluating the existing network).



# 9. Summary

**Tip 9:**
Site Selection is an extremely important part of the business and as a network increases in size, there is less 'low hanging fruit' and it becomes increasingly important to understand the process as the decisions become progressively harder.

**Spectrum Analysis Australia** can help you make the correct site selection and territory planning decisions in the future by using facts and data to better understand the location BEFORE committing to the lease or purchase of a property, or the sale of a franchise area.

We can assist with Site Selection, Market Analysis and Territory Planning by using a wide range of geodemographic modelling, analysis and reporting to help you make well informed decisions.

Please visit the Spectrum Analysis Australia website for more information.

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# 10. Glossary

**GLAR – Gross Leasable Area Retail**

Shopping centre term for how large a Centre is, based on the total area that is leased to retailers.

**MAT – Moving Annual Turnover**

12-month figure telling us the total dollars have been sold by all the retailers in a Centre.

Both the figures above are available through the Property Council of Australia in books they print and sell. The input for these comes from the shopping centre owners, who are normally members of the Property Council of Australia.

MAT figures are normally derived from the individual retailer's figures, as they normally have to disclose their sales to their Lessors as part of the lease conditions.

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