A Publication of Spectrum Analysis Australia
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NINE TIPS

TO

GREAT SITE SELECTION

A GUIDE TO START CONDUCT EFFECTIVE SELECTION PROCESS

SPECTRUM
ANALYSIS
Geodemographic Modelling & Analysis

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CHAPTER ONE

The Network Planning Process

TIP 1 -
Understand where you are in the Network Planning Process before considering individual sites. It is no good picking and opening a few random sites, and then trying to fit a Network Strategy around them later on.

Over the years, I have been involved in site selection for an oil company (Caltex), and now with our own company, acting as a consultant to many major brands. The issue of good site selection is one of the most critical things in making a business successful rather than a failure.

To understand the principles of site selection, you first have to think in terms of the **Network Planning Process**, of which actual site selection is one of the later steps in the process.

We believe the Network Planning Process follows a series of steps from the macro level to the site-specific level. Therefore, our description of the processes at work is as follows:

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 be looking at (a) the total number of sites, (b) total potential market, and (c) how to divide allocation (possibly at a regional level).

3. The next level then requires a plan to look at which localised areas (maybe suburbs) the company wishes to locate, and the priorities of these areas. In an established market, this evolves to a network purification process as we look for improved new opportunities whilst we cull out the lowest performers in our network.

4. Specific site selection is then the next step as individual opportunities are sought, then evaluated using tools such as those discussed further in this E-Book.

5. Continual review, or post audit, is then undertaken to improve on the decision making process. This involves bench marking and comparison to the original forecasts. Once a site has gone through a 3 - 5 year operation cycle, little else can be learnt from the original prediction, so we then need to keep a less strenuous review program 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.

The Big Picture

TIP 2 -
Think in terms of whom your customers are (and where to find them) as the first way of selecting areas to look for individual sites.

Some years ago, I was on a special worldwide project team with Caltex, and whilst we were setting up tools for use around the Caltex world, a second group were addressing the start of the network planning process (as far as China was concerned).

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

- 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 are the first things a company needs to address if undertaking a start-up business. Naturally, Caltex were very experienced across Asia, and could apply a great deal of logic and science to their decision process.

Different types of business will have a higher probability of success if the goods or services being sold match with the type of person living or working in that area.

In most countries (including Australia), we have a very thorough Census conducted on a regular basis (normally every five years). The Census allows us to look at particular areas and understand issues like:

- Population levels
- 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 image 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”, 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.

<u>Example</u>

I may have a swimming pool cleaning company, and following some research I have undertaken with my customers, I have concluded that my typical customer:

- 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.: probably 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 2 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 2 Units of Demand, and if the population is 10,000 persons, then I have 20,000 Units of demand in that suburb or postcode.

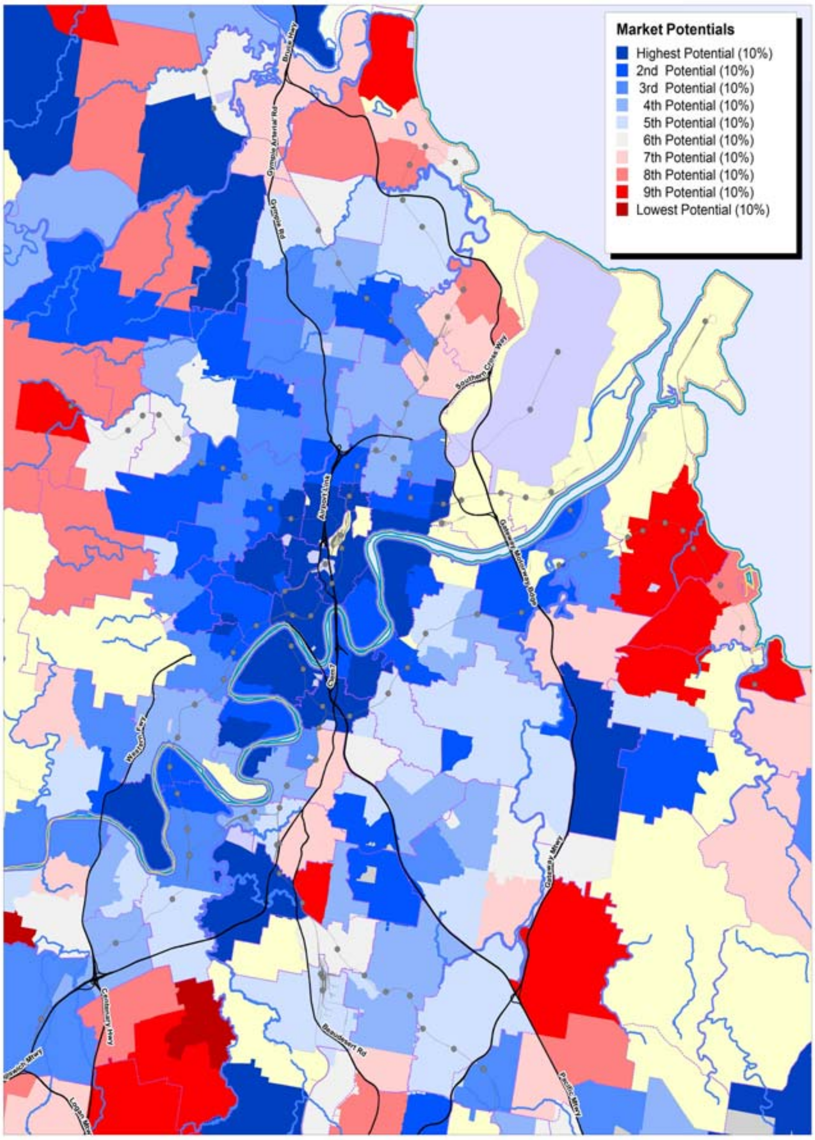
By contrast, an area like Albion Park, where we have concluded each person is worth 0.5 Units of Demand, and there are 25,000 persons, then I have only 12,500 Units of Demand in that suburb or postcode.

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 map: If we have undertaken a TMI map, we can then "hot list" the areas we feel that are most appropriate for our goods or services, and begin the next step of looking for actual locations.



Area Selection

If we have undertaken a TMI map, we can then "hot list" the areas we feel that are most appropriate for our goods or services, and begin the next step of looking for actual locations.

Shopping Centres vs. 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, who produce books 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 on the major tenants, number of car parks, specialty stores, estimated pedestrian traffic, and details on 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 a product called ‘Strip Locator’, which is a method of comparing one strip to another as an indication of the strength of the strip. The comparisons as we see it are

	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 ompetition if they wish	No protection from your competition acting any way they wish
Rents	Normally much higher, with little long-term protection	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

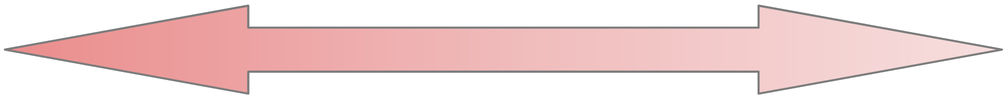
Impulse vs. Destination

TIP 4 -
Do you understand where your concept lies in terms of 'Impulse vs. Destination'? The higher the product is an 'impulse', the more important to be in a high exposure location.

Before selecting a site, you need to think about how my product rates, in terms of 'Impulse vs. 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 'Busker'. In this case, they are very mobile, and are able to move to the best traffic flow at no cost, other than moving their instrument and case and walking to the other side of the pavement or whatever.

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 vs. 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 plasma screen	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 importance to be in a highly visible, high traffic location. If you are a very strong destination product, then you can take a more back-street approach.

The rental you pay for a property is probably defined by the owner's view on whether the premise is a high traffic / high visibility location. In shopping centres, most stores have a different rental / sq.m., depending on centre management's view on 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 are a high impulse product, then you do 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 word of mouth 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 serve restaurant, such as McDonald's or KFC, must be in a high impulse area, be it a food court, or a high exposure road.

CHAPTER FIVE

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 a friend, and on your own as a foe, as the power of the group is far stronger than the individual.

Have you noticed that many fast food restaurants appear to group together, or that in most cases, the Telco stores are in a row (or in very close proximity)?

Our research over the years has shown that for most concepts, there is a definite advantage to be in a common locality. Our view is that if a cluster of fast food restaurants is built together, and if the total business each could have expected was $30,000 per week, then having four in a grouping will not generate a total of $120,000, but more like $140,000 per week.

“The total is greater than the sum of the parts” … our view is that given choice, 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 “Cluster”, so the kids could have McDonalds, and you could then have bought KFC or Pizza Hut?

Our view has been that in general, working in a cluster has been a “Friend” where as being 1km - 2km from a cluster of like-goods acts as a “Foe”, as the power of the “Cluster” attracts more business away from you.

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 Rd in Sydney, Ballarat Rd in Melbourne, and the Darlington strip in Adelaide.

A good deal of retail development at the moment is in building new Homemaker Centres, where like stores congregate, and attract people to the area with common needs of purchasing for their house. Many new Homemaker Centres, such as Peninsula Homemaker Centre at Mornington, are exceeding what both us and our clients expected to sell in the initial opening period.

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 felt this to be occurring is with Telstra stores, where competitors such as Optus, Vodaphone and Orange benefit from the power, presence and market share that Telstra has.

CHAPTER SIX

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 vs. Destination' ratio.

By now, you should have understood the concepts of finding the best area for your products. You also should now have considered if your goods or services are 'Impulse vs. Destination', and where they fall on the line.

In our view, 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 goods around the centre browsing at other goods.

- The 'Retail Therapy' shopper (i.e.: the person who comes to the centre to browse for bargains, and look 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, 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 lunch.

- Fresh Food (i.e.: often a precinct where you have vegetables / green grocers, butcher, fishmonger, hot bread shops, etc). Often it is adjoining 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).

- General areas (i.e.: mixed business). These have many different tenants from the bookshops (such as Dymocks), Autobarn, ABC shops, Eyeware (such as OPSM) and many others. This normally contains all the stores where a separate precinct is not easily identifiable, plus being interlaced with clothing and fashion.

- The Cheap areas (i.e.: discount retailers). In the back or lower section of many shopping centres, you 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 as a “bargain”. Often they need 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 Serve Restaurant (i.e.: KFC, Ali Baba, McDonalds, etc), it is normally felt that you need to be in the Food Court, as this is where your customers come to. 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 being in the food court.

Tip -Look for Precincts in the Shopping Centre, and think how this will affect the business you are in. If possible, seek stores that bring your type of customer into the area.

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 vs. 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 Australia would include Fitzroy St St Kilda (Melbourne), Oxford St 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 / 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 4 cafes or restaurants, then this is the sign that you are a restaurant precinct, or similar if 4 or 5 fashion or shoes stores.

Look to what you are selling and see if there are precincts that will assist in being in the area.

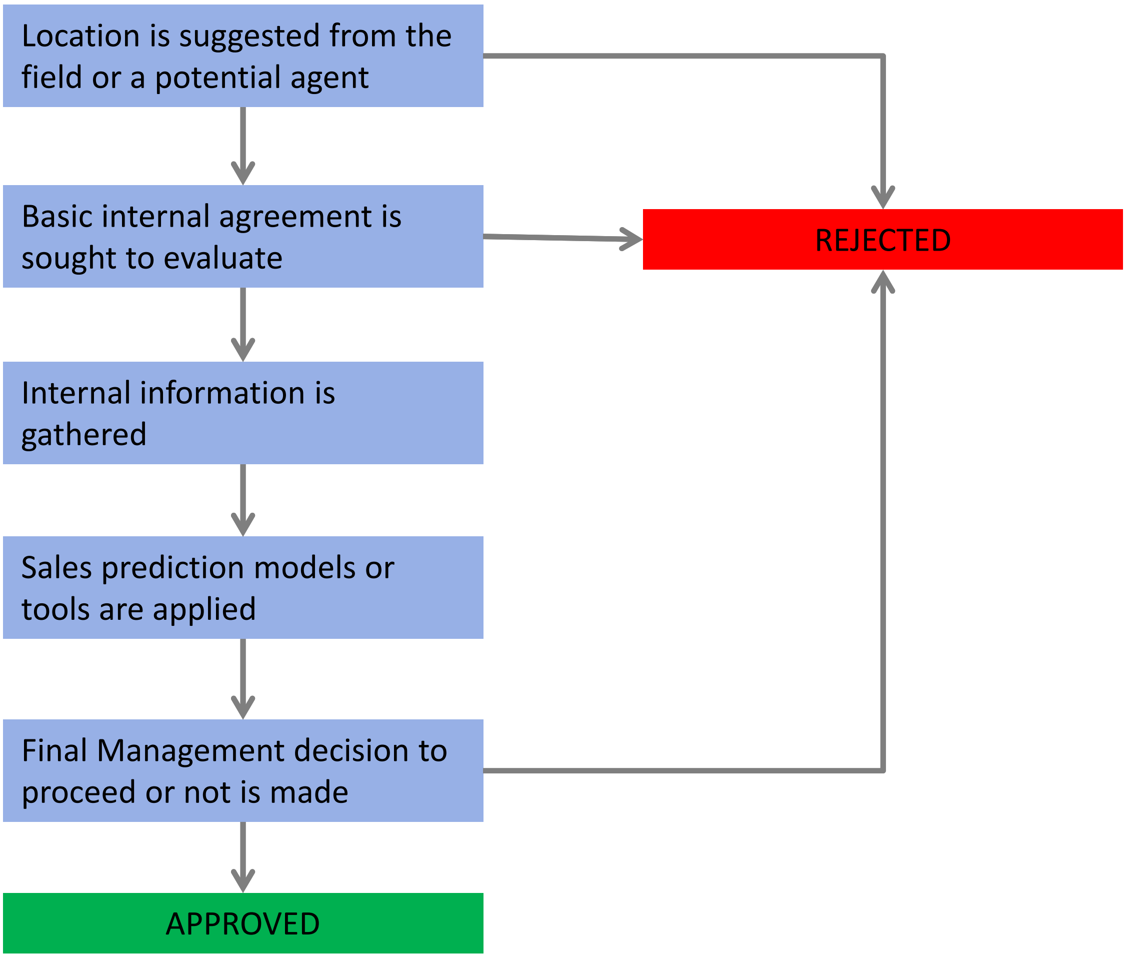
CHAPTER EIGHT

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 file records of the decision 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 stick with in selecting stores.

My view is the simple overview can be shown by the following flowchart:



The way most property people think is probably quite similar to this, in that a site can either (a) be quickly eliminated, (b) be 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 decide what process we can apply to evaluate a potential new site. This ranges from looking at simply the demographics, to building a set on analytics that give sales predictions, based on certain factors that have been established (ideally by statistically evaluating the existing network).

For more details on this, please revisit our website and look at our published article - Sure Fire Site Selection.

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”; it becomes increasing important to understand the process as the decisions become progressively harder.

Appendix – Terms used

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.

TURNING DATA INTO SOLUTIONS

Spectrum Analysis is the company to help you in making 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. **Site Selection**, **Market Analysis** and **Territory Planning** using demographics and statistics are what we live and breathe.

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