

Chapter 12

SITE SELECTION: HOW TO FIND A GREAT LOCATION

By Peter Buckingham CMC, FFCA, Managing Director
Spectrum Analysis Australia Pty Ltd

ABOUT THE AUTHOR

Peter Buckingham is the Managing Director of Spectrum Analysis Australia Pty Ltd, the leading Geodemographic, Strategic Network Planning and Retail Sales Modeling Company in Australia.

He is a Fellow of the Franchise Council of Australia (FCA), and a Federal Director of the Institute of Management Consultants (Australia), and a Certified Management Consultant (CMC).

Peter spent 20 years with Caltex Australia Ltd in a previous life, including roles throughout Australia and one year overseas. Peter also spent around four years in service station development within Caltex, practicing what he now preaches.

Education is dear to his heart, and in conjunction with Franchise Advisory Centre, Peter runs full day seminars on "Franchise Site Selection and Territory Planning", and also lectures in this area for the Franchise Academy's Diploma of Franchising course. He regularly speaks to Conferences, both international and national, including the Franchise and Licensing Association of Singapore in 2010, the Franchise Association of New Zealand in 2011 (annual conference) and regularly at the Australian NFC. He is available for conferences on a variety of topics to do with sales, property decisions and the world in general!

He is currently working on expanding the empire, and Spectrum Analysis is looking at partnering with others in both China and New Zealand – quite a contrast of countries in 2011.

Spectrum assists many retailers and franchisors in better understanding the retail market from a site and area selection view.

Location, Location, Location.....

You have all heard the adage that the most important thing in Real Estate is Location, Location, Location, and I guess retail site selection is definitely a subset of Real Estate.

You can have the greatest products, best fit out, fantastic look and still fail miserably if you have not given site selection some really hard consideration.

It continually amazes me how much effort some clients put into selecting a new store without addressing the biggest issue – WHAT DO I THINK THIS WILL SELL?

Before signing a lease for any store – you must have done some forecast Profit and Loss? My most simplistic view is this can be broken down to Six Lines:

Sales (Gross Revenue

Less

- **Cost of Goods Sold**
- **Rent**
- **Labour**
- **Other**

= Profit <or Loss>

If we ask ourselves how accurate we can be with the various factors, it should look something like:

Sales – NEED HELP TO HAVE A CLEAR UNDERSTANDING OF WHAT THIS LOCATION WILL SELL.

Cost of Goods Sold – easy – should be a % of Sales (or a range)

Rent – we know that from the lease in front of us

Labour – we should have a good idea of staffing requirements

Other – we should have a fair idea – Petty cash, telephone, uniforms etc. etc.

The point is the BIGGEST Source of Error that will make or break this Profit projection will be that line called SALES or Gross Revenue.

This chapter is partly what to think about as far as the site is concerned to make the SALES as high as possible.

Franchisors will normally not tell you their SALES forecasts for a store (mainly for legal reasons). They should offer you information about the area – maybe demographics, maps of where the competition is, information about the shopping centres etc. etc., but will tell you that it is your responsibility to make the call on your future sales.

Most franchise systems will offer to give you the names / contact points of other Franchisees, so we can only recommend you take them up on that, and try and make contact.

The simplest method of sales prediction is what we call the ANALOGUE model. This means find like stores, see what they are selling, and then make your judgment from that.

If I am planning to open a kiosk for a particular brand in Southland (Super Regional Shopping Centre in Melbourne), then the analogues I would be looking for is what sales other kiosks are selling in the likes of Chadstone, Fountaingate, Knox City, Highpoint, Chatswood, Warringah Mall and other Super regional sized shopping centres around Australia. What is NOT relevant would be the sales in strips or the CBD or small shopping centres.

Maybe you can also take into account which shopping centres (above) are most like Southland in size, demographics, position you are being offered etc., and this will help to decide which of the comparative sites are most relevant.

Once we have some comparisons, you should be able to at least have a feel for a range of SALES the store should achieve.

What areas should we consider for our products?

Before we settle on a shopping centre, strip or the CBD, we need to think of the best areas for what we plan to sell. We like to imagine that there is one person living in each area (be it postcode, census

collection district, council area or whatever), and what is the likelihood of that person wanting your goods or service?

If we imagine that the person is worth one unit of demand on average (or \$1.00 sales), then if the fit is good for the area, then the one person may be worth 1.5 units of demand (\$1.50), and if the fit is poor, the person may be worth only 0.5 units of demand (0.50c).

For example, I may have a pool store, and following some research I have done with my customers, I have concluded that my typical customers are:

- high income people (because they can afford to have me do it) as they are 'time poor'
- older people 50 plus.

If I look at the demographics, then my best customer will come from high income, older area, and my least ideal customers will come from the opposite, probably a low income, young family area.

A person from an area like Toorak (in Melbourne) or Double Bay or Mosman (in Sydney) probably has twice the chance of using a pool cleaning service (also from my store) than a person in 'average Australia'. Therefore in these areas our person is worth two points.

By contrast, low income, family area such as Carrum Downs, Beenleigh, or St Marys or many others probably only have half the chance of using my service than 'average Australia'. In this scenario we can become more conscious of at least which areas to start looking in.

Can we quantify this Demand?

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

In Mosman, I have decided each person is worth 2 units of demand, and if the population is 10,000, then I have 20,000 units of demand in that suburb or postcode

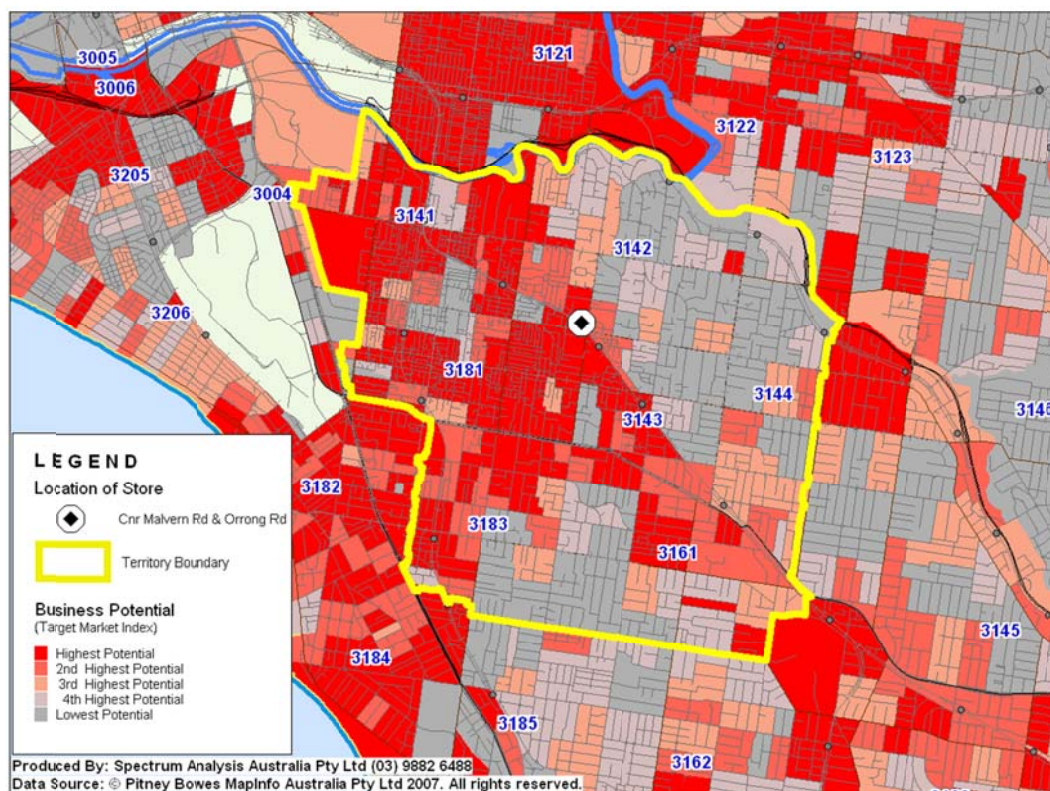
In St Marys, where we have concluded each person is worth 0.5 units of demand, and there are 25,000 people, then I have 12,500 units of demand in that suburb or postcode.

I can then see which areas are best for my product or service, so if I was going to open an up market pool shop and specialize in servicing the local pools, Mosman would offer a better opportunity than St Marys.

Target Market Index

The ratings of areas from above can be then shown on a map, so we can see which area has the best probability of a person using our service. This is done using mapping software (we use Pitney Bowes MapInfo software) and census data, so you can combine two variables to create a value for each area and then show that on a map. On a smaller area this may be used for finding a specific area within a territory, or on a large scale, which suburbs across Melbourne or Sydney best suit our concept.

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 service and begin the next step of looking for actual locations.

Mapping – a developing science.

Mapping from the past...

Most retail or service Franchisors seek to have some mapping to understand their distribution network, be that their stores or territories. Over the years mapping has evolved from a printed wall map (originally from UBD or Melways) with texta markings or coloured pins to more sophisticated computerized mapping.



Beer and Pizza map

The “Beer and Pizza” map has traditionally been done with a black text on a large map, strongly influenced by some early entry, self-centered Franchisees drinking beer (or red wine) and eating Pizza at the Franchisor’s expense.

But Wait – it can be done far better.....

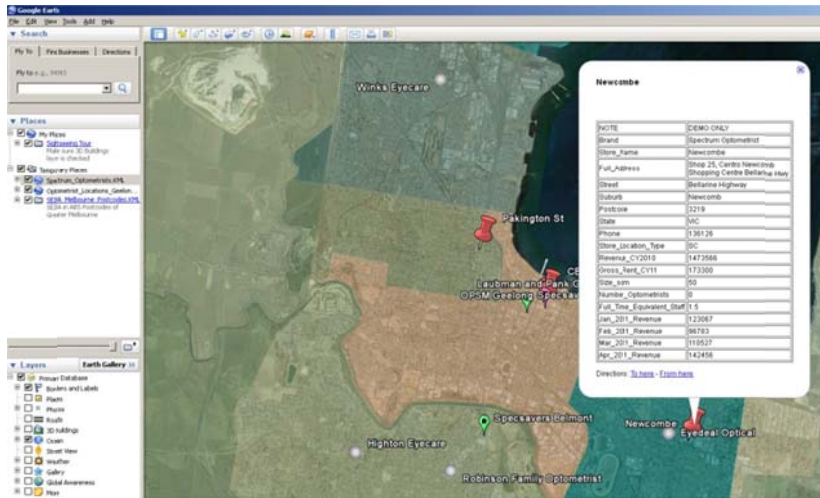
1. Using Google Earth

The first new way is using that fantastic free service called Google Earth. My view is why try and invent a new wheel when the one you have rolls very well anyway! Google Earth is a great way to visualize all sorts of things from the satellite level (including the photo-images) of viewing all of Melbourne, Sydney or even Australia at the same time, down to the very low level of a particular shopping strip or territory, or even their “street view” to have a look at a particular shop front. There is some issue about the currency of the satellite photography, however even though this may be a few years old, road and buildings do not change all that often.

Google Earth, like Excel or Word is a program or an “environment” to run information files in. When you open Excel, you normally then open an Excel file, usually with the suffix .xls. In Google Earth, you can have your own specific files that open within the Google Earth program, with the suffix .kml. A .kml file may contain the location of all your stores, mapping layers of all your territories, or special layers you or an expert consultant may have created. These could be showing your competitors, special demographic layers, or your customers.

One development allows you to click on any store in your network, and open a bubble that may contain all of the store’s relevant information. This could be the address, Manager’s name and contact details, floor space, rent, any sales data you wish to have... anything at all.

The beauty of a .kml file is that it is YOUR file. While everyone may have free access to Google Earth, only you can open your files within it, similar to you having your own files to open in Excel.



Google Earth file with a background of demographics, and information on a specific store. Note the transparency bar allows you to fade the background layer down to zero to see the roads underneath.

2. Using Layered pdf maps

A pdf map is usually a fixed image showing all the features you wanted, similar to a photo.

However, we now have the ability to create what we call a “Layered pdf” which is a map where you (the operator with only Adobe on your computer), can use to look extremely professional.

I best describe it like “the old days” where in a presentation someone would have an easel or flip chart, and then from behind they would flip over some transparencies that were aligned to appear as if they had added the next section they wanted to show you. Or using PowerPoint where you follow one slide by the next and it appears you have added just some specific points.

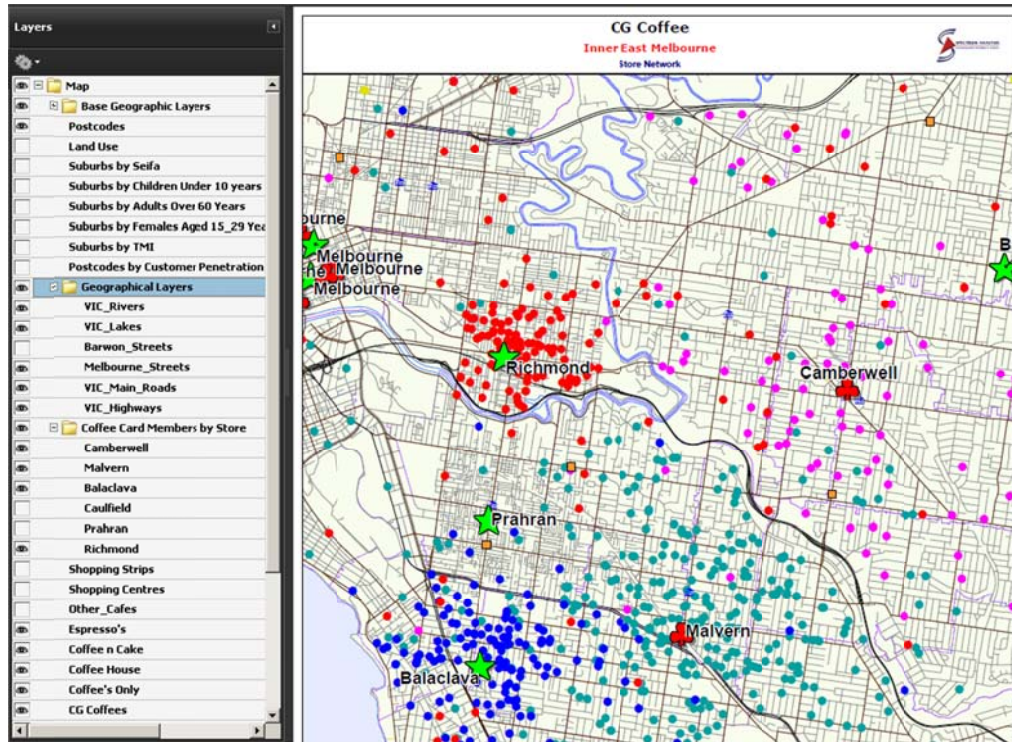
A map you see may have 20 – 50 layers on it, and when you see a hardcopy, or a normal pdf, these have all been locked together. The Layered pdf allows the user to unlock these. A key (not unlike the folder control in Windows Explorer) sits on the side, and you can turn on and off the various layers as you choose.

In creating Layered pdf’s for clients, we find it is best to start the mapping with minimal details showing, and then let the client turn on and off the features they wish to see. A typical scenario may be the Network Development Manager presenting to the CEO, and she wants to look at a particular market and show:

- Where our sites are (shown as stars and clovers in the map below)?
- How our major competitors are positioned?
- Where our customers live (shown as differently coloured dots in the map below)?

- Where we have the highest customer penetration (customers per 1,000 persons)?
- Show where the commercial or industrial areas are
- Etc. etc.

Once set up, all this becomes a “piece of cake”, and can be learned in just a few minutes.



Recently one of our clients had to do a presentation to Telstra Management, and used a layered pdf to show their deep and intrinsic knowledge of the Melbourne area. Being from Perth, this mapping assisted greatly!

Should I be looking in Shopping Centres or Strips?

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 higher attraction power for the customers as the volume of traffic is normally higher (and therefore the rent). 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 then tells us the GLAR – gross leasable area retail and MAT – moving annual turnover of the centre. It also gives details on the major tenants and their area, number of car parks, who many of the Specialty stores are, 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 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 (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 little long term protection	Higher chance of a lower rental
Long term renewals	Currently most SCs 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

Are we best near our competitors – or as far away as possible?

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

Our research over the years has shown for most concepts that 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, if the total business each could have expected was \$20,000 per week, then four in a grouping will not generate a total of \$80,000, but more like \$100,000 per week.

Our view is that given choices, more people will come to the area to buy than the total of the individual sites would attract. 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 have KFC or Pizza Hut?

Our view has been that in general, working in a cluster has been a 'friend' where as being one or two kilometers from a cluster of like goods acts as a 'foe', as the power of the cluster attracts more business away from you.

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 are exceeding what both we 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 they are running off your coat tails. The case we have felt this occurring is Telstra stores where Optus, Vodaphone, 3 etc benefit from the power that Telstra has due to its market share and presence.

The reality of selecting a commercial site

The first thing you learn is all real estate agents are optimists. The reality is they will advise you that the site you are seeking will be hard to find, and that they have the perfect opportunity, (normally if you sign up quickly).

Reality is that out of about 20 stores you will see, probably only one or two will truly meet your requirements.

I normally recommend you write a 'property guideline' that you can show agents and others what you are seeking.

At Caltex, we would be offered about three or four 'opportunities' a week. The oil industry works to some reasonably clear parameters, and it was just a matter of filtering real opportunities from time wasting ones.

My property guidelines to address the following types of issues:

- Size – we were looking for mid blocks of around 80 m long X 40 m wide approx. If a corner block, then around 60 m X 60 m
- Physical characteristics – our preference was a flat block, or if possible slightly above the road rather than below. We would prefer to be on a flat section or slightly uphill section of the road, definitely not a steep decline
- Side of road – we would prefer to be on the 'going home' side of the road, or the 'neutral' direction. Inbound was not so good
- Competition – we obviously did not want to be on the same traffic flow as any of our other sites. Even better if few or no other competitors were servicing the area
- Road type – traffic flow was important, and the more, the better in general
- Visibility – we would want good visibility for our signage. The best was on the outside of a right hand curve in a road, so our signage was directly ahead of the traffic

- Access – you had to be able to come in and out easily. No much good if you could not come in off the main road
- Demographics – in Australia probably the highest fuel users are medium income people, living in outer suburbs of the capital cities
- Suburbs or areas – we would nominate suburbs or specific areas we were actively seeking new sites in, and not be afraid to mention areas we were not looking at, either because we were well serviced in the area, or we knew the land cost would be prohibitive.

Once this was all formed in the property guideline, it was willingly sent to all agents, developers and other interested parties we knew.

If you are looking for a store in a shopping centre or a strip, you can make out your own list of what you are seeking, and then I suggest you be strong, and stick to it until you find the suitable site for your business.

Summary

There is no magic formula to selecting a commercial site, rather a process you need to follow and a line of thinking to make sure the site you finally select meets all the criteria YOU feel is essential for your new business venture.

I cannot tell you to look at the left hand side compared to the right hand side of the road, or look for the busiest, most expensive store in a shopping centre compared to the \$2 discount store at the back.

What I can tell you is THINK on what your business is about and try and match as best you can the commercial sites being offered to yours and your customer's needs. There will always be the attraction of a better/bigger site – at more rent, and you have to evaluate that to your REAL needs, not the sales pressure being placed on you by a leasing agent.

Good Luck Grasshopper!

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.

Peter Buckingham, Managing Director
Spectrum Analysis Australia Pty Ltd
101 Camberwell Road, Hawthorn East, VIC 3123
(AUS) 03 9882 6488
peterb@spectrumanalysis.com.au
www.spectrumanalysis.com.au.