Successful Downtown Retail Districts

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Purpose of Paper

Market research and strategic planning are essential steps to successful development of downtown shopping districts. This paper examines the connection between level of retail sales in small and medium sized places and the market conditions in their surrounding trade areas. More precise market research informs strategic planning necessary for capturing consumer dollars. We recognize that market analysis alone is not sufficient to bring about the successful development and revitalization of downtown shopping districts. However, community development and marketing strategies that are based on sound, insightful, and up-to-date information about the market conditions faced by those communities will improve their probability of success.

The purpose of this paper is to address a specific focus rather than to address all the components that are required for developing and preserving quality communities. That focus is the analysis of market conditions as part of the process of developing successful marketing strategies by the communities. In the execution of these marketing strategies, it is necessary to integrate all facets of the community. It is necessary that the organizational functions, the public policies, and the environmental programs fit together with the strategic marketing efforts to appropriately address the market conditions in order for the community to reap maximum benefit.

Description of Issue to be Explored

Downtown business districts exist in an extremely competitive environment in the pursuit of consumer spending. The level of sales of consumer goods and services by downtown businesses is one gauge of how successful the downtown is as a commercial district. There are indeed other dimensions by which to gauge success than sales, such as indicators of equity, inclusiveness, environmental friendliness and sustainability. In this paper our focus is upon the level of sales by retail establishments in downtown shopping districts. We use data on small to medium sized villages and cities in New York State to illustrate some points, but the basic process of market research and strategic planning can apply to shopping districts in other states, and for larger cities as well. While larger cities typically have a central business district, they also have additional shopping districts. The difficulty in conducting market research for shopping districts in larger cities—and to some extent in medium size cities as well—is the lack of accessible data on sales performance for the various shopping districts. Whereas sales performance of a dominant shopping district in a small to medium sized village or city may be portrayed by the publicly available data on retail sales for the municipality as a whole. In order to be more successful—that is to increase the level of retail sales, downtown merchants and their associations need to employ marketing strategies that lead them to success.

The alternative to carrying out an integrated program of market research and strategic planning is to continue a hit-or-miss process where the odds of success are long. The process we are recommending is one followed by successful shopping centers and chain stores. It means merchants working collectively to develop data sources on themselves and their customers. It means the state preparing statistical summaries on downtown shopping districts from administrative records. It means working with researchers to better understand market conditions affecting level of sales to consumers. In order to gain a competitive advantage for their downtown shopping districts, municipal governments, business districts, and merchants will likely need to change what they are doing. And those changes will need to be threads in a fabric such that they are mutually supportive.

3. Deconstructing the Issue

Secrets to Success

In order to be successful, retail businesses need to establish a competitive advantage. There are two components to competitive advantage: operating effectiveness and strategic differences. Both are integral to outperforming the competition. In order to operate effectively, a business must constantly strive to perform essential activities better than its competitors. These are not a unique set of activities, but rather the core activities that all retailers need to perform. Customer service is an example of operating effectiveness. Businesses that fail to properly service the customer in the manner that the customer demands, soon loses their business to a competitor who more effectively provides customer service. Another example of essential operating effectiveness is quality. Providing a good or service that is free from defects and meets or exceeds the customers' expectations. In competition with malls, too often it seems that the motto of downtown commercial districts has been, “Just like the mall, only less effective!” Higher prices, reduced operating hours, lower levels of customer service and narrower product offerings are a formula for disaster.

In addition to operating effectiveness, downtown merchants need to establish a strategic advantage. What is it that they can do that will distinguish them from their rivals? It is not enough to be doing the same things as efficiently as or more efficiently than the competition. In order to establish an enduring competitive advantage vis a vis competing retail locations, the merchants in a downtown commercial district need to offer a different shopping experience. It is necessary to create a shopping experience that competitors will be unable to duplicate. The strategy needs to fit the market, that is, the target market of consumers who will be drawn to the downtown commercial district. What works for one downtown will not work for others who by plan or default are serving a different set of consumers. What appeals to consumers in a college town may fail horribly in a retirement community.

Michael Porter, economist at Harvard University, illustrates the nature of competitive advantage by describing what has made Southwest Airlines so successful. Airlines are in the business of carrying passengers between two locations. Southwest is no different in that respect. What distinguishes Southwest from the others is its ability to provide low-cost fares. They are able to deliver these substantial cost-savings to consumers because they operate their business in a very different manner. All aspects of the business--no assigned seating, uniform type of planes, no meals or snacks, no luggage transfers--are aimed at reducing operating expenses. These savings are passed along to the consumer. The target market for Southwest is a price-conscious consumer. Southwest Airlines knows their market and has formulated a business plan that combines operating effectiveness with strategic differences to give them an enduring competitive advantage. Downtown retail districts need to act strategically in a similar manner in order to compete with the malls, big box retailers, mail order and Internet retailers.

We believe that two areas of knowledge will greatly assist in the formulation of winning marketing strategies for downtown commercial districts: information on the market served, and examples of strategies employed by commercial districts serving comparable markets. In terms of strategies--explicit or implicit--employed by other commercial districts, both those that succeed and those that fail are important to understand. Getting back to Michael Porter's point, what is it that the successful downtown commercial districts are doing that is different from those that are not succeeding?

Measuring Performance

In order to determine who is succeeding and who is not requires data on the level of sales relative to the market conditions in which they operate. Existing publicly available data sources can help, and administrative tax records can greatly improve determinations of who is succeeding. The U.S. Census Bureau conducts the Economic Census of business establishments every five years. The most recent available data on retail establishments, summarized by county and place, is from the 1997 Economic Census and the 2002 data will be forthcoming shortly (we hope in time for a revised and updated version of these analyses to presented at PAA). The Economic Census reports total sales among all retail establishments, as well as sales for specialized retail establishments, classified by NAICS codes. For geographic areas with fewer than three establishments in a category, or where one establishment accounts for more than 80 percent of the sales, the Census Bureau suppresses the data and will not report sales in order to protect the confidential information. The Economic Census summarizes establishment data for states, metropolitan areas, counties and places of 2,500 or more persons. In New York State, the summaries for places are organized by county and include not only cities and villages, but some towns and the balance of county outside of places.

A number of private data vendors and research organizations estimate annual retail sales from the sales tax data reported by states. In general these estimates are based on the statistical relationship between sales taxes reported for various jurisdictions and the sales reported in the Economic Census. Sales and Marketing Management's annual Survey of Buying Power uses sales tax data in this manner to estimate retail sales for counties and major places. An additional potential source is the income tax records of retail businesses. Access to these confidential data for reporting purposes are extremely restricted, and only used in carefully protected governmental statistical programs. Another route is through voluntary reporting to rating companies such as Dun & Bradstreet and InfoUSA; to trade associations, and local merchant associations.

The potential exists for more timely data on retail sales. Within New York State cooperation between state agencies, trade associations, local business organizations and university business research bureaus could lead to annual estimates of detailed retail sales data. Since the confidential tax data is for individual establishments at a particular location, the potential exists for not only summarizing sales performance data for the municipality, but for the larger places summaries could be prepared for geographically defined shopping districts. The shopping districts may be formally organized as business improvement districts, or may be de facto areas of concentration of consumer-oriented businesses. These data could be produced in a manner that does not compromise the confidential business of individual merchants. Such sales data and similar measures of performance will help those with an interest in business and economic development to identify, in real time, the places and shopping districts that are succeeding. Those who are floundering would then be in a better position to adjust their strategies in a more informed manner.

As we stated earlier, one component of competitive advantage is operating effectiveness. Imagine if you will how long a major shopping center or chain of retail stores would remain in business in a competitive environment if they did not have data by which to measure how well they were doing. That they had to rely on partial information, that was out-of-date, and not specific to their stores in order to try to assess their operations. If downtown shopping districts are to succeed in an environment that contains major shopping centers and chain stores then they need to have access to the same level of information about their "internal" operations.

Trade Areas and Market Conditions

The ability of a commercial district, shopping center, or individual business to produce high levels of retail sales is determined by their ability to draw consumers. The geographic area from which consumers are drawn is termed the trade area. For a convenience store the extent of the trade area may only reach a few blocks or minutes in driving time. On the other hand, a regional resort may draw a substantial portion of its consumers from an area with a radius of more than 100 miles or two hours driving time. Who lives, works, visits and shops within their geographic trade area is a key component of market conditions faced by retailers.

Market research can focus on the demographics and behavior of persons within a geographically defined trade area. Because of the richness of the decennial census of population we know the most about individuals based on where they live. It is standard practice for market research on an existing or potential retail location to determine how many people with how much income live within appropriate ranges (defined by distance or travel time) of that location. In general commercial districts located near concentrations of population and income have higher levels of sales than do districts in lower density areas.

It is no surprise that total sales by retail establishments in the city of Rochester are far greater than sales in the village of Waterloo, and that in turn sales in the city of New York are greater than in any other place in New York

State. Cities and villages in New York State follow a hierarchy of retail sales. Generally those at the top of the hierarchy are places with larger populations and concentrations of income than those below them in the hierarchy. The next section describes an approach to setting the level of sales that should be expected in an economic place based upon its market conditions.

Performance Standards

All things being equal, the level of retail sales in cities and villages will be a function of the market conditions in their trade area. The problem is, all things are NOT equal. We suggest using that in order to determine who is performing better, controlling for market conditions, and therefore is worthy of further investigation to determine their marketing strategy and how it relates to their competitive advantage. That what is NOT equal between two places is a result of how they have performed differently in the face of comparable market conditions.

Assume that the level of retail sales in a place is a function of the number of people who live there and how much they collectively spend on retail goods and services. We compared total sales with aggregate consumer spending of the trade area resident population for cities and villages in New York State with population greater than 5,000 and less than 50,000. In Figure 1 we have charted retail sales within a place along with aggregate consumer spending by households living within 10 minutes of the place's shopping district.

The places are ordered along the vertical axis by their level of retail sales, as reported in the 1997 Economic Census. Adjacent to each place's bar representing retail sales is a bar representing an estimate of consumer spending within the 10-minute drive time trade area. The data on consumer spending are for 2003 and were prepared by ESRI Business Solutions. (The most recently available data on sales for these places is the 1997 Economic Census. This is part of the problem and one that we would like to see addressed. We will offer more on this later.) For some places the levels of retail sales and consumer spending are in relative balance. The places for which sales and spending appear relatively balanced are located at some distance from competing places and shopping centers, while those where spending far exceeds sales are located close to competing place and shopping centers. Ignoring whether the places even desire to substantially grow their retail sectors, we see that sales are a function of consumer demand offset by level of competition. The major components of market conditions are first, the level of consumer spending within the trade area, and second, the level of competition for capturing a share of that spending.

Market Conditions

There are three main elements to determining market conditions affecting the retail sales performance of a place. First is the geographic extent of the trade area, second is consumer demand within that trade area, and third is competition from other places and shopping centers in serving that consumer demand. The geographic extent of the trade area for a commercial district may be drawn in various ways. A relatively quick way is to set the radius of the trade area based on travel time. A small commercial center, serving the convenience needs of local residents may draw its customers from no more than 5 minutes away. While another commercial center that offers more specialized goods and services purchased less frequently and for which consumers are willing to travel to compare prices and quality may draw customers from as far away as 30 minutes of travel time. In order to establish the appropriate drive time radius for the trade area the place must be classified as serving local convenience needs only or providing shoppers goods to a larger area. At best this is a rough estimate of the actual boundaries of the places trade area.

Another way to determine trade area boundaries is to collect addresses of customers and spot them on a map. The addresses may be taken from store cards, intercept interviews, or by entering the customer's ZIP code along with the transaction. Ideally each transaction is tied to a detailed customer record, identifying the home address, recording the amount of the purchase, the items purchased, and the date and time. Banks and medical practitioners are able to keep such detailed records, but few businesses can. The use of loyalty cards with a point of sale system can help. An alternative is to conduct periodic intercept interviews with a sample of consumers. The objective is to determine, based on actual consumer behavior, the extent of the trade area rather than to rely on supposition regarding travel times.

Once the boundaries of the trade area are determined, demographic databases tied to geographic information systems can be used to determine not only how many people with how much income live within the trade area, but also access estimates of how much these consumers are spending on various goods and services, and what are the dominant lifestyles and preferences of these consumers. This is the information required in order to characterize consumer demand. A market analysis of consumer demand should provide estimates of aggregate spending on various goods and services. These data represent the market potential. In combination with accurate sales figures from the consumer oriented businesses, the commercial district can compute its market share. Over time such a measure can help to identify an improving or worsening competitive position.

Vendors of commercial geo-demographic databases provide an array of products to map a trade area and estimate consumer demand. We can briefly demonstrate with an analysis done for the city of Oswego. In Figure 2, we have mapped a series of rings defining travel times of 5, 15, and 30 minutes from the center of the city's commercial district. The 5 minute drive time lines up well with the city limits. The 15 minute drive time ring encompasses potential consumers living in the areas outside the city. We used ESRI's Business Analyst to prepare the analysis. We determined that 4,800 households lived in the 5 to 15 minute drive time ring, and that they annually spent $23 million dollars on food and drink, and $6 million on apparel and footwear. Finer breakdowns are available such that downtown food stores, restaurants, taverns, shoe stores, department stores, and apparel stores serving the needs of men, women and children could use these data to calculate their market share in this trade area. The data on consumer demand would be even more valuable to the merchants—individually and collectively—if they could compare it with detailed customer databases on sales transactions.

The third component of market conditions is competition. Who else is competing to serve consumers in the commercial district's trade area? This includes other commercial districts in the region, as well as shopping centers, malls and stand alone retailers. The geo-demographic market analysis databases generally provide data on individual businesses and shopping centers as well. These data are collected by private companies such as Dun & Bradstreet and InfoUSA. They classify establishments by their type of business and gives estimates of sales and number of employees. For shopping centers they include information such as the gross leaseable area. These data can be processed to derive a measure of the level of competition faced by a commercial district.

Identifying Downtown Success Stories

We are working on a model of retail sales for places that will utilize size of trade area, consumer spending potential, and level of competition as factors to explain variations in sales. The deviation of observed sales by retail establishments within a place from their predicted level of sales will serve to guide an investigation of the reasons. Some places may not interested in competing for a higher level of sales, rather they are trying to limit or focus retail development. Other places, such as Canandaigua, Batavia, and Geneva, occupy dominant positions in the hierarchy of places within their region. A more refined model—based on sales, consumer spending potential in the trade area, and level of competition—should not only improve our ability to explain variations in sales, but also improve our ability to identify places with market conditions that are performing differently. Instead of comparing the proverbial apples and oranges, places can learn from others that have succeeded in the face of similar market conditions.

Additionally it is important to know what the place's function is. If it is a religious enclave or an affluent exclusively residential community, then although retail sales are far lower than our model would predict, it may be succeeding in maintaining a lifestyle. In order to improve the “lessons learned” it is necessary to compare commercial districts in places performing the same functions. Places can be functionally classified as regional trade centers, college towns, bedroom communities, resort and recreation communities, or retirement areas.

Winning Strategies

Within the groupings of places based on similar functions and market conditions, then the hard part has to take place. What is it that separates those that are succeeding from those that are trailing? In our research we intend to examine the marketing plan. How does it fit with consumer lifestyles and preferences within the trade area? What are the tangible activities that distinguish those with high levels of sales from the others? We will identify the dominant consumer segments within the trade area for each commercial district. ESRI’s Business Analyst classifies neighborhoods along several dimensions. These dimensions are socio-economic status, urban-rural character, dominant stage of life for households, ethnic composition, and turnover. This adds another factor to the mix in identifying comparable market conditions. A downtown surrounded by affluent, suburban households that are mostly empty nesters has a vastly different task than another downtown that serves a lower income, rural population of married couples and single adults with young children.

A marketing strategy can be assessed in terms of the four “P’s” of marketing: price, product, placement, and promotion. How well does the marketing strategy in terms of the type of products, the mix of retail establishments, the emphasis on value or quality fit the consumers living within the trade area? The bottom line is that downtowns need to develop and utilize market research, to learn from each other, and then pick and refine a winning strategy.