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Understanding the Retail Market Planning Process

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Introduction

WELCOME

We are GapMaps, and we empower retailers to make better site selection and network planning decisions. We do this with our location intelligence platform, GapMaps Live, and our consultancy arm, GapAdvisory.

We have written and reviewed many market planning processes for leading brands. This experience and expertise led us to write this ebook, which aims to provide a systematic approach to retail market planning. We identify fundamental steps that can be performed manually and delve a little deeper into the added benefits of a location intelligence platform.

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Step 1

BUILD A STORE DATASET

The starting point for any retail market plan is a comprehensive store dataset that comprises location, property, performance, consumer and competitor data. It's recommended that this data is compiled and stored in a single database. The database should include the following information:

- **Store Name**
- **Unique Store ID**
- **Store Address**
- **Store Lat/Longs**
- **Store Size (M2 or ft2)**
- **Store Particulars (e.g. seat count if a restaurant)**
- **Store Opening Date (if < 2 years)**
- **Sales (annual over 2 years)**
- **Sales by Day-Part and/or Day of the Week**
- **Sales by Segment e.g. in-store, takeaway, drive-through, delivered, etc**
- **EBIT (or another store profitability measure) before overheads**
- **In addition to any other data that can be gathered**

Some clients will extend the datasets to include property details like lease terms and option periods. The data is usually quite readily available and can be very helpful when ensuring the most profitable stores in a network are tightly secured through the lease conditions and terms.

This dataset enables a single view of the network and its performance. It becomes a key enabler of the entire market planning process.

Email subscribe@gapmaps.com to signup for more resources such as store dataset templates.

Step 2

DEFINE LOCATION AND FORMAT TYPES

Large retail networks are very rarely comprised of stores of the same design in the same types of locations across the market. Retail networks provide a glimpse into past strategies and ideas, some successful, some less so. It means that there is almost always variability in location and format types. It's also the case that many businesses introduce a range of location and format types as they increase their network size and see a range of opportunities to retail their products.

A retail store location type refers to the specific physical location or setting where a retail store is situated. The type of location can have a significant impact on the success of the store, as it can affect the amount of foot traffic, accessibility, and visibility of the store to potential customers.

Some common retail location types include:

01

HIGH STREET

A location comprising a strip of retail shops of mixed-use activities (retail and commercial).

02

NEIGHBOURHOOD

A location that's not part of a large retail or commercial precinct but where the surrounding land use is substantially residential (but may include some neighbourhood shopping).

03

SHOPPING MALL

A large shopping mall generates significant volumes of pedestrian activity that forms the customer catchment for many of the smaller retailers within the mall.

04

DOWNTOWN OR WORKER PRECINCT

Variously called the CBD, downtown, business, or technology parks. Stores in these locations predominantly service workers whose place of work is in the immediate vicinity.

05

OTHER

There are many specialised location types like transport hubs, hospitals, and universities, all of which can generate sufficient customer counts for some successful retailers.

Step 2 - Continued

The format type refers to the built-form of the retailer's location. For example, a grocery business might have a small format convenience store, a mid-sized supermarket format, and a large size hyper market. A fast food chain may have a drive-through, inline format, and a food court format. Other networks have hub and spoke formats - a good example is the pathology sector where there are a small number of laboratories (hubs) and a much larger number of collection centres (spokes).

The location type and format type should be added to the store dataset.

Step 3

NETWORK PERFORMANCE REVIEW

The next step in the retail market planning process is to conduct a network performance review. This involves using the store data to segment the network and identify parts of the network that are performing well or poorly. The review should start with basic network and performance attributes such as store size, geography, location type, format type etc.

The goal is to identify network characteristics that result in both relatively high and low store performance. For example, you should compare the average sales and profitability in regional versus metro areas, large versus small stores, and neighbourhood locations versus shopping malls. A useful way to visualise the insight can be to use a standard bar chart and colour stores by a specific attribute (e.g. format type) and rank the stores from highest sales to lowest sales. Identifying the store format most frequently associated with high sales performance.

Step 4

UNDERSTANDING STORE CATCHMENT AREAS

The retail store catchment refers to the geographical area or region from which a retail store draws its customers. The size and shape of a retail store catchment can vary depending on the type of the store, location, accessibility, and customer demographics.

Analysing retail store catchments helps retailers to understand their target audience better. They can tailor their product offerings and promotions to meet local demand and optimise their operations to serve their customers better. Importantly, they can ensure new stores are not located too close to existing stores to avoid unacceptable levels of cannibalisation.

You should expect catchment sizes to have some variability across the network. It's often the case that larger format stores serve larger catchment areas as do stores in regional and rural areas in contrast to metro areas.

Until recently most retailers would define their catchment using a radius. Increasingly retailers are creating convenience-based catchments measured by the travel time taken to reach the store (by road or by foot). An advantage of convenience-based catchments is that they recognise the impact that natural or built-form barriers have on the size and shape of the catchment area.

Step 5

COMPETITORS, REFERENCE BRANDS AND ANCHORS

Assessing the competitive landscape is another important step when building an understanding of the factors that influence store performance. In this step, you should identify direct and indirect competitors and analyse their influence on store performance. Regression, or correlation analysis can provide statistical insights, but it's essential to consider what you know to be true about the competitive landscape. For example, which brands have a positive or negative impact on store sales and how close do they need to be to have an impact?

Reference brands are also significant as they can provide insights into the brands that your core customers also shop with. Anchor brands are the big activity generators that attract large numbers of shoppers and potential customers to a specific location.

To prepare a list of competitors, reference brands and anchor brands, consider their presence within your catchment areas of varying sizes in the store dataset. You can use a simple yes/no or 1/0 to record their presence within a 250m, 500m, or 1km of each store.

Step 6

POPULATION AND DEMOGRAPHICS

Population and demographic data is key to building an effective market plan. It is always true that better-performing stores are the stores that have access to large numbers of potential customers i.e. those individuals with both the income and interest in the products available for sale. This can be achevied by using population and demographic insights to place stores in the best possible location. The population and demographic insights should be granular, current and descriptive. The data should ideally include information on the number of people living or working in any given area, their income and education levels, spending habits, age, household type, ethnicity, lifestyle and food preferences.

Importantly, it's not necessary to have a full suite of demographic data available at the catchment level when building an effective market plan. Some of the best market plans we've seen and assisted to build have had quite limited demographic data. What's important is that the best available data in the market is used in the process.

Step 7

REGRESSION ANALYSIS AND CORRELATION

Regression analysis is a statistical method used to identify and analyse the relationship between a dependent variable (sales) and one or more independent variables (store and catchment factors like size, format, location type, population count, catchment incomes, competitor proximity and count, etc). The analysis will ultimately assist in the identification of those variables that are most strongly correlated with high-performing and low-performing stores.

There will be many businesses that don't have the expertise to undertake a regression analysis. We also see instances where the regression modelling is perfectly good, but the interpretation of the results is poor. There are simpler methodologies that may lack the statistical rigour of the regression analysis but nonetheless provide valuable insights into the market planning process.

For example, an analysis of the catchments of the top 20% of stores in the network, measured by revenue, can be compared with the bottom 20% of the network. Make sure the analysis is separated for location and format type so that only 'like with like' stores are grouped. It's very likely the results will indicate, for example, that the top 20% of stores have higher counts of target customer groups within the 1km and 2km catchments, they may have fewer direct competitors and a higher count of reference brands within 500m. Use these insights to set minimum thresholds for evaluating new catchment areas and effectively comparing locations to high-revenue stores in the existing network.

Email subscribe@gapmaps.com to signup for more resources such as regression table templates.

Step 8

WHITE SPACE ANALYSIS

White space analysis is a process of mapping the existing store network and catchment areas to identify gaps in the network. Ideally, this is undertaken in a digital mapping platform.

Advanced spatial mapping techniques or leveraging the businesses' good understanding of local market demographics can be used to assess potential catchment areas for how well they match with the high-performing location attributes identified through the regression or correlation study.

Potential catchment areas should be identified, assessed and prioritised. Platforms like GapMaps Live make the process simple. It's also possible to perform the task manually.

Step 9

EXISTING NETWORK ANALYSIS

The market plan isn't just a strategy for dealing with growth opportunities. It should also consider the performance of every existing store in the network. This can be achieved through regression modelling or correlation studies. We recommend creating a simple matrix that measures location strength on the x-axis and sales on the y-axis. Low-performing stores in catchments with poor location strength should be considered for relocation or closure. It's crucial to note that even if the store operations are excellent or the store appears perfect, a store cannot perform at a high level if the catchment lacks the right type and number of potential consumers.

Additionally, low-performing stores in relatively strong catchments must be carefully assessed to determine why they are underperforming. The format type, convenience to the catchment area, basic property requirements, and store operations must all be evaluated. This analysis can identify where the store is too small, lacks sufficient car parking, has poor visibility or store access, or is experiencing issues with service, product quality, or cleanliness.

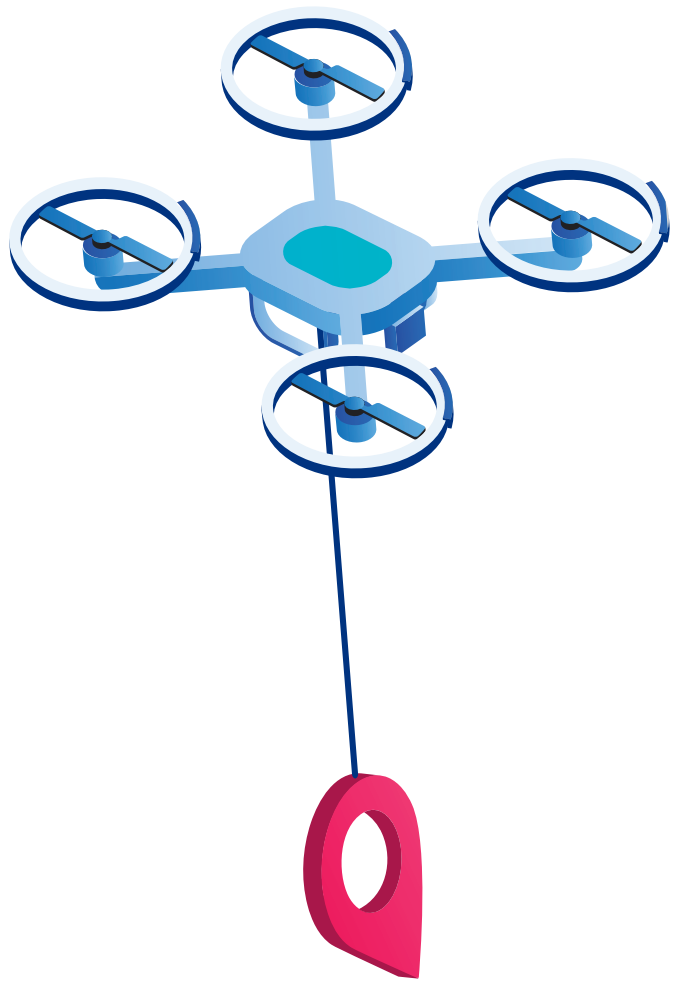
Step 10

REVIEWING AND EXECUTING THE MARKET PLAN

The market plan should be a living breathing document that is reviewed annually to ensure it remains consistent with the organisational strategy and priorities. This review should include an assessment of whether the requirement for capital in the market plan matches the budget, whether the pipeline of new locations matches regional growth objectives, and whether new store formats have been developed that should be reflected in the market plan.

Unfortunately, we've seen many well-constructed market plans get lost in company IT servers or sit in beautifully bound booklets gathering dust in filing cabinets or bookshelves. To prevent this, we recommend embedding the market plan in a location intelligence platform like GapMaps Live, which not only holds the plan but also becomes the execution tool for delivering the plan over the forthcoming years. The platform's visualisation of the strategy and pipeline of projects allows for constant reconciliation of planned versus actual activity. The data within the platform also ensures that investment feasibility processes are robust and insightful.

Effective market planning has never been easier, less expensive, or more important. The explosion of digital data from mobile devices means businesses are no longer locked into a census cycle to obtain current population and POI data. If you're interested in learning more about market planning, we're here to help.



About the author

TIM SHAW

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Tim joined GapMaps following a corporate career of more than 20 years. He specialised in network strategy and planning with several of Australia's leading retail businesses, in banking, fuel retailing and quick service restaurants.

Tim's deep understanding of the network strategy and planning processes across many sectors and countries ensures he has both the specialist capability and breadth of experience to guide and shape a comprehensive network review process. With a considerable background in network planning and strategy, Tim is well-positioned to help any organisation develop their network planning model.

PREVIOUS ROLES

Director
Lifecycle Property Consulting

National Acquisitions and Network Planning Manager
United Petroleum

Head of Network Planning and Delivery
National Australia Bank

Development Director
Hungry Jack's Australia
(Burger King's master franchisee and franchisor representative in Australia)

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