Informed Retail Location Decisions: A critical concern for Irish SMEs

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The Irish retail sector can be characterized as a market in the process of radical change and one which has been transformed in the past decade. The arrival of unprecedented numbers of international retail brands has fueled the demand for retail space across the sector. The associated increases in market concentration and enterprise density, and subsequent demise of many small retailers are evidential factors of this transformation. The growth in scale of organizations operating throughout the Irish retail sector has necessitated greater professionalism within all functional areas of indigenous firms, and retail marketing has emerged as a major discipline. Several new formats have emerged, more aggressive marketing is apparent and consumer expectations in relation to price, service, quantity and convenience are at an all time high. Retail decision making within this environment is more demanding and the decision on where to locate remains critical with the margin for error small. Therefore, the need for accurate, timely and relevant information is crucial.

The strategic importance of the retail location decision has long been recognized, so much so that the mantra of *location, location, location*, which stresses the importance of the retail location decision, is commonplace. While other elements of a retailer's marketing mix, for example pricing, service level, product decisions or promotional activity, can be changed relatively quickly, location decisions are, by their nature, long term and difficult to change. Furthermore, given the spiraling cost of retail space in Ireland at present, mistakes are costly in both marketing and financial terms. While there are many decision support tools to inform the location decision, they have often been developed in the context of large multiple retailers and not in the context of small independents. However, the need for better information to inform location decision making is a universal retail business requirement, regardless of size. In today's highly competitive environment, the importance of timely, relevant and accurate information to effective decision making cannot be overemphasized. The acquisition of effective trading locations is not only an important cornerstone for growth, but is also an inherent element in the search for improved profitability.

The necessity for better informed decision making for retail location decision-making arises as a result of the less obvious nature of the 'best' location, the cost of mistakes and the fact that experience becomes a less reliable guide, particularly in an urban context. In simple financial terms, the cost of the retail space will determine the breakeven requirements for the new outlet. Location decision-making in retailing can be considered from simple to complex; from the development of simple checklists (information on trading area population, level of competition, site costs, accessibility and other micro-site factors) and financial forecasting to more sophisticated methods such as regression modeling (used to predict likely store turnover given particular store or trading area characteristics-30 stores minimum) and geographical information systems (GIS), which vary in their degree of sophistication. GIS are a powerful technology in terms of data storage analysis and visualization, with the ability to combine information and mapping systems as analytical and modeling tools. They combine general demographic and geographic information on populations that facilitates customer classification by linking demographic data such as age and income to geographic areas, using post codes or census data. The availability and affordability of commercial data bases, aligned with technology know-how is a key requirement for the use of geographic information systems by SME retailers. In contrast, large multiple retailers have developed 'real time' customer information from the operation of electronic loyalty schemes. The data mining potential for improved location decision-making is immense. While the cost of these systems is largely prohibitive for most independent traders, the inference of the importance of information to improved location decision-making is clear.

The relative attractiveness of a trading area within which a retail business resides is also critical. It not only provides the context in which consumer expenditure takes place, but can often have implications for the image and positioning of the business. Dublin city is a vibrant retail centre that reflects the fruits of the Ireland's national economic and social transformation. The ever increasing demand for retail space throughout the city from both national and international retailers continues to drive up rents.

The cost of retail space provides a good barometer of the demand and relative attractiveness of trading locations and it would appear that economic growth has benefited many of Dublin city's trading locations. The cost of retail space in the capital's two principal shopping districts reflects this. *Grafton Street* not only commands the highest retail rents in the country, but was recently found to be the sixth most expensive trading street in the world in terms of retail rents after other well known shopping locations such as Fifth avenue (New York), Champs Elysees district (Paris), Bond St. (London), Causeway Bay (Hong-Kong) and Pitt Mall (Syndey). The *Henry Street* area also commands zone A rents and also hosts both national and international retailers.

The last decade has been a remarkable decade in the amount of additional retail space added to the Dublin retail landscape. The development of larger and better retail facilities simply reflects a new found confidence in the country. While the increased availability of retail space might normally be assumed to dampen price levels sought, the appetite for retail space has been such, that there have been phenomenal increases in the costs of retail space across Dublin city and across location types (see Table 1). Between 1998 and 2006, prime retail space (Grafton st, Henry st, town-centre-style malls) increased by 269 per cent and 226 per cent respectively. Indeed, all location costs more than doubled during the period. Significantly, the cost of retail warehouse space also more than doubled. Table 1 illustrates the rent differential over the 1998-2006 period between all locations.

Table 1 Dublin Retail Rents per square metre per annum 1998-2006

	1998	2000	2002	2004	2006	% Change 1998-2006
Prime Retail: (e.g. Grafton St, Henry St.)	€ 2,459	€ 3,492	€ 4,560	€ 7979	€ 9075	+269
Town Centre-Style Malls (*e.g. Dundrum, Liffey Valley, The Square, Blanchardstown)*	€ 1,230	€ 1,764	€ 2,175	€ 3495	€ 4005	+226
City Centre Developments (*e.g. St. Stephens Green, Ilac, Jervis)*	€ 1,613	€ 1,957	€ 2,215	€ 3262	€ 3562	+121
Other Centres (*e.g. Stillorgan, Omni*)	€ 902	€ 1,332	€ 1,570	€ 2357	€ 2556	+183
Neighbourhood Retail (e.g. *Roselawn, Firhouse)*	€ 368	€ 598	€ 655	€ 912	€ 937	+155
Retail Warehouses	€ 232	€ 265	€ 260	€ 522	€ 500	+115
Secondary City Centre *(Dawson/Wicklow st.)*	€ 1,045	€ 1,436	€ 1,660	€ 2237	€ 2575	+146

Source IAVI Annual Property Surveys 1998-2006 (various)

Location decision making extends beyond the opening of new stores and should be seen in the context of the management of a retail store portfolio. Decisions on increased floor space at an existing site, moving to a new site because of the close proximity of two existing stores or even the closure of under-performing stores come under the aegis of the location decision. Even refurbishment decisions, the changing of a store fascia and/or product range to reflect a new local reality are location related. Location decisions are often complex. They need to satisfy consumer needs for convenience, accessibility and quality, operational needs such as adequate access for deliveries, availability of labour etc and at the same time provide a competitive advantage for the retailer. The assessment of a good location is also fluid in that the quality of the location will often change over time; the opening of new retail space, high consumer mobility, new residential patterns of housing or new road network infrastructure all ensure that the quality of any retail location is susceptible to change. This requires constant monitoring to inform location decision making.

The opportunistic nature of location decisions is often emphasized in a small business context. This will often occur as a result of the availability of new retail space in a local area. Such decisions, while opportunistic, are often best understood as either offensive or defensive ie. the retailer is proactive in seeking new locations and responds positively to the availability of a new location or the retailer is effectively forced to open at a new location to defend an existing position in the marketplace and stop any other competitor getting a foothold in his/her core market. The financial exposure of such a decision, irregardless of whether it is offensive or defensive is substantial, and can often have survival implications for the entire business.

The decision on store location is of critical importance to the modern retailer, although a good location is unlikely to compensate for a mediocre strategy. Rising location costs in the greater Dublin area, coupled with competitive pressures, ensure that the location decision is a significant part of financial strategy and has long term implications for the business. The availability of good quality trading area information, irregardless of whether that emanates from simple checklists or sophisticated geographical information systems and irregardless of the size of the business, is crucial for location decision making.