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SPECIAL REPORT: RETAILING'S NEW TECH

The New Science of Siting Stores

Thanks to complex mapping and demographic tools, retailers can now find the perfect location in a fraction of the time it used to take

It used to be that when IHOP ([IHP](#)) wanted to open a new restaurant, the chain would hire a real estate agent to drive around and collect information on potential neighborhoods. The agent would see if a lot of single-family houses were nearby, how many other restaurants were located there, the presence of a large mall or retailer, and would also gauge traffic patterns. The entire process would take several weeks.

Nowadays, the resulting reams of data that just 15 years ago would have taken a week to analyze even on a supercomputer take only a few seconds to crunch on modern equipment. The growth of the Internet has had a big effect as well: Retail execs can sit in their offices and run data on potential store locations with Web-based software.

With today's technology, "retailers identify their sites much quicker, so they can grow quicker and make fewer mistakes," says Adam Epstein, president of [Site Analytics](#), a New York tech outfit that has provided analysis for restaurants and stores such as Chili's, Cosi ([COSI](#)), and Ben & Jerry's. While hard numbers for the site-selection industry aren't readily available, the growth of the client list for such services provides a good insight into how fast retailers are adopting it. In 1996, Site Analytics had only two clients. It now has a roster of 40 retailers and 10 shopping centers. Other major players in the market include MapInfo ([MAPS](#)), Accruent, and Earthviewer.

COFFEE STOPS. High tech has given a new twist to the old real estate mantra: location, location, location. Ever wonder why sometimes you see two Starbucks ([SBUX](#)) coffee shops located within the same block -- or right across the street from each other? It's not by chance. Site selection has been fine-tuned to a digital art. A retailer can now closely analyze all of the sales information that it has to understand the lifestyles and preferences of its customers. Then, companies can combine that info with mapping and demographic software to decide whether it's worthwhile to open a store at a given location.

At Starbucks, the software is used to come up with a wealth of facts, from how many offices are located in a densely populated area to the foot traffic around the block to the location of a competitor's store. Restaurant chain Hooters uses similar software that spots sports and entertainment venues nearby when it's scouting for locations. But Hooters also looks for such cues such as available locations on the side of busy streets, the better to snag customers from evening rush-hour traffic. "We get a lot of visitors from men heading home from work," says Mike Locey, Hooters' vice-president for strategic development.

Companies such as McDonald's ([MCD](#)) have used mapping tools for years. But now the technology is getting far more sophisticated. Decades ago, age and income were the key distinguishing demographic characteristics. Today, it's more complex -- instead of two, hundreds of dimensions are considered, as retailers and restaurants started finding that not all people who shared a slot within those original two categories acted the same way.

ETHNIC INGREDIENTS. Plus, America's racial mix has radically changed in just a few decades, coming to a head in 2000, when Hispanic Americans replaced African Americans as America's largest minority group. Income distribution also shifted in the 1990s, as young people started earning much

more than in previous generations, leading to disparity in spending behavior.

The new software works by combining demographic information from the U.S. Census Bureau with maps that pinpoint site locations of competing retailers, entertainment venues, and other relevant spots. The programs then use that data to analyze the local population's ethnic makeup, along with info on home ownership in the vicinity: Is it predominantly single, detached, condos, or apartments?

All of this can be crucial, as can the presence of children and empty nesters. "These additional characteristics and what each group might be interested in add granularity in understanding consumers," says David Bunten, a manager at MapInfo.

NO TIME TO SHOP. The demographic information can then be combined with point-of-sales data from stores and loyalty cards. That gives retailers enough info to segment any town or neighborhood according to its buying habits, using what the industry calls "geo-demographics." Retailers take the annual sales of a store, then zero in on the surrounding area. The numbers can be crunched down to the spending habits of separate groups in the same block, providing insight into what appeals to different ages, ethnic, and gender groups.

Once the retailer has determined that a certain location suits its targeted demographic, the next step is to calculate the "distance decay effect." That's how far people are willing to travel to a store. If the retailer already has a store that people are traveling large distances to reach, the software can analyze the extent to which a new store will cannibalize sales at the other location. It will even calculate whether the new store will attract enough new customers to make up from the lost customers at the current store.

The technology also helps companies move fast, especially retailers that are expanding rapidly and can't afford to spend much time nosing around to find the perfect location. "Dollar Tree ([DLTR](#)) is opening stores every other day, and if it doesn't strike when the opportunity opens up, it loses potential revenues," says Peggy Biddison, vice-president for marketing at Accruent, which provides software tools for Dollar Tree and others.

A CHOICE SPOT. At IHOP, it isn't just about saving time. The chain uses the technology to measure population density and how many homes around a potential location are occupied by families, the restaurant chain's primary customer base on weekends. It also analyzes the demographic makeup and the presence of malls and Home Depots ([HD](#)), since IHOPs usually benefit from hungry customers who might emerge after shopping several hours.

It also sorts out the types of workplaces located around the area. For instance, industrial and manufacturing sites don't generate as many customers as does an office or a hospital. "The most ideal location would be a free-standing restaurant sitting on the corner of a well-lighted intersection which has four or more lanes, great curb access, and sitting right in front of a shopping center that doesn't have a restaurant," says IHOP's Rick Celio, vice-president for franchise and development at the 1,100 restaurant chain.

With today's software, Celio doesn't have to drive around the country to pick the perfect spot anymore.

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