Developing Your Firm's Retail Location Strategy

Finding the Sweet Spot in Emerging Markets

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A cautionary tale
– all that glitters is not gold

The New South China Mall in Dongguan was an ambitious vision of epic proportions. Dubbed as the "Great Mall of China", it was one of the largest malls in the world (twice the size of the Mall of America). It was certainly built to impress – with 5 million square feet of shopping area, a grand Arc de Triomphe, long canals with gondolas, and both indoor and outdoor rollercoasters.

Sadly, the mall did not live up to its promise. Since opening in 2005, the mall has been mostly empty – save for a handful of outlets serving a trickle of visitors.

An opportunity misplaced?

Dongguan, on all counts, is one of the upcoming industrial cities in China. Located in the Guangdong Province, it is one of the largest exporting regions after Shanghai and Shenzhen. But most of its inhabitants are migrant workers with very limited income. As one worker puts it, "People coming here to work in factories don't have the time or the money for shopping or the rollercoaster".

Another issue was the mall's location. There is no train or direct bus service to the mall. Getting to the mall by bus could easily take more than 2 hours. The mall is also not located near a major highway, such as the G4/G15 which connects Guangzhou with Shenzhen and Hong Kong. There is no airport in Dongguan, which makes the mall inaccessible to visitors from neighbouring regions.

Location, location, location

The New South China Mall is a sobering story that underscores the importance of establishing a comprehensive location strategy, before embarking on new retail investments or expansion decisions. For a retailer, brand owner or property developer, it is critical to select retail sites that would offer the most attractive revenue potential, or a platform that will strengthen the company's brand positioning in the market.

Location assessment, however, can be especially tricky in emerging markets.

- **Developments in emerging markets are usually dynamic.** There are several factors which could affect the market's economic base, which in turn have an impact on income levels and purchasing power. Examples include:
  - An influx of foreign investments or tourist developments may transform a sleepy tier two city into a potential retail hot spot.
  - The emergence of new economic zones or industry developments may spur local consumption.

- **First impressions may be misleading.** Market dynamics and consumer behaviour are likely to vary across cities. City-level macro indicators (such as GDP per capita) may be skewed by the presence of a few industries, and may not be representative of the average consumer's propensity to spend. Reliable secondary data may not even be available for tier two or three cities.

A robust location assessment methodology backed by on the ground insights is therefore critical in helping a company address the following areas:

- Feasibility of establishing or expanding retail presence in this market
- Developments which may affect the company's current or future retail presence
- Key retail hot spots within a given geography
- Potential revenue generating or branding opportunity for a particular location
- Whether the location attracts the right profile of visitors for the company's offering
- Benchmarking and prioritisation of various retail locations within a given geography
- Whether the company's current retail outlets are well-positioned vis-à-vis competitors
- Optimal mix of retail stores / channel formats

A framework for developing a retail location strategy plan

1. Invest in the right markets

For a company that is new to a particular market, we start off by asking how attractive the market is to justify potential market entry / investment.

- **Is there a stable and sizeable market opportunity?**
  - **a) Macro-economic and environmental factors**

    Economic activities such as foreign and government investments or industry development are expected to generate employment, thereby spurring consumer demand and spending. It is also important to assess the sustainability of economic growth and the stability of drivers that affect the future outlook.

Environmental factors comprise considerations such as infrastructure development (how will this affect accessibility), political stability (any impact on business confidence) and climate change (risk of operational disruptions).

b) Population profile

Population size, disposable income levels and consumer expenditure patterns determine a market's addressable economic base and spending power.

These aspects need to be examined in the context of consumers' shopping habits, as higher incomes may not necessarily lead to more purchasing in the home market. For example, Medan has one of the highest GDP per capita amongst Indonesia cities – however due to concerns about the authenticity of goods that are sold in retail stores, many locals prefer to shop overseas (e.g. Penang, Kuala Lumpur and Singapore) for international brands.

- **How easy / difficult would it be to seize this opportunity?**

a) Maturity of the retail sector

Factors such as the availability and growth of retail space, as well as likely developments in the pipeline, will help to determine the presence of viable retail channels for potential entry or expansion. Other considerations include the depth and breadth of retail offerings, average price points, as well as the presence of international brands or retail chains.

For many foreign companies, one of the key barriers to expanding in emerging markets is the lack of retail establishments that have the appropriate size and positioning to house international brands.

b) Competitive intensity

Competitive analysis starts with identifying key players who operate in similar retail segments or product categories. The extent of competitive threat posed by these players depends on aspects such as: firm's market share, existing retail coverage (and possible expansion plans), connections with major distributors or retail chains, aggressiveness of marketing activities, etc.

2. Establish the optimal retail footprint

Having established a particular market is feasible for entry or investment, the next step would be to proceed to identify the potential retail hot spots.

- **Where are the existing / upcoming retail locations?**

a) Retail mapping

Identify locations with a high level of economic or retail activity; map out the distribution of existing / upcoming retail spots within each zone and select areas for in-depth assessment.

b) Profiling of selected malls / retail areas

The criteria for evaluation would depend on the company's business profile and objectives. Profile refers to aspects such as product category, target customers, positioning, and merchandise mix. Objectives could be market entry or penetration, establishing a flagship store or new branches, acquiring an existing firm, etc.

Examples of parameters for assessment include:

- Footfall
- Mall / retail area's positioning and shopper profile
- Expenditure of shoppers (propensity to spend)
- Tenant mix
- Presence of relevant crowd pullers (e.g. anchor tenants, attractions)
- Quality of current / potential catchment areas
- Location accessibility
- Retail occupancy cost ratios
- Competitive intensity within the area or in the vicinity

- **What is the optimal retail footprint?**

a) Benchmark selected malls / retail areas in terms of revenue potential and brand 'fit'

The findings from the in-depth assessment could be mapped against an opportunity matrix to assess the extent of the mall / retail area's fit with the retailer's branding, as well as the current / future revenue potential that it represents.

b) Analyse company's existing retail presence vis-à-vis the selected retail spots (to what extent is the footprint optimal)

The outcomes of the opportunity assessment should conclude as to whether the company should invest or continue its retail presence in the profiled location.

3. Identify successful store formats

Once the key hot spots have been shortlisted, the next step is to determine the right retail format that would provide the best 'fit' with the location's characteristics (i.e. whether the company should establish a mono-brand store, partner with a multi-brand outlet, set up a factory or discount outlet, etc). This needs to be evaluated in the context of the company's profile and objectives. For instance, a site that falls under 'high revenue potential-low brand fit' could still be an acceptable consideration if the company plans to offer a merchandise mix that caters to this segment (e.g. setting up a factory or discount outlet). Alternatively, a 'low revenue potential-high brand fit' site could provide a suitable location for the establishment of a concept store.

No money back guarantee for the wrong purchase

The cost of investing in the wrong location necessitates the need for a thorough research of market developments, the retail landscape and consumer characteristics. For emerging markets, a topline assessment may not be sufficient in providing an accurate snapshot of all the business opportunities and risks. Gathering in-depth local market knowledge and insights through on-site assessment and engagement with industry players would therefore be critical.

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