Location Decision-Making in Retail Firms: Evolution and Challenge

Abstract

Purpose– The paper has three objectives: first, to reflect on the contribution of this journal to the study of retail location assessment and decision-making; second, to use the results of a questionnaire survey of retailers to assess the employment of location assessment techniques a decade since a similar survey conducted by Hernández and Bennison (2000); third, in the light of these results, to conclude what likely challenges the location planning profession will face over the next decade.

Methodology - Employs an online questionnaire survey of retailers across a range of sizes and sub-sectors.

Findings – We find that specialist location planning teams within retail remain small with established forecasting processes firmly established for new or relocated stores. Less active is evidence of less activity focused on the management of the existing portfolio or the identification of outlets within the network for rationalisation. The vast majority of site assessment techniques increased in use over the decade reflecting a greater reliance on data and analysis to inform decision-making alongside the traditional use of experience and intuition. Complementing highly technical evaluation techniques, the site visit is widely recognised as informing modelling and subsequent decision-making.

Research limitations – The survey sample is smaller and contains a greater proportion of larger businesses than that undertaken by Hernández and Bennison (2000).

Originality & value – Underlines the changes in location planning sophistication a decade on from a landmark survey. Suggests the implications of the observed changes and identifies likely developments in the profession.

Paper type: Research paper

Keywords: store location; modelling; tacit knowledge; site selection

Introduction

The Journal's existence has coincided with an important period of growth and professionalization in the retail sector (Hernández and Bennison, 2000; Clarke, 2000; Boddaert, 2000; Birkin et al., 2002; Hernández and Simmons, 2006; Wood and Reynolds, 2014). Over the same period, the location planning profession has come of age, with the establishment of specialist teams within retailers and the development of a range of consultancy services. Location planning has become a key component of the retail marketing mix, with the ability to identify and secure good locations for new stores a source of competitive advantage (Clarke et al., 2002; Hernández and Bennison, 2000; Hernández and Simmons, 2006; Wood and Reynolds, 2014). Location planning has also become more sophisticated, with the development of a range of techniques to support the process of site assessment and selection (Hernández and Bennison, 2000; Hernández and Simmons, 2006; Wood and Reynolds, 2014).

> “For many retailers, research is something they undertake because they have a vague feeling they
> rather than because they anticipate any concrete benefits.” (Thorpe, 1974, p 21)

In preparing this paper, it was especially pleasing to find that David Thorpe was the first to use the Journal to highlight the potential of formal research in the context of retail location analysis. For Thorpe was also amongst the first in the UK directly to engage with business by taking these tools from the academic to the practitioner sphere. His work with the Retail Outlets Research Unit, and prior to that as a geographer at Durham University in the 1960s, had sought to relate a number of ideas on data collection and trade area analysis to the practical needs of retail firms. In the US, formal tools for location decision-making had, of course, already been in use for some years. Curiously, too, this was largely thanks to an individual who ‘crossed the divide’, albeit the other way: William (‘Bill’) Applebaum. Applebaum produced papers from the 1930s and 1940s on customer spotting and the analogue technique, as Chief of the Market Research Departments of the Kroger Grocery and Baking Company, and then of Boston-based Stop & Shop in the 1930s before being appointed a Lecturer on Food Distribution at Harvard University. People like Thorpe and Applebaum, and a surprisingly small number of others, have shaped the way we think about modern business location geography.

This article is not intended to provide an exhaustive history of retail location analysis. Rather, we intend to undertake three somewhat more specific tasks. Firstly, we consider the contribution to this important field, examining and highlighting the particular contribution of a number of authors and key ideas. Secondly, we report on a contemporary survey of location planning techniques within today's retail and related site research departments. Funded by the Nuffield Foundation, the first results of this continuing 'state of the art' review is also designed to permit a degree of comparison with earlier studies, notably that by Hernández & Bennison (2000) which appeared in Volume 28 of the Journal. Finally, and on the basis of our findings to date, we look forward to some of the particular challenges faced by today's location analysts.

Following the success of two practitioner conferences held in the UK in 1983 and 1984, an important

Understanding the extent to which different methods of store forecasting and assessment are currently employed is a necessary preliminary to discovering the extent to which the balance between the role of analytical modelling techniques and that of tacit knowledge and experience is in practice being struck. The Journal has explored these issues empirically on a number of occasions and from a variety of perspectives. In doing so, papers in the Journal have again focused on cutting through the theoretical versus practical divide. Simkin and colleagues writing in the mid-1980s (1985) reflected on an impressive survey of 164 retailers concerning their location assessment. Noting the division between theoretical modelling and its practical employment by retailers, they observed:

> "The checklists and analogues described in the literature and the more complicated mathematical techniques do not." (Simkin et al., 1985, p 22)

In doing so, the authors suggested that while the intuitive assessment of experience was often 'soundly based', there was a requirement for more objective and scientific methods of data collection and evaluation. More positively, Simkin et al (1985) suggested there was a small minority of multiple retailers to be found developing methodologies to balance potentially competing elements of objective and subjective analysis.

In 1997, O'Malley & Patterson (1997) examined the relative importance placed on geodemographic and other data for site selection and store location analysis. Based on 33 respondents from an exploratory

1. An exploration of the extent and contemporary usage of store forecasting and site assessment techniques across UK retailing.
2. An analysis of the use of forecasting knowledge within the forecast process itself.
3. An investigation of the use of forecasting knowledge within the organisational context of the retailer or consultancy beyond site assessment, throughout the marketing function, and between employees.

The research asks a series of questions that are relevant across management studies – notably distinguishing between ‘hard’ and ‘soft’ (or ‘tacit’) knowledge. In particular, it asks how corporate information systems can cater for the inclusion of tacit geographical knowledge within decision-making processes. How is such ‘expertise’ communicated within organisations? To what extent are strategic decisions informed by ‘hard’ data rather than through intuition? How can different ‘types’ of knowledge be assimilated within decision-making and exploited? And how can dynamic interactions between different agents and knowledge management systems be characterised and enhanced?

As part of this larger investigation, we conducted an online survey in late 2009/early 2010 of retailers and selected financial and letkac ?Ac 0 Tw 9 c7n72(o)e(e)3(c 0.014 3(ou)1[(ma)5(k)pp4 -2(n)-2ttw Tc 0.01(n)-2t

charities. There appears a generally close relationship between team size and portfolio size, with the teams larger than 10 exclusively servicing portfolios of more than 500 stores. However, standouts were noticeable: one team between 4 and 12 size were expected to manage a 1,250 strong portfolio. Of course, faster, cheaper analysis systems permit a bigger ‘bang for the buck’. Even individuals can almost certainly achieve more today with the systems presently available than would have been the case for a small team as little as 10 years ago. However, we may question to what extent such arrangements are

relocations rather than refurbishments more likely. However, the number of location planning departments claiming involvement in the acquisition or disposal of operating divisions is still very small.

development and the workload has precluded technique development in other areas). This is one topic which this project continues to explore at the interview stage.

*** Figure 5 about here ***

Some further explanation of the 'raw' outcomes of the survey can be found by examining the extent to which respondents agree with a number of statements designed to test the balance between the use of techniques and the use of tacit knowledge, or subjective judgement, in reaching store location decisions. While these are again issues subsequently being pursued at the interview stage of the project, Table 2 summarises the responses to these statements in the questionnaire. Respondents were largely confident in their models, the research on which they are based and in their ability to use them multiply (statements 2, 3, 6 and 7). They felt confident about adjusting forecasting and analytical models where necessary (statement 5). But there was some concern over the quality of source data in models (statement 9) and about time pressure preventing effective analysis (statement 10). At the same time, an overwhelming majority of respondents also saw the critical importance of the site visit (statement 1). However, they were less in agreement over the prime importance of experience in the retail decision-making process (statement 8) and were ambivalent about the extent to which decision-making in retailing was partly an art and partly a science (statement 11). Fortunately, the vast majority were confident that the recommendations they made were accepted by the firm (statement 14)!

*** Table 2 about here ***

Of course, these are survey averages and conceal some distinctive variations. Smaller teams tended to be under more pressure and were more likely to agree that they often did not have the time to undertake in-depth analysis. Grocery retailers were more likely to use multiple techniques and to feel that they had both the time and were equipped in terms of analytical tools. Clothing retailers felt less confident that they had 'adequate tools to produce accurate forecasts' and were more likely to feel that they had inadequate time to conduct research.

This survey was also interested in understanding the extent to which departments recognised and accommodated the tacit knowledge which is acknowledged as forming an important part in effective decision-making. Again, there is some ambivalence. We have already seen that on the one hand respondents refused to attribute a dominant role to experience in retail decision-making, but did rate it as the most adopted technique, when set against more analytical approaches. The perceived importance of factors such as the site visit also suggests that respondents were placing a premium on the role of judgement at the mid-level. But understanding the role of tacit knowledge is about more than just assessing the relative importance of site visits.

> "We are a relatively new team which relies heavily on the experience of several key people within the team. To date, not enough has been done to share this experience. It is absolutely critical that mentoring is used to help develop the more junior people within the team, otherwise they are simply seen as 'they do not necessarily have the experience to do the numbers'." (food retailer)

We explored a number of dimensions of this in Table 3, by asking respondents again to react to a series of statements related to the embedding of tacit knowledge and business continuity issues. Again, there was some variance. Most respondents, for example, claimed that their departments were "good at ensuring that the knowledge of employees who leave is not lost" (statement 1). However, when we sought to find some of the elements which might demonstrate a concern with business continuity, the responses were not always consistent. For example, fewer than half the respondents acknowledged that any kind of codification of knowledge, in the form of a manual, had been developed by the department (statement 8). Similarly, techniques such as mentoring of new recruits by senior analysts (statement 6), or

The potential for the dissemination of best practice is not just restricted to exchanges within the location planning team. Finally, we sought to explore the extent to which in some sense the tacit knowledge and abilities of the location planning team could be more widely embedded and recognised within the organization. This would not only consist of the sharing of data and findings, but also serve to demonstrate the particular skills and expertise of the team to a wider audience within the firm. More effective integration might also work to increase perceived dependence on the location planning department's activities. Logically, the biggest interdependencies were to be found between location planning departments and the property function. However, operations and marketing ran a close second and third place (Figure 6). Other departments, notably finance and business development, tended to not to be involved. Given the increasingly powerful role of the finance function within retail firms and the financial consequences of the location planning process, this would seem to be a missed opportunity.

*** Figure 6 about here ***

We might expect that with greater autonomy and authority within the organization come accountability for the outcome of location related decisions. Respondents scored 'being held accountable' highly in our survey. However, some were quick to point out that this accountability might mean a number of different things in practice. It might be tightly constrained, or might be shared with others, or, for some, might still ultimately lie elsewhere.

> "I am accountable for our output (e.g. the forecast) but not accountable for the actual location decisi
> to open the store or not)."

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that can be tracked across previous similar research (cf. Hernández & Bennison, 2000; Simkin et al., 1985). However, there remain underlying issues that suggest a lack of sophistication across some tasks and competencies of portfolio management. For example, while the data suggest that established processes exist for new sites and replacement stores, these are less developed aspects of other portfolio management (e.g. refurbishments; store extensions). As the emphasis over the next decade is likely to shift from widespread new store development to a greater focus on maintaining and improving the current portfolios of operators, developing reliable approaches to decision-making in these areas is likely to be necessary.

Complementing established office-based modelling and analysis, our data has provided evidence of the role of the site visit: with 97% of respondents suggesting it is an important element contributing to forecast accuracy. While reinforcing recent research findings (Wood & Browne, 2007; Wood & Tasker, 2008), it also emphasises how location planning relies on a mixture of formal and tacit based knowledge, rather than modelling removed from practical contexts. Providing robust but flexible forecasting procedures that combine modelled data with analyst observations is a challenging and one that relies

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Both this survey and similar research (Byrom, Bennison, Hernández, & Hooper, 2001; Hernández & Bennison, 2000) has underlined how data rich many location planning departments are. However, the degree to which this data and expertise is leveraged across the retail organisation is more mixed (see Figures 3 & 6). This is clearly an area where location planners can have a practical role that can increase their profile within the business but one which appears to be currently competing with the "day job" of core forecasting duties.

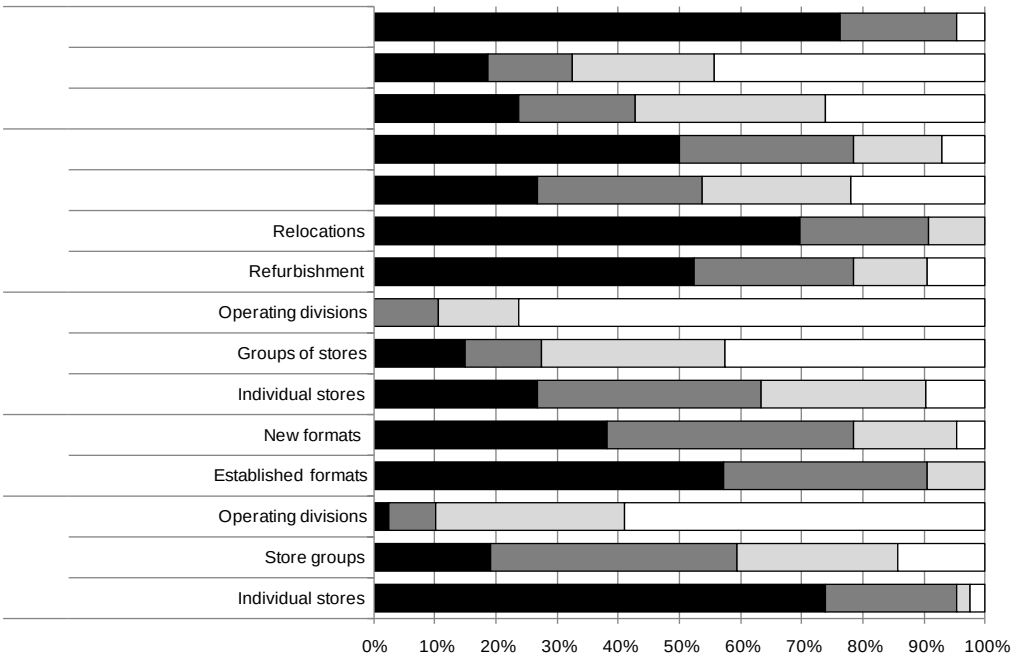
Unsurprisingly there remain some research avenues that these results suggest require closer attention:

1. We need to deepen our understanding of how different types of knowledge from different sources balanced and mediated within the organisational context of the retail firm to produce accurate decisions concerning store development.

2. We need to understand to what degree knowledge management principles can be successfully

Figures and Tables

Figure 1. Extent of location decision-making activity, 2010

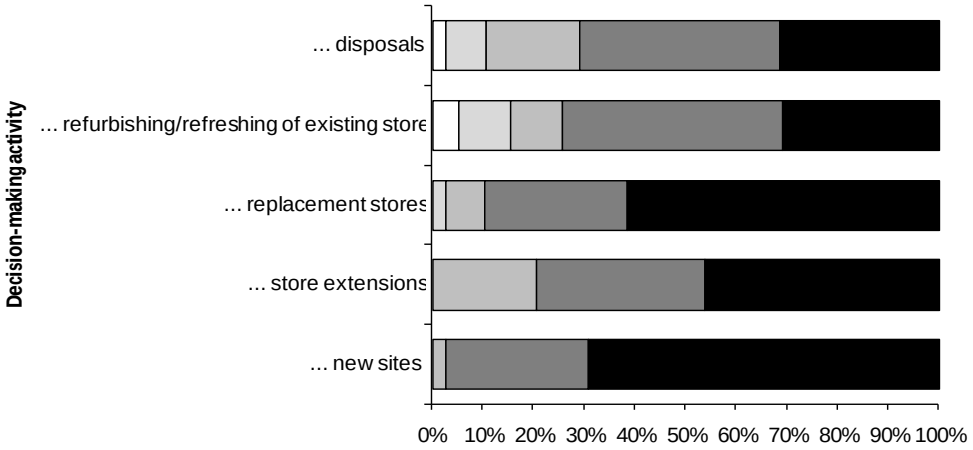


Sources: 2010 Survey of Location Planning Departments. Q3

Table 1. Extent of location decision-making activity, 1998-2010

Activity	% undertaking 1998	% undertaking 2010(*)
Acquisition of		
Groups of stores	38	60
Operating divisions	13	10
New store development of		
Established formats	78	90
New formats	62	79
Disposal of		
Individual stores	76	63
Groups of stores	18	28
Operating divisions	7	11
Management of existing portfolio through		

Figure 2. Extent to which established processes exist for location analysis task

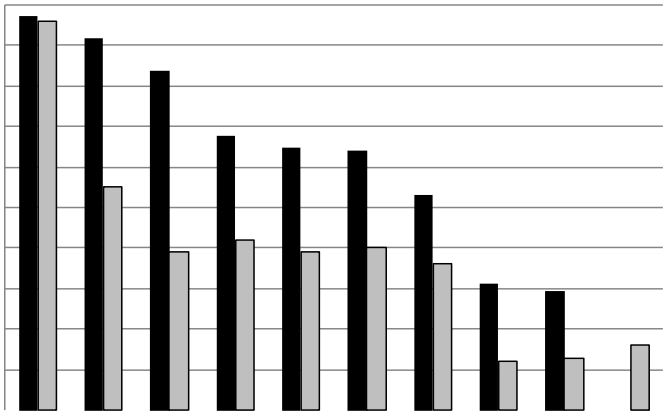


Note: Question – "How far do you agree with the following statements? Our decision making process is well established and structured for determining ..."
Source: 2010 Survey of Location Planning Departments. Q13

Figure 3: Extent of location applications conducted by firms, 2010

Sources: 2010 Survey of Location Planning Departments, Q4.

Figure 4: Location techniques by usage (% respondents), 1998-2010



Sources: 2010 Survey of Location Planning Departments; Hernández & Bennison (2000)

Figure 5. Percentage of companies using technique by decade, 1998-2010

Source: Hernández & Bennison, 2000; 2010 Survey of Location Planning Departments Q10

Table 2. To what extent do you agree with the following statements?

	Statement	Stongly agree/agree %	Neither %	Strongly disagree/disagree %
1	The site visit is important to forecast accuracy	97	0	3
2	Analysts understand the techniques they are usi	92	8	0
3	Our decisions are based on detailed analysis an research	82	8	11
4	Multiple techniques are employed for any single forecast	79	8	13
5	Quantitative models are adjusted by analysts if t feel it is necessary	76	19	5
6	Models employed “in the office” are accurate an truthful	68	21	11
7	We have adequate tools to produce accurate forecasts	63	21	16
8	Experience is the most important factor when making decisions in the retail industry	55	34	11
9				

Table 3. To what extent do you agree with the following statements?

	Statement	Agree/strongly agree %	Neither %	Disagree/strongly disagree %
1	Our department is good at ensuring that knowledge of employees who leave is not lost to the organization	75	6	19
2	Analyst experience is the fundamental reso within our department	69	11	20
3				

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