

Location-based market positioning a company – A case study of food retailers in Romania.

Part I: Literature Review

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Abstract

As customer is the center of retailing there is no doubt about the importance of retail stores' visibility, accessibility and parking, neighboring of business communities etc., retailers' long-term performance depending on good location (proximity, appearance, amenities, development, land size), the potential opportunity for a specific retail stores' site to attract and retain customers, to impact their satisfaction, and even to turn them in promoters thanks to its location being crucial. And on the basis of such a good location, omnichannel marketers can better target consumers in each touchpoint or micro-moment of their decision journey, both ensuring them a seamless improved experience, and influencing their perception regarding retailer brand relative to its competitors, converting this way more prospects into customers. That is why a good estimation of the retail store location is a real challenge. The most significant aspects of location selection will be described and discussed in this paper, followed by a direct comparison alongside with a comparison model, based on three examples of three different retailers, located in three different cities.

Keywords: Retail location; Market positioning; Location-based market positioning;

Food retailers

JEL Classification: D81; M21; M31; L66

Introduction

Literature review is always a true challenge to researchers, and a review of the literature on retail location theory makes no exception, by identifying step by step significant advances, as well as some neglected research issues (Brown, 1993). One of the most crucial strategic choices a retailer must make for long-term success is the location of its stores (Cottrell 1973; Ingene & Lusch 1980; Kuo et al. 2002). Since convenience stores have the most direct contact with customers (Kuo et al. 2002), easy access, draw large crowds of customers, and increase the potential sales of retail outlets, an estimation of the market area in which the store is located is a crucial strategic tool for retailers to be able to attract customers attention and them to the store (Cheng et al. 2007; Grewal et al. 2009). Even little locational differences can have a big influence on market share and profitability in the fiercely competitive retail sector (Ghosh & McLafferty 1982; Craig et al. 1984). Store site is a retailer's long-term fixed investment since it cannot be quickly adjusted, unlike other marketing-mix components, in response to changing external conditions (Ghosh & Craig 1983; Craig et al. 1984).

The current review gives an overview on characteristics that influence store performance. In many studies, store performance has been assessed using various metrics such as store sales, market share, retail patronage, store traffic, store profits, and so on. The review's goal is to categorize store location-selection criteria and offer a theoretical model to base future store performance studies on.

One of the most essential strategic decisions a shop must make for long-term success (profitability, etc.) is store placement. (Ingene & Lusch 1980; Kuo et al. 2002; Cottrell 1973; Ingene & Lusch 1980; Kuo et al. 2002). Estimating the market region in which the store is located is a critical strategic tool for retailers looking to attract customers. Since convenience stores have the greatest direct interaction with customers (Kuo et al. 2007; Grewal et al. 2009), they provide easy access, attract a large number of customers, and improve the potential sales of retail outlets. Even minor differences in location can have a large impact on the market share in the highly competitive retail industry. (Ghosh & McLafferty 1982; Craig et al. 1984).

Store location, unlike other marketing-mix elements that may be easily modified in response to changing environmental conditions, can only be changed at a significant cost, and thus reflects a retailer's long-term fixed investment (Ghosh & Craig 1983; Craig et al. 1984). We can find from over 100 years ago different very interesting approaches in the application of variety models (ex. Huff's (1964) attraction models, Applebaum's (1966) analog methods, Hotelling's (1929) "principal of minimum differentiation") to solve the decision process in terms of location. However, it has been observed that there is a paucity of comprehensive research into the selection criteria required for evaluating suitable store sites. The proposed model, which displays a variety of characteristics that influence shop performance, might help businesses analyze their site choices.

1.1 Criteria of store location

In location analysis, numerous parameters are used. Based on literature review, criteria for choosing a store location are classified into seven categories:

1. Economic factors
2. Performance measures
3. Population structure
4. Competition
5. Store characteristics
6. Saturation level
7. Magnets

1.1.1 Economic factors

Household income, income distribution, mobility (autos-per-household), inclination to spend money at the store, source of income, rentals, and other economic factors all have a role in the decision to site a store (i.e., Ingene 1984; Karande and Lombard 2005). In addition, the type and price of residences in the area where a retailer is considering locating, the proportion of families who own their homes (as opposed to those who rent), and the per capita sales for that area show the people's income patterns.

The "Survey of Buying Power," which is arguably one of the greatest sources for collecting estimates of income distribution by country, is another useful resource. The number of people employed in a family, their total average income, and the consistency and frequency with which they earn money are all indicators of inhabitants' ability to buy goods (Redinbaugh, 1987). Residents in the region where retailers are considering locating have spending power (i.e., the amount of money that will be available to buy things), but it is more crucial for retailers to know whether the residents are eager to spend their money at the shop (Redinbaugh, 1987).

The total retail sales potential of an area in which they reside (Ingene and Lusch 1980; Redinbaugh 1987; Reinartz and Kumar 1999), profitability (Kumar and Karande, 2000), retail patronage behavior (Karande and Ganesh 2000), and price sensitivity are all closely related to economic characteristics of a population (Ingene and Lusch 1980; Redinbaugh 1987). As a result, the model used to make location selection decisions includes a number of economic elements.

1.1.2 Performance measures

Because the store with the best expected performance is picked from among the possibilities, performance is used to determine where the store should be located. The aspects impacting store performance are, in fact, criteria that must be considered while choosing a retail location. As a result, the ability to predict performance goals such as dollar sales volume or demand (Cottrell 1973; Ingene and Lusch 1980; Reinartz and Kumar 1999; Berman and Evans 2010; Li and Liu 2012), store profits (Walters and MacKenzie 1988; Kuo et al. 2002), the number of customers patronizing the store (Stanley and Sewall 1976; Gautschi 1981), market share (Hoch et al. 1995).

Using different indicators of store performance is seen to be important in determining the likelihood of a new store or stores entering the region providing the most utility. As a result, in this study's location selection model, the most typically employed measures are sales volume, store profits, market share, retail patronage, and pricing elasticity.

1.1.3 Population structure

The incorporation of demographic characteristics in store performance modeling considerably improves the model's ability to choose good store locations. Many earlier studies have looked at

population structure using a variety of variables such as demographic characteristics (income, age, gender, and so on) as well as other data such as travel time and shopping patterns. The demographic structure of the market in every potential location is arguably the most crucial aspect for retail managers. Demography also enables retailers to determine whether the population in the area they want to serve is representative of their target market (Berman and Evans 2010).

Because of their financial situation or long-standing habits, some people's consumption behaviors are difficult to adapt or adjust (Redinbaugh, 1987). As a result, while evaluating potential placement areas, businesses must consider the spending habits of the people who live and/or work there. The addition of the purchase habit variable to the model will greatly increase the predictive ability of the location selection model. Several factors can be used to define characteristics of the population residing in the proposed location, including the number of households (Reinartz and Kumar 1999), population size (Berman and Evans 2010), population density (Karande and Lombard 2005), population growth rate (Berman and Evans, 2010), customer size and density, age (Irwing, 1986), gender (Irwing, 1986), education (Irwing, 1986), occupation (Berman and Evans, 2010), household size (Cottrell 1973), travel time (or distance) (Li and Liu, 2012), social classes and cultures (Irwing, 1986), and purchasing habits (Redinbaugh, 1987).

1.1.4 Competition

When looking for appropriate sites, retailers should consider the competitive environment as a factor that influences shop success (Reinartz and Kumar, 1999). To give an example, Hoch et al. (1995) discovered that competitive forces account for the bulk of pricing elasticity variance across stores. In direct competition, a new store will be forced to compete with existing retailers selling the same products in order to get more market share. In the case of indirect competition, retailers who sell unrelated products are seen as potential competitors of newcomers to the market because they are vying for the same customer euro. Each retailer competes with other retailers in the neighborhood to take a portion of the citizens' spending (Redinbaugh, 1987). As a result, they are direct or indirect competitors with the same market share.

We still don't know much about how a competitive retail environment affects store performance (Grewal et al., 2009). Retailers must be aware of what happens when competitive considerations are factored into the store-performance model in order to compete effectively. When evaluating competition in the context of retail location selection, a number of facts or figures should be surveyed and analyzed for the location's eventual success: the spatial distance between retail stores, the size and number of competitor stores, shopping alternatives, settlement with comparison to competitors, relative competitive strength, competitors' sales volume, stiffness in competition, and the quantity, quality, and extent of aggressiveness.

1.1.5 Store characteristics

To achieve a competitive advantage or superior performance against their market competitors, retailers should investigate a wide range of shop features. Indeed, store-specific factors are strongly linked to retail store competitiveness. In this study, the most crucial characteristics of the store are divided into three groups: (1) accessibility, (2) store image characteristics, and (3) expenses. Probably one of the most studied variables in literature for store location-selection decisions is ease of access, which relates to people's ability to reach the business easily and quickly (Dune and Lusch, 2008). Because many shoppers go by automobile, special attention should be made to the roads, streets, and parking facilities to make it easier for them to get to the shopping area.

When the state of existing transportation facilities is assessed in terms of ease of access to the store, it is believed that they have a positive or negative impact on a community's sales potential and, ultimately, the store in a given trade region (Redinbaugh, 1987). Then, to explain a significant variable in store performance, store-image attributes such as atmospherics, assortments, quantity, and quality of goods are addressed. Increasing merchandising assortments or improving store atmospheres through better layout and store-allocation procedures affects income as well as expenses (Ingene and Lusch, 1980). As a result, before making any changes to improve a store's image, retailers should consider the impact on profitability.

Finally, the model for selecting shop locations should take into account the impact of various expenditures on store performance. These expenses include the price of constructing, renting, purchasing, and remodeling the physical store, among other things (Irwing, 1986).

1.1.6 Saturation level

The index of retail saturation (IRS) is a tool that can be used by retail experts to determine the desirability of a market.

Formula (Bhatia, 2008, Retail Management):

Index of retail saturation = IRS

Population in an area who are likely to buy = POP

Per capita retail expenditure = EXP Current retail space (sq. ft.) in area = CRS

$$IRS = \frac{POP \times EXP}{CRS} = \frac{Demand}{Current\ retail\ selling\ space}$$

The index is quite beneficial in determining whether or not they would be able to make a bigger profit in a particular market. The IRS is the ratio of a product's or service's demand to its supply (Dune and Lusch, 2008). As a result, IRS equals total retail sales per square foot of its marketplace location for a certain line of retail trade (Dune and Lusch, 2008).

Some academics, such as Dune and Lusch (2008), have proposed using a measure of household size and retail spending instead of the number of inhabitants in a given area. The extent to which current retail facilities or enterprises are meeting demand for products and services in a given area is referred to as IRS (Dune and Lusch, 2008).

The number of stores in a geographic area or the total square footage of such stores are considered the supply of retail facilities, while total store sales in the market are considered the demand (Ingene & Lusch, 1980). The supply of retail facilities influences the demand for goods and services in a given market. When measured in terms of the number of stores per thousand households, a market might be “understored, overstored, or saturated” (Kuo et al., 2002; Irwing, 1986; Dune and Lusch, 2008). To meet the demands of its population, an underserved market has too few stores supplying a given commodity or service. Profitability is quite strong with a high degree of possibility for retailers who choose to settle in such a region. When a trade region is an overstored market with too many businesses to adequately serve customers for a certain commodity or service, some retailers are unable to make a profit. When a market has just enough store facilities to suit the needs of the market’s population while also allowing retailers to make a reasonable profit, it is said to be saturated (Dune and Lusch, 2008; Berman and Evans, 2010). The study advises analyzing the saturation level of a market, which is a decreitive factor in luring customers to retail businesses, as in prior studies on site analysis for retail stores.

1.1.7 Magnets

Kuo et al. (2002) proposed a set of magnets that took into account “crowd point” (Irwing (1986), Timmermans (1986), “culture and education organization” (Irwing, 1986; Kuo et al., 2002) and “relaxation” (Irwing, 1986; Redingbaugh, 1987; Kuo et al., 2002) aspects to help build a more complete model when considering alternative store sites. To recently, most marketing research has focused on the influence of other aspects on business performance, but few have addressed the magnets in making a real location decision for a retail store. Timmermans (1986) discovered that the presence of magnet stores in the marketplace, which are difficult to identify, appears to be an essential determinant in retailers’ location decisions. All retailers should regard the presence of magnet stores as an advantage, according to researcher Timmermans (1986), because magnet stores draw more trade from larger distances. Pedestrian flows at a place with the most magnet stores have the potential to become more widespread. As a result, the site where magnet stores are located has the ability to draw the majority of the trade (Borgers and Timmermans, 1986).

Kuo et al. (2002), who share this viewpoint, proposes a link between the magnet (i.e., crowd point) and shop performance in terms of the number of daily visitors. As a result, merchants should consider the existence of magnet stores throughout optional sites as an evaluation parameter to aid in the selection of a store location when aiming to attract visitors to their store.

1.2 Considerations

The attractiveness of shop sites varies from day to day. Due to future competition invasion, a place that was formerly regarded good and profitable may become unwanted and unproductive.

For example, Ghosh and Craig (1983) argued that population distribution and composition are essential determinants impacting store volume, and that these elements are changing over time. As a result, store owners and retailers must consider the shifting competitive landscape as well as the dynamic character of the retail market. This necessitates an understanding of how elements affecting store performance, such as profitability (Ghosh and Craig ,1983), will evolve over time in a certain market area.

Furthermore, shifting demographics will create more confusion about how best to address consumer demands and desires (Ingene and Lusch, 1980). As a result, retailers must do timely research on the elements affecting shop performance in order to properly position their stores in a changing consumer market.

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