CASE STUDY: Retail Site Model

A Fortune 500 retailer wanted to increase its number of stores and felt the need to approach site selection from a new and more sophisticated perspective. The key issues centered on "which" markets to expand to; "where" to place stores within the selected markets; and with "how many" stores?

Objectives

- **Identify all of the variables to include in a site model;**
- **Manipulate the data to arrive at the predictive variables for a successful site;**
- **The model could NOT include key operational and marketing issues;**
- **The final model had to be manageable by company personnel;**
- **The model had to be predictive of minimal store volume.**

Strategy

Existing store markets were analyzed using the full gamut of demographic, socio-economic, census, sales, and published data that might be construed to have relevance to store site selection, including a "Niche" segmentation analysis of the customer database with transactional data. This exhaustive list of variables was then analyzed using CHAID to arrive at dynamic predictors. The data were then reconfigured to accommodate a Neural Network analysis to predict the number of stores required to meet existing market needs, as well as for use as an analysis tool for new markets.

Markets were then mapped to indicate "ideal" store placement relative to the location of potential customers. The data suggested a predictive linear model that could be manipulated by the client's real estate department with minimal derived or inferred data.

Results

A model was developed that not only met the objectives, it moved the company to re-evaluate the conventional store planogram so that store square-footage reflected the anticipated served market as opposed to the previously set formulae. This led to re-evaluating the allocation of marketing, merchandising, and advertising dollars from a per store basis to a per square foot basis.

While an original objective has been to place twenty new stores throughout the system, the model aided in negotiating existing store leases up for renewal and served as a benchmark for store performance. Stores opened using the new model have been performing above the model's predicted level.