Toward Developing a New Approach to Designing and Executing Downtown Market Research Projects: Part One

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ABSTRACT

How the market research related to the development of downtown policies, programs and projects has been done has long been in need of a substantial overhaul, especially if it is being used to guide large amounts of public and private investments. The subject is quite broad since it can cover research related to housing, office, entertainment, transportation, public space and retail endeavors. A book probably is needed to do it proper justice. Consequently, given the space limitations that a journal-type publication presents, this article will focus on the market research done about downtown retail, and even then, it will be a two-part publication. It makes no pretense of being definitive, but is offered in the belief that it represents a good starting point for this much needed overhaul. Other practitioners are invited to join in this vitally needed effort.

Part One, below, provides a critique of some of the current assumptions, tools, techniques, and data sources used by the researchers doing today's downtown retail market research projects.

Part Two, will appear in the September 2020 issue of the ADRR. It outlines an analytical approach that incorporates many of the research tools and methods currently being used, but places a different emphasis on them. It also makes use of some tools and techniques that have been largely ignored. Most importantly, it is structured by the rejection of the notion that the important economic development questions we face can be answered by some simple equations. It instead argues for rigorous, sometimes complicated and varied analyses that can lend credibility to some numerical estimates, made in a subjective Bayesian manner, of acceptable probabilities. This insertion of human decision-making has been a critical missing step.

PART ONE

INTRODUCTION

For several years now, I have become increasingly uncomfortable with how retail market analyses are being done. At first, my concerns focused on the leakage/gap analyses that have experienced growing popularity. I detailed their analytical and data problems in three prior posts to my Downtown Curmudgeon blog .[1] I also became very concerned about the use of I-O models to study economic impacts on downtowns, especially by arts projects. In an article I published in the IEDC's Economic Development Journal, I noted the usual substantial geographic incongruities between downtown districts and the larger areas I-O models need. That makes the latter a poor statistical and analytical tool for looking at downtowns. I also pointed out that in smaller districts, and even in some much larger ones, their thin business

mixes mean that there are no "receptors" for these economic impacts, so they must escape into a wider geographic area. [2]

However, as I worked on those articles, a number of other issues caught my eye that deserve far greater attention. Most importantly, I began to see that some strange and very unrealistic assumptions were structuring much of the analysis. Finally, I noticed that several important topics such as online sales, weakly bonded shoppers, a downtown's competition, retailer competitive abilities, and even trade area demographics were either overtly ignored or given a level of perfunctory attention that equated with being ignored.

While downtown retail market studies can be used to help current retailers improve their marketing operations, regrettably the vast majority of these studies are not used for that purpose. Nor are they used by retail chains in their site selection deliberations –the chains feel they have no need for such studies. Instead, the market studies are primarily used to inform government or Business Improvement District (BID) or other "economic development organization" (EDO) retail recruitment programs and/or the planning of real estate development projects with substantial retail components. Most major retail firms or the site selectors they hire also have or can have access to the demographic, consumer expenditure and lifestyle data these downtown retail analyses usually cover. Very importantly, they often (and uniquely) have proprietary data about the sales and sizes of their many stores that enable them to do sophisticated statistical analyses (e.g., multi-regression models) to estimate potential sales at possible new locations. Downtown retail analysts do not have access to such data. To compensate for that data void, these analysts often have opted to use leakage/gap analyses that compare retail sales in the trade area to consumer expenditures, with leakages to merchants located outside the trade area occurring when expenditures are greater than retail sales in the trade area. Worrisome is how these leaked sales dollars are too often being seen as easy pickings and prone for capture. Too often, retail revitalization strategies are completely dependent on these leakage analyses. Unfortunately, this popular analytical tool is filled with fatal analytical and data problems.

The Main Thrusts of the New Approach Presented Below

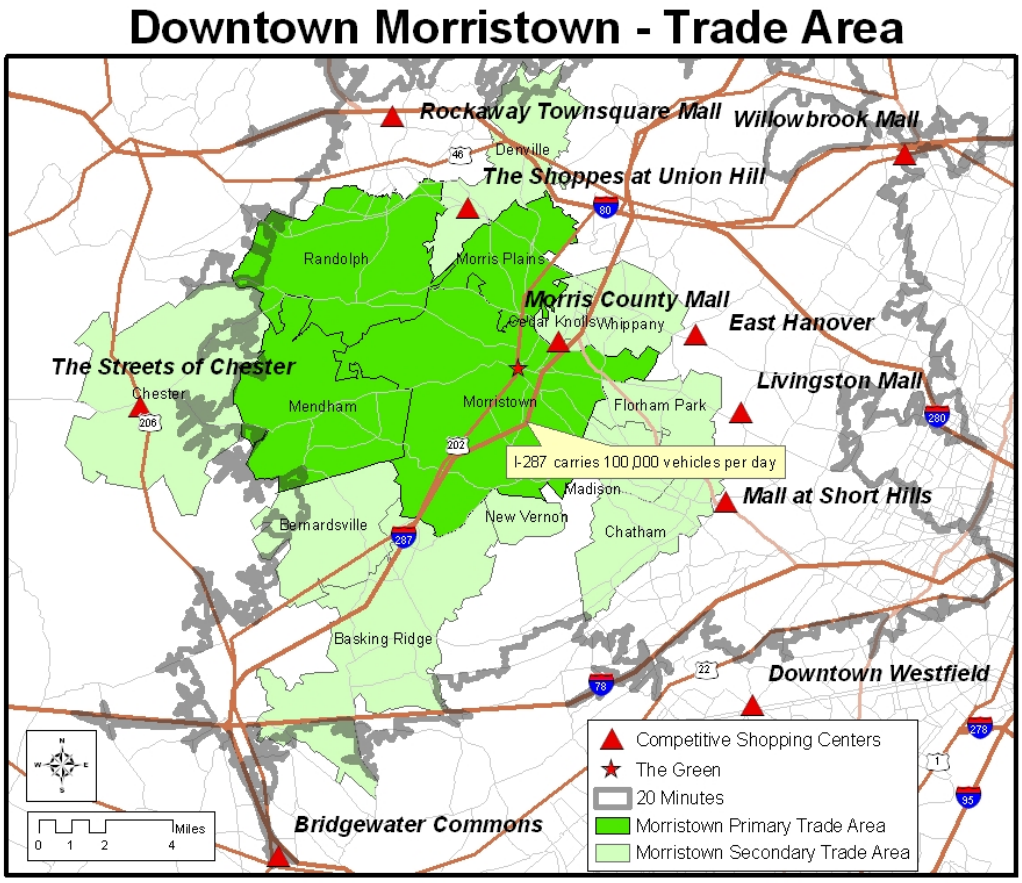
The main goal is to identify how much new retail sales dollars can be reasonably expected to be won by new merchants that can be used to pay rents of existing or new retail spaces. In turn, this information can help scope out how much rents tenant prospects can afford and the size and users of potential real estate projects. To do so, the main ideas are to:

- Do a lot of the research steps that we have been doing but do them a whole lot better.
- Drop the focus on leakage/gap analyses.
- Focus on the expenditures, behaviors and shopping patterns of the "up for grabs shoppers" by retail sector. These are the dollars that must be won, not just those leaked to distant retailers.
- Identify and then do an in-depth analysis of the downtown's competitive trade area.

- Bring into consideration retailers who can legitimately be deemed *possible* tenant prospects on the basis of available evidence. They must be brought in here because without having any indicator of the strengths of potential retail tenants, one cannot make any really grounded estimate about the potential market shares that can be won/captured.
- Estimate the sales of their average stores. Estimates stated in terms of ranges are still useful and probably more closely represent what an analyst can accurately produce. These estimates are i*ndicators* of the retailers' abilities to capture sales dollars in the study area. When linked with the expenditures of up for grabs shoppers in the retailer's sector, this data can produce a Potential Capture Rate (or captured market share) for that retailer. The Potential Market Shares of all the identified reasonably possible tenant prospects in a sector (or NAICS code) can be added together to see how much of the up for grabs shopper expenditures they might absorb.
- Government officials, private sector investors, landlords and developers probably will want to know more than just the *possible* tenants and their *potential* market share. They will be far more satisfied learning about the *most probable* tenant prospects and their *most probable* market share. They would probably prefer information about the retailers who most probably can be attracted, and the market shares they most probably will garner.
- There are no existing statistical equations/formulae that can establish these probabilities. They can only be established by people making such judgements / decisions. Indeed, every day, business investors around the world are faced with similar situations. They, too, may have a lot of good information, but no magic formula to tell them whether or not to invest. They must make a well-reasoned judgement, based on the preponderance of the evidence they have reviewed about which option is probably best.

SOME PROBLEMS TOO OFTEN FOUND IN DOWNTOWN RETAIL ANALYSIS STUDIES

1. Far too often, trade areas are badly defined. Data for one-, three-, and five-mile radii are easy to get, cheap to buy, and widely used by retail chains and developers. They mesh nicely into the typology of shopping centers the ICSC uses. Because they do it, some analysts argue they should, too. Unfortunately, most times these ring defined trade areas are very incongruent with where the downtown's shoppers really live. In several downtowns DANTH, Inc. worked in (e.g., Jamaica Center in Queens, and Morristown and Englewood in NJ), the districts were located far from the centers of their trade areas we identified using intercept surveys or customer data provided by local merchants. In another downtown in VT, its trade area reaches as far as 30 miles away. There are about 80 zip codes in the 30 mile ring around that downtown, but a downtown intercept survey with 1,300 respondents found that only about 20 of the zip codes generated shoppers for district merchants. In downtown Morristown, NJ, its retail customer data defined primary trade area differed considerably from a 20-minute drive shed and had a distinctive "lean" to the west, due to the strong malls to its east. (See map below). A



badly defined trade area means a mortally flawed analysis no matter what else the analyst does!

2. Far too often demographic data are presented in a perfunctory manner, mostly verbal descriptions of what is patently obvious to any serious reader of the accompanying charts and tables. Little real analysis is presented though there's a ton of research about the retail behaviors of various demographic groups, e.g., from the Bureau of Labor Statistics' (BLS) consumer surveys. While the BLS data are admittedly national or multistate and their applicability to smaller locations is consequently questionable, a strong argument can be made that researchers should take the national shopping patterns by various demographic groups as directional and significant possibilities in their local study areas, and then do some research to find out if there is any evidence of their local presence. When project funds are scarce, this research tactic can be of great value.
3. Little to no attention is paid analytically to the degree shoppers are bonded to local retailers, though the researchers sometimes have local survey data showing how many shoppers dislike or are dissatisfied with local merchants. That's a very serious problem because the weakly bonded, up for grabs consumers are the most likely to shop in towns outside of the trade area, or online, or to support new merchants entering the downtown. [3] This retailer bonding is analogous to party identification in politics.

4. The Immaculate Retailing Assumption is often the analytical spine of leakage analyses.[4] It assumes that new or expanding merchants will only capture the expenditures leaked to distant merchants and not take any sales dollars from existing downtown merchants. Of course, it is hard to imagine merchants accepting sales dollars unless patrons attest that they otherwise would go to distant stores, not other local merchants. Moreover, the numbers of weakly bonded shoppers are often so large and so dissatisfied that it is hard to see how they would not try out new downtown or online merchants.
5. The data about trade area firms that leakage analyses use are very often questionable, especially in those areas that are not large densely populated metropolitan areas. Questions also arise about the validity of consumer expenditure estimates based on national BLS surveys being manipulated to estimate expenditures in far smaller trade area geographies. There is little evidence that the methodologies used have been sufficiently validated – i.e., there's proof that they are indeed measuring what they say they are measuring. However, the problems with the validity of the business data are far more severe than those associated with consumer expenditure estimates.
6. There are far too few thorough analyses of the brick and mortar competitors downtown merchants face: a) in the rest of the trade area – that's often a local political no-no; b) from merchants located beyond the trade area; c) as well as from online merchants. Far too often, the closest the retail analysts get to scoping out the competition is when they discuss the data on retail sales by NAICS code in the trade area and on leakages to merchants located beyond its boundaries in their leakage analyses.
7. With over 45 percent of GAFO retail sales going to online merchants, these e-leakages are often greater than the leakages to brick and mortar (B&M) retailers located beyond a trade area's boundaries.[5] However, very few downtown market analyses are dealing with these consumer purchases from to online merchants (e-sales), much less doing so in an appropriate manner.
8. Looking at leakage analyses, once the leakages are known, *then the really important questions arise of how much of each leakage can be captured and which retailers can do it?* That's when, putting the Immaculate Retailer Assumption nonsense aside, leakage analyses confront their most essential question and when they really break down. The important information that determines reasonable capture rates has less to do with the sizes of the leakages, and more to do to with the number and strengths of those competing for those leaked dollars. Leakage analyses never address those topics!
9. Retail analyses that do not also look at online sales leakages and the level of weakly bonded shoppers are also deeply flawed. Both also have critically important roles in determining the size of the pot of consumer dollars competing retailers will be vying to capture.
10. **The capture rate is the pivotal analytical concept because it determines the answers to the pivotal questions that the retail market analyses usually are aimed at settling: how many sales dollars new retailers can be reasonably expected to win? Knowing this allows estimates of how much new or vacant retail space can be filled. That, in turn, has implications for recruitment programs and real estate development projects.**

11. **All traditional retail leakage analyses use some capture rate number if they try to estimate the amount of retail space that captured formerly leaked sales dollars can support. However, the rates used are almost always based on little or no evidence, but instead are asserted as either being conservative or having broad (if unproven) acceptance in the industry. That's pretty shoddy reasoning for providing the justification for investing large sums of money in downtown real estate projects.**
12. I have never seen a retail market analysis that delves into the related and crucial factors of: a) *the ability of retailers needed to capture market share in that specific market*; b) how much market share chains will need to satisfy corporate objectives, or c) the market share independents will need to afford local rents and bring home sufficient annual incomes. This usually goes hand in hand with a perfunctory analyses of trade area demographics and the competition.
13. **Since these analyses often are meant to inform recruitment programs, they also usually fail to ask whether retailers capable of capturing market share can be recruited or organically attracted? However, this too, is an absolutely essential question to answer. A capture rate is only meaningful if there are some credible arguments establishing that it is probable that a retailer or a group of retailers capable of actually winning the market share are likely to locate in the downtown**.

PART TWO WILL APPEAR IN THE NEXT ISSUE OF THE ADRR

ENDNOTES

1) N. David Milder. "Retail Leakage/Gap Analyses Should Be Treated With Great Caution by Analysts and End Users: 1. Analytical Issues." Downtown Curmudgeon Blog, September 1, 2016 https://www.ndavidmilder.com/2016/09/retail-leakageleakage-analyses-should-be-treated-with-great-caution-by-analysts-and-end-users-analytical-issues. N. David Milder. "Retail Leakage Analyses Should Be Treated With Great Caution by Analysts and End Users: 2 Some Serious Data Issues." Downtown Curmudgeon Blog ,September 13, 2016. https://www.ndavidmilder.com/2016/09/retail-leakage-analyses-should-be-treated-with-great-caution-by-analysts-and-end-users-2-some-serious-data-issues N. David Milder. "The Use of the Muddled Immaculate Retailer Concept in Leakage Analyses", Downtown Curmudgeon Blog, September 9, 2018. https://www.ndavidmilder.com/2018/09/the-fatal-use-of-the-immaculate-retailer-concept-in-leakage-analyses

2) N. David Milder. "The Impacts of Arts Events Venues on Smaller Downtowns." Economic Development Journal, Fall 2018, Volume 17, Number 4, pp 37-45.

3) N. David Milder. "Capturing 'Up for Grabs Shoppers' is an Important Key to Downtown Retail Success." Downtown Curmudgeon Blog, September 16, 2019

https://www.ndavidmilder.com/2019/09/capturing-up-for-grabs-shoppers-is-an-important-key-to-downtown-retail-success

4) N. David Milder. "The Use of the Muddled Immaculate Retailer Concept in Leakage Analyses", Downtown Curmudgeon Blog, September 9, 2018. https://www.ndavidmilder.com/2018/09/the-fatal-use-of-the-immaculate-retailer-concept-in-leakage-analyses

5) N. David Milder. "SOME MORE THOUGHTS ABOUT DOWNTOWN RETAIL: GAFO E-Sales Downtown Curmudgeon Blog July 5, 2019 https://www.ndavidmilder.com/2019/07/some-more-thoughts-about-downtown-retail-july-2019 . GAFO includes the following kinds of retail businesses: General merchandise stores (NAICS 452). Clothing and clothing accessories stores (NAICS 448). Furniture and home furnishings stores (NAICS 442).