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

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Introduction

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 is 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 appeared in the Summer 2020 issue of the ADRR. It provided a critique of many of the current assumptions, tools, techniques, and data sources used by the researchers doing today's downtown retail market research projects. It can be read and downloaded at: https://theadrr.com/wp-content/uploads/2020/06/PART-ONE-Capture-rates-Milder_ADRR-Vol-1_N-1.pdf

Part Two is presented below. It details 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 TWO

The approach outlined below is presented by asking and answering seven critical questions.

QUESTION 1: How many dollars are potentially up for capture by retailers?

IMPORTANCE: Answering this question, not the identification of leakages or gaps, is the first step toward answering the critical question for planners and strategists of: how many dollars

new or expanding retailers can capture? The reality is that retailers don't just compete for leaked dollars – THEY COMPETE FOR ALL RELEVANT EXPENDITURE POTENTIALS IN THEIR MARKET AREAS, LEAKED OR NOT. The discussion below is aimed at being able to give a convincing, well-reasoned answer to this question.

DATA to LOOK AT:

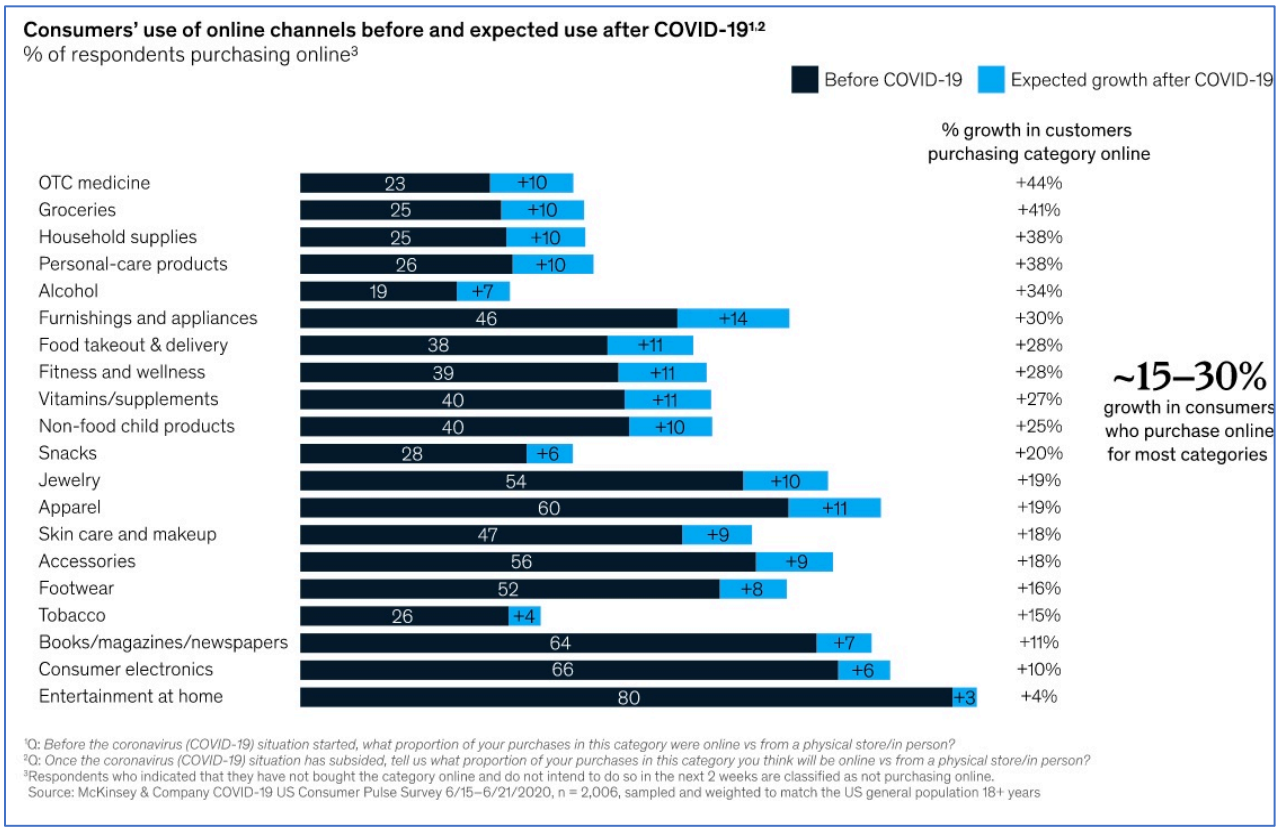
- Since the definition of the trade area is so critical, analysts should stay away from ring definitions unless project funding is miniscule, and then they should reach only very highly conditional conclusions. Much better are trade areas defined by either a very short intercept survey asking about the respondents' zip codes, or the use of customer information that many major retail chains and some downtown merchants have and often will make available. The one question intercept survey facilitates getting the large number of respondents needed to properly define a large trade area. Using cellphone data to establish downtown user sheds is a new and promising technique, though more experience with it to reveal its assets and liabilities is probably needed to warrant more broad scale adoption (See Mike Stumpf's article in this issue of The ADRR). The cost of such data may also be a consideration.
- The total of residential consumer expenditures in the residential trade area broken down by retail sector. This has often been done in past studies.
- The total of visitor expenditures in the traditional trade area broken down by retail sector – including non-resident workers, day-tourists and overnight tourists.
- The total consumer expenditures by the downtown's daytime population broken down by retail sector. For most downtowns, look closely at:
    - People who live and work or study or are retired in the downtown or within a 10-minute walk of it
    - Other people who work downtown
    - Parents with pre-school children within 10-minute travel time
    - Day and overnight tourists
    - Visitors to downtown attractions -- shops, museums, parks, public spaces, cinemas, xxx (PACs), theaters, transit centers, government and medical offices
    - The geographic clusters of where the daytime populations' visits occur – that is where the greatest retail expenditure potentials generally exist.
- What many savvy retail site selectors know, and too many downtown retail researchers forget, is that the downtown's daytime population often is more important than its trade area's residential population – that population actually uses the downtown. The key segments are downtown residents, workers, students, hotel guests, patrons of retail, arts, cultural venues, and senior centers, visitors to legal and health care facilities. Because they are downtown so often, they set its tone and image, and will be its most frequent shoppers. Many of these segments may not have great spending potential and that is strategically important to recognize. Surveys are often the best tool to obtain needed data about these segments and sometimes online surveys are appropriate to use.

How Many Shoppers Feel Underserved* By Stores Selling Various Types of Merchandise

Stores Selling	All	Core	Men	Women	Have Kids	50K+
Shirts or blouses	32%	33%(39%W)	23%	35%	35%	32%
Suits or dresses	43%	45%(48%W)	33%	43%	46%	45%
Jeans and Khakis	23%	31%	21%	24%	28%	27%
Children's Clothing	21%	23%	18%	22%	34%	28%
Women's shoes	31%	(39%W)		37%	36%	34%
Major appliances	19%	25%(30%W)	13%	21%	24%	17%
Furniture	33%	38%	31%	35%	45%	47%
Major electronic equip	23%	29%	21%	23%	29%	24%
China, pots, housewares	29%	27%	28%	30%	40%	41%
Records, tapes, CDs	16%	19%	14%	17%	20%	13%
Books	18%	24%	17%	19%	22%	16%
Sports equip & Cloth	26%	34%	26%	28%	32%	27%
Gourmet foods	41%	41%	43%	41%	53%	57%
Source: DANTH Trade Area Telephone Survey. N=600						

- The percentages of weakly bonded shoppers, i.e., those who are dissatisfied with or dislike trade area retailers broken down by sector. This, for intra-district political reasons, is a question that many district leaders do not want to address because it implicitly recognizes that new or growing merchants probably will take market share away from weak existing downtown merchants. However, any analysis that does not recognize this fact will be delusional. In DANTH's past research, we have found that anywhere from 10 percent to over 50 percent of trade area shoppers are weakly attached to the shops in the various retail sectors in their trade areas and downtowns. They see the shops as being bad or only fair, or feel inadequately served by them. See, for example, the above table that shows how many respondents to a trade area telephone survey felt underserved by the retailers within a 20-minute drive of their homes that sell various types of merchandise.
- The expenditures of these weakly bonded shoppers are the most likely to be captured by out-of-town retailers, online merchants, or *new entrants into the market*. Our past surveys indicated that these shoppers are almost always there, though their numbers in any sector certainly will vary by time and place. They can be present even when a retail sector has a sales surplus. The challenge in identifying the weakly bonded shoppers is that surveys are the best tools for obtaining information about them, but the use of surveys for trade area analysis has become much more difficult and significantly more expensive.
- Leaked sales of trade area residents' retail expenditure to brick and mortar stores located outside trade area by sector, broken down by sector and the types of shoppers they attract –e.g., luxury, value-oriented, ethnic, age cohort, etc.

- E-leaked sales by trade area residents to online retailers by sector/type of merchandise. With 45 percent of GAFO retail sales nationally going to online merchants even before



the Covid19 crisis, this is vital information, but it's hard to get reliable data about such expenditures on the local level without using surveys.[1] However, any analysis that does not deal with these expenditures will be highly questionable. The above table shows some recent research done by McKinsey & C0 that found, nationally, how much the online channel was already being used by consumers prior to the Covid19 crisis and how much it is expected to grow, based on consumer intentions, after the crisis.[2] What is critical to notice is how many consumers were shopping online for types of merchandise retail experts previously thought would be resistant to e-shopping such as apparel, 60%, furnishings and appliances, 46%, jewelry, 54%, and groceries, 25%. Post crisis online shopping growth is expected overall to be roughly in the 25% to 30% range, though groceries and over the counter meds are expected to increase by about 44% and 41% respectively. Food takeout and delivery is expected to increase by about 30%. This point is worthy of repetition: any retail analysis that fails to take online sales into the account very probably will be grossly wide of the mark.

QUESTION 2: What are the characteristics of the residents in the downtown's trade area and the segments of its daytime population?

IMPORTANCE: Unless they are exceptionally lucky, retailers are far more likely to succeed when they know a lot about their current and potential customers. The First Law of Retailing should be: Know Thy Customers.

DATA to LOOK AT:

- They should research not only their basic demographics, but also the shopping habits, preferences and purchasing power that are associated with each noted demographic group. Today, too many demographic analyses are perfunctory, merely restating what is OBVIOUS in the accompanying tables and charts. Most of the verbiage is descriptive, little is really analytical. On the other hand, as the wealth of BLS data on household expenditures reveals – see https://www.bls.gov/cex/tables.htm#annual -- we know a lot about how different demographic groups spend. There also is a load of survey data from other sources on their shopping behaviors and preferences. While the BLS data are mostly national, they can be of significant "directional" import and the source of well-founded hypotheses about what is going on locally. Moreover, they can be supplemented by local surveys and small group research techniques such as real focus groups and the Nominal Group Process that can test those hypotheses.
- The information from BLS in the table below, for example, is invaluable when looking at growing a restaurant niche – nationally, the higher income households account for a very disproportionate share of our nation's food away from expenditures. It is helpful to check out their importance in a downtown's trade area.

Household Expenditures for Food Away From Home 2012 and Shares by Household Income Quintile

Item	Lowest 20 percent	Second 20 percent	Third 20 percent	Fourth 20 percent	Highest 20 percent	All
HH Food away from home						
Avg Annual Exp	**$1,086**	**$1,533**	**$2,164**	**$3,239**	**$5,366**	**$2,678**
Quntile Share	**8.1%**	**11.4%**	**16.1%**	**24.1%**	**40.2%**	**100%**
Avg HH income before taxes	$9,988	$27,585	$47,265	$75,952	$167,010	$65,596
Source: BLS Survey 2012						

- Psychographic-lifestyle data. They can be very useful. However, just noting the lifestyle groups present in a trade area and providing some info about each one is not enough. Suitably detailed information about their preferences regarding shopping trip frequency, types of merchandise, shops, and shopping environments make this type of data truly useful. Different retailers and entertainment venues match up differently with different lifestyle groups. Often, there are mismatches in a market area.

- Expenditure potentials, patterns, and trends. For example, it's important that the analysis is structured upon the fact that the top household income quintile can account for about 30 percent to 50+ percent of the spending in any merchandise category. Looking at just average expenditures can hide a lot of important opportunities and problems.
- The income growth of the middle class that most of our downtown retailers depend on. It has been rather static for decades, but this is still the biggest market segment that most downtowns have to rely on. This has serious implications for growth potentials.
- The huge number of middle income shoppers who have become more deliberate in their retail decision-making, putting needs above wants, looking now more for value than status, and expecting substantial price discounts.
- The spending patterns of millennials, now our largest age cohort, and their implications. They spend far less than the baby boomers did at comparable ages.
- Latinos/Hispanics account for a growing amount of the spending for many products and services. They are, for example, a major component of today's movie theater audience.
- The Z generation prefers actually shopping in stores to shopping online.
- Esri, a market data provider, offers Market Potential Index data that show how a trade area's expenditures compare to national averages. Such benchmarks are very useful for identifying strong and weak market growth potentials and, very importantly, for setting realistic development expectations and goals.
- A few decades ago, DANTH relied substantially on telephone surveys of trade area residents that had 500+ respondents to obtain data on their shopping behaviors and preferences. Today, such surveys are far more difficult and expensive to do. For example, one survey firm, with about 25,000 studies under its belt, recently estimated that from a trade area composed of about 18 zip codes, it could obtain about 7,000 useable landline and cellphone numbers, from which it expected to complete only 122 interviews at a cost of $60+ per completed interview. Online trade area surveys without a panel from which a sample can be drawn have prohibitive sampling issues. Today, the best bet may be a well-designed intercept survey, though they cannot get at those trade area residents who do not visit the downtown, and getting a lot of completions can be tough.
- The shopping behaviors and preferences of the downtown's daytime population. The challenge is that this often requires primary research. Fortunately, since many of the subgroup populations are fairly well-known, various kinds of surveys, both traditional and online, can be done, often without causing cost problems. In many instances sampling is not a major problem since the entire population, or a huge percentage of it, is being surveyed. Otherwise, since the sizes of these subgroups are known with some accuracy, they can be treated as finite populations and that can have favorable impacts on a survey's margin of error and confidence level. Also, their size and proximity also often allows analysts to affordably engage in original research and thus avoid the built in problems of analyzing secondary data that were collected to meet the needs of other researchers. *It often may be significantly more cost effective to focus the research on*

the downtown population than the trade area's residential population. Also, the reliability of the locally done primary research is often significantly better than what can be purchased from well-known market data firms.

QUESTION 3: Who are the downtown's major brick and mortar competitors, who are its major online competitors, and what are their strength and weaknesses?

IMPORTANCE: Perhaps the Second Law of Retailing should be: Know Thy Competition. Without properly scoping out the power and depth of the competition that new and expanding retailers will face, it is impossible to make a well- reasoned judgement about their ability to capture market share. *The failure to do so is very widespread!*

DATA to LOOK AT:

- *Analysts need to identify the downtown's brick and mortar competitive market area. It and the downtown's residential trade area are defined in different ways and consequently will mostly have incongruent boundaries –see the Morristown trade area map in Part One of this article. The consumer trade area is defined by where a certain percentage of a retailers' or a group of retailers' customers live. The competitive market area is defined by where the major brick and mortar competitors of a retailer or a group of retailers are located*. The magnetisms and competitive strengths of the downtown's retailers will likely differ significantly from those of their competitors*. When they are weaker – as oft happens – the competitors will have a much longer geographic reach and be located well beyond the boundaries of the downtown's trade area and still have greater magnetism for that trade area's shoppers.* A leakage/gap analysis provides no information about these competitors, save for that about the sales leaks/gaps.
- The major potentially WEAK competitors within the downtown. These merchants will usually be in sectors that shoppers feel underserved by or dissatisfied with, or that face strong external competition. Successful new entrants are likely to be drawn to the sectors with dissatisfied shoppers. To survive and hopefully prosper, the existing merchants in these underperforming sectors need to substantially up their games. The local EDO might help them do that with an appropriate program, though it may not be easy to accomplish. It also can still try to recruit new firms for that sector. The overall strengthening of that sector, through the improved operations of existing merchants and the arrival of new ones, could mean a new ability to tap a larger market area. In this regard, it is useful to survey current merchants about their:
    - Perceptions of consumer dissatisfaction
    - Perceptions of their competitive abilities
    - Perceptions of who they are competing with
    - Recognition of the need to change/improve
    - Interest in programs that could help them become more successful.

- To properly assess the potential to recapture any leakages one must know much more than just the sales dollars going to merchants outside the trade area. To effectively compete with them. one must also know about their strengths and weaknesses:
    - Their size in terms of square feet and sales
    - The types and prices of the merchandise they offer. For example, most of the potential competitive retail centers of one rural city all had many of the same value-oriented retailers that were aiming at the same middle market segments. Most of shoppers in that city's trade area consequently were unlikely to be attracted to these similar and more distant centers. However, one huge mall that offered retailers and merchandise that could appeal to that city's more affluent shoppers – those who also make the largest retail expenditures – was a real competitive threat.
    - Their distance from the downtown. The further away they are the more magnetic the competitors have to be.
    - Other customer magnets, retail and non-retail, near to them. They help draw people to an area or commercial district. They can make a competitor stronger because they can turn a shopping trip into a broader positive experience.
    - Their non-retail assets such as vibrant public spaces, eateries and watering holes. This is an increasingly important differentiator! Successful malls are becoming more like successful downtowns. This is the direction even the large successful malls have taken.
    - Their "accessibility" assets – parking, rail, etc. As is the case with downtowns, the easier the rivals' locations are to get to, the more they will be visited.
    - The market segments they are tapping within the downtown's trade area. If the potential rival retailers are not targeting the same market segments as your downtown's retailers, then they are not true competitors.
    - Which downtown merchants they are taking market share from. This can help local decisionmakers identify who needs assistance and how much, and if these merchants are among those open to being helped.
- To properly assess the competitive environment within the downtown it is useful to identify:
    - The number of shops in each retail sector and estimate the annual sector sales
    - The strongest merchants in each sector, the market segments they target, the types of merchandise they offer, and their marketing tools they use.
    - How they match up with their competitors.
    - The ability of these merchants to learn and innovate in order to adapt to their changing competitive environments.
- The types of online merchants that pose the strongest threats to local merchants. For example, the online threat has long mainly been seen to GAFO merchants and small towns usually have few if any of them. However, recent research indicates the impact has been broader, and that the Covid Crisis has sparked a surge in online shopping for

groceries and other non-GAFO items that is likely to have substantial long-term impacts. More on this below.

- What are the competitive advantages of these online merchants?
- What assets do local merchants have or can acquire that can help them compete with the online merchants?

QUESTION 4: Are there affordable available downtown retail locations that facilitate tenant abilities to compete?

IMPORTANCE: Basic business recruitment 101: If a downtown does not have the types of spaces retailers are looking for, they will not locate in it. Moreover, good retail locations can enhance a retailer's ability to compete, while poor locations mean a retailer has to have way above average magnetism. On the other hand, good locations usually mean higher space costs that usually only the stronger retailers can afford. This question tends to take on greater relevance in downtowns where new or substantially renovated storefront spaces are being created, and where tenant prospects are likely to be small merchants. In those situations, the costs of the new retail space may only be affordable to a small percentage of the small merchants looking for spaces.

DATA to LOOK AT:

- Where are the downtown's major customer traffic generators? Their presence nearby means that downtown retailers need to have less magnetism of their own, that they can share the traffic other downtown attractions are bringing in.
  - Are there clusters of them?
  - How many people do they attract annually?
  - Very importantly, when during the day do they attract them?
- Retail Chains.
  - Are there chains in relevant retail sectors that have entered market areas with similar characteristics?
  - Among them, are there chains that have leased spaces similar to those available in the downtown in terms of size, condition and cost?
  - Will the downtown's locations offer better profit opportunities than the other locations in other towns that the retailers may be looking at?
- Small Independents.
  - Are there good retail locations available that small merchants can afford?
  - Compared to the average revenues of small merchants in the relevant sector, how much above that would a small merchant need to afford the rents in the best locations? Or in newly constructed spaces?
  - What are the implications of the answers to those two questions for the downtowns growth strategy and action plan?

QUESTION 5: Does the downtown have the programs to attract, recruit or nurture such retail prospects

IMPORTANCE: Capture rates are only of real value when they are viable, when retailers are in the downtown, or likely to appear there, who can win the needed market share. At the most basic level, this involves being able to convert "walk-in" tenant prospects into occupants of district storefronts. More sophisticated "table setting" approaches add programs that will make the downtown much more attractive to retailers and increase the walk-in flow. Proactive programs add targeted efforts to identify, cultivate and proactively recruit tenant prospects who are most likely to prosper in the downtown.

DATA to LOOK AT:

- Retail Chains.
    - Does the downtown have programs aimed at making it more attractive to retail chains, i.e., that focus on stimulating downtown housing and job development, the availability of vanilla box spaces, coping with problems of disorder, providing adequate parking and transit access, developing well activated public spaces and attractive eateries and watering holes.
    - Does the downtown have a network of savvy commercial brokers, developers and landlords who can identify, cultivate and recruit viable retail prospects?
    - Failing that, does the downtown have an economic development organization that can identify, cultivate and recruit viable retail prospects?
    - Does the town have a permission and approvals process that is easy for the chains to transit in terms of time and costs?
- Small Merchants
    - Is the downtown nurturing capable small merchants? More and more downtowns are finding that growing their own retailers is more effective than trying to recruit them from afar.
    - How strong is the downtown entrepreneurial environment? [3] Nurturing small merchants to fill downtown spaces is much more likely when a supportive entrepreneurial environment exists that contains such assets as a business oriented library, maker spaces, co-worker spaces, incubators, popups, vendor marts, an EDO focused on small business development, nearby technical assistance providers (e.g., a college or university, a SBDC, SCORE), social spaces for small businesspeople, affordable rents, etc.
    - Does the downtown have an effective proactive program for finding and recruiting capable small merchants from other towns? The goal is not so much for these merchants to relocate as to have them open an additional store.
    - Does the downtown have an effective quality of life residential recruitment program? [4] Boomerangers as well as new residents who are attracted to a community's quality of life often open up new downtown businesses.

- Does the town have a permission and approvals process that is easy for the small merchants to transit in terms of time and costs? A tough and expensive process can hurt the small merchants more than the chains because they lack the personnel and financial resources the chains have. Far too often, this is the case.

QUESTION 6: Who are the likely potential retail tenant potential prospects and what are their competitive abilities?

IMPORTANCE: *If a downtown is unlikely to attract retailers who have strong competitive abilities, then this will have a critical impact on how many sales they will actually capture.* Weak retailers will have weak capture rates, stronger competitors will do commensurately better. The competitive abilities of the retailers is probably one of the strongest determinants of how much market share they can win. *Strangely, very few market analyses take this factor into consideration.*

The discussion of individual tenant prospects is usually left to a follow up recruitment program that the strategy is supposed to influence by identifying the retail sectors with untapped market potentials in which individual tenant prospects should be sought. The argument being presented here is strongly contrary to that approach. It holds that:

> W*ITHOUT BEING ABLE TO IDENTIFY SPECIFIC TENANT PROSPECTS THAT THE DOWNTOWN HAS A REASONABLE CHANCE OF ATTRACTING – AND THE REASONS FOR THOSE JUDGMENTS ARE CONVINCINGLY STATED – ANY IDENTIFIED UNTAPPED MARKETS OR LARGE NUMBERS OF UP FOR GRABS SHOPPERS ARE NOT REALLY VIABLE GROWTH OPPORTUNITIES*.

The identification of potential tenant prospects should be a vital part of the retail growth strategy, with the actual cultivation of them left to the follow up recruitment program. The proof of this are the many instances in which retail recruitment programs have only been able to identify few if any real retail prospects in the retail sectors a strategy has said they should look at.

Underlying this is the fact that retail market research really must look at two important types of markets – the various consumer markets for the diverse merchandise retailers sell and the market for the retail spaces that the merchants selling that merchandise require. The big end use of these downtown retail strategies, because of who uses them, usually has little to do directly with the findings about consumer behavior in the study area, but has enormous focus on the qualified demand for retail space. *Retail marketing reports done for downtowns typically spend an overwhelming amount of attention on consumers, far less on the retail space market and even less on how the two are connected – which they definitely are*. Leakage/gap reports do a very poor job of connecting the data in these two types of markets. How to best establish that connection is a serious question, and hopefully this article will point towards a viable answer.

DATA to LOOK AT:

Most important is the identification of the likely potential tenants. The analysis outlined above should indicate which retail sectors ought to be focused on.

Retail Chains.

- Getting inputs from retail experts, including the savvy brokers who do a lot of the site location work for the chains, is a good start.
- Look at the favored co-tenants of the chains already located downtown.
- Look at a number of comparable downtowns to see which chains in those sectors are present.
- Conversely, identify chains in those sectors and then see if they are located in downtowns such as yours.
- The above steps should yield a list of reasonably possible potential prospects.
- Create a profile for each tenant on that list that has the following types of information:
    - An ordinal indicator(e.g., few some, many) of how often they are located in a retail center similar to your downtown;
    - An estimate of their average B&M store sales, using a range if necessary;
    - The percentage their average stores would capture of the expenditures of the trade area's up for grabs shoppers expenditures in the B&M stores in that retailer's sector (THIS IS THAT RETAILERS POTENTIAL CAPTURE RATE);
    - Whether or not the types of space that chain requires are available currently in the downtown;
    - Information about whether the chain is opening new B&M stores and, if so, how many, and where.
    - Last, but far from least, what is the chain's corporate financial status, especially is it carrying a lot of debt?
- These retail chain profiles are the basic building blocks for any retail recruitment effort or for viably designing real estate project that is either partially or totally retail in nature. By adding them together it is possible to identify how various amounts of existing or proposed retail space can be filled with merchants that are unlikely to need to capture exorbitant, unreasonable amounts of available market share.

What is still missing though, is some form of what, for want of a better term, will here be called risk assessment about these individual retail chains. How likely is it that these chains will be attracted to the downtown in question? The downtown's locations not only need to be attractive to retailers, but have a higher profit potential for them than the locations in other cities they also are looking at. *The risk of any recruitment or real estate development venture will vary directly with the answer to that question.* Moreover, the answer to that question can HELP ESTABLISH THE MOST PROBABLE CAPTURE RATE FOR EACH FIRM, AND THEN FOR ITS SECTOR BY SIMPLY ADDING UP THE EXPECTED MARKET SHARES OF TENANT PROSPECTS THAT HAVE A HIGH PROBABILITY OF BEING ATTRACTED. Indeed, the probable capture rate can be calculated for any level of such a probability, enabling the generation, for example, of most likely, likely and unlikely scenarios. Will such estimates of the most probable capture rates have

a +/- error factor of .03 at the .05 confidence level? No way in any real world, *but they will be similar in accuracy to the similar assessments that many businesspeople make every day in deciding about huge investment decisions*. How to deal with assessing the likelihood of these retail chains being attracted will be deferred to its own section at the end of this article.

Small Merchants. FOR THE VAST MAJORITY OF OUR NATION'S DOWNTOWNS, SMALL MERCHANTS ARE THEIR MOST LIKELY RETAIL TENANTS. The number of these small merchant dependent downtowns has increased somewhat as GAFO retail chains have become much more selective about new locations and are considering fewer and larger downtowns. As happens with all types of businesses and occupations, by definition, probably 50 percent of small businesspeople are below average in ability if we assuming a normal distribution of talent, higher if it's skewed. If downtown leaders are pursuing a growth strategy, and not a simple "fill the vacancies" one, then they probably will be looking to recruit small merchants who are above average in their ability to compete, and to nurture startups having comparable abilities

Small Merchant Performance Specifications. *For these small retailers, their probable capture rates are a less important factor in large markets, where their potential annual sales will be such a small nibble of the addressable consumer expenditures, that the size of those expenditures are usually not the determining factor in their success. The merchants' entrepreneurial skills sets are usually far the stronger determinant of their success*. In smaller towns, where the retailers overwhelmingly respond to more neighborhood types of needs such as for groceries, potential capture rates are more important. The needed annual sales GAFO retailers in these towns need to succeed is usually higher than what the their typically sparsely populated local consumer market can support.
Producing useful profiles on small merchants similar to the one for retail chains described above is not really possible because reliable information about these operations is kept very private and hard to get. Many are startups or have only one location. Consequently, a different approach is needed, the use of small merchant performance specifications. These specifications help to describe the capabilities that a small merchant will need to succeed in a particular downtown and provide useful criteria recruiters can employ to identify viable small merchant prospects:

1. In smaller communities, say with populations between 2,500 and 10,000, consider that 50 percent may only have eight retail stores or less and two or fewer may be GAFO stores, mostly in the miscellaneous category. In towns with 10,000 to 25,000 population, 50 percent may have 27 or fewer retail shops, but 13 (48 percent) may be GAFO merchants .[5]
2. Given asking rents in existing and newly built spaces, ask what are the annual sales revenue a small merchant would need to afford those rents? See the table below. *Rents above those listed are likely to place some degree of financial distress on merchants in these Wisconsin downtowns.*

The Annual Sales Needed by Independent Merchants in Wisconsin to Afford Retail Spaces by Size of Space and Rent Levels *

SF	Annual Rents PSF		
	$9.50	$16	$20
2,000	$237,500	$400,000	$500,000
2,500	$296,875	$500,000	$625,000
3,000	$356,250	$600,000	$750,000
3,500	$415,625	$700,000	$875,000
4,000	$475,000	$800,000	$1,000,000
4,500	$534,375	$900,000	$1,125,000
5,000	$593,750	$1,000,000	$1,250,000

Assumes affordable rents are about 8% of annual sales as found in: *A Market Snapshot of Wisconsin Communities August 2019. Report prepared by Kate Paape and Bill Ryan, University of Wisconsin-Madison/Extension Division and Errin Welty, Wisconsin Economic Development Corporation*

3. Based on interviews with small merchants in the trade area, *estimate the annual sales revenues able small merchants would need to feel that they can have adequate annual incomes.*

4. Use county level retail sales per employee by sector data to estimate the average sales of retailers in each relevant sector for firms having 1, 2, 3, 4, and 5 employees.

5. Determine, for each sector, the annual sales and the number of employees a new small retailer must have to be able to afford rents and have an acceptable annual income.

6. Compare the sales levels computed in #4 above with the average and median sales of establishments in that sector in the city or county, whichever has available data about it

7. What share of the expenditures by the up for grabs shoppers would that level of sales need to win? This is often surprisingly small, save in very sparsely populated trade areas. This yields the Needed Capture Rate that a small firm in each retail or entertainment sector being analyzed would need to have a good chance of succeeding.

8. How strong is the competition that a new small firm in that sector will have to face?

9. *How many new small merchants have been recruited in recent years that have achieved such sales levels?*

10. Does the downtown have an entrepreneurial environment that can stimulate and support such a startup or a recruitment program that can attract one, or even successfully process a promising walk-in prospect?

11. Instead of producing retailer profiles as recommended for the chains that are potential tenant prospects, *create a "success prone small merchant profile" foe each retail NAICS code being studied*. These profiles also can serve as the building blocks for inserting small merchants into the planning of business recruitment/development programs and

into the designing of viable real estate development projects that have a retail component.

The question then becomes: *What is the likelihood that:*

- *A "walk-in", recruited, or startup firms with the needed sales power to afford the dominant rents and provide the owner with an acceptable annual income will appear in the downtown given the competition and trade area's up for grabs shopper characteristics?*
- What are the most probable capture rates for small merchants by retail sector? Here again, how to deal with assessing such likelihoods is deferred to the next section of this article.

QUESTION 7: How to determine the most likely retail prospects and the market shares they will capture for each important retail sector?

IMPORTANCE: This is what the research is all about.

HOW TO ANSWER THE QUESTION: There are two key questions that must be addressed here:

- How to do it?
- Who should do it? This issue is likely to be contentious, so let's start by first looking at it.

The Critical Importance of the Decision-Making Process on the Most Probable Retailers and Their Capture Rates: Who Decides.

The first and most important thing is for the analysts to realize that there are no mathematical formulas or mathematical models that can provide the needed answers. Yes, there are multivariate regression models that might claim they can predict the revenues of a retail chain's potential new location, but wide use would be limited to the few with access to the needed firm-level data. That their widespread use has not surfaced to date, is telling. If such models existed or were sufficiently accurate, then we probably would hear more often of chains or EDOs using them and/or about their creators trying to make a lot of money by selling them. No such "news" has appeared.

Instead, analysts must realize that if they have improved their data gathering and analyses as suggested above, they are very much in the same type of position businesspeople are often in. They have the best if still imperfect information they could assemble, but *they still must make a decision* about making an investment. Their decision-making is filled with uncertainty about the realities of the potential risks and offsetting rewards. In the end, their decision is based on the generated decision option they have the greatest confidence in given the evidence they have reviewed. It is a very subjective decision, reasoned in the sense that it is based on evidence, but the reasoning is not so tight that the decision can be logically deduced. The key is the subjective decision about which option the preponderance of the evidence most strongly supports. It is

very much like assigning a subjective Bayesian probability based on the evidence reviewed. At the end of their data gathering and analysis, market analysts are in a very similar situation – they need to make a kind of Bayesian probability assessment based on the preponderance of the evidence they have amassed.

There are two other important factors. The businessperson has some real skin in the game, usually a substantial financial sum or career path, while the amount of skin an outside consultant has may not be anywhere as deep. Also, the retailer, developer or landlord making a decision often has an insider knowledge and range of relevant skills and experience, while many of the retail market analysts have had no experience in running a retail, development or property management operation. Consequently, how they view the assembled evidence and the Bayesian probabilities they assign to decision options *may be* quite different from those made by a business or government person.

Based on that reasoning, *one might conclude that it is preferable that no lone market analyst identifies the retailers most likely to be recruited and their associated capture rates. Instead, a team of analysts doing so would be better, but best would be a panel of local experts (e.g., savvy: brokers, landlords, retailers, real estate developers, economic developers, local officials, et.al.) who have served as a project advisory committee and been made fully aware of the analysts findings as the project has unfolded*.

A further possible advantage of such an advisory committee is that its members are among those who will play important roles in implementing the strategy that is being developed.

How to Determine the Retailers That Have the Highest Probability of Being Recruited and Their Capture Rates

There are probably several ways that this can be achieved. However, the first step is probably the review by all of the deciders of the retail chain profiles and the small merchant sector performance specifications outlined above.

Retail Chains. One way that the retailers most likely to be recruited can be identified is for the group as a whole to discuss each one and then to assign to each an ordinal level assessment of either a very low probability, a low probability, an above average probability, or a high probability of being attracted. Another possibility is for each decider to be given a form for each retail prospect on which their profile information is listed and there is a multiple choice question asking for the decider's assessment. The assessments on the forms can then be aggregated to determine the group's decision.

These assessments of the retailers can then be used to build above average probability and high probability scenarios. In doing so, consideration must be given to assure that the retailers identified in each scenario, in aggregate, do not exceed the amount of the up for grabs consumer expenditures available in that sector. A prudent approach would accept a higher

aggregate capture rate in a sector having a high number of strong highly probable retailers than in a sector with weaker just above average probable retailers.

Other ways of making these decisions are certainly possible and no doubt some of them may be better. That would be great to learn about. I do not claim that decision-making process I've presented is definitive, though I am confident it is a step in the right direction.

Small Merchants. Except for the small communities in sparsely populated areas, the market share available for a small startup or expanding retailer is not as big a factor in their success as their abilities as merchants. The small merchant performance specifications for each targeted sector paints a picture of how strong a successful merchant must be along a number of dimensions to succeed in a particular downtown.

The outline of the decision-making process presented above for the chains can also be used here, but the questions to be answered will be different. Rather than focusing on which specific retailers are the more probable recruits, the issues here are:

- WHICH SECTORS ARE MOST LIKELY TO RECRUIT SMALL MERCHANTS AND HOW MANY OF THEM?
- In determining this they might consider the estimated annual sales of retailers in the county with 0-5 employees in the targeted sectors, and the sales merchants need for affordable rents and a comfortable annual income. Where such small merchants are seen as being located within the downtown is another important consideration because that will strongly influence the rents they will pay and their ability to benefit from visitors attracted by strong downtown customer magnets.
- What will their annual sales revenues be? Once the most probable number of new small merchants is established, then the average sales for firms with 0 to 5 workers might be used to estimate their annual revenues.
- What will be their demand for storefront spaces? These estimates of average annual revenues can be translated into an estimated range of their space demand as it would vary with rents. The number of most probable new merchants when aggregated shows the total space demand they are likely to generate that would be available to fill either current vacancies or newly constructed or substantially rehabbed spaces.

What I Hoped to Accomplish in This Article

Well before the appearance of COVID19, many downtowns and Main Street districts were struggling to fill vacant storefronts and keeping their magnetism for shoppers, diners and other enjoyment seekers. Vacancy rates in towns of all sizes had soared, even in some of our superstar downtowns, e.g., a 21% "availability" rate in 11 of Manhattan's prime retail corridors, and 36% on Powell Street in San Francisco. There has also been "vacancy rate creep." Back in the 1980s, a rate above 5% signaled cause for some concern and 10% a problem. Today, a 10% vacancy rate seems to have become accepted as the new OK normal.

The process of creative destruction the retail industry is now passing through has made finding new retail tenants far more difficult. E-commerce has captured at least 45% of GAFO sales, and consumers were imprinted by the Great Recession to seek greater value and expect bargain prices. Creative destruction has also shown how seriously mismanaged were many of our retail chains, and how bad a job these managers did in deciding the very basics of how many stores they should have and where to put them.

On the upside, creative destruction is also producing new retailers who can fill an unknown number of these storefronts, though the functions they use them for may be quite different from those legacy retail stores performed. How many locations they will require, where they will locate them and the types of spaces they will want are questions that remain to be fully answered. Brick and mortar retail is certainly still possible, but it has become more challenging than ever to create effective downtown retail revitalization plans and strategies in the midst of the process of creative destruction. Prior to the retail industry's current upheaval, there was enough strong consumer demand to mask the many weaknesses of much of the market research that was done to support the creation of retail revitalization plans and strategies for our neighborhoods downtowns, and cities. Today, creative destruction and Covid19 induced problems promise to bring many weaknesses to the surface.

Past downtown-related retail market research too often erred in two major ways. First, seldom did the analysts assess the data they were using from all sorts of sources, such as the Census Bureau, ESRI, Claritas, InfoUSA, D&B etc. as to their accuracy and validity. The second, was a lack of critical thinking about many of the analytical tools they were using such as gap analyses, trade area definitions, market segmentation, capture rates, etc.

Despite these severe challenges in the retail industry, many downtown leaders have still been looking for retail to provide a lot of tenants for their new real estate projects.

In this article I have tried to draw the attention of my fellow practitioners, their clients and other end users to these weaknesses and to suggest one approach for overcoming them. While I may not be humble, I do try to be an honest truth seeker. Consequently, I've made no l claim that either my analysis of the problem or the solution path I developed are either definitive or immune to improvement. But, I do think that I am on the right track, and that my argument deserves a proper hearing and ample consideration. The impacts of COVID19 make all the greater the need for our retail oriented downtown research to be much more on target.

I welcome all invitations to discuss or debate my argument.

ENDNOTES

1) See: 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-july2019 . 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).

2) Tamara Charm, Becca Coggins, Kelsey Robinson, and Jamie Wilkie. "The great consumer shift: Ten charts that show how US shopping behavior is changing." McKinsey & Company. August 4, 2020. https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-great-consumer-shift-ten-charts-that-show-how-us-shopping-behavior-is-changing

3) N. David Milder. "Toward an Effective Economic Development Strategy for Smaller Communities (under 35,000)". DANTH, Inc. 2017. https://www.urbanophile.com/wp-content/uploads/2018/05/White-Paper-Toward-an-Effective-Economic-Development-Strategy-for-Smaller-Communities.pdf

4) N. David Milder. "Quality-Of-Life Based Retail Recruitment." Economic Development Journal, Summer 2017, Volume 16, Number 3, pp.38-45. https://www.iedconline.org/clientuploads/directory/docs/EDJ_17_Summer_Milder.pdf

5) See: Jon Wolfrath, "Downtown Economic Vitality and Business Mix in Small Wisconsin Communities". Master of Science Thesis. Department of Planning and Landscape Architecture, University of Wisconsin – Madison. 12/5/2019