Knowledge Is Power
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By Jennifer D. Duell

Several years ago, Kathy Huber sat on a bench outside Gymboree and counted kids in an attempt to gather information on the market. As real estate director for the children's apparel retailer, she wanted to identify the best shopping centers and expansion sites for her brand but was frustrated by the lack of relevant market knowledge.

Today, market information is more accessible, more readily available and a lot more affordable for both retail owners and retailers. While the two groups use research differently, one thing is clear: It has become increasingly important to know who your customers are, where they come from and what kind of lifestyle they have. "With the amount of data that is available, there is no reason not to be able to tenant a space properly," said Rich Hollander, president of research firm The Buxton Co.

"Why wouldn't an owner or a retailer use research if it will prevent mistakes," asked Huber, co-founder, president & CEO of Market Insite Group Inc., which matches properties and retailers based on common demographic and consumer lifestyle criteria. "It's a huge commitment to bring a retailer to a store, and a huge commitment for the retailer once you think about personnel and merchandizing. … It's a multimillion-dollar decision that's being made."

In many cases, however, developers and owners come up with a concept for their centers without considering the customers. Hollander recalled an owner who tried to pre-lease property to upscale retailers, but the trade area did not have a high concentration of high-end retail customers. "The center should make sense for people who live around it," he said.

Also, some developers and owners discount the importance of research, relying instead on their gut instincts.

Experience and instinct are important, though. "Site selection is part art and science," said Mark Zygmontowicz, managing director of sales for software company MapInfo Corp. "You need to bring ground truth to the equation, which is each person's own assessment of the market and the gut feeling of the market."

Still, experts advise a combination of research and street smarts. "It's often a case of penny wise and pound foolish. … An owner will spend $100,000 on landscaping but won't spend the necessary money to make sure he has the right tenants," Hollander said.

Raw Data

There are two types of research: demographic and lifestyle. Both offer valuable insights into the customer.

Demographic information is usually based on U.S. Census data or is created from GIS mapping, which links geographic and descriptive information.

Demographics include such information as number of people, gender, number of households, age, average and median household income and housing composition (single, couples, families with young children, etc.).

According to Jim Stone, president of geoVue Inc., raw demographics often are all that is needed to convince a retailer to set up shop. He explained: "If I am Aeropostale, I know my customer is a female between the ages of 13 and 18, and I want to be in a place where there are as many of them as possible."

However, the accuracy of the demographic information varies depending on when it was gathered and how it is interpreted, explained Michael McCarty, president of Simon Property Group Inc. "When you're working with canned numbers, you should exercise some judgment because there's always a risk that the numbers may be misleading, especially for high-growth areas," he said.

The Naples/Fort Myers, Fla., area is one example. The 2000 Census numbers are off by 20 to 25 percent, according to McCarty, who discovered the inaccuracy after commissioning an independent population study. The REIT is considering developing a regional shopping center, Coconut Point, in nearby Bonita Springs.

Although demographic information is important, retail owners and landlords are often misled by such data. For example, one of The

Home Depot Inc.'s most profitable stores is in Queens, N.Y. One could have assumed that because the trade area had few single-family households it would not perform well, noted Zygmontowicz. However, from a lifestyle perspective, renters want to improve their homes, too, and are heading to Home Depot to buy nails and hammers to hang pictures.

A Step Beyond

Moreover, demographics do not drive the same behaviors across the board. That is where lifestyle research, also known as psychographic research, comes in handy. Usually, demographic research that has been segmented and overlayed with consumer expenditure survey information is supposed to explain why people behave the way they do, rather than how they behave.

Lifestyle research can be viewed as a step above demographics. "We're big believers in lifestyle information. … We use it a lot to explain the type of customer that is in a certain trade area," Huber said. Her company has a product called Price Point Classification that uses lifestyle data to segment the population, offering a snapshot of whether the customer is likely to buy better, moderate or budget-priced goods.

One owner thought his shopping center should be upscale based on income demographics and education. He filled the center with better retailers and restaurants. But the center did not perform well, and the retailers were unsuccessful. After completing a Price Point Classification, he found that there were more moderate shoppers in the area than he thought, and they preferred more moderately priced goods and services.

Furthermore, consumers in different parts of the country spend their dollars differently, McCarty explained. "People who live in Austin don't want a $1,200 cocktail dress," he said. "It's not because they don't have the money, but because they would rather spend that money (to) buy a $100,000 boat instead."

Demographic or lifestyle data cannot answer some critical questions. For example, owners and retailers need to have a strong understanding of the size of the trade area, the competitive landscape and demand for specific products.

One of the best ways to obtain this information is to benchmark retailers and retail centers nationwide. "Because we study our existing centers, we can go to a new market and study the demographics and say that this market opportunity looks just like five other centers that we already own," McCarty said.

Market Insite Group offers a scoring index that allows retail owners and retailers to compare proposed stores to an existing location. "If market characteristics are similar, then you can make some comparisons, and it's a good steppingstone," Huber said.

The index came in handy on a recent assignment. The firm was working with an owner in North Carolina that had a deal hammered out with a retailer, but when the retailer's real estate committee reviewed the site, it was not approved. The owner used the scoring index to compare the site to similar sites where the retailer already had stores and was able to get the site approved.

"You can't just go to a retailer and say, 'Our demographics are perfect for you,'" said Adam Epstein, president of **Site Analytics Co**. "Demographics may only scratch the surface. You have to ask, how well does your site fit in with their existing stores, and do your demographics compare favorably to the kind of environment they have chosen before."

According to Epstein, developers or owners have a better chance of convincing a retailer to open a store at their site if they can prove that it is similar to a site launched in the past. "You may be able to open their eyes to trade areas that they may have assumed weren't feasible," he said.

Lisa Chapman, a vice president with Stanbury Development, uses geoVue research to compare new sites with successful existing centers to attract retailers to the company's lifestyle centers.

To meet this owner demand for retailer research, Buxton created Tenant ID, a product that compiles profiles of 2,500 retailers and what they are looking for from a demographic and psychographic perspective. The product is applied geographically, so a developer or owner can match the customer base in a specific trade area to the retailer's criteria.

"Retailers are looking for customers that look like their current group of customers. That's what they want you to be able to show them," Hollander said. "If you have the facts and the data, your case as you're talking to a retailer becomes so much stronger."