The Trade Area Mix and Retailing Mix: A Retail Strategy Matrix

A useful analytical framework for selecting new store trade areas and for adjusting the merchandise of existing stores to their present trade areas.

The selection of trade areas for new stores and the adaptation of existing stores to their present trade areas present complex problems to the retailer. A substantial body of literature has emerged in which many concepts, methods, and techniques are offered for dealing with some of these problems. Much remains to be done, however, particularly in developing frameworks for trade area analysis that are understandable and useful to retail management.

This article presents a three dimensional construct for describing a retail trade area. The construct, referred to as the trade area mix, is combined with the traditional retailing mix to form a Retail Strategy Matrix.

The Trade Area Mix: A Three Dimensional Construct

In Exhibit 1, the retail trade area is described by three basic dimensions: (1) trade area geography (TAG); (2) trade area demand (TAD); (3) trade area heterogeneity (TAH). Each of these dimensions is discussed below.

Trade Area Geography (TAG)

Trade area geography (TAG) refers to the geographical extent of the trade area. This dimension is usually emphasized in the definitions of the retail trade area found in the literature. Applebaum and Cohen state, for example, that the retail trade area is "the area from which a store gets its business within a given span of time." Huff defines it as:

A geographically delineated region, containing potential customers for whom there exists a probability greater than zero of their purchasing a given class of products or service offered for sale by a particular firm or by a particular agglomeration of firms.

A number of ingenious methods and techniques ranging through mathematical models, observations and surveys, mapping techniques, driving time studies, and other methods have been devised by researchers seeking to delineate the geographical boundaries of retail trade areas.

The heavy emphasis on the geographical dimension is not surprising because trade area geography is the seminal or prerequisite dimension for describing a trade area. Management must know the geographical extent of its market for any given store before it can proceed with any further appraisal of the store's market.

Trade Area Demand (TAD)

The second dimension, trade area demand (TAD) refers to the level of consumer demand within the geographically delineated trade area. TAD, in other words, describes the existing or potential purchasing power in a trade area for a store's offerings. The TAD dimension is examined whenever the retailer attempts to forecast sales for a new store or existing one. A variety of techniques have been developed for forecasting retail sales particularly for new store trade areas.
Often the TAG and TAD dimensions are closely and positively related as has been the case for the many suburban trade areas emerging since World War II. Yet each of these two dimensions is not necessarily a positive function of the other. Some geographically large trade areas have a relatively low level of demand while some geographically compact areas are relatively high in demand.

Further, for any given trade area, changes occurring over time in the two dimensions may not be closely and positively correlated. This can happen when infrastructural changes such as improved highways which may increase the extent of a trade area's boundaries are also accompanied by an out-migration of population from the area. Finally, it is possible for a trade area to experience an increasing TAD even as its TAG becomes smaller if an in-migration of a more affluent population occurs. The central business districts in a number of major U.S. cities represent trade areas where this phenomenon may occur. Thus explicitly distinguishing between the TAG and TAD dimensions helps to foster a clear analysis of trade areas.

Trade Area Heterogeneity (TAH)
Trade area heterogeneity (TAH), the third dimension shown in Exhibit 1 refers to the mix of consumer market segments within the trade area. The diversity of consumer demand for products and services is described by this dimension.

The greater the diversity of demand, the higher is the degree of trade area heterogeneity. Hence, the more heterogeneous trade area is characterized by more market segments demanding greater varieties of goods and services while the less heterogeneous (or more homogeneous) has fewer market segments. TAH is not necessarily related positively to TAG. Trade areas large in geographical size may be low in heterogeneity and vice versa. Further, although one would expect the TAD and TAH dimensions to be related positively, significant variations in heterogeneity can exist among trade areas similar in levels of demand.
The Retailing Mix

The retailing mix developed by Lazer and Kelley is a conceptual model portraying the retail management process. It consists of three related sub-mixes:

1. A goods and services mix
2. A communication mix
3. A physical distribution mix

Exhibit 2 lists some of the variables of each of the sub-mixes. The fundamental role of retail management is one of blending the variables of the three sub-mixes so as to adjust the total offering of the retail store to its market environment. Consumer satisfaction and profitable store operations are achieved through optimal sub-mix blending.

The Trade Area Mix and the Retailing Mix: A Retail Strategy Matrix

Operationally, the market environment for a retail store is its trade area. Hence, the trade area mix construct provides a means for describing the market environment (trade area) for any given retail store in terms of the spatial location of its consumers (TAG), consumer purchasing power (TAD), and the diversity of its consumer demand (TAH). By combining the trade area mix with the retailing mix in a matrix, the retailer is provided with a framework for analyzing the trade area dimensions in relation to the retailing mix. Exhibit 3 shows the matrix. Each of the nine numbered cells in the matrix helps to focus the retailer’s attention on the possible strategic implications of the trade area dimensions on the variables in a store’s retailing mix.

Using the Retail Strategy Matrix

Goldstucker argues that too many retailers display little strategic flexibility in their location decisions:

Retailers currently act within a framework which seems to place unnecessary constraints upon their flexibility in selecting and adjusting to locations. One of these constraints is that a retailer usually views his type of operation as given and then seeks only sites which appear to be compatible with it.

Consequently many retailers fail to develop the strategic combination of retailing mix variables appropriate for particular trade areas before locating in them and/or lack a systematic procedure for adjusting to the areas over time. This leads to sub-par performance or ultimate store failure.

The Retail Strategy Matrix offers the retailer assistance in dealing with this problem. By analyzing any given trade area using the Retail Strategy Matrix, the retailer gets a more coherent overview of the three trade area dimensions as they relate to the variables in a store’s retailing mix. This helps the retailer to perceive more closely how his retailing mix for particular store units can be adjusted to fit more precisely the dimensions of various trade areas.

The next section presents examples of how particular cells and combinations of cells within the matrix can be used by retailers to help them develop more flexible strategies for adjusting to trade areas.

Strategic Flexibility Through Matrix Cell Analysis

Cell 1—TAG and the goods and services mix converge in this cell. The retailer’s analysis here
should focus on possible relationships between one or more of these variables (see Exhibit 2) and a store's TAG. For example, one relationship suggested is that between variety of merchandise offered and the distance of consumer travel. It has been argued that an increase in the variety of merchandise variable can increase the distance consumers are willing to travel to gain access to the store offering it. Exhibit 4 illustrates this relationship.

In Exhibit 4, the level of merchandise variety at \( V_1 \) is associated with a willingness of an average consumer to travel the distance \( D_1 \). By increasing the variety of merchandise offered to \( V_3 \), the distance consumers are willing to travel increases to \( D_2 \), which extends the TAG. Eventually a point of maximum distance is reached (\( D_3 \) in Exhibit 4) beyond which increases in variety will not attract more distant consumers. The actual levels of merchandise variety and distances involved before this point is reached will vary widely for different kinds of retailers in different trade areas."
Barney's, one of the world's largest men's stores is a good example of a retailer whose strategy emphasizes this relationship between variety and distance. Barney's one store, located at Seventh Avenue and 17th Street in New York City, has traditionally emphasized a vast variety of better men's suits and other apparel as an alternative to branch stores in prime locations. The customer can find virtually any style of clothing from conservative to ultra high fashion in sizes ranging from 34 extra short to 54 portly. Barney's has been correct in its belief that many suburban consumers would be willing to overlook the convenience of their suburban shopping centers to gain the advantage of a greater variety of men's clothing. Consequentially, the store has enjoyed a substantial patronage (sales volume is in excess of $33 million) from a TAG that encompasses most of the New York Metropolitan Area.19

Different types of retailers may increase a given store's TAG by emphasizing other "goods and services mix" variables. For example, many small independent jewelry stores located in the so-called "Jeweler's Row" in downtown Philadelphia attract a large portion of their consumers from the distant suburbs by emphasizing price.

An independent audio store located in a suburb of the same city increased its trade area by emphasizing the "personal selling" and "customer service" variables. Some consumers were willing to travel extra miles to gain the advantages of the expert advice available from this store's sales personnel and the complete on-premise repair service offered.20

These examples suggest that retailers can reap benefits in the form of an expanded trade area by analyzing the effects that a store's goods and services variables have on a store's TAG.

Cells 2 and 3—These two cells are concerned with the "fit" of a store's goods and services mix variables with the level and diversity of consumer demand in any given trade area. In general, the two cells should be evaluated simultaneously because they are closely related. Changes in the level of demand (TAD) will often be accompanied by changing market segments (TAH), and vice versa.

As an example of how a retailer can use these cells to sharpen his analysis, and subsequent strategy, consider the Abraham and Straus department store located in downtown Brooklyn, New York. This huge store (1.4 million square feet) has been highly successful for decades and a standout performer in its parent organization, Federated Department Stores. During the last several years, however, the Brooklyn store has experienced a decline in sales growth and serious erosion in its profit margins. Some trade sources believed this was an inevitable consequence of the general decline in demand in the downtown Brooklyn trade area.21

The new top management which took over in early 1973 did not support this view. After conducting a series of market surveys of the Brooklyn trade area, management found that the area was still characterized by a high level of consumer demand. But it also found that the market segments making up the demand had changed dramatically over the last decade. The mix of income, age, occupations, and ethnic groups was different. Moreover, attitudes and lifestyles had changed. Management believed that these changes combined to foster a larger group of more fashion-conscious customer segments and fewer customer segments demanding a utilitarian price emphasis. In-store surveys of A.&S. customers, however, revealed that only a small number of the more fashion conscious customers were actually shopping at A.&S.22

In terms of the TAD and TAH dimensions, A.&S.'s management thus believed that the store's unfavorable performance was not a function of a declining TAD, but an indication that the store's existing goods and services mix was not adequately meeting the demands of the changing market segments (TAH).

The new top management team is now attempting to adjust, or as they put it, "fine tune," the store's goods and services mix to better meet the new TAH dimension. In line with its attempt to attract more of the fashion conscious market segments into the store, a heavier emphasis has been placed on fashionable women's accessories, cosmetics, and men's wear. At the same time such staples as notions, drugs, stationery, food, and lower-priced lingerie, have been de-emphasized. The results so far appear to be very promising.23

In summary, A. & S. management was careful to distinguish between the TAD and TAH dimensions in its analysis of the Brooklyn store's trade area. If management had interpreted the unfavorable sales and profit picture to be a reflection of a general decline in TAD, it might very well have opted to drastically reduce the size of the store's operation or perhaps, even to close it down. Instead management discerned a changing TAH dimension and chose to adjust to it. In so doing A.&S.'s Brooklyn store has remained viable and profitable.
Thus retailers who are faced with changing trade areas should be careful to distinguish between a real decline in the purchasing power of the trade area (TAD) and a change in the mix of customer segments (TAH). If the latter is the case, the store might well be able to remain profitable by adjusting to meet the demands of the changing market segments (TAH).

**Cell 4** — The adjustment of one of these variables—advertising—to a store’s TAG has traditionally been a problem for retailers. Because the patterns of media coverage for newspapers, radio, and T.V. often extend well beyond a given store’s trade area boundaries, substantial “waste circulation” is common in retail advertising.\(^{24}\)

While the problem is most pronounced for the smaller single-unit retailer who typically has a very limited TAG, this media fit problem is also shared by large multi-unit retailers. For example, the Supermarkets General Corporation, a large East Coast supermarket chain, freely admits that there is substantial “waste circulation” in some of its store trade areas through media advertising, and the same holds true for other supermarket chains.\(^{25}\) A large department store chain and drug chain also report the same problem.\(^{26}\) Unfortunately, there is little that these retailers can do about this problem because the coverage patterns of available newspaper, radio, and T.V. media are not geographically flexible.

Something can be done about the media fit problem, however, when selecting trade areas for proposed stores. By giving more weight to media coverage patterns relative to a prospective store’s TAG, those trade areas that rank especially low on media fit can be rejected. The above mentioned retail chains have, in fact, recently put increased weight on the adequacy of media fit when evaluating trade areas for new store units. While all of these retailers report that they would not reject an otherwise acceptable trade area solely on the basis of poor media fit, it has played a part in their rejection of marginal trade areas. But even more importantly, this increased emphasis on media fit has forced retailers to give more attention to adjusting advertising media usage to reduce “waste circulation.” One result has been an increased emphasis on the use of more geographically selective media such as direct mail and circulars. For example, a Supermarkets General Corporation store located in Patterson, New Jersey used direct mail and handout circulars to efficiently zero in on the large Spanish population in the store’s trade area. Not only were these direct mail and handouts specifically geared to the type of products demanded by this Spanish market segment, but they are also printed in Spanish.\(^{27}\)

**Cells 5 and 6** — These two cells deal with the appropriateness of a store’s communication mix for the TAD and TAH dimensions of its trade area. Given the systems nature of the three sub-mixes of the retailing mix, communication strategy developed by the retailer must be related to and supportive of the goods and services strategy.\(^{28}\) Thus, the strategy for Cells 5 and 6 should parallel the strategy for Cells 2 and 3.

In the case of the A. & S. department store discussed above, several parallel changes were made in the communication mix variables to complement the goods and services changes. In particular, newspaper ads were changed to reflect the greater emphasis on fashion. The window display, interior display and store layout variables were also altered to reduce the previous cluttered look of the store, and to create what A. & S. management refers to as “a new fashion ambiance” to better complement the merchandise.\(^{29}\)

These complementary changes in the communication mix have resulted in a more comprehensive adjustment to the trade area.

**Cell 7** — In this cell the key decision variable for many retailers is store location relative to the geography of a given trade area. As mentioned earlier, much existing trade literature emphasizes this issue.\(^{30}\) The assumption underlying virtually all of this work is that consumers engage in balancing the desirability of near and distant retailers against the cost, time, and energy which must be spent in overcoming travel distance factors. If these factors are too high for patronizing a distant store, the customer will seek out one that is closer.\(^{31}\) Thus finding a highly convenient location in terms of actual travel distance, driving or walking time, or in some cases, proximity to mass transit points, has been a *sine qua non* of a good retail location. This is particularly the case for stores selling convenience goods where intense competition is prevalent and a differential advantage based on goods and services and communication variables is difficult to achieve. Drug-store retailers, for example, argue that locational convenience is more important than ever, especially in light of the effect of the energy crunch on the distance which consumers are willing to travel.\(^{32}\) Recent research by the Supermarkets General Corporation shows that locational convenience con-
continues to be a factor of overwhelming importance in supermarket patronage.33

The range of trade area choices available to retailers handling specialty goods, however, is greatly reduced by this emphasis on excellent location. The perspective offered by the Retail Strategy Matrix can increase the range of trade area choices available to shopping and specialty goods retailers. By looking at Cell 7 in conjunction with other cells in the matrix, the retailer can discern strategic trade-offs between location and other variables for attracting consumer patronage which may yield a higher return on investment than a "100% location." For example, consider the trade-off previously discussed for Barney's men's clothing store. This retailer opted for a less desirable location, but was able to more than offset this apparent disadvantage with a large variety and assortment of merchandise to attract patronage. The jewelry retailers and the audio store previously discussed made trade-offs of price and customer service in lieu of prime locations. In terms of the matrix, all of these trade-offs were between Cell 7 and Cell 1.

Another trade-off is possible between Cell 7 and Cells 3 and 6 (TAH). For example, Pier 1 Imports, a large national retail chain specializing in imported furniture and gift items, generally avoids prime mall and shopping center locations. Instead the firm selects somewhat "out of the way locations" often on main highways near prime locations. Most of these stores are free standing, and emphasize a large display of an unusual assortment of merchandise aimed primarily at younger market segments (see Cells 3 and 6). The savings in rental cost from using these less prime locations (often as much as one third to one half less than the cost per square foot of prime shopping center or mall locations) more than offsets the higher advertising expense needed to support these locations.34

Thus, for specialty and shopping goods retailers, the matrix can suggest strategic trade-offs which can increase the range of location choices available to them.

Cells 8 and 9—Strategy for these two cells should parallel that developed for Cells 2 and 3 and Cells 5 and 6. A retailer's adjustment of the physical distribution variables relative to TAD and TAH should, therefore, be congruent with the goods and services and communication strategy adjustments. In the above discussion of the A. & S. department store, several adjustments were also made in physical distribution mix variables to complement the goods and services and communication changes. Specifically, a $5 million remodeling of the store building is underway to facilitate better display, inventory control, and merchandise handling. Traffic flow patterns within the store are being studied to promote more customer exposure to the new merchandise assortments and to enable customers to move more easily through the store. For example, six departments have been removed from the first floor leaving only men's wear, women's accessories, and cosmetics. The increased space enables A. & S. to better display the more fashionable merchandise in these departments and facilitates customer access to it.35

Large multi-unit retailers attempting to adjust their store product mixes to more precisely meet the demands of different trade areas may also have to alter some of their existing procedures in the use of distribution centers, inventory control, transportation, and handling. For example, Supermarkets General Corporation found it cumbersome and inefficient to supply specialized ethnic foods from its main distribution center in Woodbridge, New Jersey to a number of its stores. Instead, it has often used local vendors located near the particular store trade areas to supply the stores with these products. Supermarkets General admits that this has created some problems, particularly in inventory control. Its management believes, however, that the extra effort needed to solve them is worthwhile because it enables the stores to have product mixes that are more in tune with their particular trade areas.36

Sorting and Weighting Trade Area Data

Trade area data of all sorts are continually flowing into the retail firm. Besides the retailer's own research efforts, unsolicited information reported by local media, feedback from consumers and vendors, reports by local government planning agencies and research by universities located in or near the trade area are additional sources for the retailer.

Two related problems faced by the retailer are:

- How to sort this mass of trade area data into meaningful and easily accessible categories.
- How to determine which data are most important.

For the first problem, the Retail Strategy Matrix is highly useful because it offers a conceptual pigeon-holing device for sorting trade area data. By setting up files labeled according to each of the matrix cells, the retailer has a set of nine catego-
A Retail Strategy Matrix

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This Retail Strategy Matrix offers the retailer a useful framework for analyzing trade areas. By periodic and regular evaluation of the cells in the matrix, as they apply to trade areas for both existing and proposed stores, the retailer can track and forecast changing trade area dimensions in a more systematic fashion. This provides a more coherent framework for planning retailing mix strategies in response to changes.

Given the increasingly complex environment within which the retailer must operate, analytical frameworks such as the Retail Strategy Matrix can help to bring order to the complexity of the marketplace, a task sorely needed by retailers in evaluating their trade area data.

Summary and Conclusion

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Endnotes


8. See Goldstucker, same as reference 1, pp. 292-299.


10. For a discussion of some of the factors that can affect both the geography and level of demand in trade areas see: Donald L. Thompson, "Consumer Convenience and Retail Area Structure," Journal of Marketing Research, Vol. 4 (February 1967), pp. 37-44.


12. Wroe Alderson, Dynamic Marketing Behavior,
Bootstrapping: Better than Judgment . . .

Bootstrapping involves the substitution of a simple linear model of judgments in place of the judgments themselves. It has been found that in many decision making contexts the bootstrapped decisions are better than the judgments from which they were derived. It appears that the linear model is quite successful at capturing the policy of the judge and then making decisions without human inconsistency. Most of the work done on bootstrapping has been done in a context—such as forecasts—where the criterion or accuracy is clearly defined.

Bootstrapping works because the linear model is able to make extremely good approximations of most decision processes. The model then makes these judgments without random error. Thus by bootstrapping one replaces the random error of the judge with the nonrandom error of the model.
