

LOCATION AND LAYOUT AS SOURCES OF COMPETITIVE ADVANTAGE OF SMALL RETAILERS

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Abstract

The decision about the location is one of the most important decisions taken by the retailer because of its long-term impact on the company. In each step of the decision making process retailers have to analyse to what extent the characteristics of the location meet the specific requirements of their businesses. The secret of choosing the right location lies in knowing the factors that are most important to the firm's success and finding a location that satisfies them the most. Retailers must take into account the size of the trading area, parking spaces, availability of space for expansion and location visibility. Crucial for identifying appropriate location is to identify the characteristics that can provide the small retailer with a competitive advantage and then find potential sites that meet these criteria. After deciding on retail location, retailers have to consider store layout. Layout is important for attracting constant customer turnover. Store layout develops from a good knowledge of the consumers' buying habits. Retail spatial distribution should attract customers to the store and facilitate them to choose the goods, compare prices, quality, characteristics, and finally to facilitate the purchase. This is an area where small retailers can have a big advantage over its competitors. Small retailers allow customers to find the products they want quickly and easily. Customers make a significant percentage of their purchase decisions as soon as they enter the store, meaning that a suitable store layout can significantly increase sales.

Key words: retailing, small retailers, retail location, location decision making, store layout

1. INTRODUCTION

Store location is very important for retailers because location is the retailers' long term commitment and once it has been chosen it cannot be easily changed as it represents a significant financial investment. A store location usually determines who the retailer will attract, that is target customers. As the old *cliché* claims, the three most important things in retail are 'location, location, location', which stresses the importance of place and has long been applied in the retailing. However, location decision making has not yet been extended to analysis of small, independent retailers. Rather, it has been researched from the perspective of large retailers, their locational strategies and decision-making characteristics (Piach and Byrom, 2004). Further on, research streams have been largely concentrated on food retailing or the state of small independent retailing in defined geographical areas of the United Kingdom (Piach and Byrom, 2004; Wood and Browne, 2006). However, it has been a long time since small retailers realized that convenience is the key ingredient to their success. Many customers choose retail stores based on their locations, which makes excellent locations a competitive advantage that only a few competitors can copy. According to a *Food Marketing Institute*, an annual study of consumer trends, consumers concur that a convenient store location is an important factor. One result from this study has shown that 95 percent of shoppers agree that location is a major factor when shopping (Aghazadeh, 2005).

This study seeks to elaborate on location as one of the key components of the retail strategy and highlight the importance of location and layout as sources of competitive advantage for small retailers. The paper starts with the definition of retailing, elaborating on its nature and its economic justification. In the second part on the paper emphasis is put on location as an element of retail strategy and consequently, store location as a source of competitive advantage. Next, possible location types for small retailers are explained through their main advantages and disadvantages. In the end, emphasis is put on store layout as an opportunity for maximizing sales and raising small retailers' image. The

paper ends with general recommendations and future research streams that need to be addressed in the later stages of research.

2. THE NATURE AND ECONOMIC JUSTIFICATION OF RETAILING

Retailing is a dynamic aspect of economic activity, which is usually defined as a set of business activities that increase the value of goods and services sold to the consumer for their personal, non-business or family use. This definition includes products purchased in a store, through catalogues, television or the Internet. Somewhere around 80 percent of retail sales is created in physical stores. Almost the entire amount of money spent, excluding taxes is going to retailers.

New retailers are constantly entering the market in search of new positions that will attract customers. Constant changes which are happening in retailing can be explained by two retail principles: ***the wheel of retailing*** and ***retail life cycle***. The wheel of retailing describes how new forms of retail stores are entering the market. According to this principle, retailers first appear as low-price operators with a low-cost structure and low profit-markup requirements. Over time, retailers improve customer services and thereby raise prices, markups and status. As existing retail stores mature, they are confronted with a new form of retail stores that re-emerge as a store of low status, low prices and low markups. The wheel of retailing is turning around, as the retail cycle is beginning and repeating itself. The retail life cycle asserts that retailers pass through identifiable life cycle stages, from the process of growth to decline of retail stores. The retail life cycle has four phases: *early growth*, *accelerated development*, *maturity* and *decline*. The stage of early growth is the stage of appearance of retail stores with sharp distinction from the competition. Although profits are low due to the high start-up costs, market share is progressively increasing. At the stage of rapid development, market share and profits achieve its highest growth rates. At this stage, the main goal of the retailer is to establish dominant position in the battle for market share. The battle for market share is usually conducted prior to the maturity phase and already in this phase some competitors drop out of the market. In the phase of maturity, new retail formats enter and existing stores are trying to maintain their market share by lowering the price. The main problem of small retailers is the delay of the entry into the market until the phase of decline, when market share and profits are rapidly falling.

Economics and technological changes made retailers more and more competitive. There are retailers on the market that can best meet today's value-conscious customers. Technological progress allows retailers to collect and share critical information that can help them in becoming more efficient and getting merchandise that consumers want. Retail provides several values to the consumer, in the form of time utility, place utility, possession utility and shape utility. Primary retail responsibility is to fulfil customers' expectations in terms of product availability when the consumer wants it, where he wants it, at the right price, right colour and style.

Retailers' success will depend on his capabilities and knowledge to compete in a value-driven world. Value is not only about low prices, but also about getting higher utility for money. Today, consumers turn to value as the lifestyle is becoming more casual, consumers are beginning to redefine the 'good' to just 'good enough' for certain items and events. Some small retailers who are typically known for low prices, have avoided competition and moved away from price as the only point of differentiation, in a way that they often offer range, convenience and in-store experience, similar to their relatively larger competitors. Value-focused retailers enhance the power of their stores by providing more practical arrangement of merchandise in the store and shopping experiences that enable faster and easier purchase.

Small retailers are supplying customers with choice of merchandise, in quantities that customers want to buy and services that facilitate the sale and usage of this merchandise. Retailers, besides suitable locations for the purchase, also offer atmosphere and presentation which enhances the shopping experience. The importance of small retailers is in connecting manufacturers and end consumers and performing valuable services for one another. The retailer serves as a purchasing agent for its customers and as a sales specialist for its suppliers. In carrying out these roles, the retailer performs many activities including forecasting customer's needs and desires, developing product range,

obtaining market information and financing. It is relatively easy to become a small retailer because there is no need for large investments in equipment, merchandise is often purchased on credit, the store can be rented without paying in advance, or simply, the retailer can run a website at a very low cost.

In developed market economies, there are a large number of retail companies, many of which are trying to serve and meet the same market segments, which ultimately results in, at one side the fierce competition and on the other side, a better value for customers. To survive, as already stated, the small retailer has to successfully perform its lead role in supplying the customer and in his second role as a service processor for wholesale. This dual role is economic justification for small retailers and key to their success.

The retail sector is characterised with a high degree of market concentration. It is calculated that around three quarters of retailers have fewer than 10 employees. However, the majority of retail sales is accomplished by a small number of large retailers. Unlike large retailers, small retailers are much more exposed to a variety of difficulties and are fighting for survival. Many factors affect the dying out of small retailers, from recession of the economy to the strength of the competition. Small retailers, who have the advantage of flexibility in operations, provide superior personal service and support and public sympathy, survive.

Compared to wholesale customers, retail customers typically expect more appropriate locations with beautiful décor, all of which raises the cost of retailers. Also, in relation to wholesalers, small retailers have lower overall sales and lower inventory turnover ratio. Likewise, retailers compared with wholesalers buy smaller quantities of merchandise, so their costs are distributed over a smaller business base. Furthermore, retailers' in-store employees cannot be effectively used because customers do not come into the store at a constant frequency.

Retailers' costs and profits vary depending on the type of business and the main line of products. Various types of retailers generate a wide range of markups, so, for example, the markup of a car retailer and a gasoline pump retailer is around 15 percent, while the markup of a clothing retailer, shoe and jewelry retailer is around 40 percent. As various retailers have a wide range of markups, they also have a wide range of profits, which may range from 1 percent of sales in supermarkets, to 10 percent for some specialized retailer. Generally, retailers' net profits are about 3 percent of retail sales.

Location, size, shape and layout of retail stores depend on the place of residence and consumers' willingness to travel a distance to a retail store. Therefore, the majority of retail sales takes place in urban areas. In urban areas, suburban retail areas have become dominant, while, on the contrary, urban centres are declining. Shopping centres are major retail locations in most suburban areas. The shopping center consists of a planned group of retail stores in a structure that is typically owned by a single organization.

As customers change, retailing is also changing. For small retailers it is very important to predict the most important changes before they happen. However, revolutionary changes often follow a model in which the accepted retailer is trading up to the existing line to attract a wider market and achieve higher markups. In this way, additional prestige goods help the sales of existing products with lower prices. But sooner or later the high costs and finally the high prices make the retailer vulnerable to new stores with low costs and low prices.

3. LOCATION AS AN ELEMENT OF RETAIL STRATEGY FOR ACHIEVING COMPETITIVE ADVANTAGE

In developing a retail strategy, small retailers are considering retail mix, which includes activities related to operations management and in store merchandise management. Retail mix consists of the formation of retail price, store location and retail communication.

In determining the price of the merchandise, the small retailer decides on the markups and discounts, and chooses the right moment for markdown. The retailer determines the starting price, but sometimes

sales of goods end up with maintained markup. Initial markup is the difference between retailers' cost and the initial purchase price. When the product is not sold as anticipated, its price is reduced. The difference between the final selling price and retailers cost is maintained markup. Reductions usually occur when merchandise is not sold at the initial price and it is necessary to perform price adjustments. Markdowns are used when merchandise is not selling at the starting price and it is necessary to perform adjustments. Usually retailers lower the prices of existing models, when new models arrive, or when they want to increase sales of complementary products. Some retailers are starting to use markdowns as soon as sales are reduced, in order to free valuable retail space and money. Other retailers are postponing markdowns in order to discourage bargain hunters and maintain a favorable quality image. Because of the different ways in which merchandise is purchased by retailers, high-quality merchandise with famous brands can be bought more cheaply for example, at an *off-price retailer* than less known merchandise in a discount store. Because of this, the search for bargain purchases has become a popular activity of many customers.

Another element of the retail strategy is deciding where to locate the store and how many stores to have. A business center is the oldest retail location choice. Customers often find shopping centers in business centers less suitable because of the lack of parking, high crime rates and it is time-consuming. Most suburban stores are located in shopping centres, which contain two or three 'anchor' stores, and are known national or regional stores. Many cities now implement revitalization plans of business centers by attracting new offices, parties and re-attracting residents in the city center. More and more small retailers are combining various forms of retailing in order to offer a wider range of benefits and experiences. Retailers are integrating a combination of traditional store formats with non-store retailing, such as catalogs, television and Internet purchases in order to make purchasing easier and more convenient.

Small retailers' communication activities can play an important role in positioning stores and creating store image. Store image and ambiance are important factors for retailers. Many small retailers believe that a sale is made under the influence of layout, color, lighting and music. In creating the right image and atmosphere, a small retailer is trying to attract targeted customers by identifying and providing an unforgettable shopping experience, so that the store will reinforce beliefs and emotional reactions of customers. In addition, the physical environment that affects customers can equally affect the store employees.

Managing the width and depth of a product line requires strong procurement capabilities of the retailer and adequate knowledge of the needs of targeted markets and alternative products offered from many suppliers, products which may be of interest to retailers for putting them on sale in the store. A popular approach to managing merchandise assortment is called **category management**. Category management suggests retailers' responsibility for selecting all products that the consumer in the market segment can consider as mutual substitutes, with the aim of maximizing sales and profits in the category. To help retailers determine the customer's problems, turn the information into actions of retail mix, provide customers' with exceptional merchandise, programs in the store and could be able to monitor the performance of each merchandise category, retailers are constantly conducting research by analyzing the relevant data on these requirements.

Depending on the availability of skilled workers, tax rates, quality of infrastructure, traffic structure, quality of life and other factors, which vary from one location to another, the decision about location can significantly affect the rate of growth and ultimate success of small retailers. Due to widespread digital connectivity, mobile computing, substantial coverage of mobile technology, inexpensive air transportation, small retailers today have significantly increased flexibility in the location selection.

At each step of the decision-making process, a small retailer must analyze how well the characteristics of specific locations are aligned with its requirements. Due to the significant impact of the decision on retailers, they can be severe. However, as with an interactive computer game, there are many key solutions that can help small retailers reach the best decision. The secret of choosing the ideal location lies in knowing the factors that are most important for retailer's success and finding a location that satisfies the retailer the most, particularly those factors that are decisive. If the physical location is

close to customers, it is crucial for retailer's success, then it is retailers' goal to find a location that is best suited for doing business with its target customers.

Characteristics that suggest the ideal location often differ from one retailer to another because of the nature of their job. The key to finding an appropriate location is finding the characteristics that give the retailer a competitive advantage and then explore potential sites that meet these criteria. Websites allows small retailers to explore the ideal location, using a variety of factors, such as the size of the population, the level of employment, level of education, occupation, country of origin, household income, invested venture capital, proximity to highways, railways and airports, commuting time, housing data (from the value of the home to a number of vehicles in possession). The retailers' main concern about the ideal location is the sufficient number of customers. For example, a retailer who plans to open a small food store must know that creating a sufficient sales volume requires a population of at least 500 to 1,000 people who live within a mile (1.61 km) from the shop and choose the location accordingly (*Starting a convenience store*).

The best areas for locating stores are those that generate the highest long-term profits for a retailer. Some factors affecting the long-term profit generated by stores that should be considered when evaluating an area include (*Levy and Weitz, 2009*): (1) *the economic conditions*, (2) *competition*, (3) *the strategic fit of the area's population with the retailer's target market*, and (4) *the costs of operating stores*.

Retailers have a wide array of analytical techniques at their disposal to support their locational decision making activities. Simple methods such as checklists and analogues have been available for at least 60 years, together with statistical modelling. As the pressures on retailers to adopt more formalized approaches to locational decision making have grown, their access of doing this has also changed dramatically (*Hernández and Bennison, 2000*). *Hernández and Bennison (2000)* identified six broad groups of techniques to support locational decision making: (1) *experience*, (2) *checklists/analogues/ratios*, (3) *multiple regression/discriminant/analysis*, (4) *cluster/factor analysis*, (5) *gravity modelling*, (6) *expert systems/neural networks*. Locational planning techniques vary in the subjectivity involved, in the selection and interpretation of variables, in their data and computational requirements, in the degree of technical expertise needed to use them, in their cost, in the level of locational decision making at which they are most applicable and in their appropriateness for use in a *geographic information system (GIS)*. Geographic information system is a system of hardware and software used to store, retrieve, map and analyze geographic data, along with the operating personnel and the data that go into the system (*Levy and Weitz, 2009*), such as population demographics, data on customer purchases, listings of current, proposed and competitor locations.

There are several important decisions for retailers when they choose a location. Because retailers' success depends on a constant influx of customers, they have to locate their stores in ways that take account of the targeted benefits and preferences of their customers. Each retailer has to determine the width of its trading area of which can be expected to attract a buyer during a specific time period. A *trading area* is a contiguous geographic area that accounts for the majority of store's sales and customers (*Levy and Weitz, 2009*). The primary variables that affect the range of trading areas are type and size of retailer. If a retailer is specialized in a specific line of products, offers a wide choice and has trained salespeople, he can attract customers from a great distance. In contrast, predominantly food stores with a mixed line of goods have little trading area because it is unlikely that customers will drive across town to purchase items that are available within blocks of their homes. The rule is that larger stores with greater choice and better service have a larger trading area. Retailers that offer a limited selection of goods and services tend to have a smaller trading area. A small retailer can benefit from locating its store near other retailers that offer complementary goods or services or retailers that generate a large volume of pedestrian traffic. In addition, groups of related retailers are trying to attract customers. It is one of the reasons why the shopping centers are a popular destination for shoppers and attractive location for small retailers. Concentration of retailers attracts buyers from a larger trading area much more than a *freestanding* retailer. Size, location and activities of competing retailers also affect the size of retailers' trading area.

Having decided to locate stores in a trading area, the retailer's next step is to evaluate and select a specific site. In making this decision, retailers consider three factors: (1) *the characteristics of the site*, (2) *the characteristics of the trading area for a store at the site*, and (3) *the estimated potential sales that can be generated by a store at the site* (Levy and Weitz, 2009).

The actual boundaries of a trading area are determined by the store's accessibility, natural and physical barriers, and level of competition (Levy and Weitz, 2009). If certain types of retailers first come to a location, its trading area can be quite broad. However, if the trading area already has more stores that directly compete with the retailer, its trading area will be very small because of the saturation of the market with its competitors.

The best measure of the level of saturation in the area is **Index of Retail Saturation (IRS)**, which considers the number of customers (customer demand) and the strength of competition (competitive supply) in the trading area. The **Index of Retail Saturation** measures potential sales per m² area stores for a specific product within a particular trading area. It is the ratio of sales of potential trading area for a given product and its sales capacity.

Index of Retail Saturation is calculated as:

$$IRS = \frac{c \times RE}{RF}$$

where,

c = Number of customers in the trading area,

RE = Retail expenditure = Average expenditure per person for the product in the trading area,

RF = Retail facilities = Total m² of selling space allocated to the product in the trading area.

Every small retailer should make the calculation of the retail saturation. Locating in the area which is already saturated with competitors', results in low sales volume and often leads to retail downfall.

Crucial for small retailers is estimating the customers' purchase place. Many tools have been developed to determine the trading area. One of the simplest models is **Reilly's Law of Retail Gravitation**. The purpose of the law is to determine the point of indifference between the two market areas; therefore, for each market trading area can be defined. Reilly uses gravity similarity to assess the attractiveness of certain work to potential customers. His law states that the buyer will tumble distance to purchase based on the population of the trading area and the distance between the areas. The retailers' ability to attract the customer is directly associated with the extent to which customers see something as a destination and indirectly associated with the distance that customers have to travel in order to come to a specific destination. Reilly's model also provides a way of assessing border trade between two market areas, calculating breakpoints between them. The breakpoint between two primary market areas is the border between the two where customers are becoming indifferent in terms of purchasing at one or another. A key factor in determining this point is the size of the population. If two cities have the same population size, then the breakpoint lies midway between them.

The law is expressed algebraically as (Nelson, 1959):

$$BP = \frac{d}{1 + \sqrt{\frac{P_b}{P_a}}}$$

where,

BP = Distance in miles from locations A to the break point,

d = Distance in miles between locations A and B,

P_a = Population surrounding location A,

P_b = Population surrounding location B.

According to *Reilly's law*, customers will be attracted to the larger community, because of the larger merchandise assortment and longer travel time is considered worthwhile. Although the evaluation is only approximate, because of easy use of available data, this simple calculation can be very helpful in the search for potential locations. The main disadvantage of *Reilly's law* is that it does not take into account the differences in the type or number of retailers' stores in the area, but it is assumed that all retail properties are proportional to the size of the population in the area.

A little more complex alternative to *Reilly's law* is developed by *David Huff*. **Huff's Gravity Model** for estimating the sales of a retail store is based on the concept of gravity, on the range of products held at various shopping locations, travel time from consumers' home to alternative trading sites and sensitivity of types of purchases to travel time.

The law is expressed algebraically as (*Huff, 1964*):

$$P_{ij} = \frac{\frac{S_j}{(T_{ij})^\lambda}}{\sum_{j=1}^n \frac{S_j}{(T_{ij})^\lambda}}$$

where,

P_{ij} = Probability of consumer's traveling from home i to shopping location j,

S_j = Square footage of selling space i shopping location j expected to be devoted to a particular product category,

T_{ij} = Travel time from consumer's home i to shopping location j,

λ = A parameter used to estimate the effect of travel time on different kinds of shopping trips,

n = Number of different shopping location.

Over the years, additional factors and sophisticated statistical techniques were introduced, in order to explain the consumer's choice of trading sites. When evaluating potential trading sites, small retailers must verify whether the transport network is functioning well and that there are no obstacles that could discourage customers from arriving to their shopping destinations.

The shape and size of the trading area could also be influenced by the physical and psychological barriers. Physical barriers are those which often impede access to the area. For example, locating on one side of a large park can reduce the number of customers who will want to drive around the park to get to the store. Psychological barriers relate to areas that have a reputation for crime and illegal activities. Perhaps the most researched criteria for potential retail location is the number of potential customers who are passing by the retail site during working hours. A small retailer must count pedestrian and car traffic and research transport model in order to make sure that the trading sites, which he is considering as potential locations are capable of creating sufficient sales volume. Many urban centers are losing customers because of inadequate parking. Customers must have convenient and secure parking; otherwise they will not stop in this area. The bad reputation of previous retailers diminishes the value of the location. When a small retailer decides to do business at the location where a previously unsuccessful store was located, it is necessary to make a lot of visible changes in order for customers to see it as a new good beginning. The final feature of the good location is good visibility. Locations with good visibility facilitate customers to locate stores and make a purchase.

4. THE PRINCIPAL AREAS FOR LOCATING SMALL RETAILERS

Due to the shape and size of a store, a small retailer considers whether he will raise the productivity of locating the store in the planned shopping centres or locating the store in unplanned business centres, then whether to use prefabricated construction materials instead of the usual solid construction and in the end, what kind of shape of store layout to apply.

Small retailers can consider three types of location: (1) *free-standing location*, (2) *unplanned business center*, and (3) *planned shopping center*. Major benefits of free-standing locations include the absence of competition, lower rents, greater flexibility, easier parking, lower real estate costs and better visibility from the road. Benefits of an unplanned business center are the diversity of the supply of goods, services and prices, access to public transportation, closeness of other trading and social facilities and large pedestrian traffic flow.

In recent decades a large increase in planned shopping centers is noticed, due to significant product offerings, expansion of suburbs, attractive locations, larger parking options, lower rent and taxes, lower rates of theft, popularity centers, less attractiveness of shopping in city centers and sharing strategy planning and costs. The negative aspects of trade centers are highlighted business inflexibility, restrictions on keeping certain lines of merchandise and dominance of anchor stores. The first decision in the selection of major retail location relates to the question of whether to do business in a particular form of stand-alone stores, unplanned business center or planned shopping center. If the small retailer has made a decision on a detached shop, the other decision is whether to locate the store on the highway or side streets. If the decision is to locate the store in the business centers, retailers should decide whether to locate the store in the main or secondary districts of the business center. Finally, when reaching the decision on location in the shopping center, retailer should decide whether to locate the store in neighborhood shopping malls, local or regional centers.

There are several basic areas for locating small retailers. The major ones are a business center, neighborhoods, shopping centers, close to competitors, large retail stores, remote areas and homes.

A center is a traditional town center. When a retailer is located in the center, it attracts buyers from all over the city's trading area. In addition, a small retailer benefits from other stores in the neighborhood which are attracting customers. Many cities revitalize their business centers and transform them into successful, strong centers of economic activity, which proved to be an ideal location for small retailers. Many customers are captivated by the atmosphere offered by traditional neighborhoods with its extensive network of stores, unique architecture, street scenes and historic character. Locating the retail store in business centers has some disadvantages also, such as strong competition, high rental costs, traffic congestion and lack of parking facilities.

The main advantages of neighbourhood locations relate to the relatively low operating costs and rental costs and close contact with customers. Small vendors that provide convenience as the main attraction for customers believe that locating on the street or road outside the main residential areas, ensures the required number of customers needed for success.

By the middle of the last century business centres were major trading areas. With the development of automotive and transport networks, trading centres outside the city business centres appeared. Today's shopping centres have become the main personification of the landscape in many countries. There are several types of shopping centres, which differ mainly in the concept of supply, surface, size of trading area, the number of stores and number and type of anchor stores. Small retailers benefit from customer traffic generated by the anchor stores, but they must carefully choose their locations so they are not obscured by their larger neighbours.

When assessing the location of shopping centres, small retailers must consider whether its goods are associated with other goods and brands sold in the shopping centre. Furthermore, the small retailer has to assess who the other tenants are and which stores are anchors that lead people into the shopping centre. Likewise, the small retailer has to consider whether the shopping centre is suitable for its products, what the demographic of its customers is, how much pedestrian traffic the centre creates and what the pedestrian traffic of the location is that the small retailer is considering in the centre, the

volume of vehicle traffic which the centre creates and the volume of tourists which the centre attracts. Finally, the small retailer has to determine what the proximity of shopping centre is to the major city centres and how much vehicle traffic is moving on highways. The shopping centre which gives good results in all this volumes, most likely will be the best choice. It is good to determine the rate of vacancy of the centre and the rate of turnover of tenants, because high rates are indication of the weakness of the centre. Also, it is very important to determine the rent and how the rent is calculated. Most of the tenants pay a basic amount of rent plus a certain percentage of sales above a certain level. Usually, the success of the centre is considered by analysing sales per m² and comparison with average of the industry.

While some retailers avoid locations close to direct competitors, other retailers consider such locations as an advantage. Locating close to competitors may have certain limitations also. Excessive accumulation of retailers in the same small trading area can devastate small retailers' sale as soon as the market reaches a point of maturity. When the market becomes saturated with competitors, small retailers take over each other's sales, which in the end leads to sales cannibalization. Instead of competing against large retailers, some small retailers collaborate with them. Small retailers offer merchandise that is not offered by large retailers and at the same time they benefit from the high volume of pedestrian traffic which is attracted by large retailers' stores.

The small retailer must consider the cost of the location in terms of its visibility to potential customers. It is not advisable for small retailers to locate their stores in remote areas because the store availability and traffic flow are crucial to their success. If cheaper locations are difficult to find by customers and if they have less traffic, small retailers will have excessive promotion expenditure. Because of this, highly visible location brings overall lower operating costs as it creates a higher rate of customer turnover. If customers do not want to travel in order to find a retailer, small retailers should not even consider such locations.

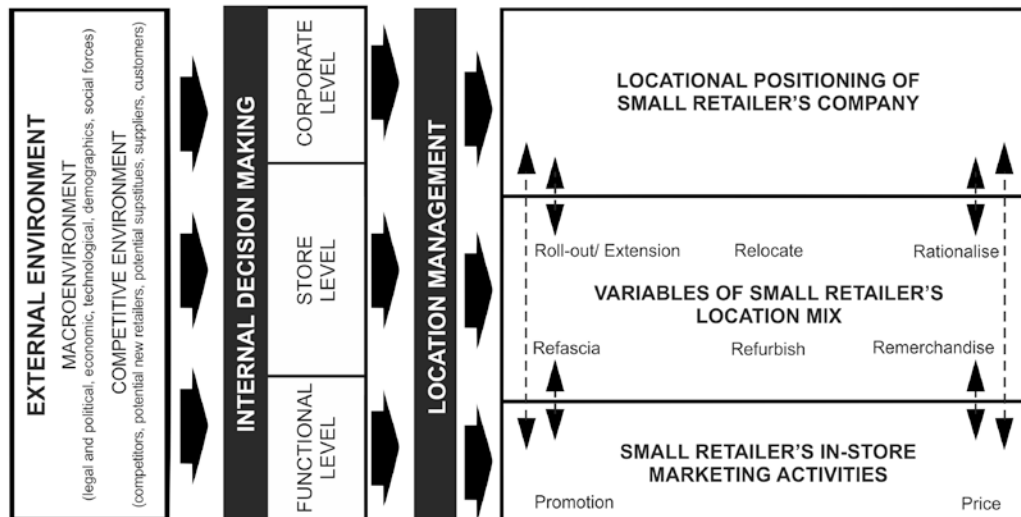
Many retailers operate in their home and their number is constantly increasing. Retailers benefit from locating their stores in their home. The biggest benefit is the low cost of starting a new business, because they avoid the cost of renting or buying a building. Small retailers usually run stores in a free room or basement. A better idea for doing business from their own home is for retailers who to sell services rather than retailers who sell merchandise. Today cheap office equipment (computer, printer, fax, copy desk and mobile) enable small retailers to perform office tasks as well as a large retailers.

However, choosing their home as a store has certain drawbacks. The problems are frequent interruptions of operations due to housework activities. As a small retailer begins to grow and becomes more successful, his neighbours are increasingly complaining about increased traffic, noise and disruption of the supply of goods, employees and customers who are moving through their residential neighbourhoods to purchase goods. The problems small retailers are facing are zone laws. Many communities are nowadays faced with the challenge of adopting the modern law of zones that reflect the reality of retailers located in their own homes and protect the interests of owners of homes in residential neighbourhoods.

For many firms, the decision about location can be critical to success and can involve substantial legal and financial complexities. This is especially the case with small retailers. Having selected an area in which to locate the stores, a retailer has to decide how many stores to operate in the area. Location is a long term commitment and it is not easily changed. According to *Hernández et al, 1998*, the locational decision making model has four main components: (1) *the external environment*, (2) *the internal decision making*, (3) *location management activity* and (4) *the property portfolio*. The model developed by *Hernández et al, 1998* was modified for small retailers, so **small retailers' location planning and decision making** is shown in Figure 1. The small retailers' location planning and decision making model has three main components: (1) *the external environment*, (2) *internal decision making* and (3) *locational management activity*. They are all interrelated in a way that location management is seen to take place within the context of the external environment mediated through the internal management. Small retailers' location management is subdivided into three levels of decision-making: *corporate level*, *store level* and *functional level*. The corporate level of locational management is embedded with the broader corporate strategies of a small retailer that is **locational**

positioning of small retail company. Store level decision making is closely related to variables of small retailers' location mix (adapted *Hernández et al, 1998*): (1) *roll-out/extension*, (2) *relocation*, (3) *rationalisation*, (4) *refascia*, (5) *refurbishment* and (6) *remerchandising*.

Figure 1 *Small retailers location planning and decision making*



Source: adjusted according to the basic model from Hernández et al. (1998)

5. STORE LAYOUT AS AN OPPORTUNITY FOR MAXIMIZING SALES AND RAISING IMAGE OF SMALL RETAILERS

When a small retailer has chosen the best location for its business, the next issue that needs to be addressed is the layout design for the space in order to maximize sales and productivity. The main objective of retail layout is to maximize profitability per square foot of floor space (*Aghazadeh, 2005*)

Layout is the logical arrangement of physical merchandise in the store that contributes to retailer's efficiency, increased productivity and higher sales. Attractive layout can assist in obtaining staff, reducing absenteeism and improve employee productivity and satisfaction. Efficient workspace must be flexible enough to help and encourage concentration on individual tasks and collaboration with colleagues. Ideal layout depends on the type of business carried out in the store and the retailers strategy for gaining a competitive advantage. Small retailers largely shape their layouts with the aim of maximizing sales revenue and strengthening the brand. As retail layout is the arrangement of goods in a shop and method of its presentation, the success of the small retailer largely depends on well-designed programs of presentation.

Particular attention should be given to the store space allocation. Capacity should be used as productive as possible in order to determine the size of the space and location for each merchandise category. The small retailer adapts shelf space layout to the customer and other differences between local markets. In managing the retail business it is understood that the grouping of products by categories is organized as strategic business units, which is managed with the aim of better meeting the customer's needs and achieving sales and profit targets. Category management directs retailers to purchase and sales decisions that are necessary for maximizing the profitability of assets. The ultimate goal of category management is to create a unique value to the customer, not only to support the sale between producer and retailer. That is the reason why category has to be shaped in the form of the utility function of time, space and merchandise. Additionally, the of the category management of

producer and retailer are different. The suppliers' objective is to maximize purchasing and markups within a certain geographical area, while the retailers' goal is to raise the productivity and profitability of the store.

The most important performance measures of spatial allocations are (Berman and Evans, 1998):

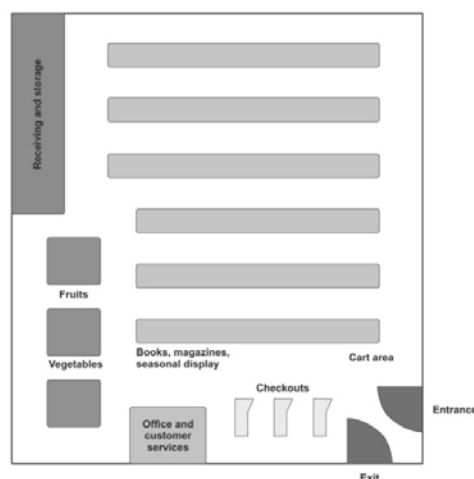
- *sales per linear foot of shelf space* – annual sales divided by the total linear footage devoted to the product category;
- *gross profit per linear foot of shelf space* – annual gross profit divided by the total linear footage devoted to the product category;
- *return on inventory management* – annual gross profit divided by average inventory at cost;
- *inventory turnover* – the number of times during a given period, usually one year, that the average inventory on hand is sold;
- *day's supply* – the number of days of supply of an item on the shelf; it is similar measure to inventory turnover;
- *direct product profitability* – an item's gross profit less its direct retailing costs.

Performance comparisons are made on the basis of a study of data from earlier periods and categorical statistics published in trade publications.

To attract customers, retailers must provide the target market with exhaustive information about its offer. Once the customers are attracted to the store, it is necessary that the retailer creates the right mood for them. The retailer can use various physical and symbolic characters. The retailers' success is determined, *inter alia*, with atmospheric usage in shops, stores layout, displays, customer service and community relations. In order to succeed, the retailer must communicate a clear and consistent image especially because the retailer knows that creating and maintaining the image is a complex process, and it is a very successful way to differentiate from competitors. Regardless of more and more customers having less time to buy, and some having a special interest in the party, it has been shown that customers need to be more entertained. A retailer should create an environment that will not only sell merchandise but attract and entertain people in a way that will make them return back to the store. Components of retail image are: the characteristics of its target market, its positioning, store location, merchandise assortment, price level, physical capacity, community service, personal selling, sales promotion, advertising and publicity. The retailers' image is strongly dependent on the atmosphere. The atmosphere is related to the physical attributes of stores that are used in the development of its image, and usually consists of external appearance, internal layout, store layout and displays.

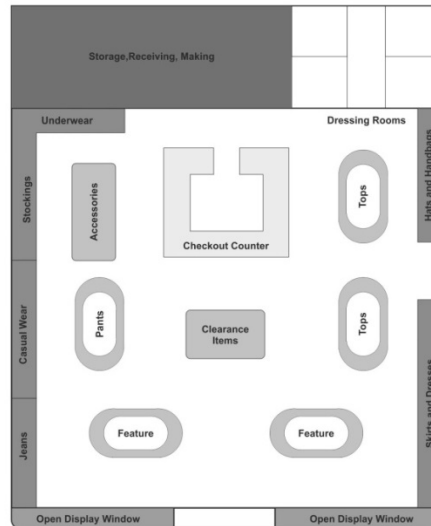
Small retailers are usually using two traditional layouts. One is a *grid layout* (Figure 2), which has passages leading from the front to the rear of the store. This layout is typically found in the grocery store and discount stores. It is a very effective, efficient and organized layout, although it lacks a significant visual impact.

Figure 2 Grid layout



The second layout is a *free-form layout* (Figure 3), which mitigates the lack of visual impact of the grid layout. With this type of layout, the store is arranged by departments with passages that meander through the shop. This layout is typical for clothing stores. For example, a women's clothing store usually has a wider passage, thick carpets, quiet music, indirect lighting and a mild odor.

Figure 3 *Free-form layout*



A well-designed retail layout has to attract customers into the store and facilitate merchandise location, comparing prices, quality and characteristics of goods and ultimately facilitate their purchase. This is the area in which small retailers can have a big advantage over its competitors. Small retailers enable customers to find desired products faster and easier. One research shows that the average shopper in the *Wal - Mart* supercentre with many passages spends 21 minutes in the store, and finds only 7 to 10 articles from the purchasing list (Hudson and Zimmerman, 2007). Customers make a substantial percentage of their purchase decisions once they enter the store, which means that a good layout can significantly raise sales. Another comprehensive study revealed that one third of the customers are performing an unplanned purchase. Median impulsive purchase is \$30. Depending on the commodity categories, impulsive purchase ranges from \$6 for food to \$60 for jewellery and sports articles. Although it is a powerful driver of unplanned purchase decisions incentive to exploit the discount, location of goods inside the store and investment attractiveness are equally important factors (Elton, 2008).

Retailers should always keep in mind that some locations within the stores are better than others. Models of the customer's traffic give small retailers a key solution for the best location of items with the highest mark-ups. Unplanned goods and personal items should be located in the front of the store. Articles that people buy before arriving in the front part of the store and special products automatically attract customers, and they do not need to be located in the best store spaces. Best-selling store space should be used for products that deliver the highest mark-ups. The basic rule is that the sales area is not used for non-sale functions (dressing rooms, offices and warehouses). Non sale departments should be placed in the front of the building.

Small retailers are developing the layout that is consistent with customers' purchase habits. If the customer is coming to the store for certain items and intends to go directly to these items, a display of complementary items on their way can boost sales. By constantly observing customers' behaviour,

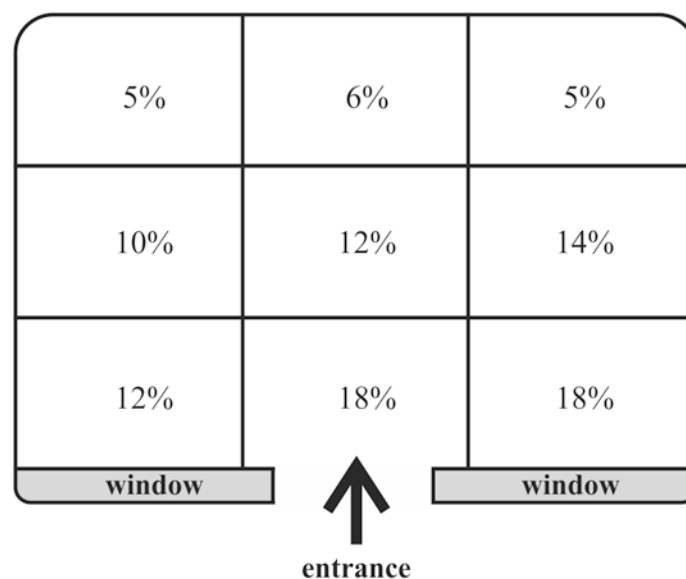
the small retailer identifies the point where the goods are sold the most. Also, small retailers are discovering the most productive store layout by constantly experimenting with factors such as customer traffic flow, the size of the aisle, lighting, type of music and sound level, signs and colours.

The check-out process is an especially important part of the customer's satisfaction. Customers are impatient and it is believed that if they wait longer than 5 minutes, they will become dissatisfied and some of them will no longer buy in the store. The attractiveness of presentation of the goods depends on retailers' budget. Customers concentrate on the displays which tell the retailer what kind of goods are selling faster. It is easier for customers to establish a relationship with the display, than with hangers and shelves of merchandise. Open presentation of merchandise can be decorated with a well suited display, which thus creates an attractive retail space. Merchandise may be grouped in such a way as to draw the shopper along from display to display, producing a high degree of satisfactory circulation (Aghazadeh, 2005).

Spacious passages provide customers an open examination of goods and reduce the possibility of theft. Narrow passages usually force customers to bump into one another, which makes them very nervous and rejects them from such stores. It is also known that placing purchase baskets in several places near the sales area can increase sales. Customers, who take the basket, buy a lot more than customers who had not taken the basket, so some retailers require that taking baskets is mandatory.

Value of space also depends on its position relative to the entrance of the store. An area further away from the entrance means the space is less valuable. The value of store space of a typical small retailer can be seen in Figure 4.

Figure 4 Value of store space of a typical small retailer



Source: Lewison, D.M., *Retailing*, 6e. (Englewood Cliffs, M.J.:Prentice Hall, 1997).

A decline in the value of store space in the store from the front to the back of the store can be expressed by the *rule 40-30-20-10*. The rule specifies that every fourth of the store in such percentages will participate in costs of rent and creation of sales revenue.

6. CONCLUSION

It is often stated that retail success is tied to retail location because good locations allow ready access and attract large numbers of customers to the store. The difference between selecting the wrong and the right location can be the difference between business failure and success (*Roslin and Rosnan, 2012*). Location decision making is likely to always remain both an “art” and “science” (*Hernández and Bennison, 2000*).

Small retailers can survive and even thrive, if they stay flexible and devote their personal attention to serving customer's needs. In addition to making decisions about product, price, promotion and customer services, the small retailer develops strategies concerning spatial possibilities of store location. In conducting physical stores, retailers consider four aspects of physical capacity: location, size, shape and layout. The surrounding population, traffic and cost determine where to locate a store. Size refers to the total store square footage and the shape of the exterior and interior appearance. Layout refers to the amount of space allocated to different lines of products, product specific locations and spatial layout plan display.

A wisely chosen location can help retailers to build a competitive advantage considering the fact that some retailers still choose their location on gut feeling. It is necessary to undertake research in order to determine the contribution of investment in each location to making retail profit, so that it does not happen that a small savings in investment will lead to a large loss in turnover. In fact, retail stores should be located where market opportunities are at an optimal level.

Given the importance of small retailers to the economy, it comes as a surprise that relatively little research has been undertaken in the field of locational and layout decision-making of small retailers. The aim of this study was to provide additional insights into decision-making behavior regarding location assessment of small retailers. While selecting location, small retailers firstly have to do a trading area analysis, meaning they have to evaluate the trading area and afterwards, do a site evaluation. Trading areas can be identified by using *Huff's Gravity Model* or *Reilly's Law of Retail Gravitation*. Huff's Gravity Model says that attraction of a store depends on the store size, distance and sensitivity to time. Further, *Reilly's Law of Retail Gravitation* states that larger cities will have larger spheres of influence than smaller ones, meaning people travel farther to reach a larger city.

In order to fill the identified gap in the literature and devote more time to understanding the needs of small retailers, conducting research on small retailers' location and layout decision making is needed. Research should investigate the problems small retailers face when they choose location and layout. As this topic is currently under-emphasized in the retail site selection literature, there is a need to conduct empirical research and identify how location and layout can contribute to the competitive advantage of small retailers. Further on, focus of the research should be aimed not only at food retailers, but also at non-food retailing as well.

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