

# **Retail Hierarchy**

## **Community Characteristics Necessary for Certain Retail Types to be Viable**

By Jill Clark, Ohio State University

Have you ever driven past an empty vacant big-box store nestled within a retail park development, and wondered what the possibilities are for that space? Or, perhaps you have walked within your community's central business district where there are a number of vacant storefronts. By understanding the concept of the **retail hierarchy**, a community can better address the above scenarios. The hierarchy informs a community about their capacity to attract shoppers through a business mix of retail stores located within their boundaries. The hierarchy serves as a mirror for the community in that it reflects the economic, demographic, and spatial characteristics that are necessary for certain types of retailers to thrive and be viable within a community. The purpose of this fact sheet is to explain the concept and introduce to the reader what the retail hierarchy is and how it can be applied, and made accessible for communal use.

### What is a retail hierarchy?

The retail hierarchy is a concept that classifies and ranks communities based upon the carrying capacity for certain types of retail stores and the distances shoppers are willing to travel to retail destinations. There are a number of factors that contribute to the ranking of a community within the hierarchy. Such factors are a retailer's order of goods, a community's population threshold, and transportation cost. A community will rank within the complete shopping market tier, partial shopping market tier, full convenience tier, or the minimum convenience tier within the hierarchy depending on the **order of goods** sold by a retailer (see Figure 1). The central function of a business is to supply and sell goods, and the goods it sells determines its order, whether it is a high-order good or low-order good. For example, items like cereal, milk, ink pens, and paper are low-ordered goods because they are inexpensive and do not require a shopper to travel a great distance from home to purchase and may be found at a neighborhood store,

or minimum convenience store. Other items like furniture, jewelry, and cars are high-ordered goods because they are expensive, purchased infrequently, and/or bulky, and require a shopper to travel a great distance from home to purchase. They are found at regional stores because of the need of the business to capture a greater share of the market area.

The other factor that contributes to the ranking of a community is **population thresholds**. This threshold is a measurement of the minimum population and income level within a community needed to sell a good, offer a particular service, and support the operation of a business. Population and income are two key ingredients for determining the amount of consumer demand in a community. Retailers are often concerned with this and make their site location choices based on this factor. For example, big-boxed stores like Target or Costco will conduct a population analysis of a community and neighboring communities before moving in. They will assess the social characteristics of a community -- like educational level, average household income, and average shopper spending -- to see if the needed demand is present to allow them to stay in business and succeed within a community.

A shopper's willingness to travel or the **range of a good** is another factor that contributes to a community's ranking. There is a maximum distance that shoppers are willing to travel for a good or service. Specific high-order goods, like refrigerators, dishwashing machines, or dryers, have the capacity to attract a number of shoppers from various places. Other lower-order goods, such as gasoline, milk or prescriptions, are considered convenience items and will likely have a smaller range of which people will travel to purchase these items. As such, ranges reflect shoppers' preferences for specific goods and services and are also key determinants for the type of goods retailers will sell, and the size of the shopping centers needed to accommodate and sell those goods and services.

**Transportation cost** is the last factor contributing to the hierarchy. It is the point in which a balance, or equilibrium, is reached between retailers and shoppers. Retailers want to sell their goods and services, and realize that shoppers must buy the goods but have good access to their businesses in order to be profitable. Likewise, shoppers want to buy goods that meet their needs from retailers, but must factor in the travel cost to the retail destination plus the retail item that they

will purchase. To balance the transportation cost for all shoppers, retailers are meticulous and strategic about where they choose to locate. For example, department stores choose to locate within regional areas near interstate highways to be centrally located and accessible to all shoppers who will travel from various locations. Being centrally located and assessable ensures that the travel cost will be evenly spread among shoppers. Shoppers on the other hand, make decisions based on the distance of the retail site and the ordered-good they are looking to buy. In most cases they will travel to a retail site that is the closest to where they live and that is the most cost effective.

Inherently, all of the factors discussed also contribute to the spatial characteristics of a community. Spatial characteristics essentially refer to distance and retail site locations. As retailers and shoppers make decisions on where to locate retail sites, or how far to travel unique development patterns are formed that physically shapes a community's central business districts, or other shopping areas within its boundaries.

This interaction between retailers and shoppers forms the basis of the retail hierarchy and its four tiers (see Figure 1). Each tier encompasses a set of retail types that meet the order of goods, population thresholds, range of good, and transportation cost criteria explained above for each respective category in the hierarchy. Moreover, with each successive step up the hierarchy, the new tier contains a new set of retail types as well as the retail types within the lower-ranked tier. For example, the Full Convenience Market category has a number of retail types, such as local restaurants, liquor stores, bakeries, and other types. Its retail types will serve a small community area; however, you will find retail types from the Minimum Convenience category as well, like gas stations, grocery stores, and Mom and Pop stores. More stores can be supported at the bottom of the hierarchy than at the top. In other words, in a complete shopping market you would expect to find more gas stations than you would department stores.

### Origins of the Retail Hierarchy?

The origins of the retail hierarchy stems from the Central Place Theory conceptualized by German Geographer, Walter Christaller in 1933. Central Place Theory is concerned with development patterns of regions, and asks, how many

cities will develop? What will be the city's size? Where will they locate? And what will be the size of their trade areas? "Central Place Theory deals with the relationships between customers and sellers of goods within regions [,]" and recognizes that cities are a part of a system, and are not isolated entities. The retail hierarchy is a subset of Central Place Theory, and focuses upon the retailers and the market areas they serve. For more in-depth information about Central Place Theory be sure to check out referenced resources and other outside geographical resources.

### How communities can use the Retail Hierarchy?

The retail hierarchy is the first step for communities looking to gain insight as to what retail types they can support based on the previous concepts discussed above. The retail category will display the general retail types that a community can support. It is useful to then compare what types and how many establishments are in a community to what is the suggested mix in the tier. This will give you an idea of the retail mixture present within your community, and its potential for more retail diversity. For example, a community that places within the partial shopping market category will have a substantial population with the necessary income level and demand to support a department store, like Kohl's. The community can also support retail types from the full convenience market category. Maybe, two or more eating places, like a Local Eatery or The Olive Garden. More retail types, like gas stations and drug stores, from the minimum convenience category will also be disbursed throughout the community as they will be able to support more of these. By observing its place within the hierarchy a community will be better informed about the existing retail conditions and its potential to improve the necessary balance of retail types and level of demand needed within its boundaries to meet the needs of retailers and its resident-shoppers.

### Conclusion

The retail hierarchy is not the end result or a solution for a community seeking to address retail issues. It is a concept that tells a community their capacity to support retail types. It is also part of a collection of concepts and tools a community can use to start asking more questions and becoming more aware of its retail conditions. Questions that may follow after your first encounter with the retail

hierarchy are: Has resident-shoppers needs been met? Have retailer's needs been met? What can we do to meet both their needs? Well, there are a series of fact sheets to come that will provide you with various practices, methods, and techniques to access the needs of both groups and discover dynamic solutions to creating that balance and improving your community retail.