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Business Clustering to Build Retail Sales

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Business clustering is an important but often overlooked feature of a business recruitment strategy for a community or business district. Clustering is the grouping together of a mix of businesses that enable each of them to benefit from each other's sales, customers and markets. It is a technique long used by shopping centers. The following are guidelines from Hyett-Palma, an economic development consulting firm with expertise in downtown revitalization[1].

Benefits of Clustering

Clustering provides consumers with a critical mass of businesses in one location and creates retail synergy. Clustering can:

- provide consumers with a broad selection and variety at a single convenient location;
- enable consumers to make purchases at more than one business and satisfy a number of shopping needs in one trip;
- allow a business district to function as a single economic unit, instead of a series of unrelated destination businesses;
- increase spending as the appropriate mix of businesses will offer more goods and services that appeal to targeted shoppers; and,
- increase impulse buying among clustered stores that offer complementary goods.

For business clustering to be successful, an appropriate business mix is essential. Individual businesses must be able to effectively serve the same or overlapping segments of the market. Secondly, clusters must be physically located so that they are compact and not interrupted by incompatible space uses. The cluster must encourage the customer to shop the entire cluster and conform to the way people shop.

Types of Business Clusters:

- *Compatible Clusters:* groups of businesses that share a particular market segment but offer unrelated goods and services. Outlet malls are an example as their tenants share a market segment that enjoys looking for bargains. Most business districts are classified as compatible clusters.

- *Complementary Clusters:* groups of businesses that share customers and market segments, but offer complementary goods and services. An office supply store, copy center, and office furniture store together could form a complementary cluster (business services). Retailers must offer goods and services of a similar style, quality and price range. It is interesting to note that department stores are typically organized this way.

1. Drawn primarily from: Business Clustering: How to Leverage Sales," Hyett-Palma, Inc., 1989
2. Holden, John & Tim Pritchard. 1996. The Importance of Variety to Retail Centers: Evidence in Ohio. Journal of Regional Analysis & Policy, no. 26, 2
3. Shopping Centers and Other Retail Properties: Investment, Development, financing and Management, Chapter Six: Analyzing the Specifics of Retail Markets (Cynthia T. Ray), John Wiley & Sons, Inc. 1996

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- *Comparison clusters:* These are groups of businesses that carry the same or similar goods and often appeal to the same markets. In some larger regional malls a clustering of shoe stores can be found. Consumers are able to shop the various lines and compare goods before purchasing them. This also is observed within many department stores.

Developing a clustering strategy:

Clustering in malls and shopping centers is relatively easy because such facilities have site/merchandizing plans in place from day one and, more importantly, have one owner. They have the flexibility to move or re-size their tenant's space and replace tenants that no longer fit into the overall mix.
Traditional commercial centers, such as downtowns, have multiple property owners, some of which do not live in the community. Business leaders need to overcome this obstacle and show property owners the benefits of clustering, namely the maximizing of real estate values, which occurs in successful clusters.

Hyett-Palma recommends a four-step clustering strategy for business districts that do not have the centralized control of a shopping center.

1. *Analyze the market* served by the business district to determine the targeted markets and appropriate mix of businesses for the district. This should address the trade area, target market purchasing characteristics, competition, character of existing businesses, image of the center, projection of realistic sales capture potential, and appropriate mix of businesses. Customer surveys can be used to reveal under-served retail segments within the area.

2. *Prepare business clustering maps* for the business district. This includes maps that display (a) existing businesses and available commercial space, (b) what types of clusters and their locations might be appropriate for the business district, and (c) the specific types of businesses as well as the optimal placement within the center given available space. Step c becomes part of the leasing plan for the district.

Complementary Retail

Combinations of retail can result in cross-shopping and shared exposure from the other store's marketing efforts. One recent study suggests the following complements[2]:

Store Type	Retail Complements
Eating/drinking	*gas stations and drug stores*
Food stores	*gas stations, building materials and drug stores*
General Merch.	*food, apparel, furniture, home appliances and drug stores*
Apparel	*General Merchandise, furniture, home appliances, drug stores*
Furn./Home Appl.	*Apparel stores, gas stations*
Drug Stores	*food, apparel, furniture, home appliance stores*

Some combinations of retail do not work well.[3] For example, some apparel retailers are not good together with grocery stores because shopping for clothing and food is seldom done on the same trip. When filling space, it is important to know what types of stores are complementary.

3. *Gain control of the building space* within the business district if possible. This could be done by (a) centralized retail management by a group of property owners and retailers that provides a coordinated set of activities, including implementation of a leasing plan; (b) having the business district organization obtain the right of first refusal to approve or disapprove new tenants; or, (c) obtaining voluntary cooperation by showing the owners that they can benefit from a viable mix of businesses.

4. *Institute an aggressive management mechanism* for the business district. The lead organization must have support of business, property owners, and local government officials.

In small to medium sized communities, clusters may already exist but only need fine tuning. In other communities, there may be totally unrelated retail occupancy on "Main Street" reflecting the past objective of filling empty storefronts. Most business districts will find that *compatible* and/or *complementary* clusters can help build retail sales. Clustering is a tool that can help refocus the local business district retail mix so that it more effectively addresses the needs and preferences of the consumer.