Successful neighbourhood shopping centres: What are the important features for independent retailers?

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Abstract

In recent years retailing in New Zealand has undergone fundamental changes. New and different types of retail facilities such as retail parks, 'big-box' retail and shopping malls have impacted on existing shopping centres. In an attempt to regenerate centres that have been affected negatively by these trends, urban local authorities are investing money to improve the centres of their cities, but have limited resources to regenerate neighbourhood shopping centres. It is these smaller centres that are the focus of this paper.

At one time neighbourhood centres would have provided a variety of goods and services for the local community, but the car has made possible a wider range of shopping opportunities (Albuquerque and Chrystal 1989), leading to the deterioration of some centres evidenced typically by vacant premises and other problems. In addition to supplying local customers, independent retailers bring diversity, vitality and choice to their locations, act as employers and have linkages to other local businesses (Smith and Sparks 2000). It is not difficult to anticipate that centres in decline will reach a point where they fail to attract new businesses and ultimately can no longer support their neighbourhood's needs, with serious consequences for the local community. It is important then for centres to continue attracting customers and drawing new businesses to avoid possible failure.

In seeking to learn what makes some centres successful whilst others fail, this study identifies the features that attracted businesses to locate in neighbourhood shopping centres throughout the Wellington region, focussing on retailers offering specialist products and services beyond the more usual convenience merchandise. To understand why some centres are in decline, respondents also explain why other potential locations are not attractive to them. This conference will be the first opportunity to present the conclusions of this current study, which will be of interest to planners and urban designers.

Introduction

In recent years retailing in New Zealand has undergone fundamental changes. New and different types of retail facilities such as retail parks, 'big-box' retail and shopping malls have impacted on existing shopping centres. Similar trends have also been observed in other countries (Popkowski Leszczyc and Timmermans 2001). In an attempt to regenerate centres that have been affected negatively by these trends, urban local authorities are investing money to improve the centres of their cities, but have limited resources to regenerate neighbourhood shopping centres. It is these smaller centres that are the focus of this paper.

In the past, retailers would have competed only with other shops located in the same place. Now they compete with shops in other trading areas that are located at a greater distance, and this has been made possible by the growth in ownership of the car (Albuquerque and Chrystal 1989). International experience with out-of-town retail development points to negative social effects through the relocation of retail spending away from existing centres, including losses of small businesses and jobs, increases in crime and vandalism, and losses in property values. In other words the structural changes that have occurred in retailing have resulted in the deterioration of some centres (Albuquerque and Chrystal 1989; Taylor et al. 2003).

It is not difficult to anticipate that centres in decline will reach a point where they fail to attract new businesses and can no longer support their neighbourhood's needs, with serious consequences for the local community. It is important then for centres to continue attracting customers and drawing new businesses to avoid possible failure.

Why is this important for planners? Suburban centres typically have various social and community services in close association and physical proximity to their retail and other business facilities. They are places for people to meet and spend time, and give a sense of community or belonging, contributing to social well-being. In addition to supplying local customers, independent retailers bring diversity, vitality and choice to their locations, act as employers and have linkages to other local businesses (Smith and Sparks 2000).

Investigating location decisions of retailers in neighbourhood shopping centres

In an earlier research study, Opus Central Laboratories investigated why some neighbourhood centres in the Wellington region seem to have adapted successfully to 21st century retailing whilst others appeared to be struggling (Dravitzki and Powell 2008). It was observed that successful places tended to have developed in the pre-car era, when the most important links between these places and CBDs were via public transport, and had continued to have good transport connections in the present day, although there were a few exceptions to this pattern. Some neighbourhood centres that were more successful than others offered a wider mix of shopping than just meeting the everyday needs of local residents. These centres contained a greater number of 'destination' shops, such as antique retailers, tattoo parlours and chocolatiers, which attracted a wider customer-base than the suburb's residents.

A separate study of centres in Lower Hutt conducted by Opus in 2008 (Allan 2009) observed that most centres have fewer retailers meeting day-to-day needs of local residents, with a marked decline in the number of independent food shops, hardware and clothing stores since that witnessed in a 1989 study (Albuquerque and Chrystal 1989). Allan's study also noted that the most vibrant centres were located at a major transport node or along a busy transport corridor.

From these two studies, it appeared that there were two types of retailer in smaller centres: the 'neighbourhood' retailer that would have been the traditional occupant of neighbourhood centres and the 'destination' retailer that at one time it would have been anticipated to find in the centres of cities to capture as wide a market as possible. Some examples of these types of retailer are provided in Table 1.

On the basis of our earlier findings, we decided that it would be worthwhile to investigate the reasons why destination retailers select their particular location and whether good transportation links were part of this decision-making process. To this end, two research questions were developed:

1. What features of neighbourhood centres are important to this type of shop?
2. Are good transportation links a significant factor in determining where 'destination' shops locate?

Table 1: Examples of neighbourhood and destination retailers

Neighbourhood retailers:	*Destination retailers:*
Food shops	Antique shops
Dairies	Gift shops
Dry cleaners	Dog groomers
Hairdressers/barbers	Tattoo artists
Pharmacies	Engravers
Cafés and take-aways	Bicycle shops
Bottle shops	Chocolatiers
TAB	Art galleries and framers
$2 shops	Herbal dispensary clinics

Why focus on destination retailers and not neighbourhood retailers?

- The number of neighbourhood retailers is falling. This is a trend that is not unique to New Zealand and has been observed overseas (e.g. Coca-Stefaniak *et al.* 2005; Smith and Sparks 2000);
- If not occupied by destination retailers, shops in neighbourhood centres that are vacated by neighbourhood retailers may be occupied by take-away/alcohol outlets (Pearce et al. 2008) attracted by low rents and proximity to potential customers. Non-retail activities such as offices or small-scale manufacturing may also occupy former retail space, or alternatively the premises may be left vacant;
- Research on retail locations typically focuses on grocery retailers at the micro-scale, overlooking non-grocery retailers. This study therefore has the potential to usefully add to the knowledge of retailers' behaviour.

To maintain the long-term viability of neighbourhood centres as locations for retail and local services, it is important that these centres continue to attract patrons. Destination retailers offer the promise of maintaining patronage of local centres in ways that the alternatives do not. Learning more about the location decisions of this type of retailer will enhance our knowledge of what would help to sustain local centres.

Retailers' location strategies

According to some commentators, there are three secrets to successful retailing: location, location, location (Brown 1993a). Whilst simple checklists and complex spatial databases and analytical techniques exist to point to suitable locations for new shops, many retailers ignore these formal techniques, preferring to rely on personal experience and instincts (Hernández and Bennison 2000).

Underpinned by Christaller's 1930s study of central places in southern Germany, a number of alternative theories have been developed that seek to explain retail locations. The main theories, which presuppose that people act rationally and seek to maximise utility, are summarised in Figure 1.

Figure 1: Retail location theories

Central place theory proposes that consumers patronise the nearest centre that offers the good or service they require. The distance that a customer is prepared to travel for a specific item differs – customers are prepared to travel long distances for expensive and infrequently purchased items, whilst they travel shorter distances for inexpensive everyday purchases. In addition the market areas of these high and low order items results in the development of a hierarchy of centres.

Spatial interaction theory is based on the supposition that customers trade off the attractiveness of alternative centres against the deterrent of distance. In other words they may avoid the nearest centre that offers what they are looking for to travel further to a better appointed location, or patronise the local centre for the sake of convenience despites its limited range of goods.

Bid rent theory emphasises accessibility. As the city centre is the focal point of transportation networks, it is the most accessible location in the city, offering maximum market potential. Competition for this most desirable location and the access it provides means that land goes to the highest bidders, so that rents are highest in city centres. High order retailing functions, like department stores and specialist retailers, wishing to attract customers from all over the city are prepared to pay the highest rents, whilst low order retail functions are willing to trade off the accessibility of city centre shopping streets for peripheral shopping centres.

The principle of minimum differentiation suggests that not every activity depends up on access to the entire market or having accessibility that a central city location provides. Instead proximity to complementary activities is more important, resulting in agglomerations or clusters of similar businesses in certain parts of the city.

Adapted from Brown 1993a, 1993b, 1994

Put most simply location strategies depend on two key components:

- Accessibility for consumers;
- Location relative to competing and non-competing stores.

Customer's choice of shopping location

There are a wide range of factors that are important to a customer's choice of a particular shopping area. These can be grouped into three types: those that relate to the retailing activity itself, those that relate to the attributes of the shopping area itself and finally factors that relate to travel (see Table 2).

Table 2: Factors that affect a customer's choice of shopping location

Factors relating to activity	*Factors relating to shopping area*	*Factors that relate to travel to shopping area*
Size and scale Quality of products/services Variety of products/services Price of products/services Operating hours Crowds/queues Interior design Atmosphere Ownership (local vs. chain) Customer recognition	Mix of activities Density of activities Parking facilities Atmosphere Landscape design	Distance from point of departure Time and other costs Factors that relate to mode of transport (e.g. crime levels for walking, traffic safety for cyclists)

Adapted from Handy and Clifton (2001)

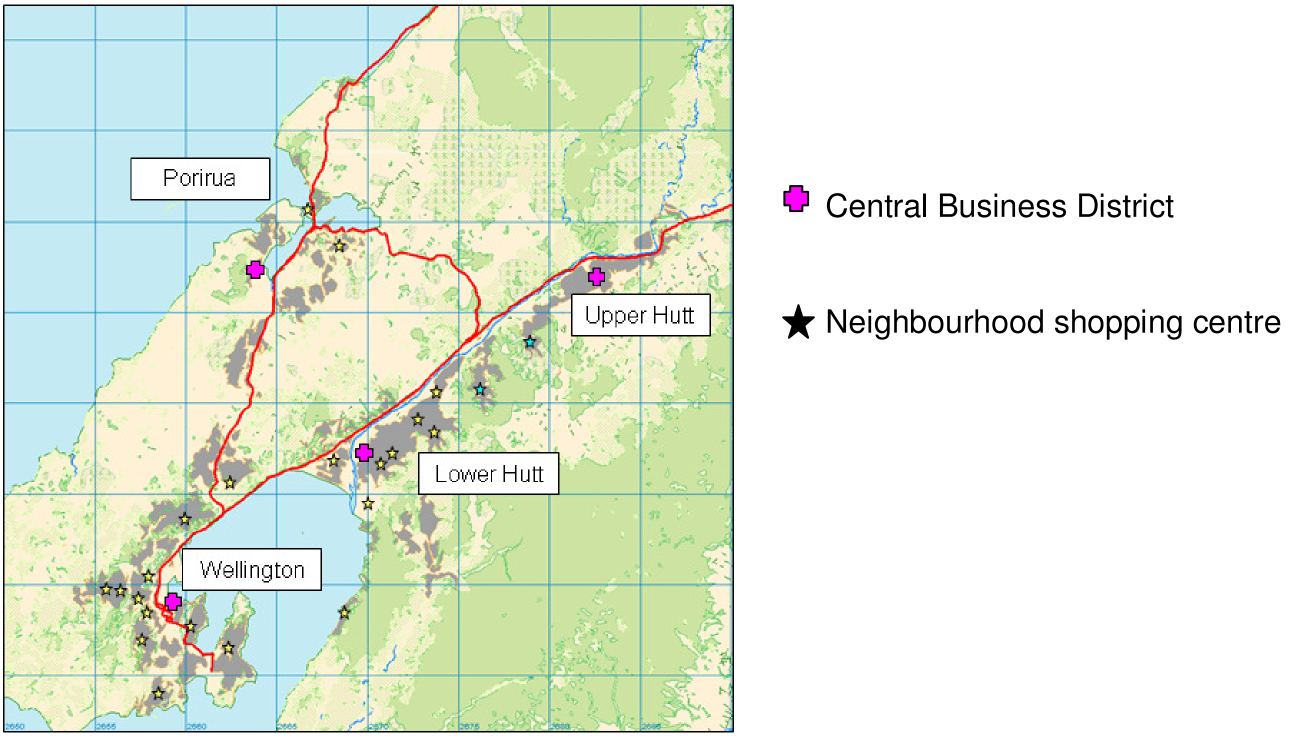
Method

This present study was initially intended to be an extension of Allan's Lower Hutt study (2009), focussing on centres in Lower Hutt. Fieldwork in Lower Hutt distinguished between neighbourhood and destination retailers, and identified 47 destination shops across 9 centres (only those centres with in excess of 15 stores were analysed based on the classification used in Albuquerque and Chrystal's 1989 survey). Given the typically low response rate for surveys of businesses, this was not considered a sufficient number to provide a representative sample, and as a result the study was extended to include centres in Upper Hutt, Porirua and Wellington City LTAs[1]. Additional fieldwork identified a further 68 destination retailers in 13 centres, though none were identified in Upper Hutt.

A total of 115 surveys were sent to the owners of destination shops operating in 22 centres (see Map 1). 47 usable surveys were returned, giving a 41 per cent response rate. Only one retailer responded from centres in Porirua, and for that reason this response was withdrawn from the analysis.

[1] Higher order centres were excluded from this study. As a result the CBDs of the four LTAs were not included, nor were the larger centres of Petone, Johnsonville, Kilbirnie, Newtown and Tawa given their resemblance to town centres.

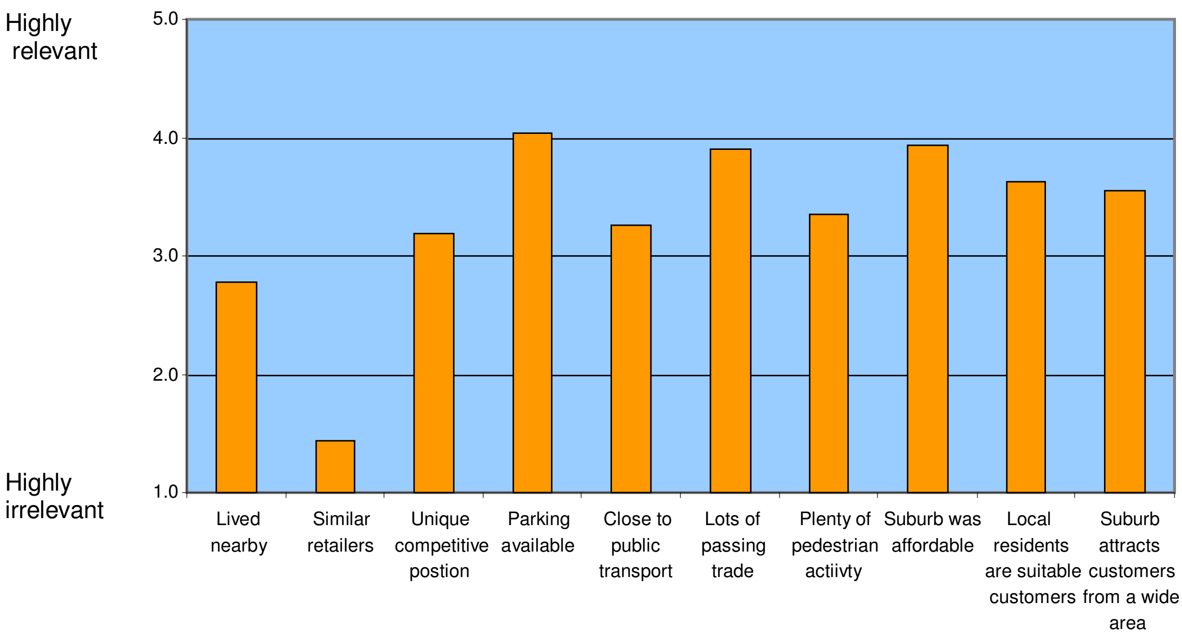
Map 1: Map of Wellington region indicating location of neighbourhood shopping centres



Findings

In seeking to learn what makes some centres successful whilst others fail, the survey asked retailers to indicate how important a range of possible features were to their choice of location. These features covered a range of options relating to the shopping centre, including its proximity to the owner's home, access for customers, affordability, the presence of competing or non-competing stores and proximity to potential customers

- Wellington average results: Most features are at the 'relevant' end of the scale with the notable exception of 'similar retailers' and to a lesser extent 'living nearby'. Most important, but only by a small margin, is the availability of parking. Lots of passing trade is also considered important, along with the affordability of the suburb.



- When we look at the results by suburb, the results are quite revealing. In one suburb, Thorndon, antique shops are heavily represented, and respondents from this suburb indicated that for them being located close to other similar retailers was very important. This clustering behaviour is suggestive of the principle of minimum differentiation.

- Generally for businesses in places that have good access to public transport this had been an important factor in their choice of location. In suburbs where access was poorer, the importance of public transport in their location decision was less. Shops that place little importance on public transport seem to sell bulky items like curtains, plants or antiques that would be difficult to transport without a car.

- Like public transport, businesses that place importance on the availability of parking select locations that offer this. Businesses that place low importance on parking seem to be based in centres where parking availability is poor.

To understand why some centres are in decline, respondents were asked to explain the advantages or disadvantages of other potential locations. Potential locations consisted of all other suburban centres in Wellington or Lower Hutt as appropriate, including centres that did not contain destination stores.

- For the region as a whole the most commonly cited disadvantages were:
    - Isolation/inaccessibility of a shopping centre (88 citations);
    - General unsuitability of a centre (49);
    - Local residents would not be suitable customers (40);
    - Shopping centre has problems (eg vandalism, vacant shops) (39);
    - Poor parking (32).
- The most commonly cited advantages:
    - Local residents would be suitable customers (35);
    - Shopping centre had qualities (eg village atmosphere, busy) (32);
    - Centre would suit me (30);
    - Centre is located well for other areas (20);
    - Good passing trade (19).

- When we examined the comments by centre, we could identify three broad types: centres that were held in high regard; centres that were poorly regarded; and those centres where there was a cross-section of viewpoints.

- Centres that had more positive than negative viewpoints: Waterloo; Alicetown and Moera. To the casual observer, these three centres appear slightly down at heal and are not located in the wealthiest suburbs studied. Yet these three centres possess the common advantages such as good passing trade, being centred for other areas and for having specific qualities, such as high visibility and busy location. Of particular note is that when their location in relation to the region is examined, these three centres were also located centrally, making them well-placed in terms of access.

- Centres that had far more negative than positive viewpoints: Stokes Valley, Taita, Silverstream, Maungaraki, Brooklyn, Naenae, Thorndon and Aro Street. Generally for this entire group, the disadvantages were that the centre has specific problems, such as unsafe or insufficient retail activity, and that local residents are not suitable customers for the types of goods the respondent was selling. Most of these centres are obviously run down with empty shops and graffiti, and therefore it is not surprising that they are considered undesirable. Yet there are also centres, namely Aro Street, Brooklyn and Thorndon, that are attractive places with well-maintained buildings. In particular Tinakori Road, Thorndon, is located in a very wealthy suburb.

- It becomes possible to explain why two seemingly different types of place are considered unappealing locations for destination retailers when they are split geographically according to whether in Wellington or the Hutt valley. Isolation/inaccessibility is a significant problem for the centres situated in the Hutt valley. All of these centres apart from one are located towards the northern end of the valley. The exception is Maungaraki located to the west of State Highway 2 and therefore isolated from the rest of the Hutt valley. For the neighbourhood centres located in Wellington, poor perceptions of pedestrian activity were identified as the common problem. In the cases of Aro Street and Thorndon, close to the centre of the city and therefore not blighted due to remoteness, the most significant disadvantage is poor parking (this is a less of an issue for Brooklyn). In both Aro Street and Thorndon there is limited on-street parking and no public car park, with parking on side streets restricted to residents. With both areas amongst the oldest suburbs in the city, the roads on which the shops are sited are narrow, and there appear to be limited options available to planners to address the issue of parking.

Discussion and conclusions for planners:

At the outset of this study we sought to answer two questions:

1. What features of neighbourhood centres are important to this type of shop?
2. Are good transportation links a significant factor in determining where ‘destination’ shops locate?

In response to these questions, our findings suggest that accessibility of the suburb is the most significant factor for destination shops. This may be due in part to the nature of the market of this type of shop. The products sold are items that people tend to buy only occasionally and so these shops cannot rely on local residents to be their sole market. This fits in with central place theory as the evidence from this study suggests that when choosing a location destination retailers consider the accessibility of potential locations in order to capture a large potential market. It should also be noted that under bid rent theory, it would have been anticipated that in a perfect and rational world this type of shop, offering specialist products, would have been situated in the CBD in order to attract customers from throughout the city. We suggest that the high cost of renting premises in the centre of cities and the low entry cost of establishing a business in a local centre make these smaller centres more appealing locations to destination retailers.

The characteristics of the centre are also important to destination retailers, and these can relate to the quality of the environment, the vibrancy of the centre, and the other businesses that are located there. A further important feature is whether local residents would be potential customers for their goods. Some centres are well-placed to capture a share of a wider market then the local neighbourhood alone. These various aspects fit in well with the different retail location theories.

In seeking to answer the second question, the evidence from this study suggests that proximity to public transport is possibly not as important an issue for destination retailers as catering for car-based shoppers. The nature of these retailers' potential markets may make them reliant on car-based customers, travelling to their shops from other parts of the city or the region. The importance of parking at centres and the relative accessibility of centres are also suggestive that most destination retailers believe that their customers travel to their shops by car.

There are a number of ways in which the features of neighbourhood centres could be manipulated to attract more retailers and customers in order to maintain the appeal and long-term viability of the centres:

1. *Access* – By improving traffic management to and around the centre, the time and effort costs of travelling to the centre can be reduced for potential customers, making these centres appealing destinations. Public transport could be enhanced as part of this approach.
2. *Parking* – Improve the availability of parks in neighbourhood centres. Time spent locating a park affects the convenience and accessibility of a centre compared to alternatives.
3. *Quality of the built environment* – Enhancing the local environment, such as developing active frontages and the provision of seating or playspace, are simple ways to encourage people to linger and spend more time in the centre. Upgrading public buildings and the installation of public art are other opportunities to improve the quality of the built environment in these centres.

These suggestions are not unproblematic. Current policy thinking advocates strategies that increase the use of public transport and non-motorised modes of transport (Ministry of Transport 2008), and so improving access to neighbourhood centres by private motor vehicle and parking facilities would contradict government advice. Another issue that might have to be addressed is the isolation of some centres relative to their potential customers. Strategies that seek to improve the appeal of centres in outlying suburbs may be undermined by their perceived remoteness. There are also issues around heritage suburbs which limit the options available to policy-makers seeking to improve the accessibility, parking or the built environment of shopping centres in this type of place. Finally these suggestions focus on enhancing the centre in terms of its appeal to retailers or customers. It is not possible for policy-makers to directly affect where potential customers are located which is another important aspect of a retailer's choice of location.

Destination retailers have the potential to improve the viability of smaller suburban shopping centres as more traditional neighbourhood shops decline in number. The alternative uses of retail space may be less desirable, discouraging patronage, and thus threaten the centre's future as the focal point of local retail and services. When developing strategies aimed at reinforcing neighbourhood shopping centres, policy-makers should therefore take into account the features that are important to destination retailers. This study reveals that the potential markets for this type of retailer are not purely local, but could be city or region wide. For destination retailers, issues around accessibility and convenience are especially significant when considering a possible location for their business. This suggests that decision-makers should acknowledge in their policies that neighbourhood centres should be attractive to customers who arrive by car, as well as to pedestrians and users of public transport.

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