

Client Situation



An 800-store specialty retailer was losing share to increasingly aggressive competitors, who were simultaneously experimenting with alternative store formats and non-traditional locations. The retailer was having difficulty finding “good” locations for new store openings. Category saturation in some metropolitan statistical areas (MSAs) led to increasing fears of cannibalization from its own new store openings. Consequently the retailer’s store-level profitability began to erode.

Alliance was hired to work with the store planning group to outline and implement a comprehensive strategy for identifying attractive markets, locations, and formats for new store rollouts.

Alliance Approach

The project team conducted a number of analyses as foundation knowledge to support a new strategy. First the team assessed the retailer’s and its competitors’ market penetration and performance at the national, regional, and MSA level to identify drivers of store and market profitability. Next the team used a quantitative model to rank-order top markets based on attractiveness, share potential, profit potential. Finally the project group evaluated potential approaches to preempt untapped markets and trade areas.

As a result of the analysis, the project team crafted a strategy based on dominance of “Market Arenas.” Arenas are defined by MSAs or similar proximate areas. Key findings included:

- Increased store density is highly correlated with overall Market Arena profitability
- Differences in store performance are largely driven by differences in site and trading area characteristics – “one size doesn’t fit all”
- Match of new formats and types of sites can significantly improve store profitability and increase Arena market share, leading to higher overall Arena profitability

Based on the findings the project team outlined a new, more robust approach to planning new store openings. Elements of this Arena strategy included:



- Developing a portfolio of store formats to optimize the penetration of each Market Arena, rather than launching a single standardized store format
- Challenging competitors in Market Arenas where they are vulnerable, to achieve Arena density and drive profitability improvements across all stores in a given MSA
- Improving performance of existing portfolios of stores, based on specific layout and merchandising initiatives to enhance financial performance of lagging product categories

Results and Impact

As a result of the Arena strategy:

- Client increased planned new store openings for 2003 by 250%
- New store openings, remodels, and relocations in client's top markets have increased store density, improved comp sales, and deterred competitive entry
- New retail formats have allowed retailer to increase store density while minimizing cannibalization, thereby resulting in higher gross revenues and better net returns
- Client has begun opening new stores in key markets of the weaker competitor