LOCATION DECISION-MAKING WITHIN A RETAIL CORPORATION

Charles G. Schmidt*

Introduction

Development of the behavioral approach in economic geography has contributed to an increased understanding of corporate location decision-making. Dissatisfaction with limitations of traditional location models, particularly assumptions concerning entrepreneurial goals and information availability, led to the emergence of contemporary behavioral investigations [9, p. 8]. Recognition that locational choice should not be viewed in isolation from corporate production policy or organizational structure has provided "... a means of moving toward that elusive goal of locational analysis, the provision of more direct links between the analysis of spatial process and the analysis of spatial pattern ..." [14, p. 49].

Thus far, the behavioral location literature has been dominated by studies focusing on manufacturing enterprises [4, 8, 9, 10, 17, 26]. Few behavioral studies have investigated the location patterns and decision-making processes of retail corporations. Wadley [27, p. 188] referred to this 'neglected offspring' in his discussion of wholesaling activities: "... behavioral analysis has focused on a limited number of industries ... there is scope to cast the net wider, not only in manufacturing but also in the primary and tertiary sectors." Considerable research has been completed on retail consumer behavior [24, 28], marketing strategies [3, 29] trade area evaluation [6, 15], as well as spatial pattern analysis [11, 12, 13, 18, 19, 21, 22]. However, retail geography texts make no reference to research linking retail corporate decision-making processes with site selection or location patterns [2, 5, 23].

Analyses of manufacturing organization reveal that many locational choices are made rapidly. Since site selection takes place relatively infrequently compared to most other business decisions, management is often placed in an unfamiliar environment. Information uncertainties and lack of experience introduce a relatively greater degree of subjectivity than is associated with most daily or routine operational decisions. Various organizational and geographic preconditions or constraints result in companies considering relatively few of the possible locational options. In many instances, the decision is undertaken without clearly defined locational objectives and with few explicit requirements controlling the site selection process [22, 25].

There are several reasons for anticipating that retail corporate location decision-making differs from these manufacturing enterprises. For example, the market orientation of many retail firms, and direct (observable) influences of location-related variables on business viability (competition, customer accessibility, site visibility), suggest there would be greater awareness among retail corporate decision-makers of site or situational impacts. Similarly, the greater number of site selection decisions made by many retail chain operations (and their record of success or failure attributable to location) contributes information that may be expressed as formal guidelines for resolving location problems. The retail corporate organizational structures is likely to reflect explicit awareness of

* Department of Geography, University of Colorado at Denver.
location impacts through the inclusion of evaluation procedures within a policy making framework. For the decision-makers:

... the greater the frequency of the [location] decision, the better is their perception of the environment, the greater is their awareness of what information they require about the environment, the better the quality and the greater the quantity of information they obtain, the more thorough will be their spatial search, the greater is the likelihood that they will devise sophisticated decision procedures and criteria and the greater is their certainty of choosing a successful location. [8, p. 23]

This paper is an attempt to explore retail corporation location behavior. The goals of the analysis are to: (1) examine the organizational structure of a retail company and its influences on locational choice; (2) identify similarities and differences among the case study corporation and manufacturing companies in terms of location behavior; and (3) suggest several avenues of research into retail corporate geography. Specifically, the discussion will focus on several sets of questions posed by researchers in evaluating the structure and function of manufacturing organizations that are appropriate to retail systems as well [14, 26].

1. What are the goals of the company and how does locational choice assist in achieving these goals?
2. What kinds of information does the corporation routinely collect on its environment that is spatially coded? How is this information utilized and in what ways does it influence subsequent corporate behavior?
3. Are there significant similarities and differences in the spatial behavior of this retail corporation compared to manufacturing enterprises?

The use of a case study approach was based on data availability (willingness of company executives to participate) as well as the time required to conduct lengthy, relatively unstructured interviews. Hopefully, the tentative conclusions or generalizations based on this limiting case will contribute to identification and refinement of hypotheses for extensive location investigations of retail corporate behavior.

Research Design and Corporate Characteristics

Information regarding the case study retail corporation was obtained during three meetings with the President. The first, an open-ended taped interview, focused on general historical development of the company and site selection procedures. The respondent was requested to identify the criteria utilized in evaluating locations and to describe the decision-making process. At the conclusion of the interview, the respondent was asked to summarize the factors involved in location choice. The taped material was evaluated using the content analysis approach [25]. The follow-up discussions concentrated on additional background information regarding corporate organizational structure, growth trends, and store operations. The President (serving in this capacity since 1977) has worked for the company over 15 years and developed considerable expertise in corporate operations. The experience and perspective of the chief executive, combined with recent expansion activities, provide an opportunity to examine retail corporate location behavior in detail. Since the corporation controls two sets of establishments (gasoline stations and retail automotive accessories facilities), any differences in location strategies can also be investigated.
The corporation grew out of a single service station established during 1962 in a Denver suburb.¹ By 1965, the corporation was operating seven stations and demand for automobile accessory items was expanding rapidly. As the accessory sales from the stations and to other companies increased, a separate corporation (retail parts) was established (1967). The petroleum company was able to: (1) reduce operational uncertainties by internalizing a portion of its environment (a supply source); and (2) diversify its sales activities. The first retail tire store was founded in August of 1969 within 20 miles of the original service station outlet. By 1972 the owner of the two companies operated 38 stations and 5 retail stores in the metropolitan Denver area. With the merger of the two companies into a single corporation (1976), the organization was able to utilize its cash reserves, vehicles and employees more efficiently.²

In 1980 the company operated 68 gasoline stations, 40 retail tire, battery, and accessories (TBA) stores, and five warehouse facilities in six states (see Figure 1). The gasoline stations are self-service operations offering several lines of gasoline (regular, no lead, diesel) and over the counter sales of pour-in chemicals (motor oil, antifreeze). The retail parts stores carry a wide variety of automobile accessories (tires, batteries, engine parts, chemicals, tools). Gasoline is purchased under contract from refineries, while accessories are obtained directly from manufacturers and warehoused until needed by the retail outlets. The company employs 300 people and realized retail sales of nearly $103 million dollars in fiscal 1980. Gasoline volume for the stations exceeded 120 million during the same period. Since the 1976 consolidation of gasoline and TBA operations within a single organization, sales have expanded 766%. During this period, the company added 59 service stations, 19 TBA stores, and 3 warehouses to its operations. All but two of the post-1976 service station additions occurred as a result of acquisitions from two other companies in 1977 (15 stations) and 1978 (42 stations).

Corporate Organization and Location

The retail corporation is organized primarily by function, but includes significant elements of geographic area and product groupings in its structure as well (Figure 2). Except in Colorado, each state sales manager oversees all retail store and service station operations. The large number of outlets in Colorado led to establishing two geographic regions (north and south), with two separate product division sales managers (TBA, gasoline) in charge of each region. Purchasing, accounting, transportation, and maintenance activities are coordinated through the Denver headquarters office/warehouse by the Vice-President/General Manager. The President oversees headquarters operations, conducts the loca-

¹ The interviews and an untitled, undated narrative (3 pages) provide the information for the historical discussion.

² Although the companies were incorporated separately, the same executive officers served in both companies. The corporations were legally separate but operationally they functioned as a single entity. Consolidation increased the corporation's ability to use more of its cash assets (separate accounts tied up more money in maintenance of minimum cash balances). State regulations required separate licensing of vehicles in each corporation, thereby restricting their use to intracompany activities. With a single company, the power units and trailers could serve stations and stores, increasing vehicle utilization efficiency. Consolidation also facilitated cooperation/coordination among employees (reducing conflict and rivalry among employees in each corporation).
Corporate goals have always been expressed in terms of expanding sales. Management seeks "... to maximize the rate of growth of sales revenue subject to a security constraint." [7, p. 118] During the early growth phases, the goal was to double real dollar sales annually. In recent years, a 30% annual increase has been the target. All facility additions are financed from cash flow and corporate profit. Management is committed to reinvest all profits into the company to realize the growth goals. In recent years sales and profit expansion have exceeded spending on new facilities due to an absence of investment opportunities.

The company location decision trace sequence is similar to that of manufacturing organizations, although the stimuli and alternatives considered are fewer in number (see Figure 3). Several corporate and geographic preconditions limit locational search activities: (1) warehouse distribution and ability to deliver products ("geographic fit within existing operations:); (2) travel and information fields of management; (3) quality and quantity of state managerial expertise; and (4) avoidance of agriculturally-based communities due to past experience in such areas. Location decision-making communities due to past experience in such areas. Location decision-making originates with state sales managers in most
instances. Although their primary responsibility is the efficient operation of establishments, managers are also responsible for identifying potential locations. Their continuous data gathering activities are encouraged, but they have no final decision-making authority. Once reports of possible sites are forwarded to the home office, managers seldom are involved in the evaluation process. The President (rarely the VP/General Manager) conducts the site evaluation and coordinates financial analysis activities prior to the final decision (ratification by the Board of Directors).

The general corporate location search philosophy is to examine thoroughly any proposal brought to management's attention and thereby avoid missing economic opportunities. In conducting the site evaluations, similar locational criteria are employed for TBA and gasoline operations. The analysis proceeds from investigation of neighborhood to site characteristics. The President usually travels to the proposed location to conduct field surveys. Three sets of situational characteristics are emphasized: address visibility, market distribution, and customer interception. The single most important factor governing TBA store siting (and the one major difference from service station evaluation) is a readily identifiable address. Since the company advertises TBA facilities with newspaper inserts and fliers throughout the region, community locational visibility is perceived as critical to this higher range function. 'Residential back up' (concentration of households in the area) is also examined; for service stations close residential proximity is emphasized more than for TBA stores. There is an explicit company recognition of the difference between shopping goods functions (TBA stores) and convenience goods activities (service stations) in site selection and store spacing. Interceptor locations are defined in terms of home-work and home-shopping travel fields for both sets of facilities.

The site characteristics evaluated for the potential retail or gasoline station outlets include: (1) high traffic volume; (2) maximum street frontage, wide curb cuts, safe access to traffic in both directions; and (3) parcel size, room for expansion (one acre is considered ideal). Corner locations are preferred (for their greater visibility and traffic volume) but other sites are also considered. Developed land is viewed as superior to greenfield parcels (even through substantial structural modifications may be required) because of time, uncertainty, and expense associated with building on an undeveloped parcel. Zoning ordinances,
construction permits and utility services are less likely to be problematic with previously occupied commercial sites. Similarly, acquisitions have been more financially attractive. Lower down payments and other contractual agreements contribute to reduced initial corporate resource commitments and more rapid start-up times than bare ground developments. Seventy-five percent of TBA stores and 85% of service stations now operating were acquisition/conversion operations. Acquired facilities are open within 3 to 4 weeks of purchase; newly constructed outlets begin operating after 4 to 6 months.

Competition is considered during the evaluation process in several ways. Large scale purchases directly from manufacturers (products for TBA stores) as well as emphasis on self-service gasoline facilities have contributed to strongly competitive pricing policies and confidence in meeting competitors’ prices. However, sensitivity to competitors is evidenced by a policy of spacing service stations. While the company will locate stations near competitors (if the site evaluation is positive), any additional outlets in the community are located in other neighborhoods. Even when demand is sufficient to support another station nearby, the company avoids such clustering. Management personnel believe that if a price war develops, fewer stations are likely to be adversely affected with the dispersed pattern.

The company also has a policy of not locating TBA stores in agricultural communities. Price and service competition from farmer cooperatives is strong. The importance of equipment servicing to farmers (often in the field and at all hours) places the corporation at a significant disadvantage because the retail outlets do not provide such services. Three of six store failures in the company’s history were in farm communities with strong farmer cooperative presence.
Closures were attributed, in part, to competitive pressures from these organizations. Recently, the corporation had the opportunity to acquire a 10 store chain of retail tire outlets but decided against the purchase because of farmer cooperative organizations in the communities.

Upon completion of the field investigation, the next stage in the analysis is an investigation within the context of two sets of constraints: (1) financial (price, availability of funds, financing terms), and (2) communication (product delivery by the warehouse system, availability of experienced sales/managerial personnel). Because of substantial corporate sales growth, funding of new facilities has not been a relevant growth limitation. Proposed store additions were delayed in one state because executives believed the state manager would not be able to administer them effectively. The competitive pressures of farming cooperatives that precipitated three failures were also related to inability of state managers to monitor operations on a regular basis.

The final stage in the decision-making process is ratification by the Board of Directors. This phase takes relatively little time and is a final check on prior evaluation procedures. The locational, financial, and managerial elements are reviewed but this stage is largely a corporate formality. Because the President plays a central role in site evaluation, and since other Board members are involved in various steps of the financial analysis, ratification is usually routine.

The importance of informational contacts and the speed of decision-making which characterized the company since its inception are illustrated best by 1977 and 1978 service station acquisitions. In both instances supplier representatives informed corporate executives of owner interest in selling. The President contacted owners and coordinated locational/financial analyses. Facilities could be served by management personnel and were within existing regional territory. In addition, purchase terms and anticipated investment returns were attractive. Locational evaluations were completed in several days and within three months the station purchases were completed (from time of initial inquiry).

**Contrasts in Corporate Behavior**

Detailed examination of location decision-making processes within the case study enterprise reveals apparent contrasts between creative and responsive corporate behavior. At various times the company has been 'spatially innovative' by substantially altering its geographic system and a 'prisoner' of previous location decisions. While locational system and a 'prisoner' of previous location decisions. While locational choice is viewed as a long-run resource commitment and growth mechanism, strategic planning activities are non-existent. Managerial structure has shaped corporate behavior but location decisions have altered the organizational system as well. Despite the frequency and apparent thoroughness of site evaluation, the process is rapidly completed and includes informal subjective judgement. Although substantial quantities of spatially coded data on store performance are gathered and analyzed systematically, there are no formal (written) location checklists or site evaluation documents available.

The current corporate location strategy is one of 'in-fill' based on warehouse distribution and managerial coordination constraints. And yet, previous expan-

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3 Of the three remaining failures, two were due to declining sales precipitated by neighborhood deterioration (crime/vandalism) and the third because of a change in highway routing.
sions in the system were characterized by "... a number of spatial choices that radically upset previous location patterns and integrations." [14, p. 71] Information received from business associates concerning possible owner interest in selling operations preceded each major geographic expansion. Rapid sales growth (and profitability) combined with strong company commitment to expansion facilitated entry into new geographic markets.

As is true for most retail organizations, the case study corporation invests little time in strategic planning: "... retailing executives by tradition and experience tend to be oriented to the very short term. They are used to reacting quickly and decisively to meet the problems of operating their business in a rapidly changing and highly competitive environment." [20, p. 107] Site selection is described by management as 'opportunistic development,' that is, evaluating potential investments recommended from within the organization (state managers) or discovered through communication with external sources. In a few instances the company 'targets' a community for investment, but even in these cases the planning period is relatively short (one year or less). Potential sites are not evaluated within the context of any long-run corporate plan for regional expansion but are considered within the context of existing geographic territories.

The reactive and creative nature of location decision-making pervades other areas of company behavior as well. The corporate philosophy of investigating any and all opportunities brought to its attention underscores: (1) the importance of state managerial expertise, particularly since detailed location checklists or guidelines purposely are not published; and (2) the roles of subjective judgement, the external business information network, as well as trial and error processes on locational choice. Top level management believes published location documents inhibit or restrict search behavior. State managers are encouraged to be innovative in identifying locations, yet are expected to use their experience and knowledge of corporate retail site selection in developing recommendations. Learning by trial and error (in the first phase of site choice) is an integral part of corporate philosophy. From the executive point of view, the cost of permitting flexibility in site evaluation is poor recommendations. The benefits include more creative search behavior and better trained regional decision-makers.

Although field generated data are employed in the financial analysis, the location decision is based on considerable informal judgement at all stages in the evaluation process. Neither specific traffic count nor socioeconomic data are utilized in the site analysis. Neighborhood population totals and visual inspection of traffic volume (over several days at various times) serve as demand measures. The threshold for TBA stores is defined as 30,000 people in the community. Several residential subdivisions within a one mile radius from the proposed site is utilized as a 'threshold' measure for service stations. Nearby retail activities, sensitive to traffic flow (convenience food stores and fast food outlets), are also considered reliable traffic indicators when evaluating potential sites.

On-going assessment of establishments includes more tangible information sources. Monitoring of store performance is carried out by a computer system which links all facilities to the headquarters office. Daily sales activity (by product group) is transferred by computer and utilized in tracking inventories. Monthly computer operating statements are prepared on all facilities and analyzed individually to determine growth rates and profitability. Sales by state are compiled

* The statements for each store record sales (by dollar volume and number of units), operating expenses (utilities, wages, taxes, depreciation, rent), and gross profit. Each sheet includes the current month and year-to-date totals as well as the previous year's comparable month and year-to-date totals.
and employed in identifying potential problems related to management and marketing. Annual reports by store are also developed and utilized in making decisions on produce mix changes.

Summary and Conclusions

Comparisons With Manufacturing Organizations. A review of processes influencing the spatial evolution of the case study retail corporation reveals significant similarities and differences compared to manufacturing enterprises. The importance of information, the speed with which locational choices are made, and the general sequence of decision-making are major common features. For the retail company, as in the case of manufacturing location behavior, (1) the rate and extent of geographic expansion are influenced by the corporate activity or information space; (2) searches are limited by corporate and geographic preconditions; (3) relatively few individuals are involved in site evaluation; and (4) final location decisions are judgemental, combining 'objective' economic or geographic elements as well as 'intangibles' tempered by experience.

Similarly, fluctuations in the business environment and business profitability, as they effect availability of capital, play important roles in decision-making. The merger/acquisition trend characterizing manufacturing organizations, and motivations for such decisions, are evidenced in the case study retail company as well. Corporate monetary goals also are expressed in 'nonoptimal' terms as sales (or cost) objectives, with little explicit long range spatial planning (targeting regions for expansion).

By way of contrast, the location decision-making of the retail company has led to establishment of explicit review procedures and evaluation criteria found among few manufacturing companies. The similarity of each store or station (product mix and physical plant) reduces the planning complexity often associated with production units, and speeds up the review process. Unlike many manufacturing firms, evaluation is largely centralized and carried out at the executive rather than departmental or divisional levels. The search process is an on-going one, generally initiated by state managers and enhanced through the active information gathering activities among personnel at all levels in the company. Given the market orientation of the retail environment (and importance of customer accessability), the decision trace is further simplified (relative to many manufacturing site decisions) since most alternative adjustments (on site expansion, relocation) are seldom evaluated as alternatives. The low failure rate (thus far) attests to the effectiveness of procedures, particularly in the: (1) 'training' of state managers in location recommendations through 'learning by doing;' and (2) computer monitoring of store performance.

Implications and Issues. The experiences of the company outlined in this paper raise a number of questions concerning retail corporate function, structure and evolution [14]. As a relatively small, rapidly growing enterprise, it is by no means clear that the case study organization is representative of behavior among similar firms or the corporate retail sector in general. The few empirical investigations of service station [12], branch banking [13], and convenience food store [21] operations: (1) suggest that similar evaluation criteria govern the site selection process; and (2) provide some insight into multiplant location strategies, but raise the question of inferring process from pattern. If this one corporation is indicative of decision-making dynamics, then the organizational environment must be considered if we are to achieve a more complete understanding of local and regional distribution patterns.
McNee [14] has suggested several cumulative causation frameworks adapted from regional growth models which might prove productive in analyzing causes for initial and subsequent growth among retail corporations. The relatively rapid geographic expansion experienced by the case study corporation illustrates the rapidity with which job control linkages contributing to urban interdependence may be altered. Do retail enterprises evolve through readily identifiable stages of spatial expansion? Are the stages characterized by distinct changes in product or process? How important have managerial, demand, financial, or locational restraints been? What role does acquisition play as a location policy? Do other companies exhibit a similar pattern of significant geographic expansion via acquisition, followed by 'in-fill' strategies?

Enhanced by executive expansionist philosophy, the use of state managers for locational intelligence gathering represents an interesting environmental assessment mechanism. The concentration of locational evaluations at the President's level (albeit in a relatively small regional operation system) is unusual compared to many manufacturing firms that have been studied. Do other retail organizations utilize similar information processing systems? Are published documents of location guidelines available to assist in the analysis process? Are there critical thresholds at which changes in the evaluation procedure occur? How sophisticated are decision-makers in their awareness of locational impacts on store performance? What is the record of store failure among companies that can be attributed to location and how are these experiences incorporated into policy?

Answers to these questions must await analysis of other retail companies. Directing greater attention to the ways in which information is obtained and how the data are processed represent productive research avenues. Such efforts can contribute to the increased understanding of the micro-level site selection process as well as the macro-scale linkage systems which tie cities together. The growing importance of tertiary activities in the economy underscores the utility of this knowledge for regional policy formulation.
REFERENCES


