

## Marketing Basis for Structure and Turnover of Retail and Office Center

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**Abstract:** Choosing a tenant mix is a common challenge faced by small and medium businesses renting out their real estate, particularly for retail and office centers for which this is the main source of income. Within the economic efficiency framework, this study focuses on the notion that a retail center's efficiency and profitability builds on matching the tenant mix to the consumer's demand and preferences. The process of creating and organizing retail and office centers is detailed in academic literature. However, the feasibility studies behind this process are often left out of such papers. In client-oriented economy, the market player's activity should build on client's needs. Therefore, a retail and office center's organization, tenant mix and set-up should satisfy its customer's demand. The current study aims to find out if a center can optimize and enhance its operations based on the requirements of its end consumers. In order to answer this question, 200 residents of the neighborhood where a retail and office center was being built were interviewed. The acquired data was processed using MS Access and Excel Software. The quality of the collected data was ensured by personal survey of the random sample, representative of the universe. The survey's results allowed defining the neighborhood's daily, weekly, monthly and yearly demand for different product groups as well as services. Moreover, it allowed to optimize the future center's tenant mix, structure and tenant placement. Furthermore, the research allowed formulating an efficient procurement strategy for the center's supermarket, optimizing its inventory. Conducting a feasibility study prior to the center construction can help planning the center's concept, mapping optimal routes for the customers and levelling the footfall across the center's floors, the current research showed. A survey of the future center's end customers allows assessing its turnover, optimizing the inventory and procurement strategies. This study's findings also may be used as a practical guideline when constructing and organizing a business center, applying the methodology in order to find out the consumer demand and conduct the feasibility study.

**Key words:** Market research, supply and demand, retail trade, turnover, Russia

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### INTRODUCTION

A contemporary residential neighborhood with a planned population of 8,000 is being built in one of the city's districts, next to a natural forest. The project suggests a well-developed infrastructure, social and cultural venues, corner stores, sporting grounds, etc. The neighborhood's plan includes 24 residential buildings, a school and a kindergarten, a retail and office center and an automatic parking block.

During the infrastructure planning stage, an issue of retail and office center's viability and its strategy arose. According to Chkalova (2010), 'retail and technological concepts are created based on market research' and require defining its potential profile, retail form sortment, turnover, visitor capacity and services that the clients need.

However, it is unclear how a retail center should choose the tenant mix, more specifically, what criteria to

build on. Most of the research done in this sphere consider the placement of the malls themselves (Leo and Philippe, 2002; Arakawa, 2006) or on assessing the existing tenant mix structure (Gerbich, 2009). There have been little research done in terms of forecasting the visitor traffic and the future turnover, despite these forecasts being the major factors for attracting tenants to the center. In addition, there are studies covering the placement of the tenants within the mall (Yiu and Xu, 2012). Still, there is a gap in academic literature in terms of the actions a renter has to undertake in between choosing the location of the mall and placing the existing tenants within it and assessing their performance-the initial tenant mix strategy.

The current research focuses on the notion that a retail center's efficiency and profitability builds on matching the tenant mix to the consumer's demand and preferences. Hence, the tenant mix strategy should depend on the end consumers as well. Within the economic efficiency framework, the study argues that a

forecast of future turnover based on customer's demand survey can help shaping this strategy. The study begins by a literature review of consumer research, inventory management and financial forecast and then will go on to developing hypotheses. The results of the analysis and recommendations that will be relevant for both retail center manager's decision making and academician's research will be presented in the study.

### Literature review and hypotheses

**Consumer research:** Sewell and Brown (2002), argue that supplying the required mix of products and services to the client, instead of focusing on the most available ones, allows obtaining higher turnover and profit due to customer loyalty and the regular purchases. The loyalty factor is crucial for the retail center it increases the footfall, makes the center more attractive for the renters and allows for more advantageous rent conditions for the landlord. Therefore while formulating a tenant-mix strategy, a retail center should strive to satisfy the end consumer's demand rather than going for the available tenants.

According to Fazlzadeh *et al.* (2012) assortment variety and additional services, within other customer service and convenience factors have a positive effect on the customer satisfaction at both supermarkets and hypermarkets. As the current research aims to ground a retail center's strategy on end consumer's demand, it is viable to include these factors in the research as a basis for forecasting.

**Financial forecasting:** Since, retail trade center suggests a large amount of investment, forecasting the return on this investment is an integral part of putting the center's strategy together. According to Brigham (2009), Net Present Value (NPV) would be the easiest method to show the increase of shareholder's (or company's) wealth. Calculating NPV requires knowing the future cash flow of the business. The current research suggests that forecasting the future income (part of cash flow), to be used in further financial calculations, may be done based on surveying the end consumer's demand.

- $H_1$ : information on end consumer demand for tenant retailer's goods indicates future income and serves as a basis for financial forecasting for the center as a whole

**Inventory management:** Kozerod (2012) argues that at the project stage, 'the retail traders need to decide on three 'product' variables: product assortment, service package

and the shop's atmosphere. It is the range of goods that becomes the key factor in the competition between similar retail companies. A retail trader has to decide on the assortment's width (narrow or wide) and depth (small-size or deep). For the retail and office center, its tenants are its clients and the premises are the product. Still, the current research argues that in order to create additional value (Hammer, 2003), the retail center has to take into account the end consumers, targeting their demand and treating the tenant retailers as mediators:

- $H_2$ : information on end consumer demand for the tenant retailer's goods and services allows optimizing the center's inventory management and zoning of its premises

### MATERIALS AND METHODS

**Research goal:** The goal of the research is to find out the relationship between the end consumer demand and the tenant-mix strategy of the retail and office center. To test the hypotheses, 200 residents of the future residential neighborhood and the nearby streets were surveyed using questionnaires to find out goods and services consumption volume, purchase frequency and the sum on average bill. The obtained data allowed estimating the future demand with 95% confidence interval and the estimated error of 7%. The information was accumulated into an MS access database and analyzed using a self-design technique based on weighed averages.

The result of the current research allows setting up the retail center's strategy which suggests that the required services and goods would be supplied to the end consumers via optimal routes, equally distributing the forecasted footfall across the center's floors and zones. This approach provides for maximizing the value of the center to the end consumers and therefore, to the retailers, whilst also allowing to optimize the procurement and inventory and to increase the efficiency of the office and retail center.

**Sample and data collection:** The interviewees were selected based on the geographical location: the residents of the residential neighborhood and the near-by streets population of around 8,000 people, 2,157 households). These people are more likely to shop at the future retail center, therefore, they are considered the primary customers. In order to calculate the required sample size, the following formula was used (Rolbina, 2010):

$$N = \frac{Z^2 \sigma^2 N}{\Delta^2 N + Z^2 \sigma^2} \quad (1)$$

Where:

- n = Sample size
- N = population size (8,000 people)
- $\sigma$  = dispersion (0.5)
- $\Delta$  = Estimated error (7%)
- z = z score of 0.95 (1.96)

The calculation returns a sample size of 191.31. Therefore, during the survey, 200 potential customers were given questionnaires asking them what services they require at a retail center well as how frequently they buy certain product categories (food, alcohol, household goods, clothes, footwear, perfume and cosmetics, stationery) and the average sum they spend on each. The survey enquired on household purchases, not the individual ones.

### RESULTS AND DISCUSSION

In order to understand if the customer purchasing data can be used to forecast future sales, average check sum was multiplied by the number of customers who purchase a certain product with one of the four given frequencies (daily, once a week, once a month, once a year). This information allowed to assess an important criterion of daily turnover (Fig. 1-4) well as to understand the seasonality of purchases of different products.

In financial planning, that would allow to forecast the income by days and months. However, for a projected venue, NPV (Eq. 2) would be the most crucial index to calculate (Brigham, 2009):

$$NPV = -IC + \sum_{t=1}^N \frac{CF_t}{(1+i)^t} \quad (2)$$

The prospective builder, who has already allocated a certain sum to the retail and office center's construction, would know Initial Costs (IC) and the discount rate well as yearly cost of the center maintenance for the annual Cash Flow (CF) calculation. However, to assess the annual cash flow, the company would also need to know total yearly sales of different products to forecast its prospective income. To do so based on the available data, a formula to calculate all the sales of each product within a year was developed (Eq. 3):

$$\text{Total yearly sales} = \text{Daily sales} \times 365 + \text{Weekly sales} \times 52 + \text{monthly sales} \times 12 + \text{yearly sales} \quad (3)$$

where, daily, weekly, monthly and yearly sales (Fig. 1-4) are calculated by multiplying the share of the respective period's buyers in the overall number of respondents (200) by the number of households (2157 in the current neighborhood) and by the average check sum. Surveying the need for food products yielded the following results:

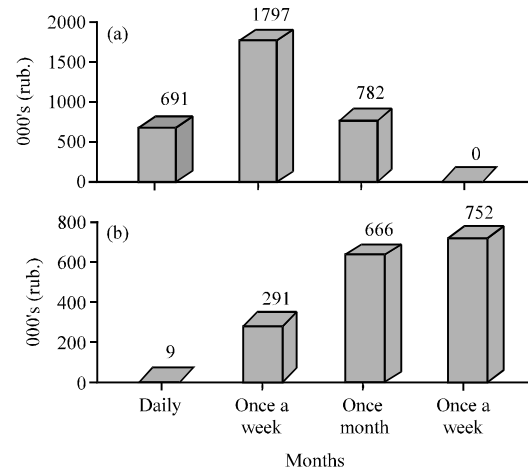


Fig. 1: Sales of: a) food products and b) alcohol (survey data per population)

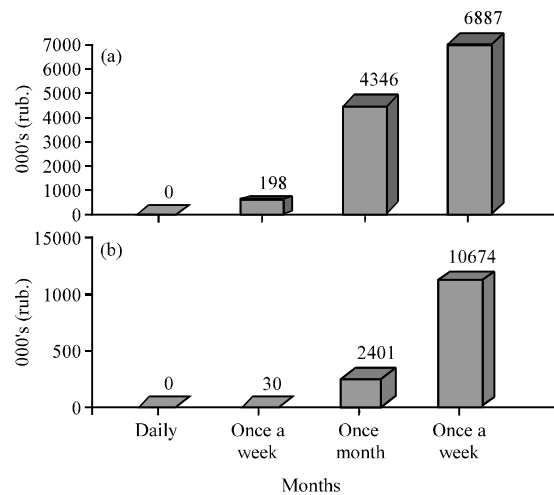


Fig. 2: Sales of: a) clothes and b) footwear (survey data per population)

122 respondents (61%) buy groceries daily, their average check amounts 525 rub. Half that amount of interviewees (33%) purchase food products once a week, spending an average of 2,563 rub. Only 3% buys grocery once a month, their average check totals 14,500 rub. As is illustrated by Fig. 1a, the grocery sellers would be expected to earn the most on the weekly basis most money goes into buying food products once a week. Total yearly sales of food products by the households, calculated based on Eq. 3, amount to 354,851,575.

Studying the alcohol purchases showed that as little as 3% buys it daily, spending an average of 160 rub. Another 20% of the respondents purchase alcohol for an average of 691 rub. once a week whilst 29% buys it monthly with an average check totaling 1,065 rub. Finally,

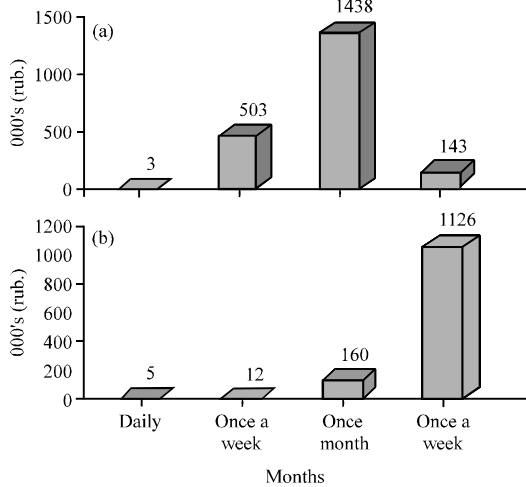


Fig. 3: Sales of: a) household goods and b) stationery (survey data per population)

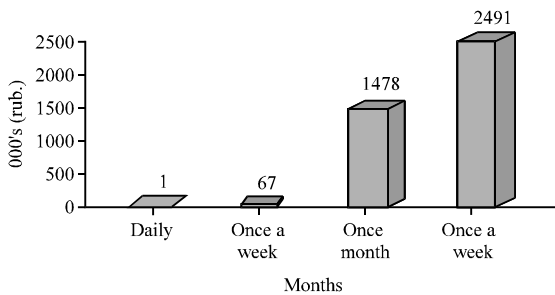


Fig. 4: Sales of cosmetics and perfume (survey data per population)

11% of the interviewees buy alcohol once a year, spending 3,321 rub. Also, 77 interviewees (39%) stated they do not buy alcohol at all. As is illustrated by Fig. 1b, alcohol sales skew towards the longer terms monthly or once a year. Total yearly sales of alcohol, calculated using the same formula, amount to 27,010,493 rub.

According to the survey data, 4% of the interviewees buy clothes weekly (2,300 rub.) whilst two thirds of them (66%) purchase it once a month with an average check amounting to 3,076 rub. A quarter of the respondents (26%) spend an average of 12,522 rub. on their yearly clothes shopping. Figure 2a illustrates that clothes sales gravitate towards monthly and yearly purchases with the total sales equalling 69,356,178 rub.

As little as 2% buys footwear for an average of 917 rub. weekly, the survey indicated. Almost a half of them purchases them monthly (45%) or annually (49%), spending an average of 2,502 and 10,203 rub., respectively.

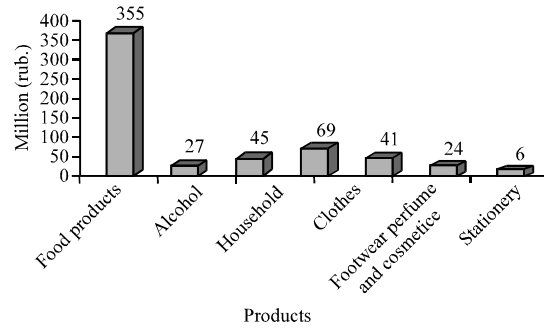


Fig. 5: Total yearly sales (demand) for all product groups (forecasted)

Footwear shows an even greater skew to the yearly buys than the clothes Fig. 2b whilst its total yearly sales are estimated to amount to 41,031,533 rub.

The survey demonstrated that a mere 1% of the interviewees purchase household items daily with the average check counting 150 rub. Another 33% buy these products once a week, spending 718 rub. Over the half of the interviewees (58%) buy household goods monthly, another 2% once a year, their average checks amounted to 1,149 and 4,433 rub., respectively.

It is evident from Fig. 3a that household items see the largest turnover once a month. The total sales of this category equal 44,728,415 rub.

The survey suggest that as little as 1% buys the stationary every day, spending 500 rub. on it. The same percentage of interviewees admitted buying it weekly for an average of 550 rub. Another 14% purchases stationary monthly, spending 548 rub., whilst 48% spends 1,099 rub. on it once a year. In addition, 75 people (38%) stated they did not buy the stationary at all. As is illustrated by Fig. 3b and 5 the stationary total sales (5,626,535 rub.) are skewed towards annual purchases.

Researching the perfume and cosmetics category showed that a negligible number of interviewees (1%) buys it daily or weekly, spending an average of 100 rub. and 3,100 rub., respectively. Over a half of the respondents (54%) purchase cosmetic items monthly, their average check equaling 1,280 rub. Another 31% buys these goods once a year, spending an average of 3,786 rub. According to Fig. 4, the purchasing pattern of perfume and cosmetics is similar to that of clothes with the total yearly sales amounting to 24,092,072 rub.

Based on all the results, total yearly demand for all products in monetary terms can be forecasted (Fig. 5). Knowing the potential sales would allow the center owner to decide on the number and quality of the tenants to fulfill this demand, thus forming the center's structure and concept.

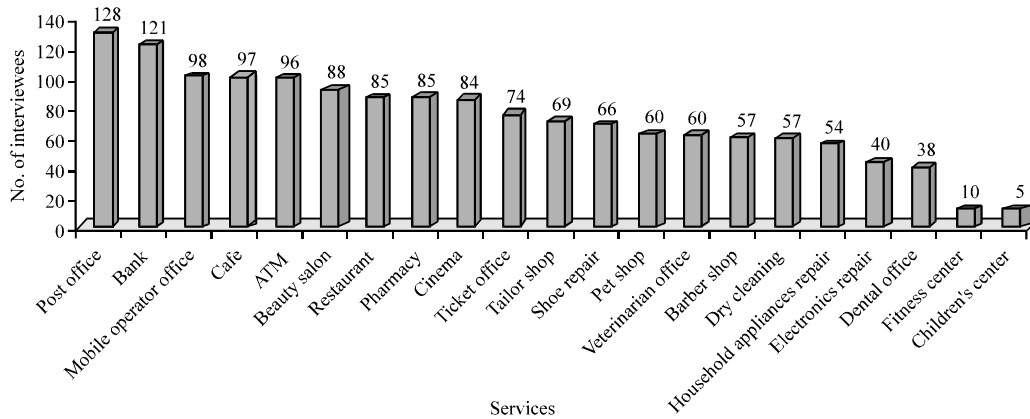


Fig. 6: Retail center services rating

Moreover, knowing the number of tenants that the center is able to accommodate on optimal conditions, i.e., making sure there is demand for their products and they will not suffer losses and remain tenants, the center owner can calculate the rental rate. A forecasted rent can further be used as an income part of the annual Cash Flow (CF) in NPV calculation. Therefore, the information on end consumer demand for tenant retailer's goods can indicate future income and serve as a basis for financial forecasting for the center as a whole supporting H<sub>1</sub>.

According to the abovementioned calculations, the overall retail center's turnover due to local clients alone and not taking into account the price of services provided would amount to 566,696,800 rub.

However, apart from shopping, the buyers expect a number of services to be provided in a contemporary retail center. The survey of the potential customer's demand uncovered people's priorities, illustrated by Fig. 6.

Postal and banking services were named as the most important. Apart from the services mentioned in Fig. 6, two people recalled park zone and entertainments center, whilst parking, photocopy and printing services and driving school were mentioned once, each.

Thus, the survey reflects the entire range of customer requirements interms of both goods and services they wish to obtain from a retail office center. As is mentioned above, the center owner can formulate the center's concept and tenant structure based on the customer demand for goods, whilst taking into account the required services, it is possible to optimize this structure.

Using the template and available space optimizing techniques suggested by Anon (2007) and other specialized editions, the center owner can plan the layout of the premises. However, without the knowledge of the service's popularity and the demand for different products, it would be impossible to even out the footfall between zones and levels of the center, resulting in

underutilizing premises and loss of profits leading to the loss of value and lower rental rates. Therefore, the information on consumer demand for tenant retailer's goods and services is vital to the center planning, confirming H<sub>2</sub>.

## CONCLUSION

The survey of the retail office center's future customers highlighted the dependence of the center's strategy and concept on the demand information, obtained via market research. One of the most striking results found by the current research is that the demand information and sales of retail tenant's goods may be used for both the center's financial forecasting (H<sub>1</sub> supported) and its strategic concept and planning (H<sub>2</sub> supported). Therefore, the relations between the center owner and the retailers exceed those between a landlord and the tenants and may be considered a partnership aiming to provide profitability for the both sides and maximum value to the end consumer.

These findings are consistent with the literature on retail center consumers (Sewell and Brown, 2002; Fazlzadeh *et al.*, 2012) and on inventory management (Kozerod, 2012; Hammer, 2003). Although, many studies examining these issues for the existing centers (Chkalova, 2010; Leo and Philippe, 2002; Arakawa, 2006; Yiu and Xu, 2012), this studies contribution is filling a gap in academic literature and investigating the challenge of pre-planning a retail center's strategy based on end consumer demand for the first time.

However, this survey is conducted on a single neighborhood. Although, the criteria and the concepts may be used by managers and retail center owners elsewhere to forecast the future sales and developing a tenant-mix strategy this survey's results may not be transferable to retail centers in other regions or countries

due to cultural and economic differences. Thus, further research may be conducted on a range of projected retail centers worldwide in order to increase the generalizability of findings. Also, another limitation of this study is since, the retail center has not been constructed yet, there is no historical data to analyze the efficiency and the accuracy of the forecasts and its application. Conducting surveys and business analysis of the center in operation to accumulate the data for comparison may be another promising direction of the future research.

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