

# Effects of neighbourhood characteristics on store performance supermarkets versus hypermarkets

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## Abstract

We investigate the impact of neighbourhood characteristics on the relative attractiveness of product categories within a store, with special attention for the differences between hypermarkets and supermarkets. We consider two questions. Firstly, is the impact of neighbourhood-specific factors on attractiveness of product categories smaller for hypermarkets than for supermarkets? Secondly, is there a difference in relative attractiveness of product categories between supermarkets and hypermarkets and to what extent is this difference dependent on kind of neighbourhood? For the impact of store and trading area characteristics on category and store performance, we use a framework that was originally presented in Campo et al. (*J. Int. Res. Market* 17 (2000) 225). Empirical application to national stores of a European retail chain confirms the differential impact of neighbourhood characteristics on supermarkets and hypermarkets. The research proves that geomarketing analysis can be useful for developing micromarketing strategies.

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## 1. Introduction

Scientific geographical and planning literature on retailing mainly concerns the retail development process, with the evaluation of new locations for shops and shopping centres as a major issue. These books and articles written for a geography and townplanning readership give an excellent account of the broad factors affecting retail growth and change, and also clearly present the more important relationship between consumer purchasing behaviour and the location of retail activity (Guy, 1994, p. 2). But nowadays it is rather hard to find new profitable locations for retailing in Western-Europe. In Belgium, for example, the total space rises to more than 2.7 million square metres, which gives Belgium 88 m<sup>2</sup> retail surface for every square kilometre, the highest density in Europe. Self-service is used to buy more than 90% of the food sold in the country, of which

more than 70% is represented by the supermarkets (Mérenne-Schoumaker, 1995, p. 36). This means that especially in Belgium we have “to seek new ways to gain profitable market share” (Wrigley, 1998, p. 16).

In the present research project, we explore the merits of operational strategies to increase sales densities based upon an analysis of the relation between neighbourhood characteristics and the attractiveness of product categories. Although no scientific evidence is available on saturation in Belgium, we agree with Langston et al. (1998) that in Belgium like in the UK food retail provision exhibits significant levels of spatial variability. Accordingly, there must still be possibilities for growth within those regions lagging behind the provision rates of the most saturated regions. In the 1990s, we observed an overtaking manoeuvre in such regions in Belgium, especially in the Walloon area. In this context, few doubt exists on the saturation for large-scale developments in Belgium like in the UK and US, and we seem to be witnessing a new “spatial switching” of capital that takes shape in reinvestment in and reconsideration

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of smaller stores. In the light of this renewed interest in smaller stores on the one hand, and the probably saturated market for large-scale units on the other, we compare the effects of neighbourhood characteristics on the relative attractiveness of product categories in supermarkets and hypermarkets.

In former research (Campo et al., 2000), only on supermarkets, we found evidence of interaction effects between the characteristics of the area in which a store is located and the relative attractiveness of categories offered by a store. Moreover, we found that socio-demographic and neighbourhood characteristics influence store performance to an extent that a local optimum yields an additional yearly return. This means that one can earn more money when shelf space for different product categories is adjusted to neighbourhood characteristics. These results contain a call for store-specific marketing strategies that are still rare these days.

In this paper, we present the results of two new research questions that focus on the comparison of the effect of location-specific factors for supermarkets and hypermarkets:

1. Is the impact of location-specific factors on attractiveness of product categories smaller for hypermarkets than for supermarkets? Hypermarkets have far more extensive service areas than supermarkets, so the typical characteristics of different neighbourhoods in a service area compensate for each other, this leads probably to a less typical sales pattern in the store.
2. Is there a difference in relative attractiveness of product categories between supermarkets and hypermarkets and this for different kinds of neighbourhoods? Hypermarkets have a broader assortment for several product categories, especially in non-food, so the attractiveness on different socio-economic groups can be different, as well as local competition can have a different impact. A parallel paper focuses on the question whether retailers should adjust their micro-marketing strategies to type of outlet (Campo et al., 2004).

## 2. Methodology and data

### 2.1. Model

Considerable research conducted by regional geographers and economists has estimated the relationship between regional retail sales (counties, SMSAs, small towns, rural regions) and socio-economic characteristics such as personal income, population density and accessibility on the other (e.g., Walzer and Stablein,

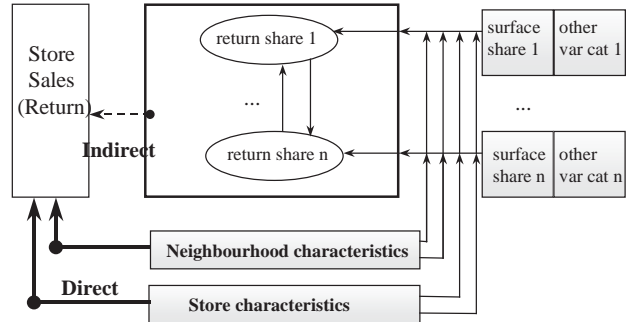


Fig. 1. Direct and indirect effects of location factors on store performance.

1981; Ingene and Yu, 1981; Gruidl and Andrianacos, 1994; Gale, 1996). To date, most research in marketing has dealt with the direct impact on overall store performance of store characteristics in particular, while few researchers have looked at the direct impact of neighbourhood characteristics. Former research has shown that the direct impact of neighbourhood characteristics is smaller than that of store characteristics (Campo et al., 2000). In the context of this research project, a model which measures both direct and indirect effects of store and neighbourhood characteristics on the overall store performance was developed (Fig. 1).

Here we focus on the indirect impact on store sales through the effects of store and neighbourhood characteristics on different product categories. In fact, we examine whether a store can gain by assigning more space to specific product categories in certain neighbourhoods, and whether there is a difference in effect between supermarkets and hypermarkets. The model specification (Appendix A) was elaborated in former research (Campo et al., 2000).

### 2.2. Data

We collected data from a hundred stores, divided almost equally between supermarkets (55) and hypermarkets (48), that all belong to the same retail chain. The included supermarkets have a floorspace between 750 and 3500 m<sup>2</sup>, a turnover ranging from 300 to 750 billion BF, a surface share of food of about 75%, and 30–100 employees. The retail chain itself states that the supermarkets are convenient for daily shopping trips. The studied hypermarkets have a floorspace ranging from 3500 to 10000 m<sup>2</sup>, a turnover of 750 to 2400 billion BF, a surface share of food of only 40% and 80–300 employees. According to the retail chain, hypermarkets are meant for weekly shopping trips.

For all these stores we collected data on store characteristics, neighbourhood characteristics and product category variables.

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