The Superstore Quandary

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Locating superstores downtown can create needed synergy for small independent merchants.

Over the past decade, superstores—a.k.a. big-box stores, category-killers, and discount department stores—have become a powerful retail force. By 1997, they accounted for 51 percent of department store sales across the nation. Clustered together in power centers, superstores revolutionized the shopping center industry. But in scores of communities, such as Gig Harbor, Washington; Saratoga Springs, New York; Old Saybrook, Connecticut; and St. Albans, Vermont, proposals to develop superstores on the outskirts of town evoked considerable public opposition, especially among downtown retailers and those concerned about urban sprawl. In larger cities, the opposition focused on the need to protect small retailers operating in traditional neighborhood shopping districts. In New York City, for example, the opposition wanted to protect small businesses in such neighborhoods as Harlem, Woodhaven, Chelsea, and Ozone Park.

The fears of small merchants are twofold: location—superstores usually want to locate on the outskirts of a community, drawing customers away from the downtown; and power—downtown merchants cannot compete with the superstores' low prices, convenience, and selection. Antisprawl proponents and environmentalists also have opposed superstores because of lost open space and pollution caused by the automobile traffic they generate.

Eventually, leaders in a few medium-sized cities, such as Pasadena and Santa Monica, California, and Rutland, Vermont, began to believe that bringing superstores downtown might be a beneficial strategy. After all, they rationalized, if superstores are going to open in the city's trade area it would be better to have them downtown, where they might serve as a much-needed magnet to draw more shoppers. Bringing superstores downtown also could fill spaces that are large or otherwise difficult to lease—and it would help prevent sprawl.

Such a strategy appears to fly directly in the face of the fears of downtown merchants, who tend to doubt their abilities to compete for the new shoppers that a superstore might draw to the central business district. But the strategy is supported by research (See *Consumer Reports,* November 1998, and *Direct Marketing,* April 1999) showing that discount department stores may be the one-stop place to buy jeans, stereos, paint, and bread but that in any one category the selection is likely to be limited, suggesting that small merchants can survive if they find their own niche.

Coincidentally, some chains, such as Target, Toys R Us, Kmart, and Wal-Mart, decided in recent years that they would try downtown locations, believing that they might obtain approvals more quickly and cheaply, get less negative coverage in the media, and receive financial incentives from municipalities. In some large downtowns, such as midtown Manhattan, the pedestrian traffic was just too good to ignore.

The Rutland Plaza Shopping Center

Between 1994 and 1997, a superstore strategy was used to renovate the Rutland Plaza Shopping Center in downtown Rutland. The Rutland Partnership, the downtown's revitalization organization, had a significant stake in the successful renewal of the shopping center and an equal stake in ensuring that other downtown merchants had an opportunity to benefit from its success. Built in 1964, the 218,390-square-foot Rutland Plaza Shopping Center was in need of renovation. Besides being unattractive, it had significant vacancies and its primary anchor, Kmart, was moving to the new 425,000-square-foot Diamond Run regional mall located about two miles from the Plaza on the outskirts of the city. Diamond Run, completed in 1995, is anchored by Kmart, Sears, and JCPenney.

NET Realty Trust Co., the owner of the Plaza, began its renovation in mid-1994 with the opening of a 58,000-square-foot Price Chopper, the largest supermarket in the state. Between 1995 and 1997, NET Realty added a 26,725-square-foot TJ Maxx, a 9,630-square-foot Fashion Bug, a 3,710-square-foot Poore Simons, a 2,500-square-foot Lindt Chocolate, and a 22,000-square-foot Movieplex 9. The culmination of its efforts was the opening of a 78,000-square-foot Wal-Mart in January 1997. NET's strategy was based on its judgment that many shoppers in Rutland's trade area were hoping for more discount superstores to open nearby (later confirmed by a telephone survey conducted in late 1997 for the Rutland Partnership).

For the Rutland Partnership, locating superstores in the Plaza was not only a way to prevent further sprawl, but also a key part of a strategy that would enable the downtown to withstand the competitive challenge presented by the new Diamond Run Mall. The partnership's executive director, Dick Courcelle, notes that the "Rutland Plaza, with its collection of national and regional retail leaders, significantly expands the size of downtown's trade area. More people now come downtown more often, seven days a week, from morning until night. This presents a tremendous opportunity for niche marketing efforts to capture a larger share of the regional market," he adds.

Overall, the revived Rutland Plaza Shopping Center has been a success, demonstrating that downtowns, even those outside major market areas, can provide viable locations for discount department stores and some superstores. In 1997, sales revenues of shops in the Rutland Plaza were estimated in the vicinity of $50 million to $60 million.

Impact on Downtown Merchants

Retailing in downtown Rutland, excluding the Rutland Plaza shopping center, is dominated by small merchants who occupy about 225,000 square feet of retail space in 102 shops. The shops are dispersed along six streets, the most important of which are Merchants Row, with 78,000 square feet of retail stores, and Center Street, with 65,000 square feet. The average size of these downtown stores is about 2,200 square feet, compared with 15,600 square feet in Rutland Plaza. Total annual sales of the shops in 1997 were estimated to be between $25 million and $30 million.

Restaurants constitute the strongest retail activity outside the Plaza, with more than 30 establishments accounting for about 74,000 square feet. Those are followed by about 25 shops in miscellaneous retailing that occupy about 50,000 square feet and more than 15 apparel stores that have close to 30,000 square feet.

Downtown apparel shops appear to be under the most stress. A 1994 report anticipated that the Diamond Run Mall would threaten a number of downtown apparel shops because of the strong national retailers it would bring. Since 1994, the sales of a number of these shops indeed have declined substantially. Some of the apparel shops were in trouble because they were aimed at affluent shoppers who do not normally shop at Wal-Mart and who, in the Rutland market, tend to favor large traditional department stores. Other non-Plaza apparel shops were targeting the middle market and encountering strong competition from some of the Plaza's smaller value retailers. A few non-Plaza apparel shops reported that sales have stayed level or grown slightly over the past three years. As a result, it is apparent that the Plaza's superstores are not the sole cause of the economic jeopardy in which some of the downtown's small apparel shops find themselves.

Because so many other community reports suggested that superstores were retailing's equivalent of black holes, swallowing up shoppers and preventing them from going to nearby shops, the Rutland Partnership decided to determine the level of cross-shopping, first among Plaza stores and then between the Plaza's shops and those in the rest of downtown Rutland. In August 1997, the Rutland Partnership hired DANTH, Inc., a consulting firm based in Kew Gardens, New York, specializing in downtown economic development, to assess how downtown merchants in the area northeast of the center, across Merchants Row, had been affected by the center's regeneration and to formulate a strategy to enable them to derive more benefit from it. The level of cross-shopping among Plaza shops was deemed important because, if low, it would indicate little potential for other downtown stores to attract people who shopped at the Plaza. The intercept survey found that Plaza shoppers, on average, entered 1.7 stores within the shopping center each time they visited. This figure is consistent with similar studies of power centers in other parts of the nation. Contrary to conventional wisdom, Wal-Mart is not a retail black hole; the intercept survey found that on an average trip almost 65 percent of Wal-Mart's shoppers go into other Plaza stores. However, there is a significant inverse relationship between the size of a store and how much its customers shop in other stores.

The intercept survey also found that, contrary to the views of some small downtown retailers, big-box supermarket shoppers do not just put their groceries in their cars and drive back home: 62 percent of Price Chopper shoppers reported going into other Plaza stores. Only 21.6 percent of Plaza shoppers said that they planned to shop in non-Plaza stores on that same trip. This level of cross-shopping was far lower than the level of cross-shopping found among Plaza stores.

In late 1997, a trade area telephone survey was conducted for the Rutland Partnership to find out why residents did or did not shop in the non-Plaza retail establishments. The survey investigated numerous factors, including how well shoppers knew these stores and how they rated their merchandise, service, appearance, prices, and so forth. While shoppers had favorable views of downtown stores located outside the Plaza, only two factors turned out to be statistically significant: how often respondents shopped at the Plaza and how often they dined in restaurants. In other words, the Plaza brings the vast majority of shoppers downtown, who then may be drawn into other downtown stores. The downtown's restaurants are an important magnet that benefits other nearby small retailers.

The intercept survey found that although Plaza shoppers felt they knew the non-Plaza shops and rated them favorably on customer service and merchandise, their favorable assessments did not provide much incentive to visit. Whether the Plaza shoppers planned to eat in a non-Plaza, downtown restaurant did have a significant impact. Apparently, once the Plaza's shoppers are drawn by the restaurants into other parts of downtown Rutland, they will indeed shop in nearby stores. This finding indicated that getting the Plaza's shoppers to cross Merchants Row was a critical issue for the Rutland Partnership and downtown merchants.

The distances between the shops in Rutland Plaza and those just across the street vary between 430 and 848 feet; plaza shoppers therefore must be strongly motivated to walk such distances. Walking is difficult because it is not easy to quickly traverse the intervening Plaza parking lot—and it is made even more difficult by Rutland's long winters.

If the downtown's small retailers want to attract more Plaza shoppers, strong motivation is needed; however, no national chains or anchor stores are in this area and the stores are small and dispersed. The visibility of these retail establishments also is a concern of the Rutland Partnership. Some retail businesses have invested in brighter signage, awnings, and neon to make them more visible from the Plaza, while others have signage that does little to attract attention. Also, the continuity of retail shops that might encourage shoppers to stroll along downtown Rutland's streets has been disrupted in places by the street-level offices of financial institutions.

In addition, very few shops located outside of the Plaza have any substantial name recognition, without which it is difficult to become a destination store. Advertising and promotional activities may remedy this problem, but the efforts of the small merchants generally have been ineffective. Most of the shops are too small and inexperienced to afford to launch successful advertising campaigns.

The Rutland Partnership and downtown merchants have considered undertaking a number of initiatives to improve downtown merchants' ability to attract Plaza shoppers.

Physical Improvements. A large sign or structure should be constructed to both draw the attention of Plaza shoppers and to signify the presence of the rest of the downtown. The Gas Lamp Quarter in San Diego has a neon sign over one of its entrances that might serve as a good model. Several of the Chinatowns around the country, such as those in San Francisco and Philadelphia, have large structures at their portals that might work for downtown Rutland. The Rutland Partnership is pursuing a grant for a wayfinding and signage program, which it expects to provide many of the needed visual elements.

Shops along Merchants Row across from the Plaza could improve their signage by using bright lights. Many of these shops now have nonretail functions, but the partnership foresees this situation changing over the next few years and expects signage and illumination to improve when new retailers move in. Strong visual elements could be used to show shoppers how to make the trip on foot safely and efficiently from the Plaza to the rest of the downtown. The Freedom Trail in downtown Boston—a combination of signs and a stripe running down the sidewalk—suggests one way this might be done. The Rutland Partnership also is working with property owners to make a strong, concerted effort to attract some retailers with strong name recognition—national or regional chains or a strong independent—to locations along Merchants Row.

As banks consolidate and as online banking becomes more popular, the local banks are reporting less need for street-level space, which may make it possible to reduce retail store discontinuity by encouraging the conversion of ground-floor financial services space to retail space as leases expire.

More Niche Promotions and Advertising. Niche advertising and promotional programs can be powerful tools for small downtown merchants. Together, shops in a specific niche can offer a large array of merchandise to attract shoppers, functioning as specialized shopping centers and becoming real destinations. Also, while small merchants individually may not be able to afford an effective advertising program, they can when a niche program aggregates their dollars. The Rutland Partnership could substantially expand its niche advertising program to help link Plaza and non-Plaza shops in the minds of shoppers. The partnership also could encourage more cross-promotions between merchants in the old core area and those in the Plaza. Cross promotions could be done within and between niches, such as with merchants in the entertainment and apparel niches.

In June 1998, the Rutland Partnership issued a strategic marketing plan detailing how it would use media advertising and special events to promote the downtown as a "department store" offering specialized products in its wedding, apparel, and entertainment departments. The plan also calls for more niche-based advertising and the development of cross-promotions involving shops in the Plaza and those across Merchants Row.

Implications for Other Downtowns

Rutland's example shows that downtowns can provide viable locations for superstores; it also demonstrates that although downtown superstores may indeed increase competitive pressures on some retailers, others can benefit from the increased customer traffic these retail magnets bring. For downtowns lacking a strong consumer draw, a superstore-based revitalization strategy may be the answer.

The Rutland experience also illustrates that unless appropriate actions are taken, small downtown merchants may not reap the gains made possible by superstores. The surveys indicated that the superstores' customers do shop in other nearby stores, so they represent considerable sales potential for small downtown merchants. But the level of cross-shopping between the superstores and the small downtown shops in Rutland was much lower than hoped for because of a number of remediable factors.

For many downtowns, as in Rutland, the best superstore location is in a downtown shopping center, yet it is impractical to expect property owners to totally reconfigure the physical layout of these centers. So other solutions to the distance problem between these stores and small independent merchants must be found, such as one solution suggested by the experiences of outlet malls: Across the nation, about a dozen outlet centers, such as those in Rehoboth Beach, Delaware; Hilton Head, South Carolina; Orlando, Florida; Las Vegas, Nevada; and Pigeon Gorge, Tennessee, are split into two or more locations, and their operators have taken a number of measures to help ensure that shoppers will go to all of each center's locations. Among the most effective steps they have taken are wayfinding and cross-marketing programs.

The Rutland study also suggests that the stronger downtown merchants are, the more they will be able to take advantage of a superstore's customer traffic. Their strength often depends on the amount of choice they can offer shoppers as well as on their ability to make shoppers favorably aware of them. By grouping together in a niche, merchants can offer a wide range of choices in limited types of goods and services, and these niches can function as specialized shopping centers. The Rutland Partnership's initiatives should help ensure that the downtown's small merchants benefit from the increased traffic generated by the superstores.

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