Successful location planning in volatile times.
Opportunities of data and AI.
Top experts report.

Next Level Location Planning

REPORT 2023

The Retail Optimiser

Targomo

THE RETAIL OPTIMISER

www.retail-optimiser.com

The Retail Optimiser is the trade magazine for retail decision-makers in technology, logistics, supplier cooperation, shopfitting and market research. It reports in German and English on outstanding projects and innovations that improve the customer shopping experience and optimise retail processes. As analysts, journalists and consultants, the authors have been analytically following the development of new retail technologies for over 20 years – always very close to what moves the retail trade and its service providers.

TARGOMO

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Targomo helps retailers and restaurant brands make better and faster location decisions. It offers an analytics platform with 400+ high quality data sets for 25+ countries, and develops customised Geo AI prediction models that enable businesses to forecast relevant sales metrics for any potential location – instantly. The location intelligence specialist has been awarded as one of Europe's Top 5 Deep Tech scaleups and serves customers in more than 20 countries, including McDonald's Germany, RSG (McFit, Gold's Gym) and Søstrene Grene.

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Björn Weber has 20 years experience in the retail and consumer goods industry as journalist, analyst and consultant. He is founder of Fourspot, the company behind The Retail Optimiser. Björn led the international analyst group LZ Retailytics and was Research Director Retail Technology and Germany Head of Planet Retail, as well as Editor 'IT & Logistics' of Lebensmittel Zeitung. He is a jury member of the EHI Retail Technology Awards (Reta Europe) and a regular speaker at industry events

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Annette Böhm has specialised in the development and management of marketing campaigns targeting the retail and consumer goods industries for over 20 years. Her main areas of expertise are lead generation and customer retention through digital inbound marketing campaigns. She is an expert in social media and email marketing as well as integration with CRM systems and marketing automation tools.

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Editor

The Retail Optimiser

Regina Wagner is a trained retail manager and business economist with several years of professional experience in the retail sector and in management consultancies. She used to work at grocery retailer Tegut. At Deloitte Consulting, she advised renowned clients on process optimisation, project management and purchasing, and at Edeka Nordbayern-Sachsen-Thüringen, she worked in market research and project management.

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EXECUTIVE SUMMARY

AGILITY IS THE ANSWER

Companies in the retail and restaurant sectors are facing major tasks in adapting their location network to rapidly changing consumer behaviour. The mobility and purchasing power of target groups are decreasing significantly and the **customers' expectations of quality and service** are increasing rapidly. The expansion, real estate and location planning experts of retail and hospitality report major challenges they are facing. The only constant is the **new volatility** of the markets. Companies have to adapt to the continuous adjustment of the size and location of their sites - at a much higher frequency than before. This will only succeed if companies make **more efficient use of the growing data pool** of both their own and external data to achieve a quicker assessment of potential new locations.

The editors of the online trade magazine The Retail Optimiser, in cooperation with the location intelligence specialist Targomo, have compiled the report „Next Level Location Planning" and therefore have spoken with **top experts from the fields of location management and real estate.** In in-depth qualitative interviews, they described to us their view of the market, their challenges and approaches to solutions. Our interviewees are or were responsible for the location management of companies such as *McDonald's Germany, C&A, Peek & Cloppenburg Düsseldorf, the RSG Group, JYSK, Yum! Brands, Denn's Biomarkt, Gustoso, Huuva, Fressnapf* and many more.

Thanks to a cooperation with IZ Research, the analysis platform of *Immobilien Zeitung* as well as the *Gruppe Nymphenburg Consult*, the team of authors of The Retail Optimiser was also able to gain **deep insight** into the current developments in the retail and gastronomy real estate market.

NEW RISKS

The experts interviewed for the report agreed that the new volatility of the markets has been accompanied by a significant **increase in the risks associated with location decisions.** The rising costs of the initial investment in a location are just as much a challenge as the skyrocketing energy prices. Gone are the days when companies could simply place a branch into any reasonably suitable whitespot.

Nothing is changing the behaviour of retail customers as much as e-commerce. E-commerce is raising expectations of assortment and service to almost unattainable heights. The only thing that seems to help brick and mortar retail is **clever omnichannel strategies**, and these are also changing the requirements for locations considerably; decentralised delivery warehouses, web-rooming, click & collect as a shop-in-shop and shipping from the branch are just a few examples.

OMNICHANNEL CHANGES LOCATION REQUIREMENTS

Omnichannel retailing not only changes the requirements for real estate, but also for its location. In the process, city centres are being assigned new roles, as are residential districts. In this report, for example, Fabien Stutz, who recently became Real Estate & Construction Director at Peek & Cloppenburg Düsseldorf, recommends including data from one's own online shop as well as data from the stationary shop when making decisions about locations. For example, a presence in certain locations can boost e-commerce sales or strengthen brand loyalty. "Only very few consider halo effects for their e-commerce," says Fabien Stutz. Companies need to consider their brand equity and not just the sum of the sales of all stores

However, not only the experts from the retail sector, but also those from the hospitality industry agreed that location management urgently needs to become more agile. The times of wallpaper-sized Excel sheets from which only one or very few in the company can generate insights should be a thing of the past. Nor is it at all sufficient to rely on static reports from external consultants or brokers. **The data resources must be used dynamically and in an agile way.**

GEO AI FOR MORE AGILE SITE PLANNING

In chapter 5 of this report, senior location managers from various industries report how they use Geo AI to obtain **valid forecasts for potential locations** faster and more efficiently. Many use this artificial intelligence-based technology from Targomo not only to evaluate specific locations accurately and thus make decisions more quickly - it also provides insights into location factors that are relevant for success and shows in which areas there is still **untapped sales potentia**l. In chapter 4 of this report, you will learn in detail how Geo AI works.

I hope you enjoy reading it as much as we enjoyed researching and writing it.

Björn Weber
Publisher of The Retail Optimiser

BRANDS FEATURED IN THIS REPORT:

THE EXPERTS

The editorial team of the Retail Optimiser conducted in-depth interviews with real estate and location experts from various sectors for this report. We would like to thank:

Andreas Reitz

Andreas Reitz, a qualified chef, joined the Gustoso Group in 2021 as Director in Business Development and Expansion as well as authorised signatory for the Cotidiano brand. Before joining Gustoso, he was Managing Director and Business Manager at renowned brands such as Gosch Sylt - LFG GmbH, Nordmann Food & Beverage GmbH and Altes Mädchen Braugasthaus Schanzenhöfe GmbH.

Andreas Weber

Andreas Weber, a graduated geographer, is Head of Real Estate at McDonald's Germany. He has been working in the real estate division of the quick service restaurant company since 2000. Various foreign roles for McDonald's had taken him to Finland, Denmark, the Czech Republic, Russia and Austria. His favourite product at McDonald's: Big Rösti and Hamburger Royal cheese with extra jalapeño.

Carsten Diekmann

Carsten Diekmann studied geography in Osnabrück with a focus on location planning, projected almost 100 supermarkets for Lidl, Edeka, denn's Biomarkt, Superbiomarkt, Aleco Bio and Bio Company, and was location analyst at Fressnapf. He is a lecturer for location planning and urban development at the University of Osnabrück, and is engaged in the mobility transition with the development of a bicycle trailer rental system.

Erik Rambow

Erik Rambow is a qualified surveyor, business economist and real estate project developer and has been managing the expansion of Bio Company since 2022. He gained his expansion experience at the Rewe Group, where he was Area Manager Expansion for over 8 years, as well as at Kaufland, Lidl and as Managing Director of his own real estate consultancy.

Fabien Stutz

Fabien Stutz is an Real Estate and Construction Executive with 22 years of experience in retail. Before joining Peek & Cloppenburg Düsseldorf as Director Real Estate and Construction in October 2022, he managed C&A's entire European store network. Fabien Stutz previously managed the real estate fleet of Nike, Amer Sports Group and VF Group and also worked for Levi's Strauss Europe and Fnac.

Felix Muxel

Felix Muxel has taken over the Retail & Sales division as a Member of the Executive Board of Gruppe Nymphenburg Consult AG in 2012. Before that, he held management positions in manufacturing and retail companies, most recently as a member of the board and co-partner in a company for retail-related system services. His consulting focus: consumer goods and retail.

Ingeborg Maria Lang

Ingeborg Maria Lang has been working in real estate research since 2001. As Head of Digital Research at Immobilien Zeitung, she is in charge of the strategic and technical product development of the platform for real estate market data, www.iz-research.com. Previously, she worked for Commerz Real, CA Immo and Fay Development, where she was responsible for research and market analysis.

Jörg Fockenberg

Jörg Fockenberg joined RSG Group GmbH in 2020 as Chief Development Officer for the Gold's Gym brand and Director International Expansion for all RSG brands. He has worked nationally and internationally throughout his career, including for Weber Stephen and Jack Wolfskin in the areas of franchise, expansion, retail and e-commerce in senior positions.

Luukas Castrén

Luukas Castrén is a business development specialist with over 5 years of experience in managing successful go-to-market projects in the hospitality and service sectors. He holds a Master's degree in Industrial Engineering and Management from Aalto University in Helsinki. In his free time, Luukas enjoys skiing, cooking and reading.

Ole Jan Harms

Ole Jan Harms is Development Manager Real Estate & Expansion for Northern Germany at JYSK, the specialist for Scandinavian Sleeping and Living (previously in Germany: Dänisches Bettenlager). Before joining the company in 2017, he was a location developer at Yum! Brands for the Kentucky Fried Chicken (KFC) brand restaurants. Prior to that, he worked in the International Expansion division of Kaufland.

Tiana Stute

Tiana Stute is a native US-American with German roots and responsible for the expansion of the Ghost Kitchen provider Circus. Tiana graduated with a bachelor's degree in neuroscience from Columbia University in New York and studied medicine at Charité Berlin before diving into the world of gastronomy as a freelance graphic designer and co-founder of the Berlin-based Ghost Kitchen startup Spoodi.

PARTNERS

GRUPPE NYMPHENBURG

GRUPPE NYMPHENBURG BRAND & RETAIL EXPERTS

www.nymphenburg.de

For over 50 years, Gruppe Nymphenburg Consult AG, headquartered in Munich, has been the leading specialist consultancy for retailers, brand manufacturers and service providers. As one of the world's leading specialists in neuromarketing (marketing brain research), Gruppe Nymphenburg develops brand positioning incl. brand steering wheel for its clients. The neuromarketing instrument Limbic®, which Gruppe Nymphenburg developed inhouse, serves as the basis for brand consulting and marketing consultancy.

IZ RESEARCH

IZ RESEARCH

www.iz-research.com

IZ Research is the data and analysis portal of Immobilien Zeitung and provides the real estate industry with exclusive access to specific data on properties, the commercial investment and letting market as well as additional extensive structural and market data. With its reliable and comprehensive database, IZ Research not only scores points with the experts in terms of efficiency in the preparation of market and location analyses, but also in determining market risks and potentials.

OLD CERTAINTIES GIVE WAY TO VOLATILE MARKETS

New challenges, online boom and fluctuating consumer behaviour requires a more agile location management approach and forward-looking data analysis. Previously untapped data resources offer a great opportunity for retail and gastronomy.

by Björn Weber

One of the biggest challenges in optimising store networks is the massively increasing volatility of markets and the diversification of consumer behaviour, according to many of the expansion and real estate experts interviewed by Retail Optimiser for this report. "We need to become more agile and put ourselves in a position to make decisions faster," says Fabien Stutz, Real Estate and Construction Director at Peek & Cloppenburg Düsseldorf. Many retail companies must massively adapt their existing store network to the rapidly changing requirements of the markets. Expansion is no longer the only goal for many companies. Rather, it is necessary to continuously adapt one's own distribution types and location network to the ever-changing market situation.

The time when one could rely on the typical high-traffic locations is also over, says Stutz. Suddenly, important brands are disappearing from these areas, the structure of the typical retail locations is changing alongside the retail companies themselves, that are reacting very differently to the massive changes and challenges posed by online retail.

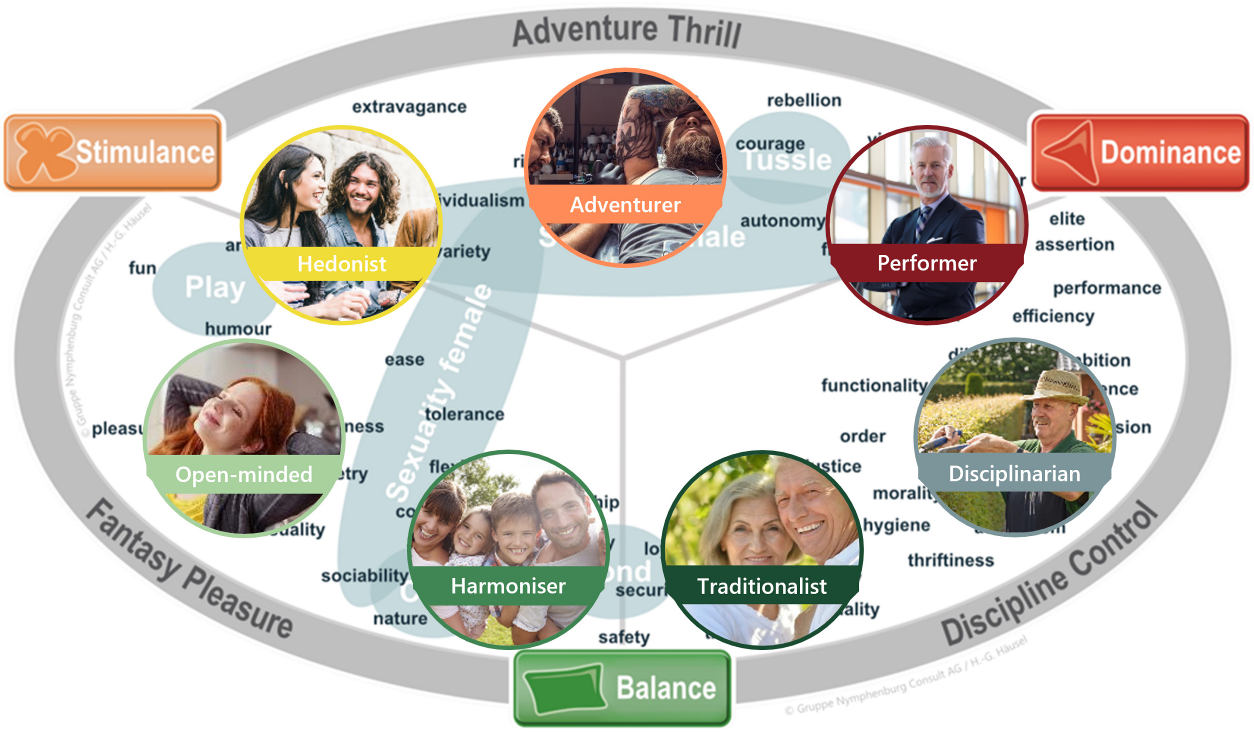
Felix Muxel, Member of the Executive Board at Gruppe Nymphenburg, which advises numerous well-known retail companies on their sales and location strategies, even speaks of a new era. "Everything is in a constant state of flux," he says. Therefore, he says, a continuous evaluation of a site network must be carried out based on potentials instead of event-related analyses. In a displacement market where there is more sales space and merchandise than consumers could possibly use, he says, there are very narrow limits to expansion anyway. Agile optimisation of the distribution network, on the other hand, is indispensable.

> *"We need to become more agile and put ourselves in a position to make decisions faster"*
>
> **Fabien Stutz**
> *Director Real Estate and Construction at Peek & Cloppenburg Düsseldorf*

MEGATRENDS ARE NOT SUFFICIENT AS EXPLANATORY MODELS

Today, the very different personal motivations of consumers can not be captured by megatrends and demographics alone, explains Felix Muxel: "We have to look much more closely to assess the development of a situation." On Targomo's analysis platform, the Nymphenburg Group also visualises clusters of neuropsychological target group types geographically for its clients from the retail, consumer goods and service industries, in addition to valuable data on demographics, competition and the infrastructural environment. "Whether a region is home to more hedonists, more traditionalists or disciplined people, for example, and what mix is at a given location, helps considerably in deciding whether a location is suitable for a particular sales channel or not," Muxel explains.

The Nymphenburg Group is relying on seven relevant types that can be used to depict the personality structures of consumers. Limbic® reveals which emotion systems exist in the consumer's head and how they are connected, both in the brain and with concrete (purchasing) behaviour. At the same time, Limbic® offers well-founded insights into psychological and neuro-biological target group segmentation. Using these seven different Limbic® Types, the population can be specifically segmented and linked to demographic data. "The visual geographical representation in the Targomo platform is very helpful for our clients to better understand the success and failure factors of certain sales and trade concepts, but also of locations," says Felix Muxel.



Graphic: Gruppe Nymphenburg Consulting AG. Use of the Limbic® Map and Limbic® Types is protected by trademark law and subject to licensing.

The member of the Nymphenburg Group's board of directors emphasises that sales-type-specific location planning would have to continuously adapt to the typology of locations that changes it. Today, companies would not only have to analyse what is currently profitable, but always make valid forecasts taking into account changing conditions. Targomo's platform is a very good tool for making even large amounts of data easily usable for this purpose and for calculating and testing high-quality forecasts with the help of artificial intelligence combined with the emotional intelligence of the Limbic® Types.

LOCATION DECISIONS BECOME RISKIER

The experts interviewed for this report agree that the new volatility of the markets is aggravated by the fact that the risks of location decisions have increased considerably: Rising costs not only in the initial investment in a location, but also its operation due to exploding energy prices, for example for refrigeration in food retailing, have meant that the times when you could simply place a branch in every whitespot are over.

The de-emotionalisation of location management through strictly data-based decisions is supported by user-friendly tools such as the platform from Targomo, emphasises Felix Muxel: "If stationary retail were to use all the still untapped data treasures with foresight, it could establish a kind of arms parity with data-driven online retail." Parallel to the dynamisation and differentiation of consumer behaviour, the experts interviewed by Retail Optimiser for this report observe megatrends that do not explain everything, but nevertheless have a lasting influence on location decisions.

CHANGING MOBILITY STRENGTHENS RESIDENTIAL NEIGHBOURHOODS PERMANENTLY

On the one hand, there is the comeback of city district locations due to work-from-home and changed mobility. "The neighbourhoods will be able to maintain their boom to a certain extent," says Felix Muxel, even if this is just melting away again somewhat along with the decline in home office hours in locations with certain premises.

Ingeborg Maria Lang, Head of Digital IZ Research at Immobilien Zeitung, assumes that the changed mobility of consumers, since employees can work from home at least a few days a week and rising petrol prices, will significantly increase the attractiveness of neighbourhoods close to home for retail and gastronomy. This trend would be further accelerated because many people of the baby boomer generation will retire in the next few years and accordingly consume less in the traditional business locations. "Office hotspots will lose importance," says the researcher.

The home office trend also influences the location search of young aspiring ghost kitchen start-ups. "In addition to office areas, residential neighbourhoods where many professionals live are now becoming increasingly interesting for the lunch business," explains Tiana Stute, who leads the expansion at Circus Kitchen and counts on sustainable, yet affordable food delivery with the virtual restaurant. "Those who work from home cannot use a canteen. This also opens up the possibility of new collaborations for us - for example with employers who want to offer their staff good lunch options from home offices as well."

"If stationary retail were to use all the still untapped data treasures with foresight, it could establish a kind of arms parity with data-driven online retail."

Felix Muxel
Member of the Executive Board at Gruppe Nymphenburg

INFLATION AND FALLING PURCHASING POWER CHANGE LOCATIONS

According to the forecasts of Ingeborg Maria Lang, inflation and declining purchasing power as well as the need for more sustainability will also lead to a strong change in locations: "Consumers will have to turn over the penny more often - shopping trips with numerous impulse purchases will give way to more and more purchases planned for the medium term." City centres, like shopping malls, will therefore have to make a special effort to attract consumers with services.

The unbroken megatrend towards ordering online will also further favour the development towards significantly smaller spaces for retail outlets: "In the future we will see many more showroom concepts where consumers can touch or configure goods, which they can then order online and pick up on site or have delivered to their homes," says Lang.

However, the relationship between brick-and-mortar retail and e-commerce will change even further, the head researcher of Immobilien Zeitung emphasises: "Online retail will pass on rising energy costs to customers and at the same time take on new distribution channels." The trend described as web-rooming has online retailers increasingly looking for locations that are close to their customers. These are often intended to fulfil three different functions:

In addition to the showroom, decentralised - often cross-docked - delivery warehouses and, last but not least, click & collect locations will boom. This would create new requirements for the mixed use of real estate both in city centres and in residential quarters. "The winners will be the retail companies that best align their locations with the omnichannel theme and move towards the customer," says Ingeborg Maria Lang.

WEB-ROOMING IS CHANGING RETAIL

"The development towards ordering even groceries can no longer be stopped or reversed, at the latest since the lockdown," says Carsten Diekmann, who most recently worked for Bio Company in location analytics. However, this does not lead to the end of physical stores, but rather to new branch concepts that unite the physical and digital worlds of retail in an omnichannel sense. The booming cashierless stores and vending machines could also be a useful addition to online retailing.

Jörg Fockenberg, head of strategic expansion at fitness studio operator RSG Group, whose brand portfolio includes McFIT, JOHN REED, HIGH5 and Gold's Gym, emphasises that whether negotiations for a property lead to success usually also depends on the landlord's willingness to invest. "We are generally willing to pay a higher rent if the landlord invests in the location. We think this kind of risk sharing is only fair."

Fabien Stutz emphasises that the relationship between landlord and tenant has to change in order to cope with the new volatility of the markets: “The classic leases are too rigid. In addition to fixed monthly rents and turnover-dependent rent, new partnerships with the owner of the property are needed,” says the location expert. Landlords who come up with new, fair business models first could profit considerably from this. There are not many of these yet, he says.

INTERNET-STYLE RENTAL REMUNERATION

But what could innovative rental contracts look like? Fabien Stutz suggests applying models of remuneration on the internet to real estate: “For every visitor, the landlord gets a certain amount of cents. The more traffic you bring me, the more I pay.”

Landlords themselves could also use the internet to generate traffic. In France, says Stutz, there are already shopping centre operators who display the stock of goods in their tenants’ stores on their own commercial websites. Customers can order and pay for delivery directly there. Shopping centre employees would then buy the goods in the tenants’ stores and ship them to the customer from their own mailroom. The developers of high streets could also do something like this.

Not only location experts in retail and gastronomy, but also the project developers of the real estate industry will have to sharpen their pencils before they invest. Due to rising interest rates and mortgages, Ingeborg Maria Lang sees the beginning of a wave of among the project developers. “Many large consumer-oriented projects are already being put on hold,” reports the IZ researcher: “The industry firmly believes that the returns of past years will no longer be achievable.”

CITY CENTRES AND MALLS NEED MASSIVE CHANGES

„The traditional shopping centre, where there is only retail, is obsolete and must change,“ warns Fabien Stutz. Shopping malls would have to become places of experience. This also includes services: Hairdresser, car cleaning, kindergartens. „The mall has to become a part of life where you can have a good time,“

“The winners will be the retail companies that best align their locations with the omnichannel theme and move towards the customer.“

Ingeborg Maria Lang
Head of Digital IZ Research

Photo: Peak & Cloppenburg Düsseldorf

says Stutz. „Especially because more and more young customers don't go shopping by car at all."

Ingeborg Maria Lang also sees the shopping centre operators as being challenged to significantly increase the quality of time spent in the malls and to focus on sustainable concepts. If they do not achieve this, self-contained shopping centres on greenfield sites will struggle if they are solely car-oriented and poorly connected to public transport. Carsten Diekmann, who has worked as an expansion manager for Bio Company and Fressnapf, among others, sees no future for malls outside the city centre that offer the same things as city centres but cannot offer side streets with exciting individual shops, parks, museums and cafés.

B-LOCATIONS ARE GETTING COOLER

But high streets are often an even bigger challenge for location experts than shopping centres because they usually don't have a common developer and therefore lack consistency, Fabien Stutz points out: "We have to work with the municipality to develop and implement a common vision. Together with the cities." Ingeborg Maria Lang of IZ Research comes to the same conclusion: City planners and real estate developers definitely need to work together more closely than before to create what pure online retailers cannot offer: Social interaction and quality of stay.

Carsten Dieckmann is downright pessimistic about the future of the high streets filled with the same retail brands. "The B- and C-streets in the city districts with cool shops are much more exciting now. The city centres first have to reinvent themselves."

Last but not least, the public administration would have to loosen the rules of the game so that trade can settle where it also finds its customers, emphasises Ingeborg Maria Lang of IZ Research: "The one-sided use of areas must be disrupted so that trade and gastronomy are allowed to come towards the people in times of changed mobility." The development should not go in the direction of London and Paris, where life in the inner city flourishes for the wealthy but people in suburban housing estates are cut off from the infrastructure, she adds. "The polycentric structure of our cities in Germany should be promoted and not hindered," emphasises Lang.

> *"The one-sided use of areas must be disrupted so that trade and gastronomy are allowed to come towards the people in times of changed mobility."*
>
> **Ingeborg Maria Lang**
> *Head of Digital IZ Research*

THE CHALLENGE OF REGULATION MANIA

A very successful retail company for which expansion in this country is made difficult by land-use regulations is JYSK. The specialist for Scandinavian furniture and interior design, which until recently operated under the name Dänisches Bettenlager in Germany, already has over 960 shops and wants to expand to 1,150.

But that will not be so easy for the successful company. "We need a floor space of 1,250 square metres with a sales area of 950 square metres for our new store concept," explains Jan Ole Harms, who is responsible for the company's expansion in northern Germany and previously worked for Kaufland and KFC. With this size, JYSK is only allowed in special use areas - according to the German Building Use Ordinance, only specialist stores with a sales area of up to 799 square metres are allowed in commercial areas. With the justification that this would protect the city centres, German authorities prevent the settlement of large-scale stores in commercial areas. Since the concept with furniture for pick-up only works if the customer has the option of driving up by car, inner-city locations do not make sense for JYSK's new format.

These are not the only hurdles that the ordinance makers are creating for companies like JYSK. In addition to zoning, some municipalities also stipulate that certain product ranges may only be sold in the city centre. Where such a list exists, a tolerance of no more than 10 per cent of a retailer's articles may belong to these centre-relevant assortments. In some municipalities, however, it is as low as 3 per cent - which means that JYSK might no longer get a permit.

Jan Ole Harms has to find out from every municipality individually what the authorities require in detail from their retail use concept. He cannot even check centrally whether this exists at all

Photo: JYSK

in a municipality. Some cities do make their development plans available online via digital maps - but a uniform platform across the borders of municipalities is not available to JYSK's expansion management. Other municipalities simply do not put this online at all.

WITH SMART DATA MANAGEMENT TO BETTER LOCATIONS

The great challenges and the new agility of the markets need an efficient and forward-looking use of data more than ever. All the experts interviewed for this report agreed on this. While for many companies the procurement and evaluation of data used to be in the hands of brokers or external market research agencies, which brought their results in the form of exposés, many of the experts interviewed for this report advise bringing data analysis in-house and making the results available to different departments. "Data is becoming increasingly important," Fabien Stutz points out. "Many companies need to improve their skills to forecast the turnover of a possible future location."

Most companies make their decisions based on the predicted turnover of a location. This is logical, after all, the goal of companies is to make as much turnover as possible at comparable costs. What is usually overlooked, emphasises Fabien Stutz, is the question of what a location contributes to the value of the retail company's brand, to its brand equity. For example, a presence in certain locations can boost e-commerce sales or strengthen brand loyalty. "Only very few take halo effects into account for their e-commerce," says Stutz.
Thus, major changes are ahead for location planning experts in retail and hospitality companies due to the convergence of brick-and-mortar retail and e-commerce. Whereas in the past the logistics locations for shipping and home delivery were planned completely independently of the stores in other business units, omnichannel processes such as shipping from the stores' inventory, click & collect, and in-store-pick-up lead to a more holistic view of the distribution network in many companies.

WITH SHIP-FROM-STORE TO QUICK COMMERCE

This is not just about optimising the locations of fulfilment centres. In addition to the routes taken by customers to restaurants and stores, the delivery routes to the customer are suddenly also becoming a location-relevant indicator. Quick Commerce companies are setting the new pace. Customers no longer expect same-day delivery - goods are sometimes supposed to be delivered in less than an hour.

For real estate experts, this often means looking for a completely new type of property that is suitable as inner-city delivery hubs. Also, the requirements for the store location can change drastically. In addition to suitable traffic, proximity to online customers suddenly counts.

Fabien Stutz goes one step further: "We real estate leaders have been using demographic data on the catchment area of a location for over 20 years. Today, that is no longer sufficient. We have to use additional data on our own customers in the location assessment. And we get this from our own e-commerce," he explains in an interview with the Retail Optimiser.

REASSESSING DATA RESOURCES

Customer data show us where our customers live, how much they spend, how and when they buy. According to Fabien Stutz, it often turns out that the locations in areas with the highest traffic are not necessarily the ones where one's own customers are. "We have to take our own loyal customers into account much more when evaluating locations," he says. In addition to using their own e-commerce data, this also includes using loyalty schemes to get to know our customers of the brick-and-mortar business better.

However, not all data can be used equally for all business sectors according to the location management experts interviewed for this report. For example, Jörg Fockenberg from the RSG Group, which includes well-known fitness studio brands such as Gold's Gym and McFIT, would very much like to use anonymised mobile phone data for his analyses, especially to avoid on-site competition counts.

"For us, this has so far only worked to a limited extent for free-standing locations," Jörg Fockenberg explains. At locations with mixed use, the potential for his industry can only be derived from mobile phone data to a limited extent. Nevertheless, the RSG Group continues to work on solutions to make this data usable for them as well.

Photo: Peak & Cloppenburg Düsseldorf

AI MASTERS COMPLEXITY

Jörg Fockenberg sees another challenge regarding the data basis in Eastern Europe: "In some countries, the quality of the data from external providers is so low that our colleagues there often first have to get a personal impression of the relevance of areas and districts for our business." Despite all the challenges with some data, the experts do agree: Location management specialists must face the new volatility of the markets with the intelligent use of data assets - and not only for analyses, but also for forecasts over different time periods. In doing so, they should not rely on external service providers, but put data utilisation at the centre of their teams' work.

Artificial intelligence based on powerful, user-friendly software platforms make it possible to harness even huge amounts of internal and external data in a timely and targeted manner in order to react quickly to changes in the market and outstanding opportunities.

> ***"Despite all the challenges with some data, the experts do agree: Location management specialists must face the new volatility of the markets with the intelligent use of data assets - and not only for analyses, but also for forecasts over different time periods."***

Bjorn Weber
Publisher of The Retail Optimiser

TRENDS IN THE REAL ESTATE MARKET

Developments that will change the commercial real estate landscape and shape it for the short and long term.

"The combination of cashierless markets and regional development can open up a whole new quality of expansion for the food sector."

Carsten Diekmann
in an interview with The Retail Optimiser

MIXED-USE, SHOWROOMS AND EXPERIENCES: **THE SPACES ARE BEING RESHUFFLED**

CASHIERLESS & VENDING MACHINE-DRIVEN DEVELOPMENT

Cashierless and vending-machine-controlled shops are conquering cities and promoting the expansion of regional products. In August 2022, Hoody, Germany's first supermarket that operates completely without cash registers, opened in Hamburg. Anyone who wants to shop here has to register in advance and can then shop for organically grown and regional products almost around the clock. The Wittelsberg market barn also focuses on regionality. With two shops and around 20 vending machines in and around Marburg, they are closing gaps in local supply. In many sparsely populated areas, it is not worthwhile to operate a full shop - but a "Regiomat" is.

BICYCLE-FRIENDLINESS GAINS IN RELEVANCE

With increasing environmental awareness and improved transport options through cargo bikes & Co, bicycle-friendliness is also moving further into the focus of retailers. However, retailers overestimate the importance of cars for their customers' journeys, while they underestimate the importance of bicycles. The Institute for Transformative Sustainability Research (IASS), among others, came to this conclusion in a survey of around 2,000 customers as well as 145 retailers. "If you want to extend the life cycle of a shop, you have to think about how to make it more attractive for cycling," advises expansion expert Carsten Diekmann. The possibilities range from developing bicycle parking spaces or other value-added services for cyclists to lobbying the local authorities.

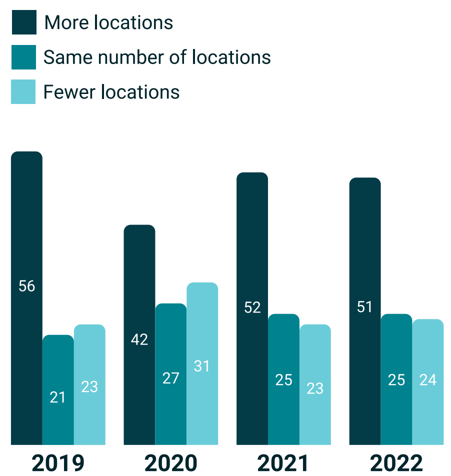
SLIGHT MAJORITY OF RETAILERS PLAN TO EXPAND FURTHER

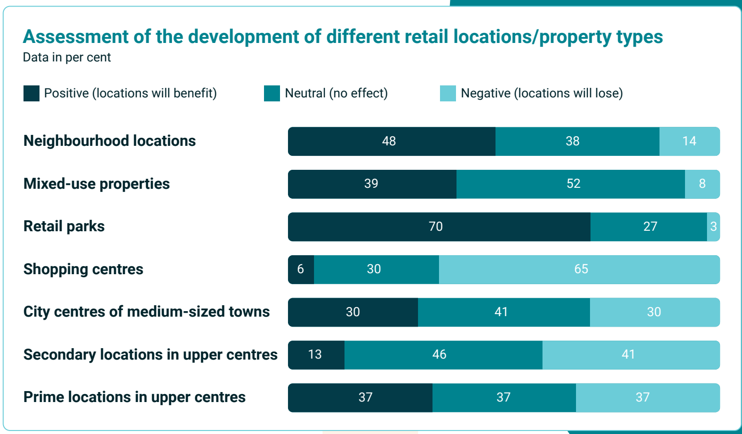
After a significant decline at the beginning of the pandemic in 2020, expansion planning is picking up again: 51 percent of the expansion managers surveyed for the HAHN Report plan to further expand their store network. Highest willingness to expand in the non-food sector: furniture (83 percent), health and beauty (75 percent) as well as hobby and leisure (71 percent).

(Source: Retail Real Estate Report 2022/2023 – Hahn-Gruppe, EHI Retail Institute)

Planned number of locations at the end of 2022 compared to previous year

Data in per cent





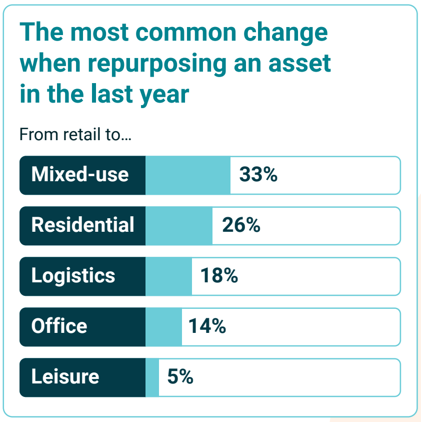
(Source: Retail Real Estate Report 2022/2023 – Hahn-Gruppe, EHI Retail Institute)

RETAIL PARKS, NEIGHBOURHOOD LOCATIONS AND MIXED-USE PROPERTIES ON THE RISE

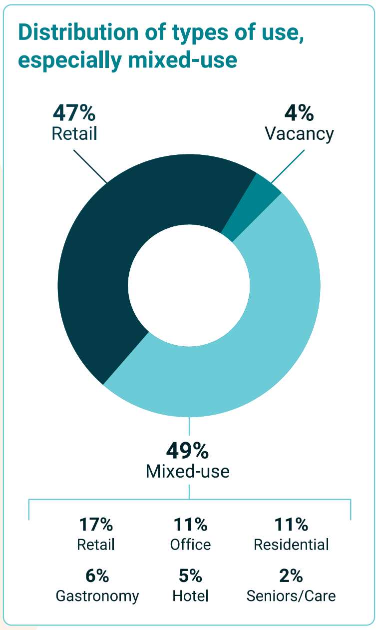
Retail parks, which are formed around food retailers, will continue to grow in importance, as will neighbourhood locations. The latter benefit in particular from the fact that more and more people can work flexibly from home and thus change their shopping behaviour. Thus, well-developed neighbourhoods next to the city centre will become increasingly attractive if they offer good supply. Retail experts predict a rather negative future for the development of shopping centres, which 65 percent of the expansion experts surveyed for the Hahn Report consider to be in decline.

MIXED-USE IS GAINING GROUND

When retail properties are converted, "mixed-use" concepts are in high demand. This is confirmed by several studies: The study Emerging Trends Europe 2023, for which the consultancy PriceWaterHouseCoopers (PWC) in cooperation with the Urban Land Institute surveyed 1034 influential executives of the real estate industry, comes to the assessment that 33 percent of former retail properties have been converted for mixed use. The experts even expect an increase to 45 percent in the next five years.



(Source: Emerging Trends Europe Survey 2023, PWC)



(Source: Die Zukunft der Warenhaus-Immobilie, PwC 2020)

(Source: Die Zukunft deutscher Innenstädte, PWC, June 2022)

SUSTAINABLE CONVERSION OF FORMER DEPARTMENT STORES

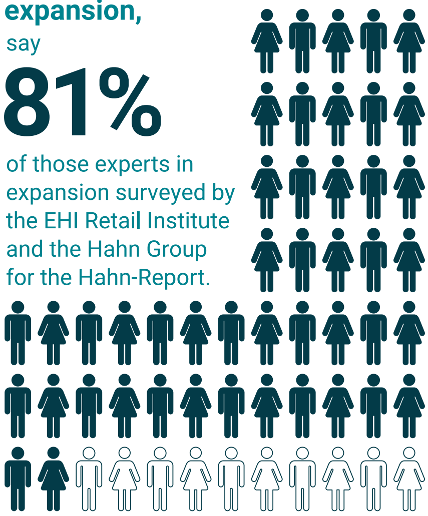
The study ‚The Future of German Inner Cities' (June 2022, PwC) proves that mixed-use is the most promising utilisation option for former department stores. Over time, this can be seen as particularly resistant: While a third of the pure retail uses have had to close again, all mixed-use concepts are still on the market, the study concludes. Regarding the distribution by floors, it was found that retailers primarily settled on the ground floor, while the upper floors were converted to residential or office space. Other types of use were located on the middle floors.

The lack of suitable properties and locations is currently a challenging or very challenging obstacle to expansion,

say

81%

of those experts in expansion surveyed by the EHI Retail Institute and the Hahn Group for the Hahn-Report.



RETAILERS BECOME REAL ESTATE INVESTORS, PROJECT AND RESIDENTIAL NEIGHBOURHOOD DEVELOPERS

The lack of suitable properties and locations is encouraging more and more retailers to act as real estate investors. Aldi Süd, for example, is planning to expand more into conurbations with the help of its own real estate agency. The repertoire ranges from the purchase of a high-rise building in Frankfurt am Main, which is to be completely revitalised and operated in mixed use in the future, to a residential project in Cologne-Ehrenfeld, where Aldi Süd, as owner and investor, is not only renovating the branch there, but also creating living space above the shop area. Between 80-100 flats for singles, seniors and families are planned.

The Schwarz Group became particularly active in its "home town" Heilbronn. Here, the company's own Schwarz Immobilien Service planned and realised an entire residential quarter. Within three years, six buildings with flats and flats were newly built and a striking brick building in the centre of the quarter was extensively renovated. In addition to various communal facilities such as a fitness area, an event kitchen, laundromats, an underground car park with e-charging columns and a bicycle shed, there are also communal areas such as study rooms and large roof terraces as meeting places for the tenants. Leasing and management are carried out independently by the Schwarz Group.

Drugstore operator Rossmann is also planning to invest in its own real estate and has founded the development company DR Bauinvest for this purpose. The aim is to develop attractive new locations that would otherwise not be available on the market. Although its competitor dm-drogerie markt wants to expand primarily in conurbations, it continues to rely consistently on rental properties.

CONSUMER LOCATIONS BECOME 'WORLDS OF EXPERIENCE'

"We are moving from a consumer society to an experience society," says Dirk Wichner, Head of Retail Leasing at JLL in a press release. Cities are changing from being places of pure consumption to places of experience. Visitors and residents are increasingly looking for surprise and inspiration. The Federal Ministry of the Interior (BMI) also takes up this development in its report 'The city centre of tomorrow - multifunctional, resilient, cooperative'. In order to revitalise the city centre, it recommends, for example, offering events or cultural events that go beyond a purely consumer offer.

"Residential forms that combine residential units with compatible commerce - such as daycare centres and other offerings - will form the DNA of the urban structure in the future. This is what the capital market is. looking for, and this is why real estate mixed-use will experience a breakthrough in this market cycle."

Professor Dr. Thomas Beyerle
Head of Group Research at real estate investment and fund management company Catella, during a Price Hubble webinar, June 2022

ON- AND OFFLINE COMMERCE CONTINUE TO FUSE

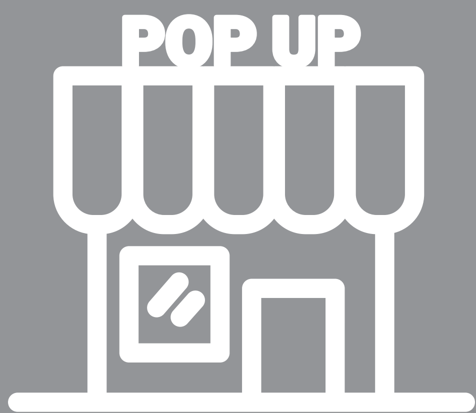
More than ever before, retail companies are combining brick-and-mortar and online business into a holistic omnichannel strategy. The benefits are mutual: if you can't be found on the internet, people will buy less from your brick-and-mortar store. And those who show a physical presence can also strengthen online orders.

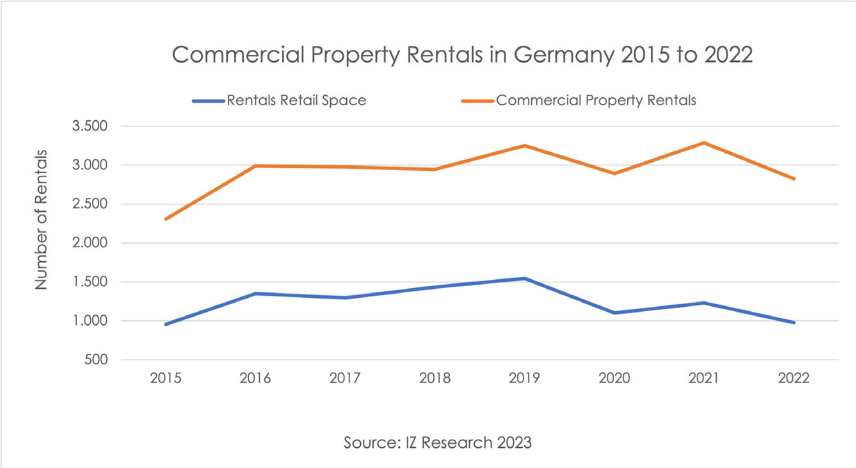
The fact that online and offline trade are increasingly merging enables bricks and mortar retailers to address customers more individually and directly. Since customers usually register for an order in the online shop, the retailer is aware of name and address data. The retailer can also see product preferences in a short time. In this way, employees can give more individual advice to registered customers who visit the stationary shop. Through direct product availability and the shopping experience in the store, the retailer can benefit from linking both sales lines compared to purely online providers.

But conversely, customers who prefer to order online also need the stationary trade as a place to test and meet in order to be able to make final purchasing decisions once a certain price hurdle has been reached or in the case of products that require particularly intensive consultation. Numerous former mail-order and online retailers have opened brick-and-mortar shops to enable customers to meet and test products. At present, these retailers are increasingly concentrating on opening shop-in-shop solutions or entering cooperations with well-known, established department stores.

NEW CITY CONCEPTS WITH POP-UP VARIANTS AND SMALLER SPACES

To establish themselves in city centres, more and more retailers are turning to city concepts. After food and drugstore retailers launched and expanded their small-space concepts in recent years, DIY stores are now following suit. For example, in March 2022 OBI opened a DIY concept store in the centre of Cologne called „OBI MachBAR". In the space of the „CREATE! by OBI" store introduced in 2019, this store offers a small DIY assortment as well as a workshop programme that changes monthly. Six months later, the competitor Bauhaus opened a specialist centre with a local supply concept in Berlin's Forum Steglitz, which is specifically geared to the needs of one- to four-room flats. With a sales area of 2,500 m², this „Kiez-Markt" is considerably larger than OBI's „MachBAR", which has a sales area of only 250 m², but it is still well below the usual size of over 20,000 m² for a DIY store.

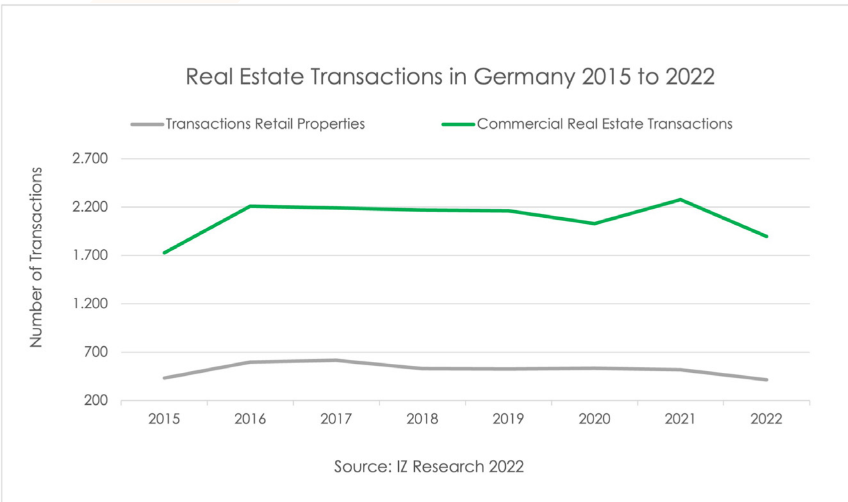




LETTING ACTIVITIES ARE DECLINING - WITH SOME EXCEPTIONS

Leasing activity in the past two years has been **clearly volatile** due to the on-off mode during the Corona pandemic and the changed geopolitical situation since the beginning of 2022. Overall, we observe a decline in rental activity, but this relates purely to the number of registered lettings and not to the space take-up in m².

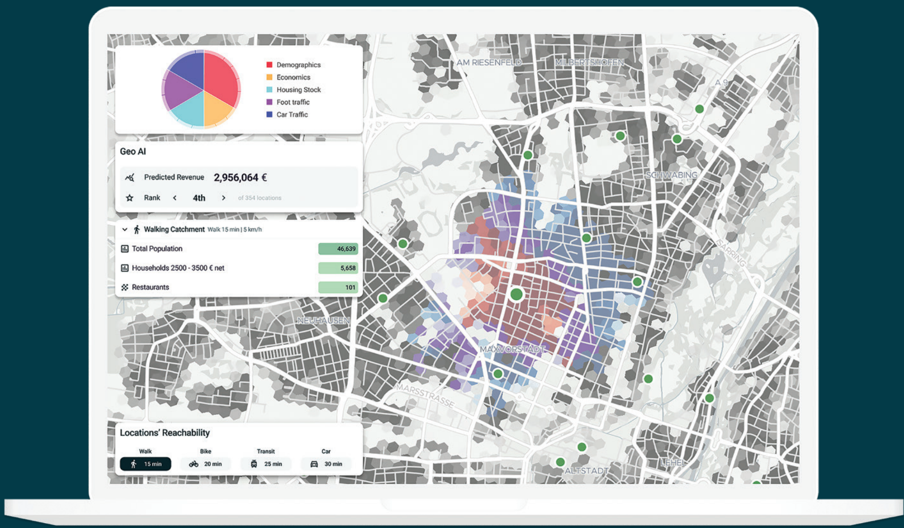
The letting figures for retail properties in the categories "grocery/drugstore" and "DIY stores" remain stable, although the end of the year suggests a decline in rental activity. The top 10 tenants (for all lettings in the last 12 months) include Amazon, Edeka, REWE, Kaufland, Aldi and Rossmann.



THE MARKET IS CAUTIOUS - BUT SOME LOCATIONS ARE IN HIGH DEMAND AMONG INVESTORS

Even before the lockdown in spring 2020, the **transaction volume** in commercial real estate has dropped. Even before Corona, the Ukraine war and the energy crisis, several economic policy factors caused uncertainty and restraint on the real estate markets. The uncertainty is likely to be slightly greater today, putting investors and sellers on hold. Nevertheless, the restraint in retail real estate is not as noticeable as it is in the transaction market as a whole. In particular, locations close to retail parks are in demand among investors, while interest in shopping centres is clearly declining.

DATA- AND AI-BASED LOCATION PLANNING



Understand the patterns of success and failure. Make better and faster location decisions.

Precise Calculations

Get forecasts that achieve up to 80-90 % accuracy

Fast results

Receive forecasts within seconds for any address

Secure

Process and store your data according to highest EU standards

Unlimited KPI Predictions

Make sales projections like revenue and guest count for any address without additional costs

Success Driver Insights

Uncover the location factors determining the performance of your branch network

Geo Twins

Define benchmarks and compare locations to your best stores to replicate success

What-If Analysis

Calculate impact and anticipate changes of sales area, closings or openings of new locations

White Spot Analysis

Identify growth oppportunities, quantify market potential and help Franchisees to find best territories

Network Consolidation

Find over capacities within your network and optimize site and service distribution

DATA-BASED LOCATION PLANNING

Whether fashion retailers, grocery shops, restaurants or ghost kitchens - every location decision starts with a market analysis. Where is my target group? Which factors make my locations successful, which ones might hinder my success? Where do I still have growth potential? To answer these key questions, two components are needed: Data and the definition of a catchment area.

BUILDING THE RIGHT DATA BASE

Reliable and up-to-date data forms the basis of any meaningful location analysis. The most important data sources here include demographic and socio-economic factors, movement data such as pedestrian frequencies or car traffic, frequency drivers (points of interest, shop clusters) and the locations of competitors. In the case of target group data, in addition to socio-demographic criteria, emotional criteria increasingly play a role in purchasing decisions as they are considered, for example, in the consumer clusters of the Limbic© Types.

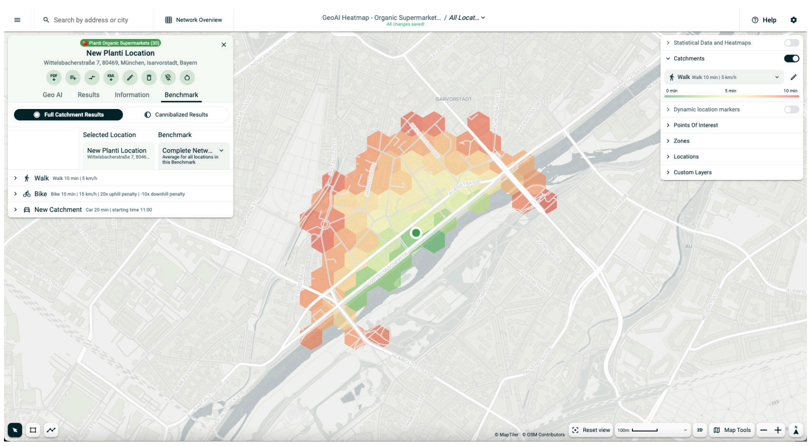
Ideally, data for all potential locations is accessible from uniform data sources and enables uniform reporting across different regional areas. In this way, expansion managers in leading positions can objectively check the offers of regional expansion managers and compare them on a uniform basis.

Ideally, the data for all addresses to be analysed is available from uniform sources and on comparable levels (for example, on a small-scale hexagon grid), as this is the only way to achieve standardised reporting for all regional expansion areas. Especially in large expansion teams, both the decision-maker and the location analyst thus could objectively examine potential locations for all areas and to evaluate them on a consistent basis.

> *"Data de-emotionalises the analysis and make locations objectively comparable."*
>
> **Felix Muxel**
> *Member of the Executive Board at Gruppe Nymphenburg*

Targomo has already integrated 450+ data sets for 26 countries on its platform TargomoLOOP (as of December 2022), which are available to users for in-depth analyses. In addition, customer-specific information such as competitors' locations is added depending on the use case. Thus, location analyses can be carried out on a consistent basis.

Furthermore, TargomoLOOP offers the possibility to add customer-specific internal data such as shop size, assortment information or sales figures. Such store-related data also opens up the possibility of determining success factors and deriving revenue predictions, as you will learn in the Geo AI chapter.



The site is located on a river, which affects the shape and size of the catchment area. Only analyses based on actual travel time represent a realistic view. (Image: Targomo).

DEFINE CATCHMENT AREAS BASED ON TRAVEL TIMES

Many expansion experts define both a macro and a micro level for catchment areas. The macro level includes the main audience and, depending on the segment and target group, can range from a few minutes by bike for fitness studios to half an hour to a full hour by car for large furniture chains. The micro level, on the other hand, shows what can serve as a frequency driver in the immediate environment, usually based on short walking distance. In both cases, it is crucial that the catchment areas are determined based on actual travel time and not radius. This is because a simple radius analysis neglects obstacles such as rivers or motorways and includes areas that are actually difficult to reach.

DYNAMIC ANALYSIS

How often, in what depth and by whom location analytics are carried out varies. They range from companies with large branch networks with their own GIS systems that keep entire data science teams busy, to outsourcing to management consultancies, maintaining sprawling Excel spreadsheets. When selecting suitable means and tools, three criteria in particular should be taken into consideration: Resource requirements, speed and independence.

1. Resource expenditure: How many employees - especially specialists - does the analysis tie up? What costs are incurred and on what basis are the costs calculated? If you have to pay separately for each property offer and address entered, you will inevitably have to limit the number of analyses and make a strict pre-selection.

2. Speed: How long do you have to wait for the analysis result? If there are days or even weeks between the property offer and the analysis result, the offer may no longer be available. On the other hand, if you are quick, you will have an advantage over the competition for the best location.

3. Independence: Is the analysis linked to individual persons or skills? Is the commissioning of external market participants necessary? The narrower and more specialised the circle of users and the further away the analyses are carried out, the greater the dependency becomes.

Platforms like TargomoLOOP have an intuitive user interface and deliver results in a very short time. They offer the possibility to carry out analyses in-house and in a resource-saving way, as every potential user can operate the tool after a short onboarding. Once the analysis platform is set up, an unlimited number of sites can be analysed without incurring additional costs. This allows location experts to run through different scenarios and significantly accelerate decision-making processes.

DETECTING NETWORK EFFECTS

Meaningful analyses of individual locations and their catchment areas are undoubtedly the basis for data-driven location decisions, but one important aspect is missing: How exactly do other shops and competitors in the vicinity have an impact? How do the shops influence each other? Answers are provided by analysing the network effects.

What is Retail Agglomeration

A group of retail stores in close proximity (shop cluster), which can cooperate and compete with each other simultaneously and make an area more appealing to customers.

COMPETITION VS. AGGLOMERATION

Retail activities are mostly concentrated in agglomerations, which can be an advantage or disadvantage for the individual shop. On the one hand, proximity to a direct competitor can lead to stronger price and customer competition and thus to revenue losses. On the other hand, a retail agglomeration usually increases the overall attractiveness of an area, which in turn has a positive effect on customer inflow. But which effect prevails, the competition effect or the agglomeration effect? That depends on both the type of business and the type of agglomeration and can be found out in individual analyses. These should also take into account whether certain types of shop clusters have a positive effect on turnover. For example, in a “success driver” analysis for a furniture retailer, Targomo was able to prove that price was the most important cluster characteristic for its shops. So the brand particularly benefited from having many high-priced shops nearby. Against this background, the furniture retailer was given additional criteria when looking for a profitable new location.

RISK FACTOR CANNIBALISATION

Networks with high branch density face a risk that new locations have a negative impact on the turnover of existing branches. The new branch takes customers away from an existing one, also known as the cannibalisation effect.

In the case of nationwide expansion, many companies also consider cannibalisation a ‘necessary evil’ and factor it into their calculations. But how is it possible to make reliable forecasts about the extent to which a new location will draw customers away from an existing branch?

RECOGNISING AND ASSESSING CANNIBALISATION

Cannibalisation in brick-and-mortar businesses can be seen as overlapping catchment areas. When calculating how the existing demand within overlapping catchment areas is distributed among the shops, the gravity model has proven to be particularly meaningful. The gravity concept assumes that a high attractiveness of the shop (high mass) and short distance to the customer leads to strong attraction, or in other words: The more attractive and closer the shop is, the more customers and turnover you can expect.

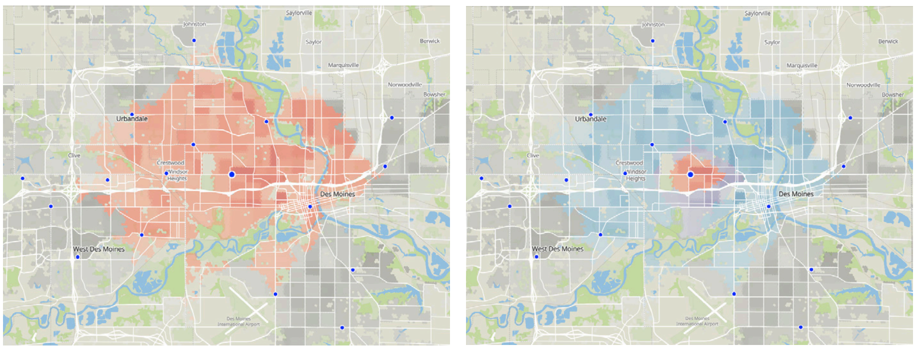
CASE EXAMPLES:

Veganz Retail GmbH filed for insolvency in 2017, even though the vegan food business is booming.
Veganz Retail GmbH manages shops outside Berlin and reported the closures of shops in Munich and Frankfurt. When dm and Edeka also offered the animal-free products, sales in the Veganz shops dropped. The wholesale business had thus cannibalised the branch business. Veganz then filed for insolvency in self-administration and converted the branches into flagship shops

(Source: „Veganz kannibalisiert sich“, in: taz, 23.1.2017)

Starbucks curbs its expansion in 2008 and closes locations.
The coffee chain recorded ever slower profit growth: with around 14,000 shops worldwide, sales rose by 17.5 per cent, while profits increased by only 1.5 per cent. As a result, CEO Howard Schultz decided to reduce the target of new openings from 3,500 to 3,000 and to close 100 shops. According to his own statements, the closures were intended to prevent the mutual cannibalisation of the shops.

(Source:„Starbucks öffnet weniger neue Läden“, in: FAZ, 31.1.2008)



Comparison of locations without cannibalisation (left) and with (right). Customers in the blue areas are attracted to other shops, the purple area is undecided. (Image: Targomo)

The analysis breaks down how high the loss of customers can be in the individual target group segments (Image:Targomo)

GEO AI: REVENUE PREDICTION & SUCCESS DRIVERS

In order to find out whether an investment in a new opening or a re-location is worthwhile, sales predictions are essential. Typically, they are only carried out in the detailed analysis for a handful of locations at the end of the decision-making process. The reason lies in the high time and resource expenditure that the forecasts usually take up - whether they are prepared by the internal specialists or external service providers who invoice each analysed address separately.

But what if you could create sales forecasts at the push of a button for every possible address in the sales territory without incurring separate costs for each address? What if every team member could do it without the need for specialised knowledge? That is exactly what Geo AI makes possible.

SCALABLE FORECASTS THROUGH AI-BASED PREDICTION MODELS

AI-based forecasting models combine machine learning and geoalgorithms with environmental, store and competitive data. In countless iterations, data from the existing network of locations is used to learn a company-specific model that identifies the combination of variables that best explains the turnover of each location.

This allows to answer complex questions such as: What makes my business successful? How many guests will come to my restaurant? What turnover can I expect from a new opening? Where should I expand to next?

With the help of a trained prediction model, these questions can be answered in a fraction of the usual time and effort, for any location within the analysis area.

EXCURSUS

**Gravitational Model:
High attractiveness of a business leads to strong demand.**

Gravitational models play an important role in the calculations of cannibalisation effects, forecasts and turnover potential. Gravity models are established economic models that use the principle of gravity (force of attraction).

The model can be used to calculate the probability of certain demographic groups coming to a location and the probability of a location being able to attract the turnover potential of a region. The models assume that the gravitational pull is dependent on the attractiveness of the shop and the distance to the customer, while also taking into account other competing locations and their gravitational pull.

SALES FORECASTS: HOW GOOD IS A NEW LOCATION FOR MY BRAND?

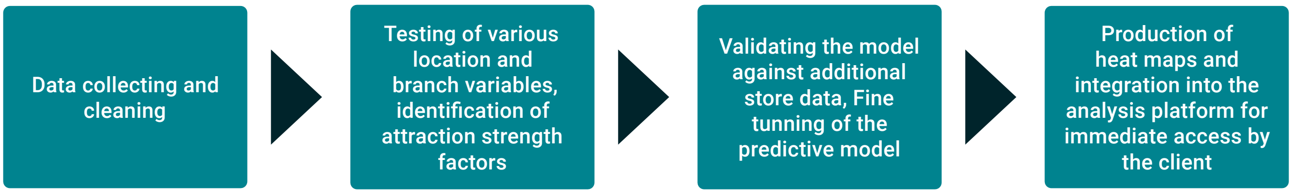
Targomo creates individual prediction models - Geo AI models - that are tailored to the required key performance indicators (KPIs) of a brand. These can be turnover, but also restaurant visitors, members or any other sales figures. To do this, the model must be 'fed' with company data on the individual shops, in particular the KPI values for all shops and other location-related data that provide information on various shop characteristics. Once the model is successfully trained, it can calculate the desired KPIs for every possible address in the sales territory within seconds.

"Geo AI is future-oriented. Once the model is learned, users can run forecasts for any number of locations at no additional cost."

David Redlich
Head of API Services & Data at Targomo

4 STEPS TO A GEO AI PREDICTION MODEL

The development of an individual Geo AI model usually takes between one and five months. At the beginning of a project, a considerable amount of time is spent on collecting, completing and cleaning the data. This step is crucial to guarantee a high quality of the database, because only this can guarantee reliable results.



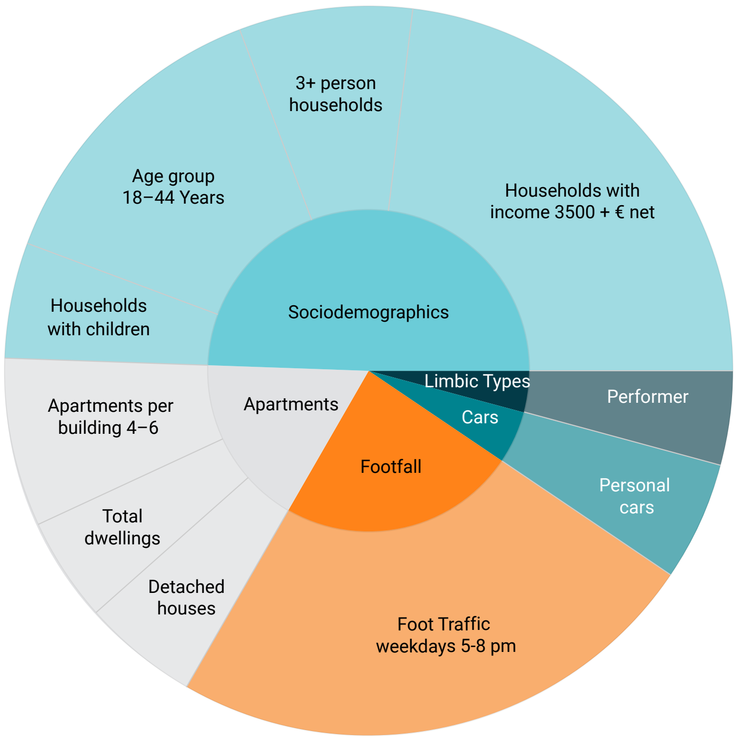
SUCCESS DRIVERS: WHAT MAKES A LOCATION ATTRACTIVE FOR ME?

The basis for the development of a prediction model is the success driver analysis. It finds out which environmental, branch and competitive factors are decisive for turnover and also calculates the extent to which they are involved. It shows how important each individual location factor is for branch turnover and thus facilitates the optimal choice of location.

EXAMPLE: SUCCESS DRIVERS OF A HOUSEHOLD SUPPLY STORE

Environmental success factors

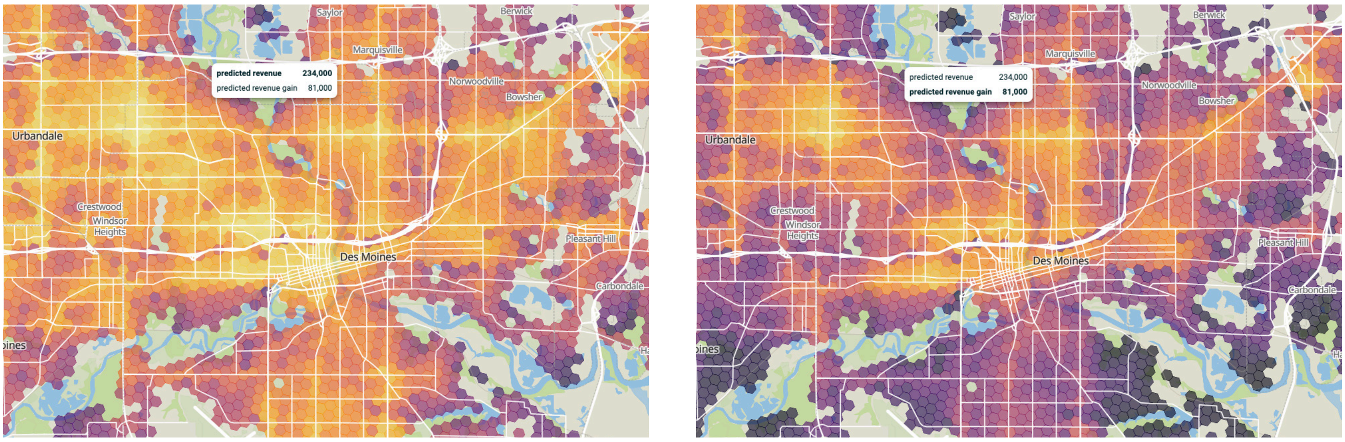
- **Sociodemographocs (49,4 %)**
  - Households with income 3500+ € ne (22,8 %)
  - Age group 18–44 years (14,1 %)
  - 3+ person households (7,9 %)
  - Households with children (4,6 %)
- **Foot Traffic weekdays 5-8 pm (17,4 %)**
- **Apartments (23,7 %)**
  - Apartments per buildings 4–6 (13,7 %)
  - Total dwellings (4,9 %)
  - Detached Houses (5,1 %)
- **Personal cars (5,3 %)**
- **Limbic Types: Performer (4,1 %)**



Branch Characteristics

In addition, the following branch-specific criteria also have a positive effect on sales at the individual locations (not shown in the diagram):

Sales area, Parking space options, Opening hours



Heat maps show at a glance in which areas expansion is promising. It is important to record two values: The predicted total turnover and the 'revenue gain' adjusted for cannibalisation. (Image: Targomo).

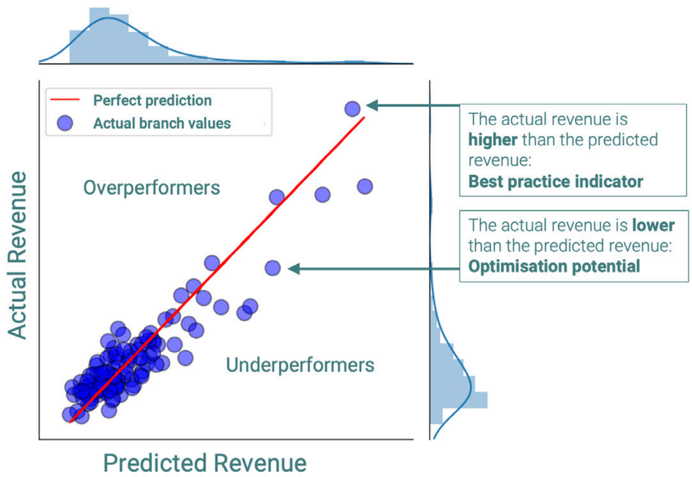
WHERE CAN I FIND UNTAPPED SALES POTENTIAL FOR SUCCESSFUL EXPANSION?

The Geo AI model can also answer the question of which areas still have sales potential for successful expansion. To do this, it treats each cell on a map as if a new branch could be established there and calculates the relevant sales KPIs for it. The cells are colour-coded in heatmaps in such a way that the areas with a high sales potential catch the eye at a glance.

For a branch network, however, it is not only important how much turnover a single location would make in isolation. This value does not consider possible cannibalisation and consequently ignores the fact that the turnover of a new location could be at the expense of an existing location. Therefore, in addition to the 'Predicted Revenue', the 'Revenue Gain' is particularly relevant. This adjusted value shows what proportion of the turnover is really newly generated and not deducted from other existing branches.

OPTIMISE BRANCH NETWORKS USING GEO AI ANALYSES

Geo AI analyses forecasts usually achieve an accuracy of between 80 and 90 percent. But how can the remaining 10-20 percent be explained? Not all revenue can be attributed to location factors. There are other factors that have an impact on revenue or guest numbers and cannot be included in the modelling. These can be, for example, temporary construction sites or closures due to renovations, the quality of local management, local marketing campaigns or other special features.



A so-called 'scatterplot' shows how branches perform in terms of their location potential. (Image: Targomo)

Scatterplot graphs compare forecast and actual sales for each shop. The further a point is from the centre line, the greater the difference between reality and forecast. These 'outliers' provide revealing insights into which factors beyond the identified success drivers are driving up turnover or where there is potential for optimisation.

> ***"For many of our clients, the over- and under-performers from the Geo AI analysis are as insightful as the model itself. They recognise which factors beyond location drive sales and can apply these characteristics to other shops."***

Henning Hollburg
Founder and Managing Director of Targomo

USER STORIES

MCDONALD'S: **ON EXPANSION COURSE WITH THE RIGHT DRIVE**

McDonald's Germany is constantly looking for locations with outstanding guest and turnover potential for the development of its business and that of its franchisees. However, finding the best locations for new restaurants of the burger chain from a plethora of offers is not easy. Since branch network expansion is associated with high costs, location decisions have to be spot on, otherwise mistakes quickly become very expensive.

"Today, we can say quite precisely on the basis of data how much turnover and how many guests we expect to have at a location," explains Andreas Weber, Head of Real Estate at McDonald's Germany. Since the beginning of 2021, McDonald's has been working with the Targomo analysis platform. This calculates the guest potential for locations based on demographic data and the frequency at typical mealtimes as well as the analysis of the travel times that people take to get to a McDonald's restaurant.

In the forecast for each new location, parallels are also drawn with the corresponding values of the existing restaurants in order to achieve excellent forecast quality. For this purpose, the self-learning analysis tool of the Berlin start-up was trained with the data of the approximately 1,450 existing German restaurants of the quick-service franchiser. McDonald's can thus forecast at the push of a button how successful the business will be at potential new locations.

„Targomo generates for us meaningful forecasts for potential restaurants immediately."

For McDonald's expansion team, it is of vital importance to move forward quickly with the evaluation of the guest and turnover potential of a multitude of location offers. Preliminary checks should not cost a lot of time and money, especially as the real estate managers of the burger brand have to continually evaluate numerous real estate and property offers.

A large number of offers that are made to McDonald's are disregarded because neither the available space nor the surrounding buildings are suitable. Preference is given to offers at high-frequency locations for automobile traffic, which are suitable for drive-in restaurants. However, outstanding city centre locations are also interesting for the burger specialist. "Targomo generates for us meaningful forecasts for potential restaurants immediately. Based on the results, we filter out the locations that we pursue. This is a very comfortable situation for us," Weber is pleased to say. "Only when the achievable turnover potential has been clarified do we take care of questions such as buildability, soil conditions or traffic access," he adds.

McDonald's regularly checks on site whether also the micro factors at promising locations are suitable. Each restaurant should be excellently connected and easily accessible by car, on foot or by bicycle. There should also be space for sufficient parking on the property. For the quick-service restaurant operator, visibility from the main road is very important. If this is given, the restaurant may also be approachable from a side street. "Impulse customers are very important for our business. They definitely have to see us in time before they have driven past the restaurant. This is especially true for our motorway locations" explains the expansion leader.

As a result of intense competition for scarcely available space attractive locations, it is vital for McDonald's to rapidly obtain meaningful, data-based forecasts. This not only influences prices, but also requires quick action. McDonald's can convince landlords through continuity and reliability as a secure, long-term business partner. "But we are also competing for suitable locations with new providers

Photo: McDonald's

such as electric charging parks for electromobility. If you want to get the contract, you should quickly come up with an offer that is in line with the market," explains Andreas Weber.

The question of how well Targomo's forecasting tool works for McDonald's could be shown in the reality check: The first burger restaurant planned on the basis of the Berlin specialist's forecasts opened a few weeks ago. "The sales from the first weeks in live operation look very promising," Andreas Weber reports. "However, we always look at the development of a new restaurant for a full year to get valid figures. Only then can we see how accurately a system works by comparing the actual data with the forecasts" and adds: "From what I can already see today, I am very optimistic".

McDonald's also uses the white spot analysis of Targomo's forecasting platform for its expansion planning, which highlights potential in areas that are not being reached, or are being inadequately reached, by existing locations. With this view, the restaurant chain owner identifies the gaps in its restaurant network and tries to close them. "Targomo's white spot analysis forms an important basis for our expansion work. We consistently look for new locations in these areas and analyse very closely whether what can be derived from the data can also be implemented in practice," Weber explains.

„Targomo's white spot analysis forms an important basis for our expansion work."

100 percent of the review and decision-making processes for locations are carried out by McDonald's as a company, right up to the contractual securing of the location. In most cases, the restaurant is then leased to franchise partners, but in individual cases it is also operated as a company restaurant. Regardless of the operator question, sustainable forecast data form the basis of all location decisions. "Working with Targomo pays off for us", explains Andreas Weber and adds "I particularly appreciate Targomo's intuitive user interface, which makes our daily work much easier".

Interview partner: Andreas Weber
Head of Real Estate at McDonald's Germany

"Working with Targomo pays off for us. I particularly appreciate Targomo's intuitive user interface, which makes our daily work much easier"."

RSG GROUP

DEPLOYMENT OF THE TARGOMO'S ANALYTICS PLATFORM AT RSG GROUP

With brands such as McFit, John Reed and High5, RSG Group is the leading operator of gyms in Europe. Through the acquisition of Gold's Gym in the United States, RSG Group even became the global number one in its industrysegment in 2020, according to its own figures.

This strong market position helps RSG Group to drive expansion in a focused manner: After all, a company that has been on the market for 25 years, operates around 1,000 studios worldwide and - according to Deloitte estimations - has over 1.3 million members in Germany alone, holds a huge amount of data alongside tried-and-tested formulas for making the most of it. In combination with external data such as competition and demographics, RSG Group is able to forecast how many members it will gain with which studio brand at a new location.

Since 2021, RSG Group has relied on TargomoLOOP to distil decision-making insights from its rich data. "With the platform, we can create rankings and comparisons of potential future locations much faster," says Jörg Fockenberg, who heads RSG Group's strategic expansion worldwide. Previously, the group had worked with traditional GIS systems, but it took much longer to get results. "With Targomo we get the evaluation at the push of a button", explains Fockenberg.

Heat maps help Jörg Fockenberg's team to find areas with untapped potential. For the heat maps, Targomo's analytics experts used Geo AI to calculate forecasts for every inhabited place in Germany in a high-resolution grid. When RSG's site managers click on a location on the heat map, they immediately see the potential at that location. They can switch between two views: with or without cannibalisation effects.

"With the platform, we can create rankings and comparisons of potential future locations much faster."

"Things have improved a lot for us thanks to Targomo," confirms Jörg Fockenberg. The platform allows him to precisely map the specific requirements of his industry and his company. Gym operators, unlike shopping centre or supermarket operators, have to identify very granular catchment areas. "We think in terms of 5-, 10- and 15-minute drive areas around a location. That's where a lot of our potential is," explains the expansion director.

Another big advantage, he says, is that TargomoLOOP provides different areas of the company with the same information based on high, trustworthy data quality, allowing for a shared view of the basis for decision-making. "We from the global strategic expansion work with the platform as well as the country expansions and marketing," explains Fockenberg: "For the latter, clustered stay and movement data are of particular interest."

Jörg Fockenberg is delighted with the quality of Targomo's data and Geo AI analyses. "We can use it to create very reliable forecasts for new locations," he says. This was also possible before the deployment of Targomo, but it took considerably longer without the platform. The fact that Targomo also allows access from mobile devices also makes the work of RSG Group's expansion managers much easier.

Of course, the site visits of potential locations cannot be skipped by the data analysis - many important questions have to be clarified on site before RSG Group decides to negotiate with a landlord. McFit, for example, is characterised by the fact that the studios are open around the clock, every day of the year. Thus, the locations need independent access that can be used by members. Likewise, the question of which parking spaces are available to customers is an important criterion for the RSG Group. However, the country expansion managers only need to visit locations that are clear in advance, showing that they are suitable for getting a certain number of members.

„We from the global strategic expansion work with the platform as well as the country expansions and marketing."

On average, the RSG Group experts look at at least five locations before negotiating one with the landlord. In the end, it is usually the landlord's willingness to invest, in combination with the rent level, that decides which of the suitable locations gets the deal.

The precise analysis of the catchment area and the local competitive environment play a particularly important role in deciding on locations for the fitness studios. "The fact that real estate developers succeed in attracting high visitor frequencies does not at all mean that the location is also suitable for our studios," explains Jörg Fockenberg. After all, customers decide on a membership in a fitness studio based on the proximity to their home. Inner-city locations and shopping centres are only interesting for the RSG Group if it is also attractive for the target group to live there in the immediate vicinity. The vacancy rate and desolate retail situation in the centre of medium-sized cities do open up considerable opportunities for RSG Group - but only where they are still attractive as residential locations.

RSG Group's expansion managers also conduct a very thorough analysis of the local competitive environment. "We always have to deal with regional players and local heroes in our industry, which we scrutinise before we make a location assessment," says Jörg Fockenberg.

Interview partner: Jörg Fockenberg
Director International Expansion, RSG Group

Photo: RSG Group

BIO COMPANY: **ECO-FOOD SPECIALIST ON THE WAY TO AGILE SITE DEVELOPMENT**

Bio Company, founded in 1999, operates 66 shops in Berlin, Brandenburg, Hamburg, Dresden and Leipzig. With 59 stores, the Berlin-Brandenburg metropolitan region is the centre of the branch network and, like the north-east of Germany, is the target area for the expansion of the organic food specialist. In its targeted areas, Bio Company is constantly on the lookout for new locations with promising sales potential. For the organic chain, homogeneous expansion is important even in volatile times.

In order to be able to quickly assess the potential of new locations and create a turnover forecast, Bio Company has opted for a Proof of Value (PoV) with Targomo's location analysis platform. In a PoV, which typically takes 3-5 months, an AI model (Geo AI) is trained that identifies the brand-specific success drivers for the store network and determines in what proportion these location factors contribute to sales. Integrated into the TargomoLOOP analysis platform, the Geo AI model makes it possible to determine the turnover potential for every possible address at the push of a button.

The PoV was initiated by Carsten Diekmann, who has already worked as an expansion manager for Fressnapf, Edeka Minden-Hannover and Lidl. "We wanted to introduce a new tool in location development that learns itself and works independently of its user's bias. Targomo fulfilled this very well in our test run." In the proof of value, Diekmann was able to compare the forecasting results with the tool previously used at Bio Company. "The turnover forecast for a sample branch of Bio Company was not only five percent better with Targomo's analysis platform than the original calculation for this location, it also takes into account influences from competition, pedestrian frequency and frequency drivers in addition to the location-specific socio-demographic and socio-economic data," says the expansion manager.

Erik Rambow, who has been in charge of Bio Company's expansion since September 2022, now uses the analysis platform in his daily work. For him, data is an important basis when it comes to assessing whether a location is suitable for a new branch. But gathering the relevant data has often proved difficult in the past. "Data is often located in different places, and bringing it together takes a lot of time. The fact that the relevant data is now already integrated and can be accessed within seconds enables me to make decisions faster," says Rambow.

Photo: BIO Company

For Erik Rambow, it is important to secure the branch network and to guarantee homogeneous growth even in volatile times. Because with a regional branch network, such as the one operated by Bio Company as Berlin's market leader for organic food, branches have to be replaced when, for example, they expire due to non-renewed lease agreements. This makes it all the more important to continuously look for suitable new locations.

However, Rambow not only looks for suitable locations in the already known target areas, but also analyses new districts for their suitability. Targomo's success driver analysis helps him with this. "We now know which location factors are the same for successful existing branches and can check other districts or areas that we have not previously considered for these characteristics. If we then find locations that have the same good conditions as the bio-affinity hotspots we know about, we can identify white or grey spots and expand our location search to these areas. Knowing about the characteristics also allows me to issue more precise search requests for properties."

For each new opening, Bio Company shortlists around 20 possible locations, of which around ten remain in the running after the initial analysis. He then examines these ten locations personally and analyses the orientation, visibility and surroundings of the building, suitable loading zones and traffic loads at peak times. As an expansion expert with more than 20 years of retail and real estate experience, Erik Rambow knows that good data analyses and forecasts provide him with a good basis for decision-making, but that an on-site visit is essential.

BIO COMPANY®

Interview partner: *Erik Rambow*
Expansion Manager at Bio Company

Carsten Diekmann
Expansion Manager and Location Analyst

GUSTOSO GROUP: **RELIES ON LOCATION INTELLIGENCE FOR THE SUCCESSFUL EXPANSION OF ITS RESTAURANT CONCEPTS**

Gustoso Group, one of the fastest growing branded restaurant operators in the market, continues to expand. In order to efficiently identify the best locations for its restaurant brands Cotidiano, Ciao Bella, Ruff's Burger and Otto's Burger, the company has been relying on the technology of location intelligence specialist Targomo since the beginning of 2022. With the help of its TargomoLOOP platform, the gastronomy experts can analyse the potential of a possible new location with regard to the target groups of their different restaurant brands in the shortest possible time.

Now, the group is also working with Targomo to make the platform's whitespot analysis work for them. "In the future, we want to see which locations in a city we want to expand into are particularly suitable with a glance at the map," says Andreas Reitz, Director Development & Expansion of the Gustoso Group. The Targomo data specialists can calculate the individual sales potential of each restaurant concept in a fine-grained hexagonal grid. The results visualise in colour in which locations of a city it makes the most sense to seek out suitable sites.

Foto: Gustoso

TRAVEL TIME REDUCED BY A THIRD

Targomo is already making the work of Gustoso Group's expansion management much easier. "We can assess potential locations much more efficiently and quickly with the interactive tool and only visit locations that are interesting for us," reports Andreas Reitz: "With the solution, I can already exclude around 30 per cent of the locations on offer - and thus save considerable time and travel costs." A big advantage of the platform is that it reacts to every change in the market and thus always provides up-to-date fore-casts. "If I look at the same potential locations again after a certain time, I can see in Targomo how the situation has developed in the meantime," says Reitz.

After a short test period, the group started using TargomoLOOP in its daily work at the beginning of 2022. In addition to efficient potential analysis based on data on the competitive situation, demographics, purchasing power and pedestrian frequencies, the platform also enables the structured evaluation of points of interest. These provide information about the character and visitor magnets of an area, which

makes it easier to assess the value of pedestrian frequencies for one's own business.

The team around Andreas Reitz uses TargomoLOOP to evaluate each possible new location according to its respective potential for the different concepts of the group. For example, there are locations that prove unsuitable for the better burger player Ruff's Burger, but fit the Italian concept Ciao Bella. The different requirement profiles of the group's restaurant brands as well as the key figures of the existing locations were integrated into TargomoLOOP in such a way that the gastronomy experts can work interactively with the platform. They can thus assess the potential of locations in real time on the user interface without having to create reports first.

CONSIDERABLY MORE EFFICIENT

With Targomo, the Gustoso Group can now significantly streamline its processes. "Previously, we entered all relevant data into a huge Excel spreadsheet," Andreas Reitz reports, "but over time this became so complex that detailed analyses for each potential location became too time-consuming." With TargomoLOOP, the Gustoso Group can carry out much more detailed analyses and ensure that it only visits properties whose locations are actually economically viable for one or more of its restaurant brands. "With the platform, we can minimise existing uncertainties in location decisions," Andreas Reitz is pleased to say. Andreas Reitz particularly likes the fact that TargomoLOOP can also very accurately forecast possible cannibalisation effects of potential new locations with existing restaurants. In larger cities, he says, the risk of cannibalisation of existing restaurants in the group is already very relevant. "At the push of a button, these effects can be switched on and off for the calculation," Reitz reports. This demonstrates their relevance and makes the results of the turnover forecasts particularly transparent in a user-friendly way.

The Gustoso Group appreciates the cooperation with the Targomo team: "They are smart people who bring great competence to the table. The constructive cooperation is very valuable for us," says Reitz. In joint workshops, for example, the roles of competition and points of interest were clarified and thus the criteria for the site search were optimised. For the Gustoso Group team, Targomo is a great support in finding the best locations and thus successfully driving expansion.

GUSTOSO

Interview partner: Andreas Reitz
Director Development & Expansion at Gustoso Group

"I can already exclude around 30 per cent of the locations on offer - and thus save considerable time and travel costs."

HUUVA: **INTERNATIONAL EXPANSION WITH ACCURATE FORECASTS**

Start-up Huuva has ambitious expansion goals and is constantly looking for promising new locations for its commercial kitchens. In its Cloud Kitchens, also known as Ghost or Dark Kitchens, the Finnish company prepares dishes according to the recipes and methods of the most popular local restaurants. It brings them fresh to customers with the help of delivery services, targeting people who spend the usual meal times in gastronomically underserved city districts and residential neighbourhoods due to home office and changing living conditions.

Targomo's location analytics tool quickly provides Huuva with the relevant data to make a proper initial assessment. "For us, everything to do with location expansion starts with a good business case," says Luukas Castrén, Head of Expansion at Huuva. A location becomes interesting for the Finnish gastronomy specialist when turnover and customer potential are right, and the target area is characterised by a rather under-proportional gastronomic offer.

„When we started looking at international expansion, we basically had Targomo in place from day one."

A SOLID DATA BASIS FOR UNKNOWN EXPANSION TERRAIN

A profound assessment is all the more important for a company who is expanding into a country which it is not familiar with and has no local staff. That's why Huuva relied on the analysis results of the TargomoLOOP platform for its first location outside its home market. "When we started looking at international expansion, we basically had Targomo in place from day one," explains Luukas Castrén. "With the Berlin start-up's platform, we can narrow down the potential territories we want to deal with more intensively, much faster and at the push of a button. This is very convenient for us."

To assess a location, the restaurant specialist calculates the potential of the delivery area around the site based on travel times, demographic data and movement data at typical meal times. "Targomo is one of the most important tools we use in our expansion planning to understand socio-demographic factors as well as frequency drivers in the defined catchment area of locations," explains Luukas Castrén.

An accurate evaluation of prospects is particularly important if the Finnish start-up enters into cost- and time-intensive, country-specific approval processes for the operation of a commercial kitchen. After all, Luukas Castrén reports, it would not be uncommon to take three to six months before a Cloud Kitchen could get off the ground. It can take a particularly long time if all the applications have to be made from scratch because no comparable provider has operated the location before.

DATA ANALYTICS TO REDUCE TRAVEL COSTS

Huuva has already achieved a lot with its endeavour to grow quickly: In the region around Helsinki, the hospitality specialist has put nine Cloud Kitchens into operation within 12 months. The first international one opened at Antonplatz, Berlin in summer 2022. "We are proud of the result but see this as just the beginning. Our main focus in expansion planning is Germany, and Berlin in particular," explains Luukas Castrén, adding "Expansion in Finland is continuing as well. There the biggest bottleneck is finding qualified staff." In the near future, Huuva wants to enter a third and fourth European country, the head of expansion reveals. "There is no decision on this yet, but we are working on it," explains Luukas Castrén.

Especially when looking for locations outside the home market, TargomoLOOP also makes a positive contribution to Huuva by significantly reducing travel costs. With the Berlin start-up's platform, the gastronomy specialist identifies promising regions for new locations at the push of a button. Locations in districts with less potential are directly eliminated from the expansion planning. The Huuva team only travels to potential locations in areas with the most promising prospects and takes a close look at the micro factors on site with their own eyes.

"Targomo is one of the most important tools we use in our expansion planning to understand socio-demographic factors as well as frequency drivers in the defined. catchment area of locations."

"We look at the kind of restaurants that already exist in the area, and talk to delivery service providers," explains Luukas Castrén. He adds: "If we are lucky, it can be enough to see five to ten locations, but sometimes we have to visit 50 to 60 locations in order to find the right one."

AN EXCELLENT FORECAST IS HALF THE STORY

"When we have opened a new location, we do a reality check and look at the key benchmark figures for turnover on a weekly basis and compare them with the forecast data," explains Luukas Castrén. "The sales figures and the feedback from the customers are the most important factors for us, on which we base our activities and readjust them as needed," reveals the expansion director and adds: "With the forecasts from Targomo and our analyses on site, we have always been right on the spot so far. Motivated by customer feedback, however, we are continuously developing existing locations and adding new dishes to our menus or running specific marketing campaigns at a particular location."

Luukas Castrén doesn't want to do without using Targomo in his work anymore: "We have seen that Targomo's analytics platform can speed up the processes for us significantly," reveals the Head of Expansion. He sees clear advantages in the ease of use and the reliable forecasts of the Berlin start-up. "Targomo's platform is particularly user-friendly, and you don't need to be a data analyst to get all kinds of insights quickly," says Luukas Castrén, adding: "All Huuva team members can access the same dashboards and the same kind of catchment configurations."

huuva

Interview partner: Luukas Castrén
Head of Expansion at Huuva

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Expansion, real estate and location experts from retail and hospitality share their big challenges and how they overcome them.

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