Moving to the 'burbs is bad for business: Study reveals a surprising truth about location

September 23 2014

It's rare to see a Wal-Mart downtown. Big box stores usually set up shop in the suburbs, where rent is cheap and the consumer base is growing. So should smaller stores follow suit?

Not so fast, says Concordia University professor Tieshan Li. His recent study, published in the *Canadian Journal of Administrative Sciences*, shows that higher profits are had by retailers located furthest from where the market is expanding.

"Those results may seem counterintuitive but the decreased profits are due to the high costs associated with a moving a business to a new location," explains Li, who is a marketing professor at the John Molson School of Business. "While it may seem like a good idea to follow city folks into the suburbs, the expenses resulting from the move negate any profit those companies might expect from an increased consumer base."

Despite the worldwide trend of urban sprawl, that consumer base is increasing more slowly than one might think. "We're still seeing families heading to the suburbs. But city centres remain popular with the groups—students and professionals—that stores often want to attract. Moving away from that base in the hopes of attracting new consumers often made up of a very different demographic can also hurt profits," says Li.

For the study, Li used theoretical models to examine the effect of geographical market expansion on two similar retailers located near one another. What would happen to those retailers when the consumer base grew in certain directions? Would more people moving to a certain suburb rather than another affect the bottom line?

He found that if those retailers are located near where the market is expanding symmetrically—that is, with the consumer base moving uniformly in all directions—there is no change.

But when that expansion is asymmetrical, with the consumer base increasing more on one side than the other, profits are better for the stores that stay put than for those that chase their customers.

Those results may seem to defy logic, but as Li explains: "The apparent advantage a retailer gains from being closer to the market expansion turns out to be a disadvantage because that retailer has trouble balancing profits over time because of the steep moving costs. It's better for a business to stay in one spot and capitalize on the customer base they've already built rather than to spend extra money on a move and go after a new group of customers."

That may seem like bad news for forward-looking retailers that take a strategic view of an ever-changing market, but Li sees his study as more of a caution than an all-out warning.

"Ultimately, it's the businesses that secure good locations early on that are the ones that will make the highest profits—particularly if they buy rather than rent. The key is to analyze the market and select your location early on in the game, rather than move to follow the fickle habits of a changing consumer base."

Seems that in business, "location, location, location" really is everything.

Provided by Concordia University