

Case Study

Marketing/Operations

PETCO Improves Location Selection

950-store (and growing) PETCO Animal Supplies relies on statistics and data – not intuition – to select new sites.

by Matt Pillar

In the context of a discussion about PETCO Animal Supplies' use of GIS (geographic information systems) technology for store site selection, Shawn Hanna is quick to point out that the chairman of his company is an ace at picking winning spots at which to build. "We've historically managed a site selection committee that boasts many decades of combined experience making field-level site selection decisions," Hanna, PETCO's director of financial analysis, explains. "Our chairman is well known for being able to make quick assessments regarding the viability of a location but also has an uncanny ability to remember extensive details about specific sites." That said, the pet supplies store that has ballooned to 950 locations in recent years knew it couldn't bank on one man's incredible intuition forever.

In an effort to mitigate the risk associated with opening a new location and maximize the return on the invested capital it takes to build a store, PETCO decided to implement a GIS-based site selection solution in 2006. "We sought to improve our ability to assess the sales potential for new locations, which was born of a desire to be more risk averse with capital," says Hanna. "The investment would give us a more scientific basis to feel confident in our process." In addition to the significant construction-related capital expenditures, opening a new store often requires a long-term real estate lease. Improving the performance of sites with accurate site selection helps to minimize costly mistakes.

"We also wanted to ensure that all proposed locations were vetted by finance in order to ensure there was an independent internal assessment," says Hanna. "The time lag between site approval and a store opening can



PETCO mitigates the risk associated with opening new locations by using ESRI Business Analyst for site selection solution.

also be significant, and in a changing economy that can introduce considerable uncertainty in the selection process."

How To Choose A Site Selection Solution

While Hanna had experience with portfolio valuation of institutional real estate investments, retail site selection was new to him. Nonetheless, his department was tasked with determining the best way to offer an

independent assessment of potential new PETCO retail locations. "Our first instinct was to contact experts in the field," he says. "There are a handful of consultants out there who do this sort of work for large retailers, and their client lists are very impressive. We met with the ones that had the most experience doing site selection for specialty retailers like ourselves." These engagements enlightened Hanna as to the availability of software packages from companies like ESRI. "We looked at ESRI Business Analyst and one of its competitor's solutions. With a combination of ignorance and hubris, we thought it would be wise to attempt to replicate some of the deliverables promised by the consultants who presented here," says Hanna. "It seemed that having the tools to analyze sites would allow us to build an internal knowledge base that could also assist with analyzing other spatial problems related to merchandise planning, advertising, and more."

In the end, the combination of cost, features, user base, online developer resources, and support options led Hanna and his team to choose ESRI.

"We consider this a great success," says Hanna. "During the due diligence phase, we were able to get a number of industry benchmarks for assessing the quality of a site estimate, and this has been confirmed by folks here who worked at other retailers and knew the

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Shawn Hanna, director of financial analysis, PETCO

equivalent metrics at those companies. Utilizing these numbers, we set an internal target for the performance of our models and have exceeded those targets,” he says. While the company is private and therefore hesitant to share specific metrics, Hanna says PETCO can demonstrate that its real estate risk has been reduced. “We have successfully avoided the downside risk associated with several locations, which more than pays for our investment in the ESRI solution,” he says. And, he adds that more opportunity is on the horizon.

“We currently use the product in conjunction with

some of our company databases,” says Hanna. “To be fair, there are many levels of implementation possible with the ESRI solution, and I feel strongly that their server product and some of their Web-based solutions would be a great benefit to PETCO. I would like us to have a broader implementation, but for now we utilize the desktop solution across a number of analysts,” he says. ■

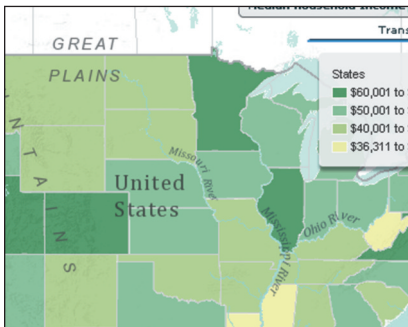
For More Information On ESRI Go To www.esri.com

Cross-Disciplinary Retail Benefits Of Geographic Information Systems

GIS (geographic information systems) is a mainstay in retailing. While the above story on PETCO highlights one of the more popular (and obvious) applications for the technology, many retailers are using GIS to assist with initiatives in a variety of departments.

GIS solutions provider ESRI is currently engaged with retailers that are using its systems to support the following activities:

- Customer analytics
- Market analysis
- Site selection and evaluation
- Territory management
- Logistics and supply chain activity
- Asset and facility management



ESRI GIS solutions include interactive mapping functionality that helps users drill down on hundreds of points of demographic data.

Combining your business information with location data is a smart way to get to know your customers better, analyze your marketplace, and capitalize on the opportunities that your analysis helps you identify.

Many aspects of retail (including where your customers live, work, and travel; where your competition is; how your merchandise moves through the supply chain; and where your next store(s) should be located) are defined by place. Your understanding of this information can result in merchandising mix improvement, better management of your portfolios and assets, better promotions execution, and more.



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