

Feasibility Analysis IV: Preparing the Marketing Package

Objective: The goal of this assignment is to reevaluate the marketing strategy for the luxury Bayrock condo hotel project located at the southeast corner of 26th Street and Camelback Road. The actual address is 2621 E. Camelback Road, Phoenix, AZ 85016. In case 2, we already looked at the site's DNA - demographic neighborhood analysis. However, the marketing strategy should be a dynamic process involving continuous updating to make sure that the project provides a suitable "fit" for the surrounding neighborhood.

We will assume that both business travelers and leisure travelers are the intended customers (a.k.a. tenants¹). The location requirements for these travelers are not necessarily similar. According to <http://www.uwex.edu/CES/cced/downtowns/dma/15.cfm>, size, stability and diversity of major local employers as well as growth in local employment and plans for future business development are important drivers for the business travelers market. In contrast, hotels catering to leisure travelers rely on local attractions including natural or scenic sites, recreational activities, cultural or historic sites, special events and shopping and entertainment to bring in customers. It is also important that the location be visible, accessible, convenient in terms of proximity to generators of room night demand and attractive e.g. aesthetics of the area, noise, and safety since this impacts a hotel's ability to draw customers. In analyzing a site's accessibility, high traffic volume, the transportation network serving the market area and surrounding land uses are important considerations.

Assignment: This is an individual project. Please note that this analysis should not necessarily be limited to a condo or hotel theme since we are trying to find opportunities to exploit.

1. Traffic Count: One important dimension of a hotel is that it is located in an area with a high traffic volume. Using the "Traffic Count" worksheet, discuss whether Camelback Road is a heavily trafficked road relative to the other collection streets given. What collection streets have the most traffic? You will need to sort the data by collection street using the **Data -> Sort ...** command in Excel. Based on the traffic count, where would you expect to see a clustering of hotels? Prepare a map showing existing hotels relative to these streets. There are several websites that you can use to generate the location of existing hotels by zip code. Discuss the location of existing hotels relative to these streets e.g., do hotels tend to locate on streets with heavy traffic?

Business Travelers

2. Convention space: One draw for hotels catering to business travelers is its proximity to convention facilities. Using the information provided in the "AZ Hotel Meeting Space²" worksheet, discuss the location of our proposed hotel relative to the location of the major meeting space facilities. You might want to add the address for the major meeting facilities and then use a mapping website such as mapquest.com to calculate the distance from the proposed hotel to the meeting facilities.

¹Recall that hotels have the shortest term leases – a room for a night.

²http://www.tempe.gov/business/Development_Report/pdf/ConferenceSpaceAssessmentReport.pdf

3. Size and diversity of major local employers: Using the “Employment (1 Mile)” worksheet, compare and contrast how our subject zip code (85016) compares to the competing zip codes in terms of business establishments, number of employees, and employees per type of business establishment within a one mile area. The location associated with the one mile area for a particular zip code is as follows:

Zip Code	Measured from
85016	Biltmore Fashion Park at 24 th and Camelback
85253	Villas at Montelucia (formerly La Posada)
85251	Phoenician Hotel
85018	Royal Palms Hotel

Repeat this for a 5 mile radius using the “Employment (5 Mile)” worksheet. For business travelers, you should first focus on the Financial, Insurance, and Real Estate sector as well as establishments which support this sector - Hotels & Lodging and Business Services. Also include in your discussion Eating & Drinking places, General Merchandise Stores, Apparel & Accessories stores, and Motion Picture & Amusement. Since the size and diversity of this latter group of establishments appeal not only to business travelers but also to leisure travelers, you should probably put this discussion in the general section dealing with our planned hotel’s ability to draw customers in general relative to competing hotels.

Leisure Travelers:

4. Distance to Arizona attractions: Using the “Top AZ Attractions” worksheet, calculate the distance and/or driving time from the proposed hotel to the top attractions in the Phoenix area. Note that not all attractions are in the Phoenix area such as the Grand Canyon and the London Bridge. Is our proposed site within reasonable driving times of the major attractions in the Phoenix area? Please discuss.

5. Leisure activities: Given the information provided in the worksheet labeled “Leisure Travelers (Activities)”, discuss the extent to which distance to Phoenix attractions is important for non-resident and resident leisure travelers. Are there other activities that these travelers tend to place more emphasis on? Prepare a series of maps showing restaurants, entertainment (movie theaters), and shopping (one map per activity) respectively around our proposed site. Next, repeat this process for the competing luxury hotels that are in contiguous zip codes to 85016: 85253 (Sanctuary, Camelback Inn, Villas at Montelucia (under construction), Ritz-Carlton (planned)), 85018 (Royal Palms, Grace Communities (planned)), and 85251 (Phoenician, W Hotel, Waterview at Scottsdale). CoStar, maps.google.com and mapquest.com are among the sources you can use to generate these maps. Discuss how our site compares to the “competition” with respect to these 3 dimensions. There are also websites such as <http://www.switchboard.com/> (Note: use the Find a Business tab and click on Choose a Category then enter the city, state, and relevant zip code) that will give you the count of the number of different activities e.g., restaurants in a given zip code. For your convenience, I have already set up a worksheet labeled “2. Leisure Activities Matrix” which is similar to the following table for your use.

Activity	85016	85253	85018	85251
4 Star Restaurants				
Fast Food Restaurants				
Bars				
Amusement Places				
Movie Theaters				
Museums				
Night Clubs				
Shopping Centers and Malls				
Golf Courses - Public				
Tourist Attractions				
Historical Places				

In addition to discussing the amount of activities that each zip code has to offer, include a discussion of some of the more noted things to see and do in each zip code such as the experience of shopping and dining in old town Scottsdale.

Void Analysis: Detecting opportunities in a neighborhood.

6. Prepare a “**void analysis**” to determine what categories are missing (if any) for the zip code 85016 that our proposed condo hotel is located in. We will use Central Place Theory as the basis in predicting the number of stores (employees) of a given type that a zip code neighborhood should have.

What is Central Place Theory?

Central Place Theory: Walter Christaller developed the Central Place theory to explain the size and spacing of neighborhoods (cities) that specialize in selling goods and services. The theory consists of two basic concepts:

- **Threshold:** is the minimum market (population or income) needed to bring about the selling of a particular good or service. For example, a neighborhood must reach a certain population or income before a given type of store will move into a neighborhood.
- **Range:** the average maximum distance people will travel to purchase goods and services

The result of these consumer preferences is that a system of retail shopping centers of various sizes will emerge. Each retail center will supply particular types of goods forming levels of hierarchy with the following generalizations:

1. The larger the neighborhoods are in size, the fewer in number they will be, i.e. there are many small neighborhoods (villages), but relatively few large neighborhoods (cities).
2. The larger the neighborhoods (settlements) grow in size e.g. population, the greater the distance between them, i.e. villages are usually found close together, while cities are spaced much further apart.
3. As a neighborhood (settlement) increases in size, the range and number of its functions will increase.

4. As a neighborhood (settlement) increases in size, the number of higher-order services will also increase, i.e. a greater degree of specialization occurs in the services.

The higher the pecking order of the goods and services (more durable, valuable and variable), the larger the range of the goods and services, the longer the distance people are willing to travel to acquire them.

Examples for low order goods and services are: newspaper stalls, groceries, bakeries and post offices. They are supported by a relatively smaller threshold population and demand. Examples for high order goods and services are: jewellery, large shopping arcades and malls. They are supported by a much larger threshold population and demand.

The application of central place theory must be tempered by the economic status of consumers in a neighborhood since consumers with higher purchasing power (economic status) are more mobile and bypass retail centers providing only lower order goods. Other factors that can influence the retail trade area include 1) Land use: industrial areas can provide little in the way of a consuming population, 2) Poor transportation accessibility: this can limit the extent of a center's market area, 3) Competition: this limits the extent of market areas in all directions. Hence zoning is important in either increasing or limiting competition; and 4) Technology: high mobility afforded by the automobile allows overlapping of market areas

Point: Purchasing power *and* population density affect the distance between retail centers and hierarchical arrangements.

To implement the Central Place Theory concept, we will use simple ratios rather than a linear regression approach. Using the “3a. Void (1 Mile)” worksheet provided, calculate the expected number of business establishments (**Expected Bus**) and the expected number of employees (**Expected Emp**). To calculate the Expected Bus column, you will need to multiply the 2006 Population Estimate for a particular zipcode by (2006 Population for Phoenix-Mesa-Scottsdale/ Number of Business Establishments for Phoenix-Mesa Scottsdale for a particular type of Business. For example, the expected number of home improvement stores for zip code 85016 is

$$\text{Pop}_{2006, \text{ZipCode } i} * \left(\frac{\text{2006 Population for PMS}}{\text{Number of Business Establishments in PMS}_{\text{Store Type } j}} \right)$$

where PMS = Phoenix-Mesa-Scottsdale.

For example, the expected number of home improvement stores for the 85016 zip code is

$$\text{Expected \#Home Improvement Stores}_{\text{Zip85016}} = 12,129 * \left(\frac{3,827,040}{690} \right) = 2$$

$$\text{Expected General Merchandise Stores}_{\text{Zip85016}} = 12,129 * \left(\frac{3,827,040}{452} \right) = 1$$

The calculation of the expected number of employees follows a similar logic process except that we replace the Number of Business Establishments in the Phoenix-Mesa-Scottsdale for store type j with Total Employees in the Phoenix-Mesa-Scottsdale for store type j.

$$\text{Expected \#Home Improvement Employees}_{\text{Zip85016}} = 12,129 * \left(\frac{3,827,040}{13,568} \right) = 43$$

$$\text{Expected General Merchandise Employees}_{\text{Zip85016}} = 12,129 * \left(\frac{3,827,040}{37,923} \right) = 120$$

Be sure to change the cell reference \$C\$xx and \$D\$xx for each store type. Next use the “3b. Void (3 Mile)” and “3c. Void (5 Mile)” worksheets and repeat the process. After you have finished this exercise, you are now in a position to see whether a void exists with respect to a particular store type. Use the following categories

Limited representation = Strong Opportunity

Moderate representation = Moderate Opportunity

Strong representation = Limited Opportunity

in doing your void analysis. In our example above, there is limited opportunity for either another Home Improvement store or General Merchandise store since according to Central Place Theory based on population alone, the population should be able to support 2 (1) stores and currently there are 5 (4) stores. While having a strong representation indicates that there are very limited, if any, opportunities for further retail to come into the area, it also suggests that travelers will have all the comforts of home.

An example of a void analysis and also a tenant matrix analysis can be found at <http://cityofpetaluma.net/edr/pdf/reportjune4.pdf> (Petaluma Leakage & Sustainable Retail Strategy Study, June 2004). Another example of void analysis is available at <http://www.downtownfrederick.org/downloads/DowntownFrederickRetailMarketAnalysis11-25.pdf>.

7. Estimating Retail Demand and Leakage/Surplus for Subject Zip Code: A problem with the preceding void analysis based on population is that it doesn't consider purchasing power or the extent to which consumers are traveling outside of their community (zip code) in order to purchase goods and services.

- a. Purchasing Potential Index: Using the “4a. Purchasing Potential Indx” worksheet template, calculate the purchasing potential index (PPI) for the various zip codes. PPI is calculated as the trade area's (zip code) per capita income divided by the U.S. per capita income.
- b. Sales per Capita: Calculate the sales per capita for Maricopa County and the United States using the template provided in the “4b. Sales per Capita” worksheet. Sales per capita is computed by dividing sales by the population. The sales column is labeled “Sales, shipments, receipts, revenue”. Observe that sales data may not be available for all NAICS industries for Maricopa County which is the reason why we also compute Sales per Capita for the U.S. as a whole. Using your results, fill in column U wherein use Sales per Capita for Maricopa County unless sales data isn't available in which case you will input the Sales per Capita for the U.S. This can be modeled in excel using the IF function. For example, in row 5, column U (cell U5) you can input =IF(H5=0,Q5,H5) which states that if there is no sales per capita for Maricopa county (H5) then use the sales per capita for the nation as a whole (Q5) otherwise use the sales per capita for Maricopa county (H5).

- c. Retail Sales per Square Foot: Calculate the midpoint sales per square foot by averaging the minimum sales per square foot and the maximum sales per square foot using the “4c. Retail Sales Per SF” worksheet
- d. Zip Code Sales per Capita: Calculate the potential sales demand for the subject zip code 85016 using the “4d. 85016 Sales Demand (5 Mile)” worksheet template. To compute the Sales per Capita for 85016, multiply the Sales per Capita that you calculated in part b. above by the Purchasing Potential Index results in part a. The intuition for this is that you are adjusting sales per person by their income since consumers in our subject zip code are richer on average relative to residents in Maricopa County (nation) as a whole. Total sales demand in zip code 85016 for a given NAICS category is calculated as ZipCode 85016 Sales per Capita * Population in ZipCode 85016. Finally, the demand in square feet is computed as Total Sales Demand in Zip Code 85016 divided by Sales per Square Foot of Gross Leasable Area (GLA).
- e. Retail Surplus or Leakage for Zip Code 85016: Using the template provided in the “4e. 85016 Gap Anly2006 (5 Mi)” worksheet, calculate whether a retail surplus or retail leakage exists for a particular Consumer Expenditure Category in zip code 85016 using your results from the “3d. 85016 Sales Demand (5 Mile)” worksheet. If the Potential Sales of a community does not match what is actually spent (Actual Sales), then business is apparently going elsewhere. This is the “surplus” or “leakage”, which is calculated by finding the difference between Potential Sales and Actual Sales.

If Actual Sales are greater than (>) Potential Sales, the community experiences a retail trade surplus.

If Actual Sales are less than (<) Potential Sales, the community experiences a retail trade leakage.

You can use an IF statement in column E to denote whether a surplus or leakage is present for a given consumer expenditure category e.g. =IF(C6>D6,"Retail Trade Surplus", "Retail Trade Leakage") .

8. Marketing: At present, no marketing for the development exists except for what is posted on Bayrock’s website (<http://www.bayrocknaturalstone.com/4.HTML>). Please discuss and prepare materials on how you would market the site including but not limited to Branding, Print, Advertising, and a 3-D model. For ideas, please visit <http://www.crestnyc.com> for a general overview. For an example of the way that Trump markets his condominium hotels, please visit <http://www.trumpsoho.com/>, <http://www.trumpintl.com/>, <http://www.trumpfortlauderdale.com/>. For an alternative to Trump’s brand of marketing, see <http://www.ritzcarlton.com/en/RealEstate/>. For an example of marketing plans for condominium hotels in Phoenix, please visit <http://www.hotelvalleyho.com/content/index.html?>, <http://www.camelbackinn.com/>, and <http://www.youtube.com/watch?v=QUjQ3R8-Tbq> to give you some ideas.