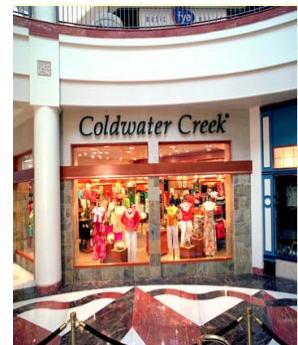


Location Analysis¹

Objective: The purpose of this case is to familiarize students with how feasibility analysts use demographic data from the Bureau of the Census, the internet, and other sources to help them determine potential market areas. The case is also designed to introduce students to some of the benefits of geographic information systems (GIS). For a good overview of trade area analysis, visit the website http://www.directionsmag.com/features.php?feature_id=5

Company: **Coldwater Creek** (Ticker: CTWR) (<http://www.coldwatercreek.com/home.aspx>). Started in January 1984 by Dennis and Ann Pence as a direct-mail catalog, Coldwater Creek² is a multi-channel national retailer of upscale, yet casual, women's clothing whose name is mentioned with the likes of J. Jill, Chico's, Land's End and Talbot's as companies successfully marketing to affluent baby boomers. In addition to women's apparel, Coldwater Creek sells jewelry, gift items and home accessories. Customers can make purchases from direct-mail order catalogs, the Internet or its retail stores. Stores are equipped with Internet kiosks that allow a customer looking for a product she saw in the catalog to order it from the Web site if it's not in stock when she visits. The company averages a two-day delivery from kiosk orders, with no shipping charge. Retail stores currently represent more than 50 percent of their total net sales (for fiscal 2004) with an additional 30 percent (20%) of sales coming from online (catalog) sales. Recently, The E-tailing Group rated Coldwater Creek among the top 10 consumer merchants³ providing the best online customer service.



The clothing is softer, unstructured, featuring unique embroidery and prints and a color spectrum ranging from neutrals to jewel tones. Comfort and versatility among pieces are key and sizes range from 4 to 26W (3X); 5-foot 6-inches tall is considered an average height. Clothing and accessories are portrayed in the catalog as if on invisible mannequins. Attention is on the merchandise. The idea is to not visually limit an item to a particular body type and thus lose a potential sale. The company has their own proprietary brands. They design and specify everything themselves, therefore their fit is more consistent to their customers and their styling is exclusive to Coldwater Creek. According to Skonk-Simmons, a former Spiegel executive who joined Coldwater Creek, Coldwater Creek customers grew up shopping in department stores and are "looking to develop a little bit more style and be a little more unique and not have that sameness you may find in a department store."



¹Copyright by Crocker H. Liu, April 19, 2005

²Ann Pence, the co-founder of Coldwater Creek chose the company's name because it evoked a northern -woods feel of a secluded, cozy spot offering escape from the tensions of life.

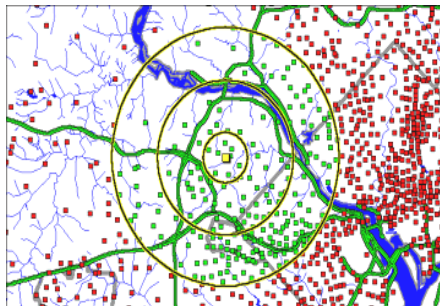
³Other companies as tops at service include apparel merchants Ann Taylor and Nordstrom; computer manufacturer/marketer Hpshopping; midrange apparel and home products merchant Lands' End and upscale colleague Neiman Marcus; pet supplies retailer PetsMart; general merchant QVC; home d?cor cataloger/retailer Restoration Hardware; and music and movies retailer Tower Records.

History⁴: The genesis of the company started when Dennis and Ann Pence, both in their 30's left their jobs⁵ in Manhattan for the wide open spaces of Sandpoint, located 53 miles south of Canada and with a population between 4,500 and 5,500. The area is home to the black bear, bald eagles, moose and elk and is surrounded by the Selkirk and Cabinet mountains. Prior to realizing their first profit in 1986, the couple had run out of money. They had to borrow money from Ann Pence's parents since they maxed out their credit cards and tapped out their bank loans. They pawned everything they owned including jewelry and clothes to help pay for the Christmas catalog mailing. In the end, success came down to finding the right product mix.

Timeline of Important Events:

- 1984 – Coldwater Creek founded as a catalog company in Sandpoint, Idaho
- 1985 – The first catalog, Northcountry, was mailed.
- 1997 – Coldwater Creek completed its initial public offering.
- 1999 – The e-commerce website was launched.
- 1999 – The first two retail stores were opened in Seattle and Kansas City.
- 2004 – Company completed a secondary offering of 5.04 million shares.

Site Selection, Store Format and Customer Profile: Coldwater Creek targets middle- and upper-income women baby boomers. The typical customer is a well educated career woman age 35-60 with a median household income in excess of \$75,000, working 50 and 60 hours a



week, with more money than time. Her children are starting to grow up, they're starting to get into late high school, or college, or even past college. Coldwater Creek is also seeing very strong demographics in terms of this woman's interest in cultural affairs, travel, gourmet cooking, with some very strong synergies there, and that basically rounds her out. To help with location enhanced lifestyle and consumer demographics, the firm uses PSYTE U.S. by MapInfo (<http://www.mapinfo.com>). PSYTE U.S. ties location to the behaviors and characteristics of the diverse

American population helping customers make more insightful decisions about market and product potential, store placement and target marketing. PSYTE U.S. enables customers to visualize, predict and analyze market potential and consumer expenditure patterns based on location. It allows for precise and profitable real estate site selection and brings target marketing to new levels of accuracy and performance.”

The first step in deciding on a location is to analyze their customer database and locate their stores among clusters of loyal Internet and catalog shoppers. At present, approximately 50 percent of the customers on their e-mail list live within 30 miles of a Coldwater Creek retail location. Typically, more than 35,000 Coldwater Creek catalog and Internet customers live within a 50-mile radius of a planned store. Coldwater Creek also requires a population of 250,000 within their 30 mile retail trade area. The firm also takes into consideration the performance of their existing stores in and around the subject region which improves their odds. New stores are located primarily in regional shopping malls and lifestyle centers located in affluent suburban areas and town centers. Lifestyle centers tend to be mixed-use developments

⁴Kathy Gurchiek, September 14, 2003, “From a trickle to a deluge; Coldwater Creek started in a closet; company now has 13 million customers; Coldwater started low but is Niagara now” The Salt Lake Tribune

⁵Ann Pence, had a career in retail advertising which included serving as copy director for Macy's California division while Dennis Pence was a former executive at Sony.

that attract a complementary group of well-known specialty retailers, including bookstores, upscale coffeehouses, gourmet grocers, home goods retailers, gourmet kitchen shops, other upscale apparel retailers and full service restaurants. According to Daniel Griesemer, senior vice president of retail and a former Gap executive, "We know she [the typical customer] likes to cook, she likes to read, she likes to entertain, so we know other brands that cater to those elements of her life ...There are several brands that would qualify and fit into this group of brands we like to be a part of because we know they have a similar customer and they add an element or dimension to her lifestyle that's consistent with our customer." Preferred covenants include Ann Taylor, Talbot's, and Williams Sonoma. Stores that they have also been known to locate near include but are not limited Barnes & Noble, Borders, Bath & Body Works, Bombay Company, Chico's, California Pizza Kitchen, Crate & Barrel, J. Jill, Pottery Barn, Restoration Hardware, Starbucks, The Sharper Image, Victoria's Secret, and Yankee Candle. They currently advertise in "lifestyle" magazines including Oprah, Better Homes & Gardens, House Beautiful, More, Country Living, Good Housekeeping and Home.

Although their stores have ranged from 7,000 to 8,000 square feet in the past, most of their newer stores are smaller. The previous store model of roughly 8,000 square feet required \$1.2 million in startup costs; the price tag for the more utilitarian format is about \$875,000 per store. The core stores average approximately 5,000 square feet⁶ and are expected to generate approximately \$500 per square foot in net sales with a payback period of 11 months and an ROI (return on investment) of 35% in year 3. A typical store employs 25 to 30 people. There are generally three full-time employees -- a manager and two assistants. The rest are part-time, as is the norm in the retail industry. Coldwater Creek is looking forward to continuing the expansion of their retail store⁷ presence across the country gaining market share through putting new stores in additional markets (this means that they are not currently looking to in-fill an existing trade area). Each store follows a merchandising model that originates at the company's virtual store. Store managers receive compact discs that illustrate where and how merchandise is displayed so there is a consistency throughout all stores.

Competitors: The primary competitors of Coldwater Creek are Ann Taylor (ANN), Chico's FAS (CHS), J. Jill Group (JILL), Spiegel (private), and Talbots (TLB).

Assignment: Download the location analysis spreadsheet from my website and use the downloaded spreadsheet to answer the following questions (all work should be done on this spreadsheet). This is an **individual** project. Please highlight your answers in **yellow**:

1. Profiling the Neighborhood Attributes of Existing Stores in NJ:

- a. Inferring the Target Customer Base for Coldwater Creek using Processed Data (5 points): Claritas (www.claritas.com) is a leading provider of geographic information systems (GIS) data. They process their data into lifestyle segments based on differing criteria⁸. Their main market segmentation approaches are entitled **PRIZM NE** and **MICROVISION Standard**. To access each segmentation approach, click on the button labeled "You are where you live"

⁶Their current store model focuses on a core store averaging 5,000 square feet although they anticipate their stores will range between approximately 4,000 to 6,000 square feet (*source*: 2005 10K).

⁷The choice to use the retail store format arose because of the realization that on an annual basis, 90 percent of women's apparel is bought in bricks and mortar stores.

⁸Claritas uses multivariate techniques such as cluster, factor, and discriminant analysis to group neighborhoods into clusters. This helps firms to better identify areas where they should locate once they have a good idea of who their customers are.



on their website. For each of the New Jersey neighborhoods where Coldwater Creek has an existing store (please refer to the worksheet labeled “CWTR Store Locations”), fill in the **PRIZM NE** and **MICROVISION Standard** characteristics associated with that neighborhood using the template “1a. CWTR CustProfile (Claritas)”. The first location is already done to provide you with an example. Please note that the number associated with each segmentation category does not necessarily have the same connotation. For example,

Number	Name	Segmentation System
2	Blue Blood Estates	PRIZM NE
2	Lap of Luxury	MICROVISION Standard

Are there any categories that are the same across all 3 neighborhoods? This provides us with a stereotype of the type of households that live in the neighborhood thus the slogan “You are where you live”.

- b. Coldwater Creek Customer Base: Claritas Lifestyle Stereotypes (5 points): Fill in the template “1b. CWTR Detailed Profile”. If there is no information on a category, leave it blank. Discuss what type of customer and neighborhood Coldwater Creek appears to be trying to capture. Hint: Look for common themes across the segmentation approaches. In marketing, this process is known as customer profiling. Here, we are trying to infer what Coldwater Creek’s target consumer market is by looking at where they choose to locate and what the characteristics of those neighborhoods are.
2. Potential Sites/ Zip Codes for New Stores (10 points): Coldwater Creek has gone on record as saying that they prefer to be located near Ann Taylor, Talbot’s, and Williams Sonoma. Using the data in the worksheet labeled “Preferred CoTenants” complete the “2. Potential CWTR Locations” worksheet using the lifestyle categories that you obtain from Claritas. How many zipcodes (towns) are potential Coldwater Creek store locations based on the imputed Claritas profiles of its inhabitants (see question 1) that satisfy both PRIZM NE’s Segments and MicroVision Standard Classifications? For purposes of this analysis, assume that the potential zip code location must have all 3 co-tenants already in that zip code.
3. Analysis of Existing Stores: Detailed Demographic Profile
 - a. Obtaining Demographic Data (5 Points): Using the radius ring data analysis option on the easidemographics website, <http://www.easidemographics.com/> fill in the worksheet labeled “3a. CWTR Stats”. Observe that we use a 10, 30, and 50 mile radius (trade areas) given that the firm’s desire that 1) approximately 50 percent of the customers on their e-mail list live within 30 miles of a Coldwater Creek retail location, and 2) more than 35,000 Coldwater Creek catalog and Internet customers live within a 50-mile radius of a planned store.
 - b. Calculating Statistics based on Demographic Data (5 points): Given your answer in the preceding question, 3a., fill in the “3b. CWTR Ratios” worksheet. You are transforming the data into percentages. For definitions of any terms, please visit the website http://www.easidemographics.com/downloads/2000_Census_Glossary.phtml.
 - c. Summary Profile of Existing Coldwater Creek Neighborhoods in NJ: (5 points) Given your answer in the preceding question, 3b, fil in the “3c. CWTR Customer Profile” worksheet. We shall use the average 10, 30, and 50 mile radius trade area statistics for Coldwater Creek’s existing stores in New Jersey to facilitate comparisons relative to the demographics of

potential zip code locations. More specifically, any location (zip code) that you recommend must meet and preferably exceed these average demographic profiles in an analogous fashion to seeing whether a data point falls within a confidence interval. Pay particular attention to the average household income and the percentage of women who are between the ages of 35 and 64 years old since Coldwater Creek targets upscale women shoppers who work in professional (white collar) occupations.

4. Use in Search of a Site: Detailed Demographic Profile of Potential Locations (10 Points): Using the 3 most promising sites based on your filled in “2. Potential CWTR Locations” worksheet for question 2b, complete the worksheets labeled “4a. Potential Locations (Stats)” and “4b. CustProfiles (Locations)”
5. How They Measure Up: Comparing Demographics of Potential Sites with the Average Demographics for Existing Stores in NJ (10 points): Using your results in question 4 above, fill in worksheets “5a. Sites at 10Mi Radius”, “5b. Sites at 30Mi Radius”, and “5c. Sites at 50Mi Radius”. Comparing the demographics of each site at various rings relative to the average demographics for existing Coldwater Creek locations in NJ should give you a sense of which site has the best potential to generate sales. Note that we do not have access to CWTR’s Internet Sales database but we can impute what the likely demographics are by using this process in conjunction with Claritas’s lifestyle segments.
6. Size of Market with respect to Potential Purchasing Power (10 points): Calculate the potential purchasing power for each of the existing Coldwater Creek stores in New Jersey using the worksheet labeled “6a. MktSize (Existing Stores)”. Next, calculate the potential purchasing power for each of the 3 potential sites in addition to the averages for the existing Coldwater Creek stores in New Jersey using the “6b. MktSize (Potential Sites)” worksheet.
7. Choosing the Best Site (10 points): Given the statistics in question 5 and 6, discuss which site in New Jersey Coldwater Creek should open their next store at. What factors do you base your decision on? Please elaborate. Remember that you need to focus on 3 trade area radiuses (10, 30, and 50 miles) e.g, which town(s) in NJ have a market size that exceeds the average NJ market size for Coldwater Creek alternatively using a 10 mile, 30 mile, or 50 mile trade area? Be sure to also discuss the demographics and the implications with respect to sales.
8. Using GIS Mapping for a Visual Perspective of the Trade Area: (5 points). Use the site analysis toolkit on the webpage <http://www.terraxsite.com/wsi/index.cfm?page=commercial> to generate trade area maps associated with your best site’s zip code. To use the mapping function, you do NOT need to fill in the street address or the city. Just type in the zip code and click the **Map It** button. These ring study maps visually display demographic information in terms of a radius in miles. It can be customized to a user-chosen radius. Another useful feature of the site is that you can obtain low, median, and high local area construction costs (courtesy of RS Means) for different building types such as retail stores in case you are interested in what it would cost to build a store in that location. Prepare a 5 mile ring map based on total population (2000 Census), per capita income, total housing units, and median housing value. Be sure to click the **update map** button each time you choose a new demographic attribute to map. Next, use the mapping website <http://www.redclaymedia.com/zipcode.php#map> to graphically display zip codes surrounding the zip code of your proposed store location. Click on zoom 4-6 for a Zip Code map and to obtain the surrounding zip codes. Zip code maps are provided by ESRI. You can simply enter a zip code without entering the city or state. Finally, using the <http://nationalatlas.gov>

website, prepare a map showing the various New Jersey counties by Economy – Personal Income (this option is located under the **People** submenu) for the Year 2000. Which counties in New Jersey are relatively wealthy? Does Coldwater Creek have either an existing store or store under development in each of these “wealthy” counties? Please discuss.

Please turn in a hard copy of your report as well as your disk. Attach all maps to the back of your report. The maps do not have to be in color. Make sure to make a backup copy of your disk. Since these reports are used for interviewing, please make the effort to make it look as if a professional had submitted this report on a consulting assignment. To view investment banking reports, you can go to the NYU Bobst Library intranet at <http://www.nyu.edu/library/bobst/vbl/> and select the Investext option. You can look at a company of your choice or simply type in Whole Foods or WFMI to access the reports.

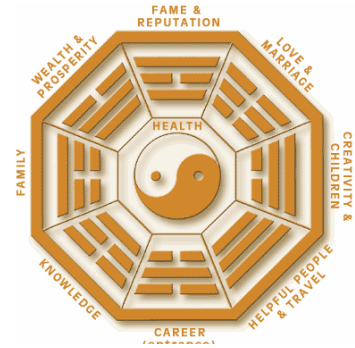
Appendix A: The Art of Feng Shui

MODERN DESIGNER PLIES ANCIENT ART OF FENG SHUI

By Edmund Mander

With its fluid lines and attractive displays Coldwater Creek is very feng shui. Is the stock room door aligned with the entrance at your store? Oh dear. Does a mirror block a key merchandise display? Oops. Is the ceiling above your cash registers low? Watch out. Retailers and mall owners answering “yes” to any of these questions are jeopardizing the health of their businesses by violating rules of design and placement that are very old — thousands of years old, in fact — warned Linda Cahan, president of Cahan & Co., a Reading, Conn.-based retail design consulting firm.

Stores as we know them might not have been around back when the principles of feng shui were established in China, but they are nevertheless very relevant to retail design, she said. So relevant, in fact, one might almost think some of the rules had been written with modern retail stores in mind. Light, good air circulation and a sense of spaciousness are fundamental feng shui principles, for instance. “In feng shui, dark spaces are ‘no nos’ because they suck in all the energy,” Cahan said. Feng shui also encourages the representation of a wide range of natural materials in the construction of interior spaces, she added, and frowns on the heavy use of modern creations such as sheet rock and nylon carpeting. “You want to try and think of a way to bring all the elements into the space,” Cahan said, suggesting wood, some rock, various metals and water. For example, Cahan speaks glowingly about a Coldwater Creek women’s apparel and housewares store she visited in Seattle which, perhaps unknowingly, is one of the most feng shui-compliant retailers she has ever visited. “They have a creek running through their store,” she said, explaining that this is a major ‘yes yes’ for feng shui. The retailer also uses natural building materials and plenty of lighting. “They do a really, really nice job.”



Coldwater Creek’s adherence to feng shui might be coincidental, according to David Gunter, the company’s spokesman. But this only goes to underline the compatibility of feng shui and the principles of good store design. The company likes to use colorful merchandise displays, and to group different items together according to theme rather than category, which is a very feng shui thing to do. “We take a decidedly more colorful approach to merchandising,” he said, explaining that the company aims to provide its shoppers “a surprise around every corner.”



Feng shui — pronounced “fung shwee” or “shway” — literally means “wind water.” Water is so important that, while every retailer cannot be expected to have creeks running through the store, it should at least be represented through another medium — a fabric that shimmers, for instance. Ceiling fans are one way to provide the feng part of the equation, she suggested. “When people walk into a place and the air is dead, they want to leave.” Similarly, feng shui dictates that a room should feel open and spacious — another fundamental principle of retail design. While ceiling heights can be varied, nowhere should they be too low, said Cahan, citing the dropped ceiling above a row of cashiers in one store that she said was responsible for some very bad-tempered staff.

Cahan taught visual merchandising at Parsons School of Design in New York City for 12 years, and wrote a book on the subject. She began studying feng shui eight years ago, and has advised a variety of retail clients, from The Mills Corp. to P.C. Richard, the electronics and appliance retailer.

Feng shui principles and good retail design coincide in a variety of other ways: Stores should use vibrant colors that will inspire shoppers, she explained. Mirrors must not obstruct displays (or they'll block "the energy" of merchandise) and neither should they randomly reflect customers, because that bounces people's energy right back at them. "As mystical as it might be on one level, because it is talking about energy, it is also extremely practical," Cahan said. The same goes for the rule about keeping the stockroom door out of sight of the main entrance. "The Chinese believe that if your front door and the back door are aligned, your money comes in the front door and goes out the back," she said. At the very least, it certainly is not desirable to draw attention to a stockroom door. "What that does is it makes your stockroom door the focal point, which is about the worst thing you can highlight," she said. If the door can't be moved, then at least put a mirror on it or hide it behind a short wall.

The feng shui approach to retail design can be taken even further. The Black Hat school of feng shui practiced in the United States and Britain breaks interiors into nine equal sections, in which the far left ninth of the floor area serves as the "wealth area," Cahan said. If this happens to be the bathroom, and it can't be put somewhere else — bathrooms are viewed as huge sources of negative energy, except, of course, by those who need to use them — add a little positive energy by placing a pot of geraniums in there, she said. If the wealth area happens to be where the stockroom is sited, it should be clean, tidy, and preferably painted red, which is good for energy. The center section is the "point of balance," and a good place for cash registers or a display of samples representing merchandise throughout the store. Department stores often make the horrendous mistake of placing their escalators in the center of the floor, which might explain a few things about the performance of department stores in recent years, Cahan said. "That may be why the department stores are not doing that fabulously, because all the energy is leaving the floors." It's better to put escalators over to one side, she suggested, where they will not only satisfy the demands of feng shui but also will not interrupt sight lines.

For all the talk of "points of balance" and "wealth areas," Cahan is anxious not to come across as some high priestess of feng shui. On the contrary, much of her advice has nothing to do with feng shui but is just plain common sense, she is quick to point out. Once, for instance, she was called in to try and figure out why one Saks Off Fifth store in The Mills Corp. chain of value megamalls was performing badly, while others were doing well. The problem had nothing to do with feng shui violations or store design violations of any kind; it turned out a lousy manager was demoralizing the staff, she said. There are even instances where feng shui and good store design conflict, in which case it is important that the latter prevails, she stressed, recalling a Hong Kong shirt maker in Westport, Conn., who faithfully followed the design prescriptions of a feng shui master, and promptly, well, lost his shirt. "Sometimes it doesn't work with the architecture of the store," said Cahan. Retailers also must take into account local customs and culture. For instance, for all the talk about energy-sapping bathrooms, retailers are nuts not to make them available to customers and noncustomers alike, she said. "In order to do feng shui, it's so important that someone has a strong retail background, otherwise they could screw up the store."

Source: <http://www.icsc.org/srch/sct/current/page30b.html>