

# CHAPTER 1

## INTRODUCTION

### **Downtowns, Darwin and Functional Paranoia**

Astute downtown leaders know that they operate in a very competitive economic environment, one which is governed in a very Darwinian survival of the fittest. And within this very competitive environment, it is probably wise to assume that, even as your downtown copes with one strong competitive challenge, another will quickly follow. For example, immediately after World War II, downtowns began to suffer from an enormous population flight to the suburbs. Soon thereafter they were challenged even more by the newly invented suburban shopping malls. Years later, street-level downtown merchants often had to deal with malls that were being built in their own downtowns. Then, downtown merchants were adversely affected by the growth of catalog shopping, off-price centers and manufacturers' outlet centers. More recently, downtown merchants have had to cope with the "900-lb. retail gorillas," that is, big discounters, category killers and big box retailers. Next, they will probably have to contend with the impacts of retailing over the Internet where shoppers, using their computers, will be able to visit and make purchases at "virtual" stores.

### **Competition and Downtown Niches**

Niche strategies are particularly well-suited for dealing with such a highly competitive situation and this book intends to improve the capabilities of downtown leaders to formulate and implement them. Most successful downtowns have been built upon the strengths of at least two or three economic niches. The more niches a downtown has, the more reasons it provides for people to visit and the greater the likelihood that their trips downtown will be multi-purpose. Being able to provide a compact and easily walkable venue for multi-purpose trips is what gives a downtown its true competitive advantage over shopping centers and malls.

Niche development and maintenance are forms of economic specialization. If downtowns must continually face some kind of 900-lb. retail gorilla, then a niche analysis can identify the parts of the bed the gorilla isn't

sleeping on — in other words, those areas in which downtowns can become dominant. A good niche analysis can also unearth existing niches and identify ways in which they can become stronger.

A niche can be defined as a special market segment. Niches can be based on many things:

- a particular group of customers, such as office workers, the elderly or Latinos
- a specific kind of goods or services, such as children's clothing, furniture and home furnishings, food-for-the-home or entertainment
- a specific shopping environment — malls have been very successful in this regard, but so have places such as Soho<sup>1</sup> in New York City and South Beach in Miami Beach

While niches are usually considered within the context of consumers and retailing, there are also industrial niches and niches in the office space market (for example, back offices, headquarters, regional and district offices, county seat functions, etc.).

In discussing niches, it is often helpful to differentiate between:

- *Potential niches* in which a market opportunity exists, but a significant number of downtown businesses have not yet emerged
- *Existing unorganized niches* in which a significant number of downtown businesses have emerged, but do not act together
- *Existing organized niches* in which a significant number of downtown businesses have emerged and have joined together on advertising, promotional and business recruitment efforts

A proper analysis can use the niche concept to identify currently unmet market demands (potential niches) of both consumers and tenant prospects for downtown commercial space. Downtown organizations can take advantage of such information to attract businesses capable of responding to these needs.

For example, in downtown White Plains, NY, an analysis showed that local retailers had not responded to a significant amount of consumer

demand for specialty foods. The niche-based retail revitalization strategy formulated for this downtown consequently recommended recruiting more specialty foods retail chains. It also recommended that the downtown organization bring these specialty food shops together to conduct cooperative advertising and joint promotions.

- Niches...**
- They are based on specialization;
  - They focus on a part of a market;
  - Are best when you can be unique, with little or no competition;
  - A successful downtown has many “niches,” so it can support multi-purpose visits.

**Figure 1.1**

- Some Examples Of Downtown Niches**
- Downtown Englewood: the home design and refurbishing center
  - Bergenline Avenue: the children’s wear and Hispanic niches
  - Rutland Center: food-for-the-home, “weddings” and entertainment niches
  - Hay-on-Wye (UK): second-hand bookstore niche

**Figure 1.2**

The ideal downtown niche not only provides growth potential, but also an opportunity for the downtown to *dominate a particular market*. This is most likely to occur in economic areas in which the downtown has a comparative competitive advantage. Such a competitive advantage can be based on a variety of factors, though proximity to specific types of customers (for example, office workers or nearby residents) is perhaps the most basic. The people who live in and around a downtown, combined with the people who work there, have an extraordinary impact on its image and economic activity simply because they visit the downtown so frequently.

Yet downtown revitalization organizations often either ignore or are quite ignorant about these crucial consumer groups and the niche markets they can support. For example, a recent study of a community in Long Island, NY found that about 62 percent of the local household expenditures for groceries were being “exported” outside of the community. It also found that about \$14.8 million of the approximately \$32 million that local residents and office workers spend on dining out was being lost to eating and drinking establishments in other communities.<sup>2</sup>

Dominance is easiest to achieve from the perspectives of both business recruitment and attracting more consumers when the downtown already has a group of shops that are currently operating in the same retail function and

are either already strong, or at least potentially capable of becoming strong. For example, there are 12 children's clothing shops that comprise an unorganized niche on Bergenline Avenue in West New York, NJ. These shops draw more shoppers to the area than any other group of shops in the area. When a downtown niche, such as this one, has many attractive shops in it, it can potentially serve as a specialized shopping center, capable of providing the consumer with a large selection of merchandise and prices within its specialized area. It becomes a true downtown destination. Consequently, such strong niches can draw customers from a fairly wide geographic area. But most often, such niches are not organized and do not engage in joint promotions, advertising or business recruitment. Consequently, they are not as strong or dominant as they could be.

All too frequently, downtown business operators do not know that such an unorganized niche even exists. For example, leaders in one New Jersey downtown did not know that they had over 35 shops in a furniture and home furnishings niche.

Sometimes, the shops in a strong existing downtown niche are located very close together. The "home lighting" district in lower Manhattan is a good example of this. Such proximity produces a "cluster" which is attractive to consumers because it makes it easy to comparison shop by strolling from store to store. Clusters have been the basis of revitalization strategies proposed for a number of downtowns, such as Danbury, CT and Boise, ID.<sup>3</sup>

By enabling merchants to organize and act in concert, a niche strategy can be used to make downtown retailers far more competitive than they would be if they acted alone. For example, downtown shops in a niche, even one of modest size, can band together in a joint advertising and promotional campaign. Together, they have the resources for a campaign that would be beyond what each could individually afford. And, together, they are able to project a more solid and robust image that instills in the consumer the impression of a broad selection of merchandise. This promotional tactic is often used by clusters of antique and crafts shops such as downtown Red Bank, NJ's jewelry niche and downtown Rutland, VT's wedding niche.

Niches can also be used as an effective business recruitment tool. As real estate brokers are fond of saying, "retailers are like sheep," and the existence of a niche demonstrates a proven level of customer traffic and expenditures. Strong existing niches can be used to recruit complementary firms. For example, the proven power of children's clothing shops to attract customer

traffic may stimulate not only the interest of other children's clothing shops, but also of retailers selling toys, computer training services for youngsters and women's clothing (after all, who buys most of the children's clothing?). In downtown Englewood, NJ, the special improvement district is busily recruiting retailers who have the merchandise and services needed to round out its home center and women's specialty clothing niches.

A niche strategy can also provide a basis for concerted action among a large number of businesses that previously had been thought of as having nothing in common. For example, in downtown Rutland the "wedding niche" has been able to bring together travel agents, florists, printers, men's and women's clothing stores, jewelers, restaurants, caterers, etc., in one advertising and promotional campaign.

### **Niches and Downtown Organizations**

The identification of potential niches and their development into a vibrant array of downtown businesses is a task well-suited for downtown districts and their management organizations. But many, if not most, downtowns have not performed the kind of quality market research that is needed to identify potential niches. Consequently, they are missing many significant growth opportunities. In some instances, this is the result of a mistaken adherence to the "if we build it they will come" dictum. In other instances, it is because downtown leaders believe that they know from their own experiences and observations all the market information they could ever possibly need. In still other instances, budgetary constraints leave no funds for market research or there are so few funds that work is done in a quick-and-dirty, "back of the envelope" manner.

Most existing downtown niches have just emerged "voluntarily," much like wild flowers in a garden, and are unorganized. Again downtown districts and their management organizations can be an important mechanism for strengthening each unorganized niche by helping its members to join together and by providing the management umbrella for niche advertising, promotions and recruitment programs. But, here again, many downtown leaders do not know how to go about "organizing" their existing niches, or they just may not understand the powerful results they can achieve by doing so.

### **Objectives**

In the chapters to follow, readers will be provided with information that will enable them to:

- Understand what niches are.
- Be familiar with some of the more important national and regional trends that shape the emergence of potential niches.
- Identify their downtowns' potential niches.
- Understand some of the constraints on the development of particular niches that affect their feasibility in each downtown.
- Identify their own existing, but unrecognized downtown niches.
- Develop niche-based consumer-oriented advertising and promotional campaigns.
- Develop niche-based business recruitment campaigns.