

Economic Roundtable

Gallup Retail Attraction & Development



Gallup's Market Analysis & Retail Strategy: A White Paper

Hilton Santa Fe Historic Plaza Hotel - January 31, 2020

Presented by Greater Gallup Economic Development Corporation
in partnership with:



BACKGROUND

Each year, the Greater Gallup Economic Development Corporation (GGEDC) hosts one or more “Economic Development Roundtables,” including events in Gallup, as well as in Santa Fe in conjunction with annual sessions of the Legislature. This year, the focus is on Retail Attraction and Development. As with other roundtables, this event is designed to promote knowledge, dialogue and forward-looking commitment on critical elements involved in economic development of the Greater Gallup region.

GGEDC considered the following as critical reasons for focusing on retail development:

- **LEAKAGE PREVENTION** – To help to stem the leakage of money and talent from the local economy. The benefits of creating high-wage jobs are compromised if the dollars from those wages immediately leave town.
- **ECONOMIC REVENUES** – To grow the retail sector to help to increase Gross Receipts Tax (GRT) revenue streams that support local government, various nonprofit organizations and community services and reduce budget shortfalls occasioned by phasing out “Hold Harmless”;
- **JOBS** – To increase the number of jobs in the Gallup region, and to strengthen the pathway from service jobs (entry level) to higher wage jobs requiring technical skills;
- **BUY & SELL LOCAL** – To increase opportunities to buy and sell local and keep dollars in circulation in the Gallup economy for as long a period as possible (the multiplier effect) before those dollars leave the community;
- **COMMUNITY QUALITY** – Improve the “quality of life” by creating more opportunities to shop and dine locally. Improving the quality of life and place helps to “sell” Gallup to industrial firms potentially interested in locating here, and to retain and build our own labor force; and
- **GROW THE PIE** – Recognize new opportunities for local businesses and entrepreneurs to tap into a larger “revenue pie” (the focus of this white paper).

Participants in the Retail Roundtable, including Gallup retailers, entrepreneurs, public officials, directors of nonprofits, retail developers, and experts, will have an opportunity to engage in dynamic small group discussions on how to shrink the leakage, how to help businesses start up, expand, and succeed, and what types of businesses would make sense to try to bring to Gallup. The event also provides an opportunity to gauge retail market challenges and opportunities, identify opportunities for new businesses, and to help develop strategies to grow the retail economy of the greater Gallup area.

Entrepreneurship research shows that the \$543 billion U.S. retail industry represents 3% of the national economy. Locally, retail is an even stronger proportion of the Gallup economy due to our “regional hub” status. The Location Quotient for Retail Trade in McKinley County in 2017 was 1.3,¹ which on face value suggests that we have a strong retail sector. However, rather than leveraging and multiplying the wealth from this activity, the Gallup market experiences significant leakage, estimated at \$97 million in 2017 (ESRI data). Clearly, a primary objective needs to be to reduce the leakage. This can be accomplished by opening stores in niches not well-represented in Gallup -- such as a clothing stores -- where locals would have the opportunity to buy certain goods and services locally.

¹ A Location Quotient (LQ) is the percentage of total local employment in a particular industry compared to the percentage of total national employment in that same industry. A LQ greater than 1.0 indicates that a particular industry employs proportionately more workers locally than it does at the national level. *Source: IEDC*

To that end, GGEDC is engaged in a process of identifying gaps in the market and generating strategies for addressing them. Retail has not previously been a GGEDC core priority, as its mission and focus is on economic-base recruitment and retention, that is, recruiting and supporting industrial employers that provide well-paid “base” jobs. In the big picture, however, the GGEDC has learned that success in a sustained program of industrial recruitment and business retention hinges on “quality of life” issues. To successfully recruit businesses, skilled personnel and their families to McKinley County, there needs to be a broader range of quality jobs, education, workforce training, housing, shopping and recreation opportunities. An important amenity workers desire is access to a variety of modern retail outlets.

Preliminary research and consultation with experts by GGEDC staff regarding Greater Gallup’s “retail challenge” revealed that there are many “players” in the local retail market, but there has not been systematic planning or coordinated action around the future of Gallup’s retail economy. GGEDC stepped up to help get the ball rolling. International Economic Development Council (IEDC) literature emphasizes the need for a lot of collaboration and input from key local partners, as well as from specialized consultants and brokers in the retail industry in order to accomplish this task.

With technical assistance by the GGEDC, the City of Gallup applied for and received a planning grant that enabled the City to hire a private consultant to conduct a retail market study. Place Dynamics, LLC, led by its principal Michael Stumpf, was hired in that capacity, and the GGEDC was called upon to convene a local stakeholder group to oversee the work. The research aims to create a win-win scenario for the City, its businesses, residents and visitors. Expanding and improving the local retail sector will improve the tax base that supports McKinley County and City of Gallup services. This will help to mitigate some of the GRT shortfall local governments are experiencing as the State phases out Hold Harmless funding it was providing to replace GRT formerly generated through grocery food sales.

It is also important to see how Gallup lines up in terms of what retailers and investors are looking for, including identification and qualification of properties most amenable for development or re-development, as well as quality-of-life amenities that are seen as critical to the attraction and retention of businesses. A critical focus is on “commercial real estate,” or those properties owned for the purpose of producing income. Many people in Gallup want to see a more vibrant downtown with minimal vacant properties. But in addition to undertaking an in-depth assessment of current market demands, determinations also need to be made regarding which of the properties could meet those demands.

SPECIAL THANKS

Since July 2019, GGEDC has hosted monthly meetings of the Retail Attraction Steering Committee that laid the foundations for this roundtable and guided completion of contracted work on the Gallup Retail Market Analysis. GGEDC hired local consultant **Jeff Kiely** to facilitate the process. We are immensely thankful for the work of the Steering Committee, which has included representatives from the **Gallup-McKinley Chamber of Commerce**, the **City of Gallup Marketing and Tourism Department**, the **Downtown Business Improvement District (BID)**, **Gallup MainStreet/Arts & Cultural District**, **gallupARTS**, the **Gallup Small Business Development Center**, and the **Northwest New Mexico Council of Governments (NWNMCOG)**.

We also extend a very special thanks to keynote speakers, **Brad DeYoung** with **Legacy Alliance Holdings** and **Michael Stumpf**, with **Place Dynamics, LLC**. The following summary by Mr. Stumpf constitutes the heart of this white paper.

GALLUP'S MARKET ANALYSIS AND RETAIL STRATEGY - SUMMARY

Gallup has a market that is often misunderstood, even by people who live in the area. The City draws its regular customers from a very large region with a population approaching 200,000 people. Adding to their numbers are another six million visitors passing through, mostly on Interstate 40. While the visitor potential is not even considered in data sources used for retail site selection, the city's market potential is further underestimated when those sources fail to account for the true income available for retail spending in the trade area. This analysis seeks to address these concerns, using mobile phone tracking to geographically define the market, quantifying visitor potential, and accurately measuring the spending power of trade area residents.

The market study is intended to support efforts to recruit new businesses, encourage startups, and suggest opportunities for existing businesses to expand. It defines the market and examines the demand for retail, dining, and lodging businesses in the City of Gallup, identifies strategies to grow the market and strengthen existing businesses, as well as attract new ones, and determines targets for attraction.

The site selection process and Gallup's market study

A primary focus of this analysis has been to attract chain retail stores and restaurants. In order to be effective, it is necessary to understand how these businesses choose where to open new establishments. That process has evolved from decisions based on often-incomplete knowledge of an area, to one that is heavily influenced by data from many sources. These include public datasets from the Census Bureau and other sources, commercial services that aggregate data from public and private sources, consumer surveys, point of sale information, online sales data, loyalty program data, mobile phone data, in-store sensors, and other tracking technology. This can be integrated to offer an unprecedented view of local markets, often to the block level. It has as much application in store design, merchandising, and marketing as it does in site selection.

Perhaps the most important take-away for local economic developers is that, not only do retail and dining chains have access to the same data available to local officials, but they also have a great deal of proprietary information not available to local officials. The challenge in carrying out an effective attraction campaign, then, is to discover gaps and provide insight only available from the community, which will cause a targeted business to take a second look.

Retail chains typically have real estate and market research staff who drive the site selection process, while higher-level executives make critical decisions concerning regions in which to expand, as well as the final call on individual sites. While countless sites are submitted by property owners, brokers, and developers, only a handful are even considered. There are five important considerations in determining if a site may be one of these:

1. Is the site in a region that has been targeted for expansion?
2. Can the site be served by the existing distribution network?
3. Does the site cannibalize existing store locations?
4. Does internal (proprietary) data support the potential for a store in the area?
5. Do the site's demographics and other attributes match those targeted by the chain?

Of these, the last is the only one that can be influenced through information provided at the local level. To do so, the local agency needs to be able to counter any information that inaccurately portrays the area, and/or provide additional information not available through traditional sources.

EXAMPLES OF INFORMATION AVAILABLE FOR SITE SELECTION

INFORMATION	AVAILABLE LOCALLY	AVAILABLE TO CHAIN	COMMENTS
Demographic and economic estimates (Census) and projections	X	X	Estimates are subject to errors in the count and in critical data such as income.
Competitor location data, other business locations	X	X	Services such as ESRI and Environics tend to omit or mistakenly include 30-40% of business locations.
Pedestrian and vehicular traffic data	X	X	Chains may collect additional information using sensors in the store or parking lot.
Customer survey data	X	X	Although local agencies can collect this data, most do not.
Chain performance data (ex., store sales, floor area, etc.)		X	Potential locations can be assessed against existing locations in similar markets.
Online and in-store chain transaction data		X	Helpful in developing customer typologies and defining customer geography.
Loyalty program data		X	Helpful in monitoring customer behavior and tailoring promotions, as well as merchandising.
Credit card data		X	Publicly-available aggregated data is very limited, offering only an index, rather than numeric data.
Internet / social media data	X	X	Some information is generally available, while more detailed metrics are available to the business.
Mobile phone tracking	X	X	Extensive information is available. However, businesses with their own mobile apps are able to collect their own, more detailed data.

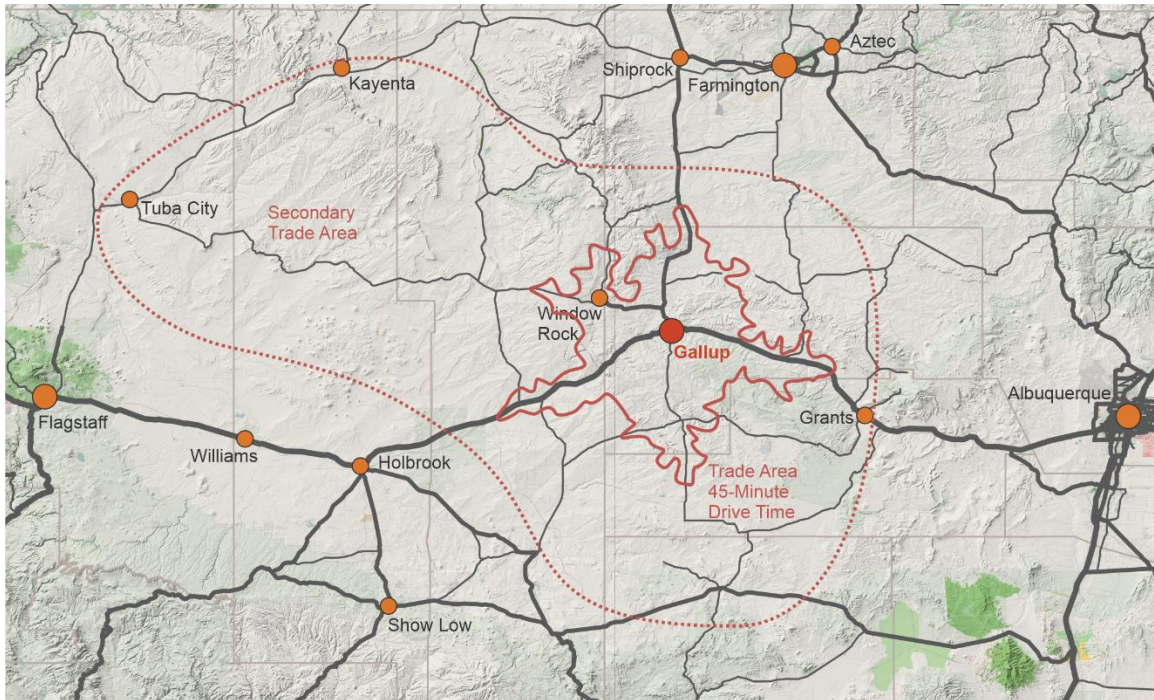
The market analysis prepared for Gallup was designed to gather evidence that will present the city as a more attractive retail location than it appears using conventional data sources. The argument centers on three key points:

- 1. Gallup's trade area needs to be drawn much larger than most.** Across nearly all retail types, Gallup business managers interviewed for the study told of customers coming from an hour in most directions, and further into the Navajo Nation. That anecdotal evidence is supported by mobile phone tracking of customer locations.
- 2. Conventional sources greatly underestimate the disposable income of the resident population.** Data vendors used by chain stores, such as ESRI Business Analyst or Environics, paint a picture of a very low income market. They miss a large underground economy on the reservations which increases overall income, and housing and health care assistance that frees up income to be spent on retail goods and services. The market analysis estimates the true income available.

- Traffic passing through the city greatly increases the market potential.** Data vendors provide no information to estimate visitor spending, which is often overlooked by the chains in their site selection process. The market analysis documents the number of visitors and the potential they add to Gallup's market.

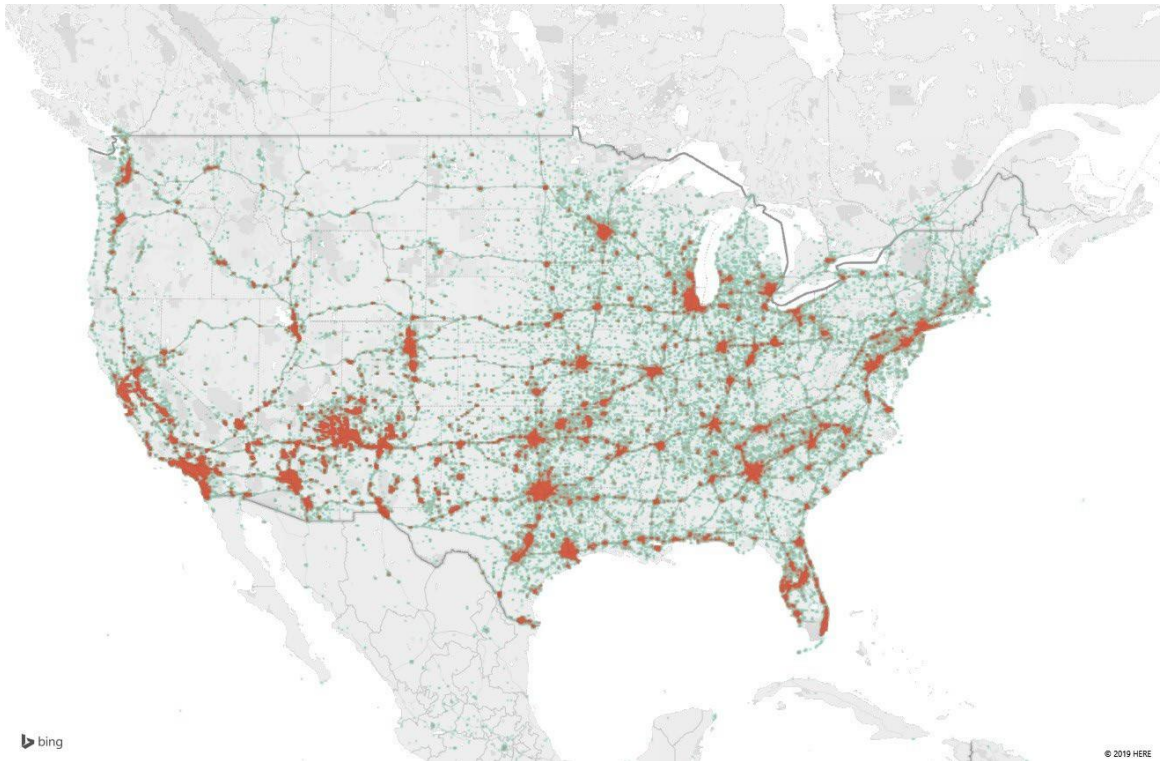
Key findings

The market analysis defines the area and assesses opportunities for retail, restaurant, and lodging. Significant findings include the following.



- Gallup has a primary trade area lying within a 45 minute drive from the city. A secondary trade area extends west as far as Tuba City, north to Kayenta and short of Shiprock and Farmington, east to Grants, and south to Highway 60. The trade areas are mapped below.
- Approximately 65,000 people live in the primary trade area. This is an area from which Gallup businesses will draw most of their customers, and in which residents will consider Gallup to be their primary shopping destination. The secondary trade area adds another 130,000 residents, who will come to Gallup for some of their shopping and service needs.
- While a low income area (the median income in the city is \$43,598 and it is \$31,515 in the primary trade area), there is a large, unreported economy. Examples include arts and crafts, food stands, small farms, flea market booths, and other ventures. Based on a number of studies of the Navajo Nation, the market study estimated that 30 percent of Native American households earn \$18,000 in unreported income annually. This totals \$72.9 million in additional income.
- Native American households receive health care and housing benefits that allow them to shift income from these expenses to other purposes, including retail and dining purchases. An estimated 60 percent of these costs is covered, a \$5,529 benefit to these households, increasing disposable income by \$74.7 million.

- There are just over 6 million visitors passing through Gallup, defined as persons originating over 100 miles from the city. More than half – 3.3 million – will pass through without stopping. Another 1.6 million will stop, with 0.7 million making a stop under three hours, and 0.9 million stopping for a longer period, but not staying overnight. There are 1.1 million overnight visitors, with 0.5 million staying in hotels, and 0.6 million staying in other accommodations (such as with family or friends). The average overnight stay lasts 1.67 days.
- Visitors to Gallup spend \$286.3 million during their trip, though not all of that is captured in Gallup. The estimate is somewhat higher than the State’s estimate of \$242 million in visitor spending in McKinley County. Visitors are drawn from the locations on the map.



- The total market potentially available to retail businesses in Gallup is \$2.03 billion. This is divided between \$611.9 million in the primary trade area, \$1.263 billion in the secondary trade area, and \$166.8 million spent by visitors. Gallup’s retail businesses are capturing about \$623.9 million in sales.
- The market for eating and drinking places is \$300.6 million, with visitor spending (\$156.6 million) exceeding the potential from the primary and secondary trade areas combined (\$144.1 million). Eating and drinking places in the city capture \$73.8 million in sales, made up of \$30.7 million at full service restaurants, \$37.6 million at limited service restaurants, and \$5.6 million elsewhere.
- Demand for hotel rooms has been steadily increasing. The city has 39 hotels with 2,458 rooms. That number has grown as new hotels opened in recent years, with the result that occupancy rates have declined. The overall occupancy rate is 62.6 percent, which compares to a national average of 66.2 percent. The 73.2 percent rate among midscale and higher tier properties is significantly higher, while economy hotels have averaged a 41.0 percent occupancy.

Targets for attraction

Retail targets for attraction include the following chains.

- Advance Auto Parts
- Big O Tires
- Discount Tire
- American Home Furniture and Mattress
- Carpet One Floor and Home
- Flooring America
- Floor Trader of Farmington
- Kiva Carpet and Tile
- Lloyd's Carpet and Draperies
- Lowe's
- Bashas'
- El Super
- Aldi*
- Christopher and Banks
- Buckle
- Torrid
- Zapaterias Pedrito
- Cavender's
- PetSense
- Petco
- Savers
- Salvation Army Thrift Store
- Burlington
- TJ Maxx
- Marshall's
- Ross Stores
- Target
- C-A-L Ranch Supply
- Big R
- Costco
- Sam's Club

Restaurant chains that may be attracted to the city include the following.

- Cattle Baron
- Chipotle
- Culver's
- Dunkin
- Great Harvest Bread Company
- IHOP
- Old Chicago
- Panera
- Perkins
- Qdoba
- Ruby Tuesday
- Taco John's
- Village Inn
- Whiskey Creek

The following lodging chains are targeted for attraction.

- AmericInn by Wyndham
- Baymont by Wyndham
- Cambria (Choice Hotels)
- Candlewood Suites (IHG)
- Drury Inns & Suites
- Home2 Suites by Hilton
- MyPlace Hotels
- Clarion (Choice Hotels)
- Cobblestone Inns & Suites
- Country Inn & Suites (Radisson)
- Courtyard by Marriott
- Ramada by Wyndham
- Woodspring Suites (Choice Hotel)

Moving forward

Gallup's businesses are capturing less than one-third of the roughly \$2 billion in market potential generated by visitors and residents of both trade areas. The ultimate goal is to capture a larger market share. This will be accomplished in part by adding new retail and dining businesses through startups and attraction, and by fostering the growth of existing businesses in the community. Just as important, though, are strategies that develop the market and encourage more people to shop and dine in the city. The following are some measures that can be considered.

1. **Establish a realistic goal for the additional sales that can be captured, along with a timeline that recognizes the time needed to implement adopted strategies.** Gallup won't be able to capture all of the potential generated through the trade areas and visitors. A realistic goal might be expressed as a dollar sum or as a share of the market. It should recognize that initiatives will be implemented incrementally and can take years to show measurable results.
2. **Ensure that available sites and buildings are in turn-key condition and presented in a favorable condition.** In the Highway 491 area, this includes the few vacant storefronts, potential redevelopment sites on the mall parking lot, and Maloney Avenue frontage. Route 66 offers available buildings and development (or redevelopment) sites, but the condition of many will not be appealing for chain, or potentially other businesses. Downtown shows high demand for space, but few vacant buildings or ready redevelopment sites. Initiatives that might be considered include infrastructure development, redevelopment planning and projects, code revision and enforcement, and incentives for property improvement.
3. **Encourage a greater share of the traffic passing Gallup to visit, and extend the length of stay to increase the chance that visitors will patronize local businesses.** Gallup is the largest service center for traffic between Albuquerque and Flagstaff. It supports a massive trade in Native American arts and crafts, as well as other goods, and culture. Along with other parts of McKinley County, it also has one of the longest and most historic segments of Route 66. Any of these might be a reason for passing traffic to get off the interstate, but none are pursued to the degree that they might be. Possible initiatives that could be implemented include:
 - a. **Billboard signage advertising the concentration of lodging, gas, food, and other businesses in Gallup.** Tucumcari and Santa Rosa might be looked to as models, advertising hundreds of miles out from the city, along the interstate. Native American goods and Route 66 can also be advertised.
 - b. **Roadside signage for Historic Route 66, the downtown, and other key features.** This signage (including state highway signs) will help to inform passing traffic of available attractions and draw additional attention to exits.
 - c. **Enhancements are needed to Route 66 to deliver the experience that visitors expect from this historic road.** While having some significant remnants of its heyday, the current condition of Route 66 does not fit the vision of what many visitors want to see, as chain prototype buildings and other unsympathetic development have made parts of it look like "Anyplace". Planning for the corridor could highlight existing assets, improve the overall appearance as well as develop a Gallup Route 66 brand, and encourage design that contributes to the feel of the "Mother Road". Tulsa is an example of a community that is in the early stages of implementing a program for its segment of the highway.

4. **Promote existing business expansion and startups from within the community.** There is a great deal of untapped potential in both existing businesses and entrepreneurship in the area. These businesses are important in that they fill niches that do not fit within the parameters of the various chains, and they help to create a unique identity for the city. Actions that may be considered include:
 - a. **Foster business startups.** Some research is needed to document the past startup trend and to determine what barriers there are to starting a business in Gallup. Specific programs may then be developed to help entrepreneurs overcome these hurdles. Examples include technical assistance and mentoring, financial and in-kind assistance, and provision of low-cost space. One idea may be to develop a marketplace for startups as part of the Route 66 experience.
 - b. **Encourage business growth.** These initiatives mostly seek to fill gaps in the market or attract additional customers to businesses. For example, a handful of Gallup's restaurants are doing a good job of catering to the visitor market, but others might consider how design, menu selections, advertising, and other aspects of the business could be tweaked to be more appealing to a visitor market for dining that is larger than the resident market.
 - c. **Conduct customer survey research.** Gallup can implement a program of periodic survey research to develop a better understanding of customer patterns, including where and when they shop, the goods and services they leave the area to purchase elsewhere, and their perceptions of the community and its businesses. This will help to guide future actions at the individual business, or collective level.
5. **Implement a focused program of business attraction.** New business attraction will help to grow the share of the market that Gallup captures, rather than simply redistribute existing sales. A greater concentration of businesses will help to retain customers that now leave the area to shop elsewhere, whether for a larger selection or because what they want can't be found locally. When they do not leave Gallup to shop elsewhere, the chance that they will patronize other Gallup businesses increases.