



Why do Competitors Locate Next to One Another?

“Why is that business opening up there? There’s another one right across the street?”. “We already have one of those businesses on the other side of the highway”. I’m sure you’ve heard those comments before. In fact, you may have even wondered yourself, why are coffee shops, restaurants, auto dealerships, furniture stores, etc. all crowded into one spot?

Battle of the Ice Cream Vendors

I won’t bore you with academic research and whitepapers on [Hotelling’s Law](#). Instead I’ll attempt to illustrate it with the classic example of two ice cream vendors on a beach. Imagine a beautiful beach packed with sunbathers and young families playing in the water. There are two Ice Cream Vendors that have decided to set up shop. To ensure that customers at



either ends of the beach don’t have to walk as far, the two vendors initially agree to set up at opposite ends of the beach. In theory each vendor should cover half the beach and received 50% of the customers. Now these are business savvy ice cream vendors, and each soon realizes that if they move their cart toward the centre of the beach, they increase their share of the customers. Gradually the two vendors move closer and closer to the middle, until they end up right next to one another in the centre of the beach. Now located at the centre, they realize that they cannot improve their position and increase their sales, without giving their competitor more market share. That is why you often see competitors located right next to one another. Watch the short [Ted Ed video](#) that nicely illustrates the Ice Cream Vendors example.

Location Matters

Unlike this hypothetical example, most business don’t have the luxury of simply moving their cart down the beach. That is why the location of your business matters. If competition moves in, are you well positioned to compete? The competition is fierce. As an example, in some cases a business will even open up an additional location on the opposite side of the road or just down the road, an effort to capture more of the market share from their competitor. Location isn’t just about competition. Location is also about proximity to customers and convenience. Can your business draw customers on its own? Or would you benefit from similar or complementary businesses nearby? Is your business easy to get to? To help, here are a few essentials to considering when choosing a location for your new business or when considering relocating your business.

5 Things to Consider when Choosing a Location

- 1. **Demographics**– Who are your customer and where are they? For retailers and

certain service providers, this is critical. You need to ensure that your business will have the threshold population to support your business. A good place to start is the City's [Municipal Census Reports](#) and Statistics Canada's [Census Profile](#).

- **2. Competitors** – Sometime nearby competitors can have a negative effect, as they can increase the competition for market share. However, sometimes they can be a benefit, as a grouping of like businesses can be desirable for consumers, creating a destination with greater choice and selection. A great example of this is South Edmonton Common. Ikea is the world's largest furniture retailer, and yet 16 of its competitors chose to locate in the same shopping centre.
- **3. Proximity to Other Businesses** – The businesses located around yours are important. A popular business or anchor store, can bring a lot of foot and vehicle traffic by your business. There is also a benefit to locating near complimentary businesses. An example, you will typically see health, wellness and fitness related businesses near fitness centres.
- **4. Foot/Vehicle Traffic & Parking** - Every business has different needs. Consider what is most important for yours, whether that be lots of foot traffic, convenient vehicle access, or have the appropriate amount of parking for your staff and customers.
- **5. Data & the City** - We, at the City's Economic Development department, gather a tremendous amount of data for the benefit of local business. We would be happy to share information and our expertise to help you make the most informed decision when considering a new location for your business. Get in touch with us at ecdev@fortsask.ca.