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**Retail Proliferation and Cannibalization**

Managers of retail chains often resort to the strategy of opening new outlets in order to increase their sales and market share. However, the impact of new store openings on chain sales and profitability could be complex because of two reasons. First, new stores can cannibalize sales from nearby stores belonging to the same chain and have an adverse effect on their profitability. Second, in instances where the chain is experiencing a growth or a decline in sales, not accounting for these dynamics is likely to yield misleading estimates regarding the magnitude of this cannibalization. In this paper, we develop a demand model that accounts for dynamics in brand preferences and spatial competition between geographically proximate retail outlets. We calibrate the model parameters on data for a fast food chain in a large U.S. city. The data reveal that the chain experienced increases in (a) overall chain sales, (b) number of stores, and (c) average sales per store during the period of our analysis. Our results reveal that the evolution in intrinsic brand preferences (largely driven by increase in advertising expenditure) accounts for the greatest proportion of the increase in chain sales. On the other hand, increase in the number of stores opened by the chain and the change in store level variables (such as price, satisfaction and store format) had a relatively smaller impact on chain sales. We further investigate the effect of new store openings on the performance of existing stores in nearby locations. We find that the magnitude of the cannibalization effect is much smaller than the additional sales generated by these stores. For example, cannibalization accounts for only 4-9% of sales generated by these new stores. Moreover, at the individual stores that were affected by these new store openings, the adverse effect of cannibalization was quite small (around 1% of their respective sales). This effect was even smaller when we considered stores that were located farther away from the new stores. Hence, cannibalization is comparatively a minor issue for this fast food chain. In terms of managerial applications, we discuss how managers can use the model presented in this paper to make two key decisions: (a) isolating locations that can be closed by identifying stores that yield the lowest marginal benefit to the chain and (b) choosing the optimal location for a new store from a set of viable alternatives.