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Small Businesses Move In Together

They can get a boost from sharing a space with other companies. Each business still must succeed on its own merits.

Austin Taylor, a custom men's clothier, recently took over 600 square feet inside Metro for Men, an exclusive men's hairstylist and spa in Irvine. **College Sports Quest, an adviser to college-bound teenage athletes, has an office inside American Sports Center, an indoor volleyball, basketball and soccer facility in Anaheim.** Irvine-based Diedrich Coffee has granted licenses for full-service locations inside Crevier BMW in Santa Ana and McKenna Audi in Paramount.

These businesses are capitalizing on the financial and marketing benefits of moving in with other companies that have complementary services and clientele. However, the owners say they are careful to avoid pitfalls that could damage the arrangement.

THE IMPETUS

These "roommate" arrangements are less intertwining than co-branding efforts, such as YUM Brands putting A&W and KFC fast-food franchises in the same restaurant or Dryer's ice cream using M&M candy pieces. Still, with the rising cost of commercial real estate and of acquiring new customers, even large companies are finding the value of sharing space, says SCORE volunteer Mike Munz. Examples include banks and pharmacies locating inside grocery stores and Circle K convenience stores locating at Union 76 gas stations.

Austin Taylor has a thriving shop on State College Boulevard across the street from Angel Stadium. The former owner of Metro for Men first approached Austin Taylor partner Dave Welch two years ago about opening a second location inside the salon. "Both of us are trying to create a unique experience for our clients, and the concept was a one-stop shop for men's styling needs," Welch says.

After Metro for Men's top stylist Krista Martin bought the salon, Welch told her about the co-location idea. "Since I was 18, I had this idea of a men's upscale day spa, so when Dave mentioned (co-locating), it was a no-brainer for me," Martin says. "You have to make sure your companies are on the same page. We have the same (business) vision, same work ethic."

Jennifer Noonan, founder of College Sports Quest, had a similar reaction when a coach told her that American Sports Center was opening up a few spaces for outside businesses. It was an opportunity for several thousand high school volleyball and basketball players and their families to see her company at a state-of-the-art practice and tournament facility. "I fought really hard to get in there," says Noonan, who previously had run College Sports Quest out of her home. "I had to meet several times with the developer and prove to them that I was well-established and would be more beneficial for them than a large company that doesn't know the Orange County market."

THE ADVANTAGES

After a year in American Sports Center, Noonan says it has increased the credibility and exposure of her company. It also gives her a well-known place to meet clients.

"Everybody (in youth basketball and volleyball) in Southern California has been to or knows about this place," she says.

On the other side of this relationship, American Sports Center benefits from the rent paid by the independent businesses inside the facility, says manager Mike Gallups. Also these businesses make use of the facility at different hours, while the sports courts are used mostly at nights and on weekends. "We did seek out certain (tenants) such as National Junior Basketball and Southern California Volleyball Association," Gallups says. "We said no to an interior designer who wanted to come in here."

The key is finding complementary but not competitive "roommates." That relationship provides an opportunity for cross-marketing, which was important to Austin Taylor and Metro for Men owners.

"There is a core client we both cater to," Welch says. "We try to educate our clients about clothing. Krista educates her clients about hair and skin care. We both provide a different experience for clients."

That match of customer demographics was important in Diedrich's approval of licenses to a BMW and Audi dealership, says senior marketing director Alexis Eldridge. "There's a great synergy. They wanted better coffee service for their customers, and it gets our brand out there with people who match our customer demographic." Business adviser Munz says, "It sounds ideal. They feed off the traffic of each other."

THE CAUTIONS

But business owners should make sure the arrangement makes financial sense too, he adds. When Munz was a Hickory Farms franchisee, he approached an Ace Hardware storeowner about allowing Hickory Farms to set up a sales counter for Christmas sales. But the Ace owner turned Munz down, saying that food gift box sales per square foot would not match the sales of other gift items and Christmas lights.

Many businesses consider sharing space to reduce costs. Welch says Austin Taylor was able to move into the South Orange County market with less risk and cost by taking 600 square feet inside Metro for Men, a smaller space than most retail centers will lease. However, be sure the landlord will permit the arrangement, he says. "The Irvine Co. had to approve us, even though technically I sublease from Krista." Co-locating businesses also need to pay attention to other operating details too, Munz says. "If they share a cash register, who rings up sales? Consider security. How many keys do you give out?"

Athletic adviser Noonan says a small business must be realistic about the true value of co-locating with another business. Despite the visibility of its location, College Sports Quest could not survive if it depended solely on getting clients from the American Sports Center. "I thought I would get some walk-in business at the center, but most of my business comes from referrals and word of mouth," she says. "I have no regrets, but I had an established business and clientele, and I still go out and market at sports events. "It is important to ask yourself what co-locating with another business will provide to you and whether it's worth the cost."