SIGNLINE

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The Value of Signs for Your Business

For centuries, commercial signage has existed as the primary method by which one person communicates a prospective business transaction to another. Place-based communication devices and graphic systems ("signage") have evolved in response to culture and technology, but as this process of change and expansion of the medium of signage has occurred, it has never strayed from its original purpose: communication, or, in terms of the U.S. Constitution, speech.

Note: Signs are so common in our society that their advantages are all too often discounted, both by sign users and by regulators. This is the second of a two- part special Signline report. This report examines the value of signs to the user, looking specifically at the value of signage to a business. The first issue looked at the value of signage to a city, in promoting street smart planning and sound fiscal health.

Evolving in Response to Culture and Technology

A brief overview of the convergence of the automobile and three specific technologies in the 1920s and 1930s – electricity, plastic, and neon – and how these inventions over time altered, and were altered by, communication needs establishes some essential context in which to understand the value signs bring to a business.

The automobile was one of the most influential inventions of all time, and entirely changed the American lifestyle. At the end of the 1920s, the number of automobiles in the country was already nearly equal to the number of families. Road construction, the oil industry, and the suburban housing boom that resulted from this new mobility worked to greatly increase the prosperity of the average American, in turn creating greater demand for consumer goods.

The mobile and fast-paced American consumer increasingly demanded economy, convenience, and comfort. Gasoline service stations and the fast food industry began to emerge. An exceptionally efficient and diverse transportation system was developed, bringing down distribution costs.

Plastics were the subject of a frenzy of excitement and development during the 1920s and 1930s and as a result, a wide variety of low-cost consumer goods were suddenly within reach of most Americans. Rural electrification in the 1930s further stimulated consumerism as more Americans were freed from the drudgery of manual labor at home.

During this time of rapid cultural change and evolving consumerism, signage began to change. It was no longer sufficient to have a hand-painted wooden sign marking your business location; with all these new consumers – and new competition – businesses quickly learned that an attractive illuminated, auto-oriented sign was the best way to stand out in a crowd.

The first electrical illuminated signs were made of metal, wood, or colored porcelain enamel and often were framed with incandescent bulbs. But in the 1930s, the new technology of cold-cathode "neon" lighting came into vogue for signage. The custom capabilities of neon lighting meant it adapted well to the changing culture. It was first used by entertainment businesses; it then was used extensively as an Art Deco design element; and after World War II it took on a new personality, at first decorating drive-ins and diners, and soon enhancing the communication of all kinds of businesses. Of course, it was well-utilized in Las Vegas during this period, and continues to be prominent there today.

Acrylic resins were developed for use in signs in the 1930s, but plastic signs did not become prominent until the 1950s. In the late 1950s and into the 1960s, inexpensive colorful plastic signs replaced the durable older porcelain and metal signs, which required a larger initial investment. Not only did the signs save businesses money, but also consumers, who were infatuated with inexpensive disposable goods, found them attractive and stylish. Over time, many forms of entertainment media developed; in response, the sign industry began to utilize technology enabling it to print magazine-quality pictures on plastic signs.

Signs have continued to respond to cultural changes; as the culture has become more entertainment-oriented and technologically savvy, signs have become more interactive and sophisticated in order to continue to attract attention and communicate their message. The electronic message centers that displayed time and temperature information in the 1960s and 1970s have evolved into electronic video screens that are computer controlled, capable of withstanding extremes of weather, and offer picture quality that rivals big screen televisions.

Today, sign-building materials have expanded beyond plastic, wood, metal, and neon, to include a whole host of materials, each suited to communicate specific kinds of messages to specific groups of potential customers. A wide range of lighting devices, including incandescent lamps, neon, and fluorescent lamps, to name a few, form a critical part of modern commercial communication, and their use is carefully tailored to effectively communicate with potential customers.

The Most Effective Forms of Signage

Possibly the most effective forms of business signage ever developed, however, have been the signature building and sign centric integrated site design.

The signature building is a form of signage that was initially mastered by the gasoline service stations and fast food restaurants. Taking their cues from the successes of Las Vegas, with its use of a thin skin of signage covering an entire building, and from the outdoor advertising industry, with its emphasis on repetition of an identical image at various locations throughout an area to build and reinforce memory, companies learned to turn each business site into an instantly recognized visual display that looks nearly identical to every other site in the chain. This all-over site design functions exactly like a billboard, with each site helping build and reinforce memory of the brand.

Sign centric design, in which the design of the signage, both ground- and building-mounted, is tied to the design of the building itself, works in much the same way.

These two forms of signage, especially when coordinated with national multi-media advertising, allow the businesses that utilize them to bring in 15% to 40% more in gross income than their unaffiliated counterparts, all other things being equal. This has worked for the benefit

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of the consumer, because the businesses utilizing signature buildings and sign centric design have been able to be more competitive by reducing prices.

Fortunes have been built on this concept through the creation of the business form franchise, including such well-known brands as Best Western Motels, Midas Muffler, and Century 21. These businesses, each independently owned and operated, have an integrated signage package and business plan that ties the business in to a national advertising program. Their logo and slogans are repeated in all their advertising. Often, their business is the first one a person thinks of when looking for a place to buy the particular product or service offered there. So powerful is this integrated signage that the independent businesses that utilize it can experience increases in income rivaling those experienced by chains, corporations and business product franchises.

How can we say the signature building and the use of sign centric design are the most effective forms of business signage? The reason is simple. The purpose of business signage is to communicate a message. When people are "receiving" the message, they respond. No form of commercial signage elicits a response like the all-over site design of the signature building or sign centric design. The increase in business revenue that results from this integrated signage is an irrefutable indicator of its effectiveness.

Signs Provide Marketplace Entry

Clearly, the chains, corporations, and franchises that utilize these powerful forms of signage, tied in to national advertising campaigns, have a tremendous advantage. How can "mom and pop" compete with such an advantage? What will grant the small business owner entry to the American marketplace?

The answer is simple: the on-premise sign. It is the least expensive, most effective form of advertising available to the small business. In its most basic form, it has been shown to be responsible for bringing in as many as half of all new customers, though 25% is more likely to be the case. When it is designed as part of an overall site motif, and tied in with other forms of advertising, its benefits to the bottom line can be even more substantial.

Signs open the doors of a community to all and allow all to participate in the economic activity going on there. Half of all first time customers will stop because they saw the on-premise sign. The sign allows any American who wants to open a business, no matter who they are, to effectively compete with a wealthy or well-connected business owner. Furthermore, the sign tells everyone who sees it that they are welcome to come inside and conduct a business transaction.

Sometimes a business owner dismisses the value of a sign because he or she believes that "everybody knows me." But this ignores an important truth about our culture: that not only are we a mobile society, but we are to some degree a portable society. Fully 18.6% of our populace relocates each year – and that figure does not account for the number of people who change jobs each year and no longer commute to a particular trade area. This means theoretically that almost 20% of a business's customers must be replaced each year as they move away.

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Measuring the Value of a Sign

Without a doubt, signs benefit society. They allow businesses to better meet the needs of the consumer, both by creating a pleasing cultural environment and by increasing sales so that prices can be reduced. They also open society so all Americans have an equal opportunity to participate. This makes signage very valuable. But how is that value measured and quantified? It all comes back to the essence of signage: communication.

The value of a sign can be measured in three basic ways. The first method determines the how many people the signs message reaches, and the cost to replace those exposures of the commercial message in other advertising media. The second is based on comparisons in market value to similar business sites with and without good visibility to the street. And the third method determines how many customers have stopped at the business because they saw the sign, and what percentage of their purchases is profit for the business. These three methods for estimating value are described in more detail below. Valuation and evaluation techniques and estimates can vary depending on specific assignments; these brief descriptions are not intended to demonstrate the entire range of techniques or methods that can be utilized when estimating value.

Estimating the Cost to Replace the Exposures

In advertising terms, each person who sees a sign (or other advertisement, for that matter), constitutes one

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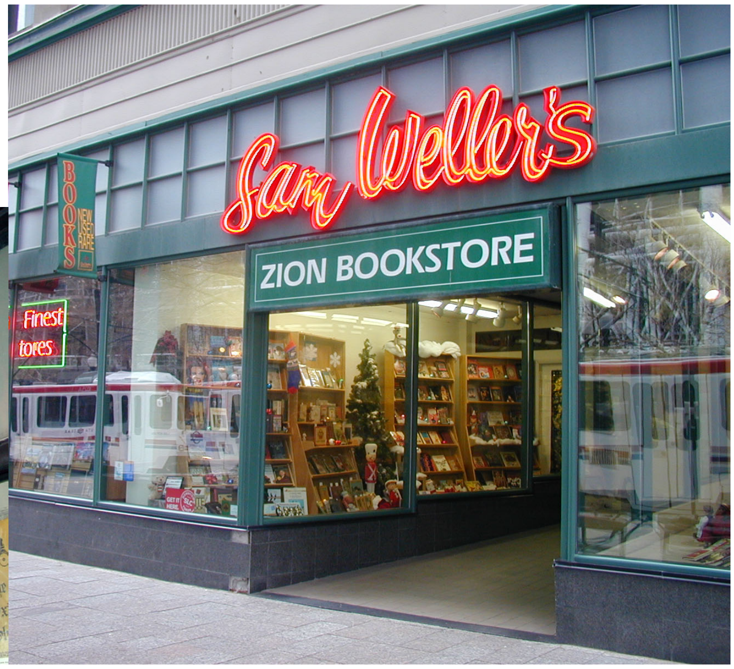

"exposure" to the sign (or advertisement). The number of exposures generated by a sign is calculated using a careful and systematic process.

First, an average 24-hour (daily) traffic count must be determined. This is then multiplied times 30 to establish a monthly count. This is the number of cars that drive past the business during the typical standard advertising month. But not every car will have just one person riding in it, so the calculation must be adjusted for "load factors" that include whether the area is rural, incorporated, or unincorporated, for example. A conservative passenger "load factor" multiplier in an urban setting is 1.43.

A certain percentage, but not all, of the people passing can be expected to be potential customers. If the business is a veterinary clinic, for example, the calculation should be adjusted by the percentage of people passing who own one or more pets – a figure generally available from the industry itself. Other factors that may require adjustment of the figure include hours of business operation and seasonal traffic variations. The final figure is the number of "exposures" generated by the on-premise sign and the

TYPICAL COST PER 1000 CONSUMER EXPOSURES COMPARISON

Assumptions	Television	Newspaper	Outdoor Advertising	On-Premise Sign
Trade Area	40,000 households	Circulation of 40,000 households	333,350 cars per day	30,000 cars per day
Consumer Exposures (30 days)	1.25 million	4.75 million	10 million	900,000
Consumer Exposures in Thousands	1,250	4,750	10,000	900
Cost	$16,500	$16,500	$16,500	$274*
Formula	Media Cost ÷ Consumer Exposures	Media Cost ÷ Consumer Exposures	Media Cost ÷ Consumer Exposures	Media Cost ÷ Consumer Exposures
Calculations	$16,500 ÷ 1,250	$16,500 ÷ 4,750	$16,500 ÷ 10,000	$274 ÷ 900
Cost per 1000 Exposures	**$6.60**	**$1.56**	**$0.82**	**$0.30**

**Although the initial cost of the sign is $16,500, this cost is adjusted to account for a seven year depreciation period and the addition of 10% for finance charges and maintenance costs. This works out to a cost of $274 for each 30-day period. Obviously, signs have a useful life far beyond a seven year period.*

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number of "exposures" the business would need to replace if it no longer could have its on-premise sign.

Next, one would need to determine how much advertising in other media would need to be bought in order to obtain the same number of effective consumer exposures. The chart on the previous page shows a typical cost comparison of various media costs. It assumes an expenditure of $16,500 on a sign and compares the exposure value to a similar investment in a range of other media, including television, newspaper, and outdoor advertising.

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Estimating Value by Looking to the Market for Cost Comparisons

Another method of estimating the value of the exposures generated by a sign is to compare the lease or rent cost per square foot of high-exposure commercial property to that of low-exposure, or no-exposure commercial property in the same town as the subject sign. The market is nearly always willing to pay a significantly higher lease or rent for a high-visibility site because higher visibility means more customers. Sites that are more exposed typically rent for more than sites with poor exposure. A sign allows a less visible site to function as a high exposure site.

The value of the visibility component of a retail site can be estimated by conducting a survey of rental or lease figures per square foot for a number of commercial sites, and then determining the square foot rental differences between the sites based on their visibility. This provides the most basic element needed to estimate the contributory value of the visibility component of a commercial site. It is not unusual for a highly visible commercial site to lease for 20% to 25% more per square foot than one with low or no visibility in the same complex.

The next step is to determine how much money the business owner would need to invest to generate interest income equivalent to the value of the site's visibility component. This is done by dividing the annual dollar value of the visibility component of the site by the percentage of interest that would be earned on the investment. For example, if the visibility component of the business was worth $20,000 per year, an investment of $250,000 offering an 8% return would be needed to generate $20,000 in interest each year. Therefore, the value of a sign that would make the subject low-visibility site into a high-visibility site would be worth $250,000 – even if the sign only cost $10,000 to build.

Estimating Value by Tracing Revenues Attributable to the Sign

This method of estimating the value of a sign involves establishing the percentage of business revenues traceable to customers or clients who entered the business solely because they saw the sign. Many business owners have a fairly good idea how many customers they have in a given period of time and the average sale per customer. Several valuation techniques can be employed to help trace those business revenues. After that determination, these figures can be analyzed to determine the average amount of profit per customer.

A representative sample survey may be taken to estimate how the business's customers first learned of the business and what prompted the first-time customer or client to stop – word-of-mouth, the Yellow Pages, a radio or television advertisement, a print advertisement or coupon, or the on-premise sign. The number of customers directly attributable to the sign is then multiplied by the average profit per customer to determine the income loss that would occur without the sign. Finally, this figure is adjusted to determine the amount of the investment that would be needed to replace the lost income.

For example, assume an average sale at a pizza parlor is $12 per customer, of which $3 is profit. The pizza parlor has 70 customers on average per day, and profits $75,600 per year. The survey shows that 25% of its customers stopped solely because they noticed the sign. The profit directly attributable to the sign, then, is $18,900 per year. An investment of $236,250 offering an 8% return would be needed to generate $18,900 in interest each year to replace the income lost by the sign.

No Cost-Effective Replacement for Signage Exists

Today's businesses have many ways to reach potential consumers with their message: network television, cable television, satellite television, the Internet, direct mail, radio, sports and event sponsorships, outdoor advertising, newspaper and magazine advertising, licensed merchandise, telemarketing – the list goes on and on. Commercial speech is growing so rapidly, and has experienced so many different permutations, that it is more difficult than ever for the average business to select a feasible and reasonably priced alternative from the available options, and to effectively market or advertise to its entire trade area.

It is signage – place-based communication – that can most effectively and affordably help a business tie its other forms of advertising together, and communicate to its target audience (those actually moving through its trade area). In fact, without a sign to identify a business location, the money spent on other media is largely wasted. It is no exaggeration to say that the part signage plays is significant enough that it can determine whether or not a business is successful. This important role has spurred an incredible evolution in the sign industry, ensuring the availability of attractive, interesting communication options to suit the communication needs of any business at a price that business can afford.

More prominently located retail sites in a shopping center command higher rents because their greater visibility is proven to attract significantly more business. An on-premise sign functions in the same way, making the business visible to passing traffic. A prominent sign can turn an unproductive or low-visibility piece of property into successful - and valuable - commercial real estate. This commercial site is not itself visible from the street above it, but the on-premise sign at the edge of the road makes the business below "visible" to passing traffic.

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Several legal issues are discussed throughout ISA's Signline series. Signline is offered for educational and informational purposes only and not to be construed as giving legal advice to any user. Competent legal advice/advisors should be sought after and obtained by the user.

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