Let's Talk Business
Ideas for Expanding Retail and Services in Your Community

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Retail Demand and Supply Analysis

New Software to Identify Market Opportunities

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This article summarizes a new method for identifying market opportunities in specific retail categories. A detailed study of market demand and supply (in square feet) is necessary for each store category to determine market potential. Market opportunities can be identified where demand exceeds supply. After considering other more qualitative market factors including how and where local residents shop, conclusions can be drawn regarding potential business expansion or recruitment efforts.

Free downloadable MS Excel software has been developed to help communities complete the calculations for 39 specific retail categories commonly found in downtown districts. See toolbox at end of article.

Retail Demand Analysis

Using the Economic Census, actual U.S. retail sales levels can be used as a surrogate for consumer demand. The estimates of demand reflect consumer spending of people who reside within a trade area based on local per capita income and population. However, they do not reflect where those expenditures are actually made.

The downloadable MS Excel workbook has been created by the University of Wisconsin-Extension to assist in these calculations. The calculator estimates demand by type of store (instead of type of product). The calculator goes an additional step by distributing general merchandise store demand (i.e. discount stores, "supercenters," warehouse stores) among the specific store types.

The calculations are based on available secondary data from the U.S. Economic Census and the Urban Land Institute (already loaded in the MS Excel workbook). Local trade area population and per capita income are also required and need to be entered as "Trade Area Assumptions."

Purchasing potential index (PPI) data available from some private data firms can also be entered (as an override) in the workbook to increase the accuracy of the retail demand estimates. Once assumptions are entered, the "Trade Area Report" can be printed. The following steps summarize the process used to estimate market demand.

1. Assemble Trade Area Assumptions: Determine for each store category the most fitting trade area, then estimate the population for this trade area. Next, determine the trade area's "purchasing potential index" (PPI). This can be calculated as the trade area's per capita income divided by the U.S. per capita income. Alternatively, use PPI data from marketing data firms.

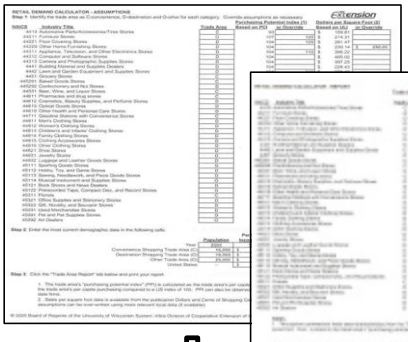
2. Calculate U.S. Per Capita Sales by Store Category: Calculate spending in the particular store category plus spending in applicable departments (product lines) of general merchandise stores. Spending here is based on the 2002 U.S. Economic Census. Per capita spending is based on a 2002 U.S. population of 287,941,000.

3. Calculate Trade Area Per Capita Sales by Store Category: Adjust per capita spending in step 2 by multiplying it by the PPI from step 1.

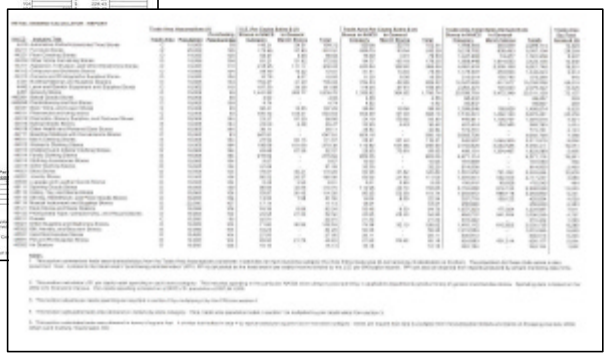
4. Calculate Trade Area Demand (in Sales) by Store Category: Multiply trade area population by the per capita sales in step 3.

5. Calculate Trade Area Demand (in Square Feet) by Store Category: Divide total sales in step 4 by typical sales per square foot in each store category. Sales per square foot data is available from the "Dollars and Cents of Shopping Centers, 2002," Urban Land Institute.

Trade Area Assumptions



Trade Area Report



UW Extension

Based on these five steps, the software calculates trade area demand in sales and square feet for each of 39 retail categories.

Retail Supply Analysis

To analyze supply, a database of existing businesses needs to be constructed for each of the store categories under investigation. The database for each store category should include all of the retail businesses within the trade area used to calculate demand. Other major competitors outside of the trade area should be noted even though they will not be included in the square foot supply total. In addition, applicable departments within general merchandise stores that compete for business in this store category should be included in the database. The following steps summarize the calculation of market supply by store category.

1. List Stores in this NAICS Category: Identify all current businesses in the trade area that share the same store category. List the store name, address and approximate square footage. Data can be obtained from yellow-pages, private data firms and local business inventories.

2. List General Merchandise Stores Selling Product Line: Identify all current general merchandise stores in the trade area that sell this product line. List the store name, address and approximate square footage devoted to this product line.

3. Total Current Supply in Trade Area: Add square foot total from steps 1 and 2 above.

Total current supply can then be compared with demand (calculated earlier). However, other market conditions must also be considered beyond the square foot demand and supply estimates.

Other Market Considerations

Examining quantitative aspects of demand and supply is only part of the analysis. There are also a number of qualitative considerations that require local knowledge and insight about the market. The previously calculated differences in retail space demand and supply need to be analyzed in context of other market factors. The following provide additional considerations that add to the analysis of each category.

- Survey and Focus Group Findings
- Trade Area Demographic and Lifestyle Findings
- Analysis of Non-Local Market Segments
- Retail Mix Analysis
- Competitiveness of Existing Stores in Trade Area
- Competitiveness of Stores Outside of the Trade Area
- Consumer Behavior and Trends in Store Category

Drawing Conclusions

The quantitative comparison or retail space demand and supply by store type provide an initial measure of market opportunities (i.e. demand greater than supply). However, demand and supply must be analyzed in combination with many other market considerations. If there appears to be a significant amount of unmet demand, there may be opportunity for an existing business to expand or a new business to be recruited. Business development opportunities may also exist in areas where supply is greater than demand, especially in those communities that are successful in drawing customers from outside their trade area because of a special product niche they have created.

Downtown/Business District Market Analysis Toolbox

More detailed guidance in completing this analysis is available in the Downtown and Business District Market Analysis web-based toolbox, a collaborative effort between the University of Wisconsin - Extension and the Wisconsin Main Street Program of the Wisconsin Department of Commerce. The toolbox is available at: http://www.uwex.edu/ces/cced/dma/

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