

Evaluating Downtown Service Business Opportunities

by Bill Ryan and Matt Kures*

Over the past three decades, service businesses have replaced many of the retail storefronts on Main Street. Service businesses include banks, insurance agents, real estate brokers, video rentals, lawyers, health care professionals, hairstylists, dry cleaners, among others. Service businesses find downtowns to be excellent locations because of their proximity to community services such as government, health, education, and financial institutions.

This article summarizes a method for identifying market opportunities in specific service business categories. A detailed study of market demand and supply (in dollars) is necessary to determine the potential for individual business categories.

A comparison of demand and supply by business type can help identify gaps (where demand exceeds supply). After considering other more qualitative market factors including how and where local residents obtain services, conclusions can be drawn regarding business categories worthy of business expansion or recruitment efforts.

Service Business Demand Analysis

In analyzing the market, the level of current demand can indicate the need for new or expanded business. Unfortunately, data limitations often make it difficult to estimate demand. A relatively simple way to estimate trade area service business demand is to use the 1997 Economic Census from the U.S. Census Bureau.

Using the Economic Census, actual service business sales levels for the state can be used as a surrogate for consumer demand. The underlying assumption is that aggregate consumer demand at the state level is fairly well represented by the aggregate service business sales captured at the state level. This is a reasonable assumption in states that do not experience significant sales leakage to adjacent states.

The following steps provide a relatively simple approach to estimating market area service business de-

mand using Economic Census data. 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.

Step 1. Calculate Statewide Per Capita Service Business Spending

Per capita sales for each service business category are calculated by dividing 1997 state sales by 1997 state population. Sales and population estimates can be obtained through the U.S. Census Bureau's web site or through other public and private data sources.

Step 2. Adjust for Differences in Income

The next step is to determine a local adjustment factor that can be applied to state per capita service business spending to account for differences in per capita income. This makes the assumption that if local per capita income is higher than state per capita income, local per capita expenditures on services should also be higher than state per capita expenditures on services. A simple method for calculating this adjustment is to divide trade area per capita income by state per capita income. In many situations, this calculation will provide a reasonable and sufficient adjustment for the overall difference in per capita income.



Step 3. Calculate Trade Area Demand

Service business demand for a trade area can now be calculated by multiplying the results of step 1, step 2 and primary trade area population.

State Per Capita Spending	\$19
X Adjust for Difference in Income	1.05
X Current Trade Area Population	40,000
= Trade Area Business Demand	\$800,000

Service Business Supply Analysis

For the supply analysis, a database of existing businesses needs to be assembled for each of the business categories under investigation. The database should include all of the service businesses within the trade area. In addition, other types of businesses (such as department or grocery stores) that compete for business in this business category should also be included in the database area even though they will not be included in the demand and supply comparison.

A complete list of downtown services businesses could be obtained from a building and business inventory (if available). For trade area businesses that are located outside of your downtown area, a list can be generated from chamber of commerce lists, yellow-page listings and private data firms that sell business lists (such as InfoUSA).

A "ball-park" estimate of annual sales should be made for each service businesses identified. Average sales per establishment for specific service business categories can be calculated for any state by downloading sales and establishment counts data from the U.S. Census Bureau web site (www.census.gov). Sources of "sales per establishment" data are also available through trade associations, Robert Morris Associates, the U.S. Internal Revenue Service, and the Urban Land Institute's Dollars and Cents of Shopping Centers publication.

Sales estimates can be refined based on the estimated number of full and part-time employees of existing businesses (estimates you will need to make). The total number of paid employees for each business (in this category) in the trade area can be multiplied by the average sales per employee using the Economic Census data.

Additional comments should be added to the database to describe how each business competes in the market area. These individual strengths and weaknesses will be important later in the reconciliation of market demand and supply. See the following database example.

Business Name	Address	Emp.	Sales Est.	Comments
Photography Studio Businesses (NAICS 54192):				
Smith's	60 Oak	2	\$250.00	School Photos
Occasions	200 Elm Street	4	\$150.00	Weddings
		Total	6	\$400.00
Competitors in Other Business Categories:				
Super Store	Strip Mall	-	-	Low Price

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 service business space demand and supply need to be analyzed in context of other market factors. The following are additional considerations that add to the analysis of each category.

- Service business mix in other communities
- Quality of existing competitors
- Competition from outside the trade area
- Consumer behavior
- Demand from non-residents
- Demographic and lifestyle information
- Survey and focus group findings
- Competition from other types of business
- Demand from other businesses

Drawing Conclusions

The quantitative comparison of service business demand and supply by business type must be analyzed in combination with an understanding of many other market considerations. If there appears to be a significant amount of unmet demand (demand is greater than supply), there may be opportunity for an existing business to expand or for a new business to be recruited. These opportunities can then be evaluated as part of a downtown's niche and space utilization strategies, and eventually provide a foundation for business expansion and recruitment efforts.

For More Assistance:

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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