

RETAIL / SERVICE MARKET ANALYSIS - DRAFT

City of Hillsdale, Michigan

Prepared for: Hillsdale Economic Development Corporation

Prepared by: MB3 Consulting

Date: May 4, 2015



Introduction

- The Economic Development Market Analysis was prepared to help the Hillsdale Economic Development Corporation (EDC) identify viable retail/service industries to target for attraction to Hillsdale.
- The scope of this retail market analysis was to evaluate current and projected consumer spending (demand) and supply to determine whether or not there is or may be unmet retail demand (i.e., spending leakage) in the city of Hillsdale, Michigan.
- For this analysis, we focused on those retail and service businesses that commonly have storefronts in downtown and commercial districts. Those include traditional retail stores such as furniture, jewelry and groceries, but also services such as financial services and hair salons. The analysis of retail and service business opportunities involves both quantitative and qualitative evaluations.

Methods

MB3 Consulting (“MB3”) completed the following steps to prepare this market analysis:

- Assessed Current Retail Mix – reviewed the existing retail mix in the city and region to better understand the potential competition to Hillsdale. The regional retail competition was evaluated based on its proximity to Hillsdale, location characteristics, tenant mix and targeted customer appeal.
- Gathered Demographic and Household Data – collected detailed information about individuals and households in the city and region to better understand the likely buying wants, needs and habits of regional retail customers.

- Identified Trade Area – identified the retail trade area for Hillsdale based on a broad review of demographic, household and existing retail characteristics in the region. The “Trade Area” represents an area measured by a 10-minute drive-time radius from downtown Hillsdale. Identifying a more specific trade area would require comprehensive primary research such as conducting an in-depth patron identification survey. This would allow the City to tabulate and map patron zip codes.
- Gathered Trade Area Population, Demographic and Lifestyle Characteristics – gathered current and projected population, demographic and lifestyle statistics for the Trade Area. The information includes, but is not limited to, demographic characteristics such as income, occupation, education, age, race, household size and housing characteristics. In addition, specific lifestyle groups were identified that make up the neighborhoods in the Trade Area. The lifestyle groups showcase distinct behavioral market segments that provide a clearer picture of the habits, preferences, life stage, etc. of individual households within the Trade Area – this method allows for a better assessment of potential customers, not to just simply identify numbers of people.
- Gathered Retail Supply and Demand Data for the Trade Area – obtained detailed supply and demand data for the Trade Area to identify gaps (i.e., unmet demand) therein.

SECTION I

Trade Area and Region Demographics

Hillsdale

- The city of Hillsdale is located in south central Michigan, just north of the Indiana and Ohio border, and is the county seat of Hillsdale County. Hillsdale is a rural county with a traditionally strong industrial and agricultural base.
- In addition to being the center of county government, the city of Hillsdale is a center for education and regional health care. The city is home to Hillsdale College, an independent liberal arts college with approximately 1,400 students. Also located in the city is the Hillsdale Community Health Center, a technologically advanced health center serving greater Hillsdale County.

- With over 30 lakes and access to outdoor activities like hunting, fishing, camping and golf, Hillsdale County is a destination for tourists from within Michigan and nearby states.
- The city of Hillsdale is a rural, non-metropolitan (i.e., not part of a metropolitan statistical area) community. For purposes of this analysis, the Hillsdale Region consists of the following eight, adjacent counties: Branch, Calhoun, Hillsdale, Jackson and Lenawee Counties in Michigan; Fulton and Williams Counties in Ohio; and Steuben County, Indiana.

Economic Base

- City of Hillsdale:
 - Population (2010): 15,248
 - Top three industries based on number of establishments: health care (62, 18%); retail (59, 17%) and other services – e.g., auto repair, beauty salons, funeral homes (42, 12%).
 - The vast majority (72%) of all businesses are small with less than 10 employees.
 - There are 4,675 paid employees in the city earning total annual wages of \$148,927,000 – avg. annual wages = \$31,856 (2012 Zip Code Business Patterns, U.S. Census Bureau).

Table 1: City of Hillsdale Business Mix

Number of Establishments by Employment-size class (2012)

NAICS code	Industry Code Description	Total Estabs	'1-4'	'5-9'	'10-19'	'20-49'	'50-99'	'100-249'	'250-499'	'500-999'
-----	Total for all sectors	340	156	90	55	25	10	1	2	1
23----	Construction	17	11	3	3	0	0	0	0	0
31----	Manufacturing	21	2	5	5	5	3	1	0	0
42----	Wholesale Trade	13	4	3	4	2	0	0	0	0
44----	Retail Trade	59	25	18	9	6	1	0	0	0
48----	Transportation and Warehousing	7	4	0	3	0	0	0	0	0
51----	Information	5	2	0	1	2	0	0	0	0
52----	Finance and Insurance	24	14	8	1	0	1	0	0	0
53----	Real Estate and Rental and Leasing	10	8	1	1	0	0	0	0	0
54----	Professional, Scientific, and Technical Services	22	15	4	3	0	0	0	0	0
55----	Management of Companies and Enterprises	3	2	1	0	0	0	0	0	0
56----	Administrative and Support and Waste Management and Remediation Services	12	5	4	0	1	1	0	1	0
61----	Educational Services	5	1	1	2	0	0	0	0	1
62----	Health Care and Social Assistance	62	26	19	11	3	2	0	1	0
71----	Arts, Entertainment, and Recreation	10	7	2	1	0	0	0	0	0
72----	Accommodation and Food Services	28	10	4	7	6	1	0	0	0
81----	Other Services (except Public Administration)	42	20	17	4	0	1	0	0	0

Source: 2012 Zip Code Business Patterns, U.S. Census Bureau

- Hillsdale County:

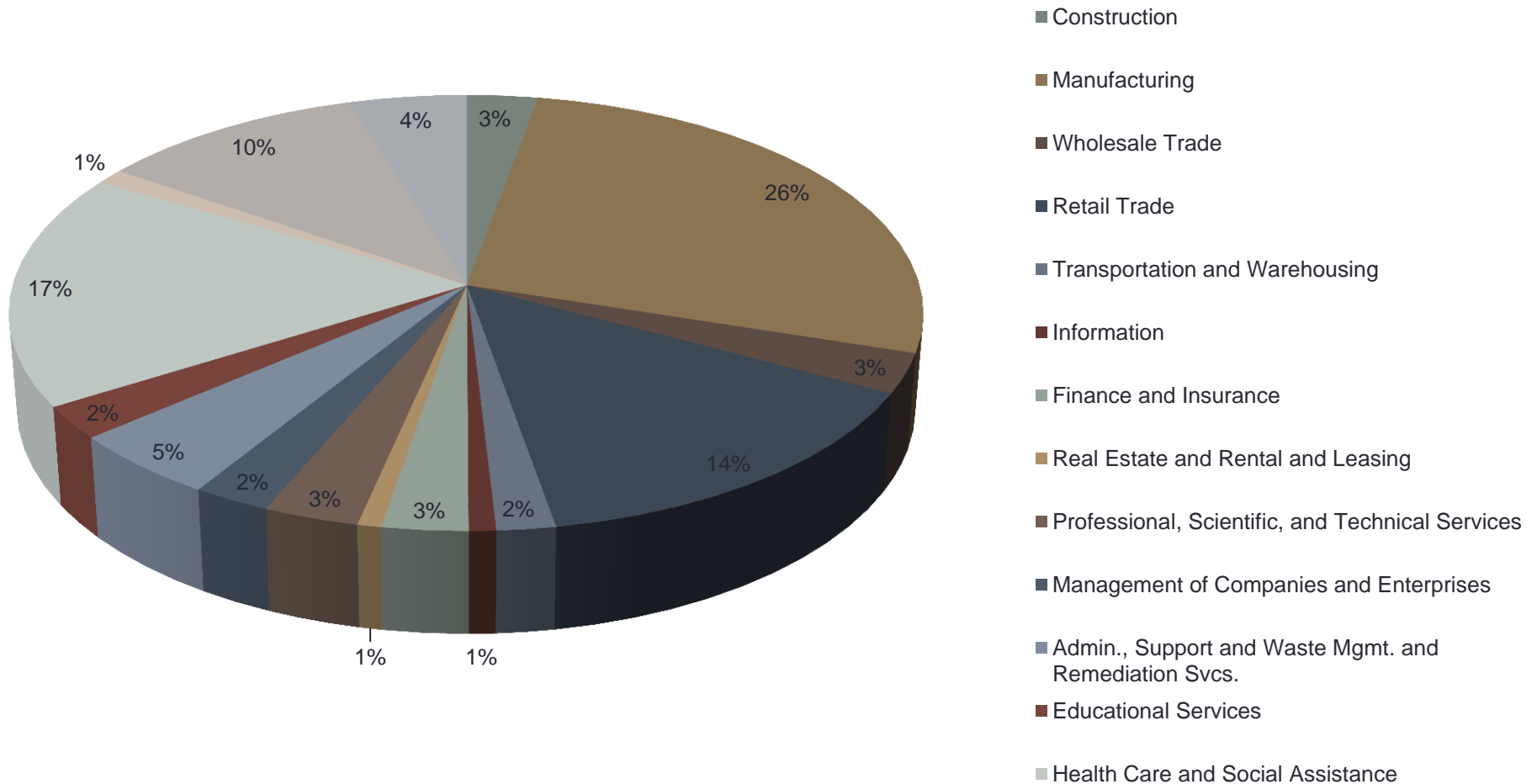
- Population (2010): 46,688
- Top three industries based on number of establishments: retail (137, 17%); health care (103, 13%); and other services – e.g., auto repair, beauty salons, funeral homes (87, 11%).
- The vast majority (76%) of businesses are small with less than 10 employees.
- Majority of residents are employed in manufacturing (36%), health care (14%) or retail (12%).
- Payroll in the county is derived mostly from employment in manufacturing (43%), health care (14%) and retail (10%).

- Hillsdale Region:

- Population (2010): 602,747
- Top three industries based on number of establishments: retail (1,810, 15%); other services – e.g., auto repair, beauty salons, funeral homes (1,227, 10%) and arts, entertainment and recreation (1,105, 9%).
- The vast majority (72%) of businesses are small with less than 10 employees.
- Majority of residents are employed in manufacturing (26%), health care (17%) or retail (14%).
- Payroll in the county is derived mostly from employment in manufacturing (32%), health care (18%) and retail (8%).

Chart 1: Hillsdale Region Economic Base

(based in Employment)

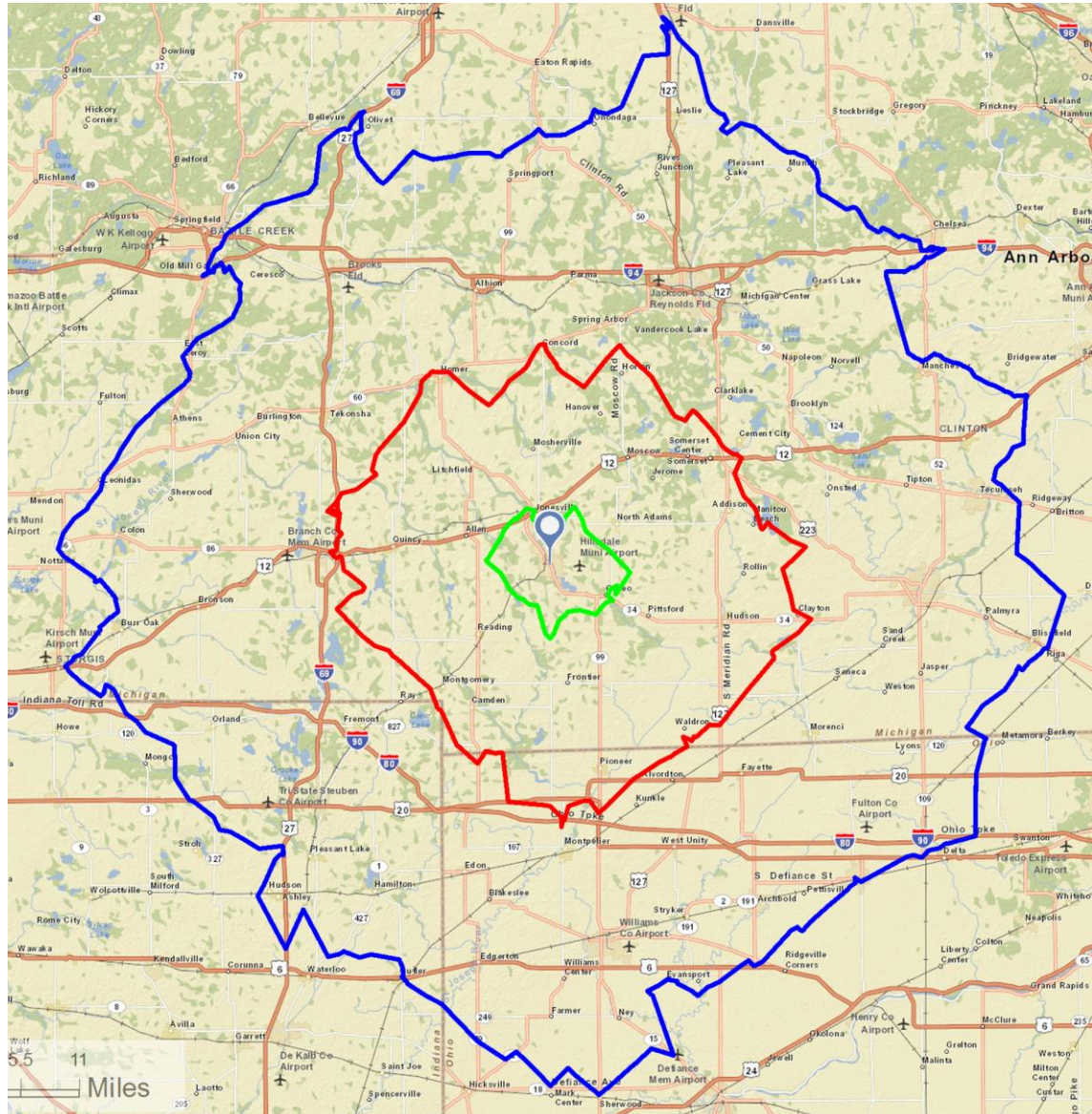


Retail / Service Trade Area

- *Trade area* is the geographic region from which retail businesses in a area draw most of their customers.
- The boundaries of a retail trade area rarely match the political boundaries of a community because trade areas are determined by the types of retailers at a location. Different types of retailers will have different trade areas; in other words, customers will travel further to purchase certain goods and services.
- Although individual stores may have their own distinctive trade area, we can categorize trade areas into two general groups based on the type of goods being sold: (1) convenience shopping trade areas and (2) destination shopping trade areas. A *convenience shopping trade area* is defined by the purchase of goods and services needed on a regular basis (e.g., gasoline, groceries, hair care, etc.). Since these purchases are relatively frequent, people usually find it more convenient to make convenience-oriented purchases at businesses located close to their home or workplace. A *destination shopping trade area* is based on the purchase of “major” and unique goods and services needed or wanted on an infrequent basis (e.g., appliances, furniture, clothing or products that are distinctive in some way). People are willing to travel longer distances to find and comparison shop for these kinds of items.

- This analysis will focus on the convenience shopping trade area as most retail businesses in Hillsdale currently provide convenience-oriented goods and services. However, data for the destination shopping trade area will also be considered as unique, destination-oriented retail businesses (e.g., Toasted Mud) have a larger market reach and may represent good targets for attraction to Hillsdale.
- Based on the mix of convenience-oriented retail in and around Hillsdale and the relatively close proximity of regional shopping areas (e.g., Coldwater and Jackson), drive-time polygons were used as a benchmark for defining the retail trade area of the city of Hillsdale.
- The convenience-oriented trade area for the city of Hillsdale is mostly likely about a 10 to 15-minute drive time radius. To not overlook any possible opportunities with this analysis, we considered the convenience-oriented trade area to be within a 30-minute drive time from downtown Hillsdale. The destination-oriented trade area is assumed to be a 60-minute drive time from downtown Hillsdale.

Map 1 – Trade Area(s)



Downtown Hillsdale

97 N. Broad St.
Hillsdale, MI 49242

Drive times:
10, 30 and 60 minute radii

Trade Area Demographics

Summary Demographics	10-minute Drive Radius	30-minute Drive Radius	60-minute Drive Radius
2014 Population	13,292	67,750	492,929
2014 Households	4,955	26,089	189,483
2014 Median Disposable Income	\$31,512	\$36,170	\$36,772
2014 Per Capita Income	\$20,627	\$21,615	\$22,127

Trade Area Lifestyles

Top 10 Tapestry Lifestyle Groups	2014 Households	
10-min. Drive Radius	Number	Percent
Total:	4,955	100.0%
Heartland Communities (6F)	1,391	28.1%
Traditional Living (12B)	777	15.7%
Small Town Simplicity (12C)	480	9.7%
Set to Impress (11D)	462	9.3%
Rooted Rural (10B)	451	9.1%
Salt of the Earth (6B)	415	8.4%
Social Security Set (9F)	371	7.5%
Exurbanites (1E)	304	6.1%
Midlife Constants (5E)	272	5.5%
Rural Resort Dwellers (6E)	32	0.6%

Top 10 Tapestry Lifestyle Groups	2014 Households	
30-min. Drive Radius	Number	Percent
Total:	26,090	100.0%
Heartland Communities (6F)	7,267	27.9%
Salt of the Earth (6B)	5,520	21.2%
Rooted Rural (10B)	3,679	14.1%
Rural Resort Dwellers (6E)	2,763	10.6%
Traditional Living (12B)	1,617	6.2%
Southern Satellites (10A)	978	3.7%
Green Acres (6A)	887	3.4%
Small Town Simplicity (12C)	750	2.9%
Comfortable Empty Nesters (5A)	611	2.3%
Set to Impress (11D)	462	1.8%

Top 10 Tapestry Lifestyle Groups	2014 Households	
60-min. Drive Radius	Number	Percent
Total:	189,482	100.0%
Salt of the Earth (6B)	47,829	25.2%
Heartland Communities (6F)	25,720	13.6%
Traditional Living (12B)	17,644	9.3%
Green Acres (6A)	12,011	6.3%
Rural Resort Dwellers (6E)	9,764	5.2%
Hardscrabble Road (8G)	9,238	4.9%
Rustbelt Traditions (5D)	8,317	4.4%
Midlife Constants (5E)	7,325	3.9%
Rooted Rural (10B)	6,839	3.6%
Southern Satellites (10A)	6,601	3.5%

Trade Area Lifestyle Descriptions

Lifestyle Segment	Household Characteristics	Socioeconomic Traits
Heartland Communities	<p>Well settled and close-knit, Heartland Communities are semirural and semiretired. These older householders are primarily homeowners, and many have paid off their mortgages. Their children have moved away, but they have no plans to leave their homes. Their hearts are with the country; they embrace the slower pace of life here but actively participate in outdoor activities and community events. Traditional and patriotic, these residents support their local businesses, always buy American, and favor domestic driving vacations over foreign plane trips.</p>	<p>Retirees in this market depress the average labor force participation rate to less than 60% (Index 95), but the unemployment rate is comparable to the US. More workers are white collar than blue collar; more skilled than unskilled. The rural economy of this market provides employment in the manufacturing, construction, and agriculture industries. These are budget savvy consumers; they stick to brands they grew up with and know the price of goods they purchase ... Buying American is important. Working on the weekends is not uncommon. Skeptical about their financial future, they stick to community banks and low-risk investments.</p>
Traditional Living	<p>Residents in this segment live primarily in low-density, settled neighborhoods in the Midwest. The households are a mix of married-couple families and singles. Many families encompass two generations who have lived and worked in the community; their children are likely to follow suit. The manufacturing, retail trade, and health care sectors are the primary sources of employment for these residents. This is a younger market—beginning householders who are juggling the responsibilities of living on their own or a new marriage, while retaining their youthful interests in style and fun.</p>	<p>Over 70% have completed high school or some college. Unemployment is higher at 10.9%; labor force participation is also a bit higher at 64.6%. Over three quarters of households derive income from wages and salaries, augmented by Supplemental Security Income and public assistance. Cost-conscious consumers that are comfortable with brand loyalty, unless the price is too high. Connected and comfortable with the Internet, they are more likely to participate in online gaming or to access dating websites.</p>
Small Town Simplicity	<p>Small Town Simplicity includes young families and senior householders that are bound by community ties. The lifestyle is down-to-earth and semirural, with television for entertainment and news, and emphasis on convenience for both young parents and senior citizens. Residents embark on pursuits including online computer games, scrapbooking, and rural activities like hunting and fishing. Since almost 1 in 4 households is below poverty level, residents also keep their finances simple—paying bills in person and avoiding debt.</p>	<p>Education: 65% with high school diploma or some college. Unemployment higher at 11.9%. Labor force participation lower at 51%, which could result from lack of jobs or retirement. Income from wages and salaries, Social Security or retirement, increased by Supplemental Security Income. Price-conscious consumers that shop accordingly, with coupons at discount centers. Connected, but not to the latest or greatest gadgets; keep their landlines. Community-orientated residents; more conservative than middle-of-the-road.</p>

Trade Area Lifestyle Descriptions

Lifestyle Segment	Household Characteristics	Socioeconomic Traits
Salt of the Earth	<p>Salt of the Earth residents are entrenched in their traditional, rural lifestyles. Citizens here are older, and many have grown children that have moved away. They still cherish family time and also tending to their vegetable gardens and preparing homemade meals. Residents embrace the outdoors; they spend most of their free time preparing for their next fishing, boating, or camping trip. The majority has at least a high school diploma or some college education; many have expanded their skill set during their years of employment in the manufacturing and related industries. They may be experts with DIY projects, but the latest technology is not their forte. They use it when absolutely necessary, but seek face-to-face contact in their routine activities.</p>	<p>Steady employment in construction, manufacturing, and related service industries. Completed education: 42% with a high school diploma only. Household income just over the national median, while net worth is double the national median. Spending time with family is their top priority. Cost-conscious consumers, loyal to brands they like, with a focus on buying American. Last to buy the latest and greatest products. Try to eat healthy, tracking the nutrition and ingredients in the food they purchase.</p>
Rooted Rural	<p>Rooted Rural is heavily concentrated in the Appalachian mountain range as well as in Texas and Arkansas. Employment in the forestry industry is common, and Rooted Rural residents live in many of the heavily forested regions of the country. Nearly 9 of 10 residents are non-Hispanic whites. This group enjoys time spent outdoors, hunting, fishing, or working in their gardens. Indoors, they enjoy watching television with a spouse and spending time with their pets. When shopping, they look for American-made and generic products. These communities are heavily influenced by religious faith, traditional gender roles, and family history.</p>	<p>Thrifty shoppers that use coupons frequently and buy generic goods. Far-right political values on religion and marriage. Do-it-yourself mentality; grow their own produce and work on their cars and ATVs. Pay bills in person and avoid using the Internet for financial transactions. Often find computers and cell phones too complicated and confusing. Clothes are a necessity, not a fashion statement; only buy new clothes when old clothes wear out.</p>

SECTION II

Research, Data and Analysis

Data Analysis Approach

- To understand possible retail and service business opportunities for Hillsdale, we examined relevant data using a three-step process:
 - Assess demand;
 - Measure supply; and
 - Combined the supply/demand data with qualitative factors to draw realistic conclusions.
- Demand and supply was assessed using gap analysis – a surplus-leakage method.
- This demand and supply analysis focuses on residents of the trade area(s). It should be noted that these areas also depend on non-local demand to support local businesses; including tourists and visitors, second homeowners and work-related commuters. Additional primary research such as business owner and consumer surveys and focus group sessions would be needed to gain insight about demand of non-local market segments.

Trade Area Retail Gap Analysis

- Retail opportunity is measured by a leakage or surplus – the positive or negative gap between demand and supply.
- A positive retail gap indicates consumers are likely leaving an area to purchase goods and services, this is known as leakage. In other words, area businesses are not supplying enough goods and services to meet the demands of customers in the trade area. Leakage may indicate an opportunity to grow retail sales in an area. However, it should be noted that just because leakage may exist, it does not necessarily mean that an area could attract retail businesses to fill the unmet demand.
- A negative retail gap indicates a surplus of retail sales – a market where customers are drawn in from outside a trade area.

- The retail demand and supply data used in this report was obtained from the Esri (www.esri.com), Retail MarketPlace Profile. Esri is a worldwide leader in the development of geographic information systems and reputable supplier of demographic and consumer data.
- Esri measures retail potential using a *Leakage/Surplus Factor*, which is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A Leakage/Surplus Factor of zero (0) indicates a balanced market where supply equals demand.
- Table 2 provides positive retail gap data for the probable convenience-oriented trade area (10-minute drive radius).
- Table 3 provides positive retail gap data for the convenience-oriented trade area (30-minute drive radius). Refer to Appendix A for all retail gap data for the convenience-oriented trade area (30-minute drive radius).
- Table 4 provides positive retail gap data for the destination-oriented trade area (60-minute drive radius). Refer to Appendix B for all retail gap data for the destination-oriented trade area (60-minute drive radius).

Table 2: Retail Gap, 10-minute Drive Radius

Industry Group	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/Surplus Factor	Number of Businesses
Furniture & Home Furnishings Stores	442	\$1,873,826	\$1,774,050	\$99,776	2.7	6
Furniture Stores	4421	\$1,161,417	\$870,710	\$290,707	14.3	2
Electronics & Appliance Stores	443	\$2,679,839	\$1,434,896	\$1,244,943	30.3	5
Bldg Materials, Garden Equip. & Supply Stores	444	\$3,615,652	\$857,141	\$2,758,511	61.7	7
Bldg Material & Supplies Dealers	4441	\$2,881,488	\$835,191	\$2,046,297	55.1	6
Lawn & Garden Equip & Supply Stores	4442	\$734,165	\$0	\$734,165	100.0	0
Food & Beverage Stores	445	\$14,367,844	\$8,741,850	\$5,625,994	24.3	13
Grocery Stores	4451	\$11,713,257	\$7,152,621	\$4,560,636	24.2	8
Specialty Food Stores	4452	\$773,386	\$396,274	\$377,112	32.2	3
Beer, Wine & Liquor Stores	4453	\$1,881,200	\$1,192,955	\$688,245	22.4	2
Clothing & Clothing Accessories Stores	448	\$5,497,201	\$1,592,232	\$3,904,969	55.1	7
Clothing Stores	4481	\$3,916,365	\$1,078,489	\$2,837,876	56.8	4
Shoe Stores	4482	\$771,724	\$254,249	\$517,475	50.4	1
Jewelry, Luggage & Leather Goods Stores	4483	\$809,112	\$259,494	\$549,618	51.4	2
Sporting Goods, Hobby, Book & Music Stores	451	\$2,681,722	\$1,042,910	\$1,638,812	44.0	9
Sporting Goods/Hobby/Musical Instr Stores	4511	\$2,141,924	\$730,180	\$1,411,744	49.2	7
Book, Periodical & Music Stores	4512	\$539,798	\$312,730	\$227,068	26.6	2
Department Stores Excluding Leased Depts.	4521	\$6,660,520	\$1,430,833	\$5,229,687	64.6	2
Office Supplies, Stationery & Gift Stores	4532	\$665,226	\$353,909	\$311,317	30.5	6
Used Merchandise Stores	4533	\$237,615	\$75,012	\$162,603	52.0	1
Special Food Services	7223	\$496,602	\$29,624	\$466,978	88.7	1
Drinking Places - Alcoholic Beverages	7224	\$684,381	\$200,820	\$483,561	54.6	2

Table 3: Retail Gap, 30-minute Drive Radius

Industry Group	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/Surplus Factor	Number of Businesses
Auto Parts, Accessories & Tire Stores	4413	\$7,905,556	\$3,013,999	\$4,891,557	44.8	15
Furniture & Home Furnishings Stores	442	\$10,176,536	\$5,357,973	\$4,818,563	31.0	24
Furniture Stores	4421	\$6,288,601	\$2,743,934	\$3,544,667	39.2	7
Home Furnishings Stores	4422	\$3,887,935	\$2,614,039	\$1,273,896	19.6	17
Electronics & Appliance Stores	443	\$14,613,673	\$3,930,275	\$10,683,398	57.6	15
Food & Beverage Stores	445	\$80,285,589	\$26,517,190	\$53,768,399	50.3	59
Grocery Stores	4451	\$65,910,301	\$19,530,965	\$46,379,336	54.3	40
Specialty Food Stores	4452	\$4,264,392	\$1,960,474	\$2,303,918	37.0	13
Beer, Wine & Liquor Stores	4453	\$10,110,896	\$5,025,752	\$5,085,144	33.6	6
Health & Personal Care Stores	446, 4461	\$50,455,568	\$26,812,209	\$23,643,359	30.6	24
Clothing & Clothing Accessories Stores	448	\$29,107,892	\$4,274,197	\$24,833,695	74.4	22
Clothing Stores	4481	\$20,728,707	\$3,351,460	\$17,377,247	72.2	16
Shoe Stores	4482	\$4,127,702	\$427,126	\$3,700,576	81.2	2
Jewelry, Luggage & Leather Goods Stores	4483	\$4,251,483	\$495,612	\$3,755,871	79.1	4
Sporting Goods, Hobby, Book & Music Stores	451	\$14,665,627	\$4,798,740	\$9,866,887	50.7	36
Sporting Goods/Hobby/Musical Instr Stores	4511	\$11,853,088	\$4,458,961	\$7,394,127	45.3	34
Book, Periodical & Music Stores	4512	\$2,812,540	\$339,779	\$2,472,761	78.4	2
General Merchandise Stores	452	\$125,724,623	\$95,104,440	\$30,620,183	13.9	11
Department Stores Excluding Leased Depts.	4521	\$36,571,584	\$10,387,415	\$26,184,169	55.8	7
Other General Merchandise Stores	4529	\$89,153,038	\$84,717,025	\$4,436,013	2.6	4
Florists	4531	\$930,282	\$564,313	\$365,969	24.5	7
Office Supplies, Stationery & Gift Stores	4532	\$3,668,246	\$898,745	\$2,769,501	60.6	22
Food Services & Drinking Places	722	\$58,480,686	\$41,396,766	\$17,083,920	17.1	91
Full-Service Restaurants	7221	\$21,978,632	\$14,756,031	\$7,222,601	19.7	31
Limited-Service Eating Places	7222	\$30,324,955	\$24,676,772	\$5,648,183	10.3	47
Special Food Services	7223	\$2,731,869	\$78,076	\$2,653,793	94.4	1
Drinking Places - Alcoholic Beverages	7224	\$3,445,229	\$1,885,886	\$1,559,343	29.2	12

Source: Esri and Dun & Bradstreet. Copyright 2014 Dun & Bradstreet, Inc. All rights reserved.

Table 4: Retail Gap, 60-minute Drive Radius

Industry Group	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/Surplus Factor	Number of Businesses
Auto Parts, Accessories & Tire Stores	4413	\$58,404,020	\$35,480,793	\$22,923,227	24.4	120
Furniture & Home Furnishings Stores	442	\$76,417,066	\$58,690,232	\$17,726,834	13.1	154
Furniture Stores	4421	\$47,057,912	\$23,675,076	\$23,382,836	33.1	45
Electronics & Appliance Stores	443	\$111,053,431	\$67,570,554	\$43,482,877	24.3	119
Food & Beverage Stores	445	\$584,667,006	\$344,791,665	\$239,875,341	25.8	387
Grocery Stores	4451	\$489,108,389	\$276,375,657	\$212,732,732	27.8	231
Specialty Food Stores	4452	\$28,606,838	\$22,980,457	\$5,626,381	10.9	109
Beer, Wine & Liquor Stores	4453	\$66,951,779	\$45,435,551	\$21,516,228	19.1	47
Health & Personal Care Stores	446, 4461	\$363,489,581	\$361,283,802	\$2,205,779	0.3	193
Clothing & Clothing Accessories Stores	448	\$218,422,111	\$113,980,526	\$104,441,585	31.4	214
Clothing Stores	4481	\$155,486,532	\$89,620,883	\$65,865,649	26.9	145
Shoe Stores	4482	\$30,591,317	\$12,202,699	\$18,388,618	43.0	34
Jewelry, Luggage & Leather Goods Stores	4483	\$32,344,261	\$12,156,944	\$20,187,317	45.4	35
Sporting Goods, Hobby, Book & Music Stores	451	\$106,412,430	\$78,193,626	\$28,218,804	15.3	270
Sporting Goods/Hobby/Musical Instr Stores	4511	\$85,031,040	\$69,242,734	\$15,788,306	10.2	228
Book, Periodical & Music Stores	4512	\$21,381,389	\$8,950,892	\$12,430,497	41.0	42
General Merchandise Stores	452	\$887,408,777	\$853,794,043	\$33,614,734	1.9	100
Department Stores Excluding Leased Depts.	4521	\$267,372,647	\$187,176,137	\$80,196,510	17.6	60
Miscellaneous Store Retailers	453	\$112,126,352	\$108,988,712	\$3,137,640	1.4	601
Florists	4531	\$6,409,438	\$6,397,606	\$11,832	0.1	60
Other Miscellaneous Store Retailers	4539	\$67,816,410	\$62,396,840	\$5,419,570	4.2	271
Full-Service Restaurants	7221	\$163,803,709	\$163,377,375	\$426,334	0.1	244
Special Food Services	7223	\$20,752,671	\$8,142,753	\$12,609,918	43.6	35
Drinking Places - Alcoholic Beverages	7224	\$26,519,674	\$14,615,200	\$11,904,474	28.9	104

Source: Esri and Dun & Bradstreet. Copyright 2014 Dun & Bradstreet, Inc. All rights reserved.

Trade Area Service Sector Analysis

- Business development opportunities for the service sector cannot be assessed using gap analysis.
- One technique that can be used to analyze potential service sector growth opportunities is location quotient (LQ).
- An LQ is a statistical way of quantifying how concentrated a particular industry/occupation is in a region compared to a larger geographic area (typically the nation).

- For example, an LQ of 1.0 in Finance and Insurance means that the local area and the nation have an equal concentration in Finance and Insurance; while an LQ of 1.5 means that the local area has a higher concentration in Finance and Insurance than the nation.
- Industries with high LQ (> 1.25) are typically export-oriented industries, which bring money into the local area and form it's economic base.
- An LQ significantly less than 1.0 may indicate an opportunity to develop businesses in the local area to meet area demand.

Table 5: Location Quotients – Hillsdale County

NAICS code	Industry Description	Hillsdale County, Michigan
52	Finance and insurance	0.47
522	Credit intermediation and related activities	0.73
523	Securities, commodity contracts, investments	ND
524	Insurance carriers and related activities	ND
53	Real estate and rental and leasing	0.8
531	Real estate	0.85
532	Rental and leasing services	0.7
54	Professional and technical services	ND
55	Management of companies and enterprises	ND
56	Administrative and waste services	0.88
61	Educational services	ND
62	Health care and social assistance	ND
621	Ambulatory health care services	0.77
622	Hospitals	NC
623	Nursing and residential care facilities	0.91
624	Social assistance	ND
71	Arts, entertainment, and recreation	0.33
713	Amusements, gambling, and recreation	0.46
81	Other services, except public administration	1.38
811	Repair and maintenance	0.91
812	Personal and laundry services	0.77
813	Membership associations and organizations	1.22
Footnotes:		
<u>(ND)</u> Not Disclosable; <u>(NC)</u> Not Calculable, the data does not exist or it is zero.		

Business Expansion / Attraction Opportunities

- The quantitative analysis of retail demand with supply provides a preliminary idea of market opportunities in the trade area.
- A considerable amount of positive retail gap (i.e., unmet demand) may indicate opportunities for existing businesses to expand or for new businesses to locate in the trade area.
- Negative retail gap – when supply is greater than demand – may indicate business development opportunities also, but special conditions are typically needed to realize that potential. For example, some communities draw customers from outside their trade area by creating a niche market.

- Things to consider when developing targeted opportunities:
 - Locations available in the community that meet business/industry location requirements such as: visibility, traffic counts, and complementary businesses;
 - Decision requirements of chains versus independent stores;
 - Size needs in terms square feet;
 - Segment price points;
 - Market segments projections;
 - Community infrastructure needed;
 - Business segments that promote a vibrant mix in the community, complementing existing businesses;
 - Reasonable evidence that an expanded or recruited business will have opportunity for success.

- Finally, and most importantly, do a thorough reality check of potential business/industry targets and document your reasoning.
- It is essential to step back from the quantitative analysis and ask if your targeted businesses/industries are based on actual consumer behavior and business location practices. If possible, form a diverse working group to vet each target and give consideration to questions like:
 - Where do businesses of this type typically locate (e.g., downtowns, strip centers, etc.)?
 - Can the business/industry co-exist with large-format stores in and on the edges of the trade area?
 - Would/can your community support this business? Here is where surveys help.
 - Are businesses of this type successful in communities similar to ours? Find examples of similar businesses that are successfully operating in other comparable communities.

Next Steps

- There are more than 20 industries showing a positive retail gap within a 10-minute drive radius of Hillsdale and there are a few service sectors showing potential with an $LQ > 0.75$... so how do we determine which to pursue?
- Determining a short list of industries to pursue requires in-depth investigations of industries that show opportunity, including:
 - Business and consumer surveys;
 - Industry trends and growth projections;
 - Demographic trends and projections; and
 - Comparisons of industry mixes in comparable communities in other regions/states.

APPENDIX A

Retail Gap Data for the Convenience-Oriented Trade Area (30-minute Drive Radius)

Source: Esri and Dun & Bradstreet. Copyright 2014 Dun & Bradstreet, Inc. All rights reserved.

Industry Group	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/Surplus Factor	Number of Businesses
Motor Vehicle & Parts Dealers	441	\$119,565,098	\$60,477,553	\$59,087,545	32.8	46
Automobile Dealers	4411	\$102,866,291	\$53,692,865	\$49,173,426	31.4	20
Other Motor Vehicle Dealers	4412	\$8,793,250	\$3,770,690	\$5,022,560	40.0	11
Auto Parts, Accessories & Tire Stores	4413	\$7,905,556	\$3,013,999	\$4,891,557	44.8	15
Furniture & Home Furnishings Stores	442	\$10,176,536	\$5,357,973	\$4,818,563	31.0	24
Furniture Stores	4421	\$6,288,601	\$2,743,934	\$3,544,667	39.2	7
Home Furnishings Stores	4422	\$3,887,935	\$2,614,039	\$1,273,896	19.6	17
Electronics & Appliance Stores	443	\$14,613,673	\$3,930,275	\$10,683,398	57.6	15
Bldg Materials, Garden Equip. & Supply Stores	444	\$20,665,163	\$21,198,173	-\$533,010	-1.3	43
Bldg Material & Supplies Dealers	4441	\$16,212,154	\$16,760,362	-\$548,208	-1.7	34
Lawn & Garden Equip & Supply Stores	4442	\$4,453,009	\$4,437,811	\$15,198	0.2	9
Food & Beverage Stores	445	\$80,285,589	\$26,517,190	\$53,768,399	50.3	59
Grocery Stores	4451	\$65,910,301	\$19,530,965	\$46,379,336	54.3	40
Specialty Food Stores	4452	\$4,264,392	\$1,960,474	\$2,303,918	37.0	13
Beer, Wine & Liquor Stores	4453	\$10,110,896	\$5,025,752	\$5,085,144	33.6	6
Health & Personal Care Stores	446, 4461	\$50,455,568	\$26,812,209	\$23,643,359	30.6	24
Gasoline Stations	447, 4471	\$58,165,308	\$83,528,348	-\$25,363,040	-17.9	18
Clothing & Clothing Accessories Stores	448	\$29,107,892	\$4,274,197	\$24,833,695	74.4	22
Clothing Stores	4481	\$20,728,707	\$3,351,460	\$17,377,247	72.2	16
Shoe Stores	4482	\$4,127,702	\$427,126	\$3,700,576	81.2	2
Jewelry, Luggage & Leather Goods Stores	4483	\$4,251,483	\$495,612	\$3,755,871	79.1	4
Sporting Goods, Hobby, Book & Music Stores	451	\$14,665,627	\$4,798,740	\$9,866,887	50.7	36
Sporting Goods/Hobby/Musical Instr Stores	4511	\$11,853,088	\$4,458,961	\$7,394,127	45.3	34
Book, Periodical & Music Stores	4512	\$2,812,540	\$339,779	\$2,472,761	78.4	2
General Merchandise Stores	452	\$125,724,623	\$95,104,440	\$30,620,183	13.9	11
Department Stores Excluding Leased Depts.	4521	\$36,571,584	\$10,387,415	\$26,184,169	55.8	7
Other General Merchandise Stores	4529	\$89,153,038	\$84,717,025	\$4,436,013	2.6	4
Miscellaneous Store Retailers	453	\$15,747,308	\$16,700,492	-\$953,184	-2.9	85
Florists	4531	\$930,282	\$564,313	\$365,969	24.5	7
Office Supplies, Stationery & Gift Stores	4532	\$3,668,246	\$898,745	\$2,769,501	60.6	22
Used Merchandise Stores	4533	\$1,309,538	\$1,735,568	-\$426,030	-14.0	21
Other Miscellaneous Store Retailers	4539	\$9,839,242	\$13,501,866	-\$3,662,624	-15.7	36
Nonstore Retailers	454	\$47,862,732	\$13,644,258	\$34,218,474	55.6	27
Electronic Shopping & Mail-Order Houses	4541	\$38,168,204	\$0	\$38,168,204	100.0	0
Vending Machine Operators	4542	\$2,470,840	\$846,738	\$1,624,102	49.0	3
Direct Selling Establishments	4543	\$7,223,688	\$12,727,587	-\$5,503,899	-27.6	24
Food Services & Drinking Places	722	\$58,480,686	\$41,396,766	\$17,083,920	17.1	91
Full-Service Restaurants	7221	\$21,978,632	\$14,756,031	\$7,222,601	19.7	31
Limited-Service Eating Places	7222	\$30,324,955	\$24,676,772	\$5,648,183	10.3	47
Special Food Services	7223	\$2,731,869	\$78,076	\$2,653,793	94.4	1
Drinking Places - Alcoholic Beverages	7224	\$3,445,229	\$1,885,886	\$1,559,343	29.2	12

APPENDIX B

Retail Gap Data for the Destination-Oriented Trade Area (60-minute Drive Radius)

Source: Esri and Dun & Bradstreet. Copyright 2014 Dun & Bradstreet, Inc. All rights reserved.

Industry Group	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap Leakage/Surplus Factor	Number of Businesses	
Motor Vehicle & Parts Dealers	441	\$853,834,154	\$606,822,599	\$247,011,555	16.9	352
Automobile Dealers	4411	\$736,577,762	\$513,847,053	\$222,730,709	17.8	146
Other Motor Vehicle Dealers	4412	\$58,852,372	\$57,494,753	\$1,357,619	1.2	86
Auto Parts, Accessories & Tire Stores	4413	\$58,404,020	\$35,480,793	\$22,923,227	24.4	120
Furniture & Home Furnishings Stores	442	\$76,417,066	\$58,690,232	\$17,726,834	13.1	154
Furniture Stores	4421	\$47,057,912	\$23,675,076	\$23,382,836	33.1	45
Home Furnishings Stores	4422	\$29,359,154	\$35,015,157	-\$5,656,003	-8.8	109
Electronics & Appliance Stores	443	\$111,053,431	\$67,570,554	\$43,482,877	24.3	119
Bldg Materials, Garden Equip. & Supply Stores	444	\$146,146,356	\$170,017,560	-\$23,871,204	-7.6	251
Bldg Material & Supplies Dealers	4441	\$116,076,622	\$126,168,585	-\$10,091,963	-4.2	204
Lawn & Garden Equip & Supply Stores	4442	\$30,069,734	\$43,848,974	-\$13,779,240	-18.6	47
Food & Beverage Stores	445	\$584,667,006	\$344,791,665	\$239,875,341	25.8	387
Grocery Stores	4451	\$489,108,389	\$276,375,657	\$212,732,732	27.8	231
Specialty Food Stores	4452	\$28,606,838	\$22,980,457	\$5,626,381	10.9	109
Beer, Wine & Liquor Stores	4453	\$66,951,779	\$45,435,551	\$21,516,228	19.1	47
Health & Personal Care Stores	446, 4461	\$363,489,581	\$361,283,802	\$2,205,779	0.3	193
Gasoline Stations	447, 4471	\$417,425,774	\$685,969,026	-\$268,543,252	-24.3	144
Clothing & Clothing Accessories Stores	448	\$218,422,111	\$113,980,526	\$104,441,585	31.4	214
Clothing Stores	4481	\$155,486,532	\$89,620,883	\$65,865,649	26.9	145
Shoe Stores	4482	\$30,591,317	\$12,202,699	\$18,388,618	43.0	34
Jewelry, Luggage & Leather Goods Stores	4483	\$32,344,261	\$12,156,944	\$20,187,317	45.4	35
Sporting Goods, Hobby, Book & Music Stores	451	\$106,412,430	\$78,193,626	\$28,218,804	15.3	270
Sporting Goods/Hobby/Musical Instr Stores	4511	\$85,031,040	\$69,242,734	\$15,788,306	10.2	228
Book, Periodical & Music Stores	4512	\$21,381,389	\$8,950,892	\$12,430,497	41.0	42
General Merchandise Stores	452	\$887,408,777	\$853,794,043	\$33,614,734	1.9	100
Department Stores Excluding Leased Depts.	4521	\$267,372,647	\$187,176,137	\$80,196,510	17.6	60
Other General Merchandise Stores	4529	\$620,036,130	\$666,617,906	-\$46,581,776	-3.6	40
Miscellaneous Store Retailers	453	\$112,126,352	\$108,988,712	\$3,137,640	1.4	601
Florists	4531	\$6,409,438	\$6,397,606	\$11,832	0.1	60
Office Supplies, Stationery & Gift Stores	4532	\$27,161,616	\$27,433,651	-\$272,035	-0.5	156
Used Merchandise Stores	4533	\$10,738,888	\$12,760,616	-\$2,021,728	-8.6	113
Other Miscellaneous Store Retailers	4539	\$67,816,410	\$62,396,840	\$5,419,570	4.2	271
Nonstore Retailers	454	\$320,656,024	\$186,253,251	\$134,402,773	26.5	162
Electronic Shopping & Mail-Order Houses	4541	\$256,519,607	\$120,392,068	\$136,127,539	36.1	18
Vending Machine Operators	4542	\$17,046,887	\$14,503,175	\$2,543,712	8.1	28
Direct Selling Establishments	4543	\$47,089,530	\$51,358,008	-\$4,268,478	-4.3	117
Food Services & Drinking Places	722	\$435,938,279	\$436,329,744	-\$391,465	0.0	733
Full-Service Restaurants	7221	\$163,803,709	\$163,377,375	\$426,334	0.1	244
Limited-Service Eating Places	7222	\$224,862,225	\$250,194,416	-\$25,332,191	-5.3	350
Special Food Services	7223	\$20,752,671	\$8,142,753	\$12,609,918	43.6	35
Drinking Places - Alcoholic Beverages	7224	\$26,519,674	\$14,615,200	\$11,904,474	28.9	104