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## Home-Based Business Fact Sheet

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Bulletin #3006

# Market Potential for Retail Businesses in Maine

*A fact sheet for small-scale business owners*

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Thinking of starting a retail business? Knowing the local market is vital! Your new business could prosper in one community, but fail in another. Analyzing your market is an important step in deciding whether or not to start a new business.

This fact sheet discusses two methods of market analysis. These methods draw upon secondary sources of data (for example census data and sales) and help the potential retailer focus on what size market is needed to support the average retail outlet in Maine. These tools are only part of the many market analysis methods available to the prospective retailer. No single tool or method will guarantee the success of a new business. However, the more information you gather about the market, the better your chances for success.

### **Estimating Market Threshold**

You can estimate the market for your product by analyzing the population base that currently supports a particular retail outlet within a region. Table 1 on page 2 presents the number of stores and the number of people per store for 25 types of retail outlets in Maine. The number of people per store

was calculated for each category by dividing the state population by the number of stores in that category. This provides an average measure of the population base or trade area population needed to support these types of retail stores in Maine.

Note that the number of people per store varies considerably by type of retail outlet. It takes a much larger population base to support a bookstore than a grocery store. On average, a population base of about 2,958 is needed to support a grocery store, while a bookstore requires a population base of 12,142. The population base needed to support a men's clothing store is about three times that needed to support a women's clothing store!

A Maine town with a trade area population of 4,000 probably would not be able to support a department store, but it could prove to be a good location for a convenience store or service station if none exists in the town. By taking a look at a given community and the number of retail outlets similar to the type you are considering, you can estimate if there is room for you to start a new business or expand an existing one.

**Table 1. Number of Maine Stores and People per Store by Category, 1999\***

County Business Patterns Business Category	Number of Stores <sup>1</sup>	Number of People per Store <sup>2</sup>
Food service and drinking places	2,680	476
Gasoline service stations	866	1,472
Hotels and motels	572	2,229
Building material and supplies stores	519	2,456
Grocery stores	431	2,958
Convenience stores	333	3,829
Gift, novelty, and souvenir shops	305	4,180
Pharmacies and drug stores	184	6,929
Sporting goods stores	173	7,369
Hardware stores	165	7,727
Florists	151	8,443
Specialty food stores	144	8,854
Family clothing stores	143	8,916
Bed and breakfast inns	141	9,042
Women's clothing stores	139	9,172
Shoe stores	134	9,514
Furniture stores	131	9,723
Used merchandise stores	117	10,897
Jewelry stores	115	11,086
Book stores	105	12,142
Retail nurseries and garden centers	69	18,477
Household appliance stores	67	19,029
Computer and software stores	66	19,317
Department stores	65	19,614
Men's clothing stores	44	28,976

Source: County Business Patterns and U.S. Census Bureau

<sup>1</sup> As of 1999

<sup>2</sup> 2000 State population (1,274,923) divided by the number of stores

\*Most recent data available as of summer 2001.

## Estimating Sales Potential

A more comprehensive method of estimating sales potential for your type of business is to calculate the retail sales market potential for a given product or service and multiply this figure by the market share (percent) you think you will capture. To use this method you need to know: 1) the population of your trade area; 2) the per capita expenditure for the type of store you are considering; 3) the per capita income of your trade area relative to the state average; and 4) an estimate of the market share you expect to capture. This information is available through sources such as libraries, state and federal agencies, the Internet and universities.

Once you have this information, you can calculate an estimate of sales potential for the market and type of business you are considering. Use the formula detailed in Figure 1.

For example, consider a person interested in starting a hardware store in a Maine community that already has one hardware store and a trade area of 6,000 people. Assume that the per capita expenditure in hardware stores in Maine is approximately \$100, and the county in which this community resides has a per capita income of 90 percent of the state average (county per capita income [TPI] / state per capita income [MPI] = .90). Using this formula, the annual market sales potential for hardware stores in this community would be:

$$6,000 \times \$100 \times .90 = \$540,000$$

If the prospective retailer expects to capture 35 percent of the market sales potential, then expected hardware sales would be:

$$.35 \times \$540,000 = \$189,000$$

The retailer must then determine if \$189,000 constitutes enough volume to support a viable hardware business.

### Figure 1. Estimating Market Sales Potential

$$\text{MSP} = \text{POP} \times \text{PCE} \times (\text{TPI}/\text{MPI})$$

#### Where:

MSP =	Market Sales Potential
POP =	Trade Area Population
PCE =	State Per Capita Expenditure for Type of Store
TPI =	County Per Capita Income
MPI =	State Per Capita Income

Keep in mind that the method of estimating market potential outlined above produces a ballpark figure based on averages. It should be used only as a rough estimate of business volume. Sometimes, there are mitigating circumstances—such as proximity to large population centers or enclosed shopping malls—that will cause market sales potential to deviate substantially from actual market conditions.

## Conclusion

Analyzing the market potential for your goods or services is an important first step in deciding whether to start a new business or expand an existing one. The two methods discussed in this fact sheet provide examples of ways to estimate market size based on averages. While there is no such thing as a “sure thing,” a comprehensive analysis of the market can improve the management of risk in locating a retail business in Maine.

## Other Resources

This is one of many UMCE publications designed to help people entering or considering a new small business operation. Other publications available through your county Extension office include:

- *Starting a Home Business*, bulletin #3007
- *Capital Sources for Your Business*, bulletin #3008
- *How to Organize Your Business*, bulletin #3009
- *Record Keeping for Profit*, bulletin 3010
- *How to Insure Your Business*, bulletin #3011
- *Estimating Retail Market Potential*, bulletin #3012
- *So You're in Sales*, bulletin #3013
- *Taxes and Permits*, bulletin #3014
- *Starting a Business in Your Home: Weighing the Pros and Cons*, bulletin #4190
- *Keeping Your Business on Track:*
  - *Records (Part 1)*, bulletin #3004
  - *Financial Statements, (Part 2)* bulletin #3003
  - *Ratio Analysis (Part 3)*, bulletin #3002

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