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## Overview

A sales gap analysis is a method used to estimate how well a community or trade area meets the retail needs of its residents. Sales gap analysis involves the following steps:

1. First, by using a defined trade area it estimates the amount of money people in it are likely to spend on retail goods or at stores, which will be referred to as potential sales.
2. It then measures the difference between the potential sales and the actual retail sales captured by the community's businesses. If residents are spending more than local businesses capture, it means that they are most likely shopping outside the community or trade area, meaning there is sales leakage. Alternatively, if local businesses are selling more than residents are spending, the community has a sales surplus.

In many cases, a sales leakage suggests that there is unmet demand in the community for the product/service or store-type being measured and that the community or trade area can therefore most likely support additional store space of that type of business. If there is enough demand the community may be able to support an additional store(s).

In some instances, leakage does not translate into opportunity. While a sales leakage suggests that there is unmet demand in the community, it does not necessarily mean that the community can support additional businesses. For example, there could be a strong competitor in a neighboring community that is so popular that a new business would not be able to compete. There could also be a cultural reason why local customers might not be likely to patronize certain types of retail, despite the presence of sufficient sales potential. Or, there could be any number of other causes of why the existence of a sales leakage might not necessarily translate into a business opportunity.

Similarly, a sales surplus does not necessarily mean that a community cannot support additional businesses. Many communities have become well known within their regions for having a strong cluster of home furnishings stores, restaurants, antiques, or other specialties that attract shoppers from a broad geographic area. The trade area for these stores will thus be larger than those of other local retailers. Having established regional dominance in a niche, they are often able to attract even more customers from that region, and therefore to support additional businesses within those categories or related categories.

For these reasons the sales gap analysis should be used as a guide and not a final answer to indicate unconditional opportunity or the lack thereof. By combining the analysis with the knowledge of local norms, trends, and other retail and customer analytics, one can identify the retail needs of the trade area.

## Sales Gap Index

A sales gap index is used to compare the strengths and weaknesses of a community's retail market. The index provides a relative comparison of leakage/surplus across all categories of products or store-types. It is calculated by dividing actual sales by sales potential. If the index is greater than 1 that means the trade area is attracting retail dollars from outside the trade area. In contrast, if the index is less than 1 there is sales leakage, which indicates retail dollars are being spent outside the trade area.

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## Methodology

### Supply Side Estimates

The basis for the supply side sales estimates is the Census of Retail Trade conducted by the economic census, a division of the U.S. Census Bureau.

#### Retail Store Type Supply:

The source of this data is the Census of Retail Trade (CRT). The CRT data is a survey of retail store sales, employment, and wages. Since this is a survey done once every five years, survey results combined with employment and wage data from the Quarterly Census from the Bureau of Labor Statistics (BLS) are used to update the estimates annually. A national level business database is then used to allocate county level data down to low levels of geography (Census Block Groups) resulting in Block Group level sales estimates by North American Industry Classification code (NAICS). NAICS code translates into retail store type.

#### Merchandise Line Item Supply:

The source of this data is the Census of Retail Trade (CRT). The CRT data is a survey of retail store sales, employment, and wages. Since this is a survey done once every five years, survey results combined with employment and wage data from the Quarterly Census from the Bureau of Labor Statistics (BLS) are used to update the estimates annually. A national level business database is then used to allocate county level data down to low levels of geography (Census Block Groups) resulting in Block Group level sales estimates by North American Industry Classification code (NAICS). NAICS code only identifies the kind of store type, not exactly what is sold. So the NAICS are then broken down to Merchandise Line Items using proportions derived from census data. The Merchandise Line Item results from aggregating those values after the proportions are applied to each retail store type which has some percentage of sales of that line item.

### Demand Side Estimates

The basis for the demand side estimates is the Consumer Expenditure Survey issued by the Bureau of Labor Statistics. The Consumer Expenditure Survey collects household expenditure information on over 350 expenditure items.

#### Retail Store Type Demand:

The source of this data is the BLS Consumer Expenditure Survey (CEX). This is a survey of households and what they buy in terms of line items, not necessarily where the items are purchased. CEX expenditure categories are mapped to Merchandise Line Items. This gives us potential expenditures for Merchandise Line Items by geographic area regardless of where the consumers make their purchases. The Merchandise Line Items are then allocated into NAICS categories using ratios estimated from the CRT. This operation is like a reverse operation to the method of turning Retail Store Type sales into Merchandise Line Items for the purposes of estimating "Merchandise Line Item Supply."

#### Merchandise Line Item Demand:

The source of this data is the BLS Consumer Expenditure Survey (CEX). This is a survey of households and what they buy in terms of line items, not necessarily where the items are purchased. CEX expenditure categories are mapped to Merchandise Line Items. This gives us potential expenditures for Merchandise Line Items by geographic area regardless of where the consumers make their purchases.