

Memphis Retail Potential Stud Downtown/Medical Center

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Table of Contents

Introduction.....	1
Description of Total Study Area.....	2
Overview of Retail & Service Expenditure Analysis.....	5
Methodology.....	6
Economic & Social Characteristics of Downtown/Medical Center Market.....	8
Retail Profile of Downtown/Medical Center Market.....	12
Retail Trade Analysis.....	14
Service Industry Analysis.....	21
Summary.....	24
Appendix - Study Methodology	A1

Introduction

The purpose of this study is to identify areas within the City of Memphis where business development efforts are warranted for developing (or re-developing) retail trade and service industries. The emphasis is on retail and service industries that draw their market primarily from the expenditures of households.

There is a general belief by many city residents and civic leaders that several areas of Memphis are now underserved with respect to retail trade. Over the past several years business creation has been brisk in suburban areas of Shelby County and in portions of east Memphis as developers and retailers have responded to population growth in newer and rapidly growing markets. Similar studies in other cities, including Boston and Washington, have revealed significant retail opportunities, especially in older neighborhoods. Several organizations, including Price Waterhouse and the Boston Consulting Group are likewise conducting research and finding significant business opportunities in inner city markets across the country.

This report provides information on business development potential for all major industry groups in retail trade and consumer services. Sixty-nine industries in nine separate geographic markets are included in the study. The geographic markets generally cover the western two-fifths of the City of Memphis' land area and approximately 60% of its citizens. Retail expenditures from households in the study area comprise approximately 35% of all retail expenditures by Shelby County residents.

Intended users of this study include owners and managers of consumer oriented businesses, real estate developers, economic development professionals, bankers, community development initiatives, and others with an interest in commercial development in Memphis.

This study was conducted by the Regional Economic Development Center (REDC) at The University of Memphis under a contract with the City of Memphis, Department of Housing and Community Development (HCD).

This report focuses on the Downtown/Medical Center retail market but includes background information on the total study area. Reports for eight other Memphis retail markets are available.

Description Of Total Study Area

Market Geography

The nine retail markets studied correspond to the westernmost planning districts of the Memphis & Shelby County Office of Planning and Development and are shown on Map 1. These planning districts are: Downtown/Medical Center, Midtown, North Memphis, South Memphis, Depot, University, Jackson, Frayser, and Whitehaven-Levi.

Planning districts provide a good market definition based on their general conformity to the demographic and physical characteristics that typically define retail markets. Additionally, planning districts are the geographic boundaries used by Memphis and Shelby County for community and economic development planning. Each retail and service industry, as well as each particular business, has its own market area that may be larger or smaller than the planning district markets. It would not be possible to fully incorporate individual markets into this study, however, they are discussed where appropriate.

Study Area Characteristics

The total study area (nine markets) has an estimated population of 365,000 and 140,000 households, each approximately 41% of Shelby County. Although households in the study area declined by almost 8% since 1980 versus an increase of over 13% for Shelby County as a whole, significant differences in household change are found in the nine markets, and among neighborhoods within these markets. There is evidence of stabilization or growth in several areas.

Median household income is currently estimated at \$25,000 for the study area versus \$37,000 for Shelby County. However, households in the study area spend a higher percentage of their income on retail goods and services than do Shelby Countians in areas with higher incomes. Retail spending by households in the study area totals over \$2.5 billion per year. An estimated \$1 billion of this spending is conducted outside the markets included in the study area. Automotive items account for much of this leakage, but over \$500 million is in a variety of other retail and service industries.

Income Dynamics And Retail Spending

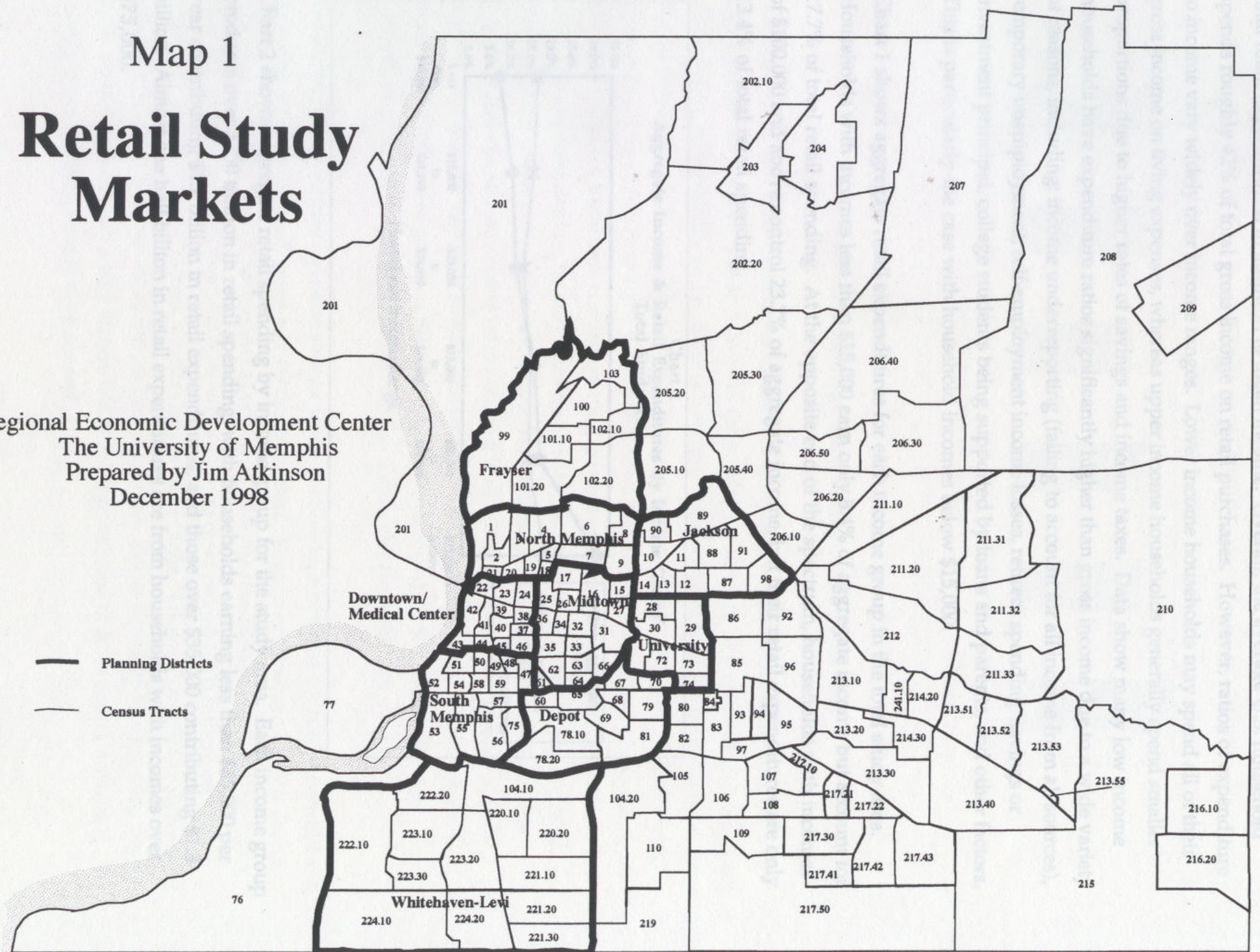
Total retail spending by households is highly correlated with income, however, the relationship is not linear. Retail spending as a percent of income declines with increasing household incomes. Consequently, the distribution of incomes in a market is an important component of

Map 1

Retail Study Markets

Regional Economic Development Center
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Prepared by Jim Atkinson
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— Planning Districts
— Census Tracts



total retail expenditures, in addition to mean income. Overall, the average U.S. household spends roughly 42% of total gross income on retail purchases. However, ratios of expenditure to income vary widely over income ranges. Lower income households may spend all of their gross income on living expenses, whereas upper income households generally spend smaller proportions due to higher rates of savings and income taxes. Data show many low income households have expenditure ratios significantly higher than gross income due to a wide variety of reasons, including: income underreporting (failing to account for all income from all sources), temporary unemployment, self-employment income losses, retirees spending savings or investment principal, college students being supported by loans and parents, and other factors. This is particularly the case with household incomes below \$15,000.

Chart 1 shows aggregate retail expenditures for each income group in the total study area. Households with incomes less than \$15,000 earn only 8.4% of aggregate income but account for 17.7% of total retail spending. At the opposite end of the spectrum, households with incomes of \$100,000 and above control 23.7% of aggregate income, but their retail expenditures are only 13.4% of total retail spending.

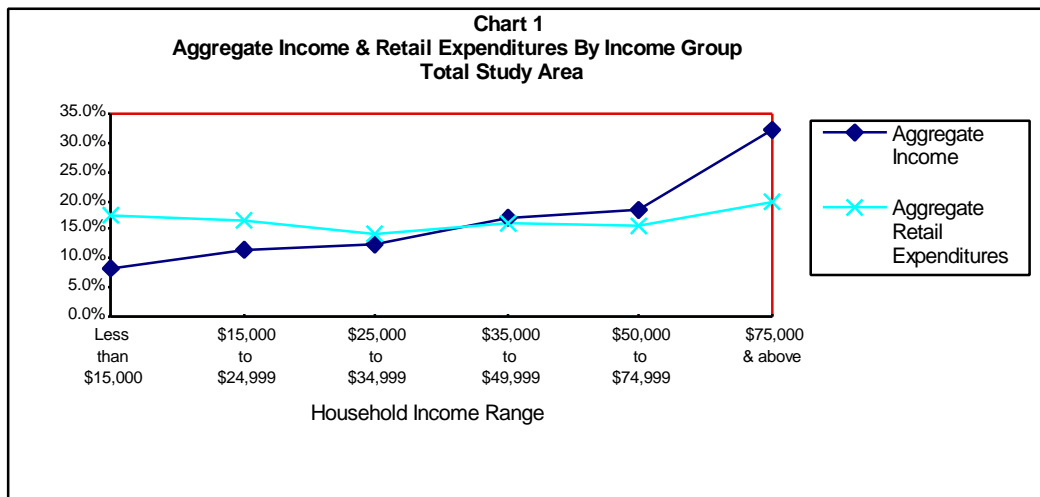
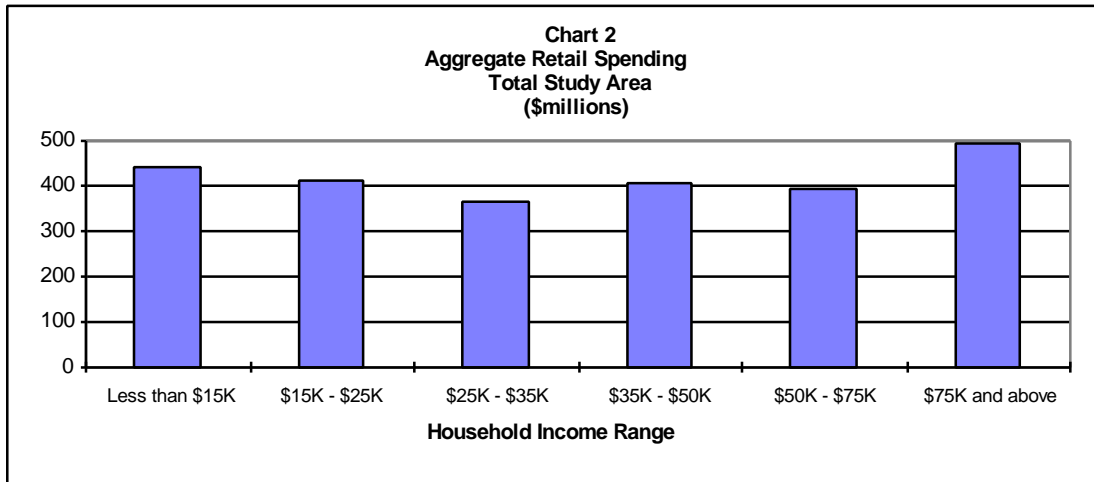


Chart 2 shows aggregate retail spending by income group for the study area. Each income group produces over \$350 million in retail spending, with households earning less than \$35,000 per year contributing \$1.2 billion in retail expenditures, and those over \$35,000 contributing \$1.3 billion. Almost one half billion in retail expenditures are from households with incomes over \$75,000.



Overview Of Retail And Service Expenditure Analysis

Estimated trade area household expenditures are compared with actual sales to determine if gaps exist between the supply and demand for goods and services. If trade area businesses are not capturing all expenditures, i.e., there is leakage of expenditures from the neighborhood, there may be potential for additional businesses. Generally, capture rates less than 100% indicate gaps while capture rates over 100% usually indicate a retail or service industry has a customer base larger than the trade area and is exporting goods or services to other markets. Above or below average consumption by trade area households can also be reflected in capture rates. When gaps are present, the difference between expenditures and actual sales is the dollar amount of leakage and represents sales potential if all of the gap were captured by new or expanded businesses. Industry specific market analysis is then necessary to determine the percentage of total sales potential that can actually be captured. It is unlikely that any business, or group of businesses, can capture the entire sales potential in a market.

Capture analysis provides a general picture of the relationships between consumer demand and the existing supply of retail stores and service providers. Even in cases where a gap is found, there may be insufficient sales potential to warrant viable new businesses. On the other hand, there may be new business potential even when capture rates exceed 100% if there are unmet needs for a particular store format, product line or price range. Likewise, market analysis must consider consumer preferences of the particular market. Indeed there may be compelling reason to add stores to an area with a high capture rate if the agglomeration of retail creates a synergy drawing customers from outside the trade area.

Tables showing capture rates and potential sales were developed for both retail trade and consumer services. All major industry groups of retail trade and consumer services were studied

as well as all individual industries for which there are sales data. Forty-two retail industries and 27 service industries were included.¹ The methodology for developing estimated household expenditures is discussed in the methodology section and appendices.

Methodology

The study's methodology was designed to match household purchasing power in each of nine markets to the existing level of sales for each retail or service industry. Industries in markets where purchasing power exceeds sales are generally losing business to other trade areas, and may be able to capture this lost spending through new or expanded business opportunities.

Reliable estimates for both consumer expenditures and current retail sales at the market or trade area level are critical for determining retail potential. REDC used a combination of government and proprietary data in developing expenditure and sales estimates for the nine markets studied. Major components of our methodology are discussed below. Additional detail is included in the appendix.

Consumer Expenditures - Retail

Household expenditures for the various retail and service industries were based on estimated current households in each planning district from Infomark Express of National Decision Systems, Inc. (NDS), and household income estimates developed by REDC. Reliable current income and consumer expenditure data at the sub-county level were believed to be unavailable for a period (1998) that is nine years past the 1990 census income measurement. REDC utilized national data by income level to estimate household incomes at the planning district level. Then spending levels for these income groups from the Bureau of Labor Statistic's Consumer Expenditure Survey were used to estimate consumption for each planning district.

Consumer Expenditures - Household Services

The methodology used for retail trade was not suitable for household services due to data limitations and the classification system used by the Consumer Expenditure Survey (CES).

¹ SIC codes 52 through 59 for Retail Trade, and 72, 7342, 753, 76, 78, and 79 for Consumer Services.

Rather than using the CES approach, average 1998 expenditures per household were calculated by adjusting Memphis MSA sales from the 1992 Census of Service Industries by the change in the Consumer Price Index, and dividing by estimated 1992 MSA households.

Retail and Service Industry Sales

Sales estimates are from the Business Facts Database compiled by National Decision Systems, Inc. (NDS) and are based on a combination of credit reporting data, S.E.C. filings and sales estimates based on the number of employees at a specific location. National Decision Systems provided business data to REDC for each of the nine market areas based on the census tracts contained within each planning district. REDC then sorted the database by Standard Industrial Classification (SIC) codes to match the 69 industry groups included in the study. REDC reviewed each business in the NDS database to eliminate observable errors in sales estimates or industry classification.

Economic and Social Characteristics of the Downtown/Medical Center Market

The Downtown/Medical Center market² includes the Central Business District (CBD), surrounding residential areas in downtown and the medical center, and Mud Island. All but Mud Island are included in the official boundaries of the Downtown/Medical Center Planning District. Mud Island is included in our downtown market definition due to its population characteristics, access to downtown, and conventional definitions of downtown Memphis.³

Boundaries of the Downtown/Medical Center Planning District are I-40 and Jackson Avenue on the north. The Mississippi River is the western boundary, with Crump Boulevard and the L&N Railroad as the southern boundary. Interstate 240 and Bellevue form the eastern boundary with Midtown.

The Central Business District is experiencing major sustained redevelopment from both the public and private sectors. Over \$1.2 billion in capital investment has either been completed in recent years or is in the development stage in Downtown.⁴ Numerous apartment conversions and single family developments including Harbor Town and South Bluffs are bringing new residents downtown. Commercial development includes new and renovated office space, hotels, retail and entertainment. Major projects currently underway include Peabody Place, Autozone Park, Central Station renovation, Gibson Guitar, Cook Convention Center expansion, and others.

The Downtown/Medical Center market as a whole has experienced declines in recent decades, however, with substantial residential re-development in the CBD⁵ and the development of Mud Island, this market is experiencing growth in households and total population. Currently, we estimate the Downtown/Medical Center market to have 12,000 households and total population of 26,000. Households have increased an estimated 15% since 1990, while population grew 5% during the same period. These increases in population and households represent the net impact of very significant growth in the CBD and Mud Island, and decreases in the balance of the Downtown/Medical Center market.

² We use the term market in this report to differentiate the study area from the Downtown/Medical Center Planning District, due to the inclusion of Mud Island in our study area.

³ Mud Island is part of the North Memphis Planning District. However, Mud Island is demographically more similar to the CBD than North Memphis, with particular respect to income, presumed shopping patterns, and population growth. Additionally, primary access to the mainland is over the A. W. Willis Bridge which connects with Auction Avenue immediately north of I-40, the Downtown Planning District's boundary.

⁴ Based on data from the Center City Commission, April 22, 1998.

⁵ The CBD is defined as Census Tracts 42 and 43 for this study.

Due to the magnitude of population growth since 1990 in the CBD and Mud Island, we have combined local estimates as of December, 1997 for these areas with National Decision Systems (NDS) data for the balance of the Downtown/Medical Center Market to arrive at more accurate estimates for the total Downtown/Medical Center market.⁶ However, the current population is likely higher than our estimates due to growth during the past year and the exclusion of some residents that are not included in surveys of the CBD and Mud Island population.

Overall, the Downtown/Medical Center market has an estimated 1998 median household income of \$18,000 to \$20,000 compared with \$37,000 for Shelby County, with 33% of households having incomes over \$35,000.⁷ Downtown residential development over the past few years has had a significant impact on increasing the median and mean household income of the downtown market. Population characteristics such as age distribution, household type, education level, racial composition, etc. are likewise influenced by new developments, and reliable estimates of these variables are not available. The Downtown/Medical Center market contains highly diverse populations, including upper income residents, young singles, the urban poor, medical students, and residents of group quarters. Tables 1, 2 and 3 provide additional demographic data. Tables 1 and 2 reflect REDC estimates as of early 1998. Table 3 is based on NDS estimates that may not fully reflect the impact of newer downtown residential development.

Characteristics of Areas Within the Downtown/Medical Center Market

The CBD and Mud Island had 3,781 housing units and 6,153 residents at the end of 1997 according to Center City Commission estimates of the properties they track.⁸ Housing units have grown by 133% (11.1% compound annual growth rate) since 1990. The CCC's residential

⁶ Local estimates for households and population for the CBD and Mud Island are from the Center City Commission (CCC) and were based on the number of single family housing units in each residential development, and the number and type of units in each major apartment building or condominium in the CBD and Mud Island. CCC estimates are as of December 31, 1997. Data for 1998 were being tabulated, but not available at the time of this writing. Estimates for the balance of the Downtown/Medical Center market do not specifically account for housing changes such as the demolition/renovation of public housing units, except for trends included in the NDS population model. Such changes in the number of housing units, if significant, may lower our population estimates for the Downtown/ Medical Center market.

⁷ Median income and income distribution calculations based on REDC estimates for the CBD and Mud Island, and NDS data for the balance of the Downtown/Medical Center Planning District. REDC income estimates were based on average rents and home prices, calculated for major apartment or condominium buildings and single family home developments.

⁸ Data from Center City Commission's Residential Summary, December 31, 1997. CCC notes that a number of smaller residential properties scattered throughout Downtown, such as owner-occupied commercial/residential buildings in the South Main area, are not included in their estimates.

Table 1
Population and Household Trends of Downtown
1980, 1990, and 1997 Estimate

	1980	1990	1997 Estimate	% Change	
				1980-90	1990-97
Total Population	27,039	24,902	26,116	(7.9%)	4.9%
Households	10,692	10,270	11,795	(3.9%)	14.9%

Source: National Decision Systems, 1997

Table 2
Income Characteristics of Downtown and Shelby County
1998 Estimates

	Downtown	Shelby County	Downtown Over/(Under) Shelby County
Median Household Income	\$18K - \$20K	\$37,362	-
Mean Household Income	\$28,949	\$51,704	(44.0%)
Households by Income:			
Under \$15,000	43.7%	22.9%	20.8
\$15,000 to \$34,999	23.4%	28.6%	(5.2)
\$35,000 to \$74,999	24.6%	32.3%	(7.7)
\$75,000 or More	8.3%	16.1%	(7.8)

Source: National Decision Systems, 1997, and REDC Estimate, 1998

Table 3
Demographic Characteristics of Downtown and Shelby County
1997 Estimates

	Downtown	Shelby County	Downtown Over/(Under) Shelby County
Persons by Age:			
0-9	17.3%	16.8%	0.5
10-17	9.3%	10.9%	(1.6)
18-34	31.4%	25.5%	5.9
35-64	27.8%	36.2%	(8.4)
65 and Over	14.3%	10.6%	3.7
Median Age	30.2	33.0	(2.8)
Persons by Race:			
White	15.7%	54.9%	(39.2)
Black	83.1%	43.5%	39.5
Other	1.2%	1.6%	(0.4)
Female Headed Households w/ Children (1990)	80.6%	33.2%	47.4
% Owner Occupied Housing Units (1990)	8.0%	59.6%	(51.6)
% Households w/ No Vehicle (1990)	60.1%	13.9%	46.2

Source: National Decision Systems, 1997

report reflects 3,098 apartment units, 242 condo and co-op units and 441 single family homes. The current (1999) population estimate for Mud Island alone is nearly 2,900 according to Henry Turley Company.⁹ Household income levels for CBD/Mud Island are slightly above those for Shelby County as a whole. Our estimate for median household income is \$39,500, and \$54,400 for mean household income, with close to two-thirds of households having incomes between \$25,000 and \$50,000.

However, many areas in the balance of the Downtown/Medical Center market are more typical of inner city neighborhoods. Shelby County's three poorest census tracts (22, 40, and 41), according to the 1990 Census, are located in the Downtown/Medical Center market. Each had median household incomes of \$5,000. Tract 22 is immediately north of the CBD while 40 and 41 are just east of the CBD. Approximately 3,500 of 8,000 households (44%) in this sub-market (downtown excluding the CBD and Mud Island) are residents of Memphis Housing Authority (MHA) developments.¹⁰ Estimated average household income of public housing residents was \$5,371 in 1996 with aggregate income totaling \$18.8 million. However, retail expenditures by these residents may exceed aggregate income¹¹ creating a significant concentration of buying power. Overall, this portion of the Downtown/Medical Center market has a median household income of \$9,500, reflecting the full spectrum of income groups. While 63% of households have incomes below \$15,000, 20% have incomes over \$35,000 and 7% exceed \$75,000.

The 8,000 households in this sub-market (downtown excluding the CBD and Mud Island) represent a decrease of 17.5% since 1980. Total population declined by 19.5% between 1980 and 1997. In 1990 over 92% of households rented, and 61% were family households. Sixty-four percent did not own a vehicle in 1990. As with income, educational attainment varies considerably. Fifty-two percent of the age 25 and older population did not have a high school education in 1990, yet 25% had post-secondary education, and 1,500 were higher education students. Students at UT-Memphis and other professional schools may make up a significant portion of this student population. The group quarters population totaled 3,500 in 1990, including residents of the Criminal Justice Complex, hospitals, shelters and other facilities. Group quarters residents were not included in our spending potential estimates.

⁹ Kedigh, K. Downtown Development. Downtowner Magazine, January, 1999.

¹⁰ REDC estimate based on 1996 data from the U. S. Department of Housing and Urban Development (H.U.D. Community 2020 software package). The number of occupied public housing units may have changed since 1996. Efforts are currently underway to renovate several public housing projects and reduce population density.

¹¹ Refer to the introduction of this report and to Appendix A for explanations of income levels and retail spending ratios.

Retail Profile of the Downtown/Medical Center Market

Downtown has over 360 retail establishments with total annual sales of \$265 million. Map 2 shows concentrations of retail in the CBD, the Union/Madison and Poplar corridors, South Main and Pinch Districts, Jackson Avenue and a less concentrated pattern of retail development in residential neighborhoods.

The downtown central core surrounding Main and Front Streets commands over \$125 million or almost 50% of total retail sales in the Downtown/Medical Center market. Within this retail node, Main Street has over \$40 million in estimated retail sales, and the Beale Street Entertainment District has \$25 million.¹² Over 35% of sales (\$95 million) in the entire Downtown Planning District are from Eating and Drinking establishments, reflecting spending by the daytime workforce and tourists. The importance of downtown as a major regional shopping center declined significantly with suburbanization. Between 1948 and 1972, the CBD's percentage of total metropolitan sales decreased from 28% to 5%.¹³

Retail selection for residents of the CBD is improving with continued downtown re-development. City Grocery and other businesses have opened recently to reach this new residential market. Our estimated retail spending by CBD and Mud Island residents is \$87 million. Peabody Place will have 250,000 square feet of retail space and a 24 screen movie complex when completed.¹⁴ Mud Island has limited retail including a neighborhood grocery, pizza restaurant, dry cleaners, video rental, and a gift shop has recently opened. We estimate that Mud Island residents alone have total retail spending of at least \$34 million.

Immediately east of Downtown is the Medical Center, defined as the area bounded by Poplar and Union Avenues, South Third and I-240. This area has sales of almost \$80 million, with Poplar, Union, and Madison Avenues generating the majority of sales. These three avenues between Third Street and I-240 have combined estimated sales of \$40 million. Union Avenue east of Third Street has an automotive cluster of both used car dealers and several large auto tire stores. Closer to the Medical Center is a cluster of fast food restaurants. Madison has a

¹² Beale Street had projected 1998 sales of \$25 million according to the NDS Business Facts database, and as reported by John Elkington in Business Perspectives, November, 1998. Bureau of Business and Economic Research, The University of Memphis.

¹³ Sigafos, R. Cotton Row to Beale Street: A Business History of Memphis. Memphis State University Press, 1979, p. 246. Note: The U.S. Economic Census no longer tracks sales by CBD, however, our calculations indicate the CBD presently has less than 2% of the metro area's retail sales.

¹⁴ Sanford, J. Downtown Perspective. Downtowner Magazine, January, 1999.

Retail Parcels in the Downtown Planning District



Legend

- Retail Parcels
- ∨ Roads

Source: Shelby County
Tax Assessor, 1996



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mixture of small businesses but predominantly fast food establishments. Similarly, Poplar Avenue has a mix of establishments, with Pop Tunes being the largest in terms of sales.

The area east of Downtown and south of the Medical Center is predominantly residential with estimated sales of over \$30 million. Vance and E. H. Crump Boulevard form boundaries of a neighborhood shopping node. E. H. Crump Boulevard has estimated sales of almost \$20 million, including the Metro Shopping Center. The north side of Crump Boulevard is located in the Downtown/Medical Center Planning District and has estimated sales of over \$10 million, while sales of businesses on the south are included in totals for the South Memphis Planning District. Vance Avenue has sales of over \$3 million, mostly in neighborhood convenience items. Walnut is a cross street in this node with estimated sales of almost \$3 million. Establishments in this area serve residents of several MHA public housing developments and surrounding neighborhoods. Retail businesses are mainly small grocery stores, gas stations, liquor stores, lounges, and some automotive stores. This is the only well defined neighborhood shopping center in the Downtown/Medical Center Planning District.

The residential area north of Poplar but east of Downtown has estimated sales similar to the Vance and E. H. Crump area. Total estimated retail sales for this area are close to \$30 million. The portion of Jackson east of Third has estimated sales of almost \$10 million, mostly due to Piggly Wiggly. Chism Trail Supermarket is nearby, bringing total supermarket sales in the area to about \$12 million. North Parkway has estimated sales of just over \$2 million. North Danny Thomas contributes another \$3 million with its Exxon, Kentucky Fried Chicken, and Salvation Army Thrift Store. However, there are no well-defined neighborhood centers in this area.

Retail Trade Analysis

Capture analysis presented in Table 4 shows that the Downtown/Medical Center market serves a large population in Eating & Drinking Establishments and particular retail categories in Apparel, Furniture & Home Furnishings and Miscellaneous Retail. As may be expected, high capture rates result from spending by downtown workers, and the concentration of entertainment that appeals to the tourist and convention trade.

However, there are retail gaps in several categories that could serve the needs of downtown residents. Our capture analysis is based solely on household expenditures, and does not incorporate spending potential by businesses, workers or tourists. Therefore, retail potential

Table 4
Retail Trade Capture Analysis
Downtown/Medical Center Market

SIC Code	Retail Category	Plng. District Household Expenditures	Retail Sales in Plng. District	Capture Rate	Retail Sales Potential *
52	Building Materials & Garden Supply				
521	Lumber & Other Building Materials Dealers	\$ 2,070,214	\$ 600,000	29.0%	\$ 1,470,214
523	Paint, Glass & Wallpaper Stores	242,457	900,000	371.2%	0
525	Hardware Stores	1,547,998	0	0.0%	1,547,998
526	Retail Nurseries & Garden Supply Stores	335,710	1,500,000	446.8%	0
	Total Bldg. Matls. & Garden Supply	<u>4,196,379</u>	<u>3,000,000</u>	71.5%	<u>3,018,211</u>
53	General Merchandise Stores				
531	Department Stores (Excl. Leased Depts.)	21,410,859	4,300,000	20.1%	17,110,859
533,9	Variety & Discount General Mdse. Stores	6,303,894	3,000,000	47.6%	3,303,894
	Total General Merchandise	<u>27,714,753</u>	<u>7,300,000</u>	26.3%	<u>20,414,753</u>
54	Food Stores				
541	Grocery, Supermarket & Convenience Stores	32,974,215	30,765,000	93.3%	2,209,215
542	Meat & Seafood Markets	317,060	0	0.0%	317,060
543	Fruit & Vegetable Markets	410,313	4,400,000	1072.4%	0
546	Retail Bakeries	279,759	0	0.0%	279,759
544,5,9	Other Food Stores	205,156	300,000	146.2%	0
	Total Food Stores	<u>34,186,502</u>	<u>35,465,000</u>	103.7%	<u>2,806,033</u>
55 ex. 554	Automotive Dealers				
551,2	New & Used Car Dealers	37,860,665	4,800,000	12.7%	33,060,665
553	Auto & Home Supply Stores	2,872,188	23,900,000	832.1%	0
555,6,7,9	Miscellaneous Automotive Dealers	1,342,841	2,300,000	171.3%	0
	Total Automotive	<u>42,075,695</u>	<u>31,000,000</u>	73.7%	<u>33,060,665</u>
554	Gasoline Service Stations	16,766,866	4,535,000	27.0%	12,231,866

Table 4
Retail Trade Capture Analysis
Downtown/Medical Center Market

SIC Code	Retail Category	Plng. District Household Expenditures	Retail Sales in Plng. District	Capture Rate	Retail Sales Potential *
56	Apparel & Accessory Stores				
561	Men's & Boy's	1,753,154	11,700,000	667.4%	0
562,3	Women's Clothing & Specialty	4,625,342	3,200,000	69.2%	1,425,342
565	Family Clothing Stores	2,200,768	0	0.0%	2,200,768
566	Shoe Stores	2,256,719	9,200,000	407.7%	0
564	Children & Infants	242,457	0	0.0%	242,457
569	Other Apparel & Accessory	242,457	2,300,000	948.6%	0
	Total Apparel	11,320,898	26,400,000	233.2%	3,868,568
57	Furniture & Home Furnishings				
5712	Furniture Stores	3,730,115	5,700,000	152.8%	0
5713,4,9	Homefurnishing Stores	2,331,322	400,000	17.2%	1,931,322
572	Household Appliances	522,216	0	0.0%	522,216
5731	Electronics (Radio & TV)	2,014,262	0	0.0%	2,014,262
5734	Computer & Software Stores	596,818	5,900,000	988.6%	0
5735	Records & Tapes	671,421	6,000,000	893.6%	0
5736	Musical Instruments	186,506	300,000	160.9%	0
	Total Furniture & Home Furnishings	10,052,659	18,300,000	182.0%	4,467,800
58	Eating & Drinking Places				
5812	Eating Places	17,214,480	91,100,000	529.2%	0
5813	Drinking Places	484,915	3,500,000	721.8%	0
	Total Eating & Drinking Establishments	17,699,395	94,600,000	534.5%	0
591	Drug & Proprietary Stores	9,082,829	5,600,000	61.7%	3,482,829

Table 4
Retail Trade Capture Analysis
Downtown/Medical Center Market

SIC Code	Retail Category	Plng. District Household Expenditures	Retail Sales in Plng. District	Capture Rate	Retail Sales Potential *
59 ex. 591	Miscellaneous Retail				
592	Liquor Stores	1,939,660	2,000,000	103.1%	0
593	Used Merchandise & Antiques	820,625	11,800,000	1437.9%	0
5941	Sporting Goods	895,228	200,000	22.3%	695,228
5942	Book Stores	1,137,685	600,000	52.7%	537,685
5944	Jewelry Stores	1,398,793	3,200,000	228.8%	0
5945	Hobby, Toy & Game Shops	932,529	0	0.0%	932,529
5947	Gift, Novelty & Souvenir Shops	634,120	5,400,000	851.6%	0
5949	Sewing, Needlework & Piece Goods	354,361	0	0.0%	354,361
5992	Florists	559,517	1,900,000	339.6%	0
5995	Optical Goods	373,011	400,000	107.2%	0
5943,46,93,94, 99	Other Miscellaneous Retail	1,809,106	13,700,000	757.3%	0
	Total Miscellaneous Retail	10,854,634	39,200,000	361.1%	2,519,802
	Total Retail	\$ 183,950,610	\$ 265,400,000	144.3%	\$ 85,870,527

* Retail sales potential for major categories (2 digit bold headings) represents the sum of the 3 or 4 digit sub-category sales potential.

Note:

The following retail industries are not included in our analysis: Manufactured Homes (SIC 527), Mail Order Houses (SIC 5961), Vending Machine Operators (SIC 5962), Direct Selling Establishments (SIC 5963) and Fuel Oil & LP Gas Dealers (SIC 598).

based on this analysis may be understated to the extent that new businesses can capture spending by non-residents of the Downtown/Medical Center market.

Building Materials & Garden Supply

Two large businesses account for high capture in the Glass and Garden Supply categories. Hardware stores show a gap of over \$1.5 million, with no stores in the downtown market. The very high incidence of renters substantially reduces retail potential in this category. However, based on the number of homeowners in the Downtown market, and minimal spending by renters, retail potential should be sufficient to support a small hardware store.¹⁵

General Merchandise Stores

Department Stores and Variety & General Merchandise Stores show very large retail gaps totaling over \$20 million. Three stores, A. Schwab, McCrory, and Dollar General account for two-thirds of general merchandise sales. Five other variety stores operate in the downtown market. Retail potential may support other stores with various merchandise lines and price levels. Used merchandise stores (see discussion in Miscellaneous Retail) account for a very large part of the budget priced merchandise sales in the Downtown market. New variety and general merchandise businesses may need to carry somewhat higher priced merchandise to reach untapped market potential.

Downtown, once the center of shopping in the Mid South, supported several major department stores during most of this century. Downtown has been without a department store since Goldsmiths' exit several years ago. Given the current retail potential in downtown, plus general merchandise gaps in surrounding planning districts identified in this study, market potential from eastern Arkansas, Downtown's renaissance, and the impact a major retail center could have on continued growth in downtown, study should be given to the re-introduction of a department store, or other strong retail concentration with a regional draw, in Downtown Memphis.

Food Stores

Overall, there is no gap in Food Stores, however, potential may exist for a meat or seafood market or retail bakery. Some areas of the Downtown/Medical Center market may be underserved as to merchandise selection or prices, however. The Downtown market has two

¹⁵ The Consumer Expenditure Survey does not provide sufficient detail on renters' expenditures for hardware items to estimate retail potential. Hardware industry research would be necessary to determine the market for a hardware store.

supermarkets,¹⁶ Piggly Wiggly on Jackson and Chism Trail on Peyton Street, both in the northern portion of the market.

Automotive Dealers

A large gap is noted in New & Used Car Dealers, however, additional auto dealerships would probably not serve the "highest and best use" of downtown real estate. One large auto parts supplier and several auto tire stores account for the high capture in Auto Supply Stores, while marine supply and ultra light aircraft dealers account for the high capture rate in Miscellaneous Automotive Dealers.

Gasoline Service Stations

A significant gap is found in gas stations with seven gas stations located in different parts of the Downtown/Medical Center market. Low rates of vehicle ownership and other factors likely account for the relatively small number of gas stations.

Apparel & Accessory Stores

Overall, Apparel has high capture in the Downtown/Medical Center market, primarily due to Men's clothing stores where 18 stores offer a variety of price ranges. However, sizable gaps are found in Women's and Family Clothing with total sales potential of over \$3.6 million. No stores in the Downtown/Medical Center market specialize in Children's Clothing, yet close to 4,000 children age nine and under live downtown. The high capture in Shoes is distorted by one business that is primarily wholesale, and another in the Medical Center specializing in orthopedic shoes. However, the remaining three shoe stores appear to satisfy household demand in this category.

Apparel expenditures by downtown residents may be greater than the above gaps due to higher levels of spending on clothing and shoes by African-American households. On a percentage of income basis, African-Americans spend about 1.5 times as much on apparel as the average U.S. household when adjustments are made for income levels & household size.¹⁷

Furniture & Home Furnishings

Four furniture stores, along with two custom furniture shops and stained glass, account for the high capture in Furniture Stores. All stores in the Furniture Stores category are clustered in a four block area of South Main Street.

¹⁶ Based on Food Marketing Institute definition of a supermarket as a full line grocery store with annual sales of \$2 million or more.

¹⁷ Based on data from the BLS Consumer Expenditure Survey (1995).

Gaps are found in Household Appliances (\$522,000) and consumer electronics (\$2 million) with no stores in these two categories found in the downtown market. Some portion of these product lines is being met by used merchandise stores and pawn brokers, however, sufficient volume should remain to support new stores, especially in consumer electronics.

High capture in Computer & Software Stores is due to three businesses that likely serve business clients. Pop Tunes is the only store in Records & Tapes, accounting for high capture in that category.

Eating & Drinking Places

Over 125 eating and drinking establishments serving residents, workers, and tourists explain the 535% capture in this category. With a wide variety of menus and price ranges, additional establishments are not needed to support the downtown residential market. Retail potential for new entries will depend primarily on growth of the non-residential market.

Drug & Proprietary Stores

A gap of \$3.5 million is found in drug stores, based on the residential population alone. Three of the market's pharmacies are located in the Medical Center, and may serve patients to a much greater extent than area residents. Walgreens on Main Street and Super D on Jackson are the primary drug stores in downtown. The high proportion of persons age 65 and over, and the influences of TennCare on prescription drug purchasing, should also be considered in determining the need for additional pharmacies.

Miscellaneous Retail

Miscellaneous Retail shows several categories with very high capture, while four categories are significantly under-represented.

High capture in Used Merchandise is due primarily to five Salvation Army Stores located throughout the downtown area. The Salvation Army is able to provide a variety of clothing and household items to residents at affordable prices and, based on estimated sales volumes, is one of the stronger downtown retailers. The balance of sales in the Used Merchandise category is from pawn brokers and antique stores. Due to the size of the used merchandise category in the downtown market (\$11.8 million) retail potential in other retail categories such as apparel, general merchandise, furniture and electronics, would need to be adjusted downward by several million dollars in aggregate.

Categories in Miscellaneous Retail showing retail potential include sporting goods, with only one store downtown which, according to its name, specializes in clay pigeons. Downtown has three book stores, leaving a gap of \$500,000. With no hobby, toy or game stores, downtown has retail potential of over \$900,000 in these merchandise lines.

Service Industry Analysis

The uniqueness of the downtown market, especially with regard to the high level of office workers, results in high concentrations in several service categories, as demonstrated in Table 5.

However, some service categories have reasonably high gaps where opportunities may exist in serving the residential population and other visitors to downtown.

Personal Services

Dry Cleaners is the only category of Personal Services with a significant gap (\$1.3 million). Low incomes for a large number of downtown households may indicate lower actual sales potential for new dry cleaners as this industry is highly sensitive to income levels.¹⁸ However, potential may exist from workers in downtown offices. Two dry cleaners are located in the CBD, and one recently opened on Mud Island.

Automotive Repair & Services

The Downtown market has a high concentration in auto repair with over 60 repair shops. The gap in tire retreading is likely being met by several tire stores classified as retail establishments. Similarly, auto body shops are likely handling the glass replacement business.

Miscellaneous Repair Services

Two Radio & TV repair shops leave a gap of over \$300,000 in this category. Pest Control Services show a significant gap, however, most of the downtown spending in this industry is probably contracted by apartment building management, rather than individual householders.

Amusement & Recreation

Amusement & Recreation shows gaps in some categories. The gap in movie theaters will be closed with the opening of Malco's 24 screens in Peabody Place. Video tape rental shows a gap of over \$600,000, but does not reflect the video store on Mud Island. Opportunity may exist

¹⁸ Household Spending, 4th Edition. (1997) New Strategist Publications, New York. p.239.

Table 5
Service Industry Capture Analysis
Downtown/Medical Center Market

SIC Code	Service Industry Category	Plng. District Household Expenditures	Service Industry Sales in Plng. District	Capture Rate	H'hld. Service Industry Sales Potential *
72	Personal Services				
7211,2,6	Dry Cleaners	\$ 1,646,496	\$ 300,000	18.2%	\$ 1,346,496
7215	Coin-Op Laundries	134,546	136,000	101.1%	0
722	Photographic Studios	120,071	295,000	245.7%	0
7231,41	Beauty & Barber Shops	1,931,291	2,972,000	153.9%	0
7251	Shoe Repair Shops	66,450	168,000	252.8%	0
7261	Funeral Homes	941,134	1,923,000	204.3%	0
7291	Tax Return Preparation	170,931	90,000	52.7%	80,931
	Total Personal Services	5,010,918	5,884,000	117.4%	1,427,427
753	Automotive Repair & Services				
7532	Auto Body Repair	2,453,811	10,065,000	410.2%	0
7533	Exhaust Systems Repair	276,446	1,336,000	483.3%	0
7534	Tire Retreading & Repair	361,241	0	0.0%	361,241
7536	Auto Glass Replacement	414,477	0	0.0%	414,477
7537	Transmission Repair	420,567	2,163,000	514.3%	0
7538	General Auto Repair	2,388,970	9,283,000	388.6%	0
7539	Auto Repair n.e.c.	437,495	4,967,000	1135.3%	0
7542	Car Washes	439,908	223,000	50.7%	216,908
	Total Automotive Repair	7,192,916	28,037,000	389.8%	992,626
76	Miscellaneous Repair Services				
7622	Radio & TV Repair	513,481	172,000	33.5%	341,481
7623	Refrigeration & Air Conditioning Repair	271,926	374,000	137.5%	0
763	Watch, Clock & Jewelry Repair	30,563	0	0.0%	30,563
764	Reupholstery & Furniture Repair	168,211	220,000	130.8%	0
7342	Pest Control Services	913,482	300,000	32.8%	613,482
	Total Miscellaneous Repair Services	1,897,664	1,066,000	56.2%	985,526

Table 5
Service Industry Capture Analysis
Downtown/Medical Center Market

SIC Code	Service Industry Category	Plng. District Household Expenditures	Service Industry Sales in Plng. District	Capture Rate	H'hld. Service Industry Sales Potential *
78 & 79	Amusement & Recreation				
783	Movie Theaters & Drive-Ins	431,176	0	0.0%	431,176
7841	Video Tape Rental	654,615	0	0.0%	654,615
7911	Dance Studios	69,016	0	0.0%	69,016
7933	Bowling Centers	227,997	0	0.0%	227,997
7991	Physical Fitness Centers	344,427	1,005,000	291.8%	0
7993	Coin-Op Amusements	208,273	3,648,000	1751.5%	0
7999	Amusements, n.e.c.	1,203,562	0	0.0%	1,203,562
	Total Amusement & Recreation	3,139,066	4,653,000	148.2%	2,586,366
	Total Household Services	\$ 17,240,564	\$ 39,640,000	229.9%	\$ 5,991,945

* Sales potential for major categories (2 digit bold headings) represents the sum of the 3 or 4 digit sub-category sales potential.

Note:

The following service industries are not included in the above analysis: Lodging, Business Services, Healthcare, Legal Services, Education, Social Services and Engineering, Accounting & Management Services.

for video rental in another part of the downtown market, however. Amusements, n.e.c. (\$1.2 million) includes a wide variety of businesses including billiards, golf, handball courts, ice skating, etc. Some of these businesses may be appropriate for downtown locations, especially if they can attract non-residents in addition to residents.

Excluded from our analysis were a number of entertainment venues such as the Orpheum, the Pyramid, Memphis in May, and Memphis Queen Lines, that draw most of their patrons from the region or the tourist market. These enterprises have revenue far in excess of the \$4.6 million shown in Table 5 for Amusement & Recreation spending.

Summary

Our analysis has identified several industries with retail potential in the Downtown/Medical Center market based on household spending alone. Major categories include General Merchandise, Apparel, Hardware, and Electronics. Several other retail and service categories may warrant further market study to determine their potential. Based on these categories alone, and subtracting all sales from used merchandise stores, a gap of approximately \$15 million is found for items purchased by households. This sales volume could support from 60,000 to over 90,000 square feet of retail space.¹⁹

Some businesses should be capable of attracting customers from all residents of the Downtown/Medical Center market. Others, due to merchandise lines, pricing, or location, may need to position themselves to focus on certain market segments, i. e., CBD residents, Medical Center patrons and residents, lower income households, etc.

Residents are only one component of the downtown market from which new businesses can attract customers. The 71,000 workers in the Downtown/Medical Center market outnumber residents by almost three times, while local and out of town visitors bring significant buying power to downtown Memphis. Industry sales potential in this study should be increased based on the extent that new businesses can attract customers from the other components of the downtown market.

Retail agglomeration is important for downtown, especially in that more businesses with a regional appeal will create larger markets. Retail or service categories with high capture could

¹⁹ Based on sales/square foot estimates from Dollars and Cents of Downtown/Intown Shopping Centers. Urban Land Institute, 1995.

be expanded with additional businesses to afford greater regional appeal, especially where several businesses in the same or compatible categories are close together. Examples may include men's clothing or furniture and home furnishings. The concentration of furniture stores and custom furniture makers along South Main (particularly 300 and 400 blocks in the South Main Historic District) perhaps could be expanded to include other merchants with similar product lines. Stores meeting the identified demand in other specialized retail categories such as consumer electronics, hobby shop and book stores may also fit well in this type shopping district. Connecting these retail agglomerations with the existing entertainment concentrations may afford added sales potential.

Appendix

Study Methodology

Consumer Expenditures - Retail

Household expenditures for the various retail and service industries were based on estimated current households in each planning district from Infomark Express of National Decision Systems, Inc. (NDS), and household income estimates developed by REDC. Reliable current income and consumer expenditure data at the sub-county level were believed to be unavailable for a period (1998) that is nine years past the 1990 census income measurement. Estimates at the county level are considerably more likely to be reliable due to the availability of considerably more predictive data and the lessened influence of individual variables. However, a variety of different economic and demographic factors affect smaller markets, making the econometric components of step down models less accurate at the trade area or neighborhood level. Review of proprietary data at the planning district level showed income and expenditure estimates that REDC believed were possibly overestimated in some markets and underestimated in others.¹

Rather than using proprietary estimates for income and consumer expenditures, REDC utilized national data by income level to estimate household incomes at the planning district level. Then spending levels for these income groups from the Bureau of Labor Statistic's Consumer Expenditure Survey were used to estimate consumption for each planning district.

Our estimate of household expenditures started with the number of households in each planning district for eight income groups: Less than \$5,000, \$5,000 to \$14,999, \$15,000 to \$24,999, \$25,000 to \$34,999, \$35,000 to \$49,999, \$50,000 to \$74,999, \$75,000 to \$99,999, and \$100,000 and above. Households per income group were 1990 census data from NDS' Infomark Express database. A three step process was then used to estimate the number of households in each income group for 1998. First, the number of households in each group was multiplied by a ratio of 1990 to 1996 change in number of households developed from national data.^{2,3} The national data used was for areas inside central cities with a population of less than one million persons, the geography most closely resembling the Memphis study area. The second step extended the 1990 - 1996 compound annual rate of change to a 1998 estimate of households. The final

¹ The number of households per planning district was determined to be reasonable, however. 1997 NDS demographic data was used rather than 1998 due to reported problems with 1998 estimates attributable to a change in demographic modeling techniques.

² Money Income in the United States: 1996. Current Population Reports: Consumer Income, P60-197. Table 2: Selected Characteristics - Households by Total Money Income in 1996. Bureau of the Census, 1997.

³ Money Income of Households, Families, and Persons in the United States: 1988 and 1989. Consumer Income, P60-172. Table 2: Selected Characteristics of Households - Households, by Total Money Income in 1989. Bureau of the Census, 1991.

step re-allocated to each income group the difference between Step 2 households and total households per planning district from NDS.

Next, aggregate income was estimated for each income group by multiplying 1998 households from the above calculation by the midpoint income for each income group. Midpoint incomes were used as a proxy for mean incomes which were not available for 1996 or 1998. Even though midpoints will distort aggregate income calculations depending on the particular income distribution curve for a planning district, sensitivity analysis revealed this distortion had only a minimal impact on the final calculation of consumer expenditures at the planning district level.

Consumer expenditure patterns were then applied to aggregate income to arrive at retail expenditures for each planning district. Consumer expenditures were based on spending as a percentage of total income for each income group from the Bureau of Labor Statistics' 1995 Consumer Expenditure Survey (CES). Household retail spending as a percent of total income was used for each of the eight income groups. Retail expenditures, as well as total spending, vary considerably over income ranges. Lower income households spend much higher proportions (but usually not higher absolute spending) of their income on food, clothing and other retail items than do upper income households where larger proportions of income go to savings, taxes, insurance, pensions, education, and other non retail expenditures. Based on data from the Consumer Expenditure Survey, REDC estimated retail spending levels for the eight income groups. Households with incomes less than \$15,000 were estimated to spend \$8,000 on retail, representing a minimum spending level to provide for a household. Households in the \$15,000 to \$24,999 income group were estimated to spend 69.7% on retail, with the percentage of spending allocated to retail purchases declining through the income ranges to 28% for households with incomes exceeding \$100,000. REDC estimates were based on percentages from the 1995 Consumer Expenditure Survey which were converted to 1998 dollars based on the CPI-U, with interpolation estimates to adjust for differences in income groupings used by CES and NDS.

Calculating household retail expenditures by individual income groups produced significantly different results for some planning districts. For the total study area, income group calculations resulted in an eight percent increase in estimated retail expenditures versus simple calculation based on mean incomes and mean retail spending as a percent of total income. Individual planning districts had variances of from +35.2% (Downtown/Medical Center) to -5.0% (University). Positive variances, i.e., retail expenditures greater than those found with the simple calculation, were associated with planning districts having lower incomes.

Numerous demographic variables in addition to income are determinants of household spending, including household composition, age distribution, home ownership, education, and ethnicity. However,

household income was determined to be the best indicator for estimating expenditures in this study. These non-income variables are presented in tables at the beginning of each planning district section, and are discussed in cases where they may have a strong impact on household spending.

Total household retail expenditures were allocated to each of the 42 retail categories⁴ based on local historical sales data. Retail expenditures in each planning district were allocated to SIC categories⁵ based on the 1992 Census of Retail Trade's geographic area series for Shelby County. Industry allocations for each SIC level were then adjusted for the proportion of sales made by households, based on national data.⁶ This step removed business to business sales from the allocation process.

Consumer Expenditures - Household Services

The methodology used for retail trade was not suitable for household services due to data limitations. The Consumer Expenditure Survey includes spending for services, however the CES classification system differs significantly from the SIC system, preventing an accurate allocation of expenditures to service industries. Also, less detailed data is provided for services under the CES classification. Rather than using the CES approach, average 1998 expenditures per household were calculated by adjusting Memphis MSA sales from the 1992 Census of Service Industries by the CPI-U change, and dividing by estimated 1992 MSA households.

The above simplified approach affords somewhat less accurate spending estimates for specific service industries (3 and 4 digit SIC level used in our study). Analysis of total household service industry spending for each of the nine income groups, using CES data, reveals minimal variance from composite data (less than $\pm 5\%$ in most cases), however, greater variance is found in the major industry groupings, i.e., Personal Services, Automobile Maintenance & Repair, and Amusement & Recreation. The greatest variances were found in Personal Services and Amusement & Recreation where spending as a percentage of income is much lower than average in households with incomes less than \$20,000. However, in most planning districts, higher spending percentages by higher income households should counterbalance most of these variances without compromising the validity of the sales potential analysis. As with retail trade, numerous non-income variables are critical factors in household spending for services. Family life

⁴ Three retail industries were not included in our study. Manufactured Homes (SIC 527) and Fuel Dealers (SIC 598) have very few businesses in Shelby County, while sales of Non-Store Retailers (SIC 596) frequently reflect national rather than local markets. New & Used Car Dealers and Miscellaneous Auto Dealers were included even though these industries tend to be highly clustered in Shelby County, and also represent infrequent purchases. They were included primarily for descriptive purposes as they constitute over 19% of household retail spending in Shelby County.

⁵ The SIC system has been replaced with NAICS (North American Industrial Classification System), however, published economic census data is not yet available under NAICS. For the most part, retail categories will remain intact, however, the 1997 NAICS Manual should be consulted for cross references.

⁶ 1992 Census of Retail Trade. Subject Series: Miscellaneous Subjects. Table 33. Class of Customer by Kind of Business for the United States: 1992. Bureau of the Census, 1994.

cycle, the presence and age of children, and employment status of the wife (including part-time vs. full time work) have been shown to be strong determinants of service industry spending, along with home ownership, ethnicity and other factors.⁷

Retail and Service Industry Sales

Sales estimates are from the Business Facts Database compiled by National Decision Systems, Inc. (NDS) and are based on a combination of credit reporting data, S.E.C. filings and sales estimates based on the number of employees at a specific location. Estimates based on employment data is one of the few methods available to determine sales of smaller private businesses. NDS uses the American Business Information (ABI) database for business locations and employment. ABI employs a variety of data collection techniques and is believed to be 95% accurate.⁸ NDS sales estimates will not be accurate for all individual businesses, however, when sales are aggregated at the industry and market levels individual differences are minimized yielding sufficiently reliable data.

National Decision Systems provided business data to REDC for each of the nine market areas based on the census tracts contained within each planning district. REDC then sorted the database by Standard Industrial Classification (SIC) codes to match the 69 industry groups included in the study.

REDC reviewed each business in the NDS database to eliminate observable errors in sales estimates or industry classification. Questionable SIC classifications or sales estimates were verified with local business directories or other sources where possible. Average store sales from public company sources were substituted for NDS estimates for a few locations of national chains. Data from non-selling locations (corporate headquarters, distribution facilities, etc.) were eliminated from the analysis. Adjustments were made in a few cases where the reviewers knew that a particular business no longer existed or that a new business had entered the market. The NDS database used in this study was from June, 1998.

An alternate approach was used for selected service industries where the NDS estimation techniques appeared to give erroneous sales data in selected industries. This was the case in industries characterized by a small number of employees (generally less than five) per location such as beauty shops, photography studios and repair shops. Aggregate industry employment by market was used to estimate sales in these industries using the Bureau of Labor Statistics' 1992 Survey of Service Industries. Sales per employee, at the appropriate industry level, from the 1992 Survey were adjusted to 1998 levels by use of the Consumer Price Index (CPI-U), then applied to industry level employment data abstracted from the NDS database to estimate industry sales.

⁷ Soberon-Ferrer, Horacio, and Dardis, R. Determinants of Household Expenditures. Journal of Consumer Research, 17, March 1991.

⁸ According to ABI sales literature. Independent assessment is not available.