

City of Stoughton

Retail & Service Sector Analysis: April, 2012

This report provides an analysis of Stoughton's existing retail, service and office sector markets. The purpose of this study is to identify areas where a gap exists or where additional business opportunities may exist to capitalize on local strengths. Specifically, the report recommends business types and uses which could cater to unmet local consumer demands or complement and strengthen existing clusters or areas of local expertise. To accomplish this, the report reviews Stoughton's current business mix, local residential and employment profile and conducts a retail and service supply and demand gap analysis. The combination of these elements provides a holistic look at the local retail, service and office space demands in light of local population needs and relative to area competition.

Business Mix Analysis

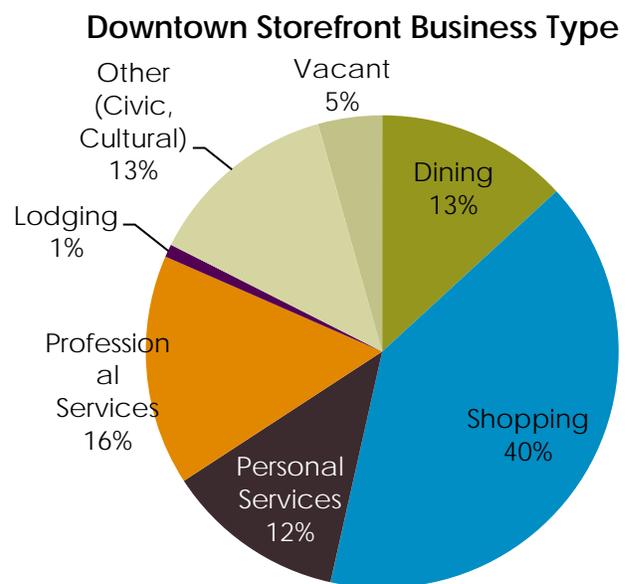
For the purposes of this report, Stoughton's commercial development is split into the downtown corridor (the area between South Page Street and the railroad tracks) and the Highway 51 corridor, which includes all other areas along Highway 51 within the community. In general, Highway 51 caters to auto oriented convenience retail, and is home to businesses serving primarily local residents and Highway 51 traffic. Typical retailers and services for the highway corridor include high-traffic establishments such as gas stations, fast food restaurants, and convenience/auto oriented retail such as pharmacies and car care. Downtown is home to more destination retail, which draws its client base from a larger trade area, including local and regional residents and employees. Retailers and services in the downtown represent goods and services for which people are willing to travel some distance to patronize an individual business. These types of trips include haircuts, dining, leisure shopping, entertainment, and recreation businesses.

Highway 51 Retail

There are several retail and service clusters along Highway 51. These clusters are centered around local anchors, including Wal-Mart, or on major signalized intersections or frontage road access points such as Kings Lynn Road, Hamilton Street or South Gjertson Street. A majority of the national chains which are present in Stoughton are located in this area, along with an assortment of local personal service providers. Prominent retailers include Pick N' Save, Pizza Pit, Subway, McDonald's, Walgreens, Culvers, Stoughton Lumber and the Stoughton Garden Center.

Downtown Retail Mix

Destination retail areas thrive by being able to provide a one stop destination experience for visitors. Businesses with shared hours, similar customer profiles and which can help drive foot traffic are important to the success of the district. The chart at right identifies the types of businesses which currently occupy storefronts in downtown Stoughton. The current ratio of drop-in shopping or dining destinations to service or office establishments is fairly evenly divided, with 53 percent of storefronts catering to consumer interests. This is a slightly higher ratio of consumer establishments to service uses than is found in downtowns nationwide, and is a reflection of the strong local organization and promotions on the part of downtown retailers which have been successful in drawing retailers and customers to the area. Additionally, the presence of suitable service spaces in other commercial corridors reduces the pressure on the downtown storefronts to accommodate all local retail and service uses. According to recent research by Destination Development Inc., one rule of thumb for creating a vibrant downtown culture is that one third of retail storefronts should contain food and beverage retail, one-third should provide shopping destinations, and one-third should be open and active during the



Source: Historic Stoughton

evening. Stoughton has a significant number of shopping and service establishments which offer classes, services and dining opportunities in the evening, although the percentage of dining uses is slightly lower, at only 13 percent of total storefronts, or 17 percent of retail (excluding professional service) storefronts.

Demographic Analysis

Local consumer demand is driven by the residential base as well as the population of daytime employees and daily commuters passing through the City on Highway 51. Each of these markets has a unique profile and spending preferences, which are highlighted below. In addition to these markets inside Stoughton, there are other regional visitors who will be attracted to the community to supplement local spending. However, this analysis focuses on meeting the needs of existing residents, employees and businesses. Business clusters which can be supported locally offer sustainable targets for recruitment or expansion. The ability to attract additional outside spending can then supplement this local base.

Stoughton’s demographics are appealing to retail and service providers, offering a fairly captive population base with high average incomes and disposable income. Using national retailer site criteria as an example of the market requirements required to support various retail models, the minimum threshold for most models is 20,000 residents within 5 miles, median household incomes over \$50,000, and traffic counts of 20,000 and above. For Stoughton, a 5-mile radius from downtown includes nearly 22,000 residents and has a comparatively high median income. Although the traffic counts in the City peak at 18,000, this is a less important criterion for Stoughton due to the relative lack of competition within this 5-mile trade area. Additionally, the market has a high percentage of family households and homeowners, representing a long-term stable consumer base, which is expected to grow slightly over the next five years.

Daytime Market Profile

Many businesses rely on daytime population for a majority of sales. This is true of traditional retailers which are only open until 5 pm due to limited staffing, and also of restaurants, which typically rely on daytime traffic for 30-40 percent of total sales. Many Stoughton residents commute outside of the community for work, making them unavailable to local retailers except on evenings and weekends. However, there are some demographic groups which remain in the community during the day, including retired individuals, stay home parents, and those that work from home. Additionally, there are 6,599 local employees (including residents who also work within the community). Of these, 3,248 are employed in professional and technical jobs. These employees represent the most likely targets for daytime retail, as they are more likely to seek business lunch destinations and/or to have the ability to visit local shops during their lunch hour or other free time. Manufacturing employees typically have shorter lunch hours and/or work alternate shifts which do not coordinate as readily with local business schedules. However, the remaining populations represent a sizeable daytime consumer base within a confined geographic area, as shown in the chart at right.

Again, using national retail chain requirements as a point of comparison, many quick casual chains (such as Panera) look for daytime market counts of 6,000 or above. With over 4,600 potential daytime customers located in the immediate

Stoughton Demographic & Spending Data

	Primary
Population	12,611
Anticipated 5-year Growth	3.7%
Family Households (w/children)	23.7%
65+ Population Households	23.5%
Home Ownership Rate	66.1%
Stoughton Consumer Demand	\$132 million
Median Household Income	\$61,235
Median Household Disposable Income	\$48,584
Highway 51 Traffic (vehicles per day)	9,600 (downtown) 18,100 (N Prairie) 13,100 (McComb) 9,900 (Deer Point)

Source: ESRI, 2010 Census WisDOT 2009

Daytime Population Profile

	Stoughton Market
Local Businesses	513
Local Employment	6,599
Professional & Technical Employment	3,248
Retired Population (over 65)	677
Work from Home	155
Stay at Home Mothers	546
Total Daytime Market	4,626

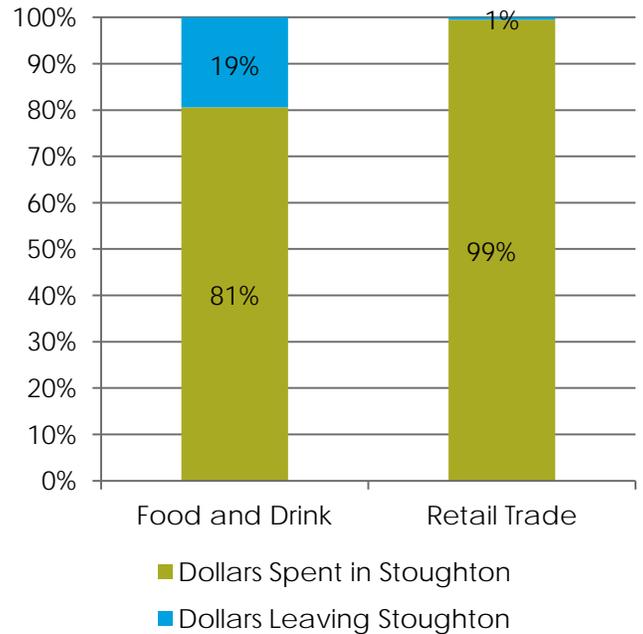
Source: 2010 US Census, Applied Geographic Solutions

community, Stoughton is an attractive market for many restaurant and daytime oriented establishments.

Retail Supply and Demand Gap Analysis

In addition to identifying market demographics, it is important to determine which needs are being met adequately by existing businesses. This type of analysis looks at what is referred to as primary trade area spending, defined as the area within which residents would prefer to purchase goods and services in Stoughton rather than traveling to other destinations. The following section includes a retail supply and demand gap analysis for spending within the City of Stoughton. For this analysis, information is based only on retail sales at City businesses and demand from City residents. In sum, this analysis identifies the amount of spending which is captured locally and areas where the City is successful in attracting outside consumers to the community. This is determined by comparing the total expected demand for goods and services among Stoughton residents based on the population, income and demographics with the actual spending reported by area businesses. In Stoughton, local spending is equivalent to 97 percent of total retail demand. This is a significantly higher capture rate than most regional communities of similar size, which generally see a capture rate of 80 percent of total sales. Local spending comprises 99 percent of retail trade demand and 81 percent of the smaller overall pool of food and drink demand.

Percent of Demand Met Locally

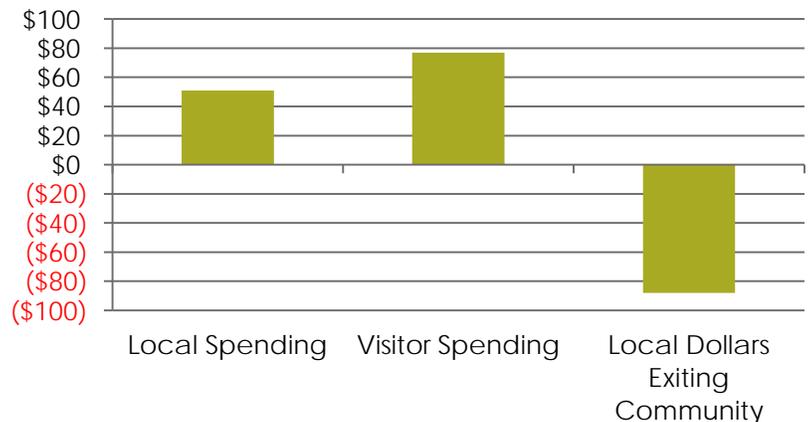


Source: ESRI

It is important to note that while spending equals 97 percent of total local retail and restaurant demand, it does not necessarily mean that all local residents are satisfying all of their shopping needs locally. It is far more likely that Stoughton has been successful in attracting outside visitor spending to the community. In fact, individual spending category sales clearly show that residents are traveling elsewhere for some purchases, while other categories have total sales far in excess of local demand. Combining categories with a net outflow of spending and totaling the surplus spending in remaining categories provides a likely picture of the impact of this visitor spending relative to residential demand. The results of this analysis provide a clearer picture of spending inflows and outflows within the community, as shown in the graph on below.

By looking at these individual line items more closely, we can identify individual retail line items where Stoughton is successful in drawing outside consumers. This draw is identified by the fact that total sales within these retail segments are greater than the demand which would be required to serve only the local population. For example, the primary trade area has stronger than expected gas station spending, which is the result of highway travel through the City. The community also enjoys higher than expected motor vehicle and parts spending, as this category includes a portion of sales at Stoughton Trailer, which may be classified as retail for tax purposes, even though they are not a traditional consumer destination.

Consumer Dollars (in millions)



Source: ESRI

In addition to retail segments which demonstrate a regional draw, there are other segments where there is little or no local provision of goods and all consumer spending in the segment is done outside of the area. A local example of an unmet demand is shoe stores and lawn and garden stores. While this gap between demand and supply can illustrate a market opportunity, it may also be that there is an existing retail location which is meeting these needs in a central location. For purchases which are not made regularly (i.e. furniture purchases) there may be insufficient local demand for these goods as residents are willing to drive to Madison and conduct this type of shopping when it is required and a concentration of a particular type of establishment is available. Additionally, it will be necessary to consider the magnitude of the demand gap. The smaller the gap, the greater a percentage of local sales that a new business would need to capture in order to be profitable. In some cases, an identified gap in supply of a particular good or service may be better met by incorporating additional line items into existing stores to increase profitability of existing establishments. For instance, the \$240,000 gap in spending on florists could be met with a specialty display area within Pick'n Save and is likely not sufficient to warrant a new storefront.

The table below illustrates those retail segments for which there is unmet local demand and areas where Stoughton has demonstrated success in drawing outside consumers. These results are filtered to include only those items for which there are sufficient demand gap to support new businesses, and where there are no regional destinations which make competitive success unlikely. The detailed supply and demand table with supply and demand information all merchandise line items is included as an appendix.

	Retailer Type	Spending Surplus/Gap
Unmet Demand		
	Full Service Restaurants	\$4.6 million
	Home Building & Garden Supply	\$3.6 million
	Furniture & Home Goods	\$3.5 million
Regional Draw (Surplus Spending)		
	Motor Vehicles	\$21.6 million
	Auto Accessories & Parts	\$32.2 million
	Beer & Wine Stores	\$8.4 million
	Gas Stations	\$7.3 million
	General Merchandise (Wal-Mart)	\$2.2 million

A notable exclusion from this list is the grocery category, which showed a \$19.5 million dollar demand gap. The growth in spending in this category since the previous 2006 Stoughton grocery market analysis is in line with projections from this period. Given today's typical grocery revenues, this demand is roughly equivalent to one additional grocery store. However, as noted in the previous study, local grocers will not capture all of the demand from City residents, some of whom will travel to wholesale or specialty grocers elsewhere. Based on the struggles by the Yahara River Grocery since its opening in 2006, it is unlikely that additional grocers would achieve sufficient market share to be profitable. However, this category may present some opportunities for existing retailers, which will be profiled in the recommendations section.

Service Analysis

A significant portion of storefront space is typically devoted to personal and professional service uses, including areas where there is minimal traffic and interior or second story spaces. While spending and demand for service uses cannot be measured in the same way as retail uses, information can be obtained based on local demographics and spending which highlights areas of unique local demand. For instance, residents in particular economic and demographic segments may be more or less likely than the average population to participate in certain pastimes, or to share particular hobbies or interests. Because these demands cannot be determined based on spending habits alone, there may be a lack of supply of uses catering to these interests.

Retail analysis models create what are referred to as psychographic profiles of a community which provide a snapshot of the individual demographic groups which are present in a community. While these profiles will never exactly match local populations, they can point to areas where individual segments of the population have shared interests which can be marketed to by local businesses. The three top psychographic groups for Stoughton, which represent a combined 58 percent of the population, are provided on the following page.

In Style: 33% of Stoughton residents.

Professional couples, typically without children who appreciate urban amenities (such as walkable downtowns and restaurants), are technology users, participate in sporting and arts activities and enjoy cooking and outdoor recreation.

Green Acres: 14% of Stoughton residents.

This group includes married blue collar couples with and without children. This group prefers rural or suburban style neighborhoods and spends money on their cars, pets, and home improvement projects. They enjoy gardening, cooking and outdoor recreation.

Aspiring Young Families: 11% of Stoughton residents.

This group is primarily made up of young families with children, including single parents. Not surprisingly, they spend money on children’s products, music, and youth sports. They enjoy outdoor and indoor recreation and family style dining.

Several potential areas of opportunity for Stoughton are shown below. These particular uses have a significantly higher spending index (likelihood of residents to purchase a particular item) than the nation as a whole. Additionally, the total annual market demand and number of current providers within the category are shown.

Service	Annual Market Demand	Spending Index (100 is average)	Number of Providers
Laundry/Dry Cleaning/Jewelry Repair	\$751,697	160	2
Recreation & Sporting Activities (lessons, movies, sporting events, bowling, etc)	\$991,903	101	12
Pet Goods/Services	\$2,519,690	117	4 (plus 2 veterinary)

For more traditional services which are utilized by all residents, there are typical ratios which have been identified by business planning models which identify the typical number of residents or households which are needed to support an additional office. While the size of existing uses and presence of competition closer to residents’ workplaces can influence these decisions, the following categories have the potential to support additional businesses within the community. In the case of the medical cluster, the new clinic and hospital expansion likely contribute to additional demand for ancillary services. This category also includes medical and social service providers including nonprofit support groups for patients and families of patients, medical supply rental companies, and other entities which provide services to those requiring medical care.

Service	Typical Ratio	Local Providers	Potential Additional Market Demand
Dentist	1 per 1,500 residents	4	4 dentists
Medical (incl. Social Services)	2.5 per 1,000 residents	30	2 providers

Office Uses

Non-retail businesses make location decisions based on the presence of a local employment base, worker skills and knowledge and the ability to reach key vendor, supplier and client markets from a given location. For relocating businesses, the commute time of management and employees is also a consideration. For sales industries and highly competitive industry sectors, the image of individual buildings and business parks and surrounding amenities is also a consideration which may influence the ability to recruit new clients or employees. The ability of businesses to accommodate visiting client needs with suitable restaurants and lodging amenities, and to provide an appealing and convenient worker environment, with proximity to convenience retail, banking and health facilities are all potential considerations for certain industry types.

The local workforce includes two groups:

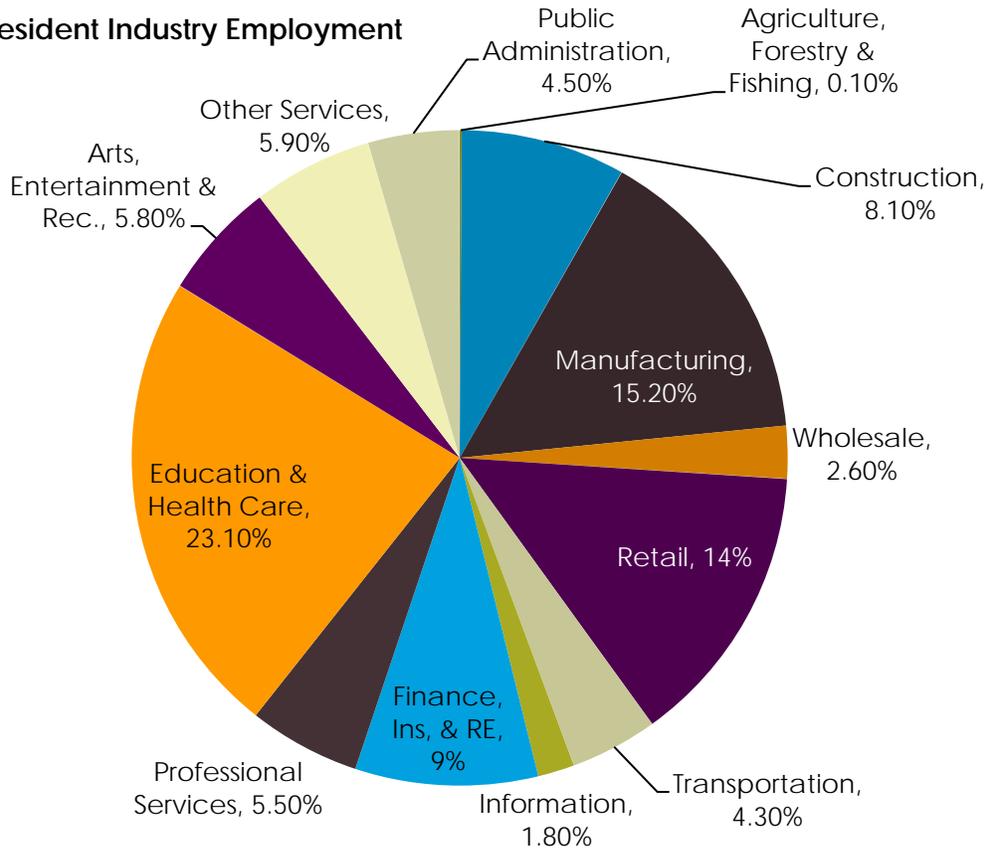
- Residents in the community who currently commute to work but who may be willing to take a local job, if available; and
- Employees at existing companies who may be willing to take a new job.

Industries which are represented by local residential employment and local businesses are provided separately in the charts on page seven. As with the supply and demand gap analysis, these charts focus on the City of Stoughton. However, as part of a larger metropolitan area, Stoughton businesses are able to recruit workers from surrounding communities, while businesses in Madison compete to recruit employees from Stoughton. For the Madison region, the median commute time is 16.4 minutes. This area is shown in the map on page eight, and can generally be regarded as the primary labor pool.

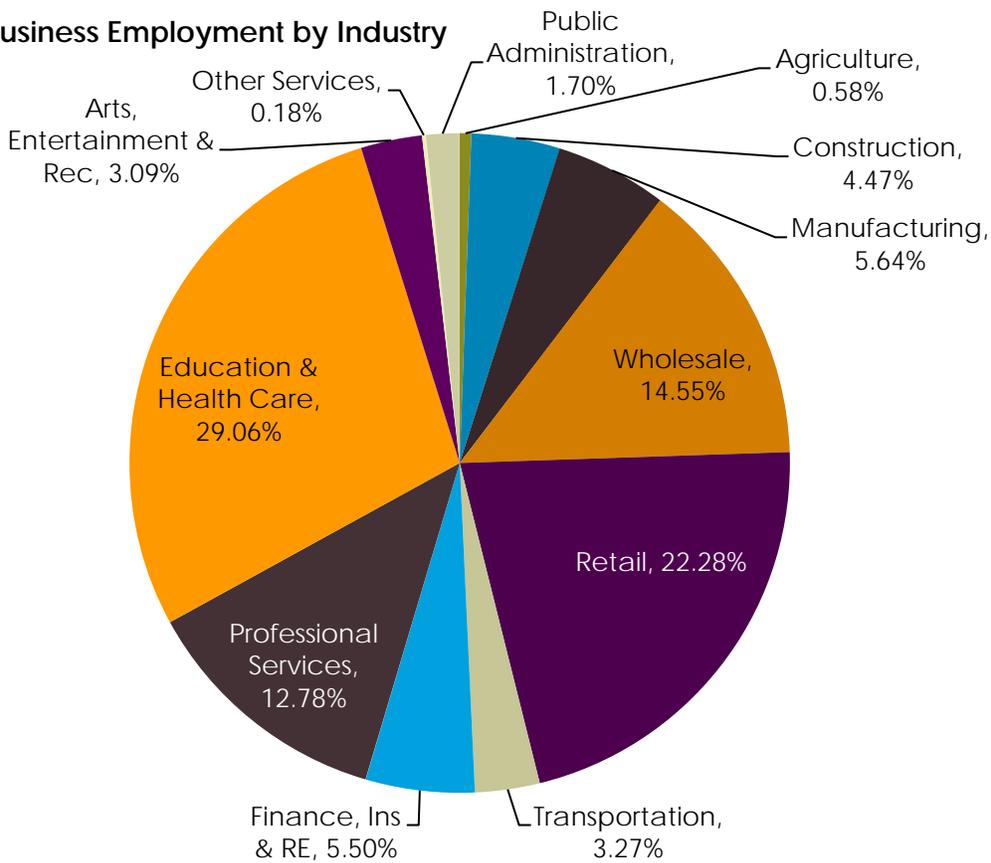
Reviewing the two graphs, it is evident that the skill sets of local residents do not align with the existing business mix in the City. Residents in these areas therefore must commute elsewhere. Areas where local resident employment knowledge noticeably exceeds the jobs available within that sector include Arts and Entertainment, Construction and Finance, Insurance and Real Estate. Additionally, while there is a segment of the population employed in the information sector, there are no businesses in the community which fall into this category. Focusing on recruiting more businesses which complement local resident skills sets can help create a live-work environment and also diversify the local economic base. Within the identified industries, residents are largely employed in management (36%), sales or office positions (23.7%) and service (16.3%) with the remaining 24 percent employed in active construction, production or transportation jobs.



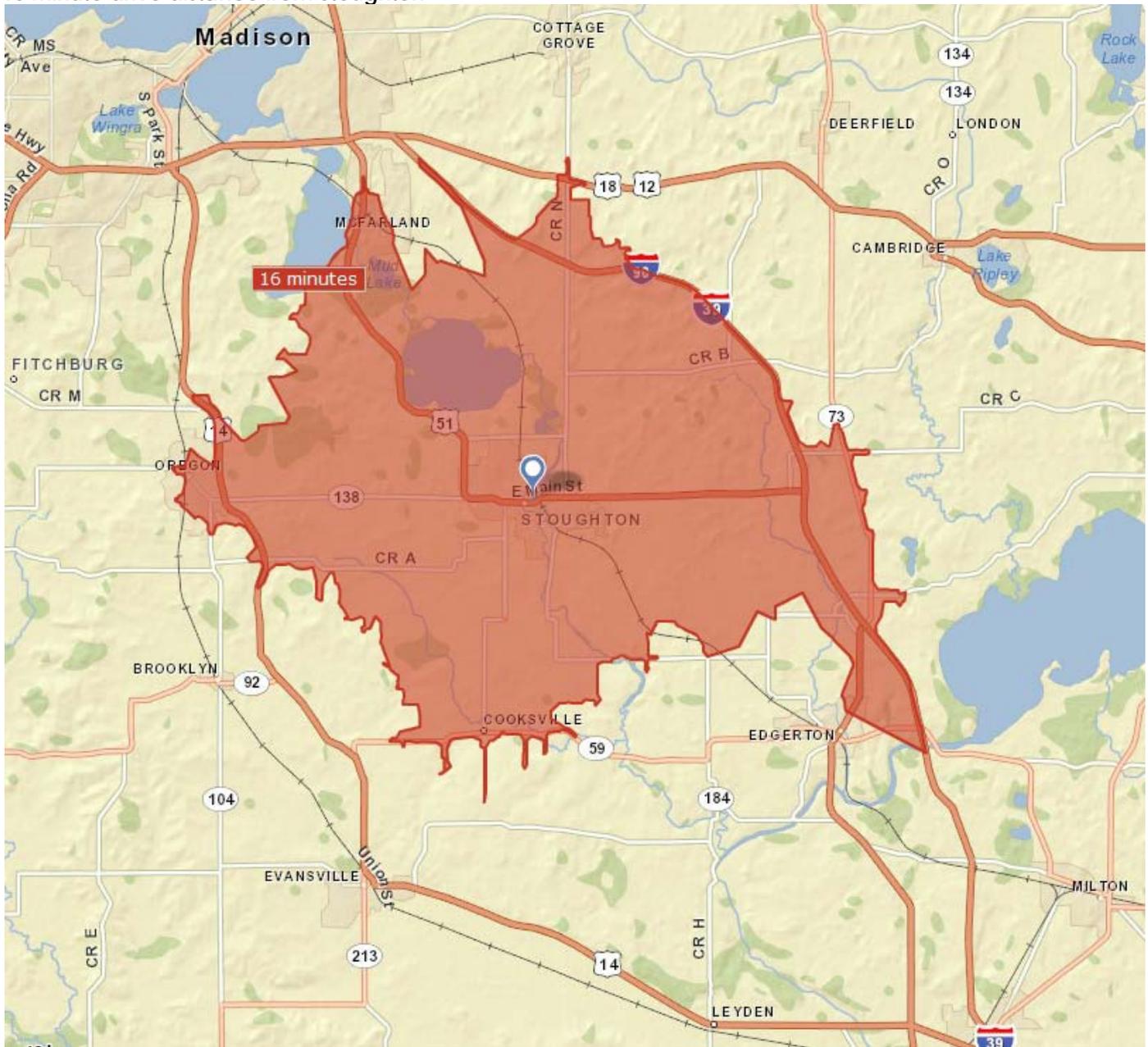
Local Resident Industry Employment



Local Business Employment by Industry



16 minute drive distance from Stoughton



Recommendations

The following recommendations identify industries which have potential as recruitment or expansion targets for Stoughton based on the local market conditions, consumer trends and availability of local employment and labor. Where available, information on the average square feet and preferred location for each industry are also identified. These square footages are determined based on either the available demand divided by industry sales per square foot, or by the number of employees in a typical firm divided by the per employee space required. These considerations may be helpful to landlords exploring modifications to existing space, or developers proposing new office, service or retail space in the community. In some cases, expansion by existing businesses may provide the most likely strategy to meet demand; in others new businesses would need to be recruited to the community.

Target Industry & Sample Tenants	Square Feet Supported/ Average Square Feet	Location/Space Preference
Full Service Restaurants Family-Style Professional Lunch	4,000-7,000 square feet	Varies – interior buildout/space layout and parking are important.
Home Building & Garden Supply Nursery Specialty Garden Store (outdoor décor, birds, seeds, etc)	1,000-1,500 square feet (specialty) 5,000-10,000 square feet (nursery)	Nursery preference for low cost land with visibility. Specialty garden store prefers downtown or walkable small strip environment.
Furniture and Home Goods Antiques, Artisan Furniture Interior Architecture Home Décor and Design	3,000-8,000 square feet	Visibility, loading and parking proximity.
Motor Vehicles & Accessories Specialty Parts & Repair Tractor/Equipment Accessories, Parts & Repair	Varies – typically large land size requirement.	Proximity to travel routes/lodging
Laundry/Dry Cleaning Service	500-2,000 square feet, depending on if cleaning is done on or off site	Convenient morning and evening commute access
Recreation & Sporting Indoor Entertainment (arcade, sporting center) Sports Lessons (golf, karate, etc)	1,500-4,000 square feet	Proximity to target demographics
Pet Goods/Services Food, Training, Grooming, Photography	1,000 – 2,000 square feet	Flexible space requirements
Financial Services Banks, Credit Unions Financial Counseling Personal Financial Consulting	1,500-4,000 square feet	Various models including freestanding, storefront or interior to complementary uses (i.e. grocery store, office lobby)
Dentist/Medical	2,000-3,500+	Proximity to other medical users for most traditional medical, other related uses have flexible locations, although tenant build out and amenities are important – plumbing, loading, parking proximity, etc.

Information		
Computer Systems Web Administration/Design Software Developers	1,000-3,000 square feet	High bandwidth/fiber optic capacity
Insurance & Real Estate		
Back Office Sales Centers Management and Maintenance	3,000-5,000 square feet	Cost of space
Construction		
Builders and Contractors	2,500-6,500 square feet	Flexible space – may require outdoor storage or parking/staging

For many of the above categories, there may be an opportunity to combine uses and maximize market share. For instance, a specialty nursery or garden store could also meet the demand for entertainment and education by offering lessons on specialty gardening topics, or a restaurant could provide an indoor recreation area (Stoughton Cinema Café already does this). Similarly, the previously discussed grocery gap could be met through specialty baked goods or ethnic items offered for sale at popular local restaurants. In those clusters where there is an existing local draw (such as motor vehicles) the greatest opportunity is to complement existing goods, offering customization, repair or complementary parts/supplies.

Some industries will do best if operated by individuals familiar with the community and local influencers. This is especially important for personal service businesses, individuals offering lessons, etc. However, a second source of potential business recruitment targets is adjacent market areas. Current destination businesses located in Janesville, Fort Atkinson, Oregon, Edgerton and Fitchburg may have a significant amount of business from the Stoughton area. As their business expands, they may be willing to explore opening a second or third location in Stoughton to solidify this consumer base and expand their reach further.

This analysis does not take into account the economic situation within individual industry clusters or the availability of suitable space within the community. For example, the construction sector remains in contraction mode, and companies in this sector will not be seeking new space in the near future. Many financial institutions have also significantly scaled back plans to open additional locations until financial markets and local business profitability has improved. A review of spaces currently listed as available on local commercial property listing services shows a wide range of property availability, with individual spaces ranging from 900 to 20,000 square feet. Available spaces include a variety of retail, office and service spaces around town, including some with existing buildout for medical or specific retail uses. Overall asking rates range from \$8.30 to \$14 per square foot triple net, a rate marginally higher than the range in nearby communities. While this may be due to the availability of higher quality space or buildout available locally than in other communities, it may also limit near term recruitment, as retail financing is especially difficult in the present environment and businesses are more cost conscious. For similar reasons, uses which are identified as highly desirable in the community but have high startup costs may require loans or other assistance. In many cases these costs are associated with capital improvements to properties lacking necessary infrastructure (for instance the addition of restaurant hoods and vents or fiber optic connections for information companies). If available, this type of assistance should be part of the recruitment marketing materials.

Ultimately, this report is intended to facilitate activities which are most likely to result in the recruitment and expansion of sustainable businesses to/in Stoughton. Of course, there are a number of factors which contribute to business success, and a well-run business in a poor location may fail, just as a poorly run business in a prime space may succeed. Ultimately, any entrepreneur or business owner who sees an opportunity in Stoughton should be considered equally, provided that their business complements existing City plans and economic realities.