

## 6.18: Factors in Analyzing Trading Area

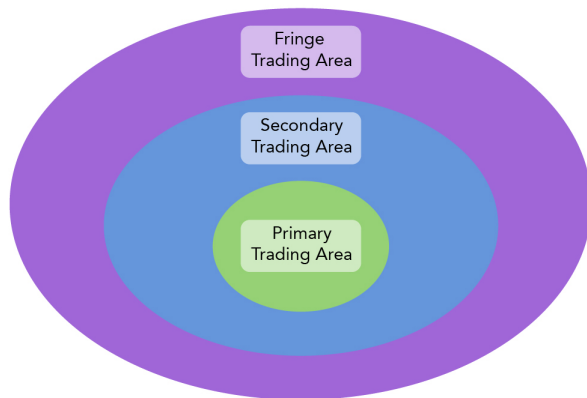
### Learning Objectives

- Identify the main factors to consider when analyzing a retail trading area

A trading area is the geographic area from where you draw your customers. There are three types of trading areas that are important to note:

1. **Primary Trading Area.** Where the store is exactly located.
2. **Secondary Trading Area.** The shopping center or area where the store is located.
3. **Fringe Trading Area.** The city or town where the store is located.

You can picture these three areas as follows:



Your store is in the center of the primary area. Most of your customers will come from this smaller area as well. As you expand out, fewer and fewer customers will be coming to you. This is especially true if, for example, you are a small convenience store or drugstore. If, on the other hand, you are planning to open a Trader Joe's, Marshall's or T.J. Maxx, you may get your draw from a wider area. So, if you are planning to open a small, local retail store, you need to make sure that the area immediately surrounding your location has:

1. **Enough consumers.** Are there enough people living in the area, with access to your retail space to create sales for your product or service?
2. **Enough money to spend.** Spending potential index- compares the local average expenditure by product to the national average amount spent.
3. **A need for the product or service you are bringing to the area.** Is there a market for your product? Here is where the census review, GIS services and other analysis processes will help determine if your market exists!
4. **Competition in the trading are.** Using the internet as a tool, review sites like Yelp, use the map function and note who is located in your geographic area. It is also possible to use directories published by trade associations, the local chamber of commerce, municipal and city government or Chain Store Guide (published by CSG Information Services) to see who the competition might be.

So, again, analysis is the crucial component. Even with analysis, there is a possibility that a business may not work. As an example, a yoga teacher opened a studio in a small town where no other studios existed. It seemed like a perfect opportunity to tap an untapped market right? Well, the problem was, there were not enough people in the market for yoga classes. So what happened? The studio was open for a few years, marketing heavily to the local area, but ended up shutting their doors when they couldn't create enough sales to be profitable.

**Excellent Video Explaining Trade Area Analysis: Using Reilly's Law to Determine Trade Territories**



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