The University of Georgia

Center for Agribusiness and Economic Development

College of Agricultural and Environmental Sciences

Estimating Market Potential Check-List

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TABLE OF CONTENTS

Estimating Market Potential Check-List

Estimating the market or market potential for a new business or business expansion is critical in determining the economic feasibility of a venture. Estimating the market potential will determine if the market is large enough to support your businesses. This check-list will address a number of questions that need to be answered before an estimate can be calculated.

> *What type of customer will buy the product or service?*
> *Where are these customers located?*
> *How many potential customers (N) are there?*
> *How often do they consume or use it?*
> *What is the Competition?*
> *What are people paying?*
> *What is the Potential for the Market to Develop?*
> *What is my share of the Market?*

This check-list will walk you through estimating the market potential for your business and/or estimating the retail trade area market potential if you have a retail establishment by going through these questions and providing examples.

Estimating Market Potential

Estimating the market potential for a business is critical in evaluating its viability and provides an estimate of the maximum total sales potential for a given market. Once the estimated market potential has been calculated, it is possible to determine if the market is large enough to sustain your proposed business or sustain an addition competitor in the marketplace. It is important to remember that the estimated market potential sets an upper boundary on the market size and can be expressed in either units and/or sales. Unless there are no direct or indirect competitors, a business will capture a share of the total estimated market potential not all of it.
 The following provide the steps and data necessary to estimate the market potential. These will be discussed in detail later.

> **Key Steps in Estimating Market Potential:**
> 1. Define your target market and market segments.
> 2. Define the geographic boundaries of your market.
> 3. Derive an average selling price.
> 4. Determine the average annual consumption.

Estimating the market potential for a business requires specific information on the number of people or potential buyers, an average selling price, and an estimate of consumption or usage for a specific period of time. Once this information has been collected, it can be plugged into the following formula to derive the estimated market potential.

Estimating Market Potential: $MP = N \times O \times Q$; Where:

MP = market potential
N = number of possible buyers
P = average selling price
Q = average annual consumption

However, the better the information that is being plugged into the formula, the better the estimate of the market potential. The variables in the above formula will be described in more detail as well as more specific information on the types of information required will be provided later.

Retail market potential
If you are evaluating a retail establishment, a more refined method of calculating the retail trade area market potential is available. The market potential for a retail establishment provided an estimate of the maximum total sales potential for a specific retail operation in a given market. As with the general market potential estimate, the market potential sets an upper boundary on the market size and can be expressed in either units and/or sales. The following are the steps and information that are needed to estimate the retail trade area market potential.

> **Key Steps in Estimating Market Potential:**
> 1. Define your target market and market segments.
> 2. Define the geographic boundaries of your market.
> 3. Derive average expenditures for the category.
> 4. Determine the average household income for the area and state.
> 5. Estimate market share.

As with estimating the market potential for any business, estimating the retail trade area market potential requires specific information on the number of people or potential buyers, an average expenditure figure for the retail category, area and state income figures, and an estimate of market share. Once this information has been collected, it can be plugged into the following formula to derive the estimated retail trade area market potential.

> **Trade Area Analysis** is a mean of evaluating the potential retail sales for a specific retail operation can be estimated by using a standard formula:
>
> *ES= P x EXP x (ADI/MDI) x MS*, where
> ES = estimated sales
> P = market area population
> EXP = average expenditures for retail outlet category
> ADI = area estimated average household disposable income
> MDI = Georgia average household disposable income
> MS= estimated market share

The following material will provide direction and information needed to estimate the market

potential. There are a number of factors that need to be investigated in order to derive the best estimate possible.

Target Market
One of the most important components of estimating the market potential for a business is to determine its target market. A target market can be thought of as the customers who are most likely to buy from you and generally are described using demographic variables (gender, age, education) as well as psychographic variables (lifestyle and belief system variables). In many cases, a business may have more than one target market. Think about the automobile industry, automobile manufactures have a number of target markets, i.e., truck buyers, luxury car buyers, economy buyers. Your business should be able to develop specific profiles for each of your target markets using demographic and psychographic variables.

The *first* method of describing your target market segments is using a set of demographic descriptors like the following:

• Age	• Marital Status	• HH Income
• Gender	• Race/Ethnicity	• Family Life cycle
• Education	• Religious Affiliation	

It is important to create a profile of your target market describing them with demographic variables like those listed above. Once you have created your demographic profile, you can determine how many people fit your profile using various demographic data sources (see Appendix A). It is important to note that creating a demographic profile does may not provide specific enough information to accurately determine your market potential as it may be too general.

Sources of Demographic Information: Appendix A

The *second* profile is referred to as psychographic lifestyle and describes your target market segment by their activities (work and leisure), interests (family, animals, environment, home, and community), and opinions. The lifestyle profile is more important in predicting future patronage than the demographic profile because it will determine what type of experience they are seeking. Failure to meet these needs will result in loss of business. The following are a few psychological descriptors:

• Political affiliation	• Socially conscious	• Cutting-edge	• Family-oriented
• Conformist	• Power-wielding	• Trend follower	• Thrill seeker
• "Green"	• Fun-loving	• Fashion-forward	• Sports enthusiast

Psychographic information is more difficult to obtain than demographic information. As a result, it is less frequently used when determining a target market profile.

Sources of Lifestyle Information: Appendix B

Example: An individual would like to convert his family farm into a hunting plantation. The farmer has done his research to determine both the demographic and psychographic profile of his target market, avid hunters and fishermen. Combining these demographic and lifestyle characteristics, you are able to develop a profile of one of your target markets below:

Demographic	Lifestyle
Race: White	NASCAR fan
Age: 25-54	Owns a Ford Truck
Education: High school	Camps and fishes
HH Income: $74,000	County Music
Marital Status: Married	Boat
Home Ownership: mixed	Outdoor Life TV Show

Market or Trade Area
The market area can be thought of as the geographic area where the business intends to operate, i.e., a city block, between the rivers or the globe. Defining the market area is important because it defines the geographic area where potential consumers live and/or work. However, not everyone in the defined market area will be a customer. As a result, it is important to compare your target market profile, generally described using demographics, to the population in the market area. There are a number of ways to define a market area, some are easy and others are more difficult and require the services of a marketing professional.

Methods of Defining Market: A market area is generally defined by geography, radius, trade area or drive-time.

A. Geography is the simplest form of defining a market area. This method defines the market area by using landmarks or logistical barriers to define the market area. The following are easy-to-use geographical areas:
•Neighborhoods
•Zip codes
•City or County Boundaries
•Metropolitan Statistical Areas
•State (multi state) Boarders
•Nation
•Continent
•World

Sources of Geographic Market Area Information: Appendix C.

B. A ring or radius defined market area is performed by creating a circle a specified number of miles from a business location. The ring analysis allows a business to evaluate the demographics of people residing within a pre-defined distance from specific business location. The ring technique assumes a circular trade area with the business in the center. The ring analysis may cut through geographic obstacles and/or barriers (large bodies of water, mountains, railroad tracks) that may hinder or restrict access to a given location.

Source of Ring Study Information: Appendix C, Section B

C. Drive Time Analyses: Drive time analysis is a more sophisticated analysis than the radius analysis as a number of variables are used to estimate the drive time to a given location. The analysis takes speed limits, road type, vehicle, time of days, and congestion values. Customers may be willing to drive 15 miles, but given traffic conditions the 15 miles may take 30 minutes to travel. A customer may be willing to travel 15 minutes but in a heavily congested area, that may translate into a considerably shorter actual distance. As a result, incorporating these driving-related variables, a drive time analysis may provide a better estimate of the market area than a ring study.

Source of Ring Study Information: Appendix C, Section C

Market Size
Once the market area and target market has been defined, it is possible to determine the number of potential customers for your business. This will allow you to estimate the N (number of potential customers) in the market potential equation. This total market potential will typically have to be adjusted downward to account for non-users. This information is readily available and found in Appendix D in the Sources of Consumption Information Section.

Example: An agritourism operation has decided its will target its market towards children under 9 years old. The business has concluded its market area is Wake County which has 101,768 children under 9 years old. Therefore, N = 101,600 potential customers. These numbers were obtained from the US Census Bureau.

However, not all children under 9 years of age will visit an agricultural facility. It is important to adjust these figures to get a more accurate estimate of the actual market potential. A survey of elementary school teachers found that only 68% of kindergarten through 3rd grade teachers indicated they would take an agriculturally-related field trip in the next year.

As a result, the 101,600 kindergarten through 3rd graders should be adjusted downward by multiplying by 68%. This results in an adjusted market potential of 69,088 potential students.

Adjusted Market Potential = 101,600*68% = 69,088

Sources of Consumption Information: Appendix D

Consumption or Usage

You need to determine how often your target market segment uses your product or service. This figure will have a significant impact on the estimated market potential. For instance, is the product purchased frequently, occasionally, or infrequently? Obviously the more frequently the product is purchased, the larger the market potential. Durable goods, products that can be used over a long period of time, are purchased less frequently than perishable items. As a result, the annual consumption of apples is greater than the annual consumption of television sets. There is an abundance of consumption information from the government as well as industry trade associations. For example, the USDA collects volumes of disappearance data for commodities that is converted into per capita annual usage estimates.

Example: It is important to determine how often these school groups will take an agriculturally-based field trip. A study of elementary school teachers indicated that they will take an average of 1.25 agriculturally-based field trips per year. Therefore, we can use 1.25 as our usage or consumption of agriculturally-based field trips, (Q = 1.25).

Estimating Market Potential: $MP = 69,088 \times P \times 1.25$

Sources of Consumption Information: Appendix D

Competitor Analysis

One of the best sources of information is to investigate competing businesses. These businesses can provide a wealth of information that can be used in evaluating the potential for your business. By evaluating how a company markets its business, it is possible to determine the markets it is targeting. For example, if competing businesses are advertising in Southern Living, they are targeting affluent, middle age females. However, if they are advertising in the sports section of a metropolitan newspaper, they are most likely targeting males.

In addition to collecting information on the markets they are targeting, a competitor analysis can reveal packaging preferences, target market information, pricing strategies, distribution channels and marketing strategies. Simply evaluate the products and services your competitor is providing. Are they producing family packs or individual serving sizes of their processed food product? How are they getting their products to their customers? Are their products value prices or are they priced for the high-end market? Are they focused on convenience, quality or quantity? What type of packaging material are they using?

Example: After investigating the competition and calculating the cost of producing the corn maze tour and hayride, the agritourism operation has determined it will charge $8.00 per person. Other corn maze operations in the area are charging $12.00 per person but in addition to the maze, they have a petting zoo and pumpkin cannon which are included in the admission fee. As a result, a price of $8.00 per person was choosen to offset the difference in activities being offered.

   Sources of Competitor information: Appendix E

Pricing

A product's pricing has a direct impact on the bottom line of your business and its success. You do not want to price yourself out of the market but you do not want to leave money on the table. However, it is important that you account for all of your costs associated with providing your product to the consumers and set your price high enough to cover this price and make a profit. Your product's price must also be inline with competing products relative to its value. Value is a ratio of a customers expected level of quality and the price they pay for the product. If quality is low and price is high, it is a low value product. Therefore, investigate what others are charging and what the customer gets at that price when setting your price.

> **Example:** After investigating the competition and calculating the cost of producing the corn maze tour and hayride, the agritourism operation has determined it will charge $8.00 per person. Other corn maze operations in the area are charging $12.00 per person but in addition to the maze, they have a petting zoo and pumpkin cannon which are included in the admission fee. As a result, a price of $8.00 per person was set to offset the difference in activities being offered.

> **Calculating Price:**
> •Cost-plus pricing. Used mainly by manufacturers, assures that all costs (fixed and variable) are covered and includes a desired level of profit.

> •Demand pricing. Used by companies that sell their product through a variety of sources at differing prices based on demand.

> •Competitive pricing. Price according to your competitors. Used in competitive markets with little product differentiation.

> •Mark-up pricing. Adds a level of profit to the cost of the product being retailed. Also good for products that are co-packed.

> **Evaluating Price Competitiveness:**
> **Answer:** Investigate your competition. Are your prices in alignment with theirs? What is the value of your product relative to theirs? Do not be a price taker or implement a "me, too" pricing strategy if your product can be differentiated and offers a higher value than competing products. If your price is too high to compete directly in the market, look for a niche market that desires your product's attributes and charge accordingly.

Market Outlook

The situational analysis can be thought of as a comprehensive investigation into the business environment in which your company will be operating. This analysis will allow you to determine the health of the industry, is it expanding, declining or stagnate. This should include an *industry overview* focused on industry trends and should provide a general review of the industry as well as research into *regulatory and social implications* that would directly or indirectly impact the demand or perception of your business.

One important aspect is to determine if the market is saturated or if there is room for new businesses. Using the Market Development Index (MDI) it is possible to determine a product's lifecycle. The formula for estimating this is as follows:

MDI =   (Current market demand ÷ Maximum Market Potential) * 100

- MDI < 33 (Considerable growth potential. High growth market, high prices and basic benefits.

- MDI 33-67 Growth potential but need to offer more than basic product and compete at lower price.

- MDI > 67 Mature market, still room for growth but becoming commodity products. Need to have very differentiated products to meet specific customer needs.

Market Share

The percentage of a market (either in units or revenue) accounted for by an individual business. This figure is important since it provides insight into how much of the total market potential a business might capture. If the market share is not large enough to support the business, then there is a problem. Also, if the number of units needed for the business to break-even financially is known, it is possible to determine what share of the market will have to be captured for the business to achieve this break-even point. If the market share estimation is too high or unrealistic, the business should be reevaluated.

Estimating market share is difficult because of the lack of information. Some trade associations or market research publications will provide some basic market share information but finding directly applicable information for your business may be impossible. Market share information is very difficult to obtain and may need to be estimated using various scenarios.

Examples: There are two existing agritoruism operation in the identified market area. The new agritourism business wants to estimate what percent of the total market they can capture. Since data on agritourism in the area is not being collected, it is impossible to derive an accurate market share. However, for planning purposes, it is possible to crudely estimate market share.

Assume that each of the competing businesses in your market area capture an equal share of the market. This is very crude but provides basic information.

Market Share = 100 ÷ number of competing businesses.
Market share = 100 ÷ 3 = 33.3% for each of the three agritourism businesses. This will probably over-estimate your market share since your business is new and the others have existing customer bases.

Assume you have completed a survey of potential customers in the market area. Surveys can provide sources of information for use in calculating market share. The following is one method of estimating market share if additional market research information is available from a survey. Take the percent of respondents that are aware of the product, whose needs are met by the product, their intention to purchase, how accessible, and their past purchase figures and multiply them together. This will provide an estimate of market share.

Market Share Index = PA * PATT*IB*PAVIL*PP
PA= Product awareness - consumers awareness of your product.
PATT= Product attractiveness - how well product meets needs.
IB= Intention to by - are consumers willingness to buy your product?
PAVIL= Product availability - how accessible is your product?
PP= Product purchase   - what percent of respondents have actually   purchased yours or similar products?

EXAMPLE 1: Agritourism Market Potential Analysis

Situation - estimate the market potential for a new corn maze in Wake County, Georgia. The facility will have a maze and hayride. Other activities include pig races, hay bale play grounds, and a petting zoo. The average price for corn mazes in the area is $8.00 per person. They plan to target children 8 years old and under. There are two other competing corn maze operations. These operations have been in business for over five years and have established a clientele.

Estimating Market Potential: $MP = N \times O \times Q$, Where:

    MP = market potential
    N = number of possible buyers
    P = average selling price
    Q = average annual consumption

    Number of potential customers (target market) =101,600 people under 9 years of age **(Census data for 2004)**
    P - average selling price = $8.00 per person
    Q - consumption - assumes an average of 1.5 visits per year per child= **1.5**

    MP= 101,600 * $8.00 * 1.5 = $1,219,200.00

Adjustment: It is unrealistic to assume that the operation will capture 100% of the market given they are new and there are established operations in the area. Need to estimate our market share of the corn maze business in the county.

    Market share = Market potential * percent of the market captured.

    Assume each corn maze obtains 33% of the market

    Market Share = $1,219,200.00 * 33% = **$402,336**

    Use 20% and 10% to see how sensitive the market share number is and if these figures will support your business.

    Market Share = $1,219,200.00 * 20% = **$243,840**
    Market Share = $1,219,200.00 * 10% = **$121,920**

EXAMPLE 2: Specialty Food Store Trade Area Analysis

Situation: An entrepreneur is exploring the potential of building a specialty food store featuring condiment products (sauces, marinades, jams and jellies, etc..) in Wake County Georgia. They will relay on area residents to support the stire. They need to estimate the market potential for the store as part of their feasibility analysis,

$ES = P \times EXP \times (ADI/MDI) \times MS$, where

ES = estimated sales
P   = market area population
EXP = average expenditures for retail outlet category
ADI = area estimated average household disposable income
MDI = Georgia average household disposable income
MS = estimated market share

Wake Count's population was in the 2004 Census report. According to the Food Marketing Institute, speciality food shoppers spend between $500 and $1,000 annually on specialty foods. Assuming that on average, the specialty food shopper spends $1,000 annually on specialty foods and using the fact that condiments constitute 12% of specialty food purchases a figure of $128 is used to represent specialty food shoppers annual per capita food expenditures on condiment products.

Disposable household income is calculated by subtracting total household taxes from total household income. Wake County's average household income in 2004 is $55,442. Assuming a 33% income tax rate, Wake County's estimated disposable household $37,146 annually. Georgia's medium household income was $39,428 in 2004. Assuming this income is taxed at 28%, their disposable household income is estimated to be roughly $28,388 annually.

P = market area population = 748,815
EXP = $128
ADI = Wake Co. = $37,146
MDI = Georgia = $28,388
MS = 10% of the specialty Sauce market in Wake County

$ES = 748,815 \times \$128 \times (\$37,146 / \$\$28,388) \times 10\%$
$ES = \$ 12,541,855$

Using the data described above , the trade area sales formula resulted in an estimated $12.5 million in specialty food condiment sales potential for Wake County, Georgia. It is important to remember that the estimated sales figure is based on a number of assumptions and calculations and should only be used as an approximation.

Appendix A: Demographic Information Sources

Sources of Demographic Information:

- A Guide to Sources of Information - http://www.loc.gov/rr/business/marketing/

- Advertising Age -Database related to advertising - http://adage.com/datacenter/

- U.S. Census Bureau - www.census.gov..

- QuickFacts - http://quickfacts.census.gov/qfd/index.html

- American FactFinder.- http://factfinder.census.gov

- The Right Site offers numerous free demographic profiles.
  www.easidemographics.com/cgi-bin/login_free.asp

- Development Alliance - Religious affiliation - www.adherents.com

- Demographics USA - www.tradedimensions.com , published by Market Statistics
  Reference: DANA, KLMR REF HF5438.4.S87 Click on Demographics

- USADATA - fee based service- http://www.usadata.com/

- Surveys - you can survey people and collect this type of information.

- Trade Associations - Trade associations collect information on their members or the
  customer group their members are interested in. This information generally includes
  lifestyle information. Contact trade associations that represent your industry and inquire.

- Universities - Collect and publish applied research that includes lifestyle information.

- Electronic and Print Media - Collect information on their subscribers, including lifestyle
  information. Contact them and ask about the possibility of advertising with them and
  request a subscriber profile.

Appendix B:
Sources of Lifestyle Information

Sources of Lifestyle Information:
- Claritas - Some information is free, have to pay for detailed reports. Lifestlye Profile by Zip code
www.claritas.com/MyBestSegments/Default.jsp?ID=30&SubID=&pageName=Segment%2BLook-up

- Advertising Age -Database related to advertising - http://adage.com/datacenter/

- Surveys - you can survey people and collect this type of information.

- Trade Associations - Trade associations collect information on their members or the customer group their members are interested in. This information generally includes lifestyle information. Contact a trade associations that represents your industry and inquire.

- Universities - Collect and publish applied research that includes lifestyle information.

- *Electronic and Print Media* - Collect information on their subscribers, including lifestyle information. Contact them and ask about the possibility of advertising with them and request a subscriber profile.

Appendix C:
Sources of Geographic
Market Area Information

Sources of Market Area Information: Appendix C.

Section A - Geographic Information
- A Guide to Sources of Information -http://www.loc.gov/rr/business/marketing/

- Claritas - some information is free, have to pay for detailed reports.
  www.claritas.com/MyBestSegments/Default.jsp?ID=0&SubID=&pageName=Home

- U.S. Census Bureau - www.census.gov.

- QuickFacts - http://quickfacts.census.gov/qfd/index.html

- American FactFinder.- http://factfinder.census.gov

- Demographics USA - www.tradedimensions.com , Click on Demographics

- USADATA - fee based service-- http://www.usadata.com/

- Advertising Age -Database related to advertising - http://adage.com/datacenter/

- U.S. Census Bureau - www.census.gov. Other Census data sources.

- QuickFacts - http://quickfacts.census.gov/qfd/index.html

- American FactFinder.- http://factfinder.census.gov

- The Right Site offers numerous free demographic profiles
  www.easidemographics.com/cgi-bin/login_free.asp

- Development Alliance - Religious affiliation - www.adherents.com

Section B- Ring Information
- The Right Site offers numerous free demographic profiles
  www.easidemographics.com/cgi-bin/login_free.asp

- TetraFLy - Ring study reports - www.terrafly.com/TP/reports.html

- ESRI Mapping Software- fee service.
  www.esri.com/software/busmap/about/ringstudy.html

Section C -Drive Time Analysis
- Spatial Insights - fee based service
www.spatialinsights.com/catalog/default.aspx?category=18

- Empower Geographics- fee service. www.empower.com/pages/services_drive.htm

- Imaptools - demonstration service - more sophisticated for a fee.
http://imaptools.com/demos1/?tab=3

- ESRI Mapping Software- fee service.
www.esri.com/software/busmap/about/ringstudy.html

Appendix D:
Sources of Consumption Information

Sources of Consumption Information: Appendix D

- The U.S. Bureau of Labor Statistics - Consumer Expenditure Survey information on consumers www.bls.gov/cex/

- Bureau of Economic Analysis - www.bea.gov

- Census Bureau's Survey of Income and Program Participation (SIPP)- www.sipp.census.gov/sipp/sipphome.htm

- The American Customer Satisfaction Index focuses on goods and services from major companies in a limited industries- www.theacsi.org

- Surveys of Consumers - www.sca.isr.umich.edu

- Demographics USA - www.tradedimensions.com/prod_dus.aspis published by Market Statistics Reference: DANA, KLMR REF HF5438.4.S87

- USADATA - fee based service- http://dtg.usadata.com/geography/

- USDA -Food consumption data sets www.ers.usda.gov/data/foodconsumption/FoodAvailSpreadsheets.htm/

- ERS -Food Consumption, Prices and Expenditures http://usda.mannlib.cornell.edu/data-sets/food/89015/

- ARS- What we eat in America - www.ars.usda.gov/is/pr/2004/040923.htm

Appendix E:
Sources of Competitor Information

Sources of Competitor information: Appendix E

- Sites USA- fee service.   http://www2.sitesusa.com/data/merchantwizard/
- Allows a ring search - www.superpages.com
- Yahoo directory -
  http://dir.yahoo.com/Reference/Phone_Numbers_and_Addresses/Businesses/
- Use white pages to determine competitors in your market - www.Whitepages.com
- Use yellow pages to determine competitors in your market -
  www.yellowpages.com
- InfoUSA - fee service allows you to determine competitors anywhere in US -
  www.infoUSA.com
- www.swithboard.com
- Trade associations
- Trade shows
- Chamber of commerce and their websites
- Magazines and Journals targeting your specific industry
- Wall Street Journal
- Website
- Advertising
- Fliers
- Visiting the business

Appendix F:
Market Potential Worksheet

Market Potential Evaluation Work Sheet

1. Describe Your Target Market Segments:

Demographic Characteristics (examples)	1st Segment (Home schools)	2nd Segment (Elementary schools)	3rd Segment (Church groups)	4th Segment (Families)
Gender: Male or Female				
Age or age group				
Education				
House Hold Inc.				
Marital Status				
Children in Home				
Religious affiliation				
Lifestyle Characteristic, i.e., "Green,"Family-oriented, Family-oriented	1st Segment (Home schools)	2nd Segment (Elementary schools)	3rd Segment (Church groups)	4th Segment (Families)

2. Market Area (Where are they located or coming from)

Where Is Your Market Area or How Far Are They Willing to Drive, i.e., County, city, South East, 45 miles, 70 miles	
	Location or Distance
1.First Segment Market Area	
2. Second Segment Market Area	
3. Third Segment Market Area	
4. Fourth Segment Market Area	

3. Estimated Number of Customers within Market Area (define your market area, look within that area at the demographic composition)

How Many People Matching My Demographics Live Within the Defined Market Area	
Market Area	**Number of People (target market)**
1.First Segment Market Area	
2. Second Segment Market Area	
3. Third Segment Market Area	
4. Fourth Segment Market Area	
Market Potential - Total (sum 1-4 above)	

4. Consumption Figures (how often is the product consumed and how much of the product is consumed.)

How Many People Matching My Demographics Live Within the Defined Market Area	
Market Area	**Consumption or usage**
1.First Segment	
2. Second Segment	
3. Third Segment	
4. Fourth Segment	

5.　　　**Price** (what is your cost of producing the product and what type of "profit" do you intend to generate? How does this price compare to your competitors? How sensitive are customers to price changes?) Also, look at what your different segments are paying for their products.

How Many People Matching My Demographics Live Within the Defined Market Area	
Market Area	**People**
1.First Segment	
2. Second Segment	
3. Third Segment	
4. Fourth Segment	

Now you are ready to estimate your market potential.

Single Target Market:
If you have only one target market or target market segment, plug your numbers into this formula and you will have an estimate of your businesses market potential.

Estimating Market Potential: $MP = N \times P \times Q$,where:

MP = market potential
N   = number of possible buyers
P   = average selling price
Q   = average annual consumption

Multiple Target Markets: Estimate the market potential for each segment, (1st, 2nd, 3rd, 4th) and you will have an estimate of your total target Market.

1st Segment - $MP_{(1st)} = N_{(1st)} \times P_{(1st)} \times Q_{(1st)}$

2nd Segment - $MP_{(2nd)} = N_{(2nd)} \times P_{(2nd)} \times Q_{(2nd)}$

3rd Segment - $MP_{(3rd)} = N_{(3rd)} \times P_{(3rd)} \times Q_{(3rd)}$

4th Segment - $MP_{(4th)} = N_{(4th)} \times P_{(4th)} \times Q_{(3rd)}$

       Total Market Potential = $MP_{(total)} = MP_{(1st)} + MP_{(2nd)} + MP_{(3rd)} + MP_{(4th)}$

Now you are ready to estimate your retail trade area sales potential.

Single Target Market:
If you have only one target market or target market segment, plug your numbers into this formula and you will have an estimate of your businesses retail sales market potential.

ES= P x EXP x (ADI/MDI) x MS, where

> ES   = estimated sales
> P   = market area population
> EXP = average expenditures for retail outlet category
> ADI = area estimated average household disposable income
> MDI = Georgia average household disposable income
> MS   = estimated market share

Steps		
1. P - Define Market Area and target population residing in the area (step 5 above)		
2. EXP- Determine average expenditures (step 4 above)		
3. ADI (see census site in Appendix D to get household income information for the county or area you are investigating and subtract out state and federal income taxes)		
4. MDI (see census site in Appendix D to get household income information for the state and subtract out state and federal income taxes)		
5. MS - estimate market share		

Now, plug these figures into the following formula to estimate retail trade area sales potential.

ES= P x EXP x (ADI/MDI) x MS

The Center for Agribusiness and Economic Development

The Center for Agribusiness and Economic Development is a unit of the College of Agricultural and Environmental Sciences of the University of Georgia, combining the missions of research and extension. The Center has among its objectives:

▸ To provide feasibility and other short term studies for current or potential Georgia agribusiness firms and/or emerging food and fiber industries.

▸ To provide agricultural, natural resource, and demographic data for private and public decision makers.

To find out more, visit our Web site at: http://caed.uga.edu

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