

# DOWNTOWN PORT WASHINGTON MARKET OPPORTUNITIES



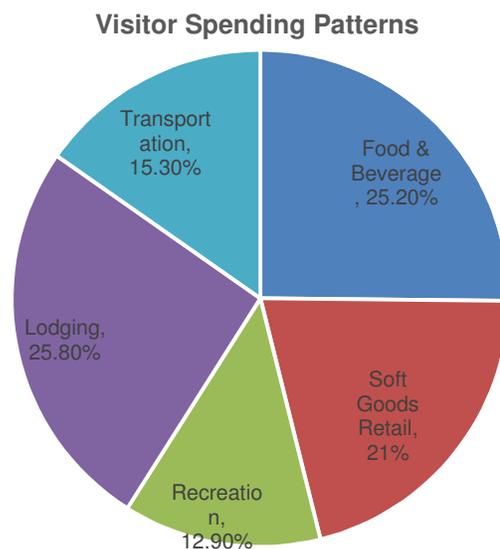
## RETAIL MARKET OVERVIEW

The previous market analysis for downtown Port Washington was completed in 2005. Since that date, there have been significant changes in local demographics and consumer spending patterns. In addition, numerous other retail opportunities have been added to the local market which have changed customer shopping patterns. These changes have created opportunities and challenges for the local market, which are summarized in this report.

### *Port Washington Trade Area*

Despite the many changes to the retail market during the past two decades, Port Washington's trade area, or the geographic region from which it attracts customers, has remained largely constant. The 2005 study used 10 and 20 minute drive times to reflect the primary market, and noted the potential for tourism traffic to support additional retail. In 2013, interviews with local businesses and commuting pattern analysis show that the primary trade area still extends approximately 15 minutes to the north and west, but only 10 minutes to the south, or as far as Grafton. In fact, although some Grafton residents still travel to Port Washington, the addition of a big box shopping center at the Washington Street exit has diverted some of Port Washington's previous customer base. To offset this decline, local businesses have succeeded in attracting a greater share of outside spending from destination shoppers and tourists. This market represented only a small fraction of the overall spending in the community in 2005, but has grown to 38 percent of the retail market in 2013.

In addition to the local trade area population, Port Washington businesses benefit from the presence of Lake Michigan as a tourism draw. Downtown events draw more than 50,000 visitors to downtown annually, and area hotels, cottages and other seasonal rentals attract more than 200,000 overnight visitors annually, in addition to the roughly 100,000 day trip visitors. Collectively, these individuals create potential demand for as much as \$32 million in additional demand, or roughly the equivalent of adding another 2,400 households to the community. However, these customers spend



Source: Wisconsin Department of Tourism, 2013

their dollars differently than permanent residents, prioritizing spending on lodging, restaurants and soft goods retail, as highlighted in the graph at right. Not surprisingly, these sectors also represent potential recruitment opportunities for downtown Port Washington, discussed later in this document.

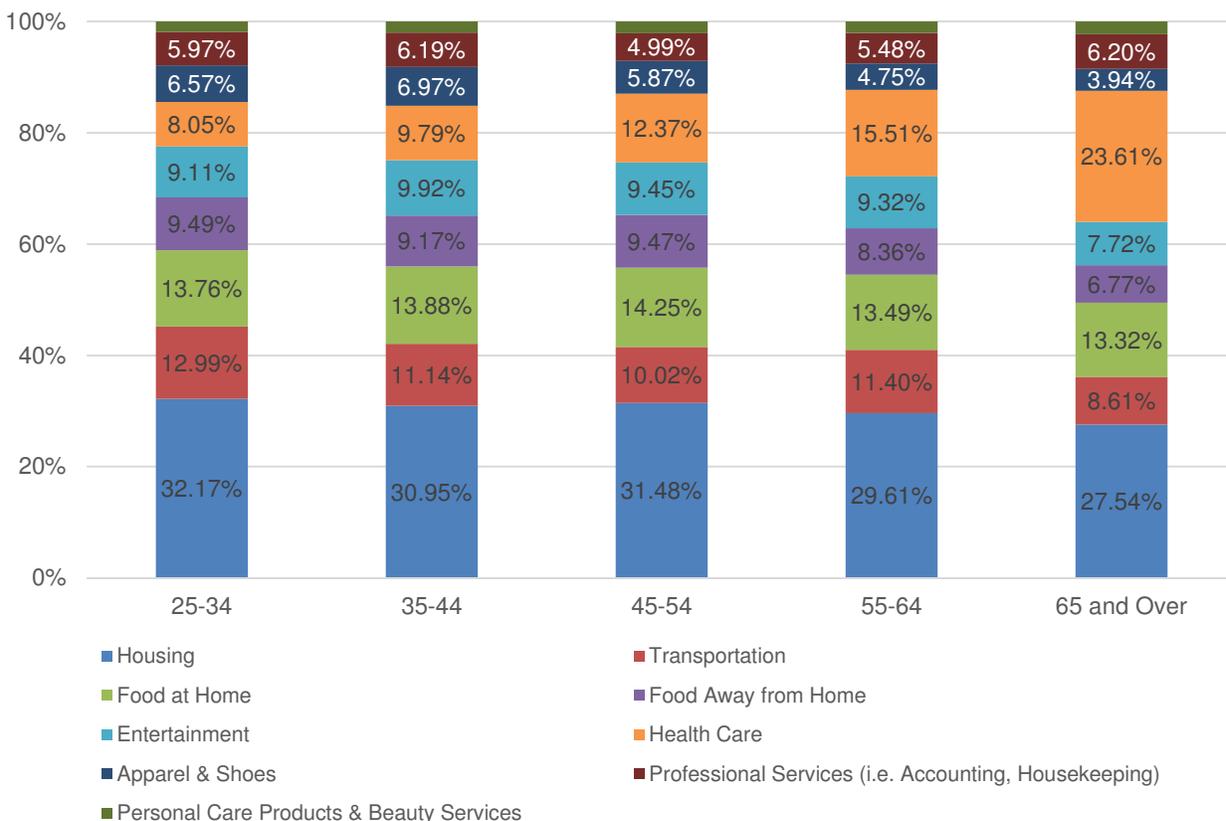
### ***Changes in Demographics & Customer Spending***

In 2005, Port Washington customers satisfied 92 percent of retail demand locally. By 2013, local customers are only spending 49 percent of shopping dollars locally. Although median household incomes have increased slightly during this time (2.3%), Port Washington's capture of local dollars has declined significantly as a result of increased competition from surrounding retail centers (such as Grafton), and online sales which now represent 6 percent of local spending.

Although there is a perception that Port Washington is heavily reliant on seasonal visitors and tourists for retail sales, and there are certainly some businesses which cater primarily to this market, retail sales data for the County (the smallest geographic area for which sales tax data is collected) do not indicate significant seasonal sales trends. Although third quarter sales represent 27 percent of the annual total, this is identical to the statewide average, and averages for other quarters are also comparable to larger trends. This indicates that as a whole, Port Washington's businesses continue to cater to local and regional shoppers as well as destination shoppers and/or year-round visitors, and are not heavily reliant on only seasonal traffic for sales.

Given this reliance on local customers, the anticipated changes in local demographics present a significant opportunity and/or challenge for local businesses. In the next five years, the number of individuals over aged 65 in the local trade area will increase by 128 percent. At the same time, the population of children and young adults aged 19 and under will decrease by one fourth. Although there will still be a strong base of middle aged and baby boomer populations, businesses which previously relied on family oriented goods and services may need to adapt products, hours or pricing to cater to a broader audience, and businesses may also need to consider their ability to offer a variety of price points to accommodate households on a fixed income. The table below illustrates the change in spending on goods and services in several large retail categories among various demographic groups. Although the change in some items does not seem especially significant, the cumulative impact will be a dramatic shift in spending. For instance, as Port Washington's population of individuals aged 55-64 enter retirement, demand for restaurant dining among this population will decrease by \$3.7 million over a ten year period. Businesses currently catering to a limited demographic group may need to redefine or broaden their market to offset some demand changes introduced by changing needs of the local market.

### Consumer Spending Patterns by Age: Midwest



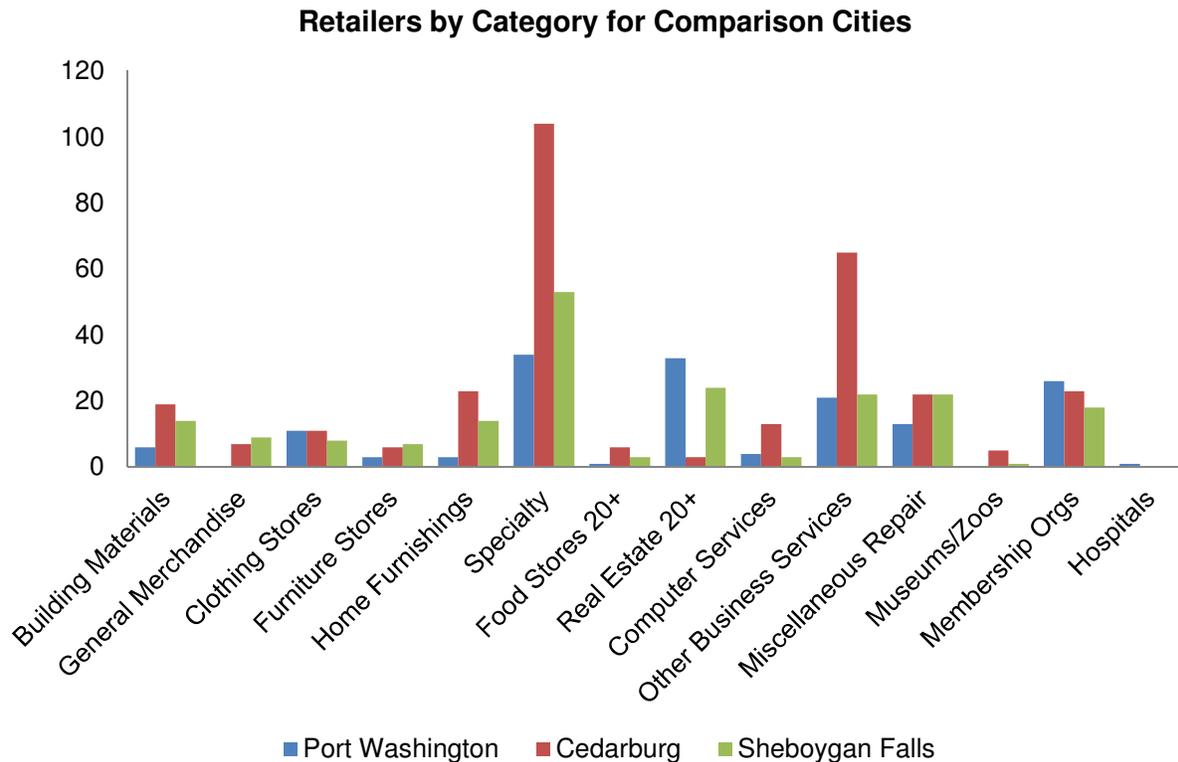
Source: BLS, 2012

### Changes in Business Mix & Retail Sales

Overall, retail sales in the immediate trade area increased by 35.7% between 2005 and 2013, or 2 percent per year. This is slightly lower than the national and statewide average, but nevertheless demonstrates consistent growth despite the recession and loss in market share. Today, the average Port Washington community spends \$13,400 at local businesses, with motor vehicles, general merchandise, health and personal care, grocery and home electronics/appliances sales.

The 2005 study explored the business mix present in Port Washington compared to other similar communities, including Cedarburg and Sheboygan Falls. At that time, Port Washington had fewer businesses than all other communities except Sheboygan Falls, and today has fewer retail establishments than either of the other two communities, even on a per capita basis. Port Washington has 9.8 retail businesses per capita, versus 19 and 20 in Sheboygan Falls and Cedarburg.

However, Port Washington outperforms the other communities in its share of membership organizations and real estate businesses, but fewer than average home furnishings and other primary retail as well as fewer business services. The graph below shows the relative concentrations of businesses within various categories for Port Washington, Cedarburg and Sheboygan Falls, which were the most comparable communities in the previous study.



### Local Demand Gap

Based on the previous analysis of market supply and demand, coupled with implications of anticipated demographic trends, there are several retail sectors which represent potential recruitment targets for the community. The table below indicates sectors which have significant amounts of demand which is not satisfied within the local market. Because it is not reasonable to assume that a new business would be able to attract all of these customers, the fourth column indicates the average annual revenues per business for similar establishments in Ozaukee County. If the amount of unmet demand is more than twice what would be required to support a new business, it may be possible to recruit additional businesses to meet this demand. For smaller gaps, it may be more likely that existing businesses may be able to offer additional products or services to help boost sales and meet local needs.

Retail Sector	Local Demand Gap	Trade Area Demand Gap	Average County Revenue per Business	Business Recruitment Potential
<b>Auto Parts &amp; Accessories</b>	\$1.4 million	\$11.3 million	\$1.2 million	Limited
<b>Furniture Stores</b>	\$1.2 million	\$9.5 million	\$1.1 million	Limited
<b>Building Material &amp; Supplies</b>	\$2.2 million	\$7.3 million	\$2.1 million	Limited
<b>Grocery Stores*</b>	\$15.1 million	\$39.5 million	\$21.3 million	Limited
<b>Specialty Food Stores</b>	\$68,000	\$1.3 million	\$755,000	Yes, or additional line item
<b>Health &amp; Personal Care</b>	\$8.7 million	\$21.4 million	\$3 million (pharmacy) \$344,000 (salon)	Yes
<b>Clothing &amp; Accessory Stores</b>	\$4.5 million	\$24.8 million	\$512,000	Yes
<b>Used Merchandise</b>	\$403,000	\$2.1 million	\$399,000	Limited
<b>Limited Service Restaurants</b>	\$3.5 million	\$22.2 million	\$1.4 million	Yes

\*Grocery sales occurring at big box stores are not counted in these figures, resulting in a higher demand gap than is likely present in the community.

### **Service Sector Analysis**

Increasingly, personal and professional services are an important part of the downtown community. However, unlike retail businesses which collect sales tax, it is more difficult to determine whether service sector demands are satisfied locally. Additionally, many service businesses, especially professional services, serve a larger trade area than retail businesses because customers do not visit as frequently. Therefore, they may locate anywhere within a broad area, choosing locations which are accessible and visitor to their customer base and promote the image of the business. Although it is not possible to clearly identify service sector recruitment targets, there are some industry averages regarding the number of customers that certain businesses can serve which can be used as a benchmark. For instance, a common ratio for dentist offices is one per 1,500 patients, while doctor's offices are twice as prevalent. In other instances, the local demographics are important, as childcare facilities depend on the number of small children with working parents, and banks rely on household income to make location

decisions. A second method for estimating service sector demand is to compare the density of services within one community with other similarly sized communities with comparable demographics.

Using the above strategies, the following business types may represent potential recruitment targets for Port Washington.

- Professional/Business services such as IT, accounting and graphic design/marketing
- Medical services such as chiropractors and physical therapists
- Health and fitness services such as massage, gyms and personal trainers

An additional strategy to recruit sustainable service businesses would be to survey local employers to determine if there are any service vendors that are common among several local businesses, or any particular service for which multiple businesses are forced to look outside the community. Because business customers typically provide a larger and more sustainable revenue stream for service providers, leveraging local employer needs can be an effective way to approach suitable recruitment targets.