ECONOMIC VITALITY

ECONOMIC VITALITY focuses on capital, incentives, and other economic and financial tools to assist new and existing businesses, catalyze property development, and create a supportive environment for entrepreneurs and innovators that drive local economies.

Retail Self Assessment

Why do a retail assessment?

A goal of being in retail business is to stay in business and make a profit. All businesses should do an annual retail assessment. This tech sheet is directed toward retail, but many of the formulas below can be used for any business. Conducting an annual retail assessment is advised in order to track any significant financial trends or changes.

This tech sheet is written at a **very basic level** and primarily for a Main Street Director to use and share as appropriate with downtown retail owners.

Sales per square foot:

Retail market studies have indicated that NC Main Street retailers **average** \$250-\$450 in sales per square foot on an annual basis. Lower sales per square foot may be acceptable depending on the personal situation. Regardless, **sales need to be enough to cover all expenses** and **be profitable**.

Calculating sales per square foot:

- Take gross sales and divide by square feet of your **sales area**:

Example:

\$800,000 g/s ÷ 1500 s/f = \$533 p/s/f

Calculating annual rent per square feet:

- Rent per month X 12 months = annual rent divided by square feet.

Example:

\$1050 X 12 = \$12,600 ÷ 1000 = \$12.60 annually

Sales to rent ratio:

Rent to sales ratio measures what percentage of sales is going toward rent. It's a simple way to quickly determine if a site makes economic sense to lease. The base rent to sales ratio will vary from 3% to 20% depending on the type of business since the business would need to factor in all other costs.

Calculating sales to rent ratio:

- Monthly rent X 12 months =

  X ÷ gross sales (g/s) = %

Example:

\$2000 X 12 = \$24,000 ÷ \$800,000 in g/s = 3% of sales is going toward rent

If it's found the rent is more than the current market rate demands: the business owner could present findings to the landlord and ask for consideration in lowering rent to a range mutually acceptable and within the current market rate. Be prepared that the landlord or property management may not consider negotiating and the possibility of having to relocate if the rental rate is unacceptable. Rental rates may vary from one building to another due to conditions of the building as well as what is included in the rent per month such as common area, trash pick-up, utilities, etc.

Additionally, business owners should routinely perform a ratio analysis to measure **the overall expense to sales ratio** and know the income trends for their business. Timely financial statements are key to utilizing the expense to sales ratio.

Retail Self Assessment

What percentage of sales could be expected to go for rent:

Divide the annual rent by annual gross income. If the annual rent is $24,000 for example, and the gross annual income is $800,000, divide $24,000 by $800,000. The total comes to 3% percent. That means for every $1 your company earns, .3 cents goes toward the rent. The following are some standard income-to-rent percentages, which tend to range from 1 to 13 percent, depending on the industry:

- Appliance and electronics stores: 2.09 percent
- Educational services: 2.66 percent
- Finance and insurance companies: 2.82 percent
- Arts, entertainment and recreation services: 3.19 percent
- Food and beverage stores: 3.21 percent
- Books, hobby, music and sports stores: 3.30 percent
- Health and personal care stores: 3.37 percent
- Insurance agents: 3.46 percent
- General merchandise: 3.86 percent
- Health and social services: 5.52 percent
- Restaurants: 5.81 percent
- Furniture and home stores: 5.98 percent
- Legal services: 6 to 7 percent
- Hotels: 7 percent
- Clothing and accessory stores: 7.66 percent

Determining a reasonable rent payment helps bring stability to your business expenses and helps you navigate the slow times with a greater sense of calm. Yet, sticking stubbornly by a percentage runs the risk of obscuring the bigger picture and opportunities to grow.

Consider outside help:

Outside help and evaluation could lead to making minor to moderate changes with positive impact. Below is a list of resources within NC that offer free to low-cost business planning assistance and links to financial tools.

Resources for Business Plan Assessment:

- **Business Link North Carolina (BLNC)**: https://edpnc.com/start-or-grow-a-business/start-a-business/
- **Small Business Center Network (SBCN)** - https://www.ncsbc.net/
- **Small Business & Technology Development Center (SBTDC)** www.sbtdc.org
- **Growing America Through Entrepreneurship (GATE)** http://www.ncruralcenter.org
- **Real Enterprise**: http:// ncreal.org
- **NC Department of Commerce**: http://www.nccommerce.com/smallbusiness
- **BizFilings:** http://www.bizfilings.com/toolkit/sbg/finance/your-financial-position/business-ratios.aspx
- **BizStats:** www.bizstats.com
- **AZ Central:** https://yourbusiness.azcentral.com/percentage-rent-should-pay-according-businesses-gross-income-29134.html

Sources for this tech sheet: Retail Market Studies performed by NC Main Street Center Staff; Small Business Chronicles, http://smallbusiness.chron.com/expensetosales-ratio-20429.html; BizFilings http://www.bizfilings.com/toolkit/sbg/finance/your-financial-position/business-ratios.aspx; www.bizstats.com; https://capitalretail.com/rent-to-sales-ratio/; AZ Central**:** https://yourbusiness.azcentral.com/percentage-rent-should-pay-according-businesses-gross-income-29134.html.

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This document was created to assist designated NC Main Street Communities and any other community that would like to develop best practices for downtown economic development.