

ABSTRACT

A “trade area” represents the geographical space from which a business draws customers and “market area” refers to the larger geographic region in which several businesses compete. Market areas are usually defined by an arbitrary spatial extent, such as a political boundary or radius around a given point, which injects arbitrariness into any market share calculations. In the staple goods retail sector, travel time and physical location are critical to consumer store preference. Therefore, the accurate delineation of a store’s geographical trade area and surrounding market is needed for precise performance measurement and market share calculation. A framework is proposed for defining retail market areas based on degrees of spatial separation between a store and surrounding customers and competitors. Four degrees of customer separation are proposed, classifying customers based on their consideration of, and/or preference for, a specific store location. The result is a less arbitrary definition of a market. The proposed approach is modeled for the grocery sector of Worcester, Massachusetts. Resulting market share calculations are compared and the implications of using one method over another are discussed.