Central Business District Retail Clustering Analysis

Using

North American Industrial Classification System

[NACIS Codes]

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August 2017

Central business districts within cities use various methods to determine the types of retail shops to target attraction marketing. A technique successfully used in American cities for decades is that of clustering. Clustering is a concept of locating stores in close proximity to existing stores with comparable customers and selling similar products, substitute goods or complementary products.

The practice of clustering has deep historic roots. The worldwide patterns can be recognized in centuries old farmers markets, neighboring rug merchant or jewelers' shops, and many other

types of establishments. Contemporary shopping malls have successfully utilized clustering in tenant attraction.

Central business districts in North America can apply the North American Industrial Classification System [NACIS] to business clustering studies.

Every business in North America is classified by a six digit NACIS code. These code numbers can be used to determine potentially profitable locations for retail business establishments through clustering. For example:

- 445 is the three digit prefix code for food and beverage stores
- 4452 is the four digit code for specialty food stores
- 445210 identifies a meat butcher shop
- 445220 identifies a sea food store
- 445230 identifies a fruit and vegetable market

Meat shops, sea food stores and fruit and vegetable markets share the same first four NACIS code digits making them potential clustering candidates.

A sea food store is a clustering candidate with a meat butcher shop because it sells a substitute product to meat. They have comparable customers since a customer that buys meat might also buy sea food. A fruit and vegetable market might be successful clustering with both a meat and sea food store because it sells a complementary product. They all share comparable customers because someone purchasing products in any one store will possibly purchase products in the other neighboring stores.

Sometimes stores with the same first three digits could be clustering candidates. For example, a wine shop [445310] sells a complementary product to both meat and sea food stores.

Cities attempting to redevelop their economy through central business district revitalization should consider applying the clustering concept as part of their market analysis and business attraction plan. Utilizing NAICS codes to determine potential clustering opportunities is a simple and effective analytical tool.