

# Thinking SMALL

RETAILERS TACKLE SPECIAL NEEDS OF SMALL-FORMAT STORES.

> By Mark Hamstra

**For CPG retailers, good things may come in small packages, but they don't come easily.**

Retailers see plenty of opportunity for small-format stores, particularly in densely populated urban environments, but winning with smaller stores means overcoming challenges that have proven daunting for even some of the most successful operators.

Walmart, for example, in January walked away from its small-format experiment with the decision to shutter all 102 of its Walmart Express, a small-format banner it had been testing in predominantly rural areas. That followed the bankruptcy of Tesco's Fresh & Easy small-format chain after it failed to win over consumers in the West.

"For some companies, it is difficult to execute, and there are a lot of reasons for that," says John Rand, senior VP of retail insights at Kantar Retail. "Walmart struggled with small formats in part because their entire logistical system was not designed for it."

Walmart's world-leading logistics has been refined over

decades to supply its Supercenters with extraordinary efficiency, but all of that intelligence and capability has limited relevance when it comes to stocking stores that are a tiny fraction of that size. A "parallel organization" is needed to operate those small-format locations, Rand says.

"It sounds inefficient to have dual organizations running at the same time, but it is almost what is required," he says. "It is difficult to approach stores like that as an extension of the core business. You almost have to look at them as a thing by themselves, with their own set of needs."

Chuck Cerankosky, an analyst with Northcoast Research, says retailers attempting to operate multiple formats—such as Kroger and Giant Eagle have done for years with their traditional supermarkets and convenience stores—also need to ensure that there is a level of coordination among the different operations.

"To make it work, you've got to have clear objectives about what each store is doing, who they are pursuing, and each needs to be complementary to the other formats," he says. "The assortments, the pricing and the promotion all have to be coordinated so that the brand is well represented in the market, even if the stores are a lot different from each other."

Brookshire Grocery Co. is converting 25 former Walmart Express stores to Spring Markets.





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downsizing from the company's traditional supercenters, sometimes measuring less than 20,000 square feet, or half the size of the average supermarket. Target used to call these stores CityTarget or Target Express, but stopped using those names last year.

“Urban growth is a priority for Target,” says Kristy Welker, a Target spokeswoman. “We recognize that more and more people are moving into the cores of large cities. So in 2012, Target began to expand into these more densely populated city centers. These stores have allowed us to leverage our strength in flexible store design to fit a Target store into a less traditional, smaller space to serve urban guests.”

Among the adjustments Target has made in its smaller-format urban stores are smaller pack sizes, such as single-roll paper towels rather than 12-packs, and products from local vendors.

“We continue to listen to guests and adjust accordingly in the flexible format environment—such as adding more of the categories they expect from Target, like Apparel and Home,” Welker says.

Small-format stores are planned around the country this fall in New York City, Chicago, Philadelphia and other markets. She says Target seeks locations that “complement and support a community's needs.”

“We identify potential new store opportunities in trade areas that are underserved or have the potential for new population growth,” she says. “We also analyze extensive data on existing store performance, demographics, competition and market potential to identify trade areas which would be well served by additional Target store locations. The type of store we build is determined by factors such as anticipated sales volume, site constraints and the specific needs of a community.”

“It takes a lot of work,” he says. “Management has to be very well constructed around the different formats and chains to make sure they are operating independently enough of one another so they are distinct formats and chains, but somewhere along the line they have to be coordinated with one another, and I think it's difficult to do.”

## URBAN TARGET

Minneapolis-based Target Corp. has stepped up to the challenges, and seems intent on serving urban and other markets with whatever store format it can wedge into each desired location. The smaller-format stores that Target has been opening in cities around the country are a significant

Matt Casey, principal at retail consultancy Matthew P. Casey and Associates, says the urban Targets he has visited appear to offer a scaled-down version of a traditional Target offering. The stores offer a strong perishables department, extensive health and beauty care and pharmacies.

While a traditional Target supercenter might have 90 or more doors of perishables and frozen foods its grocery department, one of the urban Targets that Casey visited—a 24,000-square-foot former Fox & Obel supermarket in Chicago—had only 23 cooler doors.

“They are geared for smaller shopping trips,” he says. “They probably take the top SKUs in each department, maybe scale back on lawn and garden, and things that might not be in high demand in the city.”

## PERISHABLES AND PREPARED FOODS

Perishables can be a key element of stores in urban locations. Consumers sometimes have limited access to traditional grocery stores; they are often eating on the go, shopping for prepared foods to eat in or take out; and they tend to conduct smaller fill-in trips instead of full grocery shops.

Casey says operators need to pay close attention to execution around prepared foods, often an important component of the offering in small locations.

“A perishable-heavy offering increases your potential shrink, and in my opinion if you don't have the right people and systems, it's not going to work,” he says. He cites the 10,000-square-foot Roche Bros. location in downtown Boston as an example of a small-format store that is succeeding with this kind of effort.

Rand of Kantar Retail agrees, calling the downtown Roche Bros., which opened last year, “a gem.”

“What we've seen from the stores that are most successful is that they stress a lot of really good offers around the food area, which makes it very compelling,” he says.

Having a seating area in-store for on-premise consumption adds to these stores' appeal, Rand says.

“If I'm a customer, I can take food home, or I can eat it there—I have a lot of options, but I also don't have to traverse a lot of product that's irrelevant to my urban life,” he says.

He also cites Kroger's new Main & Vine as a retail format with potential for success in urban environments, especially given the expertise and experience Kroger is gaining through its acquisition of the Mariano's banner in Chicago.

“I think you will see retailers getting a lot better at operating in urban environments, and operating small-format stores in other environments as well,” Rand says. “Sometimes it's hard to justify an 80,000-square-foot store, when a 30,000-square-foot store will do just fine.”

## LIMITING THE OFFERING

One of the key challenges to operating small-format stores lies in determining the right assortment, Rand explains. This problem can be especially difficult for traditional supermarket operators



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that have become used to offering tens of thousands of SKUs in their expansive suburban locations. Retailers need to resist offering secondary and “flanker” items in favor of the fastest movers.

“The reality is, you can’t afford too many items in a small space,” he says. “The trick for retailers is to let go of secondary flanker items, and less productive items, even though some of their shoppers want them, and focus on the items that give enough of a return for the investment they have in that store.

“It’s a change in mindset when it comes to assortment, but assortment is one thing you can’t afford to make a mistake on when it comes to a small store. You don’t have room to spare.”

Casey points out that retailers also need to be flexible in terms of their design when considering small-format urban locations.

“You are not going to be able to get your cookie-cutter format into these smaller properties,” he says. “They are going to be smaller footprints, and odd-shaped properties, and sometimes, you are going to have to go on two levels, and sometimes you have to add a parking deck.”

### BCG LAUNCHES SPRING MARKET

Where Walmart Express failed to take hold, Brookshire Grocery Co. is seeking a new beginning. The Tyler, Texas-based company recently acquired 25 former Walmart Express locations and has begun converting them to Spring Market stores—the company’s fourth format, joining Brookshire’s,

Super 1 Foods and FRESH by Brookshire’s.

The Spring Market stores have a smaller footprint—about 12,000 square feet—but still allow for a “full grocery shopping experience,” says Rebecca Sanders, a spokeswoman for BCG.

“Chairman and CEO Brad Brookshire had a vision for better serving small markets, and Spring Market stores fulfill a need in these communities,” says Sanders, who noted that the original Brookshire’s store was a small-format location. In fact, the Spring Market name is meant to honor that first Brookshire’s, which opened in 1928 on Spring Avenue in Tyler.

The Spring Market stores will include traditional super-market departments, including in-store bakeries, but will not have pharmacies. They will offer fuel stations, however. The stores will be supplied by BCG’s own distribution centers.

Although the offering will be similar to traditional Brookshire’s supermarkets, the Spring Market stores will feature a different store-level staffing structure, Sanders says.

“Spring Market stores have a store director, but instead of individual department heads, there are two or three ‘operations managers’ in each location,” she explains. “This is a new role for BGC, and these employees work in a variety of departments within the store.”

Sanders declined to elaborate on expansion plans beyond the conversion of the Walmart Express locations, but notes that the company “hopes to see more small markets served with Spring Market stores.” **RL**