Locational Criteria for Grocery Stores

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Introduction

- Competition in the Industry
- The Geography of Competition
- Strategies of the Firms

Structure of the Industry

The Industry Today

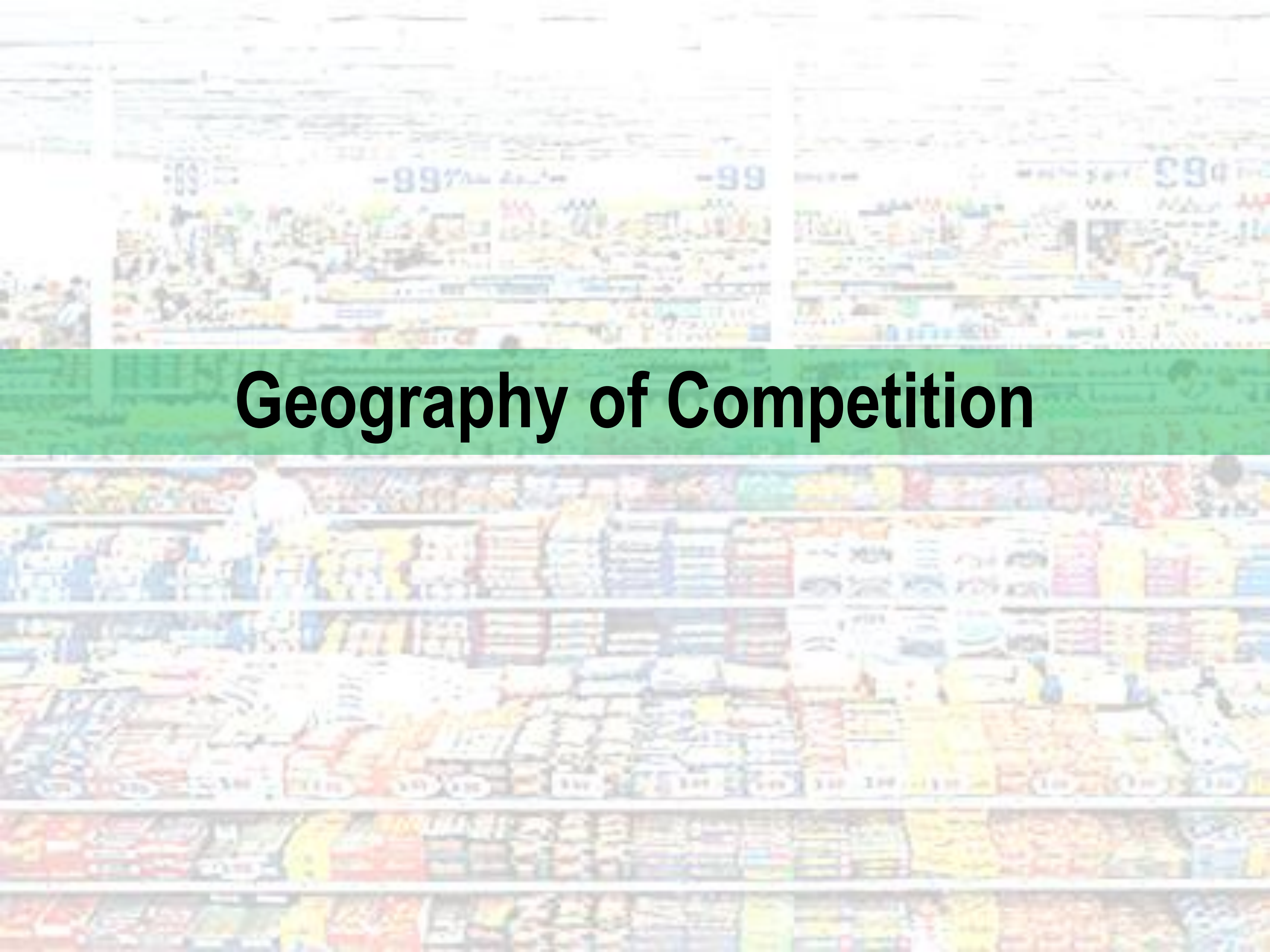
- Highly concentrated industry
  - The 5 top chains account for about 50% of all grocery sales the industry is highly consolidated.
  - Supplemented by about 45 major regional retailers in the United States.

- Rivalry in this industry is a strong competitive force
  - Demand for groceries is slowing, the industry is mature.
  - Companies are using competitive tactics such as sales specials, coupons, company cards to save additional money, and high use of advertising.
  - Customer’s switching cost is low
- Specialty Chains and Ethnic Stores are driving growth in the sector

Competitive Forces

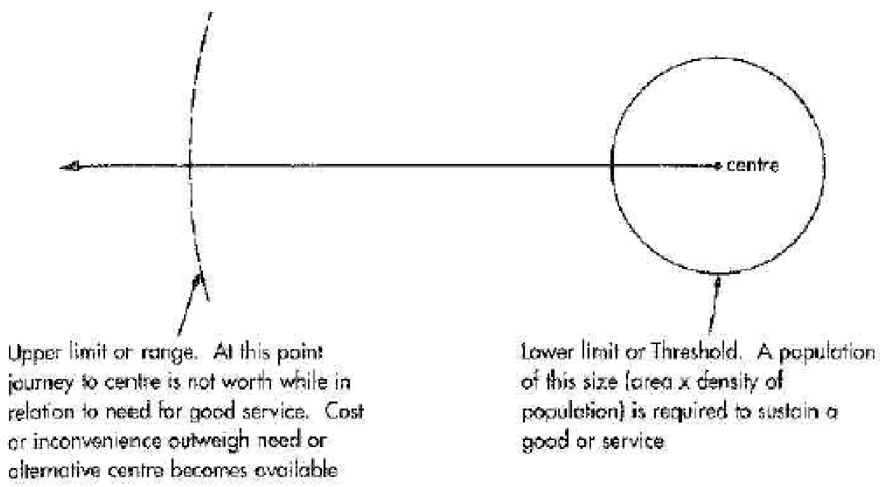
A food retailer does not have market assurance – success depends on attracting necessary volume of customers

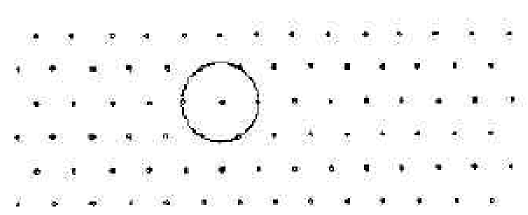
- Location – Neighborhood population
- Atmosphere – pleasant and clean
- Merchandising skills – inducing sales via display and placement
- Product mix – one stop shopping, specialty departments, prepared foods
- Pricing – costs to the consumer
- Reaching key niches- ethnic, specialty and “lifestyle”



Geography of Competition

Threshold and Range





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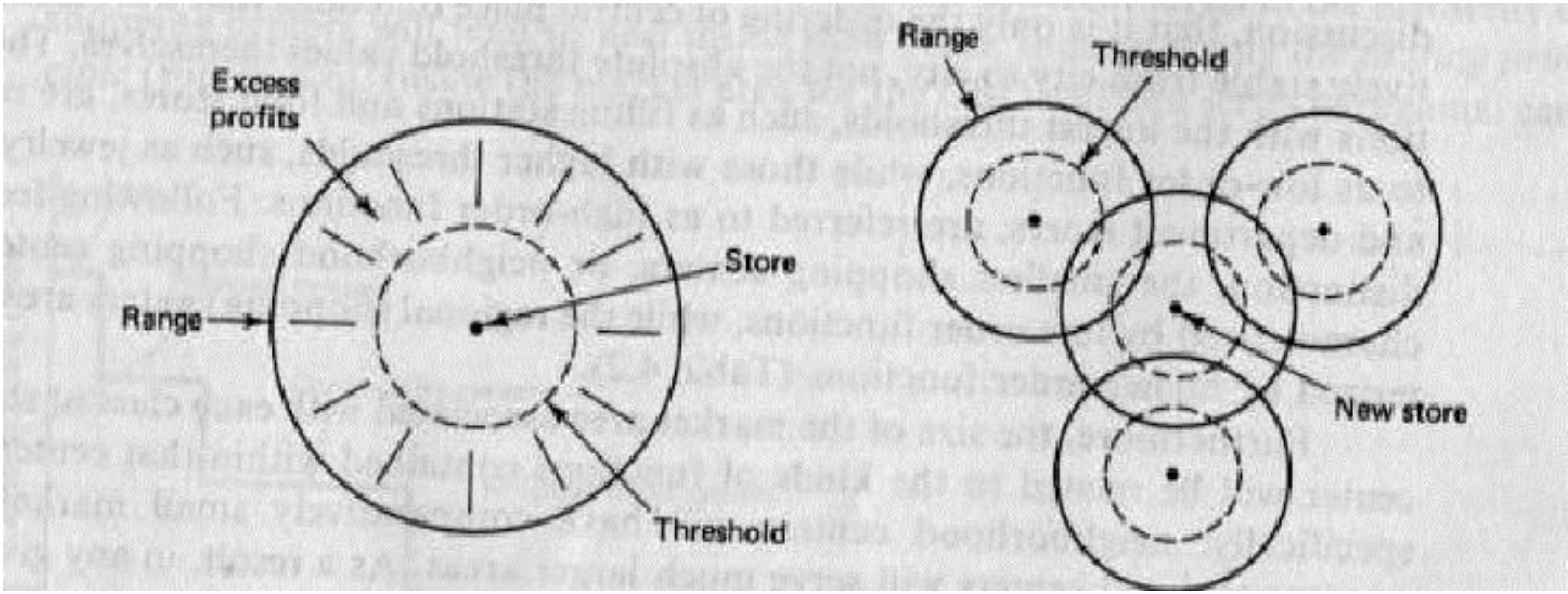
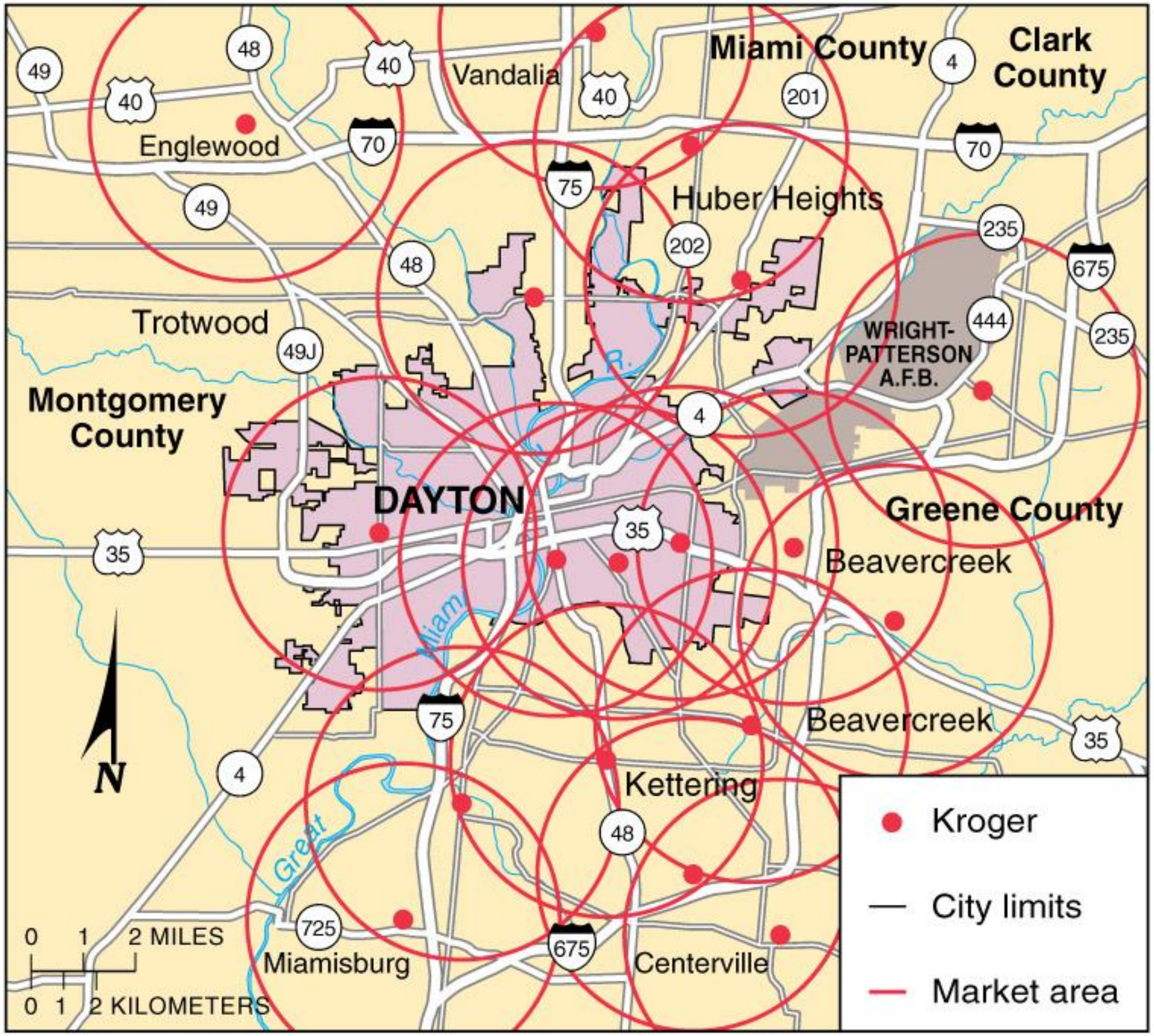


Supermarket Trade Areas



USDA Classifications of Food Retailers

Food Store: A retail outlet with at least 50% of sales in food products intended for off-premise consumption

- **Convenience Stores**: A small grocery store selling a limited variety of food and non-food products and typically open extended hours
- **Superette:** A self-service grocery store with annual sales below $2.5 million
- **Supermarket**: A self-service grocery store, providing a full range of departments, with at least $2.5 million in annual sales
  - Combination food and drug stores
  - Superstores
  - Warehouse store
- **Specialized Food stores**: Food stores primarily engaged in the retail sale of a single food category

Population Threshold and Range

	Size	Threshold Population	Range Walk	Range Drive
Convenience Stores	1,200 to 5,000 Sq. Ft.	1,800 to 2,500	0 to 0.5 Mi	> 5 mins
Superette	20,000 to 30,000 Sq. Ft.	3,000 to 7,000	NA*	5 to 15 mins
Supermarket	40,000 to 60,000 Sq. Ft	8,000 to 9,500	NA*	15 to 25 mins

*Walk Range of less than a mile can occur in urban centers, purchase per trip is lower

- Demographics and household characteristics will determine the qualities of the specific store
- Population density drives the pattern

Employment

- What is an employee worth?
- Day time functional population coefficient
  - Based on 12 hours per day
    - Office and Service Workers--- 0.504/person
    - Students—0.357/person
- Figure that this is a baseline and the grocery sales will represent only 10 to 20% of total retail potential
  - So, for this class of retail discount by 80-90%

Strategies of the Firms

Trader Joe's

- Estimated sales are a staggering $1,300 per sq. ft per year --over twice the industry average.
- 80% of products are private label (compare to 18% industry wide)
  – This creates loyalty and monopoly prices
- Average store size is 15,000 sq. ft. (compare to 35,000 to 50,000 for a traditional supermarket)
  – Under parked

Trader Joe's

- Will site in downtown and urban sites if:
  - Free public parking is included in the lease.
  - Assumes consumer will drive
  - Seeks to be anchor in project---limited acceptable co-tenants.
  - Fits within regional distribution system
- Demographics
  - Education is key variable--not incomes
  - Must have more than 36,000 residents with college degree in total market area
  - Typical consumer has "taste and experience above income level"
  - High rates of passport holders

Whole Foods Market

- Requirements
  - 30,000 to 40,000 sq. ft
  - Free parking excluded from lease
  - Generally seeks rent off sets to enter urban sites
  - Seeks lees than $20 psf / year
- Sales of about $530 psf. Per year

Whole Foods Market

- Households with incomes over $50,000 produce 70% of all sales at Whole Foods
- Basic demographics:
  - Median Household Income: $63,500
  - Median Age: 36.2
  - Owner Occupied Homes: 62%
  - Bachelor's Degree or Higher: 55%
- Seeks more family than non-family households.

Fresh and Easy

- Tesco– a UK chain entry to the US market began in 2007
- 10,000 to 12,000 sq. ft. stores
- Exploring a 5,000 sq. ft. format for urban sites
- Sales at $720 per sf per year.
- Focus is on prepared foods

Fresh and Easy

- Will locate in urban areas but prefers stand alone locations in suburban areas
- Target market is two income households with children present—basically stressed out parents
- Seeks locations with good street visibility on journey home form work corridors.
- More modest income consumer, median income of $35 to $40K
- Parking and street visibility are key to location strategy—it's a connivance model.

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