The Need for Increased Insight In Small Format Grocery Stores

An exploration of the emerging metrics and measurement needs of the new small format grocery store

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With the introduction of Tesco's "Fresh & Easy", Wal-Mart's "Marketside," Safeway's "The Market" and Jewel-Osco's "Urban Fresh" concept, a significant strategic shift is becoming evident from the world's largest grocers. This move to smaller format stores reflects recognition of new consumer trends that reflect an increasingly time-strapped lifestyle, and, more recently, fewer trips to quick service restaurants (QSRs) as consumers shift towards more economical meal options. What that has meant for retailers is a shopper base that performs fewer stock-up trips for meals prepared at home, and more "grab & go" purchases of prepared foods with increased response to promotions.

Despite lackluster initial sales from the format originator, Tesco's "Fresh & Easy", the latest results are showing that consumers are starting to warm to small format as a convenient alternative that responds to their needs better than traditional supermarkets, QSRs and convenience stores. Thus, the retailers testing small format must now accommodate shopper metrics that have little resemblance to those traditionally captured from larger format stores.

<u>How Small Format Diverges From Traditional Supermarkets</u>

There are three key areas where small format differs from traditional supermarkets: square footage, breadth of assortment, and breadth of suppliers. The small format typically has a footprint of around 10,000 to 15,000 square feet, with a few test stores dipping as low as 5,000 square feet. Compared to the average supermarket of 47,000 square feet, the small format store reduces total shopping area anywhere from 66% to 75% or more. Thus, average revenue per store can be much lower while still hitting or exceeding industry standards for sales per square foot.

In addition, these formats feature a significantly reduced selection of SKUs. Fresh & Easy, for instance, stocks on average 3,500 SKUs in 15,000 square feet, versus a typical supermarket's 65,000 SKUs in 47,000 square feet (see Figure 1).

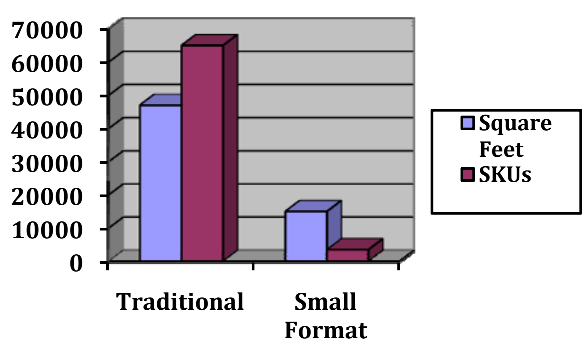

Figure 1 – Square Footage to SKU Comparison

Therefore, product density is reduced from an average of 1.4 unique SKUs per square foot to just .23 unique SKUs per square foot (or 4 square feet per SKU), a reduction by a factor of 6. This reduced SKU density allows for much simpler planogram (merchandise map) creation, with the result of more efficient merchandising, enhanced store-level compliance, and a more impactful and user-friendly shopping experience for consumers.

While the opportunity to capture up to 4 square feet for a single SKU may excite national brands, many of these small format stores' available packaged goods are store label products. Again, Tesco leads this trend with nearly 50% of products at Fresh & Easy being store brand versus national brands. There are clear positive and negative factors to this approach for retailers. As a positive, they limit price competition in that store label products that are not subject to consumer price comparison, allowing for healthier margins and increased sales per square foot. As a negative, they eliminate opportunities for trade dollars from manufacturers, which have traditionally been a major source of revenue for grocery retailers. Most importantly, however, these store brands lack the kind of manufacturer-sponsored consumer research that drives continual share and revenue growth through pricing, merchandising, promotion and marketing refinement.

Measurement Needs For Small-Format Stores

Approximately 77% of all consumers that shop at traditional grocery stores come prepared with a shopping list, resulting in lower impact for in-store media and specials, response to promotions primarily from out-of-store media, and fewer purchases of prepared foods. Therefore, the opportunity to influence these shoppers with typical impulse drivers is highly limited, and these shoppers will typically express uniform purchases from trip to trip.

The demographic targeted by small format stores, however, is much different. This time-constrained, urban consumer is much more responsive to in-store media, discovers deals and promotions in the store, and is focused on making a rapid decision to limit the time spent in store. From a behavioral perspective, these two shoppers represent radically different opportunities for the manufacturer and retailer.

While there is significant historical data on consumer behavior in large store formats, little exists for the small format store. Therefore, measuring the aggregate behavior of small format shoppers is an essential step to better understanding shopper response to the different applications of media, pricing, promotions, assortment, staff and layout inherent in these new formats. In the past, a survey approach with statistically representative samples has typically delivered moderate to sufficient consumer behavior insight in the large format store. With no historical measurement, however, small format stores have a unique need to establish a highly accurate baseline of consumer behavior during initial concept rollout. This will allow the parent retailers the ability to gauge period-on-period success as they continue to test and refine these new environments.

Until now, few techniques existed to provide census data in retail environments. Techniques employed by retailers and market research firms relied heavily on in-store audits to track shopper behavior for insight. As in many other cases, however, technology has emerged to make this process much more efficient and accurate. ReTel Technologies uses proprietary technology to precisely and continually measure and analyze all shopper actions between the front door and the register, providing increased data accuracy without the need for in-store auditors. Therefore, retailers may capture on ongoing census of customer behavior, developing the most powerful and accurate insights possible – a critical necessity as these new small formats are introduced.

<u>In-Store Consumer Census: An Example</u>

With expected sales of just over $10.4 million per year, small format stores will need to sell approximately $693 per square foot per year for a 15,000 square foot store. Compare this with a typical 47,000 foot grocery store with annual sales of $24 million, which requires sales of $511 per square foot on an annualized basis. Recall that the SKU per square foot density of a small format store is .23/square foot versus 1.4/square foot for a large format store. Therefore, a typical small format store SKU (including highly perishable prepared foods) has to generate an average of $3013 in revenues annually, versus only $370 in revenues annually for a typical SKU in a large format store (see Figure 2). That means the same SKU in a small format store must have an average sales velocity nearly 8X of what it would have in a large store.

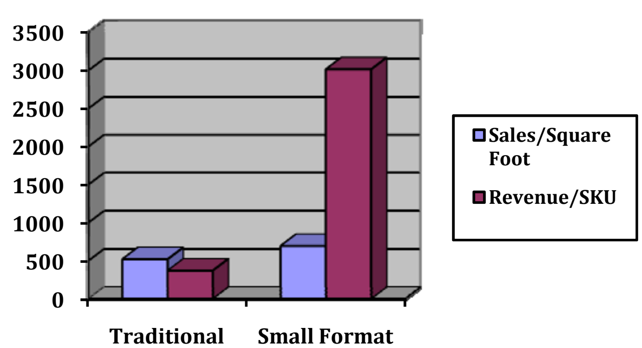

Figure 2 – Annual Goals for Sales/Square Foot and Revenue/SKU

To generate this kind of velocity, merchandising, promotions, pricing and in-store media require constant fine tuning to provide the highest sales impact possible. And while POS data provides a powerful indication of product movement via sales measurement, it misses key insight on shopper interaction with the above factors. This is where in-store shopper measurement adds critical insight to drive incremental sales to reach the sales velocity numbers required. At the most basic level, in-store measurement will allow a retailer to measure the number of shoppers who view a SKU versus the number of shoppers who purchase a SKU – in other words, that SKU's conversion rate. When measured against a prior period or chain-wide benchmark, or even from a heuristic "gut" approach, the conversion rate statistic can provide a diagnostic indicator of merchandising, pricing and/or marketing issues that would otherwise be ignored by the POS system. A low conversion rate gives a retailer the opportunity to adjust a SKU's levers to fine tune shopper interest and encourage more consistent consideration and, therefore, higher velocity and sales.

As another example, the new small format stores feature a greater propensity of solution selling, where products are merchandised both alone on a standard shelf facing, as well as cross-merchandised with complementary products in promotional or lifestyle-oriented displays. The POS data will show absolute sales for each product, but it cannot record whether each shopper's basket of complementary goods was assembled from standard locations, or in lifestyle-oriented cross-merchandised displays. With insight into which products require this treatment and which do not, high visibility promotional areas can be reserved for those products that require a boost in velocity, leaving those that sell without promotional assistance at their standard merchandising location.

Conclusion

The increasing popularity of the small format store looks to continue, as shopper response continues to trend towards a more favorable reception to these new retail environments. Accordingly, as retailers' revenues become more reliant on these high productivity environments, the case for ongoing measurement, testing and refinement is more critical than ever before. With census-based measurement systems such as those provided by ReTel Technologies, the capability to measure and manage the in-store environment has now reached a level of cost and efficiency that makes ongoing insight from the store a powerful tool at the disposal of retailers.

ReTel Technologies, Inc. is an advanced data services company focused on delivering complete consumer behavior insight from in-store retail environments. The company's first product, the ReView In-Store Insight Suite, is a low-cost, easy to deploy consumer tracking system that captures, analyzes and presents insight from retail environments through an easy-to-use, web-based interface. It is now available to retailers, manufacturers and retail consultants for both temporary and permanent deployment in retail environments. ReTel Technologies, Inc. was founded in 2007 and is headquartered in Chicago, Illinois. For more information, please contact Adam Rodnitzky, Chief Marketing Officer at adam <at> reteltechnologies.com or 773-702-3998.

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