

GROCERY'S SIZE PROBLEM: The Ideal Square Footage

The battle lines in the grocery business have again been redrawn. With online retailers and deep discounters providing so much competition, traditional grocers have been looking for ways to innovate their offerings as well as make better use of their biggest advantage—their physical location.

Lately, the factor everyone seems to be experimenting with is store size. If a supermarket is too spacious, it can feel emotionally cold and impersonal to shoppers. But if a store's too small, it's difficult to navigate and the selection feels limited.

Is there such a thing as a store size that's not too big or too small? Or is the idea of a square footage Goldilocks Zone simply wishful thinking?

THE GOLDEN AGE OF CHOICES

When it comes to buying groceries, consumers have never had it so good. Using online services like Amazon Prime Pantry, Thrive, and Brandless, they can have regular staples delivered to their doorstep at competitive prices. Or, if they want to save in person, a few extra minutes in the car will get them to a deep discounter like Winco, Grocery Outlet, or Aldi.



The competition has gotten so fierce, that even low-price grocery juggernaut Walmart is feeling the effects.

Traditional grocers who are already operating under narrow margins know that race-to-the-bottom discounting isn't a competition they want to participate in. Nor do they have to.

Research has shown that a large portion of shoppers' grocery dollars is discretionary. Once they have the basics (and as long as it's not too extravagant), they want to buy an experience. Knowing this, grocery chains have been busy experimenting with the store sizes and formats that will make grocery shopping not just easier but more energizing and fun.

GOING SMALLER

Whole Foods, the high end chain now owned by Amazon, made what looked like a sure bet in the downsizing direction with Whole Foods 365. The idea was to create a smaller version of their signature store that could fit into denser urban neighborhoods. The smaller locations would feature lower prices and more private label goods.

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But despite a promising premise, it didn't prove to be a winning combination. The downsizing experiment was ended about 30 months after the first 365 store opened in Los Angeles. And Amazon is now going in the opposite direction.

According to Yahoo Finance, "Whole Foods is looking to open more stores in locations with more than 45,000 square feet and eyeing sites that used to host retailers like Sears."

GOING BIGGER

Several years ago Kroger announced they would launch an initiative to build much bigger grocery stores called Kroger Marketplace. At about 120,000 square foot these stores were going to be twice the size of a traditional supermarket.

Kroger has been steadily building these larger locations all over the country. But it turns out they're not actually super-sized grocery stores, but rather all-in-one shopping locations based on their west coast Fred Meyers. The grocery section is ample but shares space with apparel, electronics, furniture, sporting goods, and a garden center, as well as inside stores like Starbucks and a full service jeweler.

STAYING THE SAME SIZE

Even Aldi, which seems to have found success with a small size (around 12,000 square feet) and a nice-but-no-frills discount approach, is having to make adjustments.

"Customers want more products that are healthier for you," says Aldi US CEO Jason Hart, "that are fresher, that are more convenient, that are more organic in nature, that come from a cleaner ingredient deck."

In other words, because of increased competition from traditional grocers in these areas, Aldi is having to re-merchandise their stores.

This scrambling by grocery stores of all sizes and niches to find the perfect competitive recipe shows that it's not found in the simple formula of store size plus location. **There are distinct advantages to each store size that play into customers' shopping decisions, but no magic square footage number that's guaranteed to lure in customers like moths to a porch light.**

THREE MAJOR FACTORS FOR SUCCESS

Research has found that in the grocery category, customer loyalty rests on the three-legged stool of **flexibility, communication, and emotional connection.**

The revolution in logistics has made it possible for Walmart to offer the choice of store pickup, carry-out-to-your-car, or home delivery for their online orders. Customers love this flexibility and it's helped Walmart take market share away from Amazon.

The revolution in data and digital infrastructure has allowed Kroger to print 6 million custom versions of its direct mail flyers. And big improvements are being made in keeping customers up to date on the status of

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their orders as well as special offers they are likely to be interested in. Store-to-customer communication has never been better.

But creating an emotional connection is proving to be the toughest of the three. A 2018 consumer survey by C Space found that shoppers were more likely to recommend and purchase repeatedly **from brands that made them feel respected and understood**. Other researchers have found similar results.

“Our survey found that 50% of consumers are more likely to buy again from a brand that connects with them emotionally or reflects their values.”

—Amit Sharma, CEO of post-purchase experience platform, Narvar

As utilitarian as grocery shopping may seem, people are emotionally connected to where they buy their food, for better or worse. If they feel that the store, its merchandise, and employees are welcoming and align with the kind of life they want to live, they won't be tempted to shop elsewhere, even if it could save them some money.

But if a store, that sells the exact same food, feels sterile, and the staff non-existent or unhelpful, then grocery shopping will feel just like another chore to fit into a busy life—energy draining rather than energizing.

THE CHALLENGE OF BUILDING AN EMOTIONAL CONNECTION

If it were easy to create a grocery store that builds emotional relationships, everyone would be doing it. It takes a combination of the right merchandise, a store that feels dynamic and personable, and a sharp staff. The first two elements are challenging enough, but the third one is the most difficult.

However, several chains have found a way to hire the kinds of people who naturally built rapport with customers—staff who aren't just there to show shoppers where the sun-dried tomatoes are. **But employees who act they act like they own the store. They seem sharper, smarter, and more engaged than the average checker. It's as if working at their grocery store were their dream job.**

One store that regularly leads the surveys in customer loyalty, and sales per square foot, is Trader Joe's.

“Despite aggressive competition from Whole Foods Market/Amazon, Sprouts Farmers Market, and traditional grocery stores such as Albertson's and Safeway, Trader Joe's sticks to a quirky, sometimes counterintuitive playbook that breaks from the conventions of grocery and retail in general.”

—Denise Lee Yohn, Forbes

Trader Joe's accomplishes the trifecta of flexibility, communication, and emotional connection in entirely different ways.

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While customers don't have the flexibility to order online, Trader Joe's managers have a tremendous amount of latitude in making customers' in-store experience great.

Trader Joe's doesn't collect any customer data, instead focusing on their staff's actual interactions with shoppers. And in fact reports that its biggest marketing expenditure is free samples.

"At the core of Trader Joe's 'modus operandi' is a focus on simplicity, better value, and a fun shopping experience. The grocery retailer's success factors are there for everybody to observe and copy, yet nobody has been able to do so successfully."

—Philip Cop, founder Minerva Insights & Solutions

Finally, in terms of emotional connection, **the physical store is the brand.** You have to go to your local Trader Joe's to experience and connect with Trader Joe's.

While many of its distinctive characteristics are baked into its 60 years of culture, Trader Joe's offers lessons that can be applied to any grocer or retailer, regardless of their store size: **make it simple, fun, and genuine.**

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