Test Tube Babies
Supermarket parents launch niche store banners to compete.

BY MIRA SLOTT

Top retail executives, implored to think outside of the traditional retail box, are brandishing new store banners to compete head-on with ethnic, natural/organic, low-price/no-frills and upscale/convenience formats, each taking its toll on the beleaguered conventional grocery divisions they concurrently try and reinvent.

“America has never been more multi-dimensional, diverse and segmented, at both ends of the economic scale,” says Gene Hoffman, president, Corporate Strategies International, Wayzata, MN, and former president of Kroger Co., Cincinnati, OH, as well as former chairman/president of Supervalu Wholesale Food Companies, Eden Prairie, MN. “Food retailers, in order to grow, are in the process of creating new retailing niches hoping to capitalize on the emerging opportunities and capture necessary sales dollars. If there is one thread that runs through this growing diversity in food retailing, it is quality, value and uniqueness with heavy emphasis on fresh produce items.”

“Food Lion understands customers differ, and it can’t meet all needs with a single store or concept,” says Jeff Lowrance, company spokesperson for the Salisbury, NC-based company. “We’ve undertaken strategies to develop varied brands and models, involving customer analysis and research to determine which of our store banners, Food Lion, Bloom, Bottom Dollar or Harveys, will best reflect the community. We take a look at the market competition in general, but focus more on customer lifestyles and demographics.

“With all four banners, produce is a top priority because we know that having very good produce is a point of entry for most customers. They base where they shop on the fresh produce and meat departments regardless of the concept, selection and SKU depth variances,” Lowrance continues.

“Stores must reflect their individual markets with a micromanagement approach, and produce with an emphasis on fresh plays a key role in many of these new formats,” notes Nick McCoy, senior consultant, Retail Forward, Columbus, OH. “The old business-as-usual model doesn’t work anymore.”

According to Maria Brous, director of media and community relations for Publix Super Markets, Inc., Lakeland, FL, “Everything goes back to identifying what our customers in individual markets are seeking and to understanding how that changes over time.” Publix is targeting fast-growth Hispanic markets with its unfolding Sabor banner — sabor means flavor in Spanish. It also is strategizing a foray into the explosive natural/organic market by taking its Greenwise store brand to a new level and piloting it as a separate store entity.

Second Place Forgotten

“When you boil it all down, traditional supermarkets are almost everybody’s second choice for every type of shopping occasion,” says Jim Hertel, senior vice president, Willard Bishop Consulting, Barrington, IL. “That’s troublesome if you’re a supermarket retailer. It’s not necessarily that supermarkets are doing a bad job in the consumer’s eyes, it’s just that club stores, super centers, natural/organic, upscale and real extreme discount chains are viewed as doing an outstanding job.

“It’s not good enough to be good enough anymore. You have to be great and the way you get appreciated for being great is having a tightly focused retail model,” Hertel says. “This will be the leap to new branding and formats.

“Supermarkets need to develop a distinct and separate offering. Retailers trying to reinvent themselves have to have a different format, product offering and, especially in their own market, to come out with a different banner void of that old consumer history,” he emphasizes. “It’s a difficult task but critically important to do. Traditional retail units can’t afford to stand still. It’s an issue of survival.”
“It’s crucial to form a separate identity. They can’t match Wal-Mart [based in Bentonville, AR] on price, they don’t own the reputation for healthful/natural or ethnic specialties, they aren’t the most upscale or convenient, and so what are they known for?” Hertel asks. He predicts that in the future, companies will have a portfolio of multiple formats. Most of these concepts are still in the test phase. “We haven’t seen results that tell us if they are likely to be successful or not yet.”

In strategic planning sessions, supermarket operators realize they are being picked off by everybody, not just Wal-Mart, explains Dick Spezzano, owner of Spezzano Consulting Services, Monrovia, CA, and a former Vons executive. “Truth be known, some of these chain stores reporting quarterly earnings may be feeling the pinch from Wal-Mart 5 to 10 percent, while Costco [based in Issaquah, WA], Whole Foods [based in Austin, TX], dollar stores, specialty chains, and ethnic markets all chip away at their earnings as consumers spread out from core areas.

“San Fernando Valley in California, for example, was all Anglo at one time; now it’s very ethnic and the moving stores there, so all the chain stores have to compete with them also,” Spezzano explains. “The supermarket industry realizes sales growth is very slow at 1 to 3 percent and Anglo population growth is nearly flat, while ethnic populations continue to rise significantly. Whether it’s addressing the aging of America or changing lifestyles, they see they have to create more sales for their stockholders.”

**Imitators Won’t Do**

“These niche stores are so far removed from the typical grocery store that supermarket chains branching out with new store formats face incredible challenges,” according to David Livingston, managing partner, market research and analysis for supermarkets, at DJL Research, Pewaukee, WI. “Imitators will never be as good as the Whole Foods, Aldi [based in Essen, Germany] and Trader Joe’s [based in Monrovia, CA] that have carved their niche as the best in their defined categories with specialized experience long term,” he contends, adding, conventional supermarket chains are entering cultures very different from their roots.

“It is difficult for the normal, basic, everyday supermarket because too many times management wants to be a Costco, Wal-Mart or Bristol Farms [a 14-store chain based in Carson, CA], but all these things in one store don’t work,” says Ed Odron, owner of Produce Marketing Services, Stockton, CA, and former vice president of produce and floral for Lucky Stores’ Northern California Division. Spinning off other banners to attack these different formats demands a completely different management team with a whole new mentality down to the store personnel. “The problem is that Joe Blow store manager with 15 to 20 years in the supermarket business, now charged with the new banner, may revert to the old thinking and preconceived ideas he was born and raised to rely on when things get stressful or tough.”

Publix Greenwise is a learning process, says Brous. “We believe in doing the project right and we have much to learn about the health/organic business, which is much more sophisticated than positioning Greenwise brand products to complement conventional ones” in the 876 Publix stores, she explains. “When natural/organic is the focal point, it is a very different type of store. Not only do we need in-house experts, but we also want to visit different models, examine what appears to be working and what we could do better.”

Two Greenwise test stores will open first. One is a conversion in Boca Raton, FL, and the other is a new store in Palm Beach Gardens, FL. “In identifying the best place to pilot, we want mixed demographics. We thought this to be a good initial market for diversity,” she says. “During its tenure at Vons, Spezzano was instrumental in launching Tianguis, an innovative Hispanic banner immersed in Mexican culture and extremely successful. Its eventual demise was due to relentless, damaging grape boycotts that unfairly sullied its reputation, he contends.

“In the case of Tianguis, we had an association with Cifra, now Wal-Mart Mexico, and sent key people to work in those stores. In doing so, we understood how important religion was — religious statues in the stores were desired — and we connected with the churches for guidance. The management team really has to do its homework — take the whole group to Mexico, eat the food, talk to the local people, see what customers want.”

“Then they should shut down the store, completely re-merchandise, re-fixtute, exchange out employees who don’t meet the profile of that store and transfer or hire dual language people, probably most who speak...”
Spanish fluently — it could be their primary language — who understand the importance of making it easy to cash checks and wire money to family in Mexico,” he continues.

“The thought process is right to designate a separate store banner with different SKUs. It may be 50 percent of the SKUs of a normal supermarket, but it’s the right SKUs,” Spezzano explains. “Not all Hispanics eat the same produce but there are commonalities, certainly peppers, tomatoes and avocados. It’s critical to adapt to the demographic base, doing research on what items are important and index much higher. For example, bananas, mangos and other citrus index high; apples absolutely not. Artichokes are very low. Radishes, cilantro, and cucumbers are very high; mushrooms not. Affordability issues also play a critical role.”

Public Scrutiny

“National companies going in all different directions with varying formats often can’t seem to concentrate well on any single one,” DJL’s Livingston says. He believes one common denominator of successful chains, whether Publix, Wegmans (based in Rochester, NY), Hy-Vee (based in West Des Moines, IA), Ukrop’s (based in Richmond, VA) or HEB (based in San Antonio, TX), is that they are all privately held or employee owned, so all they are worried about is being great supermarkets.

“Publix has a history of success with just about everything it does. It’s owned by its employees and the morale is so much higher, so they won’t allow themselves to fail, albeit Publix will go slowly with Sabor and Greenwise. It went too fast with the Internet grocer and had to close it down,” Livingston says.

Regional players gain another advantage. “It is a lot easier to manage 70 stores than 600 and to know your customers better. HEB has two or three different formats but all are within arm’s reach, and the executives don’t expand one until they are sure it works,” notes Livingston.

He elaborates by saying someone in Boston knows the Boston market better than someone in Holland. “Ahold, headquartered in the Netherlands, is a big bureaucratic company. Say the company wants to build a new store location. Employees do the market research, go through committees to the division office, and the proposal is sent to the Netherlands. By the time everyone gets done looking at the plan, a whole year could pass,” he says. In the meantime, a couple of competitors have opened up in that location. Wal-Mart is coming in, remodels have taken place, and the whole premise for the store needs to be re-evaluated and researched all over again.

Buying Your Way In

Livingston warns of the consolidation trap that can water down unique characteristics of acquired regional chains. “When Safeway bought regional chains like Dominick’s, Genuardi’s and Randall’s, instead of capitalizing on the benefits and assets of these upscale lifestyle stores,
they adapted them to their traditional supermarket culture and buying practices,” he contends.

“Randall’s already had flagship success in Houston, and Safeway changed it into a plain vanilla grocery store, cutting labor, putting in its private label and cutting out the perceived better private label,” claims Livingston. The strategy, meant to maximize efficiencies and economies of scale, snowballed with Safeway losing market share. He says Safeway’s Lifestyle store concept to revive sales is something these regional stores had all along.

One way to assimilate and become engrossed in varying niche markets is to buy chains that specialize in them. “The thing that shocks me,” says Spezzano, “is that the big supermarkets, like Kroger and Ahold, haven’t addressed these other formats through an effective acquisition strategy. Why didn’t anyone try to buy BJ’s [based in Framingham, MA] early on, for example, to compete with Costco or Sam’s [based in Bentonville, AR]? There should have been a strategy five years ago when BJ’s was half the size it is now as a way to get into the club store business. When Kroger bought Fred Meyer, it never took it beyond the borders of the Northwest,” he notes.

“Why wouldn’t a supermarket chain go out and buy one of the best Hispanic operators and give it the funds needed to operate and grow? Supervalu’s Sunflower Market has a lot of appeal, works well in 20,000 square feet with a bare bones merchandising concept,” he says. “I’m surprised supermarket chains didn’t buy a small chain and grow it, as Wild Oats did five or six years ago with Henry’s Farmers Market. Sprouts Farmers Market, based in Scottsdale, AZ, is up to 15 stores and appeals to the health food market. If a supermarket bought a store like Sprouts, it could bring back to other stores what it learned,” says Spezzano.

“The difficulty for supermarkets over the years has been trying to make changes with the same people who have run the conventional stores — the division managers, store managers and clerks trained to operate, promote, display and react in the old black-and-white ways,” says Odron of Produce Marketing Services. “Translating a major supermarket mentality to a Hispanic store won’t fit. Holidays, for example, are skewed toward different products and must be addressed uniquely based on the particular population.”

Dynamic Landscape

“As America continues to change its consumer face, this retail proliferation will persist,” says Hoffman of Corporate Strategies International. “New to the landscape: Publix Sabor and Greenwise, Food Lion Bloom...

Wal-Mart is now promoting that it is 'not just for basics' to attract a broader consumer base without alienating its core customer, getting into natural and organic foods and pulling in a higher income consumer with more upscale products.

“I don’t think Wal-Mart’s upscale pilot store in Plano, TX, is scalable or geared to the way it traditionally operates,” says Odron. “Wal-Mart always wants to be trying new things, and if the [experiment] is a total failure, what does it cost, one store out of 2,000? It’s a learning experience. Whether Wal-Mart replicates the concept 100 times down the road, it may integrate smaller things — a sushi bar that worked well or higher priced bottles of wine for those customers in another 150 stores. I believe it’s more of an R&D project.”

For a long time, supermarkets have been surprisingly reticent about challenging Wal-Mart’s super center format success. HEB opened a huge new prototype store tapping into the one-stop shopping. Kroger is testing a 100,000-square-foot-plus Marketplace super center and concurrently a 20,000-square-foot Fresh Fare upscale convenience concept, says Retail Forward’s McCoy.

Food Lion, like several other grocery chains, was able to coast with its basic supermarket model for many years, until Wal-Mart started barreling into its territory, according to DJL’s Livingston. “Food Lion had relatively low sales per square foot compared to the competition, but it kept costs down and saturated markets. This was fine and dandy till Wal-Mart started coming in and Food Lion was hit hard.”

Food Lion’s new formats are designed to have distinct identities. Bottom Dollar seeks to provide best prices every day, offering 6,500 products, national and Food Lion brands. Products are merchandised in simple open cases on pallets, and consumers bag their own groceries. “It is more bare bones than Food Lion, but in particular, we didn’t want it to look like a typical discount store. Consumers can find fresh produce and quality meats at low prices in a very comfortable, friendly store with an inviting environment,” says Lowrance.

“At Bloom, we are working on reaching an audience looking for high-tech convenience, an expanded selection of quality signature items and fresh, innovative meal solutions,” notes Brian Gadhwah, manager of produce/floral merchandising and retail training. Gadhwah garnered 21 years at parent company Delhaize, based in Brussels, Belgium, most recently as produce category manager at Hannaford Bros., before joining the Bloom team late last year. (Please see Brave New World in the April issue of Produce Business)

Harveys, which Food Lion acquired in 2003, remains true to its roots as a central Georgia/ northern Florida chain with stores mainly in small towns and rural areas, says Lowrance. “We have converted a number of Food Lion stores to the Harveys banner because it’s been around 50 years and permeates such a depth of knowledge of local tastes and products. It focuses on carrying regional products and buys a lot of locally grown produce, also providing exceptional, customized fresh meats that appeal to local customer tastes.”

When Lowrance describes Food Lion’s niche, it is far less defined: “Food Lion continues to be great prices, at the same time simple convenience, quality meat and produce, with an added emphasis on customer service.”

As Spezzano puts it: “When you think of Food Lion, you think plain vanilla, ho hum.” It is precisely this type of stereotypical comment that Food Lion hopes to alleviate through its store renovation plans and broader multiple store vision.

**Spread Too Thin**

Unfortunately, not all these banner stores will be successful. Scattered commitment is a recipe for failure, says Spezzano. “When Albertson’s opened ethnically oriented Super Savers, it sprinkled a few in California, Texas and Florida, maybe 25 to 30 stores. If a store comes up with a new format, it’s hard to put three here, three there and another three in another state. A stronger strategy is for the store to cluster the prototypes in one state. If the retailer spreads the management group out too thin, it can’t expect the field people to cover all three states, not lowering costs fast enough. In California, Albertson’s certainly didn’t explore all the opportunities.

“Albertson’s didn’t maximize the potential with the current addresses. Most of those Super Savers were part of the Publix purchase to convert to Sabor,” he says. “I’ve been in Super Saver, and it’s an OK store and all. Sometimes supermarkets create these formats with dedicated people, and all of a sudden, they are promoted and gone, the management core so changed, the new management loses interest. After a bit, momentum slows, and if senior people aren’t supporting it, it falls apart.”

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**MISSUED OPPORTUNITIES**

Major supermarkets may be squandering strategic opportunities to pilot new store banners. “Supermarkets are wasting perfectly good real estate,” says Dick Spezzano, owner of Spezzano Consulting Services, Monrovia, CA.

“You’d be surprised if you asked major chains how many stores they have closed that they are paying rent on or are not producing anything. Assets sit there vacant a long time. It costs money to keep the store closed and doesn’t contribute to anyone’s bottom line. If they convert these unprofitable assets to separate store formats with separate names, they can gain valuable information, with no expectations, from their customers that could damage the conventional supermarket brand name.”

“As supermarkets do these formats, they become laboratories,” relates Ed Odron, owner of Produce Marketing Services, Stockton, CA. “By putting products in different store locations, you look at movement, and if an item is really doing well, you can bring that product into mainstream stores. When you have five or 10 stores testing, it’s easier to try different things. It’s not a clean demo; you may have 30 percent Hispanics and the rest a mix of ethnic groups. At some time down the line, however, you can’t continue to run at a loss.”

Supermarkets need to open a certain percentage of banners to achieve necessary economies of scale. According to Spezzano, Publix is not doing Sabor to have just a few stores. If it operates in a certain number of states, it can open 100 stores under the Sabor banner by setting criteria, such as the percentage of Hispanic population.

Many retailers are involved in testing convenience operations. “Trying to appeal to the customer on the go, another way to recycle real estate or convert part of a store into a format with no impact on parking. If they do it very efficiently, they’re able to increase sales without adding capital investment,” says Spezzano.

Tesco Express [based in Cheshunt, Hertfordshire, England] will offer a lot more fresh produce and ready to eat foods, more like Wawa, PA-based Wawa, which is trying itself to cement its holistic brand and remain unique, according to Wawa CEO Howard Stoeckel.