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LIMITED ASSORTMENT STORE'S PLACE IN SERVING CONSUMERS' NEEDS IN 1975 AND IN 1985

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Traces the development of limited assortment stores in Europe and the United States.

Today, we live in a time of unprecedented changes. Nothing is more important today than an idea whose time has come. Has the time come for the Limited Assortment Stores' entry into the United States? Would this unit serve the consumer in 1975?

The concept and success of Limited Assortment Stores developed in Europe. These stores have exerted a powerful influence on Western Europe's food retailing. Limited Assortment Stores can be found in West Germany, Switzerland, France, Belgium, Holland, Netherlands and England in considerable numbers. These units are producing respectable operating results. Today, these units are prospering in Europe more than ever.

It is estimated by reliable sources that Limited Assortment Stores now have 11-12% share of the West German retail food volume. Hypermarches, another European retail success, in Germany have about this same level of share success.

Today there appears to be a growing polarity of successful growth and profitability strategies in U.S.A. food retailing. Growth in larger super stores and warehouse food operations on one side and small convenience stores on the other.

Conventional supermarkets have experience only moderate growth.

What are the operating characteristics of the Limited Assortment Store concept:

1. These stores strive to serve the consumer with quality price and value--your theme for this conference.
2. Store size varies between 3,000 to 10,000 square feet.
3. Location of units has been in central cities and neighborhood locations. Blue collar neighborhoods primarily.
4. Stores are located within walking distance of customers' homes.
5. Dry grocery merchandise is handled primarily--that means no perishables and expensive fixtures.
6. Assortment of dry groceries range from 400 to 1000 stock keeping units (that means one single or one color of an item). This assortment is about 1/8 of what is carried by conventional European supermarkets. Assortment does handle some fast moving general merchandise items.
7. No stockroom--most is selling area. Merchandise is moved from truck to

display. Pallets and wire baskets are used.

8. Merchandise is pre-marked by manufacturer or at the distribution center. Other items just aren't marked individually. Checkers remember prices.

9. Inexpensive unfinished wood or warehouse steel shelves are used. Large signs state price.

10. Advertising costs are low. Most advertising is done by word-of-mouth.

11. Payroll is kept low--around 3%.

12. Stores offer no frills or services. Customers bag or box their own merchandise. Bags can be purchased (not supplied).

13. Offer good quality merchandise, often private label at retail prices that are 10% to 20% below retail prices.

14. These stores have very high rate of productivity. Stores produce \$400 sales per square foot compared to typical U.S. supermarket sales per square foot of \$200. (Improved productivity--sound interesting?)

15. Sales generated from these units are about \$20,000+ per week. That compares to only \$5,000 per week for convenience store sales average.

16. These stores are a direct result of double-digit European inflation.

17. Customer profile of shoppers: younger, better educated and more affluent than the typical customer of both traditional outlets and supermarkets.

18. Concept appeals to quality--conscious customers, always looking for good value.

19. Locations are usually stripped down second-use locations.

20. Fixtures are not modern decor. Looks more like bargain basement.

21. Promotional efforts tell consumer that these prices are possible because we have eliminated all unnecessary expense.

European Ventures

I. Denner A.G. -- Switzerland

- A 120-store chain operator of limited assortment stores.

- A trading area radius of approximately 2.5 miles.

- A population in trading area of at least 2000 families and growing.

- A site situated where there is traffic.

- A store size between 6000-8000 square feet.

- All stores are leased. Fixtures run about \$25,000.

- Each store has 3 cash registers.

- Each store has 75 shopping carts.

- Store delivery is twice a week.

- Prices unmarked on most items. Cashiers memorize prices.

- Advertising via newspaper and window.

- Store annual sales of 3 million is run by 3 employees. Average transaction amount to \$9.

- Two types of stores one has produce and one does not. Ones with produce are less profitable.

- For each item added another is dropped.

- Store layout is "maze concept" customer enters in one direction and can only walk in one direction.

- Sales per store in 1973 was \$1.5.

- 1/3 of sales is of wine, cigarettes and other drinks.

- Payroll runs 4-5% of sales.

- Gross margin is about 11%.

- 25% of sales is through private label rather than national brand.

- 55% of sales is through dry groceries.

II. Albrecht, K. G. -- West Germany

- They are largest operator of limited assortment stores with over 1100 stores.

- Inexpensive downtown and neighborhood locations. They will locate in any city over 10,000 population.

- 500 item assortment with no perishables.

- Heavy emphasis on high quality and private label merchandise (quality conscious)

- A highly rationalized, no frill, low service store.

- No expensive equipment.

- High turnover, up to 3-4 times monthly. Goods are usually sold before he pays his supplier.

- Sales volume of total company is 2½ billion dollars.

- Personnel in store includes: Manager, head guy, part-time stocker and cashier.

- All advertising is guided centrally. All items advertised at same price everywhere.

- Advertising cost about 33% of sales.

- Use many 5"x 7" signs indicating "Everyday Low Prices".

III. Belgium Discount Shark Characteristics

- Handle 500 item assortment.

- 3000 square feet selling area.

- No backroom--all selling space.

- Located in cities with population above 15,000.

- Products placed on shelf in cut cases.

- IBM cards printed for each product describing product, pack, price, and discount price (1 card is taken along with each purchase)

- Handle 20 fresh meat products.

- Handle wine and beer.

- Mr. Esch of G.B. Enterprises who is their Director of Research is exploring the concept. He believes these stores could capture up to 20% share-of-market in next five years.

- 1 check/manager handles 3 check-out stands. He collects IBM cards and compares against order. He then puts

cards through IBM 402 accounting machine and an invoice listing purchases and cost per item is issued.

- Shoppers bag their own groceries and carry them to car.

- Parking is limited only to spaces in front of store.

- Depend on walk-in traffic.

IV. Key Markets -- England

- Are a chain of 300 stores that will open their 1st limited assortment store November 10, 1975.

- Location within 5 minutes walk of at least 5000 population.

- Located near public services such as post offices, city halls, open markets, schools, etc.

- Parking should not be added expense. Use parking in front of store and within 1 block of mini-discount.

- Locate within 1 block of major traveled street.

- Length of lease ideally 3 years +5 +5 +5.

- Cost of rent not to exceed 1 -1.2% of expected volume.

- Store hours: Monday - Friday: 9:30 - 8:30; Saturday: 9:30 - 6:00. Closed on Sundays.

- Personnel includes 1 manager and 6 part-time people.

- Signing outside is minimal

- Store size is 4,000 square feet

- Store will use electronic store ordering equipment.

- Store will have wide aisles and dump displays.

V. Delhaise -- Belgium

- Opened their first unit in October, 1975.

- Name and positioning in market is important.

- Will handle water, milk, margarine, coffee and bread (Top 6 dairy items).

- Handle these produce items: potatoes--prebagged; lettuce--1 variety; tomatoes--prebagged; apples--1 variety prebagged; oranges--1 variety prebagged;

- Use in and out items for promotion.

- Fresh meat includes: turkey rolls, pork--4 best selling cuts, beef--4 best selling front quarter cuts, chicken--wholes only.

- 5 frozen food items handled.

- 2 best selling flavors of ice cream.

- Special promotions must sell in volume or they are a mistake.

- Large in-store signing selling prices and being "price pacer".

VI. Other Concepts--Limited Assortment Stores

A. Kwik Save--England

- Landlord has dry grocery and leases produce and meat departments.

- Leasee pays landlord based upon percentage of volume.

B. Consumers Coop--Germany

- Growing rapidly (coop movement).
- 2000 SKU per store.
- 8000 square feet.

C. New in German Journals Report Stores within Stores

- 200 promotional area stores at entrance of conventional supermarket.

United States Testing of Limited Assortment Stores

I. Hills Supermarket--Brentwood, New York

- Chain store operation of 76 units.
- Opened 9 test units in December, 1974.
- June 30, 1975, closed two and converted 2 into Hill Supermarkets.
- 5 stores remain open, but no more are planned.
- Management comment: "Test only worked in a few areas". The concept has not worked.
- Hills did offer wholesale cuts of meat and limited assortments.

II. A&P--New York

- On May 19, 1975, opened in former A&P stores their "A&P Compact Stores".
- Handled 1200 items including perishables.
- Stores located in New Jersey and New York City.

- No nonfoods handled.

- Store hours: Monday-Saturday: 9 a.m. to 7 p.m.

- Advertising was conventionally newspaper.

- August, 1975, after 3 month test, stores were closed for insufficient volume (limited line did not appeal).

III. Supermarket General Corporation--New Jersey

- Successful eastern chain operating Pathmark supermarkets.

- Opened first store in November, 1974, total of 5 stores opened.

- 2 more offerings: "700 stores" and "mini-markets".

- "Mini-markets" square footage was 6500 square feet compared to "700 stores" 6000 square feet.

- Locations: Queens and Bronx, central city, dense population.

- 700 dry grocery items with limited milk, bread.

- 1/2 items are private label.

- Store reserved right to limit sales to 3 packages of any item and one item when presented as a coupon special.

- Store hours: Monday-Thursday: 10 a.m. to 7 p.m., Friday: 10 a.m. to 8 p.m., Saturday: 9 a.m. to 6 p.m.

- Store layout: 2 perimeter aisles and a wide aisle running front to rear.

- Wood shelves were used. Also 5 foot upright color for dairy.

- 3 registers were used.

- Middle income, mixed blue and white collar neighborhood locations.

- Advertising circulars covered all five locations.

- Today, 1 unit closed and no plans for opening additional units.

Transferability Potential

Limited success, if any, can be given the limited assortment store from tests to date. Several trends, however, point out the possibility of success:

1. Inflation within our society dramatises lower prices to consumer.
2. Inner city areas have a special need for price stores.
3. Abandoned service stations could make investments modest. The birth of retail recycling.
4. "Convenience" still has tremendous demand in today's marketplaces.
5. It appears the environment is likely to produce a new network of retail stores.
6. Trend in marketing to "think small". Rise and popularity of specialty stores.
7. Need for retail food operation to serve conveniently and at price for apartment type buildings and elderly people complexes.
8. Distance from super stores and its size will make fill-in shopping trips unattractive.
9. Japanese computerized vending limited assortment shopping has been successful.

Question areas of feasibility are being raised by American firms and executives:

1. Isn't the American consumer too used to having variety?
2. Can the right merchandise mix be found?
3. Can one really gross?
4. It is doubtful whether manufacturers would pre-price, palletize or containerize merchandise for these small-scale stores.
5. As inflation subsides, won't interest in price change to quality and service?

There is a need for more experimentation. The Limited Assortment Store concept in the pure sense has not worked yet. Risks associated with limited assortment stores is minimal. An investment of about \$165,000 of which \$40,000 would be inventory--would be small enough to permit most food retailing companies to experiment with the concept. The concept does need more experimentation.

Limited Assortment Food Discounts offer low risk and exceptional return. Success prospects are exciting but unproven. Central city sector of major metropolitan areas look like best candidates.

Will Limited Assortment Food stores be with us in 1985--yes, but in an altered form. Has the Limited Assortment Stores' time come--...it's getting closer.