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REAL ESTATE: Bigger is not Always Better

-By Robert Gorland

In today's economy, most supermarket operators are working diligently to reduce any and all operating expenses while becoming even more competitive and efficient in order to continue to grow profitability.

Yet, after over 25 years of conducting market research and completing over 1,000 feasibility studies and sales forecasts for both small independents and large chains, the question "What's the optimal store size?" has become increasingly important, as has the companion inquiry: "Can I reduce my current prototype slightly and still achieve the same sales results?" The answer to the latter, in a nutshell, is: Yes, you can, since bigger is not always better. However, expanding or relocating a currently high-volume, high-customer-count store could also be the way to go.

Though additional price-impact and small-format stores are creating a headline buzz in the industry, our focus here is to determine the most efficient, conventional store size to fit both the specific store location and marketplace trade area, whether it be rural, suburban or urban in nature.

Constructing optimally sized, space- and energy-efficient store prototype(s) should be high on the list of priorities among every supermarket company, small or large. As the best sites become increasingly scarce, building and occupancy costs increase (raising break-even thresholds), and zoning ordinances involving buildable size ratios become tougher in many communities, thus requiring retailers to adopt a more flexible mind-set when it comes to store size. The days of cookie-cutter, one-size-fits-all stores may be limiting growth potential among many operators, especially if your prototype is 65,000 square feet or larger.

With up to a few thousand auto dealerships closing by 2010, hundreds of these locations may actually be prime, high-profile supermarket sites. One acre of land generally equates to 10,000 square feet of retail space. Will your company actually pass on a superb, potentially high-volume, 5.9-acre "Main and Main" site because you can develop only a 59,000-square-footer vs. a 70,000-square-foot unit? Hopefully not, but if you reject the site, a more flexible, profit-driven competitor will likely build there.

What Size is Best?

Many of the most successful supermarket operators now have a variety of space-efficient prototypes in their playbook, often in at least three different footprint variations, such as 40,000, 50,000 or 60,000 total square feet. The final size selection should be based on an experienced market analyst's realistic and optimal sales forecasts for a specific location after completing a detailed feasibility analysis — not on executive ego, gut feelings or cheap rent offers. What's more, due to the high investment capital required, increasing risk and competitive factors of some trade areas, and internal disputes among executives, many chains regularly desire "second-opinion studies" outsourced to consultants.

These market analyses usually include:

A detailed, thorough review of the competitive environment (current and planned activity) Calculation of total food potential Location and road network attributes Proposed co-tenancy Optimal store size to fit the trade area Demographics and population estimates
For many operators, overbuilding or opening too large a store in a trade area achieving a low sales-per-square-foot ratio has had dramatic and long-lasting financial consequences. Influence from "upstairs" or real estate deal-makers to increase sales forecasts to match an often larger-than-necessary store size, and the higher associated financial hurdles, should be avoided.

Only a handful of premier supermarket companies have been successful at operating big-box superstores of over 100,000 square feet. Yet, even those players should and must continue to tweak their design concepts to match the marketplace, based on realistic sales and profit forecasts that must always include new competitive openings.

The bottom line: Bigger stores do not imply bigger profits. Before committing capital expenditures or even signing a lease, ask yourself:

Do we really need to build this big a store? Will we achieve high sales-per-square-foot? What might we get in a larger vs. slightly smaller store (more unneeded checkouts, more backroom space, higher occupancy costs, etc.)?
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