

EXPERT COLUMN: What's the Optimal Store Size?

In today's economy, most supermarket operators are working diligently to reduce operating expenses while attempting to become even more competitive and efficient in order to continue to grow and maintain the highest profitability possible.

After more than 30 years of conducting supermarket real estate site selection, analysis and location research, and successfully completing over 1,500 supermarket feasibility studies and sales forecasts for small independent operators, regional and large chains, as well as shopping center developers and landlords, the issue of "What's the optimal store size?" continues to be an increasingly important issue in the industry today.

So, too, is whether a retailer can reduce their current prototype slightly and still achieve the same sales results? The answer is a resounding "yes," as bigger is not always better when it comes to store design configurations. Conversely, expanding or relocating a currently high-volume, high-customer count store to create a larger facility could well be the way to go.

The Cookie-Cutter Crumbles

Although price impact and small format stores are continually creating headline buzz in the industry, our focus is on determining the most efficient store size to fit both the specific store location and its 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 for every supermarket operator, small or large. As prime sites become increasingly scarce, as energy, building and occupancy costs continue to increase (raising break even thresholds), and planning and zoning ordinances involving buildable size ratios become tougher in many communities, retailers must become increasingly more flexible in store size.

The days of "cookie-cutter" and one-size-fits-all stores may be limiting a company's growth potential, especially if your prototype is 65,000 (total) square feet or larger.

Due to previous closures, potential future closures and consolidation of car dealerships, as well as several medium-sized retailers (i.e., Linens-N-Things, Circuit City, Rag Shop), many of these locations have become, and could be, prime, high-profile supermarket sites within your current or expanded marketplace. One acre of land generally equates to 10,000 square feet of retail space.

Ask yourself: "Will our company actually pass on a superb, potentially high-volume, 5.8-acre Main Street site because you can only develop a 58,000- versus a 70,000-square-foot store?"

Hopefully not, but if you reject the site, a more flexible, profit-driven competitor will likely build there. Some less densely populated locations may achieve an almost identical weekly sales forecast and customer count in the smaller store while often enjoying a much stronger EBITDA.

Biggest Bang for the Box

In the last five years or so, many of the most successful supermarket operators have developed a variety of more space-efficient prototypes, often at least three footprints (typically 40,000, 50,000 and 60,000 square feet). The final size selection should be based on an experienced market analyst's realistic and optimal sales forecast after completing a very detailed feasibility analysis, and not based on executive ego, gut feelings or cheap rent offers.



Due to high investment capital needed, increasing risk, competitive factors of some trade areas, and internal disputes amongst executives (some like the site, some don't), many chains regularly commission a second opinion site study outsourced to consultants to supplement their own in-house research.

These market analyses, which are the equivalent of an inexpensive insurance plan, usually include:

- A detailed, thorough review of the competition, including the current environment and planned activity
- Calculation of total food potential
- Three or more years of weekly sales forecasts
- Location and road network attributes
- Proposed or existing co-tenancy
- Optimal store size to fit the proposed trade area
- Demographics and updated/current population estimates

For many operators, overbuilding or opening too large a store in a trade area that achieves a low sales-per-square-foot ratio has had dramatic and long-lasting financial consequences. Influence from "upstairs" or real estate dealmakers to increase sales forecasts to match an often larger than necessary store size, and the higher associated financial hurdles should be avoided. Unfortunately, however, this scenario still exists in many companies today.

Banking on Market Share?

Only a handful of premier supermarket companies have been very successful at operating big box superstores of over 100,000 square feet. Yet, even those players should and must continue to tweak their prototypes to match the marketplace based on realistic sales and profit forecasts. Bigger stores do not always equate to bigger sales or profits.

Before committing capital expenditures or even signing a lease, ask yourself:

- Do I really need to build this big a store?
- How are your most recent store openings or expansions performing in sales and profits?
- Do I really need to expand a store versus just a major remodel?
- Do I really need to open a pharmacy if the marketplace is already overstored?
- Will I achieve higher sales per square foot?
- Can I fit the same extra departments in a slightly smaller versus a larger store?
- More unnecessary checkouts?
- More backroom space?
- More unnecessary facings and duplication of products?
- Higher energy, building and occupancy costs?
- Higher break evens and risk?
- Higher labor and inventory costs?

The goal in the supermarket arena, especially in today's highly competitive environment, is to capture a higher sales-per-square-foot ratio and strong earnings out of each and every location. Remember, you can't take market share to the bank.

With 40 years of supermarket store operations and market analysis experience, Robert Gorland is VP of the Harrisburg, Pa.-based office of [Matthew P. Casey & Associates Inc.](#), which conducts supermarket site selection and feasibility studies, problem store analysis, competitive research, real estate strategic planning, customer spotting surveys, pharmacy studies and consumer research. Gorland can be reached at (717) 651-9955 or via e-mail, MPCABG@AOL.com.