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Grocers: How the Center Store Can Recapture Center Stage

The grocery landscape is changing, arguably more dramatically than at any other point in the industry's history. One of the biggest shifts is occurring among center store categories where declines are driven by an increasing preference for fresh products, typically located around the perimeter of stores. Grocers with traditional store formats and layouts are at a disadvantage to react to this trend without costly remodeling, but they put significant dollars at risk by ignoring the trend.

Managing Directors Chris Randall and Alan Lewis discuss how traditional grocers can best respond to this trend by considering the customer journey and providing better experiences, services and solutions to their customers — all while ensuring a real financial benefit to the grocers themselves.

A History of Competitive Threats

For many decades after its introduction in the 1930s, the center store — generally comprising packaged foods, beverages, personal care items and general merchandise — was the powerhouse of the grocery store. Today, the center store covers 50% or more of the floor space in traditional grocery store planograms, but it receives only 18% of customer dwell time.

Over the past 20 years, mass merchants, dollar stores, club-stores and, more recently, drug stores have all expanded into these categories, capturing increasing market share from traditional grocers. While the successes of Costco, Sam's Club, Target and Walgreen's are putting pressure on traditional grocery stores, all indications are that the worst is yet to come.

Since the beginning of the Internet boom in the 1990s, companies have been trying to crack the code for selling groceries online. Peapod, the Skokie, Illinois-based online grocer (and since 2000 a subsidiary of Royal Ahold), launched its first website in 1996. Ocado launched its online grocery business in the U.K. in 2000, and many others have followed with varied business models including Fresh Direct and Blue Apron. Beyond grocery, since 2000, the broader consumer products industry has watched various retail categories cede much if not all of their growth and often

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significant market share to online competitors, most notably Amazon. However, while more than 30% of consumer electronics and nearly 20% of apparel and footwear are now sold over the Internet in the U.S., grocery is still relatively unscathed. Recent developments indicate to us there is a real risk that is set to change.

The Turning Tide in Online Grocery

The grocery industry and its observers have long understood that there is not one kind of grocery consumer — depending on the occasion when a customer walks through their doors, they have very different goals in mind. They might be filling their pantry for the week, dropping by to stock-up on some specific items they need, or they could be entirely focused on the ingredients for tonight's dinner. Grocers try to design their offerings to meet these various needs; the thinking pervades everything from store layout to merchandising to promotional strategies. L.E.K. believes we must take a broader view in building winning grocery strategies by viewing consumer needs in the context of these customer journeys.

The key change we have observed in the recent evolution of online grocery is that online players have recognized the importance of understanding and specifically serving their target customers' journeys, too. Rather than simply trying to replicate a traditional grocery offering online, we now see models fragmenting to target specific consumer mission types or journeys. Instacart and Amazon Fresh, among others, seek to specifically service the high-speed and freshness requirements of meal-solution seekers and stock-up trippers, whereas Amazon Pantry focuses its model on meeting the replenishment needs of the weekly shopper. Blue Apron serves meal planners by eliminating the need to spend unnecessary dollars on full-size ingredients when cooks need only small amounts. While these players and others are still working on optimizing their models, we see this evolution — this journey specialization — as a key step in advancing the penetration of the digital channel into grocery.

The hardest hit in this trend will be the center store. Already under sustained pressure, we expect shelf-stable, pantry-focused solutions will find the most success online and that the center store will be hit the hardest. Despite the dwindling foot traffic in the center store, it is still a major contributor (70-80%) to grocers' bottom line, so this new pressure is a serious challenge that cannot be ignored or allowed to play out unchecked. What can grocers do about it?

Taking a Lesson from Best Buy

Disruptive competition that leads to unproductive floor space isn't a new phenomenon in retail. Take the challenge faced by consumer electronics retailers when digital media essentially destroyed the CD and DVD business that was at the center of their stores. This coupled with the impact of increasing online competition and consumers' showrooming (visiting a store to try out a product and then purchasing the product online at home) drove many brick-and-mortar consumer electronics stores out of business.

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The one player surviving the blow has been Best Buy. As part of its Renew Blue initiative, the company explored new store concepts in an effort to reinvigorate the customer experience. Elements of Renew Blue included store-within-a-store concepts such as Pacific Kitchen & Home and Magnolia, as well as dedicated department-like spaces for mobile providers and even vendors like Apple. Best Buy doubled-down on Geek Squad, its differentiating in-store service program. Best Buy also invested in its own online programs that leverage store assets including in-store pickup, real-time inventory availability in local stores, and extended aisle programs, thereby differentiating itself from its pure-play digital and online rivals.

We observe that the strategic insight behind Best Buy's efforts and the resulting successes come from the company's focus on understanding customers' different journeys and finding ways to offer a better solution for customers' broader needs. Leveraging existing competencies already within Best Buy created a solution not only valued by the customer, but also profitable for Best Buy.

More innovative grocers are following approaches similar to Best Buy's. For example, Wegmans has explored concept evolutions, such as converting some of its center stores into upscale non-food departments. Another obvious success story has been how Whole Foods Market gradually expanded its foodservice and fresh product offering to take over more of its stores.

Recognizing that your consumers are on a journey is essential to winning in grocery retail today. The modern consumer, with ever-increasing options to execute purchases across categories from the comfort of their living room, bedroom or bus seat, needs a real reason to step into a real store. To address changing consumer preferences, grocery stores need to be on that journey, too. The store, itself, must be a destination, and the experience of being in the store has to provide value in and of itself.

Grocers must evolve their focus and strategy to the customer journey if they are to solve the center store conundrum:

- **Rethink the layout:** How can we departmentalize the store to best serve each type of customer journey more conveniently or richly?
- **Merchandise and market solutions, not products:** How do consumers really shop today? Where can solutions provide value and build basket size or drive trial?
- **Eliminate wasteful inventory investment:** In what categories do customers value choice? Where can we save on inventory dollars and space?
- **Provide valued services:** Where do consumers want additional service, education or shopping support? What technology or personal service can provide this?

Benefits of Adapting a Customer Journey Strategy

- Reignites a reason for the consumer to stray off the perimeter "race track" and enter the center store.
- Increased dwell time versus traditional aisles, which promotes customer exploration and enables grocers to differentiate through in-store marketing and promotional programs.
- Promotes trial and attachment as the department service model introduces customers to more products and shows them how the products will be relevant in their lives.
- Allows modularity in how a chain can facilitate localization at a store level. With a stable number of a dozen or more department concepts, a grocery chain can curate a subset for a given store based on the market it serves. The result is potential for highly differentiated stores without the complexity of operating multiple discrete store concepts.

Specialization and Curation

Grocers that use a customer journey strategy can shift their merchandising strategy more toward curation, saving valuable inventory dollars. While in the past, consumers demanded a comprehensive assortment of products, and that was a key to success in grocery retail; today, consumers value specialization in line with their individual journeys, and they want grocers to support them. In essence, they're giving grocers permission to curate and present the assortments they recommend.

Today, virtually every traditional grocery store is organized by category. Even the perimeter "race track" follows a typical category progression: meat, seafood, deli, bakery, etc. L.E.K. challenges grocers to experiment and try a few different journey departmental models, including:

- **Event-based:** Build engagement around key seasonal events; mix products, in-store services, education and promotions to drive additional sales around key times of year

- **Meal-based:** Build off-of key consumer trends and the expanding American palate to create compelling and accessible introductions to new foods and brands as well as prepared products

- **Room-based:** Provide extra convenience in replenishment categories and more effectively introduce new, higher-margin products by showing them within the context of a "cleanest bathroom shop" or similar

This strategy may seem like a step into the distant past of retail, when sole-proprietor shops, boutiques and bodegas collected in town centers; but this is exactly how the modern urban dwelling consumer is shopping today in places like New York City. Stores like the Italian marketplace concept Eataly — which started in Turin in 2007, opened near Madison Square Park in New York in 2010 and in Chicago in 2013, and now boasts 32 outposts across six countries — succeeds on exactly these terms. If you want to buy pasta at Eataly, you won't find 20 brands. Instead, you will find a small, curated offering of all the essentials for making pasta (even cooking products), supported with rich detail on the brands proudly endorsing the wisdom of the consumer's purchase decision; and right near the dried pasta is an impressive array of handmade fresh pasta prepared in store — and sold at a nice premium.

Conclusion

So to this end we see learning from the past and building differentiation around the customer journey as being the key to the future of grocery. Consumers want experiences — not just products — to tempt them into a store. They want to walk out better off than when they went in. They want a trip to the store to be worth their time. To compete with online grocery services, traditional grocery stores must thoughtfully curate their selections, proving to the customer that they are the experts. They must also organize their offerings in a way the customer finds compelling. In short, they must prove that they are worthy of customers' time.

[1]Acosta, 2013
[2]Acosta, 2013

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