AN INVESTIGATION INTO THE NEED FOR A CHAIN-OPERATED SUPERETTE

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Richard N. Picard

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AN INVESTIGATION INTO THE NEED FOR A CHAIN-OPERATED SUPERETTE

By

Richard N. Picard

AN ABSTRACT

Submitted to the School of Graduate Studies of Michigan State University of Agriculture and Applied Science in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

Department of Marketing and Transportation Admistration

Curriculum in Food Distribution

Sponsored by The National Association of Food Chains

1958

Approved: 

The purpose of this study was to review the historical trends in the size of food stores since 1920, to investigate the need for a lower volume food store, and to present the potentialities of a suitably designed superette which might be profitably operated by a food chain.

The material for this study was gathered from a number of sources. Personal interviews with men prominent in the food industry provided the investigator with a general knowledge of the many problems involved in the chain-operated superette concept of food distribution.

A number of food organizations were surveyed by written correspondence. Opinions and views of both large regional chains and affiliated independent groups were obtained from this correspondence. Added insight was gained through correspondence with a manufacturer of food store equipment, and a manufacturer of prefabricated low-cost buildings.

Secondary data including books, periodicals, theses, convention proceedings, government bulletins, and textbooks proved to be a source for general applied information. Where ever possible, the most recent pertinent information was used.

The investigation revealed that due to the increase in competition between supermarkets, and the inability of certain areas to support supermarkets, the time is ripe for the food chains to scrutinize the potentiality of the superette.

The superette could operate in areas which could not support a supermarket. The superette does not require as many family units, or as much building space, as does a supermarket.

In the past years superettes, as a class, have not been as profitable as supermarkets. This is one of the primary reasons why food chains have shown little interest in this type of food store. Recent studies in store design, construction, and space allocation, however, might improve the profit structure of these smaller stores.

Inventory control, and space allocation studies conducted by the Kroger Company indicated that stores could be reduced in size without a reduction in sales. These same studies revealed that efficiency and gross profit could also be improved. These principles could be applied to modern superettes to improve their operating efficiency and profit.

Innovations in building design and construction could be utilized in future superettes. Conclusive results have been obtained by some major food chains which indicate that building costs can be substantially reduced. The application of prefabricated buildings could also be used when designing future superettes.

Superettes might aid a chain organization to reap a richer harvest from its operating area. These stores could profitably exist in locations which will not support supermarkets.

Many current food stores are obsolete, or uneconomical to operate dispite good locations and relatively low rentals. Some of these stores might be converted into efficient and profitable superettes by incorporating modern space-saving techniques and merchandising methods. In the long run, a chain may find it cheaper to modernize an established store than to completely withdraw from an area.

The investigation concludes that while not every area could possibly support a supermarket, many areas could possibly support a profitable superette. As competition between supermarkets becomes more severe, the superette may serve as a future avenue for chain expansion and growth.

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CHAPTER I

THE PROBLEM AND DEFINITIONS OF TERMS USED

Since the end of World War II the average size of new food stores, both chain and independent, has been steadily increasing. The size of these stores has necessitated increasingly larger trading areas to support them. The trend has been to construct these food stores in the larger cities, and to disregard the less populated towns. This movement toward the larger cities has left a void of modern food stores in many of the nation's less populated towns.

I. THE PROBLEM

Statement of the problem. The purpose of this study is (1) to review the historical trends in the size of food stores since 1920; (2) to investigate the need for a lower volume high-turnover food store; and (3) to present the potentialities of a suitably designed superette, which may be profitably operated by a food chain.

Importance of the study. Approximately 50 per cent of the nation's population lives and trades in towns of under 10,000 population. These numerous towns are the areas where the leading food chains enjoyed their greatest growth

in terms of total stores and representation. Currently the food chains are least represented in these areas. The reason for this lack of interest lies in the inability of these areas to support the larger supermarkets currently being built.

The food chains have been interested in the larger supermarkets for several, very good, reasons. Sites for these supermarkets have been available at reasonable costs. Larger stores have been more efficient than smaller stores, and therefore likely to be more profitable. The administrative overhead is less for fewer large stores, than for many small stores.

A substantial number of family units are necessary to support a large supermarket. Understandably, the growth of large stores is in, or near, areas which can provide the necessary family units. These well populated areas, however, are rapidly becoming saturated with supermarkets.

> Because of the rapid growth in the number of supermarkets, there are fewer families available per super today than ever before . . . For example, in 1939 there were 5,485 families for each supermarket. In 1948 there were 3,900, but by 1956 the number had dropped to 1,760.[1]

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[1] "Supermarketing USA 1957, 7th Biennial Grocery Study", prepared by the editors of This Week Magazine, not dated, p. 15.

These new supermarkets are in direct competition with established large stores of similar type and size.

> Faced with other supermarkets across the street, around the corner, on the edge of town and in new shopping centers, he must compete much harder than ever before, for the public's favor and food dollars.[2]

In conjunction with building large stores in well populated areas, the food chains have been closing the small obsolete stores. This situation tends to increase the number of families available per remaining food store.

Towns and cities of 10,000 and less still contain adequate support for several superettes. For example, a town of 8,000 population will contain approximately 2,200 family units. Assuming each family spends only $20 per week for food, the total weekly volume is $44,000. This volume of business, while inadequate for several supermarkets, could easily support three or four efficient superettes.

Currently, the independents are showing their greatest growth in these low population areas.

> Because of the growing numbers of supermarkets in the highly populated centers many operators, particularly independents, are beginning to build smaller, but none the less complete, supermarkets in small towns and finding substantial profits.[3]

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[2]Robert T. Mueller, "Highlights of U.S. Food Retailing in 1956", Progressive Grocer, Vol. 36, No. 4, (April, 1957), F-6.

[3]Robert T. Muller, "1957 Grocery Store Sales", Progressive Grocer, Vol. 37, No. 4, (April, 1958), F-4.

Consumers are patronizing small modern food stores in increasing numbers. Food store customers respond readily to convenience shopping. Neighborhood "midget supermarkets" in urban, suburban, and rural areas are meeting with notable success. These small stores limit the number of varieties available, but can still provide a complete order of quality items at low prices. These small stores have longer hours, and fast friendly service. As a result, many consumers that are reluctant to spend the 30 minutes to an hour required to drive, park, shop, check-out, and drive home from a big supermarket are shopping at these midget supermarkets with increasing regularity.

All of these reasons point out that conditions may again be ripe for the food chains to explore the possibility of developing smaller completely modern food stores.

There are two general areas, in particular, which might serve as profitable locations for a correctly designed, modern superette. The first general area is the less populated rural towns and cities, under 10,000 population. The second area is the congested, densely populated cities in our nation.

II. DEFINITIONS

Supermarket. "A highly departmentalized retail establishment, dealing in foods and other merchandise, either wholly owned, or concession operated, with adequate parking

space, doing a minimum volume of one million dollars annually. The grocery department, however, must be on a self-service basis."[4]

Superette. A retail food store with a minimum volume of $500,000 annually, and designed purposely to operate profitably at a volume below one million dollars annually. This departmentalized food store may, or may not, provide parking facilities.

Bantam Super. A departmentalized food store designed primarily to supply convenience foods and snacks at off-hours. These stores usually do not attempt to compete price-wise with conventional supermarkets and superettes. Hours of operation are longer than most modern food stores, usually from seven in the morning to eleven at night, although some units remain open until one in the morning. Sizes of these stores range from 1,600 to 5,000 square feet. Weekly sales volume ranges from $1, 600 to $4,000, but in some exceptional instances may reach $10,000. Bantam Supers rely upon high traffic flow. This traffic may be either drive-in or walk-in, hence parking space may or may not be essential.

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[4]"Facts About New Supers Opened in 1955", A study conducted by the Research Department of Super Market Institute, (Chicago, Illinois: Super Market Institute, Inc., 1955), p. 2.

Food Chain. An organization, corporation, or individual operating eleven, or more, food stores.

Independent. An owner of ten, or less, food stores.

III. LIMITATIONS AND SCOPE

Since the chain-operated superettes fall into two classes, the investigator was handicapped in making valid comparisons. The first class of superettes consists of food stores which are 10 to 15 years old. Their interior layout, lighting, and display equipment are approaching obsolescence. The operating results obtained by these older stores are less than for modern food stores. The second class consists of experimental, or "pilot" stores. These stores are currently being tested and observed. Some of the results that are obtained are considered inconclusive and premature. The investigator has endeavored to make only those comparisons which are valid and significant.

It is beyond the scope of this investigation to cover all of the many factors inherent in choosing a site, erecting a building, and stocking a superette. Site selection, building costs, brand policies, and space allocation are just a few of the many problems which affect each store differently. The investigator has attempted to confine the discussion to the broad aspects of the problems which are similar in most food chains.

IV. METHODOLOGY

The material for this study was gathered from a number of sources. Personal interviews with men prominent in the food industry provided the investigator with a general knowledge of the many problems involved in the chain-operated superette concept of food distribution.

A number of food organizations were surveyed by written correspondence. Added insight was gained through correspondence with manufacturers of food store equipment, and manufacturers of prefabricated low-cost buildings.

Secondary data including books, periodicals, theses, convention proceedings, government bulletins, and textbooks proved to be source for general applied information.

CHAPTER II.

HISTORICAL TREND IN THE SIZE OF FOOD STORES

The food industry is rather parodoxical. It is both a very old, and a very young industry. The task of growing, processing, and selling food products is as old as man. The industry is very young when considered within the frame work of modern food merchandising.

As is true with most older industries, the early period was characterized by a lack of accurate or detailed records. The food industry is no exception. There were few, if any, trade associations gathering and disseminating information before 1900. The first Census Of Distribution was not undertaken until 1930. The terms "supermarket", "chain", and "independent" are even yet not conclusively defined.

In this investigation into the need for a low volume high-turnover superette, it is pertinent to review the trend in the size of food stores. Food stores do not just grow like corn in Iowa. Stores are designed to suit particular needs, at particular times, and in particular places.

For the purpose of this study the food history was divided into three broad eras. These eras, or periods, are: (1) Service-type stores, until 1920, (2) Self-service combination stores, 1920--1935, and (3) Supermarkets, 1935--1958.

Within each of these periods the store size, and merchandising methods, were similar for both the chains and the independents. There were, of course, deviations from this general category, but as a rule the stores bore a close resemblance.

The service-type period (until 1920). This period of the food industry was characterized by small stores, low number of grocery items sold, and relatively high margins. The size of these clerk-service food stores was usually under 2,000 square feet. The packaged food items were located on shelving behind the clerks. Clerks obtained the items from the shelving as a customer requested them. This system is still found in some food stores, and it is the predominant method of selling in other retailing organizations.

The stores were small for several reasons. The limited selection of merchandise did not require much selling space, since stores featuring more than 1,000 items were exceptions. The average store sold less than 800 grocery items, and only a few varieties of produce, and no fresh meats. Consequently, storage and refrigeration space was minimized. Bulk items were sold off the sales floor from their shipping containers.

> Soap chips were scooped up from a 25 or 50 pound drum, and weighed out for the customer. Coffee was purchased in bulk and ground to order, usually by hand. Cookies and crackers came out of the big cracker barrel or box.[1]

These stores were patronized by the residents in the immediate trading area. Understandably, transportation at this time was either by horse, by foot, or primitive automobile. None of these forms of transportation is conducive to large trading areas. Walk-in trade was the rule, and not the exception.

At this time in American history the consumer was more self-sustaining than he is today. Excluding the metropolitan cities, the population raised a large part of their own food stuffs. A housewife was expected to can and store as much of the family's food needs as possible. Credit was the expected mode of operation, even by the early food chains.

Delivery service was another expected part of the operation. Credit and delivery were part of the normal pattern of doing business. As long as this pattern was in effect, the small independents and food chains were handicapped in their expansion and growth.

It was not until 1912, when A & P discontinued their credit and delivery services that any rapid growth began.

> Then, as a result of a successful experiment with a new type of store suggested by John A. Hartford, a decision was made to open as many

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[1]M. M. Zimmerman, The Super Market, (New York: McGraw-Hill Company, Inc., 1955), p. 9.

> of them as possible, as rapidly as they could be established.
>
> These new stores, called "economy stores", were designed to sell groceries as cheap as possible by the simple device of selling on a cash and carry basis instead of making deliveries and extending credit, as A & P had done up to that time in common with other grocers.
>
> Furthermore, the new stores were to be small, low rent, one-man affairs, with modest fixtures all making for low operating costs; and were to be satisfied with a minimum profit. Increased volume was to be depended upon to make up for the low profit rate.[2]

A & P, and other food chains who were quick to follow this no credit--no delivery system, found these small stores very profitable. A & P increased the number of stores from less than 200 in 1900, to 14,000 in 1925.[3] It is interesting to note that the chains which were the leaders in number of stores and volume in 1925, are the leaders in 1957. The order of their leadership remains substantially the same.

The reader will quickly note from Table I, page 12, that A & P was quicker to realize the possibilities of these small economy stores than were the other food chains. While this type of store, and merchandising method, was the dominant feature on the food scene, A & P gained an unchallenged leadership position.

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[2]Godfrey M. Lebhar, Chain Stores in America, 1859--1950, (New York: Chain Store Publishing Corporation, 1952), p. 25.

[3]Ibid., p. 22.

TABLE I*

TOTAL NUMBER OF STORES OF MAJOR FOOD CHAINS, 1920--1949

GROCERY CHAINS	1920	1925	1930	1949
A & P	4,544	14,034	15,737	4,600
AMERICAN	1,223	1,792	2,728	1,671
FIRST NATIONAL	803	1,642	2,548	1,083
KROGER	799	2,559	5,302	2,204
SAFEWAY	191	1,050	2,675	2,177
NATIONAL TEA	163	761	1,600	655
TOTALS	7,723	21,838	30,590	12,390

*Source: Godfrey M. Lebhar, Chain Stores in America, 1859--1950, (New York: Chain Store Publishing Corporation, 1952), p. 48.

In summation, food stores in the service-type period were of a limited size because they offered a limited amount of merchandise to a restricted trading area. The basic selling equipment required very little space. The customers, in this period, were not entirely dependent upon food stores for the bulk of their families' food needs.

The self-service combination store, (1920--1935). Clarence Saunders, of Memphis, is credited with developing the first self-service grocery store in 1916. In the very first tests, self-service proved a practical way to sell dry groceries.

> The idea was so successful that the company was able to sell franchises to thousands of others who wanted to adopt it and operate under the Piggly Wiggly name. Many of the leading chains,

> including Safeway, Kroger, National Tea, and Colonial, operated Piggly Wiggly stores in certain areas before they converted their own stores to self-service. . . The orginal Piggly Wiggly stores were no bigger than the typical grocery store of the period, but with the trend toward bigger stores, Piggly Wiggly stores of supermarket dimensions naturally evolved.[4]

The introduction of self-service alone did not greatly increase the size of stores. A development which occurred at approximately the same time is credited with starting the trend toward larger and larger food stores. This development was the combination grocery store. These stores handled a larger variety of fresh fruits and vegetables, and incorporated fresh meats into the operation. "These combination stores were typically twice the size of the straight grocery stores they began to replace."[5]

Incorporating the four main categories of food stuffs, i.e., groceries, meats, produce, and dairy products, into one store understandably increased the physical size of the stores. It does not follow that volume of business caused the food stores to become larger. It is more logical to assume that more space was necessary to adequately display the four combined food stuffs and sales volume followed, rather than led the trend to larger stores.

The concomitant aspects of handling a greater variety of merchandise soon had an effect on store size, and store volume. One of the first aspects was specialized equipment.

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[4] Ibid., p. 27. [5] Ibid.

> Specialized equipment put self-service in the big time. A number of chains experimented with self-service in the days of the small store, but they did not gamble on converting their entire operation until they were ready to go into the big store business.[6]

In these early days the chain's efforts were restricted to units of 2,500 or 3,500 square feet which was, in essence, their master combination food market. Development of equipment to meet the tonnage operations ahead was essential to volume operation. As new equipment was devised store size increased rapidly.

One of the key needs was a way to get the customers to buy more, now that all of the basic food stuffs were available in one location. First, hand-baskets were used to encourage the customer to buy more. Merchants soon devised other means to facilitate the customer's shopping. Some used a track arrangement on to which baskets could be fitted, and then pushed around the stores. "Soon a primitive form of basket cart evolved which served the same purpose, but was more practical."[7] Basket carts required floor space for storage. This storage space added to the trend toward larger stores.

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[6] "40 Years of Self-Service", Chain Store Age, Grocery Executive Edition, (November, 1956), p. 76.

[7] Zimmerman, op. cit., p. 28.

Checkout lanes were necessary under the self-service arrangement. Service stores had cash registers located on the counter, but when counters gave way to gondolas another system was necessary. These checklanes and gondolas caused innovations in store layout and design.

Refrigerated meat cases and processing space were needed in these combination stores. Even though the meat department resisted the self-service movement, it still added to the space requirements, and tended to make the combination store larger than its single line counterpart. A refrigerated meat storage "cooler" was also required for this adopted meat department. The cooler space, the processing space, and the space necessary for the meat display cases greatly aided in increasing store size.

The produce sections in these new combination stores began to be more prominent. Previous to this time only the most durable produce items were handled in most grocery stores.

> It was't until 1925 that produce became important in food chain merchandising. Among the items generally handled at that time were potatoes, apples, oranges, and bananas. Of course, some stores had fruit sections at even earlier dates, with California units being notable for their full-line produce sections (usually displayed in open store fronts). But difficulties in transportation, in availability of items, and in obtaining adequate personnel hampered widespread growth of big produce sections.[8]

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[8] "40 Years of Self-Service", op. cit., p. 84.

Produce in this period was sold from tables and inclined wooden racks. The storage space usually consisted of large barrels which were iced-down at night.

The produce section in these earlier combination stores did not add much to the store's physical size, but when combined with the self-service grocery gondolas, the meat display cases, the storage space, and the checkout lanes, basket carts, and turnstiles, the necessary increase in size became substantial.

Food stores were beginning to grow large because they were adding more departments. They were also larger because more equipment was required to operate them. The novelty effect of self-service undoubtedly served to attract new customers from the single line service-type food stores.

It can not be assumed that food stores increased in size simply because the population per retail food store was increasing. "According to the United States Census reports, the number of retail food stores in the United States increased steadily from 1850, both absolutely and in relation to population."[9] The number of people per store decreased as shown in Table II, on page 17.

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[9]Frederick L. Thomson, Agricultural Marketing, (New York: McGraw Hill Company, Inc., 1951), p. 413.

TABLE II*

POPULATION PER FOOD STORE, 1850--1935

YEAR	POP. PER FOOD STORE	YEAR	POP. PER FOOD STORE
1850	947	1900	486
1860	785	1910	471
1870	5k8	1920	442
1880	492	1930	392
1890	547	1935	385

*Source: Frederick L. Thomson, Agricultural Marketing, (New York: McGraw-Hill Company, Inc., 1951), p. 413.

The supermarket period, (1935--1958).

> Food retailers pursued greater volume in three general ways. Some sought more customers by opening branch stores patterned after a first store that had already proved successful. Thus the chain store came into existence. Others enlarged their single stores, finding that one store large enough to handle the most economic units of purchase --usually carloads or truckloads--can compete successfully with a chain of stores that distributes its carlots through several outlets. The supermarket was the result. A third group of retailers answered their volume problems by establishing cooperative chains which could own and operate warehouse and buying facilities, and hire experts to provide research and advisory service. Similar voluntary chains were sponsored by wholesalers to provide the same economices and benefits.[10]

[10]Paul Sayers, Editor, Food Marketing, (New York: McGraw-Hill Book Company, Inc., 1950), p. 16.

The early supermarket was a development of the independent food retailer to combat the powerful food chains.

There have been two radical changes in food retailing which have affected the size of stores. The first change was the combination store. The second change was the epoch-making supermarket.

> This newcomer was much bigger than the largest combination stores and, of course, it was four or five times bigger than the traditional straight grocery stores which had previously constituted the retail grocery field.[11]

There is still some doubt as to where the first supermarket came into existence. Some authorities cite the California area "Drive-in markets" as the earliest form of supermarkets.[12] Other sources place the birth of the first store designed and constructed to be a supermarket in Cincinnati, Ohio.[13] Certainly the first King Kullen store, and the first Big Bear Market, have also received their share of literary rewards.

Fortunately, Mr. Cullen went on record in regard to what he, himself, considered a supermarket. In a letter to the Kroger Company, for which he worked at the time, Cullen made the following proposal:

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[11] Lebhar, op. cit., p. 27.

[12] "The Super Market--Its Growth and Future", A study conducted by the Research Department of Super Market Institute, (Chicago, Illinois: Super Market Institute, Inc., 1948), p. 3.

[13] Sayers, op. cit., p. 39.

> He asked the Kroger Company to make a trial of his proposal of opening up five stores, to be known as the Cullen Stores, anywhere in the United States or Canada, except the South. These stores were to be "monstrous in size"--about forty feet wide, and 130 to 160 feet deep, (5,200 to 6,400 square feet)--His figures and statements seemed fantastic to an industry which was then averaging $500 to $800 in stores of about 500 to 600 square feet. Today his figures would be conservative.[14]

Mr. Cullen's letter was written to the Vice President of the Kroger Company in 1930. Table I, on page 12, reveals the status of the large food chains at this particular time. The relatively small combination store had been a successful outlet for the food chain's merchandising and operating methods. The major food chains were enjoying their greatest coverage in terms of total number of stores.

It is not overly surprising that Mr. Cullen's idea was turned down. The food chains already had an extremely satisfactory method of selling groceries in operation. In addition, the food chains were having their own troubles. Mr. Godfrey Lebhar, in his book Chain Stores in America, sites two very plausable reasons why the food chains did not enter the supermarket field until a later date.

> In the first place, after the rapid pace they set for themselves in those hectic years preceding 1930, most of the companies needed a breathing spell --a chance to consolidate their gains. The larger

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[14]Zimmerman, op. cit., p. 32.

> scale of operations called for major organization changes in some cases. To open additional stores was easier than to develop men to direct and manage them.
>
> In the second place, more stores meant not only more trained men to operate them, but more capital to finance them. The collapse of the stock market in 1929, plus the onset of the depression naturally dried up many of the sources of investment capital and put a damper on further expansion for the time being.[15]

The A & P Company opened its first supermarket in Ypsilanti, Michigan. Their second unit was opened the same year in Detroit, Michigan. There is no information available as to the size of these stores, but in all probability they were similar to the supermarkets which were at this time enjoying great success in the East.

Mr. Cullen was not allowed to build his five "monsterous stores" for the Kroger Company. He left the Kroger Company, secured additional finances, and opened his first supermarket as an independent in a remodeled garage in Long Island. This was the beginning of the King Kullen Markets.

The Big Bear Supermarket opened two years after the first King Kullen Market. Big Bear, instead of opening in a renovated garage, occupied the first floor of a factory building. The store was 50,000 square feet in total selling area. Only 30 per cent of the total space was devoted to the food department. The remaining 35,000 square feet were occupied by eleven other speciality departments.[16]

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[15]Lebhar, op. cit., pp. 51-52.

[16]Zimmerman, op. cit., p. 40.

Before continuing this review of early supermarkets, this term "supermarket" should be re-defined. The definition for a supermarket has changed several times during the past fifteen years, due to the rapid increase in sales volume.

> In 1936 the Super Market Merchandising Magazine defined a supermarket as a highly departmentalized retail establishment, dealing in foods and other merchandise, either wholly owned or concession operated, with adequate parking space, doing a minimum of $250,000 annually. The grocery department, however, must be on a self-service basis.[17]

In 1954 the minimum volume was raised to $500,000. In January, 1955 the present volume requirement of, at least, one million annually was adopted.

The researcher and reader alike should keep these flexible definitions in mind so as not to be easily misled.

There is a dearth of information in regard to the sizes of the early supermarkets. Table III, on page 22, is a compilation of the data of these first supermarkets, taken from various sources.

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[17] Edward A. Brand, et. al., Food Merchandising, (East Lansing, Michigan: Michigan State University, Publication 1956), p. 5.

TABLE III

SIZE OF EARLY SUPERMARKETS

STORE OR CHAIN	SQ. FOOTAGE	YEAR OPENED	LOCATION
KING KULLEN	- -	1930	JAMAICA, NEW YORK
BIG BEAR MARKET*	15,000	1932	ELIZABETH, NEW YORK
PENN FRUIT	16,600	1932	PHILADELPHA, PA.
STANDARD FOOD MARKETS	7,000	1932	OKLAHOMA CITY, OKLA.
BROADWAY COLUMBIA MARKET	13,000	1932	PORTLAND, ORE.
ALBER'S SUPER MARKETS	- -	1933	CINCINNATI, OHIO
PACKARD-BAMBERGER**	40,000	1933	HACKENSACK, NEW JERSEY
KING ARTHUR	10,000	1933	NEWARK NEW JERSEY
FOOD FAIR STORES, INC.	10,000	1933	PHILADELPHA, PA.

* The store actually was 50,000 square feet of total selling area, but only 15,000 square feet was used for food.

** There are no figures available as to what percentage of this total space was used for food sales.

These early supermarkets were five to six times as large as the combination stores. Lest the reader again be misled one point should be made, these early markets were not used exclusively for selling food. Most of these stores leased out a sizable, and undeterminable, amount of this space to concessionaires. When the food chains entered the supermarket field they found the 5,000 to 10,000 square feet markets most efficient.[18] After the beginning fad of opening

[18] Zimmerman, op. cit., p. 62.

supermarkets in garages and factories declined, most independents also found this size supermarket best suited to their requirements.

Why the supermarket movement. There are various reasons offered as to why the supermarket movement began. More important though, are the reasons why the movement was successful.

As with almost all successful innovations, the supermarket movement was in the right place, at the right time, with the right requirements. The customer had already been educated to the cash and carry system of selling groceries. Self-service grocery departments were no longer a novelty in food stores. There was a rising ill-will toward the chain stores. With these factors the supermarket added the parking lot, either adjoining or surrounding the market, and the idea of departing from main street locations to a site outside the community, thus reducing rent. Items alien to the combination food stores were included as an added customer appeal.

> Finally, and probably most significant, everything was featured at aggressively low prices made possible by the economics flowing from the self-service set-up, and the advantages inherent in large volume.[19]

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[19]Lebhar, op. cit., p. 30.

The early supermarket also introduced a new type of spectacular promotion and advertising which attracted an enormous customer traffic flow.

The fact that our economy was in the depths of a serious depression also aided the rapid growth of the supermarkets.

> The savings of 5 to 10 per cent on the consumer's average food dollar may sound inconsequential. However, when we take into consideration the fact that the average expenditure for food out of each dollar is 24.2 cents, the savings over the course of the year becomes considerable.[20]

Consumers were quick to realize and capitalize on these savings.

There were three principal reasons why these early supermarkets were larger than their predecessors. The first reason was that the art of displaying merchandise in mass was born with the supermarket.

> The fixtures were of cheap construction giving the layout a temporary bazaar like appearance. Cheap pine tables were built and loaded with mass displays of merchandise. . . Surrounding the packaged food department were concessions of meats, and fruits and vegetables, together with the non-food departments.[21]

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[20] "The Super Market--Its Growth and Future", op. cit., p. 4.

[21] Zimmerman, op. cit.

When the supermarkets moved out of the garages, factories and warehouses, this new concept of mass display was not left behind. The pine tables were exchanged for preconstructed display bins, and neat trim "stand-up displays" replaced the jumbled mass of can goods.

The second major principle was that supermarkets attracted customers from a much larger trading area. They were not dependent upon the immediate area for support. Customers had automobiles, and they were not reluctant to use them to travel relatively greater distances to trade where their food dollar would bring the most returns.

The third reason is that the supermarket was designed to sell food at a low margin. The profit was obtained from volume sales. To obtain this volume, the supermarkets used extensive gondolas and shelf space. This shelving space and the gondolas increased the size of supermarkets.

The post-war supermarket. In the period of 1930 to 1935 supermarkets were considered by many to be a fad, and that women would soon become tired of serving themselves in these ugly ducklings.[22]

History revealed these critics to be wrong. From 1936 on, supermarkets grew rapidly in number and importance. When the United States entered World War II there were more than 8,000 food stores qualifying for the title supermarket.

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[22]"The Super Market--Its Growth and Future", op. cit., p. 4.

TABLE IV*

SUPERMARKETS IN THE U.S. 1932 TO 1947

YEAR	NUMBER	YEAR	NUMBER
1932	300	1940	6,175
1933	No Record	1941	8,175
1934	No Record	1942	9.011
1935	No Record	1943	9,809
1936	1,200	1944	9,460
1937	3,066	1945	9,575
1938	3,700	1946	10,057
1939	4,982	1947	10,800

*Source: "The Super Market--Its Growth and Future", A study conducted by the Research Department of Super Market Institute, (Chicago, Illinois: Super Market Institute, Inc., 1948), p. 3.

The war years slowed the growth of the supermarket movement. There were less than two thousand supermarkets constructed during the years 1941 to 1946. This is approximately the same number that was constructed between 1940 and 1941. The shortages of men and material, plus Government restrictions were the cause of this curtailment of growth. The rate of growth of the supermarket movement resumed with greater intensity following the war.

The supermarket movement, (1946--1958). There are several factors that help to explain the dynamic growth of the supermarket industry during the post-war years. This growth is typlified, not only by more supermarkets being

constructed, but also be the fact that each year the new supermarkets built were larger than their predecessors.

1. The post-war years were characterized by a tremendous growth in population. Not only was there an increase in population, but a shift in population to the suburbs. The supermarket from their very inception have been a suburban phenomenon. This movement tended to reduce the effect of the neighborhood grocery store. New marketing habits were initiated. The supermarket capitalized on these new marketing habits and customs.
2. Financially, the food chains and large independents were well equipped to enlarge their operations. The war years were profitable years for the food stores. Prices were frozen at such a level which encouraged shopping at supermarkets.

> Since the retail price structure was graduated, based on the volume class of the retailing unit and the markup under which it had customarily operated, the Super Markets with their large volume and lowest cost of doing business, still retained the retail price advantage, and hence still were able to retain the loyality of the millions of customers, who had become their faithful followers.[23]

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[23] Zimmerman, op. cit., p. 132.

Banks, insurance companies and other investors by this time, recognized that the supermarket movement provided an area for sound investment. Therefore money was available for expansion.

3. Many areas of the country were not adequately supplied with supermarkets. The reader will recall that early supermarkets were located in the highly populated towns and cities. After the war the food chains, and particularly the independents, moved into these previously ignored regions. The independent retailer had come to realize he could not, in his present form of operation, withstand the impact of mass retailing, lower price concept of doing business. Many independents became affiliated with voluntary and cooperative groups. These groups encouraged, and aided, their members in adopting supermarket characteristics and size.
4. As more supermarkets were constructed, it was only a matter of time until supermarkets were competing with supermarkets. This conflict among "supers" has influenced a movement within a movement. The increase in customer services offered has risen at a fabulous rate since 1946. These services, such as; courtesy counters, kiddy corrals, lounges,

public rest rooms, air conditioning, music, refreshment bars, telephone booths, etc. has contributed in no small way to the increasing size of supermarkets.

5. Increased self-service and new items have helped to increase the over-all size of food stores. Self-service meats, and prepackaged produce departments have added to the necessary space requirements. These two merchandising methods also increase the amount of processing space required. Automatic meat wrapping machines, automatic garbage disposals, ice-making machines, and frozen food storage space are just a few of the large items which must be incorporated into the modern supermarket structure. These machines and methods, while undoubtedly improving operating efficiency and customer appeal, also increase the size of the food stores.

New items have tended to increase the over-all customer advantage of supermarkets. These stores have been in a better position to absorb the myriad varieties of new items than the small grocery stores. The advantage of high traffic flow enables the supermarket to sell merchandise that would be "dead items" in the smaller stores. This is true for food items as well as the non-food items.

> New products are one of the major reasons for the tremendous spurt in supermarket sales over the last few years. They are the life blood of the industry. The cold statistics of thirty years of growth are eloquent: in 1926 the average food store stocked about 700 items. By 1946, only twenty years later, the figure had grown to 3,000. It has climbed to 5,000 items by 1956. It is estimated that new products added in the last ten years alone account for 30--40% of supermarket sales.[24]

Note the tremendous growth in these items: instant coffee, in a little over ten years has grown into a $356 million annual business, cake mixes--$158 million annually in less than ten years, frozen orange concentrate--$224 million annually in less than ten years, and instant desserts-- a $12 million annual product with a great future.[25] These are just a few of the more conspicuous new additions which have contributed to supermarket sales, and to supermarket size. The fact that there are many other items which have also contributed to supermarket sales and size is often overlooked.

There is one very recent innovation which has had an effect upon the size of food stores in some areas of the country. This innovation is the movement of the discount house into the food field. The region of the country which gave birth to the supermarket may have spawned another

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[24] "Super Marketing U.S.A. 1957, 7th Biennial Grocery Study", Published by This Week Magazine, (1957), p. 28.

[25] Ibid.

marketing giant. One food chain is already experimenting with stores of this type.[26] Food stores selling appliances, or appliance stores selling food, are necessarily large stores. These stores frequently average 30,000 to 50,000 square feet of selling space.

Whether this trend will continue is not the subject of this investigation. It is of interest, however, to compare the similarities between the early supermarkets and today's discount house food store.

1. They both were innovations of the well populated New Jersey, New York area.
2. Low rent, austere buildings were used.
3. The stores depended upon the automobile and customer mobility.
4. The mark-ups are less than the competition must charge.
5. They both featured a wide variety of merchandise.

The discount house reached maturity after World War II, utilizing the same basic idea of low profits and high turnover that was developed by the supermarket.

> The discount house sells a wide variety of merchandise at a gross profit that in some published reports runs only about 11 per cent. It achieves this low mark-up with

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[26] Supermarket News, (April 14, 1958), p. 5.

> a simply constructed large building, located in low rental areas near centers of population. Centralized warehousing and buying volume purchases and low-cost promotional methods are used.
>
> The discount house made a gradual entry into the supermarket's territory. Canned hams in mass displays at Easter time, ocassional offerings of groceries at low, low prices were the forerunners. Now the discount houses can even offer its own private label on many canned goods and other food products.[27]

Several of the most recent discount houses in the New Jersey area incorporate 30,000 square foot supermarkets. In the past these supermarkets were concession operated. The most recent development has been for the discount house to own and operate its own food stores within the walls of the discount house.

Each year since 1949 the new supermarkets built have been larger than their predecessors. This increase in store size is quite impressive when put in table form. The average new supermarket constructed in 1951 would be considered a medium sized store in 1958.

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[27] Ibid.

TABLE V*

SIZE OF SUPERMARKETS BUILT SINCE 1949

YEAR	TYPICAL**	YEAR	TYPICAL
1949	8,500 sq. ft.	1954	15,000
1950	9,662	1955	18,000
1951	10,200	1956	21,200
1952	9,641	1957	22,000
1953	11,950		

*Source: "Facts About New Super Markets Opened in 1953, 1954, 1955, 1956, 1957", Published annually by the Super Market Institute, Chicago, Illinois

**"Typical" figure is the median, i.e., the half way or middle figure when all figures are listed in order of size, from size, from smallest to the largest.

The trend in store size has been toward increasingly larger units. Only one year in the past nine has deviated from this trend. This year was 1952.

> Curbs on new construction have had an adverse effect on the Super. Not only was the rate of new buildings slowed down, but many more ambitious plans were undoubtedly thwarted, with the result there were fewer of the very large units--those 20,000 sq. ft. and over--than among new units built in 1951.
>
> There is no doubt that N. P. A. restrictions such as limiting the amount of steel to be used in a new commercial structure, have reduced the size of the average market built in 1952 as compared to its predecessor of 1951.[28]

[28] "America's Super: 1952 Model", Super Market Merchandising, (January, 1953), p. 35.

SUMMARY, CHAPTER II.

The size of food stores has increased twenty fold in the past forty years. As of this writing, there are no indications that this trend is leveling off. Correspondence with several food chain executives has indicated that new stores will be larger than their predecessors, at least in the foreseeable future. Leaders of affiliated independent groups also are inclined toward larger and larger food stores.[29]

The growth and popularity of shopping centers is continuing. Currently, there is controversy as to whether the saturation point has been reached in the development of shopping centers. Each side of the argument can cite impressive figures to back up their claims. Notwithstanding, these centers are being constructed and they do contain larger than average supermarkets.[30]

Whether supermarkets have reached the limit of their expansion in store size can not conclusively be stated at this time by anyone. The current survey in regard to "Facts About New Super Markets in 1957" does, however, reveal some interesting and pertinent points.

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[29]"IGA Food Liners Show Phenominal Growth", IGA Grocergram, (May, 1957), p. 3.

[30]"Annual Report on Food Retailing", Progressive Grocer, (April, 1958), F-12.

This survey revealed that 45 per cent of the new supermarkets opened in 1957 are not doing as well in total sales as was predicted.

TABLE VI*

ACTUAL SALES VS. ESTIMATE BEFORE OPENING

PER CENT OF SALES	SUPERMARKETS OPENED IN 1957	1955	1954	1953
MORE THAN 10% ABOVE ESTIMATE	18%	25%	26%	28%
WITHIN 10% OF ESTIMATE	37%	54%	48%	48%
MORE THAN 10% BELOW ESTIMATE	45%	21%	26%	24%

*Source: "Facts About Super Markets Opened in 1957", op. cit., p. 4.

> A larger proportion of the new supermarkets than in previous years are not living up to expectations. This survey does not indicate the reasons for this --whether the new stores have not been open long enough, the operators were over-optimistic, or whether with more competition sharper measuring tools are required, or volume is becoming harder to get.[31]

Figures previously cited (in Chapter I) reveal that the number of family units per supermarket is also declining.

Food stores have been increasing in size for four decades. Current merchandising trends point toward larger stores. Leaders in the food industry are planning and building larger stores. However, the number of stores doing

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[31] Ibid.

[32] "Supermarketing USA", loc. cit.

less than anticipated volume increased sharply last year, and the number of families per supermarket has been declining steadily since 1939. All of these important factors point out the controversy which the food industry faces today.

CHAPTER III.

THE BANTAM SUPER

As supermarkets increase in size, the problem of providing speedy service and convenient shopping facilities becomes increasingly difficult. The supermarkets are usually not located so that the housewife can run around the corner for a loaf of bread, or a bottle of milk everyday.

Today's huge supermarkets cater almost exclusively to the multi-purchase customer, the impulse buyer, and the once-a-week shopper. These stores are carefully designed to encourage the customer to traverse the entire store. Key items such as coffee, milk, sugar, and meat are strategically placed throughout the store. This is done to equalize store traffic, and to expose the customer to the maximum number of impulse items.

The size of the large supermarkets, and the dispersion of key items throughout the store discourages many customers who are seeking only a few items. "Many customers are reluctant to spend the thirty minutes to an hour required to drive to, shop, check out and drive home from a big supermarket."[1]

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[1] Mueller, "1957 Grocery Store Sales", loc. cit.

In the past, this convenience factor has been the mainstay of the corner grocery store. Now, however, in many areas of the country another retail food outlet is seeking to attract these "supermarket crumbs".

These small stores have been given many titles by various journalists in the past two years. Listed are just a few of these titles; Vest-pocket Supers, Midget Markets, Interceptor Stores, Hesitation Points, Pint-sized Supers, Miniture Markets, Drive-In Stores, Food-O-Mats, 7-Eleven Stores, and Bantam Supers. Throughout this thesis, the term Bantam Super is used when reference is made to this type of food store.

This portion of the investigation into the need for a superette-type food store is concerned with the Bantam Super operation. In many parts of the nation these small stores are attracting a great deal of favorable comment.

The Bantam Super operation has been investigated for two reasons; (1) to describe a highly profitable scaled-down grocery outlet, and (2) to draw from this operation any points which could be reliably applied to a superette in the future.

Information for this chapter was obtained premarily from food industry periodicals. Bantam Supers are not a current development. Almost every periodical in the food industry has, at one time or another, reported upon this form of food store outlet.

This chapter will briefly outline the history of the Bantam Super movement, current areas of operation, and a description of the Bantam Super layout and merchandising methods. The profitability of these stores, and the customer advantages is also discussed.

Brief history of the Bantam Super operation. One of the first of these small convenience stores was called the 7-Eleven store. In 1927 the Southland Ice Company, in Dallas, Texas, operated an ice rslay station. At late hours the company would receive calls for milk, eggs, bread and similar items. The alert manager began stocking these items and other grocery staples. Soon the tail was wagging the dog. The Southland Ice Company became the 7-Eleven Stores: a chain of small food stores selling ice.[2]

The 7-Eleven Stores now number over 200, and have set the pattern for the fast rising competition. 7-Eleven stores are in Texas and Florida. Stores of similar design and operating methods are located in California, New York, Colorado, Tennessee, and Missouri. Recent publications indicate that the movement may soon spread to Minnesota, Kansas, and Michigan.

As the name implies, these stores are open from seven in the morning to eleven at night, everyday of the year except Christmas. 7-Eleven has set the pattern, and the other Bantam Supers have followed it closely.

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[2] T. P. Vincent, "For Speedy Service Shoppers Go To 7-Eleven", The Voluntary and Cooperative Groups Magazine; Vol. 26, No. 10, (October, 1956), p. 35.

These Bantam Supers usually do not attempt to compete in price with supermarkets. They compete by offering consumers the ultimate in speedy service and convenience, and attract people on their way home from work, movies, clubs, meetings, schools; picnickers, party-goers, etc. Late store hours every day make them a place of supply for snacks, or refreshments for unexpected company in the evening or Sundays; a place to secure milk, bread, cigarettes, or beer. The Bantam Supers attract people who want one, or just a few items, and who do not care to wade through the long aisles and busy checkstands of a large supermarket. In short, their appeal is based on quick service, convenience, and off-hour operation.

> Probably few, if any, of these 7-Eleven patrons buy all their food requirements in these stores. Few shoppers buy more than three to five items, and often the total sale amounts to less than $1.00 per customer. Obviously, it is possible for them to handle such transactions very rapidly, and still give courteous attention to each customer.[3]

Description of the typical Bantam Super. These stores are not large. The average store is 60' X 40', 2,400 square feet. Present stores average 1,560 square feet of selling area, and 840 square feet of storage space. Even though these stores are small, the same scientific care goes into

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[3]Food Topics, (August 19, 1957), p. 16.

the location selection, construction, and operation of one of these 2,400 square foot stores as goes into the largest supers built by a national chain.[4]

The general layout features an open front (in the Southern part of the country), gondolas, wall shelving, frozen food cases against the wall, away from the open front. The amount of space allocated to frozen food and ice cream products varies from store to store. Typically, twenty-four feet of cases are used for frozen foods, twelve feet for frozen meats, and twelve feet for ice cream.[5] These display cases feature shelving on top to futher augment shelf space.

The Bantam Supers are departmentalized, and completely self-service; excluding the checklanes. The customer can see almost every section as she enters the store. The faster moving items are concentrated near the front entrance. Usually, the store has five gondolas facing the entrance, and each gondola constitutes a separate department.

Recently a Denver operator designed a startling new layout for their first Bantam Super.

> Automart Stores, Inc. opened its' first eight sided, glass walled, pagoda-roof, 2,400 square foot market last week. Interior layout is on

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[4] "Small Stores Counterattack", Meat and Food Merchanding, Vol. 33, No. 8, (August, 1967), p. 26.

[5] Ibid.

> a wagon wheel design with two checkouts forming the hub. There are five 10 foot gondolas, each with 3 foot end displays, 10 foot of wall display cases; three roto tables, 11 lineal feet of produce; 16 feet of frozen food cases; 10 feet of bread and crackers.[6]

This octagon-shaped store closely resembles the units which have been planned for the Bay City area in Michigan. When these stores are built, and as yet construction has not started, they will be round.

> According to many experts in food store architecture, a circular food store is both possible and practical. These artchitects contend that such stores will provide maximum selling area, and the most efficient operation. There is 30 per cent more shelf space in a round building than in a rectangular one, and customers can see 70 per cent more merchandise on circular shelves.[7]

Octagon-shaped stores, and round stores may be the design of the future. The majority of the operators in the field, however, are quite content to continue building rectangular-shaped stores. The only basic change in these Bantam Supers in the past five years has been toward larger stores. The original design and layout appears to have been both efficient for the operator, and convenient for the customer.

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[6] Supermarket News, (February 10, 1958), p. 29.

[7] The Detroit Times, (February 26, 1957), p. 27.

Brand selection and space allocation. Bantam Supers are able to offer a varied assortment of merchandise. The reason for this is that they handle only one brand, and one size of the many items stocked. The items handled are selected because they are considered to be the best sellers in the area. This policy maximizes customer satisfaction, and inventory turnover.

In addition to the limited number of varieties stocked these stores, by necessity, maintain a strict space allocation program. There is only a limited amount of shelf and freezer space, so each item has to pay for its share of space. This type of store operation can not afford to stock slow moving items. Adherence to this policy allows Bantam Supers to stock a wide assortment of merchandise in proportion to their size. In addition to the lines already mentioned there is some space allocated for magazines, sundries, notions, and a variety of unusual customer services such as; blocks of ice, crushed ice, a television and radio tube testing service, chilled beer and wine, housewares, insecticides and school supplies.[8]

Whereas a large supermarket may handle as many as fifteen separate varieties of canned peas, a Bantam Super will handle two or three. As one operator put it:

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[8]Vincent, op. cit., p. 38.

> "when a housewife needs a can of peas, she isn't too loyal to a brand name--so we have one good brand for her. We stock the fastest seller only. The same principle is applied on all items. We stock one variety of animal crackers, that's all. You'll find three or four brands and half-a-dozen kinds of pretzels on the big store's shelves, but we have just one twisted, and one stick."[9]

This same principle is carried throughout the store in every department. Produce is limited to the best selling items. Most of the items are merchandised in pre-packaged and pre-priced units, although bulk displays of potatoes and onions are maintained to facilitate small purchases.

The meat department in the Bantam Super is the weakest link. One experimentor of these stores stated that "central pre-cutting and packaging is the only way to bring back the small store.[10]

Produce can be, and is, effectively sold from roadside stands. Bread and milk can be successfully sold from vending machines. But no one to date has been able to convince the majority of consumers that frozen meat is as desirable as fresh meat.

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[9]Howard Kuhn, "New Opportunities in Small Stores", Nargus Bulletin, Vol. 44, No. I.

[10]Supermarket News, (November 4, 1957), p. 36.

Bantam Supers first attempted to sell fresh meat from service counters. The low volume could not support these departments. These stores then offered self-service fresh meats, but low volume, spoilage, and the quantity of "re-wraps" prevented it. Grand Union's Food-O-Mat, in New York City, obtains prepackaged pre-priced meat from a nearby supermarket. This same supermarket serves as an outlet for any surplus products. The Food-O-Mat's meat shrinkage, consequently, is very low. This operation is expensive however when the labor and transportation are charged to the small store.

The present system which includes frozen meat cuts for every fresh meat counterpart seems best suited for this type operation. 7-Eleven stores carry a complete line of frozen meats, processed by their own packing house subsidiary. The combined volume of their 200 stores appears to make this operation profitable.

Specialized equipment. Innovations in equipment design and use are necessary to effectively utilize space in these Bantam Supers. The shelving in the grocery department is higher and narrower than conventional supermarkets; aisle width had been reduced, and the smaller shopping cart, 18 inches wide, is used to accomadate two abreast in the narrower aisle. The frozen food cases are equipped with

shelving superstruction to utilize the "dead space". The same thinking applies to checkout area, and back room operation. The dairy department features a four-tiered display case. The milk display case is a walk-in cooler with a six door merchandising front. The milk is loaded from the back. This eliminates the task of carrying milk cartons from the cooler and placing them in the conventional display case.

Produce, and luncheon meats are also featured from multi-deck refrigerated display cases. The efficient use of vertical space is one of the characteristics of the typical Bantam Super.

The very latest in modern space saving equipment appears to be essential to the Bantam Super operation.

Owner advantages of the Bantam Super operation. One of the excellent advantages of these Bantam Supers is that they appear to require a relatively low investment for a better than average return. Latest figures for initial investment ranges from $35,000 to $65,000.[11]

The investigator is extremely cautious when presenting "typical" operating statements. Figures from individual operators may or may not be entirely accurate. There is no way to know. The following statement was presented in a bulletin published by a manufacturer of display equipment for Bantam Supers. The figures should be characteristic of the majority of Bantam Supers.

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[11] "Progress", Unpublished information distributed by the editors of Progressive Grocer, (May, 1958), p. 4.

TABLE VII*

APPROXIMATE TYPICAL INVESTMENT REQUIRED FOR BANTAM SUPERS

LAND	$15,000 to $17,000
BUILDING	14,000 to 16,000
ALL EQUIPMENT	17,000 to 20,000
INITIAL STOCK	5,000 to 7,000
MISCELLANEOUS	2,000 to 3,000
TOTAL INVESTMENT	$53,000 to $63,000

(The above is given as an illustration. Costs will vary depending upon geographical location, type building construction, labor rates, freight, etc.)

HYPOTHETICAL TYPICAL OPERATING STATEMENT

GROSS SALES (MONTH)		$14,000
GROSS PROFIT (20%)		2,800
OPERATING COSTS:		
RENT	$300.00	
EQUIPMENT DEPRECIATION	225.00	
UTILITIES	185.00	
ADVERTISING (1% of sales)	140.00	
SUPPLIES (½ of 1% of sales)	70.00	
SERVICES (laundry, etc.)	20.00	
INSURANCE	20.00	
SALARY DRAW (6% of sales)	840.00	
TOTAL OPERATING EXPENSES	$1,800.00	
NET PROFIT (7.14%)	$1,000.00	

RETURN ON INVESTMENT

$60,000 (INVESTMENT) plus $12,000 (12 MOS. NET PROFIT) = 20% ANNUAL RETURN ON INVESTMENT

*Source: R. M. Klein, "Fundamentals on the Quick-Shop Food Drive-In", Bulletin prepared by Hussman Refrigeration, Inc., (St. Louis, Missouri), p. 4. (Mimeographed.)

When the 7-Eleven operators decide upon a new store location, they attempt to have the land owner construct the building, and lease the store to them. Otherwise, they will secure an option on the land and locate an investor interested in buying, building, and leasing to them. The leasing arrangement currently is for 10 to 15 years plus options.[12]

This buy--build--lease arrangement is common in the food industry. These stores are not constructed for a "fly-by-night" operation. They are designed and equipped to remain in business a long time. The high turnover rate of these stores, made possible by policies already mentioned, enables the operator to use his capital efficiently. Operators of these Bantam Supers state they have a turnover rate of 28 to 30 times a year.[13] In addition, a low average inventory decreases the amount of storage space and fixtures required for storing the merchandise.

Rapid turnover, and small storage space do not guarantee that sales and profits will be at an optimum level. A large proportion of these Bantam Supers sales, however,

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[12] Kuhn, op. cit., p. 53.

[13] "Small Stores Counterattack", op. cit., p. 29.

are in nigh profit items. "Typically, beer, bread, milk, and ice cream account for about 25% of the store's volume."[14] These product groups are above average gross profit producers.

Furthermore, most of these Bantam Supers refrain from engaging in competitive practices which may reduce margins. They do not use loss leaders, special pricing, or week-end specials. They attempt to compete with neighborhood grocery stores, not supermarkets. Consequently, a gross margin in excess of 20 per cent is achieved.

The return on investment in these stores is quoted as 25 to 35 per cent. Some of the 7-Eleven units are reported to return 40 per cent. This statement appears to be somewhat exaggerated, but under favorable circumstances it could be true. Most Bantam Super operator's are content with a 25 to 35 per cent return.[15]

There is one fact which can not be minimized, these stores are increasing rapidly in the Southwest and Florida. Small chains which already have stores in operation are opening more units each year. This gives mute testimony that someone feels these stores are profitable.

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[14] Ibid., p. 27.

[15] "Small Store Counterattack", loc. cit.

Customer advantages of shopping in Bantam Supers. These markets provide quick in and out shopping. They meet the basic need for convenience and speed where supermarkets can not adequately fulfill this need. Open 364 days of the year from seven in the morning to eleven at night, shoppers can drive to, park their autos within thirty-six feet of the merchandise, step in and complete their shopping in a few minutes.

The modern appeal, glamour, convenient locations, and extensive variety of items is unmatched by the average neighborhood store. The layout of these Bantam Supers is designed to guarantee speed and ease in shopping.

Although these stores can not compete with supermarkets as to price, they can, and do, compete with neighborhood stores. The growth of Bantam Supers adds weight to the conviction that customers are not reluctant to pay a little extra for convenience.

Researchers have found that a definite need exists for this type operation. Mr. E. B. Weiss, a merchandising consultant for the Independent Grocers Alliance, reported several attitudes of shoppers in a recent study. He states:

1. "The public wants to shop faster, ever faster."
2. "The public wants to be able to buy certain items at any hour of the day, any day of the week."

3. "The shopper who requires just one, or just a few fill-in or emergency purchases is inadequately catered to in this age of gigantic one-stop store units."[16]

SUMMARY, CHAPTER III

Currently the majority of Bantam Supers are located south of the Mason-Dixon line. There are existing stores in Texas, Oklahoma, Florida, California, Tennessee, Colorado, and Missouri. There has been interest expressed in this type store for the Kansas, Michigan, and Minnesota areas. As to this date, however, construction has not started.

The average Bantam Super size is 60 feet by 40 feet. Except for fresh meat, the basic stock carried almost matches the supermarket for variety. Fewer brands are handled in these stores, since these stores stock from 1,800 to 3,000 items compared to a supermarket's 5,000 to 7,000 items.

Most of the Bantam Supers operate with 10 to 15 year leases, with rents ranging fron one and a half to two per cent of sales. The average investment in land is $7,000 to $10,000. Investment in fixtures runs from $10,000 to $12,000. Inventory in these stores is approximately $7,000. Operating costs vary considerably between units, but the

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[16] E. B. Weiss, "Automation, It's Here", Wholesale Grocers News, Vol. 11, No. 9, (September, 1956), p. 19.

average range is between 15 per cent and 18 per cent. The turnover rate is an impressive 28 to 30 times a year. The return on investment ranges between 20 per cent and 25 per cent. Average annual sales are approximately $150,000.

As of this date only one large food chain (Grand Union) is actively experimenting with the Bantam Super operation. This store differs from its counterparts in two respects; (1) it lacks parking space, and (2) the store handles prepackaged fresh meat, obtained daily from a nearby supermarket.

Current literature reveals that Super Valu, and The Fleming Company are interested in this form of food store operation. Both of these companies, however, declined to comment when questioned about their proposed Bantam Super operation.

There may be some far reaching implications of the Bantam Super movement for the retail trade. The principles that have brought public acceptance for the Bantam Supers can be applied to tens-of-thousands of small stores in all areas of the country. One definition seems to sum up this operation very well; "an attempt to capture the supermarket operation and reduce it to a small area".[17]

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[17] "Small Stores Counterattack", op. cit., p. 29.

For the purpose of this study the Bantam Supers have some important aspects. Certain principles may be adopted to supermarkets and thus reduce their overall size, but not reduce their effectiveness.

1. Complete and scientific utilization of both selling and storage space.
2. The reduction in number of brands handled.
3. The use of specialized display equipment.
4. The cooperation between equipment manufacturers, store layout engineers and merchandising men can be used to improve interior store design.
5. There can be a reduction in labor expenses derived from handling prepackaged pre-priced produce and dairy items.
6. Customers are still attracted to the most convenient food store. Customers are not only attracted, but will pay a premium to shop there.

The same principles might also be used for future superettes to improve their operating effectiveness.

CHAPTER IV.

POTENTIALITIES OF THE SUPERETTE

This portion of the investigation into the need for a modern superette deals with the potential advantages of this type of food store outlet. The information included in this chapter was obtained primarily from two sources; (1) the most current published data from trade literature was used for pertinent facts and comparisons, and (2) correspondence and personal interviews with executives in the food industry, which provided the latest thoughts on many of the points discussed.

Information is offered as to the most current expansion programs planned by the major food chains, and the possible effects of these programs. The potentiality of the modern superette is discussed under the following categories:

1. Profitability of superettes.
2. Proposed operating areas.
3. Conversion of obsolete or uneconomical food stores to modern superettes.
4. Concomitant aspects of a profitable superette operation.

Current expansion plans of food chains. A recent survey conducted by the National Association of Food Chains revealed that the majority of new stores are designed to do more than one million dollars annually. Forty-three companies operating 8,000 outlets supplied the following information when questioned as to what size supermarkets they were planning in terms of anticipated volume:

TABLE VIII*

ANTICIPATED VOLUME OF NEW STORES PLANNED FOR 1958

ANNUAL SALES	PER CENT OF CHAINS REPORTING
$1,000,000--$2,000,000	17%
2,000,000-- 3,000,000	29%
3,000,000-- 4,000,000	29%
4,000,000 and up	25%
	100%

*Source: "NAFC Survey Shows Trends Since 1952--What May Be Ahead In 1960", Progressive Grocer, Vol. 36, No. 12, (December, 1957), p. 70.

This information reveals that any area which can not support a million-dollar-a-year supermarket will be served either by older chain and independent stores, or by newly constructed independent stores.

Assuming adequate sites for larger supermarkets are not too expensive and competition is not overly severe, this is a wise move. The supermarket is the most efficient and profitable means ever devised to sell food products. Obviously, volume holds the way to lower margins and competitive prices.

Several questionable features of this million-dollar-a-year minimum policy are immediately apparent. Not every area can support supermarkets of this size. Consequently, these food chains are reducing the number of areas in which they can profitably operate stores.

The average grocery dollars spent per American family in 1957 was 837 dollars.[1] To support a supermarket budgeted at one million dollars annually would require the total food purchases of 1200 families. This fact alone does not appear to be too severe a limitation. One should consider, however, that other supermarkets also are competing for these families' food dollars.

> The typical new supermarket opened in 1956 was in direct competition with two other supermarkets. In 1957 the typical new supermarket faced competition from three other supermarkets. Of particular note is the fact that some 25 per cent of the new supermarkets opened in 1957 received competition from five or more other supermarkets, compared to eight per cent of the units opened in 1956.[2]

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[1] "True Look at the Super Market Industry", Super Market Merchandising, Vol. 23, No. 4, (April, 1958); p. 102.

[2] "Facts About Super Markets Opened in 1957", Published by the Research Staff of the Super Market Institute, p. 8.

The share of the total food business which each store can expect to attract also has to be considered in light of this million-dollar-a-year minimum policy. A food chain which usually can expect to attract 25 per cent of the total food store volume, will be limited to areas containing at least four million dollars of total food business. Should the potential trading area contain only three and one-half million dollars in total sales, the operator must either increase his share of the total volume, seek locations elsewhere, or operate an unprofitable store until food volume increases.

The expected share of the total food store volume varies between different food chains. This expected share also varies within a chain, depending upon the size of the trading area. Table IX represents the share of total food store volume which one major chain estimates it can obtain from different size cities.

TABLE IX*

SHARE OF TOTAL CITY FOOD STORE POTENTIAL
(Cities up to 50,000 population)

	POPULATION						
	Up to 5,000	5,000-10,000	10,000-15,000	15,000-20,000	20,000-30,000	30,000-40,000	40,000-50,000
Range							
High	68%	58%	50%	34%	29%	27%	24%
Low	14	7	6	9	9	4	4
Medium	35	27	21	17	17	13	13

* Source: Company name witheld by request.

The information given in Table IX, page 57, would tend to indicate that this particular food chain can not expect to profitably operate a million-dollar-a-year supermarket in a city of less than 10,000 population, unless it can obtain 44 per cent of the available food business (10,000 divided by 3.69 X $837). The chain's median figure in a town of 10,000 would return an approximately weekly volume of only $12,500. This is considerably under the million-dollar-a-year minimum. This particular food chain, except in only the most favorable instances, can not profitably operate new supermarkets in areas where 50 per cent of the nation's population lives and trades. Other food store operators obtaining similar shares of the total food volume are in the same situation.

As previously stated, if supermarket sites are available at reasonable prices, and competition is not overly severe, fewer larger stores are more economical than many small inefficient stores.

> The extent of competition and the expense of available supermarket sites has given definite evidence that opportunities for successful new stores are narrowing. Competition among supermarkets is concentrated largely in metropolitan and suburban areas. Currently, towns of 10,000 to 100,000 are also approaching a similar concentration. Because of the growing numbers of supermarkets in highly populated centers many operators, particularly independents, are beginning to build smaller, but none the less complete, supermarkets in smaller towns, and finding substantial sales and profits.[3]

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[3] "Annual Report on Food Retailing", op. cit., F-3.

Profitability of superettes. There are no general economic laws, or principles which state that food stores budgeted to obtain sales less than one million dollars annually are unprofitable. Table X, on page 60, is an industry-wide operation statement for superettes doing less than one million dollars annually.

TABLE X*

INDUSTRY-WIDE FOOD STORE OPERATING STATEMENT

AVERAGE WEEKLY SALES	$10,000--15,000	OVER $20,000
Sales		
Groceries	68.76%	64.96%
Meat	20.95	24.22
Produce	10.29	10.82
Total Sales	100.00%	100.00%
Gross Profit		
Groceries	16.31%	15.90%
Meat	20.08	21.62
Produce	28.21	29.50
	100.00%	100.00%
Expenses		
Accounting	.12%	.17%
Advertising	1.04	.87
Delivery Expense	.05	.06
Depr. & Leasehold	.68	.73
Dues & Subscriptions	.04	.01
Freight	.96	.60
Fuel	.06	.06
Garbage Disposal	.02	.01
Insurance Expense	.17	.17
Interest Expense	.14	.10
Laundry	.10	.12
Light, Power, Water	.59	.48
Rent/bldg. Expense	.86	1.01
Repairs	.16	.12
Salary-Grocery	2.91	2.83
Meat	1.62	1.91
Produce	.71	.87
Service Fee-Grocery	1.21	1.04
Meat	.27	.24
Supplies	.89	.86
Sundry	.13	.14
Taxes-Payroll	.18	.21
Personal Prop.	.15	.12
Trading Stamps	2.03	2.06
Telephone	.06	.04
Total Expenses	15.15%	14.73%
Operating Profit	3.17%	4.03%
Owner's Salary Withdrawal	1.26%	.78%
NET PROFIT	1.91%	3.25%

*Source: "Facts in Grocery Distribution", 1957 Edition, Published by Progressive Grocer, p. 19.

This industry-wide operating statement does not reveal that food stores which operate at less than one million per year are unprofitable. The figures do reveal that superettes do not return as high a net profit figure as supermarkets with sales over one million per year.

Several successful innovations possibly could be incorporated into a new correctly designed superette, which would have a favorable effect upon over-all efficiency and net profit. A superette designed expressly to operate at a sales volume below one-million-dollars-a-year might approach the large supermarket in net profit returned.

Inventory control and space allocation. The average sale per square foot in 1957, for stores in the superette category, was $2.79.[4] A reduction in the number of items stocked, which did not jeopardize sales, would allow an operator to reduce the necessary amount of selling and storage space. This reduction in space would increase the sales per square foot.

Fewer items, stocked at the same sales volume would increase the rate of inventory turnover. Increased stock turnover would allow an operator to utilize his capital more efficiently.

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[4] Ibid., p. 10.

The question is: Can an operator reduce the number of items handled to such a point that a significant amount of building space can be eliminated without jeopardize sales? An experiment in the Indianapolis Division of the Kroger Company indicated that this can be accomplished. 614 items were eliminated from a store without adversely affecting sales.

> Many duplicating items were eliminated--98 canned vegetables, fruits and juices were cut, including 10 corn items. Entire lines were cut out--as an example--only one complete line of baby food was stocked. ....Sixteen dessert items were cut out--39 items in the oil, dressing and syrup line throughout the entire store.[5]

Further space savings were accomplished by eliminating excess fixtures. The number of checklanes were reduced from four to three. The amount of space used for cigarette display was reduced. A reduction in frozen food inventory was accomplished by eliminating one 12-foot display case.

After the changes were studied, the Kroger Company felt that a store could constructed to maintain the same volume, but with a 12.6 per cent saving in building requirements and 16 per cent savings in inventory needs.

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[5]"Suggested Merchandising of 9,000 Sq. Ft. Store With $20,000 Sales Budget", Unpublished report, from the Kroger Company, Cincinnati, Ohio, (Undated), p. 1.

Two features of this space reduction process are characteristic of the previously discussed Bantam Super operation. These features are the reduction of duplicating items, and the use of taller, and narrower shelving. The application of these features would tend to indicate that at some of the Bantam Super techniques can be incorporated into larger stores to improve their operating efficiency.

There is no information offered as to whether any of these changes would have a positive effect upon net profit. The Indianapolis Division drew five general conclusions at the end of this study:

1. The plan increased grocery sales.
2. The plan increased grocery gross profit.
3. The plan increased efficiency in stocking.
4. The plan improved presentation of product.
5. The plan increased the rate of grocery trunover.[6]

The Kroger Company used many of the techniques revealed in this study in planning a new store for Paris, Tennessee. This store, and its particular problems, are more fully covered in another section of this chapter.

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[6] Ibid., p. 3.

PROPOSED OPERATING AREAS FOR SUPERETTES

Densely populated metropolitan areas. Good new supermarket locations are becoming increasingly difficult to obtain. Densely populated metropolitan areas may serve as a future area for expansion.

> Until now relatively little has been done by food retailers to meet the needs of shoppers in urban neighborhoods. The trend has been toward larger and larger units, carrying more and more merchandise, and because sites for such stores can seldom be found in highly developed city areas, supermarkets have grown chiefly in the less congested suburbs.[7]

Since many smaller stores now serving metropolitan areas date from pre self-service days, a modern superette might well usher in a new era of shopping convenience.

The H. C. Bohack Company, of Brooklyn, New York, opened a completely modern superette in a highly populated part of Brooklyn in February, 1958. This store is called the C-1. The store has 3,619 sq. ft. of selling area and 3,619 sq. ft. of storage and processing space in the basement, a total of 7,238 sq. ft.

> The store which was first conceived by Vice President Henry C. Bohack, is an example of 'necessity being the mother of invention'. A relatively small store, compared to the 10,000--12,000 feet supers we have been opening lately, it was the only space available in the area. When the company decided to lease the property it was decided that innovations would be necessary in order to make the most of it.[8]

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[7] Food Topics, (August 19, 1957), p. 16.

[8] "C-1 Sets New Mode for Speed Shopping", Bohack's News, Published by H. C. Bohack Co., Inc., (March 15, 1958), p. 3.

These innovations include using 60 inch shelving, multi-tiered (four-level) produce, meat and dairy cases, shelving superstructure over the frozen food cases, reduced aisle and basket cart width, narrower and shorter checklanes, 100 per cent prepackaged produce and meat operations, and reduction of duplicating grocery items.[9]

Although it is still too early to draw any definite conclusions from this operation, several general points can be made:

1. The store is located in an area which will not support the "typical" new supermarkets constructed today.
2. The store is serving a useful purpose in a particular location.
3. Without the development of modern, efficient space-saving store equipment and fixtures, construction of this economical superette would not have been possible.
4. The store was designed to fit a particular need in a particular place.

Recent correspondence with Mr. Edgar H. Stone, Vice President of the Bohack Company, reveals that "business is holding up nicely, and at the present time we have no regrets

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[9] Ibid.

that we tried the experiment. We plan to open a second store, the C-2, in June in another part of Brooklyn where conditions are similar".[10]

The metropolitan New York City area will soon have two modern superettes, the Bohack Companies' C-1 and C-2. If these stores are successful this movement may spread to other densely populated metropolitan areas.

Rural population areas. The last complete U.S. Census of Population stated that the average family unit consisted of 3.69 persons.[11] A trading area composed of 10,000 population would contain approximately 2,700 family units. Using the industry average of $837 annual food purchases per family, the total food business available would be $2,260,000.[12]

As noted in Table VIII, on page 55, a food store operator can not usually expect to attract all of this business. The most favorable estimate for one large chain is 58 per cent of this business, or $1,310,000. Few operators would gamble on obtaining this maximum figure. "The usual procedure would be to budget a food store at the median figure, and attempt to obtain the maximum share over a period of time."[13]

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[10] Ibid.

[11] "General Characteristics of Families", Washington United States Department of Commerce, (November 28, 1951), p. 1.

[12] "True Look at the Super Market Industry", loc. cit.

[13] Personal interview with Paul Harn, Real Estate Manager, Detroit Division of the Kroger Company, (May 14, 1958).

Following this logical "rule of thumb" an operator would expect $610,000 annual sales (27% X $2,260,000), from a trading area of 10,000 population. The store would be budgeted to obtain approximately $12,000 to $15,000 per week.

The investigator could not discover any food chain interested in constructing a new store to obtain this limited volume in a rural area. Research did indicate that the Kroger Company is experimenting with a modern food store located in a town of 8,800 population.

This store is budgeted to obtain $20,000 per week, which would indicate that the store is attracting customers from beyond the town's corporate limits, or that Kroger's share of the total business exceeds 50 per cent.

Three aspects of this proposed store are of value to this particular investigation. They are:

1. It is an attempt by a major food chain to expand into lower populated areas with a modern food store.
2. Space saving techniques are proposed to reduce over-all space requirements.
3. Innovations in store construction have been recommended to reduce the total building cost.

The state of Tennessee has only 16 cities with a population exceeding 11,000.[14] A food chain which can not profitably operate stores in areas of less than 10,000 population is therefore severely limited in expanding in this particular area.

The construction of a modern scaled-down supermarket in a town of 8,800 population indicates that the Kroger Company feels expansion can be made in some of these areas.

It is interesting to note that the Kroger Company did not construct their "standard" $20,000 dollar per week store in Paris, Tennessee. "Under normal conditions a 10,000 square foot store is required to obtain $20,000 weekly sales."[15] Using the space saving techniques revealed in the Indianapolis study, a store of 8,100 square feet was designed for Paris, Tennessee. This was a saving of 1,900 square feet from the "standard" $20,000 per week store.

The Paris, Tennessee store is 80 ft. X 110 ft. The store has three mechanical checklanes instead of four. The frozen food cases are equipped with shelving superstructure. Milk is sold from a wall cooler which reduces the number of dairy display cases.

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[14] Rand McNally Atlas, State of Tennessee, (New York: Rand McNally Company, 1957), pp. 36-37.

[15] Personal interview with Mr. John Hassel, Director of Store Planning, The Kroger Company, (April 4, 1958).

The number of competing grocery items has been reduced in accordance with the principles used in the Indianapolis study. This stock reduction has aided in reducing the amount of shelf space. Strict space allocation programs are used to minimize space requirements.

The Paris, Tennessee store is of interest because it is a modern scaled-down supermarket designed to serve a limited trading area. The store also provided some interesting information on methods to reduce building costs.

"There has been from time to time some interest shown in the idea of a low cost store building for application in some of the smaller towns in which the Kroger Company operates."[16] The Memphis Division of this company is using the Paris store as a basis for a study into methods of reducing building costs.

This study revealed that savings in excess of two dollars per square foot could be made without increasing future maintenance costs, and appreciably detracting from the appearance. This two dollar reduction represents approximately 20 per cent decrease in previous construction costs. For example, the use of all cement block construction, instead of cement block and brick facade, reduced building costs 40

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[16] Ibid.

cents per square foot. Over-all there were 12 separate cost saving innovations for this particular store design. These savings when combined totaled $2.08 per square foot.

The savings obtained through more efficient utilization of space, and the reduction of building costs should enable the Kroger Company to reduce the fixed expenses in this store.

The "standard" 10,000 square foot store in this part of the country would have cost the Kroger Company $90,000, (10,000 sq. ft. X $9.00 per sq. ft. building costs).[17] The newly designed store would cost $56,700, (8,100 X $7.00 per sq. ft. buildings costs). This is a saving of $33,300, or 37 per cent over the "standard" store model.

The application of lower cost construction principles could be used in designing an efficient superette. Lower cost buildings would reduce the required investment in these stores, and should improve the over-all profitability.

Prefabricated lower cost buildings. Operators of low volume stores have recognized the need for lower cost buildings for some time. IGA has been using prefabricated buildings for several years. W. H. Longenbaker, Director of Store Engineering for IGA, actively encouraged members to erect prefabricated food stores as early as 1956.[18]

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[17] Ibid.

[18] W. H. Longenbaker, Butler Metal IGA Foodliner Building, A report prepared for IGA Wholesaler, Chicago, Illinois, (1956), p. 2, (Mimeographed.)

> Red and White Corporation is offering its retailer members building plans for supermarkets using prefabricated steel, rigid frame supports and roof beams as the building frame.
>
> Two models are being offered initially. One is a 5,000 square foot store, and the other is an 8,000 square foot operation.[19]

The Kansas City Division of the Kroger Company has given these prefabricated buildings some consideration and is planning to erect one during the coming year.[20]

Prefabricated buildings offer several distinct advantages to the superette operation. They are:

1. They cost less to erect.

> A 7,200 square foot food store erected to Kroger specification in the Kansas City area would cost $7.95 a square foot. A conventional type food store of the same size would cost between $10.00 and $12.00 a square foot.[21]

2. Time is saved in constructing and finishing these stores. They can be open and in operation in less time than is necessary for the conventional buildings.
3. Prefabricated building can be easily expanded to adjust to increased business demands.

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[19] Supermarket News, (September 16, 1957), p. 32.

[20] R. F. Coffin, Real Estate Manager, Kansas City Division of the Kroger Company, personal correspondence, (June 3, 1958).

[21] Ibid.

4. A wide variety of external finishing materials can be used to gain a distintive appearance. A store could be finished in wood, glass, stucco, brick, metal panels, or a combination of these materials.

A superette does not necessarily have to be constructed in the same manner as a 15,000 square foot supermarket. Extensive use of steel and masonry may not be needed in a superette. Research tends to indicate that a superette would be more economical, and profitable, if it deviates from established higher-cost building policies.

REMODELING OBSOLETE OR UNECONOMICAL STORES

Many current stores are obsolete, or uneconomical to operate in spite of good locations and relatively low rentals. These stores might be converted into efficient and profitable superettes by incorporating modern space saving and merchandising techniques.

A high percentage of food stores in operation were constructed ten years ago. These stores usually are well located, and are enjoying lower rentals than their modern counterparts.

Forty-six per cent of the Kroger stores in operation were constructed prior to 1949. These stores contribute 28 per cent of the company's sales, and 24 per cent of the

company's net profit.[22] The investigator could not obtain the same detailed information from other large food chains, but the situation probably is somewhat similar.

> Refurbishing of older stores, ranging from repainting to refixturing is part of the standard operational procedures of the larger operators.
>
> This is considered merely good operations, to keep older stores competitive. A good deal of thought is being given by top management to keep the five and ten year old markets up to snuff so they will be able to stand up under the onslaught of the shiny new competitors.
>
> In many cases, remodeling is the best path available to the smaller operators to keep his markets in the heightening competitive race. And many are actively taking this route.[23]

The New York Division of the Safeway Company recently remodeled one of their older, obsolete stores in metropolitan New York City and enjoyed considerable success. The store was only 3,400 square feet. The location and rental conditions both were conducive to remodeling. Rebuilding was out of the question, because land costs in this densely populated area were prohibitively high.

> It took Safeway just over two weeks to remodel this unit. First, modernized lighting was put in to give the store a brighter, cheerier appearance. Second, the store front was given an

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[22] Mr. John Hassel, personal interview.

[23] Supermarket News, (June 2, 1958), p. 16.

> attractive design in glass and wood that told customers that they were getting modern merchandising. Third, perishables were given added space and modern handling. Fourth, air conditioning was installed.
>
> Frozen foods were given one of the biggest space increases in the store. From an old-fashioned six-to-eight food case, this department was expanded to about 40 feet. Ice cream was added, as were frozen poultry, and a wide range of frozen specialities.[24]

Many of the improvements in this store are suggestive of the Bantam Super operation. The amount of space for frozen foods was greatly increased. Produce, and meat are sold from multi-tiered display cases. The open multi-tiered dairy case was supplimented with a wall case for fluid milk.

> Thoughout the store lines were cut back to allow for greater variety. This cut back also provided the additional space needed for better perishable merchandising. Slow sellers were eliminated, and brand facings were reduced.[25]

The techniques used by the Safeway Company may be an indication of what can be achieved by other companies with similar older, obsolete stores. In the long run, an operator may find it cheaper to modernize an established store than to completely withdraw from a trading area.

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[24] "Safeway Remodels Small Store for Volume and Profit", Chain Store Age, Vol. 34, No. 2, (February, 1958), p. 74.

[25] Ibid., p. 106.

CONCOMITANT ASPECTS OF A PROFITABLE SUPERETTE OPERATION

Maintaining chain representation and growth. One of the current questions which faces the food industry is a method of maintaining growth, and expansion, in the face of increasing competition. Most large food chains have rather clearly defined operating areas. Expansion beyond these areas can sometimes be a costly gamble.

> Some critics are concerned about chains moving outside their traditional territories, and upsetting the competitive balance in the new area. Frequently the invader does not chalk up the business he expected, they say.
>
> An example, cited by Iowa retailers, is Hinky Dinky's invasion of Des Moines. The Omaha chain did not fare as well as it had anticipated, the Iowans report.
>
> Similarly, Virginia independents say that Giant Food, of Washington, is taking a beating in its lone Norfolk store.
>
> The same story is related of Long Island, New York, scene of a multiple invasion by 'foreign' chains, among them American stores, and First National. Some New Yorkers claim the outsiders have not done as well as they expected.[26]

Expansion is necessary in the highly competitive food industry, since to stand still is the same as going backwards. Over-expansion, or unwise expansion, however, can also be hazardous.

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[26] Supermarket News, op. cit., p. 20

The superette may serve the purpose of aiding an operator to consolidate an operating area before seeking greater outside expansion. There appear to be some advantages to this consolidation over the out of an area expansion movement. They are:

1. More efficient use of transportation facilities. Obviously, milage and driving time would be less when operating within a more limited area. Partial deliveries possibly could be "dropped off" to superettes as trucks proceeded to larger stores in an area.
2. Advertising should be more effective because the coverage would be more concentrated within an area. This would be especially true of costly television advertisements.
3. Good-will and reputation is already established, both with suppliers and, more important, with customers.
4. A greater concentration of modern food stores reduces the vulnerability to competition. The greater coverage a chain has within an area, the less the possibility of "outside" competition moving in.
5. Volume would be spread over a larger base, rather than concentrated into fewer, more vulnerable, units. A correctly designed, well located superette should be less vulnerable to competition than many supermarkets.

> One important point in designing a superette for limited family areas is to build a store small enough to handle all the available business--and large enough to make it impractical for a competitor to match the size.[27]

As noted in Table IX, on page 57, an operator can expect to draw a much larger share of the food volume in a less populated town than in the larger cities, and thus leaving a reduced share of the remaining business for "invading" competition.

6. Instead of closing smaller stores, and withdrawing from an area, an operator may still be able to retain profitable representation. Remodeling older stores, or replacing them with modern superettes, maintains customer shopping habits. Retaining present customers is usually less expensive than attempting to draw new customers in a "virgin" area.

Food chains realize that a great deal of time and money are necessary before becoming fully established in a new area. Rather than invest this substantial amount of time and money the operators have attempted to buy, or merge, into

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[27] "Seven Steps to Big Business in a Small Town", Chain Store Age, Vol. 31., No. 7, (July, 1955), p. 78.

a new operating area. Obviously, buying into an area is less expensive than building into it. Buying existing stores serves to buy customer patronage, as well as an outlet for expansion.

Training locations for future store managers. The men who are managing the large supermarkets of today received the bulk of their experience managing smaller stores. Few, if any, men are given the responsibility of managing a multi-million dollar a year supermarket without having previous managerial experience.

The investigator can cite no statistics, facts, or published opinions which indicate that a manager of a smaller store has more knowledge than an assistant manager of a large store. Five years of observation of the methods of one large chain, nowever, has indicated that all large supermarket managers were previously store managers, before being assigned to a large supermarket.

A superette operation, if feasible in regard to over-all profit structure, would continue this obviously successful training method. A man would have the opportunity to manage a store in his own right, before given the responsibility of of a multi-million dollar supermarket.

SUMMARY, CHAPTER IV.

This chapter discussed some of the advantages of of operating a superette which can profitably exist in areas which will not support a supermarket.

There are many areas in the nation which can not support the large supermarkets constructed today. Generally speaking, these areas fall into two classifications; (1) densely populated metropolitan areas which are characterized by high land costs, and (2) lower populated rural areas which do not contain adequate family units to profitably support supermarkets.

Recent developments tend to improve the potentiality of these superettes. A study conducted by the Kroger Company in Indianapolis indicates that inventory and shelf space can be reduced without reducing sales. This would indicate that stores can be scaled-down in size without seriously affecting total sales. The study also revealed that both presentation of product, and efficiency in stocking can be improved.

The use of lower cost building materials, and pre-fabricated buildings can be used in designing superettes. Lower building cost should increase the profitability of these lower volume stores. The lower cost store building can be both functional and attractive.

Lower volume, obsolete food stores may in some cases be converted into modern, efficient, and profitable superettes. The Safeway Company, in New York City, recently found this conversion both possible and profitable.

Superettes would allow a food chain to concentrate operations within its territory. These stores could fill-in areas which will not support supermarkets, and contribute to over-all sales, profits, and operating efficiencies.

CHAPTER V.

SUMMARY AND CONCLUSION

Since the early 1920's the size of food stores has been gradually increasing. There have been two radical changes in food retailing which have affected the size of stores. The first change was the combination store. The second was the revolutionary supermarket.

Since the end of World War II the average size of new food stores constructed, both chain and independent, has been rapidly increasing. The size of these post-war supermarkets has necessitated increasingly larger trading areas to support them.

The growth of new supermarkets has been in areas where there are sufficient family units and reasonable land costs. Competition for the food business in these "choice" areas, however, also has been rapidly increasing. This competition can be expressed in two ways; (1) the number of competing supermarkets in an area, and (2) the number of family units available per supermarket. Both of these criteria indicate that supermarket competition is at the highest rate in history. Current expansion plans disclose that this competition will become even more severe between supermarkets.

There are two general areas, however, which are not greatly affected by this supermarket competition. The first is the areas which lack the necessary family units to support a supermarket. The many low population rural towns in our nation comprise this category. The second general area is the densely populated sections of metropolitan cities. High land costs usually prohibit the construction of supermarkets in these areas.

The increase in competition between supermarkets, and the inability of certain areas to support supermarkets may indicate that the time is ripe to investigate the potentiality of the superette-type food store.

The superette could operate in areas which could not support the supermarket. The superette does not require as many family units, or as much building space as does a supermarket.

In the past superettes, as a class, have not been as profitable as supermarkets. This is one of the primary reasons why food chains have shown little interest in them. Recent studies indicate that innovations in store design and construction, however, might improve the profit structure of these smaller stores.

With the reduction in brands handled, inventory control, and better space allocation, studies disclose that stores can be reduced in size without reducing sales. Inventory turnover

and gross profit can be improved. Grocery stocking efficiency and product presentation can also be improved. All of these factors should improve the profit structure of the superette.

Merchandising techniques, and operating procedures adopted from the Bantam Supers could improve superette effectiveness. Complete utilization of both selling and storage space would reduce the necessary size of store buildings. The reduction of duplicating brands would have a favorable effect on inventory turnover. The use of specialized display equipment could be used to great advantage.

Recent studies in regard to store building costs, and innovations in prefabricated buildings could be used when designing future superettes. Results obtained by the Memphis Division of the Kroger Company indicate that construction costs can be substantially reduced. These reductions in building costs would tend to improve the profit structure of the superette.

Operators of low volume stores have recognized the necessity of lower cost store buildings for several years. IGA, and the Red and White Corporation, encourage their members to use prefabricated buildings. These buildings have certain advantages over the conventional store unit now constructed by the major food chains. These advantages should tend to improve the effectiveness of a modern superette.

Many current stores are obsolete and uneconomical to operate in spite of good locations and relatively low rentals. Some of these stores might be converted into efficient and profitable superettes by incorporating modern space-saving techniques and merchandising methods. In the long run, an operator may find it cheaper to modernize an established store than to completely withdraw from an area.

Superettes can help a food chain reap a richer harvest from its operating territory. Locations which can not support a supermarket may serve as a profitable location for a modern superette. Concentration within an area may have some advantages over the out-of-an-area expansion program. Advertising and transportation facilities may be used more effectively, good-will both with customers and suppliers have already been established and a greater concentration of modern food stores reduces the vulnerability to "invading" competition.

CONCLUSION

The purpose of this study was to investigate the need for a suitably designed superette which may be profitably operated by a food chain. An investigation of this type evokes many controversies because it is opposed to the current trend of building bigger and bigger stores.

The investigator has noted from conversation, and correspondence that many men in the food industry place too much stress on the hypothesis that the smaller store, somewhat limited in the number of items carried, is a thing of the past.

The investigator states that some locales are ideally geared toward a smaller store, while others are ready for a large supermarket. The signpost, or limiting fact to be followed is the profit to be obtained by the size of the store taken in conjunction with the locale, and the sales picture.

Not every area now, or within the foreseeable future, can support a supermarket. Many of these areas are within a chain's operating territory. Food business exists in these areas, and yet construction policies, minimum sales policies, and current trends prohibit most chains from operation in them.

The investigator heard, and read on repeated occasions, the statement that "according to present policies we can not profitably operate a store in such-and-such a town", or "our present minimum store size is 10,000, 12,000 or 16,000 square feet". Recent literature, in many cases, does not even report operating figures for stores doing less than $20,000 per week.

Impressive figures can be cited which prove that "according to present policies" a store can not profitably operate with sales less than $20,000 per week. The investigator has no quarrel with these figures. The only quarrel is with the "present policies".

> We live in a changing universe in which evolution is a basic law. The business which cannot adapt itself to an altered environment is a business whose prosperity will vanish as conditions change. One of the fundamental tests of business leadership is the ability of that leadership to adapt the business to changing conditions.[1]

The investigator can not positively state that the modern superette will become an important segment within any chain organization. The point to be made is that the superette does have certain potentialities, and can fill a particular need in a particular location.

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[1]Opinion expressed by Mr. Joseph B. Hall, President of the Kroger Company, as part of the Tobe Lecture Series, at the Harvard Graduate School of Business Administration, Boston, Massachusetts, October 31, 1957.

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