Blueprint for growth

With careful planning, grocers can successfully partner with other retailers without diluting their own brand.

BY CAROL RADICE

FOR SOME TIME NOW, GROCERS HAVE LEASED SPACE TO BANKS, DRY CLEANERS, FLORISTS AND COFFEE SHOPS as a way to offer customers added convenience, service and value while generating rental income. These shops dot the peripheral landscape of most large chains and even some smaller and independent grocers.

While this strategy can keep customers in the store for hours at a time, observers suggest that a cohesive design and conscientious brand alignment can help ensure that the supermarket doesn't end up resembling a mini-mall.

"When it comes to creating and executing the best possible retail design, in our eyes that would be one that portrays the retailer's brand as closely and accurately as possible to the customer," says Christopher Studach, director of design for King Retail Solutions in Eugene, Ore. "We have seen instances where retailers have added companies to their stores that don't support and interact well with their brand and in some instances it dragged them down by association," he notes. "That said, my recommendation would be to look long term and avoid putting in any type of business that has the potential to dilute your own brand."

When carefully executed, a partnership with outside retailers can boost a grocer's image, he notes. Studach describes the case of a high-end grocer in Southern California that leases bakery space in several of its units to a Viennese pastry specialist. "This product is so fantastic it actually enhances and elevates the overall shopping experience. In this case the baker brings his brand, product and employees, but the grocer controls the design and environment end-to-end. It is integrated in such a way that it is a seamless piece of the store," he says.

MARKET-DRIVEN DEMAND

Joe Bona, president, retail for CBX Strategic Branding in New York, believes the decision to add new businesses to the retail mix should be evaluated on a market-by-market basis. "Where there is less retail saturation and you can fill the consumer's needs in one stop, there may be value in this strategy, but on the whole

supermarket operators who are looking to be all things to all people need to question whether they are taking their eye off the ball a little bit," says Bona. "Ultimately, it is very chancy to attempt to build your brand on the strength of someone else's."

Bona cautions retailers against confusing the addition of other businesses and services with customer convenience. "I'd bet many consumers would prefer to get in and out of the store faster and easier than to be offered multiple other businesses under one roof."

Since consumer needs are constantly evolving, Bona suggests grocers take a hard look at the long-term prospects of any potential partnership before sketching out a new floor plan. A re-design—even if it only involves a small area of the store—is a costly and potentially disruptive endeavor.

In addition, customers may find it hard to separate their interactions with the partner—good or bad— from their overall perception of the supermarket, he says. "The possibility of increased foot traffic is clearly appealing, but retailers need to know that when customers have a bad experience, issues with product quality or encounter a sour employee, it is the grocer's name they likely associate with the situation, not the branded business. As retailers increasingly focus on reducing their square footage and look to be more successful, efficient and competitive, it will be interesting to see how

MAKING THE MARRIAGE WORK

Knowing with whom you're getting into business, being flexible and continuously working on the relationship are some of the top things retail experts such as Dale Riley say are necessary for grocers to achieve success partnering with other businesses.

Riley, who is currently president and owner of Fresh Seasons Market in Minnetonka, Minn., spent many years as an executive with Edina, Minnesota-based Lund Food Holdings, Inc. which operates 10 Lunds and 11 Byerly's supermarkets in the Twin Cities and surrounding area. Structured correctly, he believes partnerships can be a highly effective way for grocers to build incremental sales.

"When I was at Byerly's back in the '90s, after an extensive search we decided to go into business with Leeann Chin. While she didn't have grocery experience she was operating a take-out business as well as full service Chinese restaurants," recalls Riley. "We partnered with her because she was well known in the area, had great food and had built up brand equity. She ran the operation in our stores, brought her own recipes, and was responsible for purchasing the product and preparing the food using her own employees. In turn, we bought her equipment, which cost us about $100,000 per location," he says, noting that ROI was easily achieved in six months. "With our help, she was able to open a number of new locations very quickly with no capital investment on her part and we were able to offer our customers quality food."

Financially, the partnership paid off as well. Byerly's not only earned 20% of Leeann Chin's sales, their incremental sales increased as well. "This partnership brought new people into the store and brought existing customers in more frequently. It did cannibalize our hot deli sales, but overall was a positive influence. Certainly there are risks, but she had an accomplished record of providing a good level of service and a great product. What most people forget is that her reputation as well as ours was on the line," notes Riley.

During this time, Byerly's also partnered with Caribou Coffee. The retailer had previous tried operating its own coffee bar and was looking for a partner with brand recognition. For any partnership to succeed he believes brand compatibility as well as flexibility should be top priorities.

Recalling the initial meeting with Caribou Coffee, if Byerly's officials were not willing to adapt to differences in dress codes Riley says the deal would not have happened. "There were obvious differences in our corporate cultures. They had a laid-back persona and casual dress code whereas our employees had to wear uniforms. Realizing the value that Caribou could bring us, ultimately we decided to let their employees dress the way they wanted. Despite their culture being dramatically different from ours, Caribou was a respected brand and we felt their company would have a positive impact on ours."

Retailers should also be prepared to be flexible about contract terms once the business is in place. After learning Caribou was not making enough profit to support their locations in Byerly's stores, the retailer found themselves facing a difficult decision. "We renegotiated their contract and agreed to take a lesser percentage of sales because we wanted Caribou to stay. We could have stood our ground and enforced the terms of the contract, but they would have likely left at the end of their term and then everyone would have lost," says Riley.

Matching the image of the secondary businesses with your operation is also critical. "It is important that the type of customer the secondary business attracts aligns with the grocer's customer base whether it is Chinese food or another type of business. We were looking to add banking to our stores and after reviewing several choices we went with a company whose clientele was most inline with Bylerly's customer demographic," he says.

Once you select another business to partner with the work is just beginning, notes Riley. "These relationships take time and effort. Continual communication is necessary to keep things on track. Differences need to be put aside and both parties need to find ways to agree on how best to go to market. If you're willing to do the work the potential for substantial incremental sales is phenomenal," says Riley.

all this plays out," says Bona.

Given the risks associated with bringing other businesses into the fold, Studach of King Retail Solutions suggests grocers align themselves with businesses that mesh with their corporate philosophy and strategy. "If convenience is your No. 1 draw, then it makes sense to include businesses that share the same viewpoint, but if your niche is about offering a high quality food experience, why would a retailer give up any amount of space to someone who doesn't support the same belief system?" he asks. "Look for companies with a proven track record in grocery that have the experience and know-how and can do a better job than you could."

PROTECTING THE BRAND

Kevin Houser, vice president development for Dunkin' Brands, Inc. in Canton, Mass., echoes the importance of experience and brand recognition. "Consumers have certain expectations from an established brand and are more inclined to use the service because there are no surprises," notes Houser. "Dunkin' Donuts has been in business for over 50 years and has the reputation of providing quality products and quick service. The franchisees that operate in grocery environments are the same franchisees that operate our brand on the street. Our own performance criteria is applied evenly whether it is a traditional site or a location within a grocery or other host environment," he says.

Recognizing grocers' concerns about design, Dunkin' Donuts officials typically approach each opportunity with a "menu for the venue" concept. "The menu drives much

of the design and layout," notes Houser. "With design criteria, we are flexible to the point of blending in while not losing brand identity. In other words, we customize to fit the desires of the host environment. This includes menu offering, hours of operation, rent structure, occupancy costs, length of lease, etc. There is not necessarily a typical arrangement."

Above all, observers suggest retailers take every precaution to maintain the integrity and identity of their own brand. "The point is to offer value and convenience to your customers' shopping experience, whether it is the addition of a bank, flower shop or coffee store and at the same time create value for your own brand," says Tony Camalletti, vice president of strategic development for Madison Heights, Mich.-based Dfab.

Given that most secondary corporate branded businesses have their own design needs, grocers may not have control over the way the other business looks. When creating the design concept for Dress for Success, a dry cleaning pick up and drop off service specifically designed to work within supermarket settings, Camelletti's group developed a look that would represent the Dress for Success brand and yet be neutral enough to work in any supermarket environment.

Bruce Stegmaier, vice president and COO of Dress for Success Cleaners in Santa Ana, Calif., has a grocery background, so he is sensitive to the needs of supermarkets to retain their design and brand integrity. DFS operates hundreds of locations exclusively in supermarkets, including Giant Eagle, Kroger, Publix and Ralphs.

Designed to be integrated with the customer service counter rather than as a stand-alone unit, with the Dress for Success model retailers make the initial capital investment and provide customer service people to handle drop-off, mark-in and pick-up transactions. In turn, DFS manages the operation and the grocer retains a percentage of sales. While traffic count can be a factor in determining whether a dry cleaning program will work within a grocery store, Stegmaier says other factors such as income levels, the amount people dry clean and the number of cleaners in a specific trade area are equally as important. "We have a store in Orlando that has 11,000 customers per week and we do almost $4,000 a week in business. Given the right market, small stores can be successful with our program," he explains.

As part of the existing customer service counter DFS appears to be a full-service professional dry cleaner, but at the same time, it subsidizes the fixed customer service labor costs through its incremental sales. "In essence, our program helps maximize labor productivity and offers grocers a way to get into dry cleaning without having to manage the business," notes Stegmaier. □