

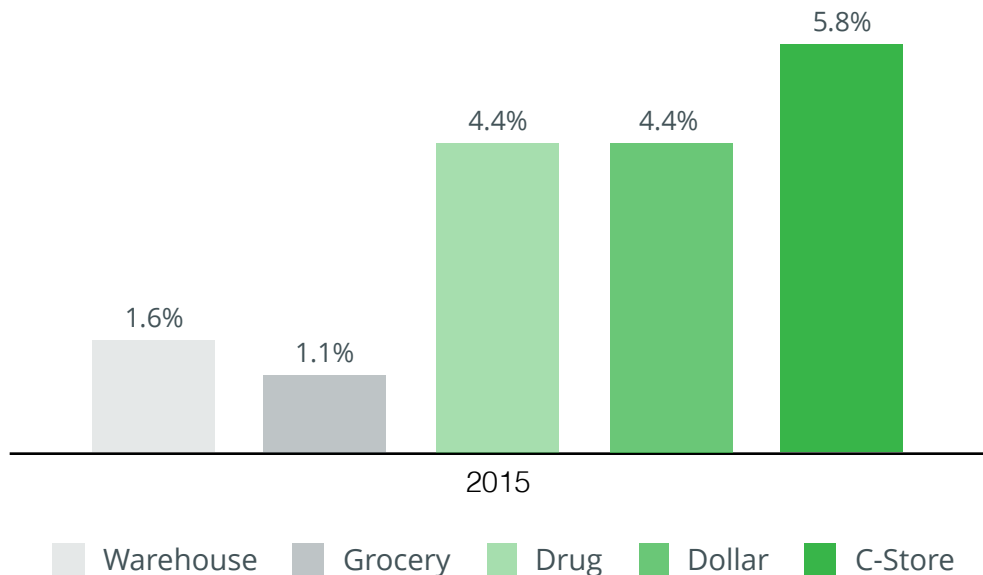
The Rise of Small Format Retail

REPORT BY KUPON MEDIA

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Urbanization, Online Shopping & Shifting Consumer Demands

2015 SALES GROWTH BY RETAIL CATEGORY⁸



After decades of big-box expansion, the retail industry is now shifting to smaller stores. In 2015, small format retail categories — drug, dollar and convenience stores — outgrew larger format stores by almost 400%, and now make up a more than \$1 trillion market. This growth is no accident. Demographic shifts paired with online shopping behavior and shifting consumer demands are forcing leading retailers to think small.

Leading Retailers Are Thinking Small

In the face of a changing environment, leading retailers are making sweeping changes to grow and in some cases, survive. In the past six months, leading retailers have taken public and deliberate steps to focus on online shopping and smaller brick and mortar stores.

amazon

In Fall 2016, Amazon announced a lowered price for its grocery delivery service which coincided with leaked plans to open over 2,000 small format stores. Later it revealed Amazon Go, a grab-n-go concept slated for early 2017 launch.

TARGET

Target continues to struggle in its grocery efforts, and recently reshuffled its digital team on poor online results. In October, Target announced the opening of smaller “flexible-format” stores in urban areas carrying products tailored to the local neighborhood’s customers.

Walmart

In what many analysts reported as a response to Amazon's growth, Walmart acquired Jet for over \$3 billion. Later it announced a resurgence of its small format strategy with a new Walmart Pickup & Fuel store concept.

DOLLAR GENERAL

After acquiring almost a thousand of Walmart's small format experiment stores, Dollar General announced the early 2017 launch of DGX, a DG branded c-store concept focusing on fuel and immediate consumption items.



Kroger spent 2016 expanding its Main & Vine small format concept which focuses on convenience and fresh foods. To compete in the online grocery space, Kroger also announced its Click & Collect pickup service.



After rising concerns about its pricing, Whole Foods launched 365, a new format that promises lower prices and more convenient shopping. These new stores are about one third smaller and carry about a quarter of the merchandise of Whole Foods stores.

Small Format Market Drivers

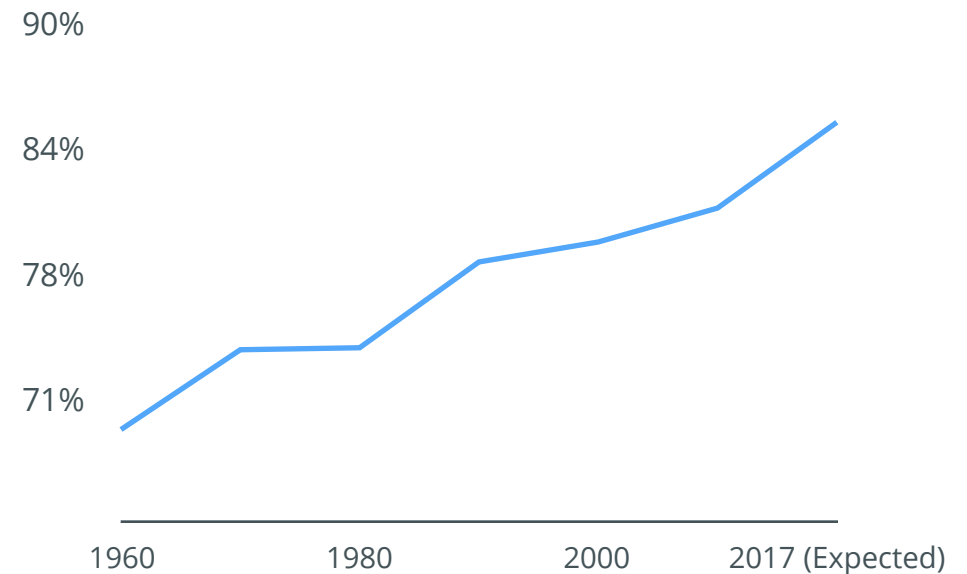
The growth in small format can be attributed to three factors — demographic shifts, online shopping and shifting consumer demands. In the following section, each of these is covered in detail. As consumers move to cities, shop online and demand convenient store trips, smaller stores are emerging as a natural fit.



Demographic Shifts

The percentage of American's living in urban areas or urban agglomerations has grown steadily over the past century. Today almost 85% of Americans live in urban areas. For retailers, urban areas present an environment with limited real estate and consumers who are demanding on-the-go and more convenient shopping experiences. These factors are helping small format retailers to grow and expand, while forcing large format retailers to slim down store footprints.

US URBAN POPULATION AS A % OF TOTAL¹⁴



Shift to Online Shopping

Another driver of small format stores is the growth in online shopping. To understand how this is occurring, let's consider how consumers shop.

A study published by Nielsen several years ago identified four types of shopping trips — each representing a different consumer objective, frequency and average transaction size.

Shopping trips with less frequency and higher basket size — stock-up and routine — are more conducive to online shopping, and thus particularly threatened by the rise of e-commerce. For example, the massive growth in the Amazon Prime subscriber base, and all of the features like its Dash and Subscribe & Save programs, are surely replacing many stock-up trips for American households. Similarly, it's expected that up to 18% of grocery spending will occur online by 2023, eventually replacing the need for weekly, routine shopping trips.

It's no secret that these types of trips are also more likely to be fulfilled by large format stores like super centers and grocers. Shopping trips with higher frequency and smaller basket size focus on immediate and on-the-go purchases — elements that are harder for online shopping to address, but comparatively easier for smaller stores to achieve.

Immediate Needs - An urgent or instant need for a particular product, often for immediate consumption. These trips account for 61% of shopping trips and are done at convenience, drug and dollar formats.

Fill-In - The need to quickly purchase items forgotten or consumed since the last routine trip. These trips account for 21% of shopping trips and are done at convenience, drug and dollar formats.

Routine - Weekly higher value trips, often focused on food and perishable goods. These trips account for 12% of shopping trips and are done at grocery, mass and club formats.

Stock-Up - Infrequent, large basket trips with large amounts of food and household items. These trips account for 6% of shopping trips and are done at mass and club formats.

Shifting Consumer Demands

Shifting consumer demands are also driving growth in small format retail. As consumers increasingly lead on-the-go lifestyles, time is becoming a valuable commodity. While online shopping is one way of addressing this consumer need, the previous section illustrated that e-commerce does have its limitations.

The average trip in a c-store is under 4 minutes, which is 34 minutes less than consumers spend in larger format stores. This is likely to sit well with the increasingly important millennial segment, which is known for prioritizing convenience and instant gratification. In a recent study, 51% of the millennial generation reported that a store's location is most important when deciding where to make a purchase. Even more, millennials now account for over one-third of all c-store shoppers.

4 minutes

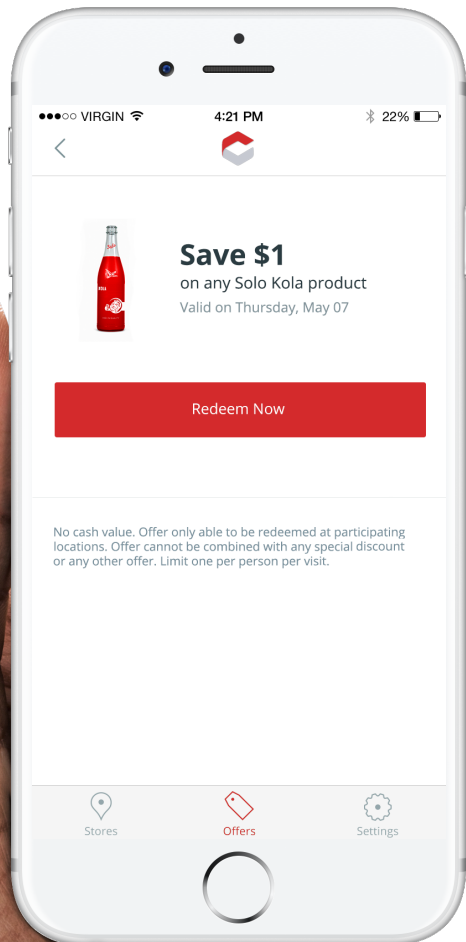
AVERAGE TIME SPENT IN A C-STORE

33%

OF ALL C-STORE SHOPPERS ARE MILLENNIALS

51%

OF MILLENNIALS REPORT A STORE'S LOCATION AS THE MOST IMPORTANT FACTOR WHEN DECIDING WHERE TO MAKE A PURCHASE



Mobile Offers Meet the Small Format Opportunity

As retail stores get smaller, marketers are being forced to explore new ways to reach and market products to customers. With an emphasis on convenience and immediate consumption, we're finding small format stores, and CPGs that sell products within them, are turning to mobile offers as a crucial marketing tool. Here's why.

Online to Offline

As brick and mortar chains shift value structure to immediate consumption purchases, mobile offers provide an excellent way to reach customers online and drive them into a store for trial, awareness, and immediate use.

Instant Use

Let's face it, no one visiting a small format is looking for a time intensive experience. Mobile offers provide a marketing vehicle that makes it easy to discover, activate and redeem offers in seconds.

Offer Targeting

Marketers have just a few moments to engage an on-the-go customer. Luckily, mobile offers make it easy to tailor offers in real time to customers based on past purchases, location or time of day.

E-commerce, urbanization and the shifting of consumer demands shows no signs of slowing, which will inevitably lead to continued growth of small format in 2017 and beyond. This presents not just an opportunity for retail, but for the mobile offer industry as a whole.

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