

# GROCERY STORE FORMATS

*Discount*



More Cheese  
**FOR LESS** Cheddar

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This is part of RetailStat's extended series on grocery formats. We began with a report that provides an overview of grocery formats and how they're used by grocery analysts. Here, we provide a deep dive into a specific format. Look for our separate reports on the other grocery formats as well.

# DISCOUNT FORMAT

If we were to view the three types of standard supermarkets as a single continuum, the middle of that continuum would house the Conventional format. To one side would lie the Quality/Service format, which enhances conventional offerings to serve the demands of those willing to pay for specialized products and services. On the other end of that continuum, opposite the Quality/Service format, is the subject of this report: the Discount format.

The Discount store is defined as one with a focus on low prices, with minimal customer service, and often a limited product offering. They serve a clientele that is no-nonsense, seeking necessities and sensible grocery options without the amenities that result in what they deem to be frivolous extra expenses.

Meat, produce, and bakery departments are usually available, or at least products of those departments are offered. Absent or curtailed is the customer service that those departments would offer in a Conventional store: meats are generally pre-cut and pre-wrapped, produce is often pre-bagged, and bread and pastries are sold pre-packaged. There are usually a few brand options for goods, but often with fewer choices than those found in Conventional stores. Private label goods are ubiquitous.

Discount stores operate in the same sphere as Limited Assortment and Supercenter stores, serving the same customer, albeit with more options than the former and without the extensive general merchandise options of the latter. The Warehouse format also operates in this sphere, but is larger and even more no-frills than a Discount grocer. The multiple formats that compete for this same customer has made this a very competitive segment, particularly given the small margins available.

Banners under this category include DG Market, Grocery Outlet, Smart & Final, and Walmart Neighborhood Market. Despite the stiff competition and small margins, the Discount format has proven to be an excellent option for many grocers, allowing them to meet the needs of an area that would not be financially viable to serve with a different format—areas at risk of becoming what are known as “grocery/food deserts.” This provides a win-win scenario that helps both the residents of such communities and the businesses that serve them.

# FORMAT TAKEAWAYS

Discount grocers emphasize low prices, efficiency, and limited service. Catering to cost-conscious shoppers, Discounters offer more options than Limited-Assortment formats but fewer than Supercenters, two other formats that appeal to the same customer. Discount and Quality/Service stores bookend Conventional grocers on the grocery spectrum.

✓ Roughly 2,000 Discount stores operate nationwide—fewer than one-tenth the number of Conventional stores. Key players include Walmart Neighborhood Market, Grocery Outlet, Smart & Final, Marc’s, and Dollar General Market, alongside many independent and small local operators.

✓ Average weekly sales for Discount grocers are \$329,000, with a sales efficiency of \$13.93 per sq. ft., both below Conventional and overall grocery averages. The Southwest and Mountain West regions outperform others, while the East trails significantly.

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# MAJOR BANNERS

The Discount format is a somewhat niche category of the grocery sector. RetailStat tracks approximately 2,000 Discount stores, slightly fewer than the Quality/Service tally and less than one-tenth of the Conventional count. Some of the leading companies operating in this sphere are listed in the following table, along with the range of their store count.

Company	Notable Banners*	Quality/Service Stores*
Walmart INC	Walmart Neighborhood Market	600*
Grocery Outlet Holding Corp	Grocery Outlet	400-600
Dollar General Corporation	Dollar General Market	400-600
Smart & Final	Smart & Final, Smart & Final Extra	200-300
Marc Clasman INC	Marc's	50-100

\*Note that banners and store count reflect only those typically classified as the Discount format. Banners may have a larger store count if all format types are considered.

Walmart leads the pack in terms of store count. Walmart's participation in this category, via its Neighborhood Market format, began because of the company's success with the grocery component of its Supercenter banner. The smaller footprint of the Neighborhood Market enables it to serve areas that are too congested to accommodate the real estate required for a full Supercenter store. Grocery Outlet has been expanding because of opportunities in these communities. It remains concentrated in California and the West Coast, but has jumped to the East Coast and can now be found in 10 states.

Beyond these two banners, there aren't many major players in this category. Dollar General has a DG Market that operates in this sphere, providing a more extensive selection of grocery items, including produce, beyond the limited selection found in their standard Dollar General stores. Smart & Final serves this segment and is found mostly in California. Marc's is a Discount operator found in Ohio.

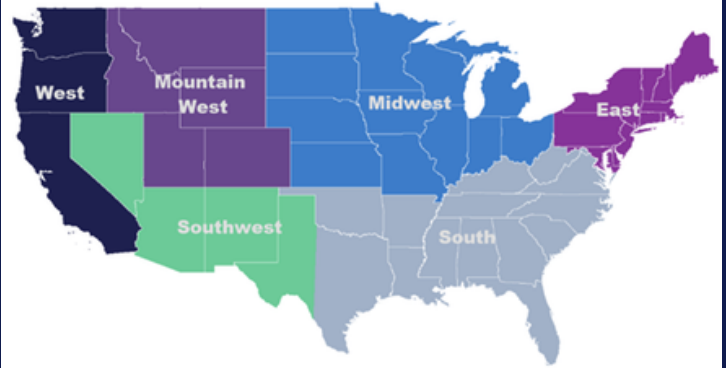
Many grocers cater to value-seeking customers with stores classified as Conventional, albeit a more economical version of the Conventional store. Other chains might have a specialized banner designed to operate in this arena, such as the handful of Joe V's stores operated by HEB in Texas. The success of the Supercenter format in serving the value-seeking customer has proven a challenge for many Discounters to match on a consistent scale at a national level. Many of the grocers that do compete as a Discount format are local independent operators and "mom & pop" stores. Small, local bodegas also serve in this arena. These stores are often not much bigger than convenience stores and are usually classified as "Float," which are stores that are too small to have an impact on the trade area individually, although collectively they do.

# FORMAT FACTS

The average sales for a Discount grocer are predictably lower than those for grocers overall. Discount has a weekly sales volume of about \$329,000 and an average sales efficiency of about \$13.93 per square foot per week. This is significantly lower than the averages for groceries overall, which are approximately \$555,000 and \$18.66, respectively. It is also significantly lower than the Conventional format averages of \$505,000 and \$17.07. Stores in this format are streamlined and efficient, and can succeed even when sales volumes are low.

Regional variations are significant. Discount grocers in the Southwest and Mountain West lead the nation in terms of total sales and sales efficiency, while the East trails all other regions in both aspects.

## National Grocery Regions



Grocery analysts divide the Continental US into six major grocery regions. Note that, in practice, the NY MSA is its own region, separate from the East region, as is the Miami MSA, separate from the South region. For simplicity's sake, we have combined these metro areas with their respective surrounding regions. Also, in practice, the DC Metro is fully combined with the East region; for our purposes here, the Virginia and West Virginia portions of the DC Metro are included with the South region.

Average Weekly Store Volume

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As shown in the chart to the left, the Southwest region sees the highest volumes for Discount grocers, with more than twice the store average of the East, which trails all regions. Close behind the Southwest is the Mountain West, followed by the South and Midwest, which both hover above the national average. The West joins the East in having average store sales that are well below the national average.

Average Weekly Sales Per Square Foot

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Sales efficiency, as measured by sales per square foot, varies slightly less noticeably by region. Both the Southwest and Mountain West lead the pack here as they did with total sales, while the East again trails all regions. The West flips the script, from next to last in total sales to the top three in sales per square feet. The South and Midwest, meanwhile, fall below the national average in the East.

# FORMAT FACTS

In terms of store size, the average Discount format is 32,500 square feet, with about 23,400 square feet dedicated to sales area. At about 72%, the format has a slightly higher ratio of grocery area to total area than the 71% for the standard Conventional store, and just below the 73% ratio of Warehouse stores, which leads all formats in terms of sales area to total area. With all three of these formats, most product is stored in the grocery sales area, and there is little allowance for backroom storage and non-grocery services.



Regionally, there is some variation in the typical size of discount grocers, with the largest stores generally found in the Midwest and South, which explains why their strong average sales equate to lower sales efficiency. The West has the smallest average Discount store, at 25,000 sq. ft., which is why that region sees such efficiency with stores of this format, despite modest overall sales. The East has the next smallest Discount store footprint, but with such low average sales, the efficiency also remains low.

# GROWTH TRENDS



As RetailStat tracks the stores that are proposed, planned, or under construction, we have noted that only 4.8% of new stores are expected to be Discount format. Only Club, Natural/Organic, and Warehouse stores are less represented among future stores. With the Discount format, that percentage is actually about the percentage it comprises of all existing stores currently. That amounts to a growth rate of about 3.7%, placing it among the slower growth formats, with Conventional, Warehouse, and Supercenter trailing behind.

Regionally, we are tracking that approximately one-third of future Discount stores will potentially be located in the South, which is also the fastest-growing region for Conventional stores. The West is next, with about a quarter of the new Discount stores, followed by the East and Southwest, each with about 15% of the new Discounters. The Midwest is expected to have the slowest growth among Discount format stores, with about half that of the next smallest, the Mountain West.

The Discount grocery format is one of three formats representing the standard grocery store. Sitting opposite Quality/Service on the grocery spectrum—and sometimes blending with Conventional stores that lie in the middle—Discounters cater to value-driven shoppers who seek essentials over amenities. They represent a small percentage of the overall grocery store universe as they compete with Supercenters and other formats, and their future growth appears to be modest. But make no mistake, the Discount format provides a role whose value cannot be overstated: serving cost-sensitive communities and maintaining grocery access in less economically viable areas

# SEE FOR YOURSELF

## Discount Store Format

