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GROCERY STORE FORMATS

Quality/Service

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Part of RetailStat's Grocery Format Series, this brief highlights key insights from our deep dive into the Quality/Service Format, one of the industry's most dynamic grocery categories.

This abridged preview includes select highlights. Full access to store counts, regional benchmarks, and performance data is available to RetailStat clients.

QUALITY/SERVICE FORMAT

The Quality/Service (Q/S) format describes specialty supermarkets that offer high-quality products and a superior level of service. As with Conventional grocers, they offer a wide selection of national brands and private-label food items, as well as some general merchandise.

What really differentiates them from Conventional grocers are:

- high-caliber facilities with enhanced aesthetic appeal,
- the availability of quality products designed to appeal to the epicurean customer, and
- well-staffed departments whose associates often have enhanced training and the ability to provide bespoke services.

Quality/Service grocers include many of the same departments as Conventional grocers, such as produce, meat and seafood, deli, and a bakery. With Q/S grocers, these departments are well-staffed and offer responsive customer service. Olive bars and exotic cheese kiosks are de rigueur. Expanded dining and prepared foods are usually available, with furnishings designed to encourage customers to linger and socialize. Live music, craft beer, and cocktails for on-premise consumption are sometimes part of the dining experience. Stores may also offer interactive services, such as cooking demonstrations and classes.

The line between a Conventional and a Quality/Service grocer is often blurred and open to interpretation. Many Conventional operators will enhance their products and services to appeal to affluent customers in well-to-do neighborhoods, while some Quality/Service operators have found the tight margins they face to be too restrictive and have scaled back on the luxury they provide. The Quality/Service category, like grocery in general, has proven itself to be very fluid and dynamic.

FORMAT TAKEAWAYS

Q/S grocers differentiate from conventional supermarkets through upscale facilities, expanded prepared foods and dining, cooking demonstrations, and other customer interactive experiences, and specialized offerings.

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The format represents 6.8% of tracked future grocery stores with an expected growth rate of 4.6%. Leaders in expansion include H-E-B (Texas), Wegmans (Northeast), The Fresh Market, Pete's Market (Illinois), and Kroger's Harris Teeter.

MAJOR BANNERS

Comprising about 6% of the grocery world, the Quality/Service format is a relatively small category. We track about 2,000 stores in this format across more than 100 banners. Few grocers specialize solely in Q/S stores. Most stores that are classified as such are operated by grocers whose mainstay concept is another format, usually Conventional.

The five companies that are most notable in this sphere, based on Q/S store count, include many regional operators, as shown in the table below. Most of the major grocery corporations have some banners or individual stores that serve the affluent customer, including Ahold Delhaize, Houchens, and Wakefern. Of the national operators, only Kroger and Albertsons have a number of Quality/Service stores that exceed double digits.

Company	Notable Banners*	Quality/Service Stores*
The Kroger Company	Harris Teeter, Kroger, Mariano's, QFC	200-500
H-E-B Grocery Company	Central Market, H-E-B	100-200
The Fresh Market	The Fresh Market	100-200
Albertsons LLC	Market Street, Haggen, Pavilions, Randalls, Safeway, Tom Thumb	100-200
Publix Super Markets INC	Publix, and formerly Publix Greenwise	100-200
Wegmans	Wegmans	100-200

*Note that banners and store count reflect only those typically classified as the Quality/Service format. Banners likely will have a larger store count if all format types are considered.

Other operators that are known for their Quality/Service concepts, but with smaller store counts, include Raley's (with their AJ's Fine Foods and Nob Hills banners), Rouses Market, Giant Eagle (particularly their Market District banner), Lunds & Byerly's, Heinen's, Gelsons, Roche Bros., Harmons, Dierberg's, Pete's Market, and Bristol Farms. Operators known for their quality within their stores very often forgo quantity in terms of their store count.

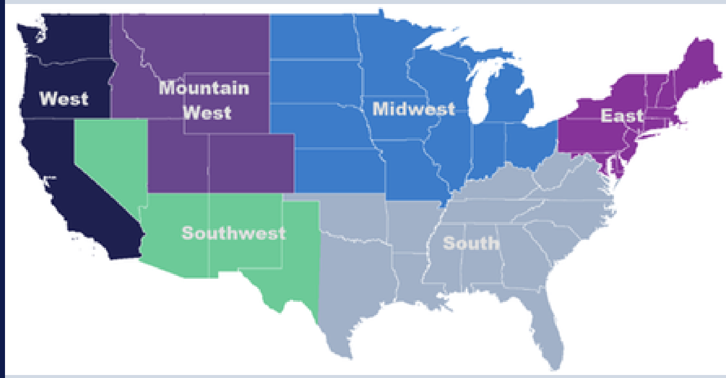
FORMAT FACTS

The average sales for Quality/Service stores are much higher than those for grocery stores overall. Q/S formats have an average weekly volume of $775,000 per week and an average sales per square foot of $22.40 per week. Compare that to the overall grocery averages, which are about $555,000 and $18.66, respectively.

The difference is particularly stark when looking at the overall grocery sector medians, which, at $420,000 and $16.15, respectively, is well below the Q/S averages.

If we look at performance by the six major grocery regions of the 48 states, as shown in the following charts, we see how performance and approaches differ across the nation.

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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Average Weekly Sales Per Square Foot

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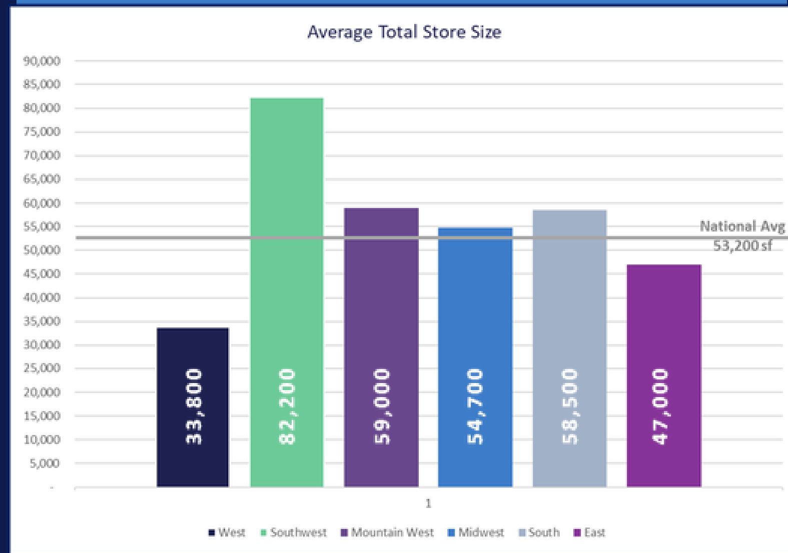
FORMAT FACTS

In terms of store size, at 53,200 SQFT, the average Quality/Service store is actually larger than the average Conventional format of 43,500 SQFT.

The largest stores overall are found in the Southwest, nearly 30,000 square feet larger than the national average. On the other end of the spectrum are the Q/S stores in the West, nearly 20,000 square feet smaller than the national average.

Unlike Conventional grocers, which remain consistent at about 71% of total area dedicated to sales area across the nation, the Q/S operator ratio varies slightly from region to region. It comes in at a low of 66% in the East and Mountain West, to 70% in the Southwest, and 72% in the West. The remaining three regions are at the 68% average seen nationwide.



GROWTH TRENDS

Future Quality/Service Stores, Next 5 Years

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RetailStat tracks future grocery stores that are proposed, planned, or under construction. Quality/Service grocery stores account for about 6.8% of the new stores we are tracking, which places them sixth among the formats in terms of the number of expected new stores. In terms of growth rate, the expected 4.6% growth places this format a distant third, about half that of Limited Assortment and Specialty.

There are no runaway leaders in terms of individual banners that are growing. HEB, which is rapidly growing throughout Texas in general, is also among the leaders in terms of new potential stores of the Quality/Service category. Wegmans has plans for a similar number of potential new stores in the northeast. Other growing banners include The Fresh Market and Illinois' Pete's Market, while Kroger's Harris Teeter banner is also among the growing brands.

Regionally, the store counts of potential new stores we're tracking closely match what we see with the Conventional banner. More than a third of the future Q/S stores will potentially be in the South, bolstered by Harris Teeter along the Atlantic coast and HEB in the eastern half of Texas. The East has about a fourth, and the Midwest has about a fifth of the planned future stores. The West is at 10%, followed by the Mountain West with about half that. Lastly, there is the Southwest, with no new Quality/Service stores hitting our radar; nonetheless, we can say with some confidence that we expect to see some new representation in the Southwest. We will be monitoring this region closely, as we do all regions, to ensure our clients are aware of any new developments early.

Like the stores themselves, the Quality/Services format doesn't dazzle through the quantity available, but rather in the quality of the product. Stores of the Q/S category exert outsized influence by setting quality benchmarks and shaping customer expectations across the grocery landscape. The category is expected to witness sufficient growth to maintain its mid-position among formats in terms of scope, while also maintaining its prominence in terms of performance.

SEE FOR YOURSELF

Quality/Service Store Format