



Destination Centers Succeed at Driving Sales

Food service programs have long been a staple of grocery stores for some time. Years ago, Petrini's, a one-time upscale Northern California grocery chain offered shoppers fresh-baked pizza, sandwiches and other hot-food deli items. But as an attachment to bakery and deli departments, this approach has failed to revitalize sales over time and has largely come to be seen as nothing special in supermarkets.

In the years since, other retailers have given the concept a shot with similar lackluster results. These efforts often failed to reach the quality of the fast food outlets against which in essence they were competing. They offered the convenience of fast food in the same location that shoppers bought their groceries but they didn't meet the same

expectations for quality and service that dedicated fast food operators provide. On top of that, the need for adding new suppliers and meeting more stringent food safety requirements often made results more difficult to achieve. More recently, another approach to in-store food service has been increasingly successful.

An Innovative Approach

Supermarket destination centers have transformed the stores they are in. The concept offers shoppers more than convenience. Successful efforts at this approach compete directly with fast-casual outlets in many cases, and even raise the bar by offering upscale gourmet menu items in others.

For the stores that pursue them, these concepts provide greater merchandising opportunities that allow the stores to showcase specific items in their menu selections. Product displays next to cooking stations give shoppers the opportunity to see, smell and taste how those items can be used. Prepared foods, furthermore, usually provide higher margins. As the operator of one supermarket destination center points out, they can sell a single head of lettuce for \$1.50 but can also make it into two salads that go on the menu for over \$5 each.¹ More than just simply increasing margins, departments throughout the store can be featured in different menu items driving traffic their way and further increasing sales overall.

The concept offers other advantages over the conventional fast-casual chains that destination centers² may compete with. Often relying on just their normal suppliers, supermarkets have the flexibility to prepare and offer a wider, more continuously changing variety of items. Surveys of shopper attitudes constantly show that consumers associate healthy eating with fresh ingredients. Destination center menu items are able to leverage off of these attitudes by using the same ingredients shoppers buy for cooking at home.²

Early adopters of this approach have long known these benefits. Whole Foods, Central Market, and Wegmans are just a few retailers who have had success along these lines for some time. But now, others are taking the concept further.

¹ Destination Supermarkets, Wall Street Journal, May 18, 2012

² The Competition, Upscale grocers like Whole Foods and Central Market are after your fast-casual customers. qsr magazine.com/articles/features/92/whole_foods-1.phtml

Key Considerations

Today's destination centers are about offering more than just fresh, fast and convenient food options. New players in the arena recognize that successful approaches focus on other factors beyond the specific items they feature. While food selection and menu variety are key factors, more practical considerations like the physical layout and flow of areas as well as the versatility and flexibility to quickly and effectively switch from one meal type to another are of the greatest importance. Just as important as the physical aspects, however, are the people directly involved. Successful destination centers ultimately depend on the talent they deploy.

Customer service is the cornerstone for many retailers' business. For those looking to succeed with destination centers, it's all the more important. Investments in training and the delegation of authority to associates are critical. Destination centers, because of the near continuous customer-facing responsibilities of associates who staff them, put an even greater burden of accountability on those associates than their counterparts in other departments where more routine interactions with customers are common. Empowering associates to respond to customers' without having to defer to higher-ups can make a real difference in how customers see the value of the products and service the store is providing. Those attitudes in turn translate into real results for the store. In other words, customers who feel like they are being taken care of with more than just routine courteousness and service are generally inclined to spend more time and more money.

Layout and design is another key factor. Starting with the overall look and feel, successful destination centers convey that they provide more than just the typical shopping experience. Restaurant operators know that the food they serve is a critical factor in how well they do. But together with the menu, the atmosphere and other factors are also part of the product they sell. Combining all these aspects of their operation into an identity that diners can enjoy adds to the overall experience a restaurant is selling. Research suggests that almost all of the decision a guest makes about where to dine is based on an emotional response.³ With the design of

³ Strategies for Designing Effective Restaurants, informedesign.org/_news/dec_v02-p.pdf

supermarket destination centers this is no less of a crucial consideration than it is for conventional dining establishments.

The look and feel of the fixtures and equipment in a destination center convey to customers the level of quality that they may consciously or otherwise associate with the menu items being offered. The use of distinctive display cases and preparation and serving stations customers can see set the tone for the emotional response they have. “U”-shaped seating around cooking stations, for instance afford diners a more intimate experience of how the various ingredients that go into their meals are prepared than even high-end restaurants with “open” kitchens can offer. These layouts create a sense of a “theater in the round” that adds to one’s overall appreciation. Much of what good design does is not to just provide an enjoyable experience, but to give customers a reason to come back.

One Company’s Experience

The experience of one regional supermarket chain in the Northeast that has begun implementing the destination center concept is instructive. Beginning with three stores, the chain has deployed a concept that includes full service coffee bars and nine serviced food stations. These provide a variety of items such as made-to-order sandwiches, salads, stir-fry and burritos, as well as noodle bowls and other hot bar dishes. Complimented by these menu items are grab-and-go prepared foods that all use store-brand and private label ingredients. An additional three more destination centers are in the works with improved designs based on lessons learned from the first three.

As pilot projects, the chain’s first three destination centers were redesigned from existing store footprints. Future ones will be included as dedicated spaces in new construction based on a hybrid strategy that relies on both dine-in and grab-and-go offerings. The company’s current plans are to continue the program with another dozen or so hybrid program/destination centers over the next several years. One of the considerations in the chain’s decision about which stores to put their initial destination centers into was to choose locations where the concept would be unique. Competitors in those markets had nothing similar to offer. Made-to-order, full-service workstations where menu items can be made to customers’ wishes are a big differentiator in those stores’ markets.

The chain’s effort started from a goal of wanting to highlight their in-store brands and

drive higher volumes. From those items, along with other ingredients, they built an initial menu. That first menu was fairly extensive. Since then, they have been learning what works and what needs to be changed by continuously assessing what products to offer based on the current trends in their categories and what best-in-class QSR operators are doing. These included specialty outlets like Starbucks and other coffee companies as well as sandwich chains like Subway. The intent is to take what those businesses do well and offer the chain's customers a quick-service outlet that offers quality ingredients and superior products.

Key to the concept is the ability to capitalize on integrating private-label products and other standard store items into the destination center offerings. Doing so allows them to forego having to rely on food service suppliers and to instead showcase their own products. The focus is on healthy, fresh and quick high-end ingredients that underscore the brand integrity of their products. Part of the equation in devising this mix relies on determining what quick-service means to their customers and at what point that priority intersects with quality and the integrity of their brand.

Early into the process, the company feels that it is excelling but that they still have more work ahead. This includes continuously comparing their pricing to those of other destination center operators so that they can be competitive while at the same time providing an increased value proposition. Taking this kind of a standardized approach provides a framework for operation that avoids cookie-cutter regimentation in planning their menu and product mix.

Clearly a lot of planning and preparation goes into the successful implementation and ongoing operation of these programs. A number of factors differentiate running a destination center from that of a standard store. For example, the program imposes a larger labor requirement on the stores than their standard operations as each station is serviced and customer-facing. So customer service training and empowering associates to solve problems by interacting with customers, instead of micromanaging the program from above is a huge factor. Another key consideration is that while food safety is crucial to any store with hot or cold food programs, there is a necessity of ensuring it rises to an even higher level when the food is being prepared in front of customers.

What results has the company seen so far? Two of the stores, in which they replaced traditional deli and bakery food operations with destination centers, have seen

increases of 15-20 percent in those categories. The third store, which did not have previous sales in those categories, has increased sales not only in its destination center, but in adjacent departments as well.

Based on the impressive results they have seen so far, the company plans to continue adding more destination centers to existing and new stores and forge ahead into the future.

A Path Toward Success

The example of one company's process in establishing a destination center program bears out the importance of five critical factors. These are:

- Food & Menu
- Layout & Flow
- Talent
- Versatility & Flexibility
- Merchandising

By focusing on these areas, supermarkets looking to achieve improved results can greatly increase their chances and bring to their customers a far more engaging and enjoyable experience. The importance and value of each one of these to a successful effort cannot be overemphasized. Combining all of these factors into an approach that balances them together increases the odds that a destination center will benefit a store's overall operation.

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