



*Coca-Cola*

# RETAILING RESEARCH COUNCILS

Research by Retailers • CCRRC.org



# SMALL IS THE NEW BIG

Understanding And Leveraging The Growth Of Small Stores

**Small is the New Big** is a report from the Coca-Cola Retailing Research Council (CCRRC) Europe, Middle East and Africa (EMEA). The CCRRC was created by The Coca-Cola Company in 1978 to provide third-party research to its retail customers. Today, the Coca-Cola Company continues to support the Council to ensure that all grocery and convenience retailers have access to relevant insights that can help them grow their businesses.

The CCRRC councils are present on five continents. The EMEA council, comprised of current and former senior executives from some of the region's leading grocery retailers, formed in 2017 as a combination of the former Eurasia and Africa council and the European council represents 118 countries with more than 2 billion consumers.

CCRRC members identify projects they deem to offer significant value to the entire industry, as well as their own companies. The retailers of the CCRRC EMEA determine their own path, including the projects they pursue, and the consultants hired to work on various projects: "Research by Retailers, for Retailers."

The CCRRC commitment to improve the entire retailing industry is supported by [www.ccrcc.org](http://www.ccrcc.org), a website where all completed studies are made available for anyone to read and download.

For this project, the CCRRC partnered with Nielsen, a leading global provider of information and insights about consumers and markets worldwide. The Nielsen approach marries proprietary Nielsen data with other data sources to help clients around the world understand what is happening now, what is happening next, and how best to act on this knowledge.



**“What are the biggest growth opportunities from small-store retailing in EMEA countries, and how can small stores evolve to serve the future shopper better?”**

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# PREFACE

## OBJECTIVES AND SCOPE

This report addresses a question posed in 2016 by the CCRRC EMEA: “What are the biggest growth opportunities from **small-store retailing in EMEA** countries, and how can small stores evolve to serve the future shopper better?”

Why was this topic chosen? On the one hand, small self-service stores\* are definitely growing in number, performance, and market share, due to a number of supportive global trends, as well as considerable investments by retailers to make these outlets more relevant for shoppers—investments comparable in frequency and diversity to those seen in digital retailing. On the other hand, despite growing investment and the increasing innovation, many retailers struggle to operate as profitably as they might like in this area. This is true of major small-store chains, independently run stores or franchised outlets (some of which are finding large-scale expansion challenging), not just of the large supermarket chains whose business models have enjoyed enormous economies of scale that do not fully apply to the small-store channel.

The 2001 CCRRC Europe study, *Store of the Future*, suggested that the expected growth of this channel in the future would result from real and perceived time pressures and their implications for routine or “chore” food shopping. The report noted that “the proportion of planned shopping will decline, and the food store will increasingly need to provide immediate access to food, groceries and home meal replacements”.

What the report did not foresee was that this dynamic would lead to an **explosion in small store types and formats** – not just from the large grocery players, but from new entrants and revamps of existing players in other channels, such as petrol stations. Nor was the subsequent impact this was to have on shopping-trip fragmentation foreseen.

However, past success is no guarantee of future results. Furthermore, the retail landscape in EMEA continues to experience rapid changes in terms of both supply and demand. Whether you are a large supermarket chain (in or out of the small-store market) seeing almost all the growth happening in small stores, or a small-store chain experiencing growing pains, you need to know what posture to take. Is this a good bet for the future? (Spoiler alert: yes.) If so, how should you proceed?

\*See exhibit 2 on page 8 for the definition of “small store” for the purposes of this study

Answering this question for EMEA meant comparing **six markets** with **diverse retailing dynamics** that could represent different versions of the region’s challenge through which to present our findings to the industry (Exhibit 1): Belgium, Russia, Spain, South Africa, Turkey and the UAE. Belgium and Spain represent different versions of retail development in countries with above-average disposable income for EMEA. The UAE offers a unique mix of above-average income and a rapidly developing retailing market. Russia possesses a rapidly developing retailing market where a comparatively large percentage of small store retailing remains in “unstructured” traditional trade. South Africa is a large market with both a mature large-store retailing channel and a relatively fragmented small-store one.

Finally, Turkey offers a chance to review rapid development in small-store retailing models where a large traditional-trade landscape coexists with a highly developed and diverse mix of small-store concepts. We identified six different small-store formats in these markets: small supermarkets that are part of larger supermarket chains servicing top-up shopping trips, discounters that offer competitive prices in convenient locations, specialty stores (alcohol and food), local small stores that are generally independent, convenience stores focused on more immediate consumption, and petrol stations.

**Exhibit 1: Market Selection Indicators**

Country	GDP Per Capita PPP (USD2016)	Urbanisation Rate (2016)	Mobile Penetration	Internet Penetration	Traditional Trade Share Of Retail Sales	Ecommerce Share Of Retail Sales
Belgium	45,308	98%	111	85%	N/A	4.5%
Russia	23,854	74%	117	76%	60%	<1%
Turkey	20,391	74%	97	60%	60%	<1%
UAE	70,997	86%	N/A	94%	38%	N/A
Spain	36,480	80%	121	82%	N/A	<1%
South Africa	13,301	65%	175	56%	20%	1%

Source: Nielsen/ Economist Intelligence Unit (Mobile Penetration: Subscribers per 100)/ World Bank/ United Nations

## Exhibit 2: Small Self-Service Store Types



### Small Chain Supermarket



### Discounters



### Specialty Stores



### Local Small Stores



### Convenience Stores



### Petrol Stations



Source: Nielsen, Google Images

**What is a small store?** Standard industry definitions of a small store include both traditional trade and modern trade, and range in size from below 150m<sup>2</sup> all the way up to 1000m<sup>2</sup>. Shopper perceptions vary widely and are very subjective, particularly across borders. We put the question to shoppers in different markets and received a wide range of answers.

A Spanish shopper was alive to changes in the market, noting,

**“I must mention the small stores which the main hypermarkets are beginning to open, such as Carrefour Express, which offer the same price as the supermarket but with less variety and closer to home.”**

One Belgian Shopper said,

**“When I think about a small store, I think about a store by a gas station or a small grocery store or a small convenience store. I think they do not have a lot of choice or less of an assortment anyway.”**

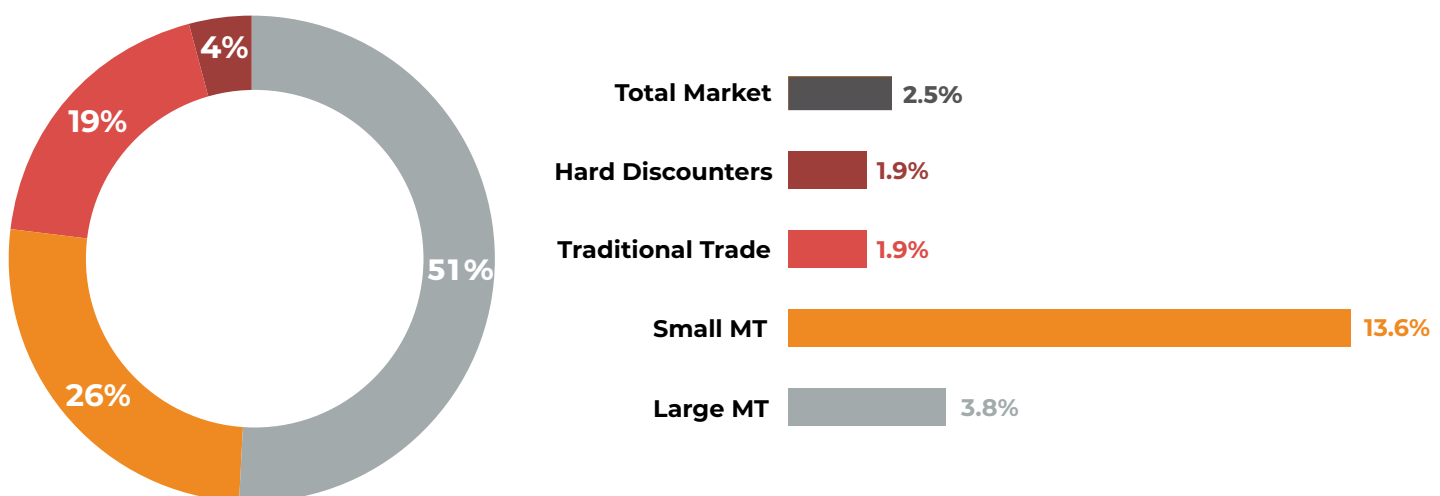
A Russian shopper noted,

**“They look like such cute huts where goods are sold - on a small area you can buy a lot of useful and interesting things, from sweets to pasta and fresh fruits. For me it is “Perekrestok Express” and “Vkusvill.”**

This bewildering range is part of the reason those trying to decide whether to play in the small-store space, and if so how, have trouble framing the question. In this report, **we define the small store as a self-service store between 150m<sup>2</sup> and 500m<sup>2</sup> in size**, focused predominantly on food and drink shopping trips. This range captures the bulk of small modern trade stores in EMEA, as well as what shoppers typically refer to as small stores when talking about small shopping trips. (Exhibit 2 shows the 6 store types in the 6 markets selected that are covered by this definition). We excluded traditional trade and pharmacies from the scope of study to the extent that their product mix is biased towards lower frequency purchases or that they are serviced retailing outlets where interaction with the store owner or pharmacist is essential to the shopping experience.







Even within a constrained definition, small stores are surprisingly important to the overall market. Many industry observers focus on the growth in recent years taken by hard discounters, and there is a legitimacy here: in Turkey, Russia and Belgium, shoppers visited discounters almost eight times a month. As of 2016, however, discounters were a very small part of the global market - 4% of measured sales in USD terms - compared to **small stores, at 26% of sales**. Further, although small stores claimed only half the revenue share of the larger modern trade formats, which claim 51% of sales, they were far and away the fastest-growing segment of all, expanding at 13.6% by value as against 3.8% for large modern trade, 1.9% for hard discounters, and 1.9% for traditional trade (which claims the remaining 19% of the market).

**Exhibit 3: Small Store Global Performance - Market Share By Dollar Value**  
(Sample Of 40 Countries and 31 Categories, 2014 over 2013)



Large MT (Modern Trade): Hypers + Supers  
 Small MT (Modern Trade): Small Supermarkets (10%) + CVS (10%) + Drug Stores (6%)  
 Traditional Trade: Traditional Stores + Kiosks + Bars + Specialty Stores  
 Source: 2016 Global Retail Strategies Report

# Exhibit 4: Small Store EMEA Performance

	CHANGE IN NUMBER OF STORES	SALES GROWTH	% OF SHOPPERS*
	173%	23%	4%
	29%	1%	12%
	25%	5%	-1%
	2%	0%	4%
	-21%	NA	8%
	-22%	1.2%	4%

Source: Retail Audit Data. Europe 2006:2016; Turkey 2008:2016; Spain 2006:2016; Russia 2014:2016; UAE 2015:2016; South Africa 2012:2017; Belgium 2006:2016  
 Turkey: Small MT + Small Discounters; Russia: Suprettes + Small Discounters  
 \* Past 4 weeks Shopper Trends 2013-2016

By our definition, small stores hold a quarter of the market in every geographic region by US\$ value, except Middle East/Africa, where they currently claim 15%, but where they are growing even faster than elsewhere. Today's small store success measures are both an opportunity and a warning: if a retailer chooses not to participate in this channel then that company is ignoring the fastest-growing physical food retailing opportunity in the world. What supports this **significant share** of the market and **extraordinary growth**? Put simply, shoppers patronise small stores all the time in the six markets we studied (Exhibit 5). The shoppers in our survey claimed an average total of 56.1 trips a month to 10 different types of stores for their food and drink needs (the figure ran as high as 74.6 trips in Turkey).

Indeed large stores still play an anchor role in our shoppers' "store repertoires", accounting for 10.1 of those 56.1 trips and, of course, a majority of their expenditure: we know these particular shopping trips are likely to be the larger, stock-up missions to refill the fridge and pantry. However, the small stores included in our definition claimed a total of 18.5 trips: stores between 150m<sup>2</sup> and 500m<sup>2</sup> in size being "shopped" at almost double the rate of the large stores, a clear factor behind the success we are seeing in this channel. The remaining small stores accounted for 21 trips, the largest number among all segments. Although this group lies outside our formal small-store definition, these stores (bakeries, cafes, coffee shops and traditional trade stores), when combined with our study group make small stores far and away the most visited category by our shoppers.

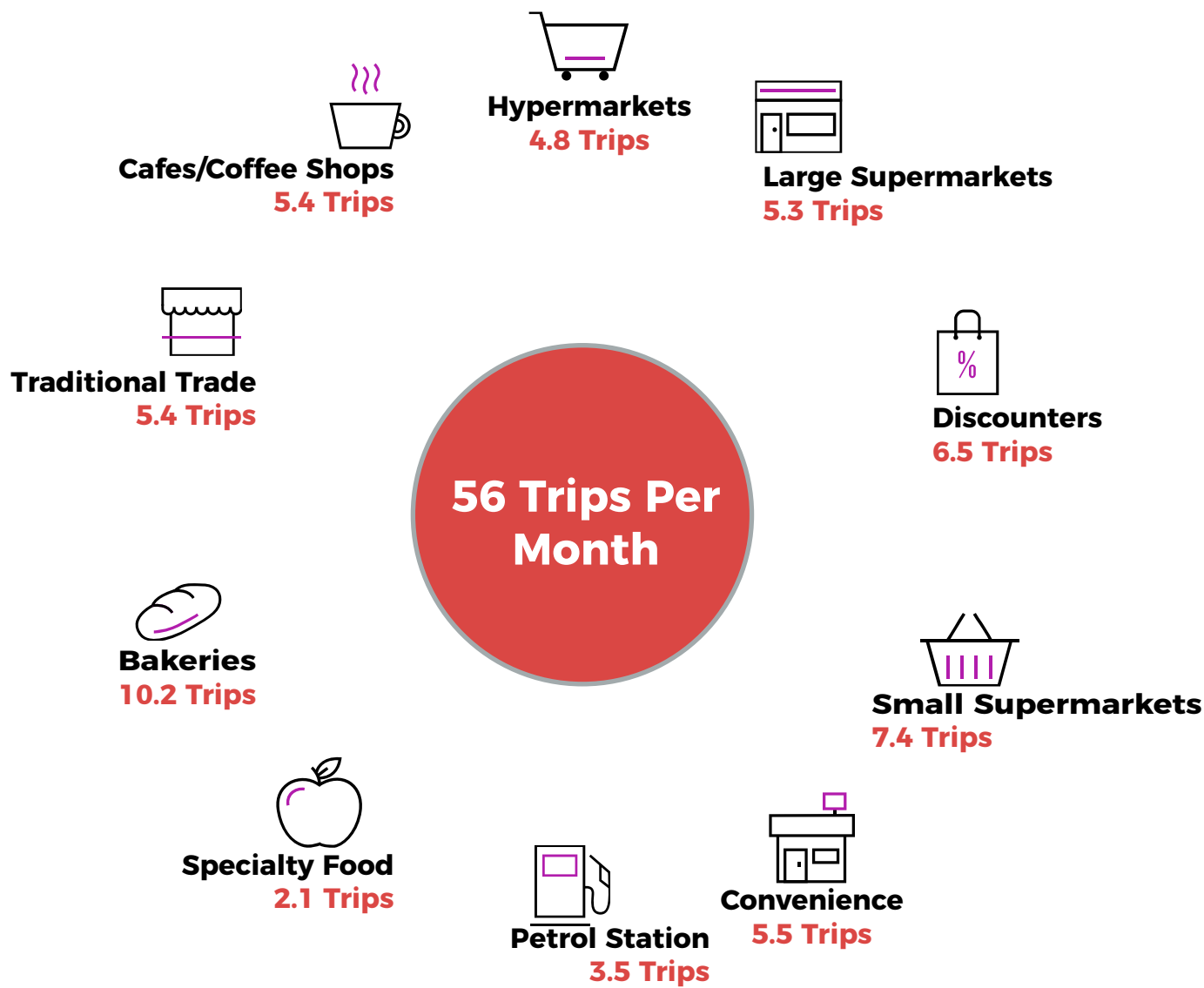
A final group worthy of comment are the discounters, which made up the remaining 6.6 of our shoppers' trips. In our six countries, some of these discounters are larger formats (Belgium and Spain) and some fit into our chosen small store segment parameters (Turkey and Russia). There are no discounters noted by our shoppers for now in the UAE and South Africa (despite the presence of local concepts which are treated as discounters by industry experts). Amongst the discounters the case for small stores was also supported. The smaller-format discounters showed a higher visit frequency, consistent with the broader story, than the larger ones (Turkey at 12.3 vs. Spain at 6.4), pointing once again to a shopper need for smaller store formats, whatever type of channel they may be.

Taken together, **small stores collectively accounted for over 70% of all shopping trips** in our study. A very significant development by any measure, and one we delve into deeply in this report. Once we had agreed on a definition of the small store, we embarked on various kinds of research to understand the **retailer and shopper dynamics** of small stores today and into the future. We supplemented our extensive desk research with "Super Shopper" qualitative research using day-in-the-life video diaries in each of our six markets, and "opinion leaders" interviews with retailer CEOs and leaders in store strategy and format development.

Working from this base of insight, we proceeded to quantify our findings through an extensive questionnaire aimed at understanding shopper motivations, usage and attitudes with regard to this breadth of small stores, how they perform against shopper demand, and where they fall short. Finally, it was imperative that the report be forward-looking, rather than simply document the recent history of small store developments or the state of small stores today. Accordingly, we leveraged a large, global, creative, online community to "crowdsource" a picture of what the small store of the future might look like for shoppers, what broader role the store could play in their lives through new categories or services, and how technology might change the overall experience, whether physical or digital.

When the work was complete, we reviewed all our findings with the CCRRC EMEA, and agreed upon the conclusions and recommendations for current and future small store retailers in EMEA.

Exhibit 5: Shopper Reported Store Visit Frequency



Source: Quantitative Survey n=3188





## EXECUTIVE SUMMARY

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*Small is the New Big* seeks to understand how retailers can capitalise on the momentum in small store retailing that many have observed, while ensuring that decisions taken today incorporate a vision of the future, so as to allow near-term investments to improve shopper loyalty over the next five to ten years in a retail landscape that will continue to change.

**SECTION 1: GLOBAL TRENDS** reviews shifts in demographics, living arrangements, shopper behaviour and technology supporting the current and future growth of small stores across EMEA countries.

**Urbanisation** has brought rural residents all over the world into the cities. Urban residents live in smaller spaces short on storage. They often do not own cars, so they rely much more on a local, small store or group of stores. The fact that they cannot shop the same range as in a large store matters less, because they cannot transport much home on one trip and may not have the space to accommodate a full, traditional stock-up mission. In extreme cases, seen in Japan, Thailand, and a growing number of other countries, city residents may even purchase new dwellings that do not even have kitchens or refrigerators!

**Small household size** is a natural result of urbanisation. The move to the city is accompanied everywhere by shrinking families, a phenomenon also driven by increasing levels of education, later and fewer marriages, and the rise of older people living alone or in couples rather than with their offspring's families - as well as the next global trend.

**The entry of women into the workforce** has eroded the focus on cooking from scratch that the large store excels in serving, and created a significant new cohort that makes a natural customer for the small store near their home, at their workplace, or somewhere in between. Working women have little time, and multiply the on-the-go needs that are the natural preserve of small stores. With the reduction in eating at home comes, of course, more **eating out**, a need small stores are responding to by offering ready-to-eat foods and, increasingly, spaces to eat them in. Finally, the extraordinary rise in **smartphone penetration** has brought huge new categories, namely air time and package collection, to the small-store owner. Smartphones are also changing the way the shopper pays for purchases with operational benefits for small stores today and tomorrow. The future growth of mobile apps supporting order-to-collect and order-to-deliver marketplaces like Delivery Hero and Just Eat, should open new ways for small stores to benefit from this phenomenon.



## SECTION 2: SMALL-STORE ESSENCE

identifies the core elements of the small store experience across a wide variety of concepts, with the goal of helping retailers and their suppliers understand the wide range of investment choices they can make to take advantage of the small store opportunity. As noted, many players have struggled in the small-store market. Those struggles differ for different players – small-store chains are struggling with large-scale expansion, while large supermarkets are struggling to adapt their distribution networks and business models to serve an entirely different format. To address the challenge successfully, both small-store chains and large supermarkets need to cut through the considerable **complexity in the small-store space** – the range of business models in play, the retailers coming in and out, the many openings and closings. Accordingly, we have worked to distil what makes our disparate collection of small stores important and therefore attractive to shoppers – a distillation that has yielded **an equation for the essence of small stores** that we believe can be described in terms of four variables: **time, choice, price and experience**. The importance of these variables varies by market, by the urban or rural nature of the region, the mission of the shopper and other factors – but the equation is a universal one. This is the longest section of the report, and examines the current performance of small stores in detail on each of these four dimensions - and how well they are meeting shoppers' expectations not just in our 6 markets but also comparisons across Europe, Asia Pacific as well as Worldwide.

**SECTION 3: GROWTH** explains how **global trends will continue** to support growth and reminds the reader why the small store equation is needed to seize the opportunity. The currently noted success is not a blip, and staying out (or getting out) of the small store space means ignoring a big and growing market. It is in this section that we examine three forces that, while not currently achieving "global trend" status, nevertheless act as important drivers of small-store success. One of these is transport, particularly the development of driverless cars; another is technology beyond the smartphone; and the last is the nature and importance of the "Super Shopper", the small store's most valuable customer. It was through examining the effect of the global trends on small stores that we identified "Super Shoppers" of small stores, a crucial group to understand for both today and tomorrow's small-store business models.

**Section 4: THE FUTURE** looks at two distinct environments for which the "small store essence" equation needs to be applied, given the many variables that go into any prediction of the future, and the concomitantly broad range of possibilities that must be considered. Here we speak of a "known future," extrapolating current trends, and a "future future", which looks at possibilities five-to-ten-years from now. The former is extrapolated from trends we can already see are well developed. The latter borrows from emerging ideas which have not yet reached meaningful scale, but which are present in some form in different areas of the world.

We and many in the industry believe that, in the “known future,” the most important element for small stores will be saving shoppers time from the moment they leave home or work to reach the store, to the moment they complete checkout in the store. Reducing this “total trip” time can be a USP for small stores. The digital version of this aspiration is **“bringing the store to the shopper”** rather than obliging the shopper to come to the store via apps, delivery options, and virtual store locations. This removes travel time entirely - although it replaces it with delivery time. Different players will have to look at their existing businesses and choose where to focus to maximise their chances of profitable growth.

In this first part of Section 4, having looked at how small stores in EMEA perform today in Section 2, we turn to how they **could** perform in future against their major competitors including digital retailing (eCommerce marketplaces, retailers, and delivery platforms) for a look at how they are likely to compare to this rapidly emerging group of competitors. We drew on a variety of experts in developing two scenarios we see potentially emerging at scale across EMEA markets.

But what about the future-future?

**“Predictions are difficult, especially about the future”** a saying generally attributed to Niels Bohr, the physicist reminds us that the further out you project, the more time there is for disruptive events that transform industries to occur.

Given the range of possible futures, there is some value to a so-called “real options” strategy, which identifies choices to be made at different points in the future, depending on

what happens. Even this procedure involves choosing a fairly narrow range of futures, none of which may materialise.

Accordingly, we pursued a tactic retailers have used with increasing success to examine the implications of future developments: “crowdsourcing”, in which we put out a brief to a worldwide community of thinkers – real current small store shoppers across the globe—to tell us what that future might look like for them. That community has returned to us multiple visions of what the small store of the future could look like—a number we whittled down to the profiles in Section 4, designed to bring our “future-future” to life

**Section 5 WHAT NOW?** concludes the report. Having, in Section 4, identified what the known future and future-future are likely to look like, this conclusion is devoted to the kinds of questions retailers need to ask themselves, and to how they should make decisions, if they are to leverage our small store essence and future possibilities most effectively in the context of what **small-store strategy best suits the emerging shopper and retail landscape**, their current business and operating models, and their overall aspirations in the small-store space.

In recognition of the fact that detailed plans about the far future are a little bit like drawing up a design for a library for a time when physical books may no longer be published, we have structured this last section as a set of questions, along with briefly sketched potential solutions as a guide for the many current and future small store retailers across EMEA.

## INTRODUCTION

### The rise, fall, and rise of the small store

The small store is not a new concept. Open-air public markets were known in Babylonian, Assyrian, Phoenician and Egyptian town centres. In ancient Greece, markets operated in the agora. In ancient Rome, trade took place in the Forum. But the small store as we know it has its immediate origins in 13th-century England. In Chester, a medieval covered shopping arcade represented a major innovation that attracted shoppers from many miles around. It was only in the last century that competition from large modern supermarkets challenged small stores as the dominant form of retailing for everyday household needs. The widespread ownership of automobiles and the technologies and infrastructure that made possible pre-packaged food delivery at scale

**Exhibit 6: Medieval Shopping Arcade  
Chester, England**



Source: Google Images

tipped the balance of trade away from urban small stores to the suburbs, particularly in America. Now, people could drive 15 or 20 minutes to very large stores that offered them enormous choice at affordable prices, and buy as much as they could pack into their car. Indeed, in many of the countries where such large, more distant stores did not already exist, cities expanded to include suburbs that did not have a full-scale small-store infrastructure. Ultimately, then, small stores could not match the efficiency-led pricing model of the larger out-of-town stores, and their location advantage was not enough to tip the balance back. By the 1990s, the modern supermarket and hypermarket had swept the world, growing in numbers and market share as the total number and revenue of small stores declined. Small stores were either poorly located for automobile based shopping, failed to offer a quality assortment or could not compete on price.

Today, however, **the small store is back, and back with a vengeance.** Traditional supermarkets face market saturation, eCommerce and discounter competitors just as various global trends and industry disruptors are increasing custom and levelling the playing field for small stores in various countries. The success of 7-Eleven Japan on the back of technology-driven supply chains gave rise to a new model of small store retailing in Japan and, eventually, across much of Asia and parts of Europe. The combined success of 7-Eleven, Lawsons and other small store business in Asia and Northern Europe makes them the most shopped concepts in those markets today.

## Exhibit 7: Tiendas Oxxo Mexico (Twitter Campaign)



*Translation: We like to be a part of your stories, for this we are open 24 hours a day.*

Source: Google Images

Another success story came from the emergence of Oxxo in Mexico during the 1990s—originally as part of a vertically integrated strategy deployed by one of Mexico’s largest beer companies, which knew very well the importance of traditionally-serviced small stores. Centralised logistics and fully-owned outlets allowed them to standardise their footprint and offer a better shopper experience than other stores. This has created one of Mexico’s most trusted retail brands, not just for their own store transactions

but also as a service for other online retailers like Mercado Libre and Elektra. A 2017 study from the Mexican internet Association estimated that 35% of all offline eCommerce payments in Mexico are made via Oxxo stores, since shoppers feel safer paying in an Oxxo store than through another online payment gateway. Today, the Oxxo model is spreading throughout Latin America -

**“Siempre listos, siempre ahi” -**

**“always ready, always there”** - is proving very appealing to shoppers, along with Oxxo’s constant innovation in products and services in pursuit of the desire to be “part of all your stories, 24 hours a day.” We regard that as a distillation into less than ten words of the ideal ambition of the small-store operator.

Even within markets where overall small store market share remained smaller, such as the United States, we have seen the rise of companies such as Wawa Markets, a fusion of food service and retailing in a small store. Approximately 40% of what they sell is prepared foods as part of a mix of food, coffee and petrol that has made them one of the best loved retail brands in their markets.

**Large supermarkets**, cognizant of the growing opportunity represented by small stores, developed their own small stores by extending their model into a smaller box on the back of their access to capital. In the United Kingdom, Tesco bought One-Stop and Sainsbury's launched a joint venture with Shell. But the "return to small," although initially profitable, proved challenging to those used to the large-store operating model. Higher distribution costs, higher shrink and waste rates, higher costs as a percentage of basket value, limited promotional space, and the impulse-buy model shoppers associate with small stores – all these required large store chains to adapt their supply chains and processes in search of new efficiencies, and to rethink product mix and pricing. Eventually, they found their way to a mix of choice, price and time savings that contributed to the **explosion in top-up shopping trips** in many European markets.

But revenue and profitable growth are not the same thing. It remained hard for large-store networks to justify operating stores between 150m<sup>2</sup> and 500m<sup>2</sup> in size when the returns were compared to those made by the large-store model. So in many cases, multi-channel retailers increased prices in small stores to compensate for higher costs and to meet return on investment expectations, and the "small large store" became known by shoppers as more expensive, slowing their expansion.

**“(small store) per square metre cost is much higher than the cost in a supermarket” - Retailer**



Despite some challenges, the small-store model is trending rather than plateauing. The **150m<sup>2</sup>-500m<sup>2</sup>** segment is already at **26% of all global grocery market sales** (dollar value), and is growing at close to 14% on the back of more stores and increased per-store spend. All other channels are growing at an average of only 2.5%. In a world of retail disruption, investors now value small-store chains at extremely high multiples, as witness the recent purchases of Zabka in Poland, Profi in Romania and Pilot Flying J in the United States.

This “back to the future” scenario presents an enormous opportunity for players large and small to develop the literally hundreds of thousands of locations that could accommodate a “small store of the future”. It is also a considerable challenge for retailers that have got used to higher profits based on economies of scale and category expansion due to their large square footage.

The **global trends driving this renaissance** are urbanisation, smaller households, higher percentages of women in the workforce, the rise of eating out, and exponentially increasing rates of mobile penetration. We now turn our attention to those trends.

**Exhibit 8: USA, Europe & Asia - Change In Small Store Numbers**



Source: Nielsen Retail Audit Data

US: 2011- 148,126; 2015- 154,076

Europe: 2011 - 86,288; 2016- 182,837 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK)

Asia: 2011- 223,762; 2016- 337,979 (HK, Taiwan, China, Korea, Singapore, Malaysia, Thailand, Philippines, Indonesia, Vietnam)



# 1 GLOBAL TRENDS

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We have identified **five megatrends** that are collectively driving the extraordinary penetration and growth of the small store: urbanisation, smaller households, higher percentages of women in the workforce, the rise of eating out, and the exponentially increasing rates of mobile penetration.

## Urbanisation

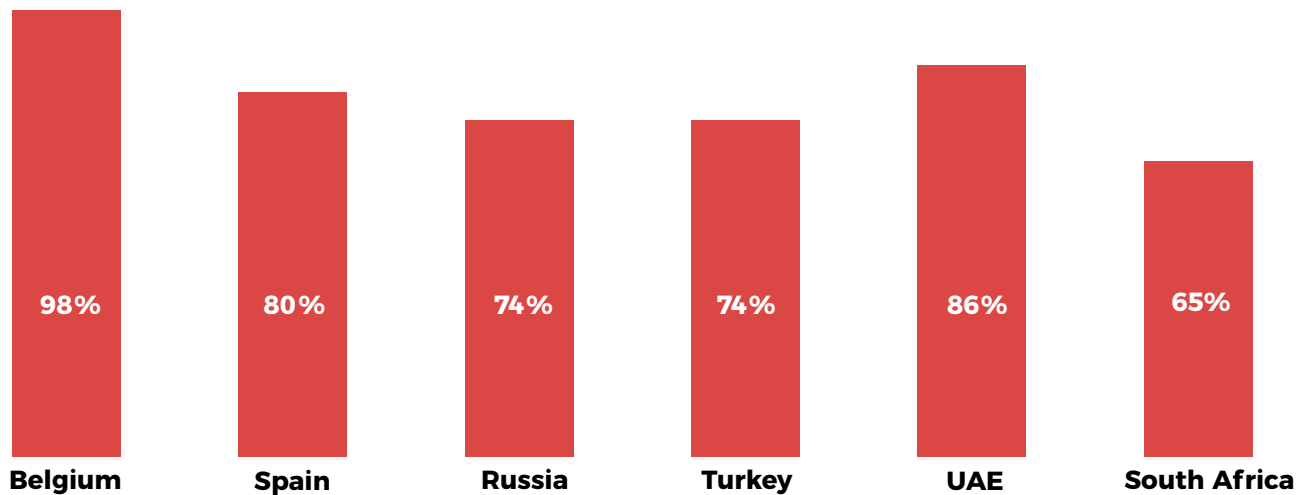
Every 2 years, the UN publishes a report on world urbanisation trends. According to the latest available report (2014), globally, more people live in urban than in rural areas: 54 percent of the world's population lived in urban areas in 2014, up from 30% in 1950. This figure is expected to rise to **66% by 2050**. The sheer numbers are staggering. In 1950, the world's urban population was 750 million. By 2014, it was almost 4 billion. Meanwhile, the global rural population was close to 3.4 billion in 2014, and is expected to decline to 3.2 billion by 2050 - the other seven billion will live in urban areas.

The most urbanised regions include North America (82 percent), Latin America and the Caribbean (80 per cent), and Europe (73 percent). By contrast, Africa and Asia remain mostly rural, with 40 and 48 percent of their respective populations living in urban areas. But all regions are expected to urbanise further, with Africa and Asia urbanising faster than the other regions towards 56 and 64 percent urban, respectively, by 2050.

**People who live in cities drive fewer cars**, and live in smaller places – as noted, throughout Asia younger people are beginning to live in apartments without kitchens or fridges. Even when cooling and cooking facilities are available, city homes offer little in storage space for food. There is simply nowhere to put the food from a “big shop,” which you are not going to undertake if you do not have a car anyway. Urban dwellers have usually made their way to the city for the employment opportunities, which gives them at once less time to head to a big supermarket to stock up for the week, and more opportunity to pick up what they need each day at a small store. And there is less space to eat comfortably at home, anyway, making eating on-the-go or in a local store more attractive. Add in the fact that the many street-level spaces at the base of the multi-story buildings that are urbanisation's hallmark are more valuable as retail space than as residences, and the rise of the local and hyper-local small store as people head to the city seems inevitable. The rise in the small store segment, both in store numbers and fortune, whether one looks globally, by continent or just at the six markets in our study is remarkable, but not surprising.



Exhibit 9: Urbanisation Rate



Source United Nations 2016

## Household Size

Because of declining fertility rates, average household size has declined nearly everywhere. In France, average household size fell from 3.1 persons in 1968 to 2.3 in 2011, as total fertility fell from 2.6 to 2.0 live births per woman. In Kenya, average household size fell from 5.3 in 1969 to 4.0 in 2014, concurrent with total fertility decline from 8.1 to 4.4 live births per woman.

The number of children worldwide aged 0-14 fell by an average annual rate of 0.1% in the decade between 2000 and 2010.

The highest proportion of children are in developing countries: as development increases, childhood numbers fall. Even in the less-developed Middle East and Africa region, where child population growth rates are among the highest, there was a sharp

fall in fertility rates between 2000 and 2010, from 5.3 to 4.6.

Particularly relevant to small stores is the **rise of “singletons”**: households populated by one person are skyrocketing around the world, a demographic driven by younger singles exchanging relationships for careers and education. A growing number of the elderly live alone, too, whether due to rising life expectancy, the growing number of widows and widowers, and the increase in divorce, or other reasons. In 2010, the proportion of 65+ year-olds to the total population was 12.0% worldwide in 2010, and much higher in countries such as Japan (36.2%) and Germany (31.2%). Many one-person households house the “Super Shoppers” we discuss later: high users of all types of small stores who rarely visit large stores for which they have little need.

How is this reflected in our six-country sample? Between 2000 and 2012, people per household dropped in Spain from 3.1 to 2.6; in Russia from 2.8 to 2.6; and in Turkey, from 4.3 to 3.9. The UAE and Belgium show similar effects. Only South Africa, on a still-fast-growing continent, showed a small rise from 3.8 in 2000 and 3.9 in 2015 – an exception that may be related to the greater difficulty small stores have had in South Africa.

Smaller households have less incentive to cook, little need for the big stock-up trip to the supermarket, and, typically, more disposable income, making them less price sensitive, and so that much more likely to buy a meal at a local store. More broadly, **smaller household size is linked to greater urbanisation**. Housing is more expensive in cities, leading to smaller living spaces and smaller household size. And smaller household size makes moving to the city more affordable. So smaller household size drives the rise of the small store in every way urbanisation does.

## Role Of Women

The female labour force participation rate today is higher than three decades ago in the majority of countries, across all income levels. The World Development Report for 2012 estimates that the global rate of female labour force participation increased from 50.2 to 51.8 between 1980 and 2008.

**Dropping fertility and changing policy.** Lower rates of fertility allow women to enter the workforce more easily. Further, as countries develop, childcare and other family-oriented policies tend to develop, too, which also allows for greater workforce participation.

Exhibit 10: Women in the workforce-EMEA

Country	1980	2015
Belgium	31%	48%
Russia	61%*	63%
South Africa	23%	48%
Spain	27%	53%
Turkey	26%**	31%
UAE	16%	42%***

Source: World Bank 2016 (\*1989 \*\*2001 \*\*\*2009)

## Changing culture and social norms.

Social norms and culture define the extent to which women can easily enter the workforce. Indeed, in many countries around the world there are still restrictions on the types of work that women can do.

## Structural changes in the economy.

With sustained development, women make educational gains. The value of their time increases just as the demand-side pull from growing service industries strengthens. More educated women move into paid, often white-collar work.

The implications for small stores, which excel at serving the needs of working people, are perhaps most obvious here. **So, increases in the percentage of women in the workforce translate directly into increases in visits to small stores.**

Assuming an approximate 50-50 split in population between men and women, every 10% increase in women's workforce participation should translate into several percentage points of increased custom for small stores, just as a matter of numbers.

In addition, working women have less time for larger trips to supermarkets further from home or work. They need more ready-to-cook and cooked food. When they do cook, they are likelier to shop daily for ingredients at a small store than weekly at a large one. And they are less likely to be price-sensitive, as they are contributing financially to the household. In short, the areas in which small stores are disadvantaged are likely to be much less significant for working women.

## Eating Out Of Home

We have noted that the entry of women into the workforce drives a greater need for prepared food, which increases the funds available for it, that smaller households cook less – and that urbanisation is intensifying all these phenomena. And in a world in which time away from the workplace is an increasingly valuable commodity, shopping for food is not top of the list of things people want to do with it!

The result is an explosion of demand for ready-to-eat, reasonably-priced food “where and when I want it.” Since supply always emerges to meet profitable demand, **small stores are becoming go-to places for ready-to-eat food.** Enter chains such as 7-Eleven, and many other small stores, which no longer offer just the traditional “doughnut and coffee,” but a whole array of hot and cold snacks, coffee, and meals - particularly breakfast, the meal most often purchased at a small store.

**“I charge my Starbucks card and pay (daily coffee) with my mobile using the barcode. After the 15th coffee I have a gift coffee”- Shopper**

This picture is most powerfully exemplified in the US, where spending on eating out as a percentage of household food expenditures rose from about 25% to over 40% between 1970 and 2012. But other countries are advancing along the same economic and often cultural timeline “behind” the US, as has so often been the case.

**Exhibit 11: 7 Rewards**



Source: Shirland Ventures Limited

## Smartphone Penetration

The ubiquity of mobile phones has created huge **new categories of urgent purchases** that are well suited for small stores. Demand for mobile phone services and accessories in small stores continues to grow. The busy shopper on the go needs data top ups, cracked screen repair, replacement headphones or personalised cases, all profitable sales opportunities and fast growing categories.

Once upon a time, when the world was younger, payments in stores were made by cash or cheque. More recently, these payment mechanisms were complemented, and to a considerable extent supplanted, by credit cards; more recently still, debit cards offered an additional payment modality, and credit card loyalty programs became more generous to help them hold payment share.

Now, the mobile phone is doing to credit and debit cards what they did to cash and cheques by providing an alternative payment method. The growth of **mobile phones as a payment solution**, particularly smartphones, offers new benefits and opportunities for both large and small retail stores. Mobile phones increase the opportunity to stimulate the high frequency repeat purchases that represent the majority of custom in small stores. Mobile phones make it easier to link loyalty programs and repeat purchase behaviour to offer more attractive prices through offers like a tenth drink purchase being free.

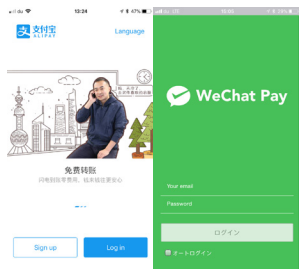
According to Newzoo Global Mobile Market Report 2017, global smartphone numbers today are 2.3 billion (~30% of the population), but this is expected to rise to 3.6 billion (~45% of the population) by 2020, and the countries we studied had much higher penetration. Exhibit 12 shows the UAE's penetration is 80.6%; Belgium's is 67.3%; Spain's is 66.8%; Russia's is 54.7%; and Turkey's is 49.8%. Only in South Africa – again, the country in our sample where small stores struggle the most – is it below 40%, at 36.2%. Even here it is changing quickly. Payment by phone (today in EMEA possible by both feature phones and smartphones) also helps small stores because servicing app-payment is typically cheaper than other payment modalities. Cash brings with it handling costs, “leakage” in the form of theft, and the need for storage and transportation. Although some forms of cashless payment may have high fees associated with them, competition between incumbent payment platforms and mobile apps may further reduce costs for all retailers.

Exhibit 12: Smartphone Penetration

Country	Penetration
Belgium	67.3%
Russia	54.7%
South Africa	36.2%
Spain	66.8%
Turkey	49.8%
UAE	80.6%

Source: Wikipedia- list of countries by Smartphone Penetration

Exhibit 13: Retailer View Cashless Payment

	Already Implemented	Still in Development
	<ul style="list-style-type: none"> <li>- Contactless payments with credit card</li> <li>- Apple Pay/ Samsung Pay - mainly big retailers/ premium</li> <li>- Alipay &amp; WeChat Pay</li> </ul>	<ul style="list-style-type: none"> <li>- Tap &amp; Go</li> <li>- Payments through social networks</li> <li>- Biometric Identification</li> <li>- Digital Currency</li> </ul>

Source: Interviews with Opinion Leaders



Reducing the time to shop is essential for the majority of small store shoppers. Apps and smartphones are evolving to offer faster and more secure payments with scans of fingerprints or faces.

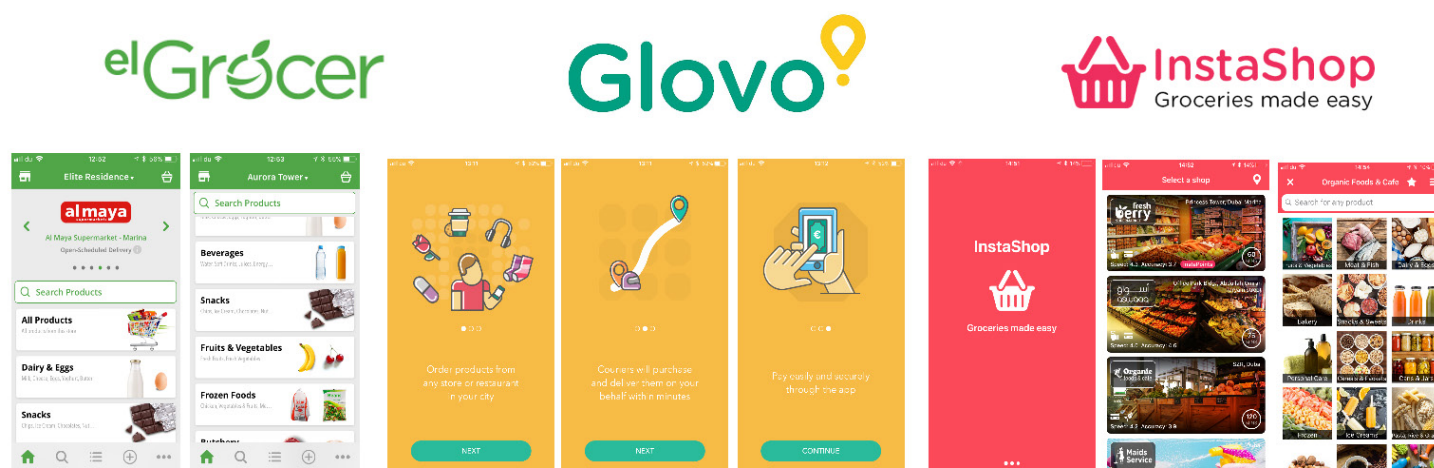
Small store retailers that are looking to realise the **benefits of cashless payment** will need to develop consistent processes and reassure shoppers. One Russian Super Shopper noted, “I prefer to have cash, just in case card payment is not available or not stable.” As cashless payment becomes a larger part of the business in the coming years, system availability and reliability will be critical to winning shopper loyalty and closing the transaction.

**Delivery and pick up** are crucial elements of online shopping, so the proximity of small stores to their customers’ homes and offices is fundamental. The emergence of apps that aggregate stores such as Glovo in Spain or El Grocer in the UAE are making it easy for shoppers to purchase products and services from small stores and have them delivered to home.

Urbanisation, the changing role of women, smaller households, the rise of eating out and the omnipresence of the mobile phone in our lives has led to the rise of a particular kind of shopper. They want to make small shopping trips quickly; they will sacrifice choice for convenience, especially if ready-made and eat-in meals are available; and, as long as they are all nearby, they will make more trips to more stores for a wider range of shopping missions than ever before.

Exhibit 15, which pictures the different roles these stores play in a day in the average shopper’s life, offers a graphic demonstration of just how prevalent and varied those roles are among those who use small stores the most (our Super Shoppers).

**Exhibit 14: Grocery App Examples EMEA**

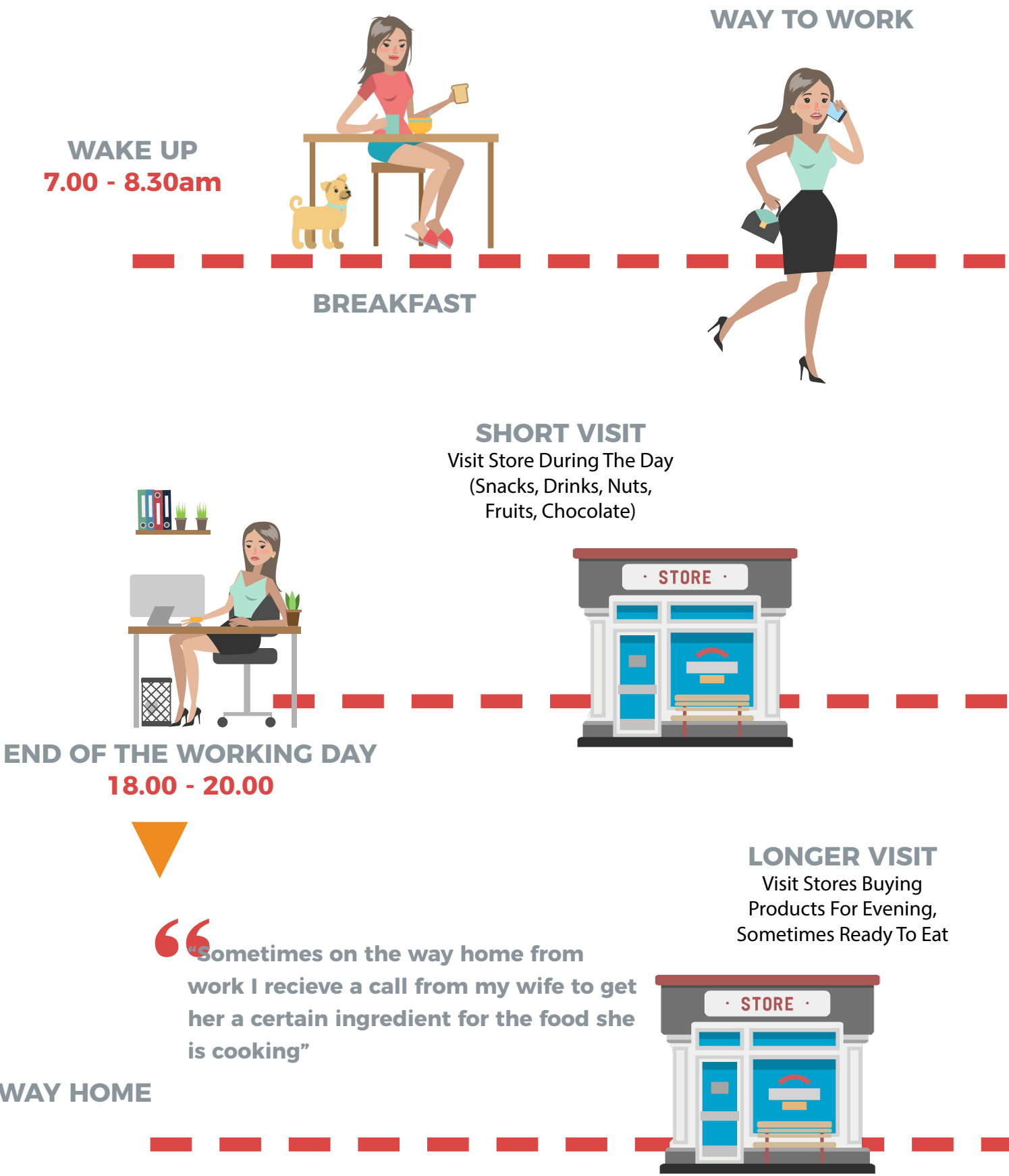


Source: Nielsen



Exhibit 15: Super Shopper Day In The Life

3 to 4 Small Shopping Trips Per Day: In The Morning, At Lunch, Mid Afternoon, And For Working Professionals Also In The Evening.



Source: Super Shopper Qualitative Engagement, n=108



“Mornings are mostly rushed, so breakfast in home can be missed. Packing lunches is also not routine - It's all about time”

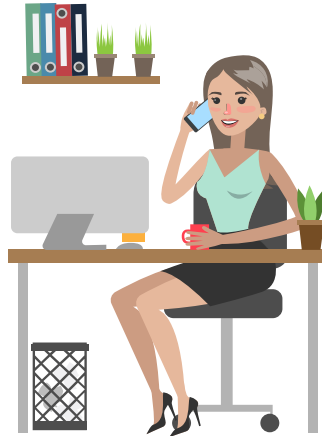
## SHORT VISIT

Visit Stores Before Work  
(Cigarettes, Drinks,



## WORK STARTS

9.00 - 10.00 AM



## WORK

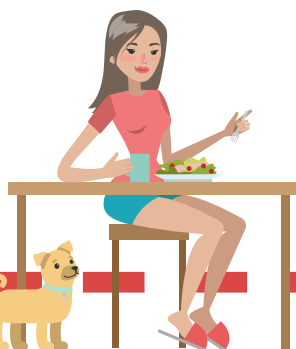


## SHORT VISIT

Having Business Lunch  
In Closest Cafe (12.30 - 14.30)  
Eating Food From Home Or  
Grab Something From Store  
Warm The Food If Needed  
(Microwave), Eat



Watching TV, Surfing  
Internet, Playing With Kids,  
Relaxing, Socializing With  
Friends



## DINING



## GOING TO SLEEP

23.00 - 00.30







# 2 SMALL STORE ESSENCE

In the early stages of development of every fast-growing industry, many different models of how to serve the customer boom, just as an immense variety of wild flowers bloom in an uncultivated field if the environmental conditions are right. Over time, however, in every industry, a process of consolidation occurs. Who will succeed? There is usually more than one factor, but what is clear is that some factors are more important than others – and it is those companies that come to understand what is most important to the customer in any given industry that thrive. Ford discovered – really, invented, the essence of the mass market automobile. As Ford grew, smaller car companies fell by the wayside, until only those few that learned the secret grew, organically and by acquisition. The small store universe today is still at that early stage. Companies that wish to succeed in the long run must understand what we have called the “essence of the small store”.

## A Success Equation

As noted, even limiting our definition of the small store to a relatively narrow physical footprint, we identified a minimum of six types of small store per market - everything from a petrol station to a small discounter to a “miniaturised” version of a large supermarket to a classic convenience store, to an independent specialist food or alcohol store. Is there something fundamental we can distil out of all the data?

We believe there is a fundamental equation that determines **the attractiveness of a small store**. We wrote, at the end of the previous section, of a shopper who favours swift, small shopping trips, who will trade off choice for convenience (yet still wants as much choice as possible!), who would like ready-made and eat-in meals on the small-store menu and is also willing to pay up to some degree to get what they want.

Imagine, then, awarding a store a score out of ten for how well it performs with regard to four variables: time, choice, price and experience, all essential considerations for any retailer in any market. Put mathematically,

**the equation for the essence of small stores would read “ $W(\text{TIME}) * X(\text{CHOICE}) * Y(\text{PRICE}) * Z(\text{EXPERIENCE}) = \text{attractiveness}$ ,” where W, X, Y, and Z are the weightings for each of the four variables in the equation. Specifically, we were able to extract shopper data unique to small stores that support the approximate weightings to apply for each variable (large stores in brackets for comparison purposes)\*.**

The precise weightings one must apply will differ by region, by whether the store is urban or suburban or rural, by store format, and so on, but the essential elements are the same. In essence, combine how well the store does on

## Exhibit 16: Small Store Essence

1

## TIME

For shoppers, the shortest time possible for each trip from 'need to shop' to 'checkout' and go

2

## CHOICE

For retailers, deciding when to offer a broad, general choice and when to specialise and differentiate

3

## PRICE

For shoppers, value for money varies by shopper mission and the store alternatives available at the time

4

## EXPERIENCE

For retailers, knowing what services would improve your chances of winning more shopper trips



## Small Store Equation\*\*

**\*TIME = 1.4 (1.2) CHOICE = 0.9 (0.6) PRICE = 0.6 (1.2) EXPERIENCE = 1.1 (1)**

these four important dimensions and you will have a good idea of how successful the store will be. Let us take them one by one to understand each variable in more detail.

## Shopper Needs and Behaviours

Looking back again, the 2001 CCRRC Europe Council 'Store of the Future' report predicted that mounting time pressures on people were set to continue: extended working hours, increasing leisure, time or activities, worsening traffic congestion and the like. "Routine or chore food shopping is fitted in around other activities...retailers will have to provide solutions (at times) that are convenient."

## TIME

We learned from our surveys that a store will ideally be close to home or work, or on the way from one to the other. On average, people are willing to spend up to ten minutes getting there, whether on foot or by some other transport method. Specifically, about 40% of people want to get there in five minutes or less. A third are OK spending 6-10 minutes travelling to the store. And the remainder accept it takes a bit longer. More people walked than drove to the store, **so proximity matters a lot.**

\*\*Source: Shopper Trends across 22 markets 2017

When they get there, if they are not walking, it must be easy to park the car, or the bike, or the scooter. Ideally, it will be convenient for mothers with kids and those with limited mobility. The earlier and later it is open the better, and people want to see both whether it is busy and the main things on offer from outside, as far as is possible.

Now they are in. Is it physically comfortable enough to take one's time and not feel the need to rush through the store? Whatever is going on outside, the shopper wants the store to be an improvement: if it is hot out, cool is good; If it is cold out, warm is good. Needless to say, people want to be able to find things quickly and easily, and not to feel constrained by narrow aisles as they do so. Anything on promotion needs to be particularly convenient-to-hand. And, depending how much of a hurry they are in, they want the right carrying device to hand.

Some want trolleys; some want baskets – and some will head straight for the shelves to pick a few things by hand! 70% of people surveyed used only their hands in petrol stations – it is still a place where people just grab a couple of items and head for the checkout; often there will not be baskets available anyway. Getting out must seem as attractive as getting in. The **time required to checkout** is a big deal for small store shoppers. Now that people can be on their phone, standing in line is not the annoyance it used to be. But they expect more checkouts at peak hours – there is nothing worse for the shopper than lining up at two checkouts and seeing three checkouts unmanned.

Better yet, give them a **self-checkout option: shoppers perceive this to be quicker as they are in control**, even if it is sometimes not the case. It is like being the driver of a car, rather than the passenger. People happy to navigate screens will choose them, and the interaction will keep them busy. Meanwhile, those that want someone to ring up their purchases will not resent the wait, as they are actively choosing to skip the self-checkout.



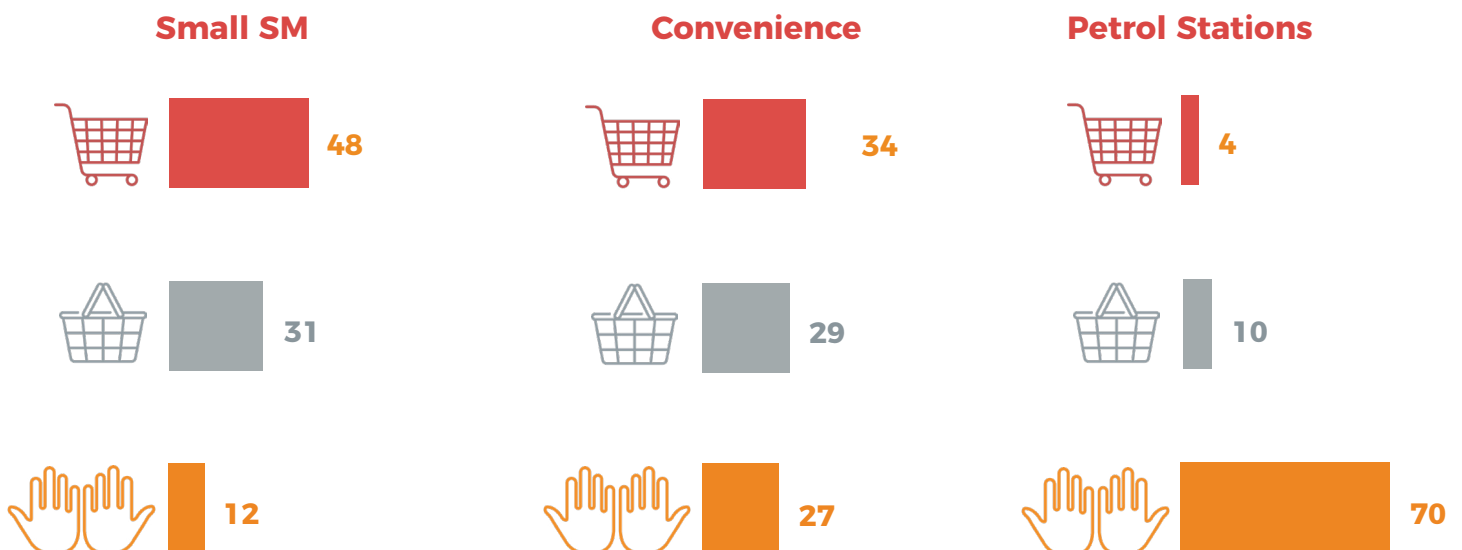
## Exhibit 17: Shopper Importance of Time



Source: Quantitative Survey n=3188

## Exhibit 18: How Shoppers Carry Items

**Q How did you carry the products while shopping inside the store?**

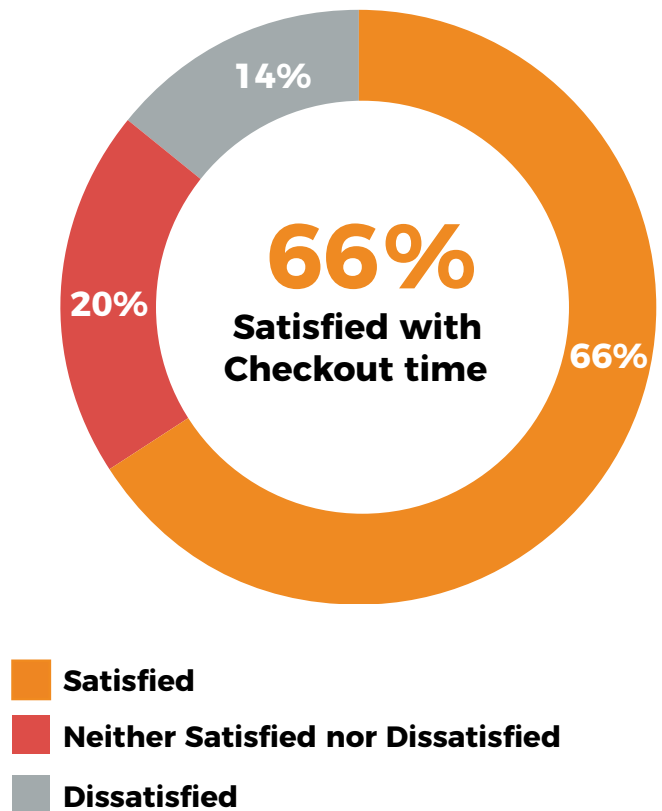


Source: Quantitative Survey n=3188 (Small SM n=2094, Convenience n=574, Petrol stations n=176)

Nevertheless, 6% of people in our study consider “zero minutes” the ideal time for checkout! These are probably the people who have seen checkout-less stores a few companies are experimenting with. About half want to be though in 1-3 minutes, about a fifth are OK with 4-5 minutes, and a quarter will claim to live with more than five minutes in line. It should be noted that the actual averages we tracked did not quite meet these aspirations. The numbers for zero, 1-3, 4-5 and 5+ were 2%, 38%, 23% and 36%. There’s a real opportunity with the 1-3-minute crowd, and a bigger one with the over-five-minute group.

Exhibit 20: Shopper Checkout Time

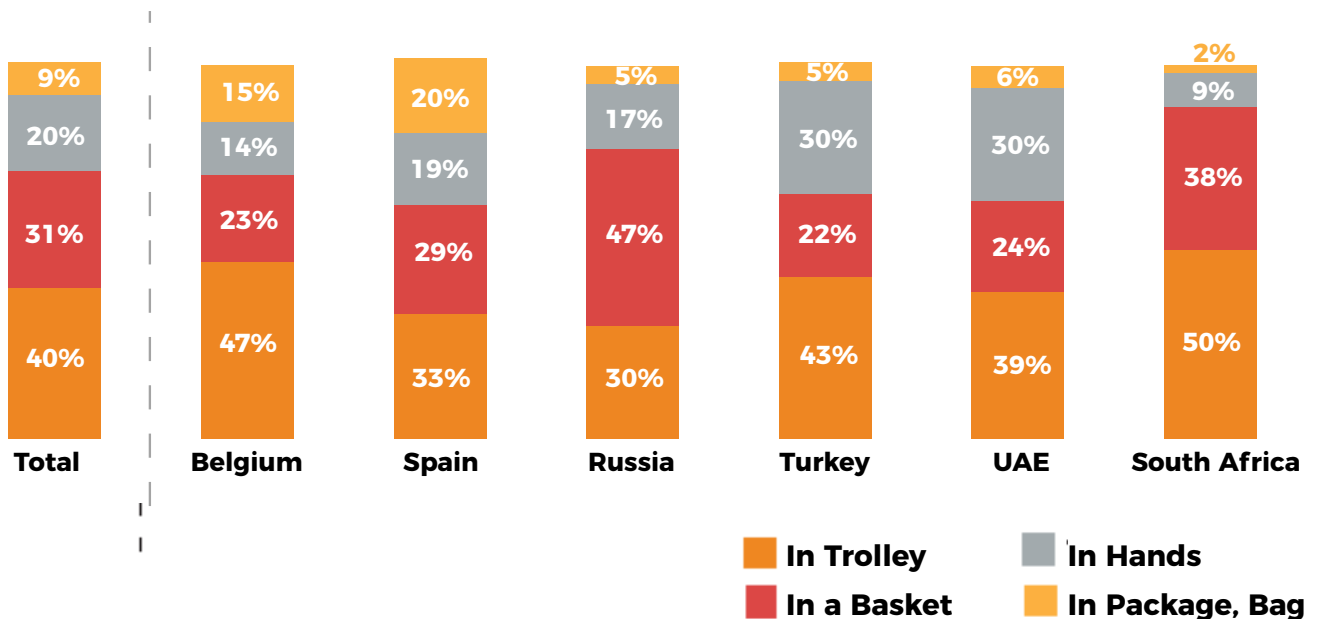
**Q How satisfied you are with checkout time?**



Source: Quantitative Survey n=3188

Exhibit 19: How Shoppers Carry Items By Country

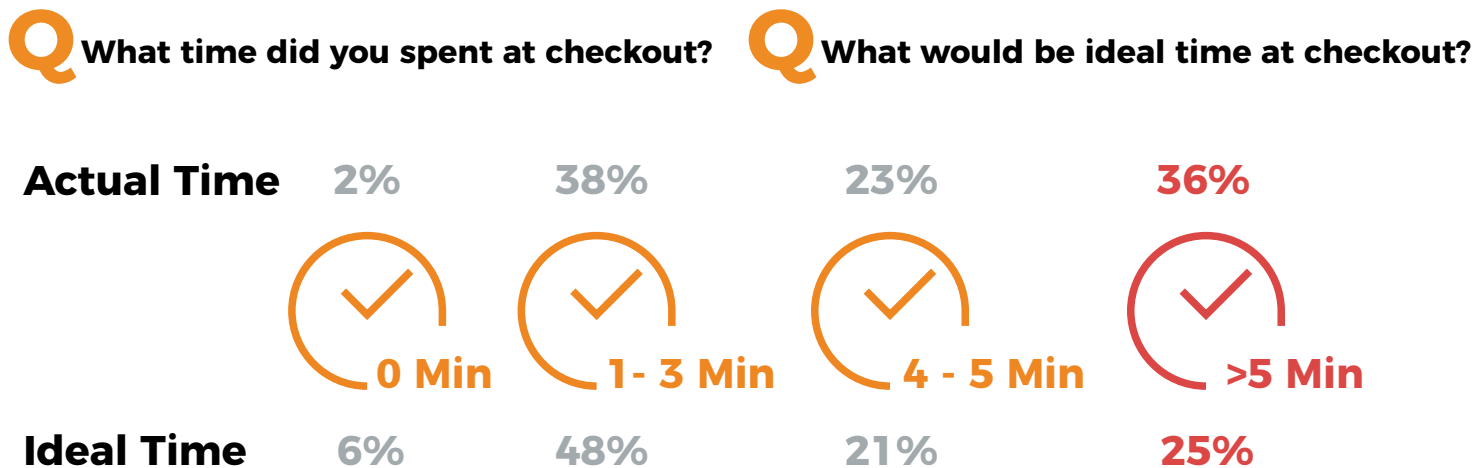
**Q How did you carry the products while shopping inside the store?**



Source: Quantitative survey n=3188 (Belgium n=467, Spain n=553, Russia n=546, Turkey n=560, UAE n=561, South Africa n=501)



## Exhibit 21: Shopper Checkout Time



Source: Quantitative Survey n=3188

## CHOICE

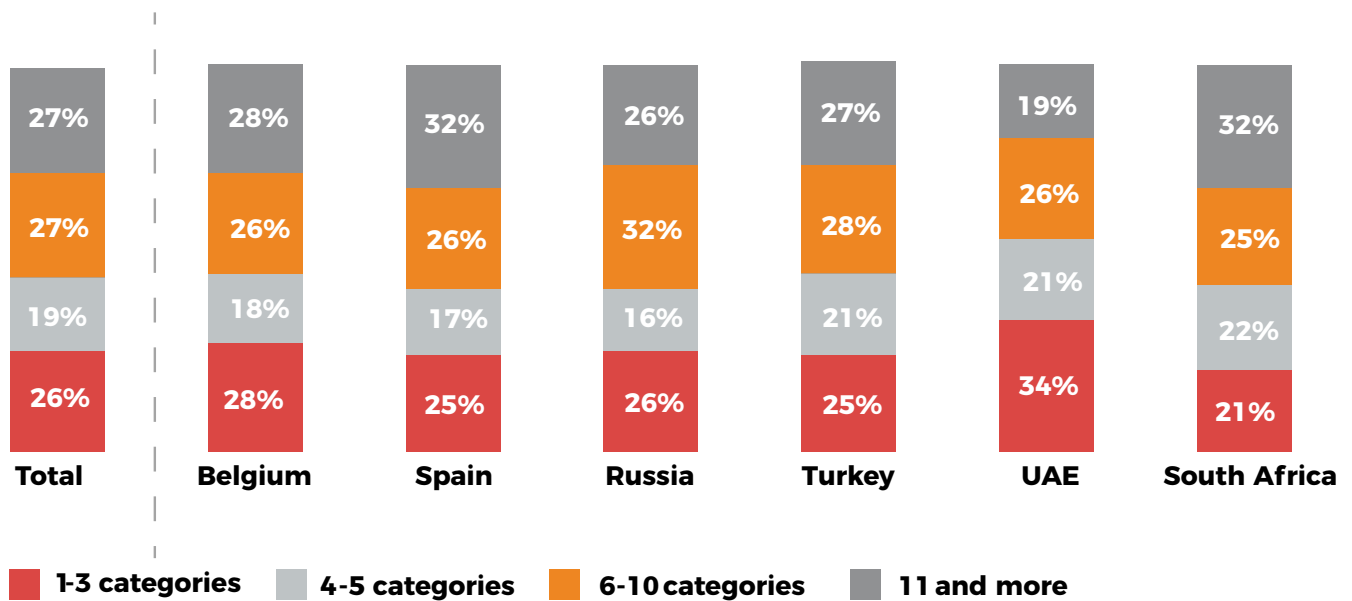
If making it easy and comfortable for shoppers to get in and out quickly is paramount to small-store success, choice also offers a very significant opportunity. We discussed above just how many types of small store most shoppers patronise each month. We see a considerable opportunity in becoming shoppers' **"small store of choice"** by offering the right range at the right quality to allow them to meet several missions in one store. It is not a question of shoppers' unwillingness to go to multiple stores. But, as the equation shows, if a retailer can fulfil more of their needs by increasing its range – that is, choice – shoppers will reward it with more of their spend.

For instance, as just about everyone knows from personal experience, a large-supermarket or hypermarket shopper is likely to purchase goods in very many categories.

One of the primary reasons shoppers visit so many types of small store each month is that they can only meet a narrower range of needs in those stores. Second only to time, getting choice right in a small store is fundamental to shopper appeal. It is where we see the most shopper dissatisfaction. You might think that time would be the biggest driver of dissatisfaction – too much time, that is. But **if lack of choice forces a shopper to travel further to another store, time is the primary thing it is costing them.**

As Exhibit 22 shows, over 40% of small-store shoppers are buying less than 5 categories in the store. A little more than a quarter are buying 6-10 and 11+. The two outliers worth flagging are the UAE, where shoppers buying 1-3 categories predominate (34%), and South Africa, where shoppers buying 11 or more categories predominate (32%). Otherwise, the distribution is remarkably similar across all six countries.

## Exhibit 22: Shopper Basket Sizes



Source: Quantitative Survey n=3188 (Belgium n=467, Spain n=553, Russia n=546, Turkey n=560, UAE n=561, South Africa n=501)

One of the takeaways from this exhibit is that **you can thrive with a modest range**. Obviously, stocking a broader range of categories will “qualify” your store for those who buy more categories on a typical small-store trip. But if over 40% of shoppers are buying five items or less, there’s a big market for a fairly narrow offering.

That said, our research suggests that those shopping for a larger number of categories are more likely to buy a disproportionately larger number of items: someone buying 10 categories is going to buy *more* than twice as many items, all other things being equal, than someone buying five categories. Intuitively, this makes sense: as your mission approaches a stock-up mission, it is not just the number of categories that climbs, but the number of items per category.

Also of interest in this exhibit is the effect of the number of categories shopped on the total time in the store. Indeed, when we correlate number of categories to items and time, the pattern is not linear as you might expect. For small trips in which shoppers are mostly using their hands to shop the store, the time per item averages about 60 seconds – but up to two minutes of the total five-minute trip time could in fact be queueing, not shopping. For the basket shopper averaging 12.6 items, time per item increases to 71 seconds on average,

“**Small stores try to use the benefit of traditional trade by customising their stocking to what the shoppers in the area want**” - Russia, Retailer

due in part to a slightly longer checkout time, but also to the fact that shoppers are less planned on these missions, might not be able to get what they want, and so may have to re-evaluate their choices in-store. Finally, the trolley shopper, who is buying up to 32 items on average, enjoys a reduction in time per item to 56 seconds. These larger shopper missions are more planned, and include buying multiple items from the same section of the store and, often, the same items on a regular basis. All this has important implications for the relationship between the kind of shopper you seek to serve and the pack sizes you stock – the **5-item shopper?**

**The 32-item shopper?** It is not just a matter of pack sizes: what checkout options and shopping carts or basket types do you need in place to serve the five-item shopper as well as the thirty-two-item shopper? The answers to these questions have implications for the variety of checkouts then required (a combination of self, staffed, short/long belts, tap & go, mobile) as well as innovative ways for shoppers to carry their items while they shop. Different types and sizes of baskets, trolleys or easier ways for shoppers to hold items will be vital to deal with this **mission complexity in store.**

Exhibit 23: Shopper Time Per Item

SHOPPING STYLE	AVG. NO. OF CATEGORIES	CATEGORIES TO ITEMS CONVERSION RATE	TOTAL NO. OF ITEMS	AVG. TOTAL TIME	AVG. TOTAL TIME/ ITEM
<b>Hands</b>	<b>4</b>	<b>1.3</b>	<b>5.2</b>	<b>&lt;5 Mins</b>	<b>58 Secs</b>
<b>Baskets</b>	<b>7</b>	<b>1.8</b>	<b>12.6</b>	<b>15 mins</b>	<b>71 Secs</b>
<b>Trolleys</b>	<b>10</b>	<b>3.2</b>	<b>32.2</b>	<b>30 mins</b>	<b>56 Secs</b>

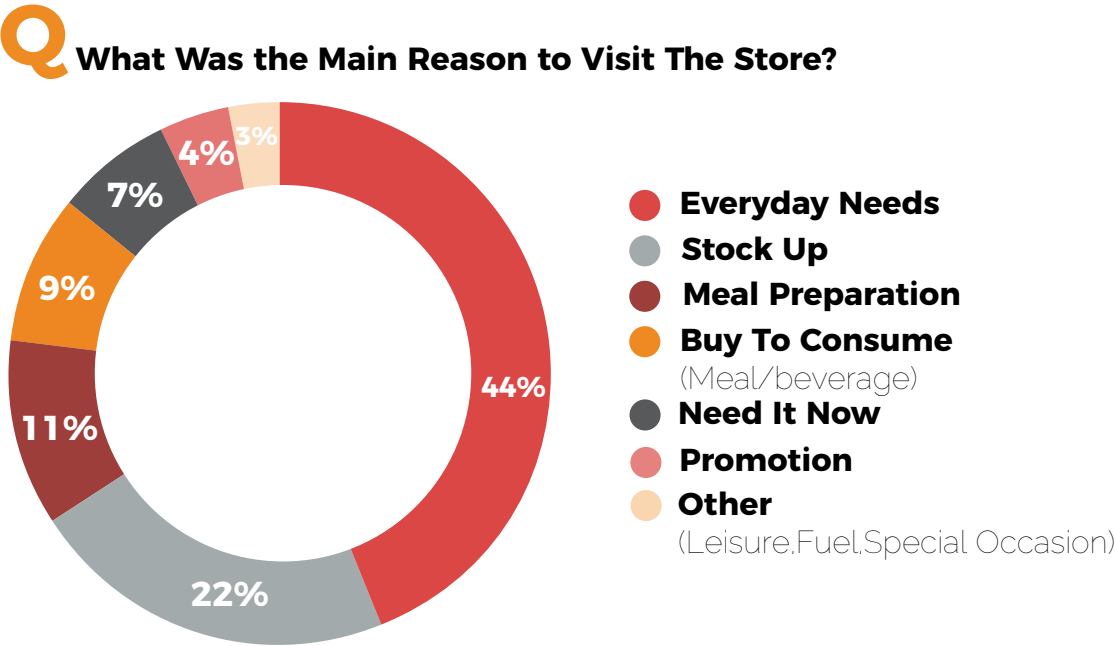
Source: Quantitative Survey n=3188, Nielsen Shopper Survey Russia 2017



The experts and shoppers we interviewed in this report spoke about the importance of “eat now” foods in small stores. Before looking at other data points, one might be led to believe this is a critical part of offering the right choice to small store shoppers in EMEA. However, in Exhibit 24 we can see that only **9%** of shopping missions were focused on **“Buy to Consume”**. Rather than seeing the gap between behaviour and commentary as a source of error, we believe that this supports that notion that the availability of “Eat Now” foods provides a halo effect for the brand or image of a small store. While it may be only a small part of purchases, it is clearly a more memorable and emotional part of the small store shopping experience. Looking further, over a fifth of shopper missions to small stores are devoted to stocking up. Second,

**a full 44% of visits to small stores are driven by “everyday needs” – practically half of all missions** are devoted to keeping the house stocked with goods. Third, meal preparation sits at above 10%. These are all missions traditionally associated with large supermarkets, and they now make 75% of missions to small stores in the markets we studied. Meanwhile, just 7% of missions are devoted to classic “need it now” trips. It is hard to overestimate the importance of this low figure: the primary reason people used to go to small stores has become a minor feature of the whole enterprise. We are a long way from the profile of the small store trip as primarily servicing cigarettes, snacks and drinks. That said, the large share of small store sales in categories such as cigarettes, snacks and drinks remains. As some of our expert interviewers noted, it is essential to understand that the concentration of business

Exhibit 24: Shopper Missions in Small Stores



Source: Quantitative Survey n=3188

SHOPPER MISSIONS	SINGAPORE (CVS)	KOREA (CVS)	THAILAND (CVS)	INDONESIA (MINIMARKETS)
Buy to Consume	57%	40%	48%	43%
Emergency Purchase	25%	27%	27%	-
Everyday Needs	10%	17%	19%	18%
Pantry Shopping	3%	3%	2%	34%
Promotions	2%	3%	3%	1%
Leisure Shopping	4%	1%	1%	4%

Source: Nielsen Shopper Trends 2016

in a few large categories does not preclude the idea that these stores have a wide range of shopper missions. Indeed, examining the data, it does seem that the **shopper missions are considerably more diverse** than a simple analysis of categories might reveal.

Returning to the **“buy to consume”** figure, at present, this is a fairly modest 9% of missions but taken together with “need it now” it gives us 16% of all shopper missions, as opposed to larger stores, where the total figure for both these missions combined is only 9%. We expect the small store number here to grow: at present, these figures represent a relative retailer underdevelopment of this part of the small store offer in EMEA, as is suggested as not all small stores yet stock a credible offer, but we expect to see significant growth in this segment, because of what is happening in Asia, which we regard as a leading indicator of the developing-world market.

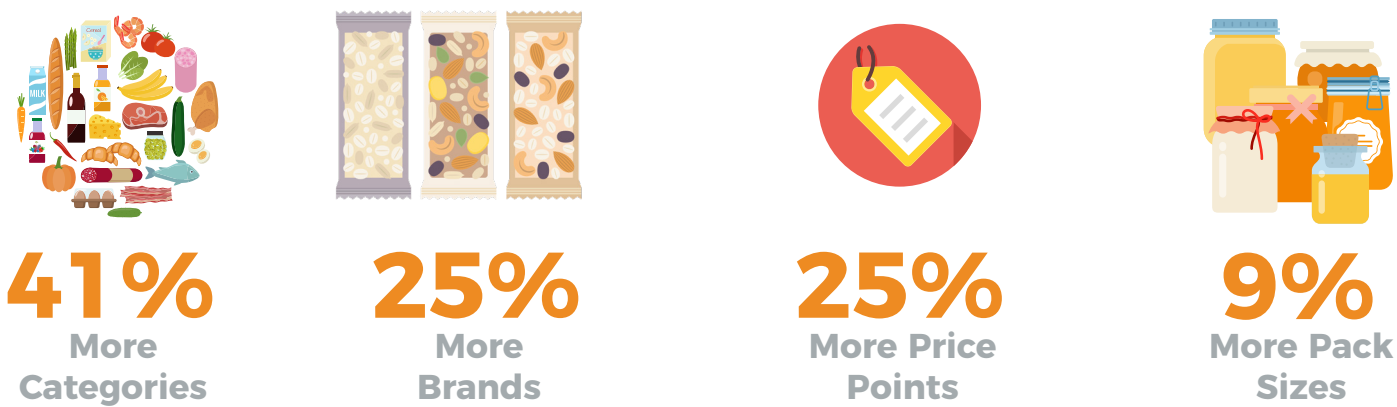
In Asia, of small-store missions in both Convenience (CVS) and Minimarts, an astonishing 40% in South Korea and up – rising to 57% in Singapore – are devoted to buy-to-consume. Small stores will obviously remain the go-to option for “need it now” and emergency trips – but they are claiming ever larger pieces of missions traditionally associated with larger stores. Obviously, these small stores are doing something right – but the demand for these changes and innovations needs to be there to match the supply. What we are seeing are the effects of urbanisation and changes in the population towards smaller households.

It is a remarkable metamorphosis, and should be regarded by large stores as more of an opportunity than a threat: **small stores are back, and the opportunities are growing.** Indeed, though small stores are expanding the collective offer to serve more and more shopper needs, they are not there yet, so there remains a very clear opportunity for players existing and new. **Exhibit 26 shows the shortfall**, as survey respondents answered why the small store they had most recently visited could not replace visits to other stores. It is not a surprise,

given the sheer volume and complexity of shoppers’ trips to small stores, that as well as faster trips they want more choices to meet all their needs ... not just more categories but also a range of price points and pack sizes to cover them for the top up shop, the eat now shop, the need it now and on occasion a full stock-up. When asked to expand on this topic, the overwhelming vote – 41% of those asked – was for more categories. 25% wanted more brands, and 25% wanted more products at different price points. Which brings us to the third element of our “essence” equation.

Exhibit 26: What Shoppers Want From Small Stores

**Q** What Would You Like To Improve In The Current Product At This Store?



Source: Quantitative Survey n=3188

## PRICE

The third variable in our small-store-essence equation is price. As noted, it is important, but not as important as time or choice, for the shoppers of small stores at least! The crucial question, of course, is understanding where the price vs. convenience trade-off is for shoppers – what kind of premium can you charge before shoppers decide to head out to the big store? The key question here **is not the actual premium – it is the premium shoppers perceive**. How aware are shoppers of actual prices, given their overwhelming focus on saving time? How do they see price – by item, per trip or overall spends – and what is acceptable on a particular trip, day of week or another factor?

The small-store equation has turned all this on its head, and nowhere more clearly than with regard to price. Price, potentially their biggest vulnerability, turns out not to be that important in the small-store equation. Our data analysis showed that, of our six markets, South Africa had the lowest-price small stores relative to supermarket pricing, followed by Turkey, Spain, Russia and Belgium, with UAE at the high end.

You might expect the price differential to be smallest where GDP per capita is smallest (and so price more important than elsewhere), and so on. But that is not quite the case. Current GDP per capita rates are: South Africa, \$5300, Russia \$8700, Turkey \$10,800, Spain \$26,500, UAE \$37,600 and Belgium \$41,100.

### Exhibit 27: Small Store Price Perception

AFFORDABLE

PREMIUM



Source: Super Shopper Qualitative Engagement, n=108

As we discussed earlier, the rise of the supermarkets was intimately linked to the low prices made achievable by economies of scale and efficiencies across the whole business model. Since the large supermarket offered neither a quick shop nor a convenient one by the most important convenience metric, time, price was king and queen. Over time, as competition intensified, experience came in, too.

So, half the countries are where we expected them to be, but Russians are less price sensitive than expected, and the UAE appears less price-sensitive than Belgium. These deviations from GDP correlated position match the opinion leader interviews for this project, which suggested a general understanding that small-store cost structures, whether rent or a lack of economies of scale, drove up prices. Russians, we learned, are willing to accept higher price differentials because of a strong desire to save time magnified by the difficult travel routines in daily life.



And the relatively price-insensitive UAE appears to be home to a lot of shoppers looking for ease and convenience rather than value. In other words, our five **megatrends** are well developed and shaping shopper store choices. There, small stores avoid price promotions, which are not necessary to draw in custom, although they are careful to keep the prices for “basics” SKUs closer to uniform across small and large stores. These are the goods for which shoppers are most likely to have reference prices in their heads, and so most likely to notice significant discrepancies. Of course, other factors influence **shopper price perception vs. reality**: notably the prevailing retail market structure, store densities and the variation in range between large and small stores. Specifically, discounters in Turkey, Russia and Belgium will be having a huge “halo” effect on shopper awareness of prices on “like for like items” given the huge amount of price messaging by the major retailers and the wide availability of such stores – where in UAE, they are much scarcer. Finally, for South Africa, it is not surprising that the market of our 6 with the lowest GDP and the least developed nation of our sample has the most price sensitive shopper of all. In all likelihood, South African small stores also have the least flexibility on price because shoppers are comparing small stores to independent spazas and significantly cheaper stores.

But when we look at the high-level findings related to price, it is almost an even split, with 46% of shoppers overall perceiving that prices were the same or lower than those of large stores and 54% saying the opposite – that prices were up to 15% more expensive. Who’s right? They both are: smaller pack sizes and lower quantities lead many shoppers to believe that they are spending less overall, and conclude from that that prices must be comparable or even slightly lower. We have validated this with the Nielsen data: in Turkey categories such as Soup, Diapers and Tissues record almost identical prices, but Instant Coffee, Dishwasher Detergent and Dried Nuts were lower by between 8-13%\*. Awareness of actual prices for this group of shoppers is also likely to be lower, because they are under time pressure, as we already know, making many trips to many different stores for many different missions. **It is harder to keep track when you are not simply buying the same items in the same stores all the time.**



\*Source: Nielsen Retail Audit Data Turkey MAT OCT'17

So, what of the 54% of shoppers who do perceive a price premium? This is absolutely a reflection of reality in many of the small stores we studied. In Turkey once again, categories such as Instant Noodles, Ice Cream and Mouthwash are recording between 9-21%\*\* higher prices than large stores, as retailers seek to balance their overall price position and of course profit margins. Another factor here is the unique items we also see in small stores from local suppliers or specialist providers, which are more often premium price points, or have **no comparable price in a large store**. These shoppers are also likely to be more aware of the number of trips they are making to small stores over a typical week, and we believe this will also contribute to the price perception results from our survey.

All this leads retailers naturally to wonder whether or not they are able to charge higher prices in small stores that properly reflect the logistics and operational inefficiencies of running these outlets, as compared to the larger out-of-town stores for which they have optimised their operations. The “reference price” shoppers carry around in their heads is actually a series of reference prices: it changes by shopping mission. On an everyday, regular mission for bread, milk, water, and so on, the shoppers’ benchmark is the other stores that offer these goods - including the large stores they sometimes visit. The large stores are cheaper, so this is a price-sensitive mission, and the small store cannot expect to “charge up” for these kinds of staples.

“Once you justify the difference, the shopper is willing to pay for this. Once you’re open from very early in the morning until very late at night, the shopper will understand why you are a bit more expensive” - Belgium, Retailer

These everyday-goods missions represent forty-four percent of small-store trips, so proprietors must accommodate themselves to the fact that nearly one in two trips will not be a money-maker - and may, in fact, be a loss leader for the other trips. It is hard to exaggerate the importance of these trips as drivers (or non-drivers) of small-store custom. If the prices for these staples are good, the shopper will be pleased, and likely to extend the visit a little - and to come again on a less price-sensitive shop. By contrast, disappointingly high prices for these staples can alienate a shopper then - and for good. The opposite case would be if the shopper is on an **eat-now mission**. Immediate satisfaction is central, and they are looking for something not typically available in the low-price large supermarket. **The benchmark is the whole set of cafes and restaurants** and quick-service outlets where one also eats out of home. Here, there is plenty of room for the store to charge significantly above what it costs to produce the food, making it easier to cross-subsidise the staples they must sell at large-store prices, even though their overhead makes them more expensive to sell.

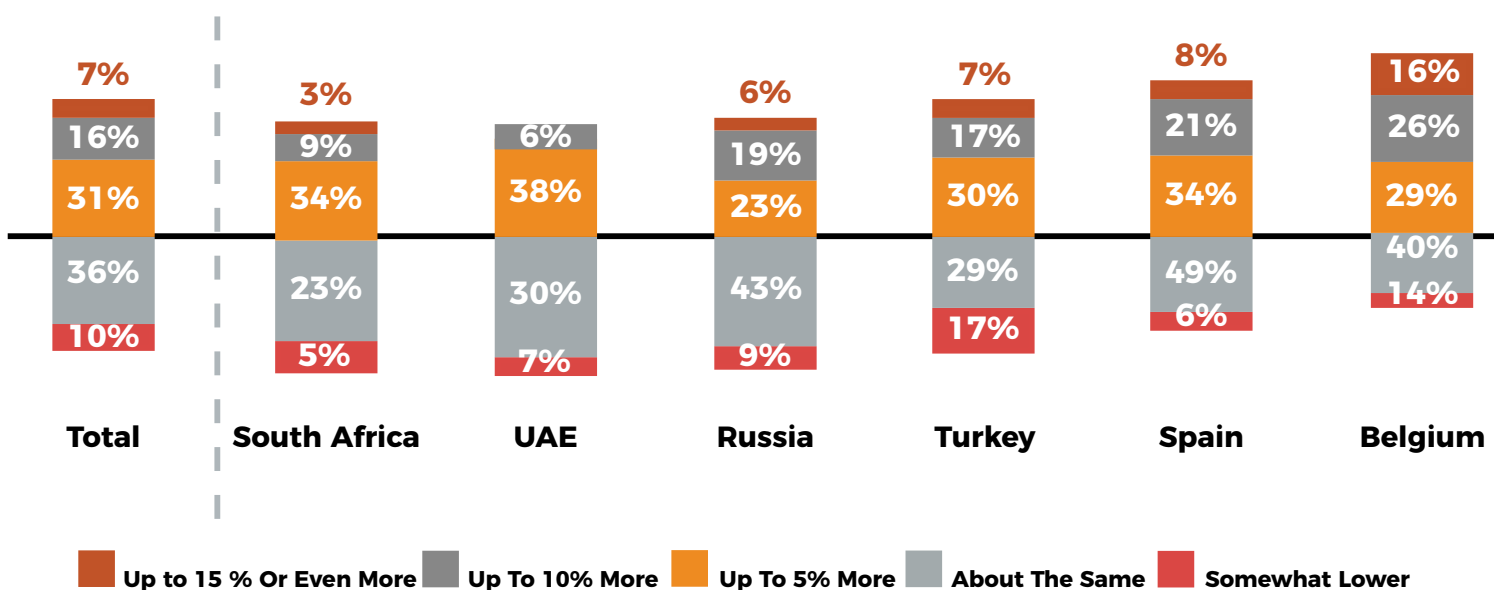
\*Source: Nielsen Retail Audit Data Turkey MAT OCT'17

The degree to which one is absolutely held down by a large-store price, as also the degree to which one can price up for eat-in food depends on where else the shopper could go. If there is a small store or a place to eat five minutes away, being seen to overcharge will lose you custom, because what we might call the “barrier to exit” is so low. By contrast, if you are operating a store in the lobby of a large residential high-rise, the level of convenience is so great that there is more room to charge a premium. Care, however, should particularly be taken with staples. These are items for which the shopper has a powerful reference price in her or his head, and they will go to some inconvenience if they feel they are being taken advantage of by a local store “exploiting” its proximity to its natural customers. At root, the small store must be crystal clear about

what shopper missions they are meeting. This will help proprietors understand the reference prices shoppers are working to, and how strongly they are likely to hold them. The limits of pricing in small stores are reflected in shoppers’ answers to the question “What would be a reason good enough for you to stop shopping at this store?” Only 43% specifically identified high prices for most items, suggesting a relatively high degree of price insensitivity – or a willingness to keep patronising a store for just a few particular items. Not surprisingly, looking at the data by age, older people were more likely to walk away for price reasons. Also unsurprising was that the percentage who would walk away from small supermarkets for price reasons (44%) was higher than the 36% who would walk away from petrol stations and convenience stores – although the eight-point differential was still smaller than expected.

Exhibit 28: Small Store Price Perception

**Q** How would you say the overall level of prices at these stores compared to hypermarkets and big supermarkets?

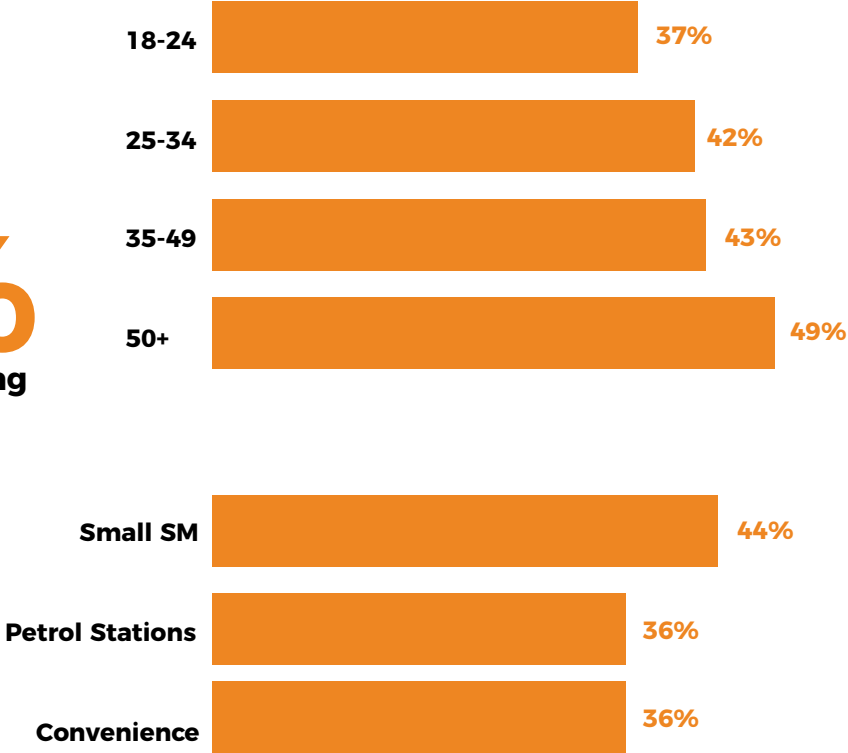


Source: Quantitative Survey n=3188 (Belgium n=467, Spain n=553, Russia n=546, Turkey n=560, UAE n=561, South Africa n=501)

Exhibit 29: Shopper Walkaway Factors

**Q** And what would be a reason good enough for you to stop shopping at this store?

**43%**  
**Would Stop Shopping  
At The Store Due To  
High Prices For  
Most Items**



Source: Quantitative Survey n=3188

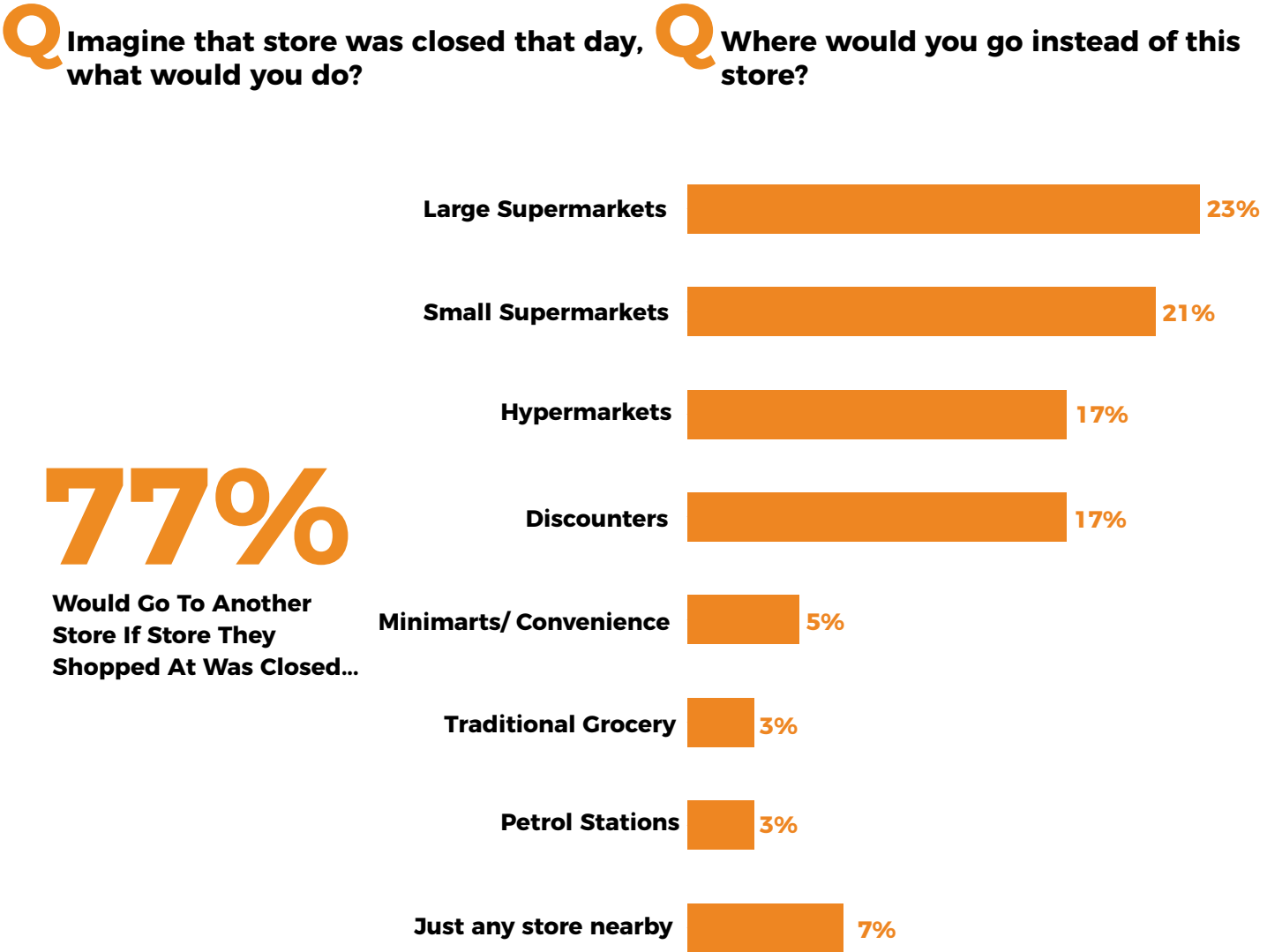
Interestingly, a smaller than expected number of shoppers told us that fast checkout and pleasant ambience/design were important. While a pleasant environment features as the fourth and last element in our essence equation, fast checkout is part of “time,” which has undisputed primacy in the small store loyalty model. What is going on? At first blush, you might think shoppers’ stated unwillingness to pay more for fast checkouts means that time is less important than we have calculated. In fact, we believe all of the other evidence supporting the importance of time means that shoppers very much want speed and simply insist on this as a “must-have” for small stores—**table stakes to be in the small-store game.**

So much for what people will and will not pay more for. But if they do walk away, where will they go? The easiest way to get the fullest possible answer to this question was to ask what they would do if the small store they were headed to turned out to be closed. Would they come back? Or would they go somewhere else? 77% said they’d go to another store. Encouragingly for large retailers, the most popular backup venues were large supermarkets (23%), small supermarkets (21%), and hypermarkets and discounters (both 17%). Interestingly, very few would go to a minimart/convenience store, a traditional grocery store, a petrol station, or “just any store nearby.”

A moment's thought makes clear why this is so: if you are going to a small store, you have a few specific items in mind. If it is closed, you want to be sure that your back-up choice has what you need. The best way to guarantee this is to go to a store type where they are most likely to have what you want – so the larger formats win out very clearly. Another small store might have the same number of items – but not the same items.

“The variety of products changes according to the habits of the customers. It depends on the life style of those who live there. We have shops that offer ecological products and others that don't - Spain, Retailer

Exhibit 30: Small Store Competitors



Source: Quantitative Survey n=3188



## EXPERIENCE

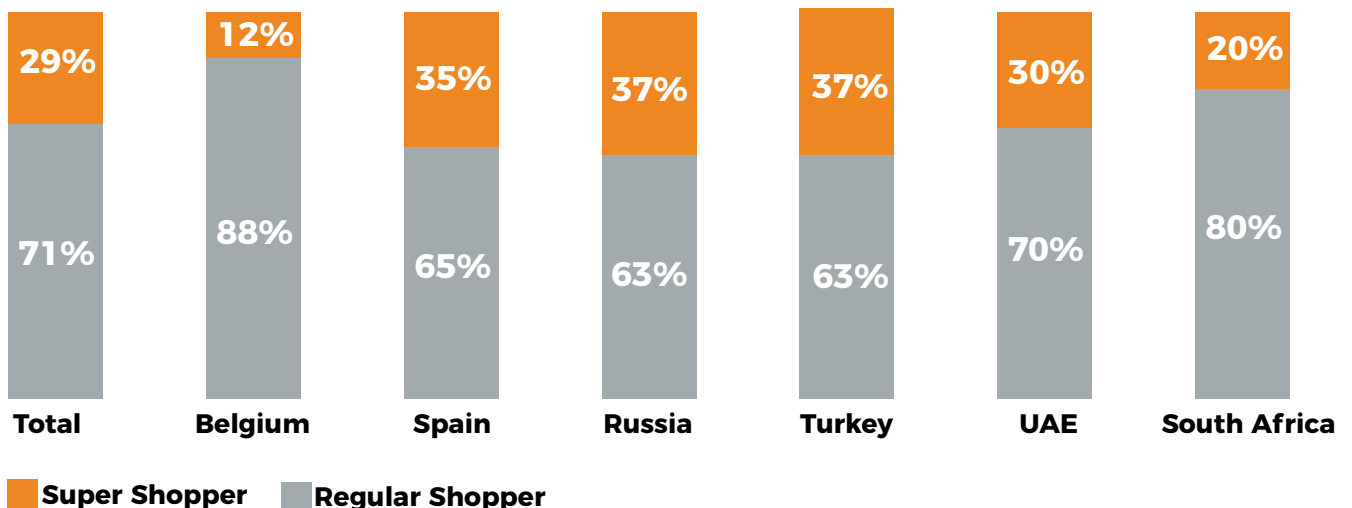
Experience is the last of the four variables in our small-store essence equation. Shoppers are looking for a pleasant store with good staff help when they need it, relevant services and – if there is a place to eat or hang out – a comfortable spot to do it in.

To get at the experience variable in our equation, we studied the **Super Shopper diaries** created for the project– the shoppers who patronised small stores much more than the average shopper. These shoppers are particularly important to understand and attract, not just because they are more profitable, but because the megatrends are going to create more of them in future. At present, they represent 29% of our sample, falling as low as 12% in Belgium, but rising as high as 38% in Turkey.

As exhibit 15 earlier suggests, there were up to **four natural occasions each work day** when a shopper might visit a small store.

One of our most interesting discoveries was the degree to which shoppers underestimated the number of trips they made to small stores. When asked before the diaries were created, shoppers claimed an average of seven trips in two weeks – just once every two days. But the reality revealed through the shopper diaries was that they made up to four trips a day – up to eight times the estimated frequency. Some of this discrepancy might have come from an awareness that perhaps four times a day was rather a lot! But some, surely, must come from the fact that, once a small-store shopper has a routine, they do not realise quite how often they step inside one of these stores. This feature – in which the small store is so thoroughly embedded into their lives that shoppers cannot even say accurately how many times they have shopped – is enormously important. If a small store can establish itself as one of a shopper's "go to" places to the point where the shopper cannot reliably report how often they have patronised the store, it is likely to remain a very steady habit.

Exhibit 31: Super Shoppers by Country



Source: Quantitative Survey n=3188 (Belgium n=467, Spain n=553, Russia n=546, Turkey n=560, UAE n=561, South Africa n=501)

Of course, shoppers were not going to the same store four times, and any store that claims one regular trip will want to claim more. To do so, they must get the essence of the total experience just right.

Analysis of the entire set of video diaries and responses to our survey suggested a number of additional ways to claim new shoppers or keep existing ones. Given how much choice shoppers have about where to bestow their custom, it is **important to keep them interested**. Having them associate the store with the idea of positive change is powerful. This might be a matter of **adding new products regularly**, of changing the store's marketing, introducing events in the store – even something as simple as a new salad or a more efficient kind of coffee cup – anything that signals newness makes a difference. Small stores are at an advantage when it comes to adding new products, because, in a well-laid out store, they are **much easier (and quicker) to find than in a big supermarket**.

Exhibit 32: AB Daily Moscow

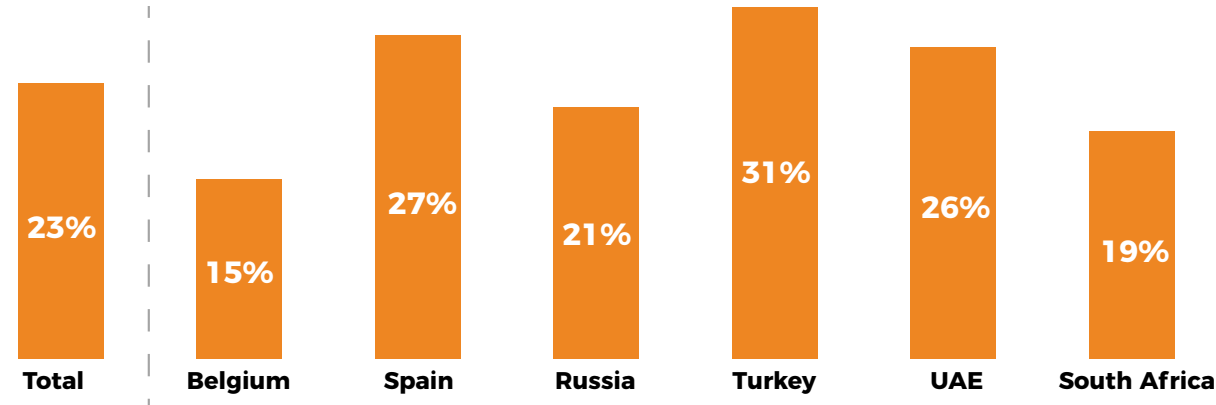


Source: Shirland Ventures Limited

Another element that contributed to the store experience was the ability to eat on site. Over all regions, 23% of shoppers reported that the small store they last visited had a place in the store to sit down and eat. The number in Belgium was 15%, reflecting the café culture discussed earlier. Turkey topped the list at 31%. We see this as a clearly emerging trend: when available, eating on site is definitely popular. Of all respondents, 57% reported that they sat down to eat or drink. Belgium was lowest again, at 44%, and South Africa at 45%. Spain, Russia and Turkey's percentages were in the 50s. Eating on site was particularly popular in the UAE when available: 78% of those surveyed said they had taken advantage of the option. Once again, having somewhere cool to drop in to in a country where it is very hot most of the year is probably responsible for this high number, together with a relative general insensitivity to cost.

It is interesting that Turkey, which had the highest percentage of small stores with places to eat, has a significantly lower percentage of people using the option (56%) than the UAE, where only 26% of stores even offer the option. We can expect that 26% in the UAE to climb, given the high percentage of people who sit and eat in the small stores that offer the option – and spend more while there and buy things on the way out. Some retailers are also investing more in the **“stickiness” that keeps customers**, and there are some interesting developments in Asia specifically. 7-Eleven is doing a great deal with loyalty – whether it is “buy your lunch here every day this week and get a free gift,” or a sticker-book for a child. Shortly before this report was published, the Zoom chain in Dubai had an offer linked to a new movie –

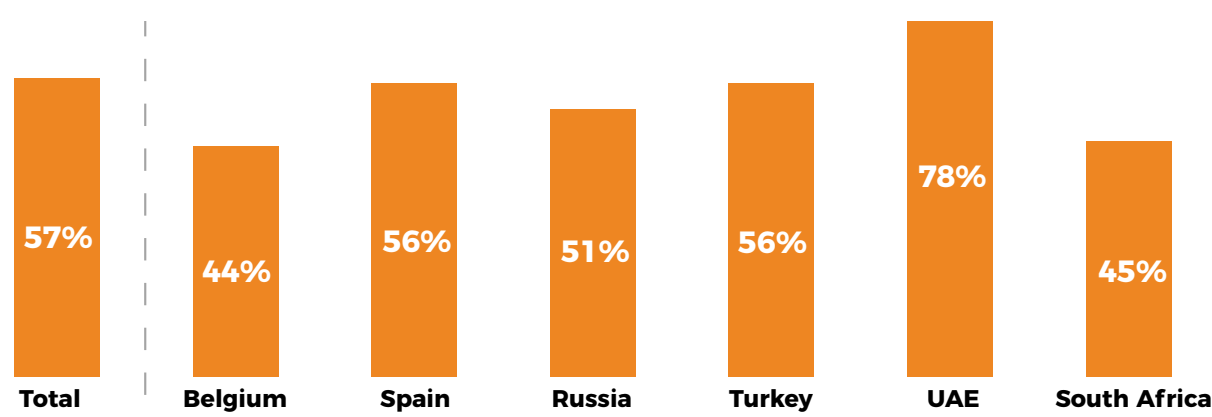
**Q Was there a place in the store (inside or outside) to sit down and eat/drink?**



Source: Quantitative Survey n=3188 (Belgium n=467, Spain n=553, Russia n=546, Turkey n=560, UAE n=561, South Africa n=501)

Exhibit 34: Shopper Usage Of Onsite Eating Space

**Q Did you stay in the store to sit down and eat or drink beverages?**



Source: Quantitative Survey Shoppers Who Recall eating On Site n=748 (Belgium n=72, Spain n=151, Russia n=114, Turkey n=171, UAE n=146, South Africa n=93)

if a shopper spent 20 dirhams (about five euros), they would get a few tokens they could save up in return for little action figures from the movie. This is something we are beginning to see in other markets, too. One small-store retailer we interviewed emphasised the need to give a client **“a reason to come back to this particular store... you have to be the client’s fridge and cupboard.”** The retailer offered the example of Japan, “where residents do not have any fridges and cupboards any longer; they are well-aware that they can get food all over the place. They all go there several times per day. That is the dream!”

Exhibit 35: Zoom UAE Marvel Promotion



Source: Nielsen

What did our research discover about how you realise the dream? How do you give them a reason to come back? Being the “client’s fridge and cupboard” is about choice. But the other key to bringing them back is the quality of the experience they have in the store. In this regard, a number of things are particularly valuable.

First is understanding what kind of interaction they want with personnel in the store. The most important point of contact in the small store is the checkout experience. We asked our survey respondents, “If both a self-checkout and a checkout with a shop assistant were available, which would you prefer, and why?” We found that **39%** of shoppers **would prefer self-checkout**. Of this 39% of shoppers,

67% said it was faster – a function more of time than of experience. As far as purely experiential elements were concerned, 11% felt no need to contact a shop assistant, 13% “liked the process,” and 8% thought it was “modern/trendy.” Of the remaining 61% who wanted to interact with a shop assistant, 34% preferred human contact to self-checkout, 15% felt they could get the human contact without taking any more time, 14% did not know how to use self-checkout, and 12% did not trust it, 11% had not tried it, and 11% needed to pay cash, which maybe they thought could not be done at a self checkout. In fact, only 23% of shoppers in our 6 markets reported there being any self checkout available in the stores they visited but we expect to see this expanding not just to reduce shopper **time** but also to take advantage of the cost savings this offers small store retailers.

Exhibit 36: Self-Checkout Appeal

**Q** If there were both a self-checkout & checkout with shop assistant available at the same time (and both are free), what would you prefer? Why would you use a checkout with shop assistant? Why would you use a self checkout?

**39%** Would Prefer Self Checkout    **61%** Prefer Checkout With Shop Assistant

<b>67%</b> Its Faster	<b>11%</b> No Need To Contact Shop Assistant	<b>34%</b> Prefer Human Contact	<b>15%</b> Takes Same Time As Self Checkout
<b>13%</b> Like The Process	<b>8%</b> Modern/Trendy	<b>11%</b> Need To Pay Via Cash	<b>14%</b> Don't Know How To Use
		<b>11%</b> Never Tried To Use It	<b>12%</b> Do Not Trust Self - Checkout

Source: Quantitative Survey n=3188

Despite the growing wave of small store innovation featuring automated and staffless stores, 25% of small store shoppers want to **interact with staff** while shopping in the store. The most common needs were related to finding the items for purchase. This suggests that while staffless stores may offer efficiency benefits, staffed stores should have an advantage in both the perception of experience, customer satisfaction, and the potential for incremental sales, either of expected items or potentially of new and innovative products.

**Store Performance Benchmarking**

We have described the four key elements of the small-store essence, with some description of how important or popular each one is to shoppers. As retailers make their strategic decisions about which elements to emphasise

**SMALL STORE ESSENCE**|||||||

and how much, a fundamental question must be: how hard is each market to succeed in? The answer lies partly in the capabilities of each retailer – but partly, too, in how well small stores are performing against large ones in the eyes of shoppers. To answer this question, we isolated 11 elements of the small-store experience that we can measure from our survey data:

**Time:** How long it takes to get to the store; how long it takes to shop; and how long it takes to check out

**Choice:** overall range, the availability of eat-now food, and the quality of fresh food

**Price:** the presence of low prices, and of deals or promotions

**Experience:** the overall quality of the shopping experience, the presence of new products or programs, and the quality of customer service.

Exhibit 37: Role of Staff in Small Store

**Q Did you ask for store staff help or advice during this trip?**



Source: Quantitative Survey n=3188



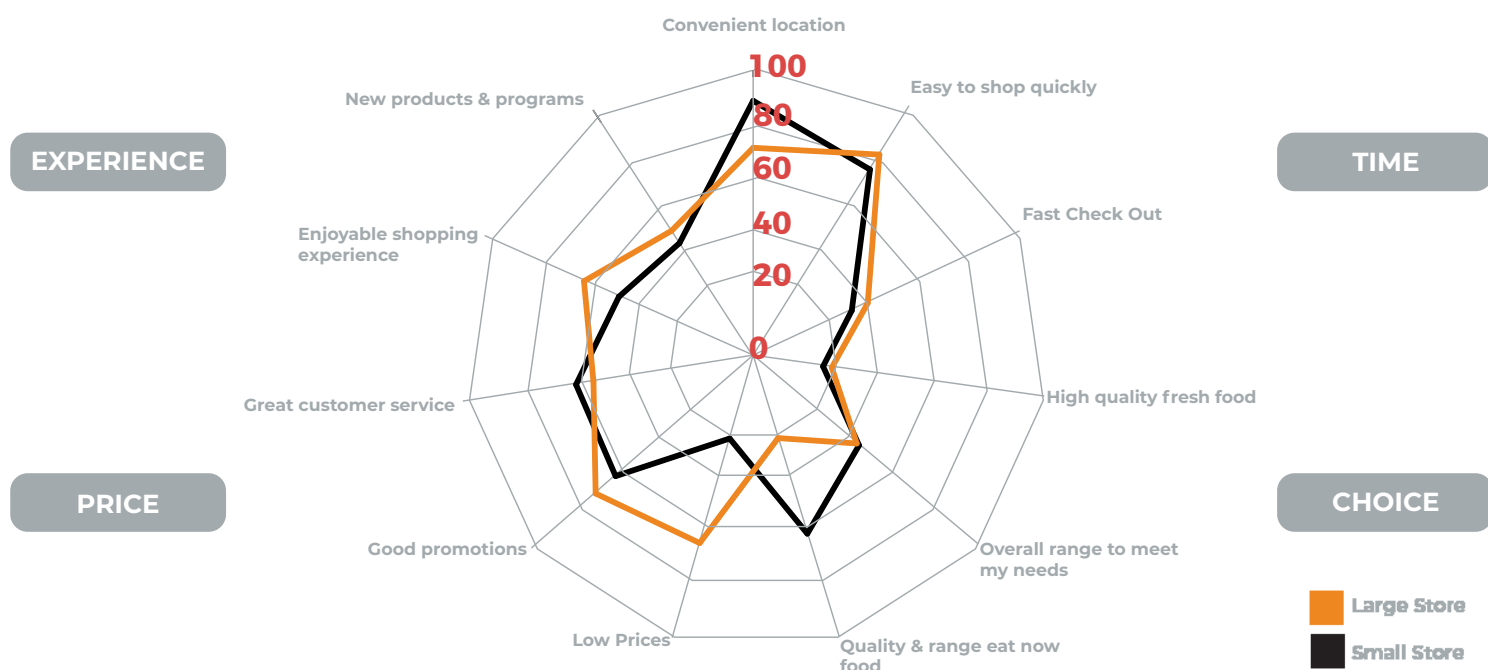
## Exhibit 38: Important X Performance Metric

### Importance X Performance Metric

First, using the Nielsen Shopper Trends annual survey which records shopper associations towards large or small stores, we establish our **Performance** base against 11 different criteria related to the store offer e.g. Low Prices, Fast Checkout, High Quality Fresh Food and so on. From this we then apply an **Importance** weighting to our Performance based on shopper prioritisation of the 11 criteria for each store type independently, since some of these factors are more important to shoppers in large stores than small stores and vice versa. The lowest importance was given a weight of 0.5 and the highest importance given a weight of 1.5 in increments of 0.1 for all 11 criteria for each store type. Importance weights x performance scores gives the weighted overall score shown in the spider charts.

Example - 20% of shoppers said they associate low prices with large stores and shoppers rate importance for the same as 1st (of the 11 criteria covered) so the final 'score' for Low Prices on the spider would be 30 (20x1.5). But for small stores only 5% of shoppers associate these stores with low prices and it is 11th in shopper importance so the final low prices 'score' on the spider would be 2.5 (5x0.5). The weightings are applied 1st to 11th from 1.5 down to 0.5 in increments of 0.1

## Exhibit 39: Global Small-Store Essence



Shopper Trends across 22 markets 2017  
Current Performance Weighted  
Total Sample Size: 25,000

Large Store: Self Service MT store > 500 sq.m  
Small Store: Self Service MT store < 500 sq.m

Exhibit 40: Europe Small-Store Essence

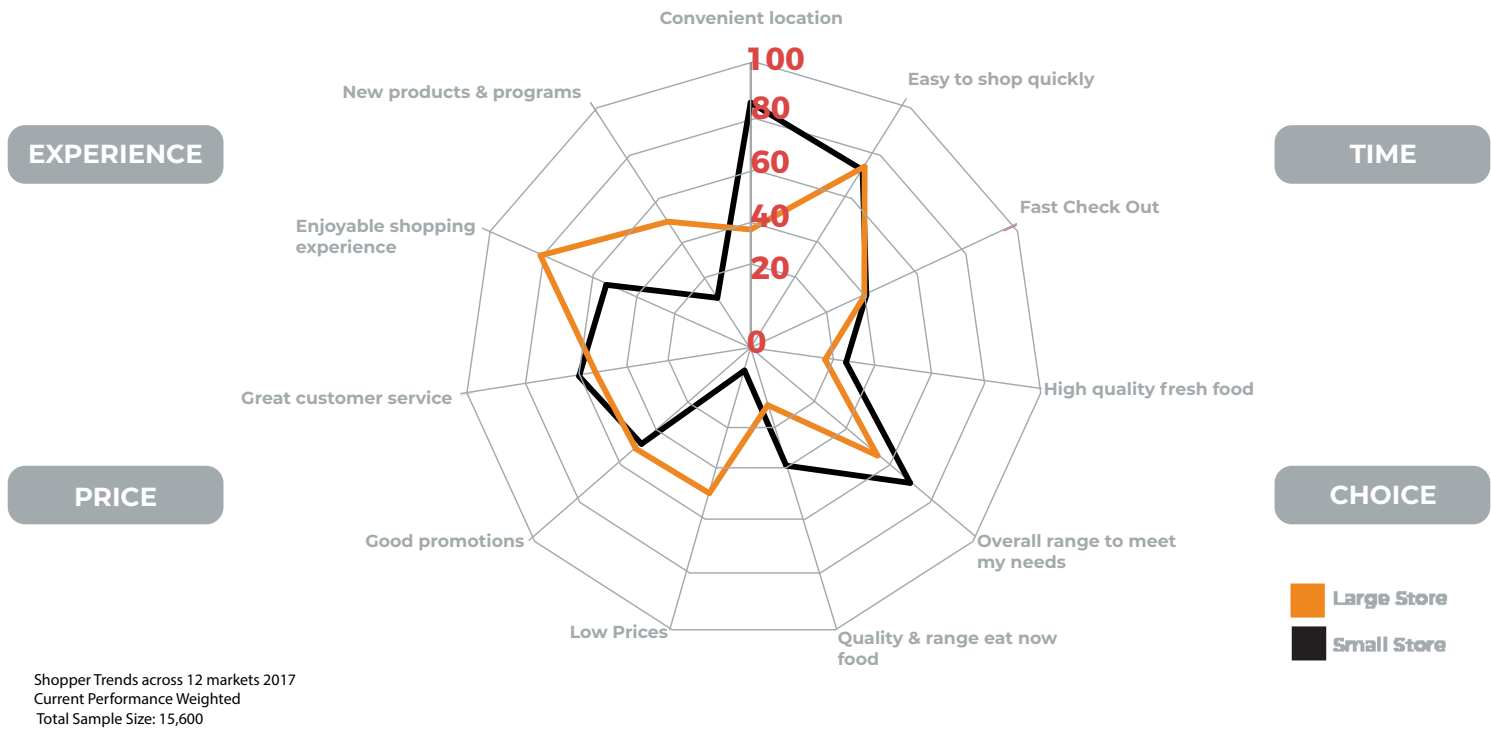


Exhibit 41: APAC Small-Store Essence

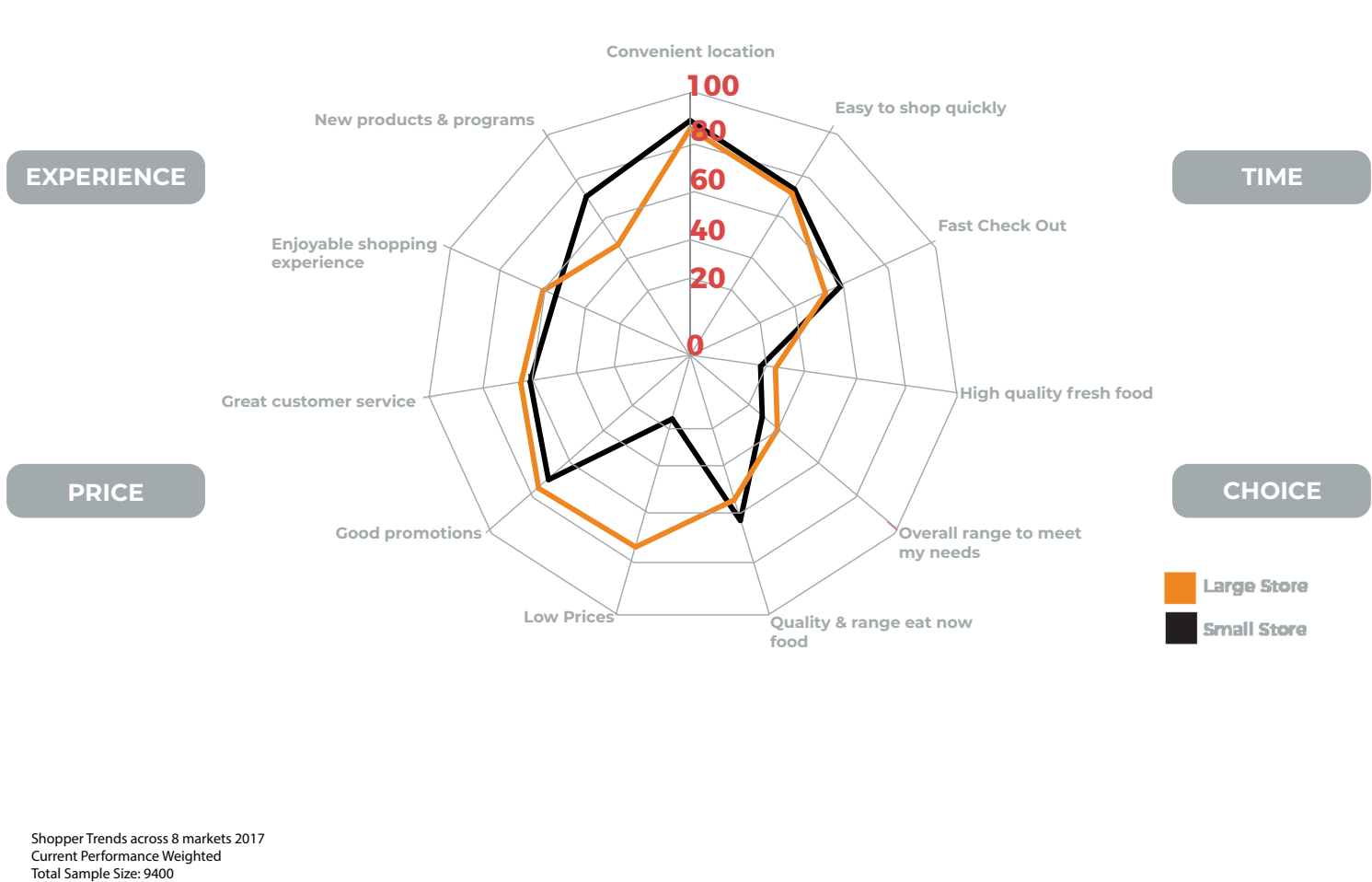
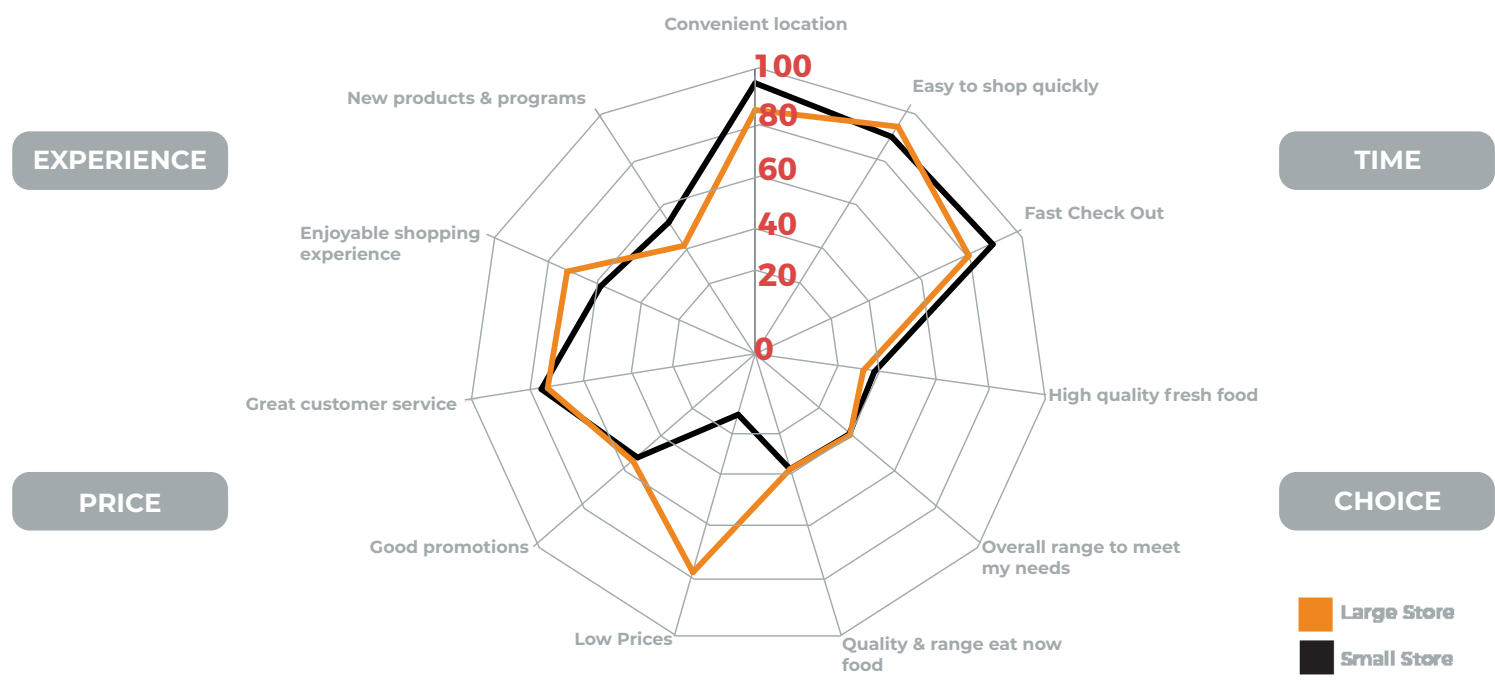


Exhibit 42: Six Market Small-Store Essence



Turkey, Belgium, Spain, UAE, South Africa, Russia  
Shopper Trends 2017  
Current Performance Weighted  
Total Sample Size: 9600

Exhibit 43: Six-Market Sample And Small Discounters In Turkey and Russia



Turkey, Belgium, Spain, UAE, South Africa, Russia  
Shopper Trends 2017 vs. Discounters (Russia & Turkey)  
Current Performance Weighted  
Total Sample Size: 9600

To provide a useful evaluation, we looked at small-store performance weighted by importance, and conducted the same analysis for large stores, to see the crucial distinguishing factors between small stores and large ones. We began with **a global picture**, based on 2017 Nielsen Shopper Trend data over 22 markets. Of the 11 elements measured, small stores scored measurably higher than large ones on location (not surprisingly) and the quality and range of “eat now” food. They underperformed on low prices and the quality of the shopping experience.

But of course, a global picture averages out performance among regions and countries. When we look at performance weighted by importance in Europe, we see a different picture. As with the global comparison, **Europe’s small stores outperform on location** – but any small store would go out of business if it did not do so. They overperformed measurably, also, on “eat now.” Also like global, however, they underperformed on price and the shopping experience – but the degree of underperformance was considerably greater. On the one hand, large supermarket retailers can take comfort that there remain things only they can do – but they should regard that comfort as nothing more than breathing room to consider how they can make the small-store space work to their advantage: it is a large segment, and it is growing extraordinarily fast.

On the other hand, what is also clear is just how close large stores and small stores score similarly on many of the other factors such as “overall range”, “ease of shop” and “customer service,” **which shows just how far small stores have come** to step up and compete with large store operations and competition. This is not a surprise in Europe, given the very broad availability of epos, transaction and shopper data and the dominance of large chain “miniaturised” small-store players (Tesco, Carrefour, etc.), which have done an excellent job at figuring out the right range to offer in a small store, while working to manage shopper expectations. Today, in fact, **“less is more” has become a fine art for these players**, and a key part of the business model: carrying the right range enhances sales and reduces levels of waste, and profits increase accordingly. In Asia, chains have thrived by choosing a specialisation model. 7-Eleven, Lawsons, FamilyMart and others are run as distinct businesses, even when owned by multi-channel operators, and the real success stories here, as in Mexico, are those which focus on maximising the value of the small store without consideration of what works in a large store. This is a real contrast to Europe. The extent of small-store success in Asia is visible in their fast growth: they already have 24% of the market, and we expect them to gain further ground in the future.

Two other interesting points or questions arise: first, looked at on a continental basis, there is clearly a small-store opportunity in Europe. Second, however: What’s masking this weaker performance at the global level?

The answer lies in the performance of small stores in Asia, where many markets are far ahead in the development of small stores. **In Asia**, except for the expected underperformance on price, we see that Asian small stores do roughly as well as large stores on everything – but are **significantly ahead on new products and programs**, and establishing a clear lead with regard to “eat now.” But we are also seeing broader innovation than just this in Asia through the likes of Xing in China focused also on premium ranges and self pay technology or BingoBox, an unmanned store open 24 hours a day with “just walk out” payment technology for ultimate shopper convenience.

#### **What, finally, of our six markets?**

Their collective performance is certainly not terrible – but it shows some real weakness. The underperformance on price is not surprising, but it is significant. There is no superior performance on “eat now”. Location is better than large stores – but not to the degree we see elsewhere. Checkout is marginally better than large stores, and a little better still regarding new products and programs. But the quality of the experience falls short. The total picture is of some real degree of failure to seize the high ground where it naturally belongs to the small store. The small store picture in our six markets is of an industry that is thriving because it does somewhat better on location, is “good enough” on almost everything else, and shoppers are willing to bear the stores’ high prices, even for a location benefit more modest than we have seen elsewhere.

As far as those high prices are concerned, as we saw earlier, perception equals reality: Shopper perceptions on price vary significantly across our six markets as do when and how (smaller packs, cheaper brands) they are prepared to accept the trade-off between price and the other variables. The result would be more of a “value for money” play where small stores can lead if they get the balance of our equation right: many shoppers will know there is a premium, but they will be willing to accept it.

Before we complete our analysis, there is one other factor worth looking at: **the performance of small stores against discounters**, because out of our six market sample, small discounters are overrepresented in Turkey and Russia.

Here we see that small stores do extremely well almost across the board, underperforming only on “overall range” and “low price”, discounters’ not-so-secret weapon. So well, in fact, do small stores do that adding to their strengths by increasing their range would leave only price as an area where discounters outperform them. Given that there is a **difference between price and value for money**, small stores could increase their profitability by being perceived as discounters with better scores than the current discounters themselves. We explained earlier in the report that 46% of the shoppers did not perceive any price premium in small stores versus other store types as their awareness of price is low, since these shoppers are making multiple trips to multiple stores buying smaller pack sizes and perceive that they are spending less overall.

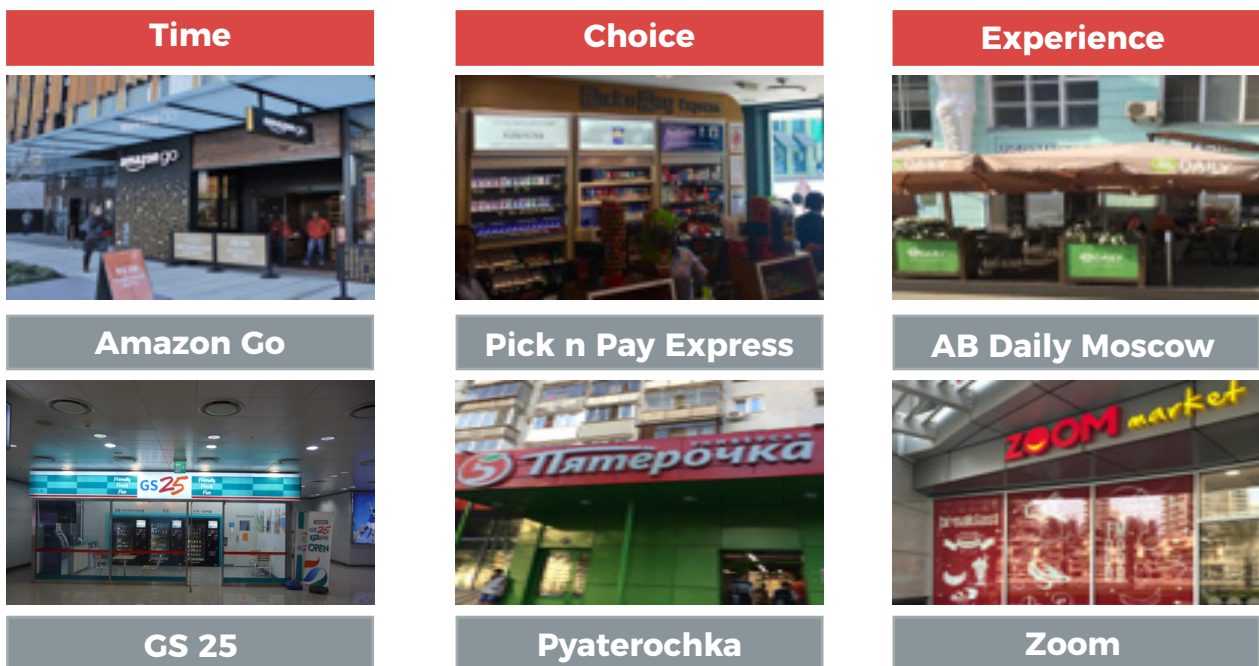


Value for money is a difficult concept for retailers to “action” directly, since it involves shoppers weighing up several factors to determine what value for money means to them. **One shopper’s level of price acceptability may vary from one store to the next based on how the other three factors in our essence equation are interacting.** For example, is that store particularly fast at check out and quick to get to, does that store offer me unique items or does it give me a great experience? Then based on personal evaluation of all these criteria and the prices in that store, the shopper makes a “value for money” determination. This is where the small store can win in the price element of our essence equation, effectively matching the discounters in shoppers’ perceptions, while maintaining all their other advantages over current discounters.

Absent a significant economic turndown in either country, then, the traditional small store is likely to remain a credible bet in these two countries, too.

Here, then, is what we believe to be a compelling analysis of the factors that underpin small-store success – **time, choice, price, experience** – and a perspective on the current performance of small stores in our six markets against large stores. This analysis allows any retailer to assess itself against the small store equation of today and see how that business would likely perform. Using this analysis, a small store retailer can consider different formats and what kinds of small store might be most promising for the shopper and in terms of success against the competition.

#### Exhibit 44: Small-Store Essence Innovation Examples



On which of the four dimensions of time, choice, price and experience can the retailer distinguish itself? What kind of small store should it aspire to be?

It is clear that in today's market, Turkish and Russian small store retailers must be credible against the successful and ubiquitous small discounter chains. If small stores cannot offer enough to offset discounters' price advantages, then they need to offer advantages in terms of time. In the other four markets of study, the advantages for small stores are more focused in the areas of time, choice and experience.

**The concept of small stores is rapidly changing.** A small sample of recent innovations shows us that the core elements of small store advantage, time, choice and price, are being further enhanced and developed by retail innovators around the world. Faster checkouts are here as contactless, frictionless services from retailers like Amazon Go and GS 25 show us that existing small store processes will go even faster and save shoppers more time. Stores like Pick n Pay Express and the latest Pyaterochka concept stores offer a wider range of choice, particularly in fresh and prepared foods for both at home and on the go consumption. Concepts like AB Daily Moscow and Zoom offer new ways to eat inside small stores and change the experience and enjoyment of small store shoppers.

Of course, there are a lot of choices. Even with the essence of small stores distilled down to four variables, when considering the 11 sub-variables one can measure and the performance against those variables of the other players in the relevant markets, there are many permutations one might settle upon. It is, frankly, enough to give one pause.

And pause we do in the next section, where we step back to assure ourselves that this leap into the small-store arena is a necessary one. Is the small store phenomenon here to stay, or is it like a stock market, bound to crash sometime?

**“A store where everything would be digital & automated from the arrival until the departure, from scanning the products to paying for them.” - Belgium, Shopper**







# 3GROWTH

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Whenever a company mulls a significant and expensive change of strategy in response to an opportunity or a threat, it does well to ask, “Is this a lasting phenomenon, or would I do better sticking to my knitting and letting this play itself out?” It is a question similar to what one might ask oneself in a rising stock market – should I get in, or has the market peaked? Accordingly, we want to say emphatically that, because the global trends that have lifted the fortunes of small stores have not yet crested – and, indeed, do not yet show signs of cresting – there is every reason to believe they will continue to make the small store a winning proposition, as long as those who are and those who wish to be active in this space can make a small-store offer work profitably in the context of their larger businesses.

As small stores are borne along by these global trends, retailers in the market will increase their investments, establish more extensive and creative partnerships, and watch shopper satisfaction levels rise as they expand the goods and services they offer faster and in an ever-more-attractive environment. It is a virtuous cycle, and pretty much an absolute imperative for small players - because this is their business - and for large players - because this must become a significant part of their business.

On the one hand, small stores are growing. On the other, large stores are cresting. It is important to understand why this is almost inevitable:

the large supermarket is an advanced organism, and the bulk of the efficiencies available within the model have probably already been claimed. Small stores, meanwhile, are at a relatively early stage of their development.

As we have seen, **that does not mean small-store success is easy**, and it will not get easier from the point of view of sophistication, because many players will want a piece of this fast-growing market, and they bring their various competitive advantages to the table. The new competitive set for the small store operator extends to the whole range of food-service stores, QSRs and coffee shops, pharmacies and online competitors. Consequently, **small-stores operators need to establish where they will create unique demand** - specialty food, or in-store dining, for example.

But what is clear, is that the sun will continue to shine on small stores, and those who wish to warm themselves should find a place in their midst. First, it seems clear that the global trends we have discussed are not going to halt, or to reverse direction, any time soon. We have seen the growth since the middle of the last century. As urbanisation continues to increase, a larger percentage of the population will occupy smaller spaces with smaller households.

Urbanisation, along with the other forces at work we have discussed, also brings more women into the formal workplace – rural women work hard, but they often do not have jobs *per se*. The changing role of women continues apace, even in markets like Saudi Arabia where women have been given the right to drive for the first time, surely a tipping point for other reforms like female labour force participation. **Jobs in the city mean more money and less time.** With fewer mouths to feed, eating out will continue to grow. Jobs in the city also mean more smartphone use.

In short, absent some extreme scenarios or radical departures from the current trajectory, the small store is probably far from its peak as a retailing phenomenon. Indeed, even should one or more of the global trends we have discussed falter, there are a number of additional factors that will further fuel the growth and it is worth looking at three of them: transport, technology, and the Super Shopper, a small-store enthusiast we have mentioned in passing earlier in this report.

## Transport Revolution

Today, we are at the beginning of a general cultural revolution in driving, driven by the rise of electric and driverless cars. There are very many unknowns with regard to how this will develop, and how soon – although the range of tests now underway suggest that the driverless car is outside our one-to-two year window, but likely not outside our five-to-ten-year window.

The range of unknowns – particularly as regards regulation – makes precise predictions

difficult, and perhaps impossible. But the general outline is not so hard to foresee, and it is fair to say that it will **tip the balance in favour of the small, urban store.**

We can see this by looking at what is likely to happen to the large supermarket as opposed to the small urban store with the advent of electric and driverless vehicles.

First, however, we should establish some general conditions that are likely to apply. While car ownership will surely go down, access to cars will go up. Today, owned cars sit unused about 95% of the time. As such, access to a driverless car, whoever is making them available and however they do it, is likely to be significantly cheaper than owning a car. Unlike taxis or car services, paying for them does not require paying for someone's time. That means that driverless cars will herald a yet-greater **democratisation of the automobile.**

The constraint on this, of course, is the space devoted to roadways. But given that driverless cars are likely to be much better drivers than humans, and that a steady decline in

Exhibit 45: Google Driverless Car



Source: Google Images



car ownership would eventually mean the end of streets lined with parked cars, it is fair to say that our current road infrastructure can support considerably more cars than it supports now.

In this new world, it is only a matter of time before we can all call up driverless Ubers and Lyfts, picking them up when and where we want, and letting them go when we are done. What benefits does this trend have for the small store?

On the plus side, many more people will have access to all forms of stores than have access to them now. Those who can drive but do not own a car can get there. Those who do not have the time can now work in the back seat. Those who cannot drive for other reasons – the elderly, the disabled, children above a certain age – all these will suddenly have easy access to stores farther from homes and workplaces. The advent not merely of the driverless car, but the passengerless car may accelerate online retailer market share, particularly with regard to food and drink. If a fleet of cars is ready to deliver goods ordered online at any time – literally, any 15-minute window of a 24-hour day – then why go to the store at all? Shopping will become a matter of ordering things online, and having a car pick them up at a warehouse that might be 20 miles away, and bring them home. It will not escape readers that this is much the same as online shopping today, and driverless cars may be the technology that solves the same-day or even same-hour delivery that big online players are trying to solve with drones and other sophisticated experiments. That said, driverless cars are not likely to represent the tipping point in the online vs. offline dynamic: driverless cars are just one more delivery vehicle, as it were,

and without it, the online players will crack that nut with drones or some other method. How, in this world, will the urban small store fare? Pretty well, it seems. First, people still need to get up, go to work, put in their time at the office, and come home. They may use driverless cars, but those cars are not likely to replace their need for breakfast, for cigarettes, for a place to pop out to lunch, for somewhere to stop in to pick up food for dinner, and so on. Secondly, the democratisation of car ownership is likely to affect the cities much more than the suburbs, where so many people already have cars. Urbanisation will not be slowed by the driverless car. But it might be sped up a bit. Thirdly, insofar as parking is a challenge for small store, a model in which one car delivers you to the store and the next available car takes you home can only help them.

Some have suggested that needing less parking will make stores cheaper. After all, you need less space to run a small store. But that is probably not true. As the need for parking disappears, the capital required to open a small store or chain of small stores drops and more players come in to the market, driving up the price of retail real estate back to an equilibrium point that may well be exactly where it was before.

The transport revolution is also likely to present **further opportunities for savvy small store operators** to change their business model a little and offer charging stations for electric vehicles, where shoppers can dwell, use Wi-Fi, get a cup of coffee and some food or do a small shopping trip for dinner that evening. Free parking and/or charging of the vehicle could be an option for your most loyal shoppers and even as car charging times continue to fall there will still

be enough time to get the majority of small store shopping trips done.

### What about the online challenge?

Will small stores not be equally vulnerable to the loss of impulse-buying? Not so much. The small store offers the goods from the supermarket you most need; a place to meet and eat; a place for last-minute purchases, whether on your way home or from home – it is fine to send a local car to the store five minutes away for an extra stick of butter, but you cannot wait an hour for it to get to the supermarket and back – we saw just how critical time was in our earlier Essence section and it is set to stay critical for shoppers in the future.

That said, there are two types of small stores under real threat from the transport revolution. The first and most obvious one is the petrol station convenience store. As fuel-efficient, sometimes driverless cars refuel at inexpensive central locations, petrol stations will become rarer. And the ones without passengers will not need to buy anything from the store when they do stop to refuel.

The second store under threat is the traditional small store – where you go for bread, milk, cheese, candy, cigarettes, and the newspaper. Given the relative cost of ground-rent for such a store, compared to a mid-size truck that simply cruises the neighbourhood and comes when it is called, it is likely, unless regulations forbid it, that the old-fashioned small store will be placed by mobile tiny stores, which need carry fewer numbers of each item, because they can stop by their warehouse location once or twice a day. The good news for the small-store ecosystem is that there are not nearly as many of these as there used to

be, because they have been diversifying in response to competition for a good while. All in all, while it is not really possible to know how the transport revolution will evolve, insofar as it does develop as seems likely today, it will be just one more reason for players large and small to bet on small rather than big. And as they bet, they would do well to think about what the transport revolution means in terms of our small-store equation - time, choice, price, and experience.

- As drivers become passengers either fully or just some auto pilot moments in their journeys, they may well become less pressed for **time**: a driver is generally in more of a hurry if they are driving, because they cannot do anything while in the car.
- **Choice** may become **harder to address** based on shopper needs and expectations from a driverless delivery vehicle in the morning versus in the evening, and how this compares with a physical small store.
- **Price** will be affected depending on what driverless cars do to large supermarkets. If they become less attractive, small stores will probably have more flexibility to price up. That said, operators of large supermarkets are already in the small-store business. If their large supermarket business declines, they will invest more heavily in the small store – which will make pricing more competitive once again.
- As for **experience** the biggest shift here will be the “**dwelt time**” of those shoppers recharging their electric vehicles and how they want to spend this time in a small store compared to what they do today.

But whether shoppers and Super Shoppers are driving by, arriving in the back seat, or sending a car over on its own, they are also going to be leveraging advances in technology to use the small store without going there in an already-established way: shopping for delivery on their phones. We have already discussed the ways that mobile phones benefit the small store. But technology in general will do much for them, too.

## New Technology

Technological advances routinely democratise capabilities. Just as technology now allows individuals to set up businesses with many of the once-expensive advantages of the large firm, by way of rentable back-office services, less need for assistants or expensive equipment to create, print, copy and transmit work product, so too here. Once-expensive up-to-the-minute analysis of what is moving off the shelves and restocking capabilities will be available to merchants of any size as **smart shelving** democratises expensive tracking and analytic functions that are particularly acute in the high density small store concepts. Single-entity, expensive enterprise resource planning systems will be replaced by software-as-a-service packages from multiple vendors, tied together in low-priced cloud-based server farms. The large inventories affordable only to big corporations with ample floor or storage space will give way to just-in-time delivery of small amounts of goods that do not need

to be stocked on site. In a hundred ways, artificial intelligence will allow small-store operators to access services once available only to large corporations, just as an Amazon Echo brings vast libraries of books, music, news and entertainment to your kitchen counter for the price of a decent restaurant meal and a couple of inexpensive monthly subscriptions. Technological innovation for small stores goes beyond the advances in data management and analytics. Looking back to our small store essence equation, technology is likely to have a role to play across all four elements and should be an imperative for retailers to deploy.

In Exhibit 47 a range of technologies have been identified which the small store operator could use to enhance the shopper offer and reduce operating costs. Some, like self-checkouts and apps are already gathering pace in small stores. Perhaps others are still at an early stage and are only just becoming affordable to implement and scale within a small store. Heating and cooling equipment continues to evolve with a combination of lower energy consumption and more rapid changes in temperature. A more efficient set of **heating and cooling** capabilities will be vital to serve those “eat now” missions (for on-site consumption within the store or to take back to the home or office). New equipment is also expected to be more space efficient, really expanding shopper choice.

## Exhibit 46: Technology And Small Stores

**Electronic Price Tag**



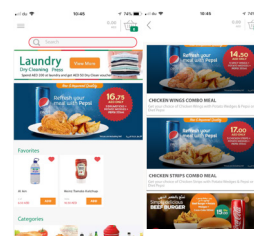
**Pick n Pay Money**



**Copy & Print Machine**



**Shopping via Mobile Application (7APP)**



**Tie-up with Alipay**



**Amazon Lockers In Store**



**ATM In Store**

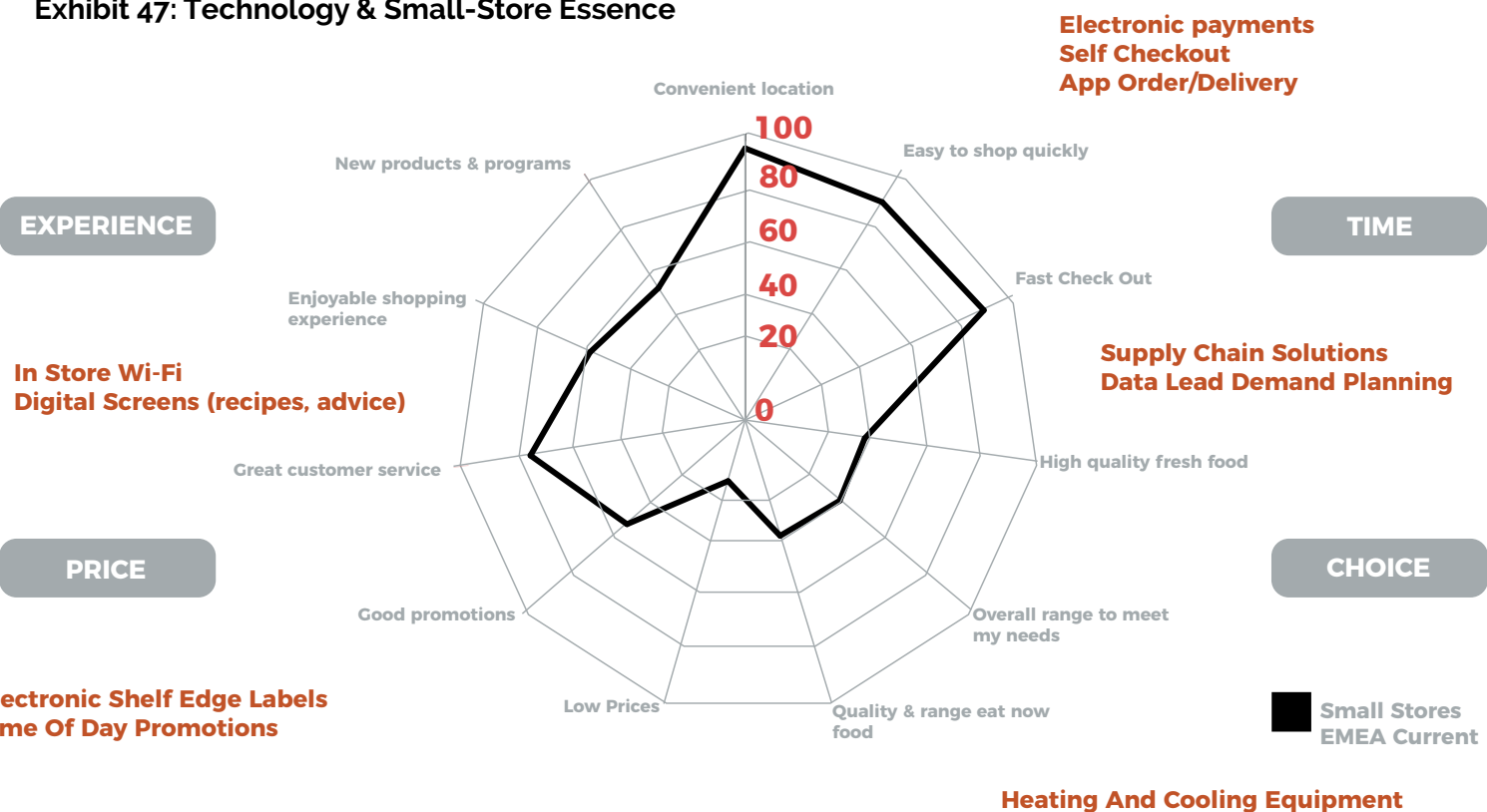


**Shopper Services**



Source: Shirland Ventures Limited, Nielsen Google Images

## Exhibit 47: Technology & Small-Store Essence



Turkey, Belgium, Spain, UAE, South Africa, Russia  
Shopper Trends 2017  
Current Performance Weighted  
Total Sample Size: 9600

At the heart of the rising advantage of small stores is Ronald Coase's 86-year-old theory of the firm. Why do large companies exist? Only because they can replace the market's price mechanism with cheaper internal transaction costs. As soon as you can buy a service more cheaply from the market, and integrate it inexpensively – which is what happens as technology develops – it becomes possible for small operators to provide the kinds of services once unique to large companies. With every advance of technology, small players can do more and more of what the large players already do.

### Rise of the “Super Shoppers”

Over 120 years ago, the economist Vilfredo Pareto theorised what came to be known in business as the 80/20 rule – Pareto noted that 80% of land in Italy was owned by 20% of the population, and that 80% of the peas in his garden came from 20% of the peapods. Today, it is a commonplace observation that, roughly speaking, 80% percent of your profits come from 20% of your customers, 80% of the analysis can be done in 20% of the time – everywhere, 80% of the result in question is achieved through 20% of the inputs, whether time, people, or whatever.

The situation is no different with small stores and the Super Shopper. Our **Super Shopper diagnostic** was behavioural in nature, related to usage and attitude towards small stores, not related to one specific shopper demographic or another. This small-store stalwart is responsible for an outsized **number of visits** to the small store - visiting up to four times a day where others visit twice, with more money in their wallet.

They buy more, and they buy more often. As a result, not only do they contribute an outsize share of small-store profits because of these two attributes alone, they are also **experimenters and advocates**: faster in trying different small-store formats for their purchases, and drawn to anything new they find there, as well as making an outsize contribution to the “buzz” about small stores online as well as off. These are the shoppers that routinely visit small stores four times a day, for their breakfast or cigarette stock-up, working lunch, afternoon snack, and stop off on the way home for the evening's food needs. Overall, for this group, food is the biggest driver, and proximity really matters. They have no time to cook, but many will have guests over to eat, often at short notice, making them prone to last-minute decisions about whether to eat at home or in the store.

Small stores proximity also drives stopping in as and when they do have a few moments free time – and, crucially, with the exception of seniors, they have the money to buy on impulse.



## Exhibit 48: Super Shopper Needs



“I was on my way to a relative’s house and I was asked on Whatsapp to take **two loaves of bread for dinner**”



“I came out to **do some sport** and I stopped at a store **to buy a drink**”



“I stopped at a Pick n Pay to get **Bread and Milk**. I also got **Juice, Cold Drinks, Chips, Chocolate, Biltong**.... I ended up buying more than I planned, as usual I end up buying whatever caught my eye which means more items and more spends”



“**During my lunch break**. Most of the time, I don’t need anything. I kind of like to **just look around** (and very often I buy something)”

Source: Super Shopper Qualitative Engagement , n=108

It is hard to overestimate the importance of food to Super Shoppers’ impulse trips, or impulse buys. A Russian Super Shopper noted, “Yesterday I was going home from work, I still had the products at home, but the heat was strong, and I really wanted an ice cream, so I went to buy it.” A South African respondent said, “I needed a bread and milk top up. Ended up browsing the aisle and grabbing chips, juice, chocolate and other snacks.”

In general, Super Shoppers are particularly prone to impulse buying.

If they see something unusual, or delicious, or something that looks interesting or appealing, they are more likely to reach for it than the average shopper. And, although they do not want to spend a lot of time in the store, if something catches their attention, they will give it their time. Because they are typically better off than the average small shopper, price is even less of a concern for them.

All the more important, then, that small stores meet a wider set of super-shopper needs than large stores do. We already saw the frequency of shopping trips and complexity of missions (exhibit 24) taking place in our small stores and this trend is only going to accelerate as the global trends take hold.

This does not mean small stores just offering a wider range of goods - where they cannot compete with large stores, anyway. In place of a wide array of goods at low prices, they must **meet crucial grocery needs along with on-the-go needs, eat-in options, new product inspiration to relieve the boredom factor** from so many shopping trips as well as relevant specialty products and services like pre-ordering of coffee, mobile top ups and so on. These needs hold for all small-store shoppers – but are most important to the Super Shoppers, the small stores' most valuable customer.

At present, Super Shoppers make up **29% of small-store custom**. And because the forces that give rise to Super Shoppers are broadly the five global trends discussed above, as those strengthen, so will the Super Shopper underwrite small-store success even more.

For example, the continued increase in working women in Turkey (where Super Shoppers are already 38% of the small store shopper base), expanding numbers of working professionals in the UAE or even faster rates of urbanisation in South Africa.

Of course, all stores look to their best customers for an outsize profit contribution, in line with the Pareto effect.

Small stores just happen to have *better* best customers than many other industries can boast – and their numbers are on the rise as the global trends put more money in their pockets while making it necessary for them to **shop nearby, shop quickly, and often shop small.**

“On weekends I spend more time with my family, we head out to the mall to watch a movie and eat out at the food court at the mall or restaurants, it is very different on weekends than on weekdays as on weekdays I visit these marts at least once and mostly 3-4 times to pick up food, while on weekends I prefer eating at home or taking my family to a restaurant.”  
- UAE, Shopper



# 4 THE FUTURE

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Small stores have ridden a wave of global trends that have brought shoppers to their door, and these trends will continue to shape the market in their favour. But, as a store format experiencing double-digit growth while other formats grow slowly, competition will intensify, and with it greater experimentation and variation in the small-store market. Our research suggests that we will continue to see more shopper usage of different types of small stores, more trips overall per month, more fragmentation of shopping missions as well as some new ones, smaller baskets across all trip types (even the stock up mission), and, with all this, an even less price-aware shopper than we see today. **As this highly complex shopping dynamic accelerates** along with continued expansion of the also highly-complex small store universe, it becomes essential for retailers to be crystal clear on their shopper proposition and where they can differentiate to win their fair share of these trips.

What, then, do small stores need to do to win in the future? How do they need to manage their performance against the equation we have identified for small-store success? As noted in the introduction to this report, we address this question in two parts: as a “known future” or “near future” phenomenon, and as a “future-future” phenomenon.

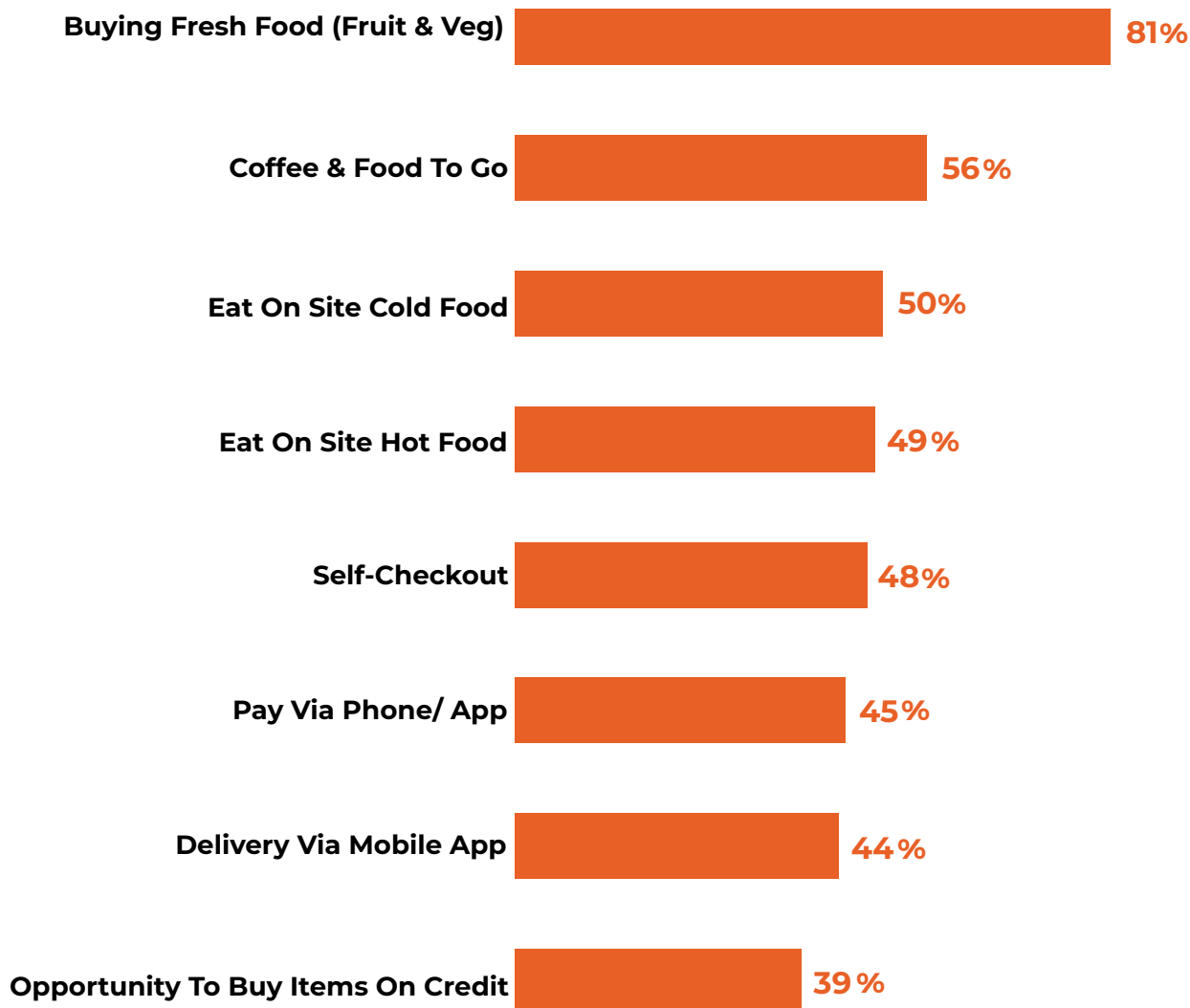
## The “Known Future”

One way to get at how to address the known future is simply to **ask shoppers to say what they want**. That is because shoppers can tell you what they want now - and by “now,” they mean in the next year or two. So that is what we did. When we asked shoppers what really mattered to them in the next year or two, the options that scored highest were the availability of fresh food and vegetables (by a long chalk), coffee and food to go, “eat on site” cold and hot food, and self-checkout. Interestingly, paying by phone, delivery based on mobile app, and the opportunity to buy on credit made up the bottom half of the distribution. Paying without money or through a social network account, or even the unmanned store, mattered to less than 50% of our respondents, even five to ten years from now.

“**The future is already here - it’s just not very evenly distributed.**”

- William Gibson

**Q** Thinking of 1-2 Years from now, how important is it for you to have the following in the store where you shop?



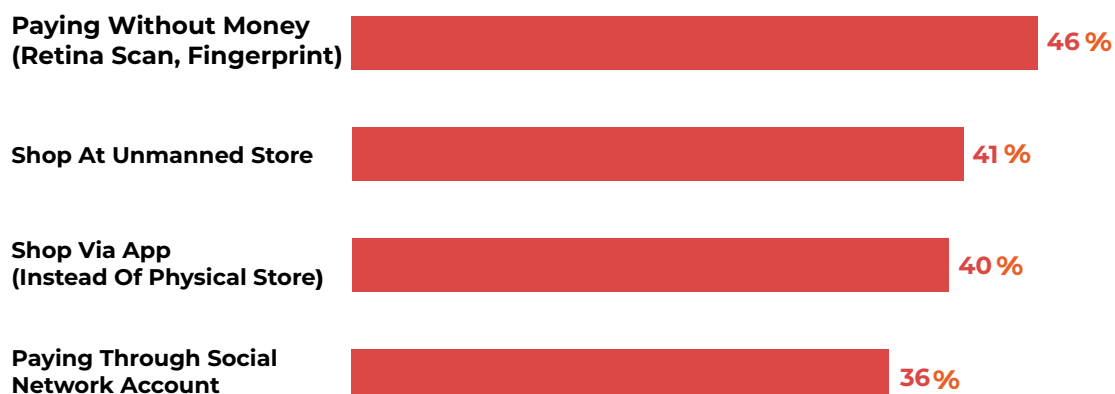
Source: Quantitative Survey n=3188

Given this reality, examples such as 7-Eleven's partnership with Cleanmate, which brings laundry and dry-cleaning services into the chain, may be more powerful than the kind of technology that will probably be ubiquitous in ten years. The even simpler example of Caltex Fresh Stop, which offers salads, smoothies, dairy products and affordable everyday groceries, will probably be even more powerful, given the 81% of shoppers who said it was something they wanted in the near future.

**“The store would be decorated in very warm colours which make the shopper feel at home. It has wooden shelves, everything with a welcoming, traditional look, but at the same time a modern look”- Shopper**



## Q Thinking of next 5-10 years, how would you describe your intention to use Following options?



Source: Quantitative Survey n=3188

Asking shoppers what they want is even more important with Super Shoppers, given their higher spend. Here, it is of particular interest that they asked for a lot – functionality and speed, sensory attraction and navigation, a personal touch and entertainment, quality and freshness, social responsibility, and loyalty programs – **but the question of price did not come up at all.** Of course, everyone wants quality and freshness, speed, and a pleasant experience – but Super Shoppers emphasise experience more; they expect stores to respond to the amount of money they spend with them by providing loyalty programs, and they want to see socially responsible outlets. Small stores would do well to heed these issues doubly because, as noted, Super Shoppers visit approximately twice as much in their stores, and they want their loyalty – as well as the custom of the higher percentage of Super Shoppers coming down the line. How well are emerging offers meeting the expectations of Super Shoppers?

7-Eleven is a good example here, too. Always seeking, as Joe Thompson, their founder, put it—to “Give the customers what they want, when and where they want it,”—7-Eleven works to a basic model of 24-hour service, a combination of necessities, top-up options, and hot and cold snacks, as close to the customer as they can get. We stuck a pin in a map of suburban communities on Long Island, and found three 7-Elevens within 1.5 miles of the pin. The “when” part of Thompson’s equation suggests the store might accurately be called 24/7. Originally open from 7am–11pm, which were regarded as extended hours when the chain opened, 7-Eleven has kept pace with the boundarylessness of modern life, and is now open all the time. 7-Eleven is also sensitive to the desire of the small-store shopper, and the Super Shopper in particular, for “new”. Having created the “Slurpee,” the “Big Gulp” and the “Big Bite,” 7-Eleven operates test kitchens where their product development teams work continually to refresh their offers - new drinks, new foods, new conveniences for busy customers.

They are also savvy technology players. The **7-Eleven mobile app** deploys generous loyalty programs to attract the digital-savvy, a group overrepresented among Super Shoppers. And, as noted at the beginning of this report, as befits a very large chain, they have invested significantly in software and business processes that make their operating model ever more efficient, bringing fresh food to their stores each day, installing eco-friendly LED lighting in their stores, and generally pushing the limits of what technology can do to honour the time, choice, and experience needs and desires of their customers, at a price they are comfortable with.

Where 7-Eleven's challenge is staying just ahead of the market, other small-store operators face more radical challenges. For instance, Shell is installing electric car chargers and reimagining the role played by its petrol stations. In a world steadily moving from filling up and grabbing a few necessities on the side, to shopping at the convenience store and filling up petrol on the

side, Shell has partnered with Alimentation Couche-Tard's Circle K, allowing it to expand the market for its Shell-branded petrol by pairing its loyalty rewards program with the second-largest convenience-store operator in North America. (Exxon Mobil Corp. has similar arrangements with Circle K and 7-Eleven Inc.) **"There's a shift in people buying gas based on the quality of the sandwich as opposed to getting a sandwich based on the price of gas,"** according to Jeff Lenard, vice president of strategic industry initiatives at the National Association of Convenience Stores. Indeed, a March 2017 NACS survey discovered that the percentage of people who say "gasoline price" determines where they refuel has fallen by 6 points since 2015, to 51 percent. Members of the Greatest Generation will be surprised to discover that Millennials split equally at 45 percent on "gas price" versus food quality.

**Exhibit 51: Tesla Charging Station**



Source: Google Images

As noted and discussed in Section 3, petrol station convenience stores will face much more serious challenges as cars go driverless, as the entire refuelling structure is bound to change, whether it is petrol or electrons in question. But whether shoppers and Super Shoppers are driving by, arriving in the back seat, or sending a car over on its own, they are also going to be leveraging advances in technology to use the small store without going there in an already-established way: shopping for delivery on their phones. Accordingly, **players are also innovating online**. Carrefour, one of world's largest retailers, announced a number of innovations earlier this year. "Panier Cuistot" by Carrefour is a 20-Euro "meal box," (like those offered by Hello Fresh, Gousto and others) which contains between two and four recipes to be delivered to the home. The shopper can choose from a list of a dozen or so options, which change every week. Delivery is within 24 hours in and around Paris, for a small fee (under three euros). Carrefour is also experimenting with "Pikit," which scans barcodes and adds the item to your online shopping cart. The device has a voice function. It will also suggest other options if the desired product is not available from Carrefour.

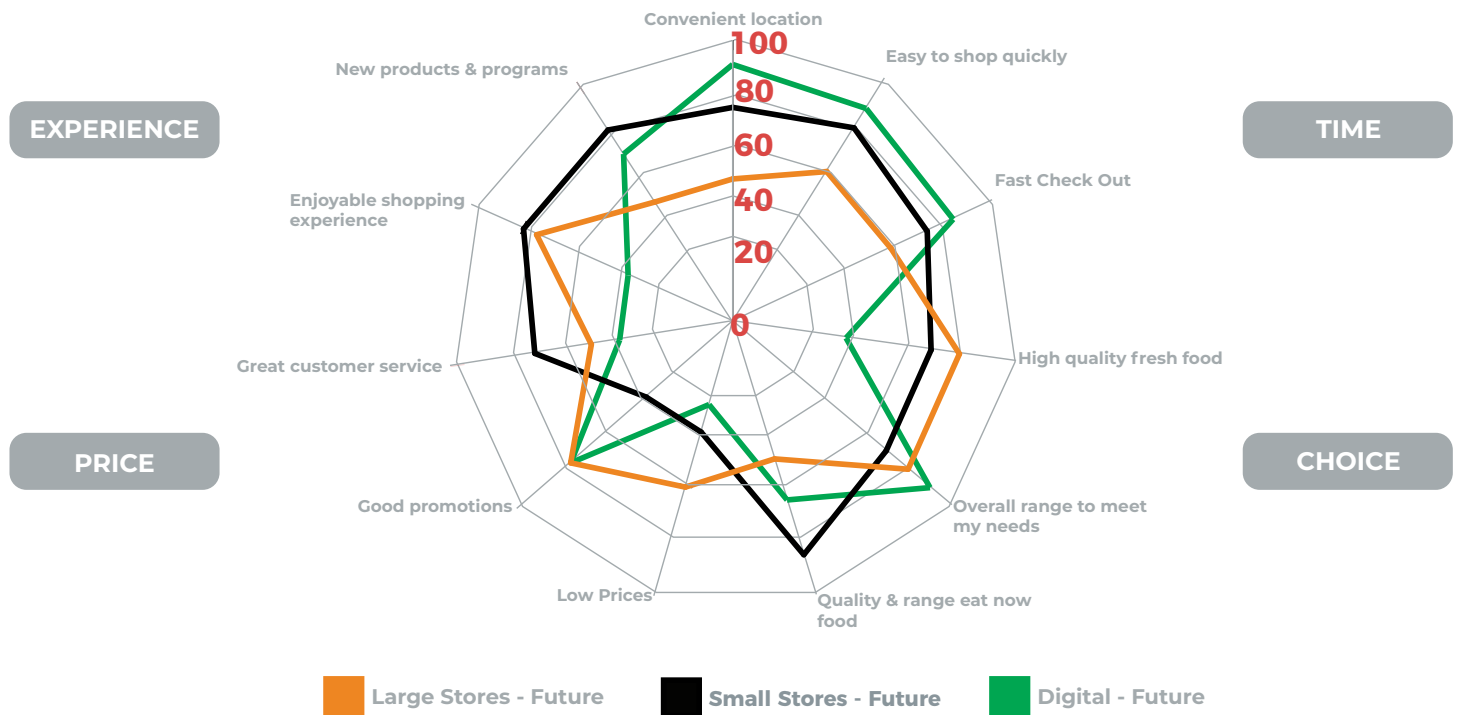
Carrefour also operates Livraison Express, its answer to Amazon Prime. Launched in October 2016, the offering has been expanded to over 3,000 products. The customer can choose a 30-minute slot for the delivery as soon as one hour after the order is placed. Carrefour's online experiments are a tiny fraction of the rapidly changing environment. These offerings are a reminder that small stores must contend today with a new class of players, that are either fully digital or omnichannel outlets.

Until recently, small stores and supermarkets have been protected from digital outlets by two factors: unwillingness to embrace digital for grocery with the same eagerness that has challenged other industries; and constraints on digital players, particularly having to do with delivery to the shopper. To some extent, that is still true: the number of people willing to buy grocery – including fresh food – from online merchants is still not large. Delivery is still being solved by digital players, who are making their distribution networks more efficient and experimenting with technology such as drones. But solve it they will. Accordingly we constructed a "Spider chart" for what we see as the **"Known future" of small stores** in our six markets, this time setting out our projection of small store performance against digital as well as large stores. Since Asia is a leader in small stores, we consider it reasonable to posit that the present state of the market for small, large and digital stores in Asia is a powerful predictor for what the six markets we have studied will look like in the foreseeable future.

Based on what is happening in Asia and our own analysis, we see **two likely futures:**

**Scenario 1:** This is a projection from today's data, essentially our "Super Shopper" small store needs and behaviours becoming those of the "average small store shopper", in which we see small stores winning on a mix of **time** (quick to shop), **choice** (with emphasis on eat now as well as overall range, i.e. the right range for a particular small store) and **experience** (regular introduction of new products and a great, maybe multi-sensory, shopping experience), but not on **price**. In this scenario, small stores recognise that digital commerce could possibly win on **time**

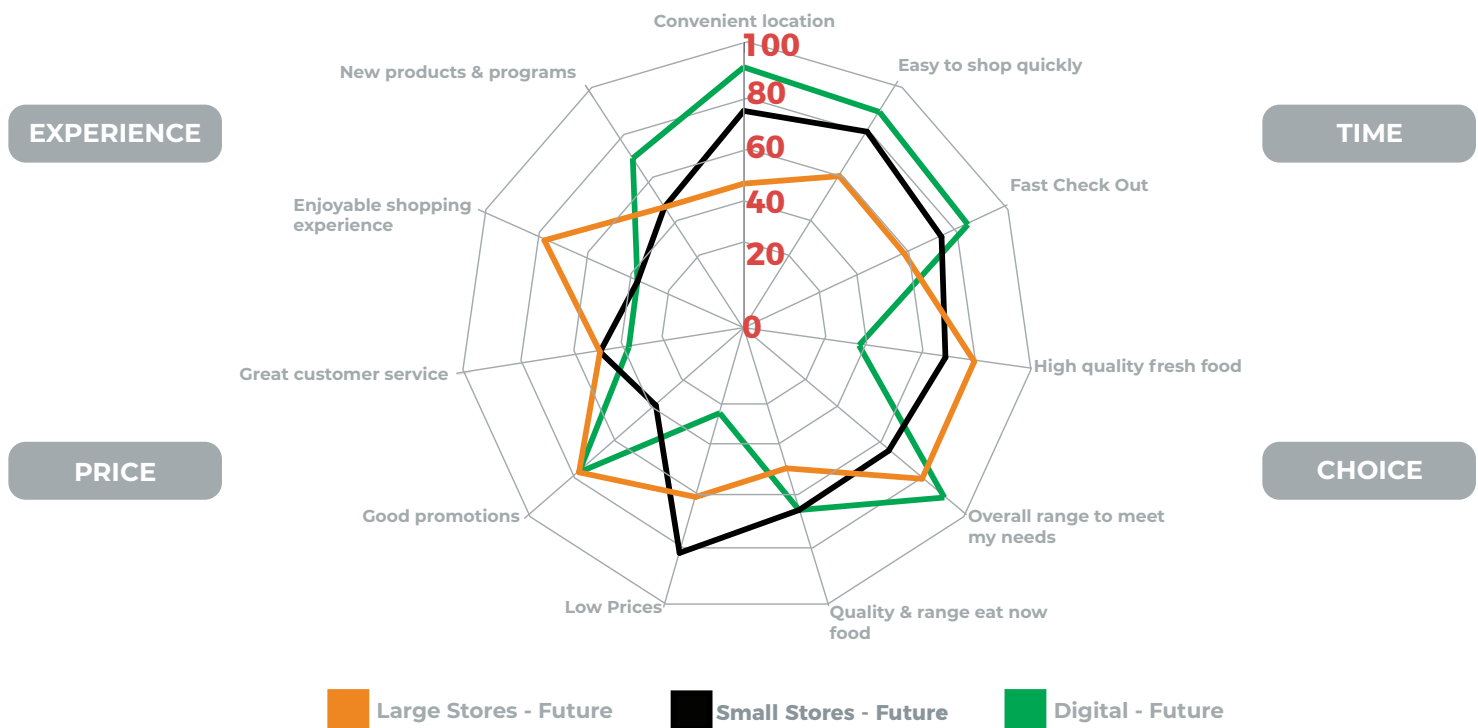
Exhibit 52: Future Small-Store Essence Scenario 1



Source: Expert Opinions

Large Store: Self Service MT store > 500 sq.m  
 Small Store: Self Service MT store < 500 sq.m  
 Digital: Online (E-Commerce & M-Commerce)

Exhibit 53: Future Small-Store Essence Scenario 2



Source: Expert Opinions

Large Store: Self Service MT store > 500 sq.m  
 Small Store: Self Service MT store < 500 sq.m  
 Digital: Online (E-Commerce & M-Commerce)

(given they are hypothetically always available to shoppers wherever they may be) but not so much as to threaten small stores given digital constraints on delivery logistics, and **choice** – but shoppers remain comfortable with small-store range and happy to make the trade-off. Large stores win on price, where small stores will never be able fully to compete, but will not need to and for which they will compensate first and foremost with location (time), and choice. But this is just a linear view of one store type versus the other, whereas in fact **stores are increasingly collaborating on their offer**, an approach which can enhance the small store future business model. We talked about Oxxo in Mexico earlier in the report which provides a payment service to other stores, but we are already seeing in other markets examples of this with parcel collections (Amazon lockers in 7-Eleven in the US), laundry services (Cleanmate in Thailand 7-Eleven) or even small banking kiosks.

**Scenario 2:** In this scenario, we held Large and Digital data as in Scenario 1, but see small stores winning instead on **price**. By increased growth and scale in the market, small stores could come to enjoy some of the buying power advantages of the large stores so improving their low-price position. As we saw earlier, small stores also benefit from reduced shopper price awareness vs. large stores, as well as taking advantage of smaller pack sizes and unique ranges which cannot be easily compared against other stores on a like for like basis. Then, further bringing Digital solutions into the store offer through apps for delivery and pre-ordering,

so they can compete with Digital which will always offer the ultimate in **time** by being truly available wherever and whenever a shopper needs. In this scenario Experience and Choice are reduced as strengths in order to drive the focus on price: essentially, the basic small discounter model with digital elements incorporated to the shopping experience. All this said, small store players can of course pull levers related to any of the four variables as they wish. They cannot easily change their location, but they can improve their **time** performance by optimising their store layouts, the ease of moving around in the store, the availability of staff to help people find things, and the speed of checkout, whether through electronic payments, self-checkout, or the kinds of delivery options and mobile apps larger stores are experimenting with. As far as **choice** is concerned, they can increase the frequency with which they update their range against what is and is not moving fastest, add or expand eat-now food, and improve the quality of their fresh food. Here improvements in the supply chain will be important. Also worth considering are partnerships that bring in companies with skills they do not have or brands that will add cachet to their store – and more prosaically, newer heating and cooling technologies. When it comes to **price**, the most powerful lever is probably the selective use of promotions to get people into the store – a lever as old as retailing itself, but still powerful. But new technology in the form of “electronic shelf-edge labels” allows for price changes throughout the day depending on demand, the temperature



outside, and any other variable that would make shoppers comfortable paying more – or expect to pay less. And they can certainly improve the shopping **experience**, an area where they are not now distinguishing themselves. The experience is most important for those likely to stay the longest. For those with time, a nice café with Wi-Fi will distinguish the store. Recipe ideas may be well received. If you are targeting older shoppers, consider cooking classes and food tastings to bring your shoppers closer. And the personal touch will never be available to digital and hard for the large-scale supermarkets.

### The Future-Future

As noted above, we believe that large players with the resources to invest that wish to establish a dominant position in the small-store market should prepare for two futures. This is the “known future” we have just discussed, based on trends clearly visible today. Very respectable businesses can be built on following those emerging leads. But we believe, also, that the truly remarkable business successes of the past 100 years have all been related to visions of the future that go beyond the next few years – certainly, to the next ten, and sometimes far beyond. To that end, as noted above, we present here the results of our **crowdsourcing model**, in which we put out a brief to a worldwide community of thinkers. That community returned to us multiple visions of what the small store of the future will look like – a number we whittled down to the brief profiles offered here as food for thought for those who wish to prepare for what comes after their small-store strategy of today.

Some interesting themes emerged from the crowdsourcing panel:

- The increasing role that **technology** plays in every aspect of our life- for example replacing people through an unmanned store, replacing shopping through apps and delivery or integrated into the store offer through smart screens and smart baskets.
- Some emphasise the use of artificial intelligence to analyse **patterns of shopper behaviour** in real time to offer product suggestions, or identify the best way to shop in the store.
- Others **turn the store into a big fridge** – a reminder of the small-store owner who identified the dream as being “both their fridge and their cupboard.”
- One entry emphasises the ability of technology to make space for **social interactions**, turning a table into a smart screen that allows you to shop while having coffee or a bite with fellow-shoppers.
- And one store sweeps technology aside to focus on something any store could do today without installing any technology at all – the “One store” that leverages the power of promising the shopper the **best of every product**, and the novelty of **changing products every week**.

## Small Store Innovation

All of the entries from our panel were related to our small store essence variables – time, choice and experience – but, interestingly, not price. We already saw that price was not the most important factor for our small store shoppers in the same way it was for large stores and it looks like shoppers do not see this changing in the future. Three ideas in particular from the community stood out and could have some real interest for our small store retailers across EMEA.

### #1: Buying-behaviour Based Shopping (choice)

Would it not be nice if the store knew what you wanted without your having to go and shop for it?

Based on an analysis of customer consumption, this store will offer automatic, **“smart” purchasing** delivered to your home, by creating a database that contains the customer’s information, including credit card number, name, address, purchase frequency, products purchased, knowing major events they may be planning or hosting, their likes and dislikes through social media like Facebook, etc. The “store” will analyse customer purchases in all the brand’s small stores to create a virtual avatar of this customer, which will “make” purchases for him or her, and deliver them to the home. A **smart assistant chatbot** might also be on hand to offer you products as per your nutrition needs, allergies, stress levels and daily activities to support you in your health and fitness goals.

Exhibit 54: Crowdsourcing Entry #1



Source: Crowd Sourcing Submission Original Image

**THE PRINCIPLE OF "SHOP OF THE FUTURE" :  
BUYER NOT GOES TO THE SHOP - SHOP THEMSELVES GOES TO THE BUYER!**

After 20 years (and even after – 10 years) vehicles, including trucks, will run on electricity and to drive without a driver on the specified routes.

A conventional electrical plug will replace gasoline gun. But to refuel, in the modern sense, do not have, because having your own car will not be required.

Small shops in 10 to 20 years will be mobile – not the buyer will go to the store, and the store will go to the buyer. Arriving at the address the car is opened using the combination lock.

Something like this:



Source: Crowd Sourcing Submission Original Image

For example, if you purchase eggs every seven days, the process will deliver eggs to you every seven days. If coffee is purchased during lunch at work and in the evening at home, it will be delivered accordingly. The process will also verify product expiry dates and sends new products automatically. At each step, the shopper will receive a notification by smartphone to keep them fully aware of the status of their order. For our small store retailers in the future to leverage this type of idea, would mean quick access to a lot of data from multiple sources to be able to proactively anticipate and meet shopper needs ... not just suggesting a new flavour of yoghurt or a special offer but a whole dinner party food & drinks menu suitable for the six Facebook friends you invited over on Friday night.

## #2: Unmanned Electric Vehicle Delivery (time)

Imagine making purchases which get delivered to you when most convenient. The shopper orders the products online, and specifies the time and place of delivery. There are lockers inside the electric vehicle with orders of different shoppers, but the shopper can only open their own locker with a unique code. The application remembers previously-ordered sets of products, and can offer the extra services of any of these kits or a new set by modifying the previous kits. Payment is made from any of the registered in-app accounts of the shopper immediately after the closing of the vehicle's doors. Virtually complete automation significantly reduces overhead costs and therefore the price of goods. Of course, **the delivery concept is not a new one.**

What is interesting from this submission is that shoppers see small stores being able to play this role for them, not just the larger stores which may already be offering this service in many markets. The added dimension of **the kit concept** will simplify operations for small stores and help retailers with range-service optimisation for their shoppers in specific catchments. A great example of this already in evidence is Robomart in the US, offering a limited range of groceries in a small refrigerated driverless store which you simply request to your location and shop from at your convenience.

### #3: The interaction store (experience)

A store where you can shop and socialise at the same time. The more advanced internet technology becomes, the easier people buy things online. But people will become more and more aware of the loss of social interaction, which is currently just a subject for commentary and academic study, and is not affecting shopper behaviour. Shoppers who visit this store want not merely **to buy goods, but to interact with others**. This is why they come to this store – to interact with other people, the shop owners or store staff. So, shopping must take second place to socialising. Hence, shoppers do not need to walk between the shelves to shop. They simply sit down while interacting with others, and choose goods from the screen on the table. If an item is not available, a menu of alternatives appears from which the shopper may choose. Again, there is a little of the “known future” in this idea as we have already seen similar initiatives coming into our small

### Exhibit 56: Crowdsourcing Entry #3



stores with campaigns to connect shoppers by encouraging them to share their relationship status (7-Eleven Canada Valentines campaign in 2015), the Heineken interactive bar top at Schiphol airport or the rise in dining options for singles, including the concept of the “communal table” in an Organic Bakery like Le Pain Quotidien in the UAE where if you are dining alone you have the option to join a table full of other singles to socialise and make new friends. Time is still of the essence for the shoppers and they want to **save time on anything which is a routine or a chore and spend more time on leisure instead**. So, making the store a more sociable place where they are happy to dwell, hangout, meet would be a great way for retailers to build emotional loyalty with their shoppers as well as capture their small store spend. The key challenge here for retailers is the **use of space** and moving away from the traditional space to sales metric which still rightly prevails in many grocery retail businesses ...



what should the space to socialising metric be to complement this? It is an important question for our “future-future” small store business model.

Outside of the three ideas profiled above, there were many other ideas which struck a chord in terms of what the “future-future” may hold. Virtual Reality is a really interesting one that is already moving from the realm of video games clearly into the world of retail and smart malls or walls have already popped up in the UK, Australia and UAE. Beyond that though, this technology enables shoppers to **“bring the store to them”**, wherever they are—at home, at work, at the gym - put on the virtual reality glasses, select a store they like and start shopping. Imagine a small kiosk in your office at work where you could shop for that night’s dinner, with the confidence it would be delivered by the time

you got home. Basket-free shopping is another interesting idea given that people are on their phone most of the time and so their hands are not always free for the baskets/trolleys in the store or hard for a parent with a small baby in a pram to juggle. With this technology, the shopper could go around selecting products in the store with a touch and they automatically get bagged and ready for pick up once payment is made and shopping over. It is a bit like online shopping in a small store but your products are immediately ready to collect by the time you leave the store, no need to wait for a delivery. Sounds very familiar to the pre-digital era US Keedoozle vending machine concept from the 1930s, clearly ahead of its time in terms of relative rates of return for retailers but could provide inspiration for the future and would be a game changer for the small store industry where every space became a new store opportunity.

Exhibit 57: Smart Mall UAE



Source: Nielsen



The final idea worthy of a separate mention was tapping into the insight that shopping online for fresh food and groceries can be hampered by delivery schedules, especially at peak sales times of year around holidays when delivery capacity is bursting at the seams. So, small stores in the future might have lockers outside the store where products that you have shopped for online are stored, similar to what we are already seeing with Amazon or postal service lockers. It would also have **temperature controlled storage for fresh food** and you could pick up the products

that you have shopped for online as per your convenience on the way home from work. What would be different from what we see today is that properly managed, large outside spaces would allow for hundreds of these lockers set at a very wide variety of temperature ranges and sizes, enormously expanding the number of shoppers who could be served in a secure fashion, perfect for small stores to use.

Exhibit 58: Parcel Lockers



Source: Google Images



# 5 WHAT NOW

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We have established the megatrends driving the rise of small stores, along with some additional “sub trends” – and that they are not going away anytime soon, so neither are small stores! In this context, to help retailers answer the question, “How do I move forward?” we developed an equation that underlies the success of small stores: maximising their ability to save shoppers time while offering them as much choice at a price they will pay for the convenience – and doing what they can to make the experience as pleasant as possible. In terms of the near future, we explored what shoppers say they want in the next year or two, and determined that the winning offer would outperform on the availability of fresh food and vegetables, coffee and food to go, and “eat on site” cold and hot food. And when we look at the “spider” charts that track the natural performance of small stores vs. large stores and digital, introducing new products and programs also emerged as an area small stores can “own.”

In closing this report, we come to the question of **what retailers should take away from the results of our crowdsourcing**. These entries run the gamut from “almost here” or “will be here soon” to more futuristic ideas. That is, they are not, by any means, all super-futuristic in concept. For instance, the “parcel locker” example from Australia is very much the here and now in the US and parts of Europe—even to the point of temperature controlled lockers—although a recent Dutch start up

in this space a few years ago did not succeed, suggesting perhaps that local shoppers were not quite ready for this innovation there. What drives the level of “futureness” of these concepts? These ideas come from all over the world, and the most striking thing about them is that they do not all look futuristic – until you consider their futuristic nature *in the existing small-store context in the region or country of origin*. A vision of what would be a remarkable, out-of-the-box, ahead-of-its-time experience in Russia is going to be very different than the matching futuristic vision in the UAE. It is not surprising that submissions to our crowdsourcing program differ in this way – after all, the participants are shoppers, too! – and they are thinking in terms of the small stores they know and visit today as well as their prevailing cultures and experiences. Consequently, we believe success in small stores will come to those who work towards a vision of the best version of **“time x choice x price x experience”** from a market at least one level above the market they are operating in. Whether they aim one level higher or two will be driven by what technical infrastructure needs to be put in place to support the small-store offer from the relevant level above. Offer consumers fresh food and vegetables, the ability to eat on site, and add excitement by



introducing new things into the offer every week – and do it at a level of sophistication that they see only when they travel abroad – and you will thrive.

So, a **winning example of a small store chain** would be, say, to bring the sophistication of a small store from the UK to the UAE small-store market, and emphasise the freshness of the ingredients, provide attractive, fast, eat-in options, and offer the shopper a pleasant surprise in terms of one or two new things in your range every week.

Of course, it is one thing to say, and another to do. But all retailers have the opportunity to adapt a model from a more sophisticated market to a less sophisticated one, leveraging their own particular strengths as they do so. For instance, large retailers are usually well placed to bring extraordinary sophistication to a still-developing market. Yes, they must adapt the way they think about supply chains and distribution systems from the large-supermarket world to what is in many ways a different business. The lesson of the crowdsourcing is that, as they do so, they should not try to mimic successful small stores in a target market *as they are now*, that would be playing on the incumbent's turf - and the incumbent has already cracked the particular challenges of the small store in that environment. Any new incumbent doing that is starting from behind.

If, however, they set as a target bringing a more sophisticated model in from a more advanced small-store market, then they can reset the playing field, and the successful players

already in the market will not be able to hold their position simply by tweaking their model a little here and there to fend off the newcomer. Further, once the incoming player has changed the game, it can bring all its natural advantages to bear on to the freshly-levelled playing field.

That said, there will be **many challenges to be worked through**. One place we see larger retailers struggle is with the growing demand for fresh produce. As one of the experts we interviewed said, "The fresh part in stores is more expensive to install and keep than the 'plate' part. Fresh requires refrigeration equipment, higher energy consumption, air conditioning, etc. Most food-to-go products are kept chilled - juices, energy drinks, café latte, sushi, etc."

Despite those challenges, a new generation of chilling equipment, energy monitoring devices and building standards means that in many cases, the cost of supporting a fresh and chilled offer is declining.

Demanding though the "challenge of fresh" is, it is not going away, as we saw from the high Asia numbers on buy-to-consume missions in small stores. Unless you are going to settle for a small customer base for your stores – not an option one would advise when recalling that "choice" is the second most important element in the equation for the essence of small stores – you are going to have to embrace the challenge of establishing a cost-effective chilled-goods supply chain in the small-store environment, where the number of items in each store will not support costs in the way, for instance, that large-supermarket supply chains can.

This goes in the “difficult” bucket – it will threaten profitability significantly more than otherwise achieving small-store excellence already can – but “difficult” does not mean “let’s not do it.” Indeed, it is cracking the difficult challenges that are likely to separate the winners from the also-rans. Everyone can meet the easy challenges!

## Using the Success Equation

But where to start? It is vital to cut through the complexity of stores, shoppers and missions in order to make choices on how to win – that is, after all, what the small-store equation is for. Anchored to that small store essence, we have identified a **set of priority questions** against each of the four factors that retailers must consider when either entering, reviewing or expanding their small store offer to maximise returns.

### Exhibit 59: Small-Store Essence Questions

#### 1 Time

- What is the average travel time to the store?
- Is the store closer to a residential or commercial area?
- When are the peak trading hours?
- What is the average time to shop?
- What is the shopper ‘acceptable’ total trip time?

#### 2 Choice

- How do shoppers reach the store?
- What are the main shopper missions?
- How much do you need for Fresh Food?
- What is the right mix of categories & services?
- What range depth is optimum per category?
- Which are the right Eat/Drink Now products?
- How often & what innovation will you offer?

#### 3 Price

- What stores do you compete with nearby & what is their offer?
- What unique items do you or can you offer?
- Are you able to lead on price?
- Where do you need to offer value?
- Are your shoppers more time or price sensitive?

#### 4 Experience

- What space should be used for shoppable, Dwell and checkout to make your store offer work?
- How many staff do you need and what is their role?
- Which shelving/fixtures and equipment would best merchandise your overall store proposition?



Each of these questions will have several possible answers, the combinations of which will determine wise choices for your presence in the small-store market. We noted just how many types of small store most shoppers patronise each month – yielding a considerable opportunity in helping shoppers meet several missions in one store. Yes, 45% of shoppers are buying five categories or less, so there's a real market for a relatively narrow offering. But the more you can offer without compromising time, the better off you will be. Appealing to the 6-10 category shoppers will get you over 70%. (Of course, as we noted, some of the numbers are different in UAE and South Africa – a reminder that country counts.) That said, it is worth reiterating that **anything that weakens your performance on time even a fraction must be approached very cautiously**: speed is a key element in why shoppers choose small stores, and there is no “slow” time option that will lead to success. You cannot afford to alienate the 45% in going after the additional 30%!

**Choice** requires thinking about small-store shoppers' primary missions, and particularly the ones in your country and area of town. How much space should you allocate for fresh food, given where you are? What's the right mix of categories and services more broadly, the “range depth” by category, the eat-and-drink-now options, and the kind and frequency of new offerings? It is important to remember that **the small store cannot be all things to all people**.

This is particularly clear with regard to choice, because this is the option the large supermarkets have taken: they are all things to all people vis-a-vis choice—at least as far as packaged foods go—and they offer low price. But they do not typically concentrate on experience as much as small stores that emphasise experience. And most importantly, they have entirely sacrificed time in their bid for the lowest-cost “large shop.”

The fundamental choice you must make about choice is driven by your **space constraints** - the hardest constraint the small store faces. And the key question is: where do you choose to lead, where do you “settle” for being at parity, and what elements of range do you elect to meet a minimum standard? What specific range, given your country and your location, can you be known for - to the extent that shoppers with other small stores near to them choose to come to you?

Similarly, with **price**. Here, it is critical to understand your **competitive set**. In general, you are not competing with large stores, except on the staple items for which shoppers take their reference prices from those large stores. Beyond that, your competitive set is the group of small stores people might realistically patronise instead. Do you have to match price with all of them, across the board? No. You have to strike a balance between offering value on some items, and stretching price on others, in order to create a total effect of overall *value for money*. Recall, as we discussed, that price is in the eye of the beholder - and that, in some countries, such as the UAE, the beholder does not appear to be looking very hard.

Typically, you will want to offer more competitive price points on items shoppers purchase most often. But you may elect to set premium pricing for unique products. Or you might go in the other direction, take the clear advantages you enjoy over the discounter model, and price down below your small store competition, getting close enough to the discounters that shoppers will choose you over the discounters, too. As noted, discounters perform well in the small-store space in Turkey and Russia among our sample countries, and in many other markets. Experience, our final variable, is the least important of the four. Exhibit 60 offers some options for retailers with regard to eat-in spaces and use of staff: how many do you want, and what roles will they play?

### How does all this come together?

We recommend a decision-tree approach to determine the right business model for any particular store or range of stores. An example below for a specialty small store shows how a change to one of the four “essence” variables can affect the final offer. We start with **time** as the key variable, first and foremost expressed through store location. Here, the retailer is a specialty food store with two locations to consider – one commercial location, near people’s offices, and one residential one, near their homes. In the first decision tree, we can see that buy-to-consume missions will dominate, requiring a wide range of high-quality eat now food and drink, frequent innovations and, critically, fast checkout, ideally using mobile payments - all supplemented by a loyalty scheme that will encourage shoppers to return to the store more often.

Exhibit 60: Small-Store Essence Choices



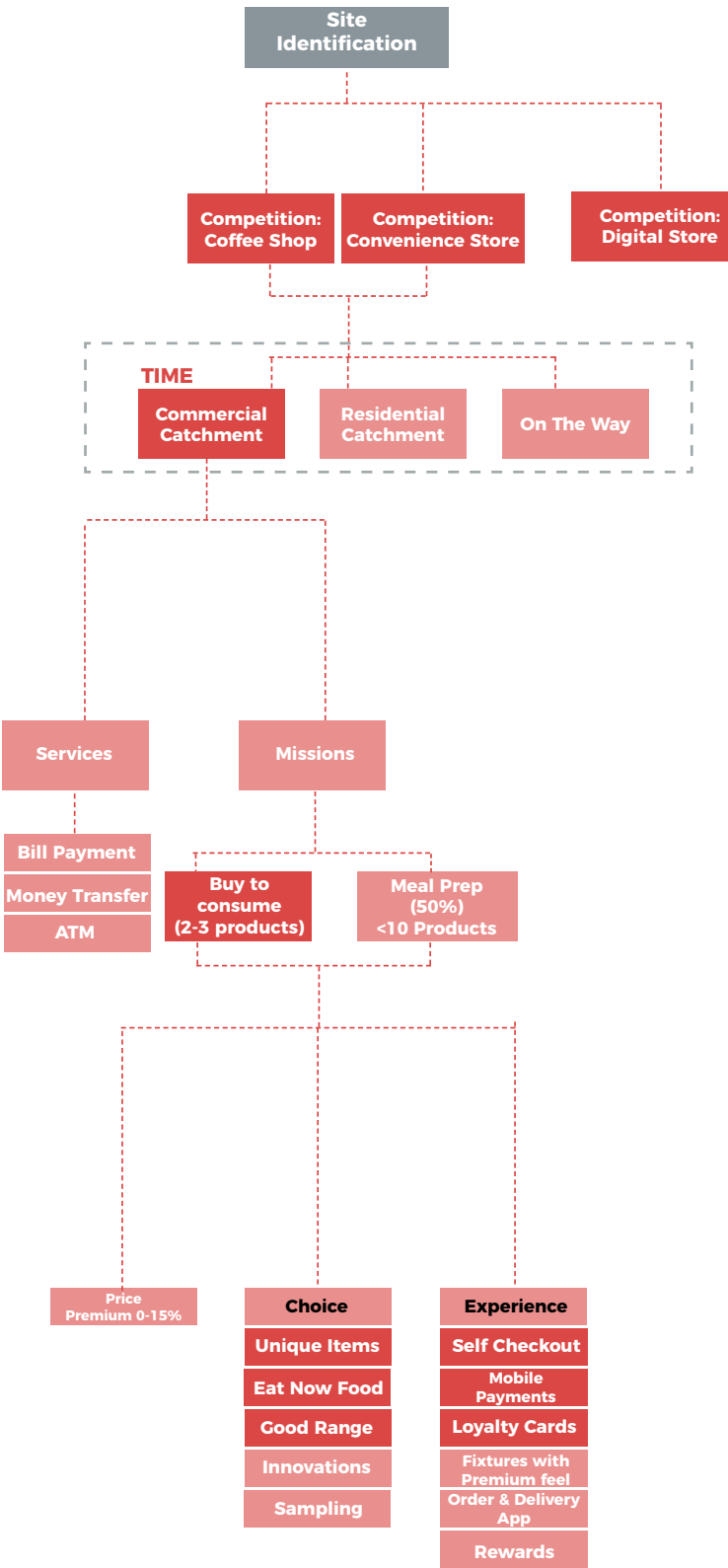
In the second scenario, the small store type remains the same, but the offer must be geared towards larger shopping missions including a wide range of fresh food, complementary categories to dining at home like crockery or glasses, as well as relevant services for the neighbourhood, such as an ATM or laundry services. Given the number of categories purchased—and therefore the basket sizes—you are also likely to want more staff on hand to advise shoppers, as well as a choice of checkout configurations.

Your price positioning might be broadly similar in both locations, but there will be natural differences in your category choices, your key value items, and any unique products you choose to carry. Finally, you are offering a different kind of experience: in the commercial location, you have busy people who need to get in and out - they need clear aisles and during-the-workday items ready to hand. They might also want a comfortable place to sit and eat at lunch time. In the residential location, you are most likely dealing with a shopper base on its way home from work, or people stepping out from home. Some of both groups will simply want to pick something up and get out - so you need the most popular items immediately available as they step into the store, and ideally visible in a window. At the same time, some of your shoppers coming from home may have time to dally, and—if your specialty lends itself to a sit-down eating option—actually having a meal in the store.

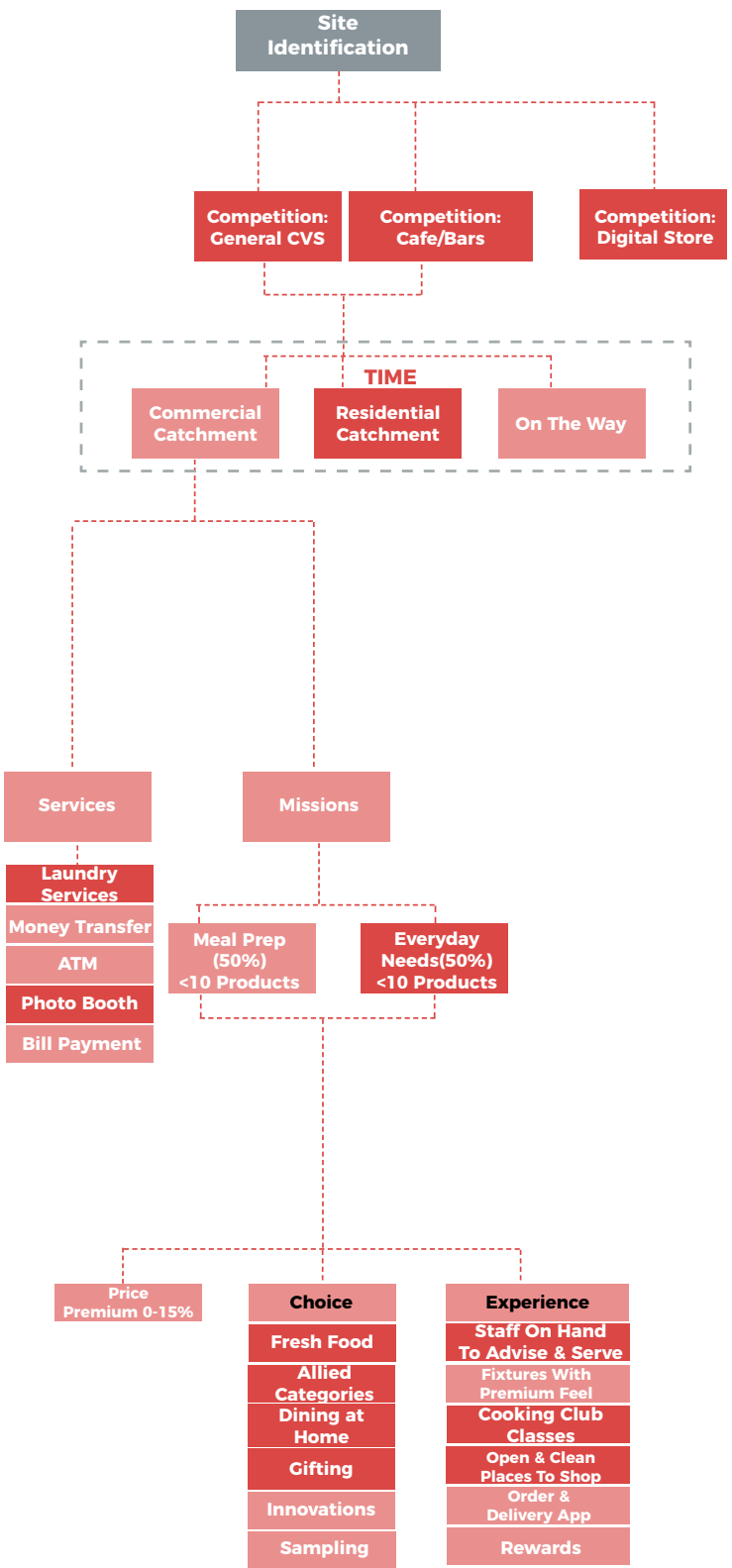


Exhibit 61: Small-Store Essence Examples

Specialty Food Store - Commerical



Specialty Food Store - Residential



This is an example for today. What about tomorrow? For instance, in each of these decision trees, there are only three competitors. **The more competitors emerge**, the more the choices will expand and change, particularly the digital ones which are now omnipresent and able to win strongly on the time dimension as explained earlier. Similarly, the more an area changes - whether from commercial through mixed use to residential (or, of course, in the other direction), the more the choices will also expand and change. This kind of decision tree is an important way to look at the challenge - but must be revisited on an ongoing basis, as many of the elements that drive significant small-store decisions are dynamic.

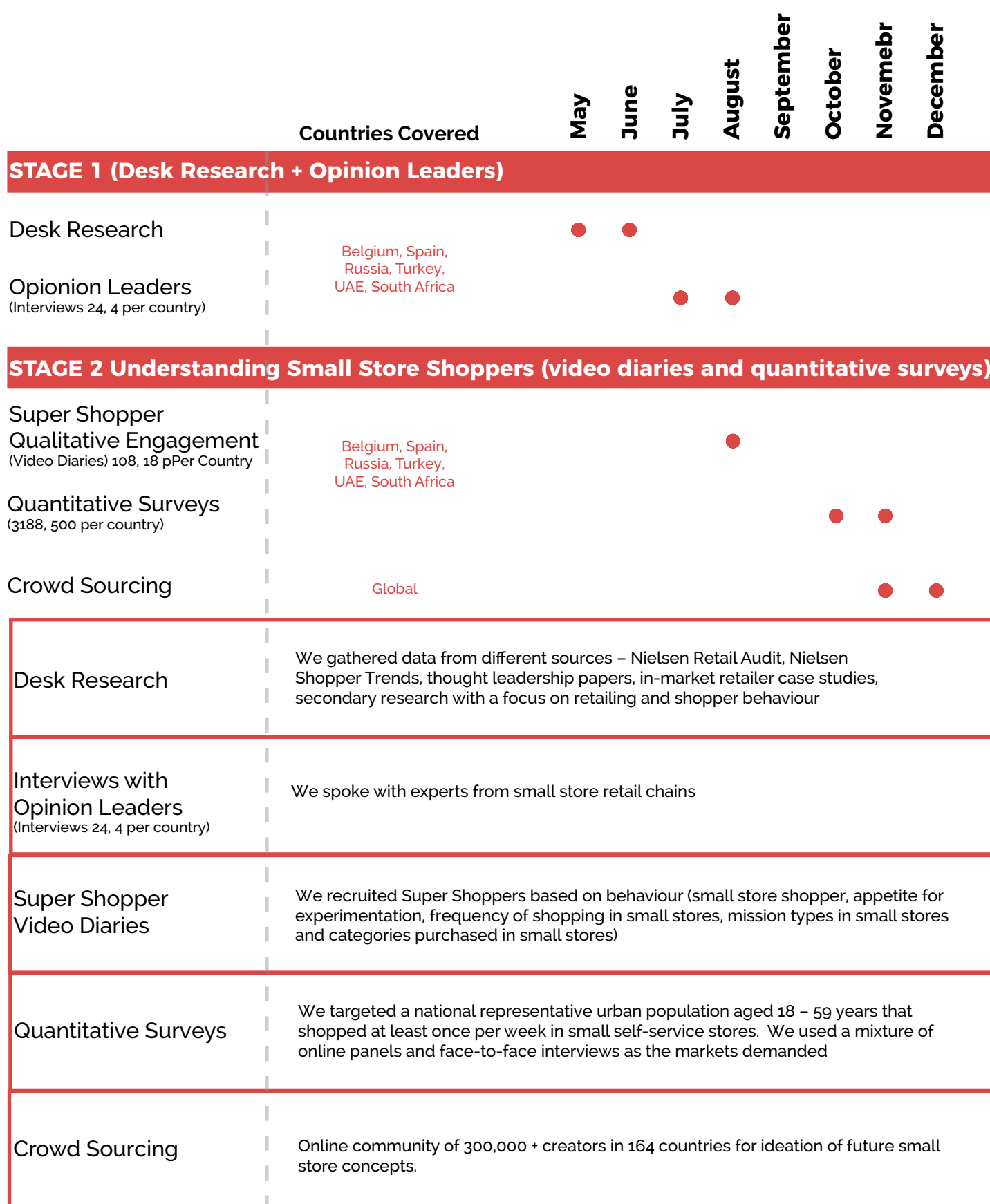
**Staying ahead in the small-store game** from the shopper's perspective is essential if the operator is to achieve profitable growth. Here, first and foremost, we expect technology to play a central role. Embracing mobile payments and innovative new checkout solutions will strengthen your performance on **time**. New heating and cooling technologies will enable you to offer a broader, higher-quality range of fresh and eat now foods essential to so many small-store shoppers, strengthening your performance on **choice**.

Increased competitiveness on **price**, better execution and flexibility will be delivered through the expansion of solutions like electronic shelf-edge labels. Lower energy costs should also come from new technologies and further improve pricing competitiveness. Finally, of course, the **experience** of a small store through apps, delivery, smart assistants or the virtual reality concept we explored can also add a new dimension to the store.

There is not any one solution to the small store challenge: **there is more than one route to the centre of the maze**. If you know your shopper, know your competitors, and apply the small-store essence equation of time, choice, price and experience in a way that matches your expertise well, you will be well placed to win both today and tomorrow.



## Research Scope &amp; Methods During 2017





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