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Retailers & Restaurants

In-store eateries have come full-circle from Woolworth counters to Wal-Mart's Kicks Coffee Café. By Howard Riell

For foodservice to work at retail, it needs to capture and reflect the essence—in price point, design, and overall personality—of the store and its shoppers. And, even then, the store's location (and the restaurant's location within the store) remain paramount.

Not an easy balancing act, to be sure. Yet retailers across the spectrum continue to be fascinated with the convenience, value, and mystique that foodservice operations bring to their establishments. The ongoing quest ranges from mass merchandisers collecting rent from branded operators to upscale department stores seeking to extend their caché.

"It's definitely something people are continuing to do," says food-retailing expert Michael Duff. Two examples, he says, are the new 130,000-sq.-ft. "mega-Wegman's stores" that have added Taco Bell units to their own signature dining outlets, and Target, which, like Barnes & Noble and others, is partnering with Starbucks in addition to Taco Bell and Pizza Hut.

On March 30, Federated Department Stores, Inc. and Cosi, Inc. announced a partnership set to offer "a new shopping experience" to Macy's customers. In the initial phase of the agreement, Cosi plans to open 10 restaurants this summer and fall at some of the largest stores in the Macy's system. Macy's stores, including locations in Seattle, Atlanta, Miami, and Memphis—are all new markets for Cosi.

Tom Cole, Federated's Vice Chairman, calls the collaboration "another step in our reinvention process, focusing on meeting our customers' evolving expectations." Macy's shoppers, he notes, "want to rest and refresh when shopping, without having to leave our store. We chose to partner with Cosi because we are convinced that its distinctive, high-quality food and comfortable, relaxed environment will have national appeal to sophisticated Macy's shoppers."

"Clearly, the restaurants think the space works because more and more [of them are] involving themselves with [retailers]," says Duff. "Equally clearly, the retailers must like it because when they're doing their store designs they're creating the space to put these in."

Other examples abound. Minneapolis-based Target's snack bar brand, Food Avenue, is helping keep customers in stores longer by offering a menu that includes breakfast items, hot dogs, hamburgers, pizzas, and snacks, all priced from \$1 to \$3. Kmart Corp. offers shoppers the proprietary K Cafe/Eatery Express concept, and in certain stores includes Little Caesars Pizza outlets. And New York-based Barnes & Noble's cafe outlets feature Starbucks coffee, and more than 30 percent of the book chain's customers reportedly purchase items from the cafe while shopping.

Traffic Drives

However, when it comes to retail, where can be even more important than what.

"What makes a branded retail outlet work is its location in the store," explains veteran retail and foodservice consultant Arlene Spiegel, FCSI, president of Arlene Spiegel & Associates in New York City. "It really needs to be in the intercept traffic pattern with the customer flow so that it instantly cues the customer that this is a place to shop or eat, respectively."

One of the places Spiegel says works "very, very well" is Home Depot Expo. Located inside a Long Island store, it features Chock Full O' Nuts coffee among other items. "When you're doing a foodservice inside of a host venue, the typical capture rate—meaning the number of people who go into the store that you capture for a food-and-beverage sale—is anywhere from 8 percent to 12 percent. The Chock Full O' Nuts unit at the Home Depot Expo gets [a] 58 percent capture rate. That means over half the people actually stop and eat something."

There are reasons for its success. One is a good traffic pattern. Another is that the Chock Full O' Nuts has its own entrance and exit from the parking lot. The unit also does "strategic baking of muffins" throughout the day, which sends the aroma wafting throughout the store.

"Really, the most important thing for a restaurant is to ensure it's making a deal with a retailer that can drive the traffic to support the store," Duff points out. "The idea that people are going to go out of their way to go to the store to go to the restaurant is, I think, a bit fantastic."

Hooking into a strong traffic pattern is something fast-feeders do as a matter of course anyway, he adds. "A lot of the way restaurants are set up is to intercept traffic on the way to that strip mall or power center anyway. So if you can partner with someone who can drive a lot of traffic past your door, that's the main potential you have for success."

Indeed, as Kevin Armstrong, Cosi's president and chief executive officer, stated in announcing its deal with Federated, "Macy's established national footprint provides Cosi an excellent means of entering highly attractive new markets with immediate brand exposure to large volumes of our target customers."

Retail locations also tend to come with a built-in audience—store employees. Says Duff, "You want to be in a position where you can draw off of the workers in your store. If you're in a big strip center that only has one restaurant, or no restaurants, or only a full-service sit-down restaurant, and you've a quick-serve outlet in your store, then obviously you're going to draw the business."

Reflecting the Retail Concept

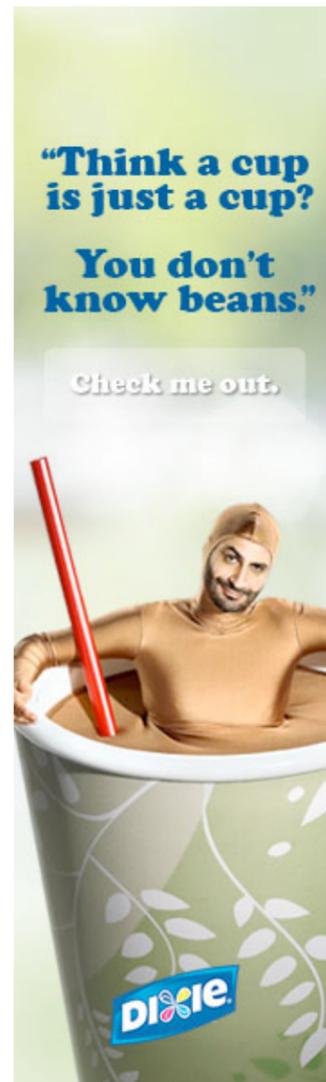
The branded-food concept must be of a similar quality, style level, and design—including menu offerings and level of service—as its host environment.

For example, upscale retailer Nordstrom's highly designed, self-operated cafe uses premium wood finishes and soft lighting, yet still offers counter ordering and pick up. Once a customer is seated, however, he feels as if he is in a traditional full-service restaurant.

If the price points are either too low or too high and don't match the customers' demographics or expectations of the shopping experience, operators can create a disconnect. Deco'r also has to be congruent and relevant.

And then there's simply providing a place to roost.

"What we try to do with foodservice is to have a place where our customers can sit down and grab a soda or something light to eat," says Sharon Weber, a spokesperson for Wal-Mart Stores, Inc. "We want to offer choice for our customers. By offering choice, we mean offering ways to



enhance the one-stop shopping experience that we hope our customers are getting, not only at our Supercenters but in our discount stores, as well. We really do it just as a convenience for our customers.”

Wal-Mart ranked number one on the Fortune 500 list of America’s largest companies, with 1,477 Wal-Mart discount stores, 1,471 Supercenters, 64 neighborhood markets and almost \$259 billion in sales. Among the fast-food concepts available to Wal-Mart shoppers across the country are Sonic, Wienerschnitzel, Krispy Kreme Donuts, Tastee Freeze, and Blimpie. The retailer also operates five of its own snack bar concept, the Radio Grill. Developed a few years ago, its menu features traditional items like hamburgers, hotdogs, pizza, popcorn, cotton candy, frozen drinks, and baked goods, including doughnuts. Smaller neighborhood market stores have no foodservice outlets. Instead, they offer grab-and-go bars with doughnuts, coffee and other items. Customers pay according to the honor system.

“A lot of people said, ‘Oh, you’re shooting yourself in the foot by also having your own doughnuts,’” says Weber, who insists they have not cannibalized Krispy Kreme sales. Indeed, she adds, they have actually “enhanced” one another.

Wal-Mart maintains a landlord/tenant relationship with foodservice operators, but would not disclose rental fees.

Of the 1,540 Home Depot stores across the U.S., 10 include Dunkin’ Donuts units; four have McDonald’s; one features a Fuddruckers; one a Stewart’s; and one includes a proprietary concession called Depot Diner Express. Vendors pay the chain a flat rent based on a

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variety of factors. Some stores feature a mobile hotdog cart out front.

“We’re not Wal-Mart, and I can’t emphasize that strongly enough,” says John Simley, spokesperson for Home Depot. “Like with other things, things that are brilliant ideas for Wal-Mart do not translate to our stores, and vice versa.”

The goal of a foodservice outlet inside a Home Depot, says Simley, is to meet the needs of its average customers “who are looking for some type of quick-service food. We’re talking about somebody from a [contractor’s] crew who’s been sent down to the store to pick up, say, 200 lbs. of nails and, in the process, grab a dozen doughnuts and six coffees.”

Stores might opt to go without a foodservice vendor for any of several reasons, including neighboring operators like Subway sandwiched within the mall or strip center and too-low revenue projections. “We have to make a determination: is the square footage going to derive more benefit for us by merchandising product or generating rent?” says Simley.

Some of Home Depot’s foodservice experiences have frankly proven less than satisfying. For example, in 1997, low profits caused then-parent Unique Casual Restaurants Inc. of Danvers, Massachusetts, Fuddruckers to pull its units out of stores.

While a more aggressive foodservice program is not in Home Depot’s future, Simley is quick to emphasize, “I don’t think we’d ever close the door on anything. If we find that the food vendor is actually a draw to sales—‘Let’s go get a hamburger and oh, yeah, while we’re there we’ll pick up some home repair stuff’—here might be a positive effect.”

Department Stores’ Trek Back

When it comes to foodservice at retail, says Jeff Stein, a Cleveland-based analyst with McDonald Investments Inc., “It’s kind of ‘one and one equals three.’ If you look at where department stores have been coming from recently and where they’re going, throughout the last two decades they’ve been contracting the offerings to their customers, scaling back foodservice, getting out of consumer electronics—cutting, cutting, cutting. And frankly what they’ve been left with is a smaller slice of the consumer’s disposable dollar.”

Department store execs are realizing that they went too far, and are looking for ways to keep the customer engaged for longer periods. Clearly, foodservice is potentially an important part of that.

Stein calls the Macy’s/Cosi test “significant from the standpoint that we’re now beginning to see department stores add back departments that formerly they were getting out of.”

Highlighting brand names that consumers know not only makes sense for department stores, but, according to Stein, also plays off their greatest strength. “What department stores have been all about historically is offering recognizable brands to the consumer at a fair price,” he notes. “Just as they’re selling Ralph Lauren, Liz Claiborne and Tommy Hilfiger in apparel, why not Dunkin’ Donuts? It may or may not come across to the customer in the same way, but consumers shop department stores primarily because of brands.”

Where retail operations most often go wrong with their foodservice programs, says Stein, is quality. “If the quality is bad, it reflects poorly on the image of the entire store. So the service has to be good and the quality has to be good.”

Obviously, the love affair between retailers and foodservice will continue as long as people get hungry while shopping. As dining-out trends shift and restaurant concepts come and go, retailers will simply continue to adjust their plans and search for partners who can give their customers more of what they’re relentlessly searching for.

Veteran journalist Howard Riell has covered the foodservice industry since 1983 for a variety of publications and organizations, including the NRA, NAFEM, and Foodservice Consultants Society International. He lives in Philadelphia. Contact him at hriell@aol.com.



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