

THE IMPACT OF THE WAREHOUSE FORMAT ON TRADITIONAL  
RETAILERS AND UNDERLYING PROPERTY TYPES  
IN MASSACHUSETTS IN THE 1990'S

by  
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Abstract

This thesis measures the impact of the new "big box" retailers (Sam's Club, BJ's, Price Club, Costco, Home Depot, etc.) on the more traditional methods of retailing such as super regional and regional malls and community and neighborhood centers in the Massachusetts market area. An initial survey counts the number of these stores built, under development, and currently planned.

The big box retailers are divided into two classes, warehouse clubs and category killers. The home improvement industry is examined to determine the impact of the category killers.

This paper examines the operational strategies of these new retailers and attempts to identify those traditional retailers most at risk. Having determined those retailers most at risk, the paper attempts to then determine those property types most affected by the big boxes.

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## INTRODUCTION

The business of retailing is like a tree - it is a living growing entity. Every year, it keeps coming back. Hard weather, competition from other trees for water and sunlight, and selective pruning cause the tree to shed some weak or dying limbs, but it will just as surely grow some newer, stronger ones to replace them.<sup>1</sup>

The 1980's was a decade of tremendous structural change in the \$1.5 trillion per year retailing industry.<sup>2</sup> Heavily impacted by the mergers and acquisitions mania, the retail industry was also affected by the utilization of new technologies enabling faster and more precise handling of information and merchandise, and by the changing demographic patterns across the country. The result of this turmoil is a retail landscape today that is vastly different from the one which prevailed in the 1980's.

A change most often cited in the business press as having a significant long term impact on the industry is the advent of the "big box," or warehouse format, retailer. The "big box" retailer as defined in this thesis has the following characteristics: First, it is large; "big box" stores have at least 80,000 square feet of selling space, with an

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<sup>1</sup>McCarthy, John CBL, Inc., Boston, MA, June 23, 1992.

<sup>2</sup> 1991 Total U.S. retail sales, minus autos. Dean Witter Reynolds Inc. Research, Spring, 1992.

average size close to 105,000 square feet. Second, it stresses volume; average sales per square foot (SF) are the highest in retailing, with some stores exceeding \$1,000/SF per year. Third, these retailers work on very low margins, turning product quickly, utilizing efficient inventory controls and squeezing overhead via low-cost buildings and smaller employee to sales ratios than traditional retailers. By focusing on popular, high volume items and low margins, the "big boxes" offer consumers unprecedented opportunities to save money.

There are two distinct types of big boxes as defined by their merchandise strategies. The first is the warehouse/membership club, which charges a fee for shopping rights and carries a very broad variety of bulk merchandise in a no-frills environment. The second type, which does not charge a fee or require membership, is known as the "category killer." Category killers specialize in one category of merchandise and carry a tremendous depth of products in their chosen field. The home improvement industry is examined in depth to ascertain the impact of the category killers.

This thesis also examines the impact that these "big boxes" will have on the Massachusetts retail real estate market, with emphasis given to the super regional, regional, community, and neighborhood centers. Chapter I explores the demographic outlook for retailing in the nation and Massachusetts in particular over the next three years. Chapter II provides an historical overview of the "big box" stores and the fundamental dynamics under which they operate, as well as discussion of the market forces which have allowed these formats to proliferate. Chapter III looks at those industries most

affected by the warehouse club industry. Chapter IV explores the impact of the warehouse format on the home improvement industry. Chapter V focuses on what effects the boxes will have on the major classes of retail property.

This analysis relies heavily on interviews with retailers of all kinds, and with the consultants, owners, and developers involved with retail real estate. Much of the data was taken from a study entitled "Warehouse/Membership Clubs in North America: Are They Retailers or Wholesalers? And Who is at Risk?"<sup>3</sup>

## **I. The Retail Outlook: Demographics and Economics**

What are the trends among consumers and the population in general that will affect the eventual impact these "big boxes" will have in Massachusetts? An overview of national trends and as well as a look at the more local aspects of the demographics will provide added insight. These trends evolve as populations shift and tastes change; the best retailers, in any segment, must be swift and sure in their managerial decisions to ensure that they keep pace in the business whose motto is "grow or die."

A general concern in all segments of real estate today is that of the problem of oversupply. Excess capacity can cause a lack of pricing power from the retailers perspective, enabling shoppers to "cherry pick" sales specials and keep profits down. This excess supply of course also keeps the profits down for the owner/

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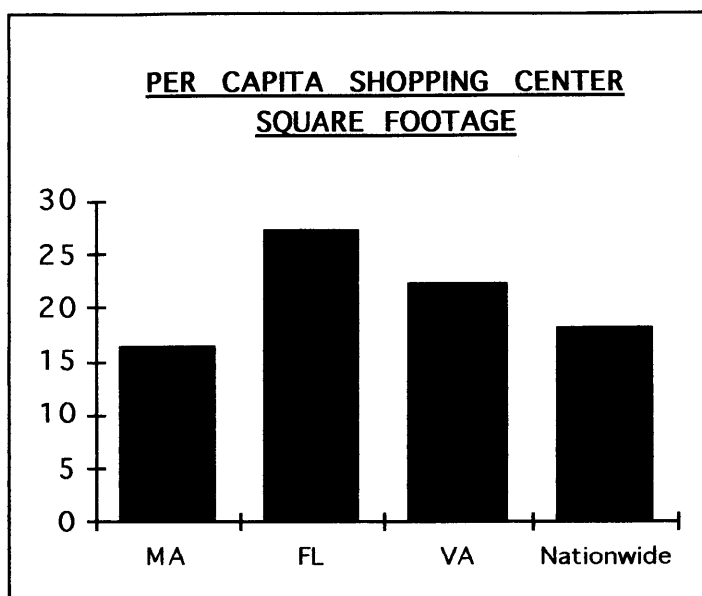
<sup>3</sup>Tigert, Douglas J., Arnold, Stephen and Cotter, Terry, Babson College Retailing Research Report No. 6, April, 1992.

developer of the space. The consequence is that values shrink or don't keep pace with the values of other investments on a risk-adjusted basis. There is a consensus among retailers and retail developers that there are many areas of the country suffering from an oversupply of retail space.

The typical scenario leading to excess building was not only easily available credit but available land with few restrictions and a population growing in either size or purchasing power. Not surprisingly, California, Florida, and parts of Texas, all suffer today from an oversupply of retail space, among other things. Retail executives I interviewed believe that Boston is under-retailed. They offered as evidence the fact that many developers and retailers are still trying to enter this market with a frenzy.

Another measure of supply comes from the International Council of Shopping Centers' Scope of the Shopping Center Industry in the United States 1992-1993. In it, the ICSC lists the total per capita SF of Gross Leasable Area (GLA) in shopping centers nationally and by state. The national average for 1991 was 18.1 SF per capita, while Massachusetts averages 16.4 SF, approximately 10% less than the national average. Florida comes in significantly higher at 27.2 SF per capita, while Virginia averages 22.3 SF. Differences in population massing and purchasing power can account for small differences, but one assumes that Massachusetts' well educated, rather densely packed profile should have kept its demand side high through the late 1980's. However, the cumulative increase in per capita GLA in Massachusetts for the years 1988-91 was only 8.7% total.





One of the most important methods of economic growth in the retail sector will be increased productivity, that is an increase in productivity by square footage, by labor, and by inventory dollars. A step in that direction has already been made by the retailers, who have cut their overall on-site employment at Massachusetts retail centers by almost 2% from 1990 to 1991 alone, while adding 1.5 million SF of GLA. Sales increased by \$700 million, or 1% over the same period.<sup>4</sup>

Paine Webber's forecast for real disposable income growth for the nation in the 1990's is 1.8%, well below that of the 2% rate of the 1980's. Their forecast for real retail sales growth is 2 1/2%, adjusted for inflation. When comparing these rates of growth with increased GLA on a nationwide basis, the numbers are not

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<sup>4</sup>International Council of Shopping Centers, The Scope of the Shopping Center Industry in the United States 1992-1993, ICSC, New York, NY, 1992, p.25.

heartening. Disposable personal income (DPI) per GLA square footage has decreased annually since 1986, from a high of \$926 to a current low of \$771 (estimated) in 1991. Retail sales per GLA have shown a similar trend nationally, down from a high in '86 of \$391 to \$319 ('91 estimated). Significantly, both of these ratios are also below the last major recession years of 1980-1982.

The search by consumers for value has become the most powerful trend affecting retailing in the early 1990's. It cuts across all segments of buyers; from the richest to the poorest, everyone is looking for a closer value/price relationship when they shop. Every retailer interviewed for this thesis acknowledged that they have and will continue to cut their operating margins to give consumers merchandise at the right price. In the past, this occasional trend has impacted only the lower end of retailers, the discounters and off-price industry. The backlash from the free spending 1980's has fostered an environment in which all costs are minutely scrutinized, no matter how large or small, or whether a necessity or a luxury.

#### Five Essential Elements of a Successful Shopping Center

In its various forms, the shopping center has come to symbolize the suburbanization of American life. Centers have proliferated around the great circumferential highways built in the 1960's and '70's, and although they take a number of different shapes and sizes (Exhibit I), the successful ones that continue to attract the top tenants and draw consumers have much in common.

A shopping center needs five essential elements to be a viable economic entity:

- 1.) A center must have the right market factors. There must be ample demand created by the demographics within the center's market area to support the quantity and quality of tenants in the center. A thorough and accurate understanding of the market factors is essential
- 2.) A center must have unique restraints of trade or barriers to entry to keep competition from overwhelming the supply side. These can take the form of a lack of properly zoned or sized land or an environment in which permitting is uncertain and costly. The overwhelming majority of major new retail sites over the past thirty years have resulted from new highway construction; new highway construction in Massachusetts is nearly nonexistent, and environmental and zoning constraints are among the toughest in the nation.
- 3.) The center must have the right anchor store, or mix of stores in the case of smaller centers. The center must respond to the needs of its constituency; in the Boston market, a regional center needs a leading local department store like Filene's or Jordan's as an anchor. A neighborhood center needs one of the strong local groceries, like Shaw's or Stop & Shop, as an anchor. The relatively small number of department store anchors remaining may be a blessing to the super regional and regional malls; the fewer anchor players are less likely to compete with themselves by driving excess development
- 4.) The center must be financed properly. It must have a manageable debt structure allowing it to compete for tenants at reasonable rent levels. The 100% financing of the 1980's is thankfully gone, and those centers that do not have adequate

financing structures will soon be owned by better capitalized entities

5.) The center must have good management. The property must be managed as a living, constantly changing entity to best respond to changing consumer desires, not just as bricks and mortar.

Any type of center possessing all of these characteristics will prosper; those that do not possess them will have a more difficult time competing. Frequently the elements intertwine. Changing demographics do not make a center obsolete; they provide an opportunity for management to change the tenant mix to a more profitable one. To accomplish this, management must have access to capital to update common areas and enhance the sense of shopping as more than just a chore.

Through the roaring 1980's of Massachusetts' Miracle folklore, the shopping center development industry tried to keep pace with the burgeoning economy. However, strict permitting, environmental, and zoning considerations exacerbated the problem of finding large, well-located sites. The result, according to retail executives, is an environment in Massachusetts in which landlords hold the upper hand. They can pick and choose their tenants, charge higher rents than the rest of the country, on average, and sometimes get away without spending the money to update their properties as they would in a more competitive market.

### Trends

Predictions for new trends affecting consumer buying patterns in the 1990's center around the continued aging of the baby boomer

segment. According to a Paine Webber<sup>5</sup>, as the baby boomers enter peak earning years and see their families grow, a "nesting" tendency will dominate, manifesting itself in these five trends: 1) home reinvestment, 2) branded loyalty, 3) spending on children, 4) entrepreneurship, and 5) store loyalty. All of these trends will be impacted by the quest for value. To be successful in the '90's, retailers will have to capitalize on these trends, which will be reviewed next.

*Home reinvestment:* Reinvestment in the home will be a major trend in the 1990's. Baby boomers, entering their top earning years as their young families grow, will respond by upgrading their housing. This will be done either by buying a newer, larger home or by upgrading the existing through additions and renovations. The home-centered, leisure/family nature of the 1990's will spur consumers to invest in home furnishings and the yard.

*Branded loyalty:* Family households consume endless amounts of goods like toothpaste, toilet paper, and cleaning solutions. The proliferation of products in the health and beauty aid field has added to consumption, as different brands are preferred by different members within a household. The consumer's goal in filling this list is simple: find the right brand at the best price. With little or no inflation in this market, the successful retailers goal must be one of market share.

*Spending on children:* There are two factors at work here. One is the absolute increase in the number of children: the largest

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<sup>5</sup> McGlade, Margo, "Retailing 1992-1997: Change, upheaval, turmoil & investment opportunity" Paine Webber Incorporated, February 3, 1992

percentage growth segment in the population is in the 10-14 year age group, which will increase by 1,739% over the next five years.<sup>6</sup> The second is a greater willingness on behalf of parents to spend money on these children. The growth in products serving this sector has been incredible, evinced by the proliferation of items like branded apparel, athletic shoes, and movies for the VCR, all for children.

*Entrepreneurship:* Small business is often overlooked as a prime element of economic strength. The 1990's will continue to see entrepreneurial growth driven by a combination of necessity and choice. Many white collar workers will be faced with the elimination of whole job descriptions as larger businesses react to change. Lack of job satisfaction and lifestyle decisions will lead to decisions to run small businesses. Baby boomers with 12-25 years of work experience and the ability to raise capital will leave larger corporations. This group in itself will not be a huge factor, but they will be employers to a much larger group of people.

*Store loyalty:* Fewer people say they enjoy shopping than have in the past. This reflects more on the attitude of changing priorities and values than it does on the shopping environment today. As consumers age and family responsibilities take up more time, shopping as an activity unto itself will decline. Instead, this customer will be looking for consistency in service, quality, taste, and lifestyle, but novelty in rapid product turnover, new product introductions, and inspired marketing.

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<sup>6</sup> McGlade, Paine Webber p.7.

## Countertrend

While the aging baby boomers and their families become a prime target market for retailers, another growing segment of the market must be serviced. There will be a sizable market of consumers who are under severe financial constraints as the gap between the more affluent and lower end consumer widens. Real incomes for people with high school diplomas or less have been falling for the past fifteen years, while real income for those with college degrees has held steady and those with advanced degrees have seen increases. The trend of a shrinking blue collar workforce and the decline of labor unions in strength and numbers are expected to continue through the 1990's. These consumers will be served by retailers offering excellent value on necessities such as food and clothes. The widening gap between the top and bottom of the income distributions will foster a more two-tiered retail environment in the future.

## The Economic Outlook: New England

The New England Economic Project forecast for New England, and Massachusetts in particular, predicts a long, slow improvement in the economy. 1992 is seen as a stabilizing year, with a modest pickup after '92 through 1995. While confidence levels remain relatively low, they are rebounding faster in New England than in the rest of the country.

Existing home sales in Massachusetts as measured in dollar volume are trending higher now than at any time over the past two

years. While still well below the abnormally high peak years of 1986-87, they approximate the levels of 1983-84 when Massachusetts was emerging from the last national recession. Seasonally adjusted housing permits are also very low, in the range of 1,000 per year as in 1982, but trending slightly upward.

Payroll employment in Massachusetts, as measured by the number of jobs, is leveling off at approximately 2.8 million. This is down from about 3.2 million jobs at the highest point of 1988-89. The unemployment rate in Massachusetts stopped rising in 1990 and has shown a slight decrease since then to today's level of just over 8%. The rate of inflation is down to just over two percent.

Economists predict job stabilization in Massachusetts despite the impact of sizeable further cutbacks in defense spending and mature computer companies in the region. The fiscal condition of the State is improving to the point that the credit rating may be upgraded. Having lost approximately 15% of its job base, given the rate of growth predicted for Massachusetts for the period 1992-95, it will take 5-7 years to recapture those jobs lost from 1988-91. Inflation is pegged at 3.2% for the remainder of 1992, bumping up to 3.6-3.8% for '93. Consumer spending, as predicted by Shawmut National Bank, will increase 2.7% for 1992 and then 2.9% in '93. Percentage change in personal income for Massachusetts is predicted to be up 3.6% in 1992 and then rise from '93-95 at 6.3%, 7%, and 5.9%, respectively.

It is clear from the data that Massachusetts' consumer purchasing power will remain mired in slow growth through 1995. The size of the retailer's pie will not increase, and the battle will be



fought for roughly the same dollars that exist today. Those retailers who operate well in this environment will survive, and some will prosper. Those that do not operate well will have an extremely difficult time surviving.

The implications of these projections are that the Massachusetts retail environment will remain static through at least 1995. All retailers will be competing for a fixed amount of dollars in a "zero sum" game. Some segments will experience strong net growth as other segments decline in a natural selection process of fads, trends, and new products. As there will be no rising tide to lift all boats, those retail firms and formats not in shipshape will be left to founder.

The warehouse clubs and the category killers, while distinct from one another, both seem well-designed to take advantage of the consumer's emphasis on value as a key component of purchasing decisions. Their low overhead, low margin operations promise consumers alternatives to the traditional stores and centers. Chapter II takes a closer look at the clubs' methods of operations and exposes those Massachusetts' retailers who stand to lose the most from the influx of the warehouse clubs and category killers .

## **II. The Warehouse Clubs**

Warehouse or wholesale clubs are the prime example of big boxes drawing a great deal of attention in the press today. They are reportedly inundating the metro Boston area with their stores,

ready, willing, and able to usurp the economic viability of every existing retail format from small, mom-and-pop dominated neighborhood centers to the super regional malls with their huge national tenants. When judged by the typical parameters of retail companies such as sales per square foot and average dollar amount spent per customer, these warehouse clubs can give the impression that they have made a quantum leap from the mass merchandisers of the 1980's. This section describes the concepts of the warehouse clubs and how they relate to the traditional methods of retailing

### The Hunter: Physical and Operational Characteristics of the Warehouse

Warehouse or wholesale clubs are best characterized by their physical appearances. They operate in a pared down physical plant, with forklifts freely roaming the concrete floor to restock the 16-24' high industrial shelves with cases of goods. The buildings themselves are secure block construction with steel spanning and flat rubber roofs. There is no architecture involved at all in the building, only engineering. As the shark is the perfectly engineered eating machine of the ocean, the warehouses club plant is the perfectly designed selling machine of the land. They are surrounded by a sea of parking, with a target ratio of 5 spaces per 1,000 square feet of selling space. For the average club building of 115,000 SF this equates to 575 parking spaces, requiring a total land parcel of approximately 8-12 acres, depending upon local zoning ordinances. These retailers operate in a club format, requiring membership in the form of annual dues, typically \$25.00 per household or small

business. Applicants are screened for credit and income history, but the clubs do not issue credit of any kind. Restricted membership reduces the risk of bad checks and in-store shrinkage due to shoplifting, and provides financial stability to the club.

Wholesale clubs utilize a high volume, low overhead strategy. Their typical markup on products sold is between 8-10%. By contrast, typical discount retailers like Bradlee's and Caldor average markups in the 26-28% range. One of the unique operational aspects of the club industry is its distribution system. The clubs cut distribution costs by cutting out anything that adds expense between the manufacturer and the ultimate consumer. Rather than buying from distributors who have already bought and handled the merchandise, the clubs buy directly from manufacturers. And they do not break down the products once they are delivered to the "big box"-it is sold in the same large size case wrapping it comes to the store in. The consumer can only purchase items that are stored in the selling space by the caseload; there is no back room for excess inventory at club stores. This distribution edge that the clubs have over other more traditional retailers is magnified by the fact that the clubs are, at 16 years young, still in their embryonic stages and more easily able to incorporate the latest technologies and techniques for streamlined operations. In his latest compilation, entitled Managing for the Future- The 1990's and Beyond, Peter Drucker discusses the great changes taking place particularly in retailing while at the same time paying homage to the basics of the business:

"To be able to anticipate changes in distributive channels and in where customers buy (and how, which is equally important) one has to be in the marketplace, has to watch customers and non-customers, has to ask 'dumb questions.' It is almost 40 years since I first advised executives to 'walk around'- that is, get out of their offices, visit and talk to their associates in the company. This was the right advice then; now it is the wrong thing to do, and a waste of the executive's scarcest resource, his time. For now we know how to build upward information into the organization. ...The right advice to executives now is to walk outside."<sup>7</sup>

### What the Clubs Sell and How They Sell it

The typical club store carries a wide variety of items, from fresh muffins baked on the premises to new tires for your car. Selection within any category is, however, limited; they have an inventory that is wide, not deep. The clubs will usually have 2,000-3,000 stock keeping units (SKU's) in a 105,000 SF store and will carry on average no more than two competing brands of any product. The brands they do carry may change from week to week, as the clubs rely on their buyers to make the best deal possible at that given time. The savings are carried through to the purchaser.

The pricing policies of the clubs consistently fall under the category of Everyday Low Pricing (ELP), meaning that they do not run special sales or promotions, but instead try to instill in the consumer the sense that their prices are always at rock bottom. The clubs do little, if any, direct advertising. Their geographic roots are in the South and West, and to date they have relied on non-union

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<sup>7</sup>Drucker, Peter F. Managing for the Future: The 1990's and Beyond Truman Talley Books/Dutton New York March, 1992.

labor among employees. As destination-oriented retailers, they do not feel it necessary to compete for top-dollar traditional sites within malls. They often locate adjacent to existing centers, but believe that they can be just as successful in a light industrial area that offers good access and the proper demographics. These elements combine to give the clubs a pricing structure well below that of most if not all traditional retailers

### The Players and Their Plans

The largest warehouse clubs, and those expected to most impact the Massachusetts market, are Sam's Club, a division of Wal-Mart; Pace, a division of KMart; Price Club; Costco; and BJ's Wholesale Club, a division of Waban, Inc. and formerly a division of TJX. Together they have approximately 609 units open across the country; in the nascent Massachusetts market, stretched to include Southern New Hampshire, there are currently fifteen clubs operating, with another three scheduled to open this calendar year.

Future predictions of openings are extremely difficult due to the clubs' habits of tying up numerous potential sites in anticipation of problems with assemblage, permitting, and/or zoning. The long lead time necessary to develop relatively large parcels of real estate and the likelihood of some failure in this densely populated and tightly regulated area mandates that clubs sometimes pursue different sites within the same marketplace with the intent of dropping some of the sites down the line. It was confirmed, however, that BJ's plans at least three more stores in this trade area over the next two years. PACE Club is targeting the area for at least

three stores, and Sam's and Costco are both currently working on more locations. The Price Club, troubled by the recession in its core West Coast market, has one store in Seekonk but is not actively expanding in this market now. Best estimates from interviews with local brokers, investment firms, and the clubs themselves show the clubs looking at as many as 22 new sites in this market. (Exhibit II)

The clubs feel that they have found an excellent formula, and both their members and Wall Street agree. From 1980 to 1990 the stock of Wal-Mart stores, owner of Sam's Club, increased by 3,767%; Price Company's stock increased by 2,273%.<sup>8</sup> Started in 1976 with Price Club's first store in San Diego, the warehouse club industry has grown to a \$21 billion per year business.

The real estate decisions of the clubs, as well as the decisions of their developers, are indicative of the clubs' hunger to penetrate the Massachusetts market. For the last three years the clubs, along with the home improvement "big box" companies, have been virtually the only players in a land market decimated by the local real estate depression. Prices of up to one million dollars per acre for unimproved land in cities like Medford, Quincy, and Danvers were commonplace in a market that offered no other potential players for the sites. These users were competing only with themselves; there was no secondary level of underlying uses for the land, and they served to drive up prices for each other. In these densely built-up communities, the clubs have purchased sites that had been bypassed

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<sup>8</sup>Laffer, A.B., "Specialty Retailing in the 1990's "V.A. Canto & Associates, p. 2, April 19, 1990. Wal-Mart's results reflect those of the entire company, including Wal-Mart Department Stores, during this period.

for years by other users as having too much sitework expense or not enough exposure or access. In most cases, the companies are flush with cash from their stock offerings and purchase their sites outright; it is inconceivable that they would have been able to finance these purchases in any conventional manner in today's environment. The clubs clearly believe that these costs are *di minimus* relative to the operating profits that are to be earned in this marketplace.

The warehouse clubs have learned from some past real estate mistakes, judging from their most recent transactions in Massachusetts. As their prototype store quickly grew from +/- 70,000 SF to today's 105,000 SF, the clubs were left with many stores of less than optimal size. Some were closed, even when lease payments had to continue, and operations were moved to larger quarters. In hopes of avoiding such costly moves in the near future, all clubs are now requiring expansion capabilities of up to 150,000 SF of their sites. Additionally, the clubs are known to negotiate extremely loose use clauses for their leased spaces, to allow for the changes in format and merchandise that are inevitable in the changing retail arena.

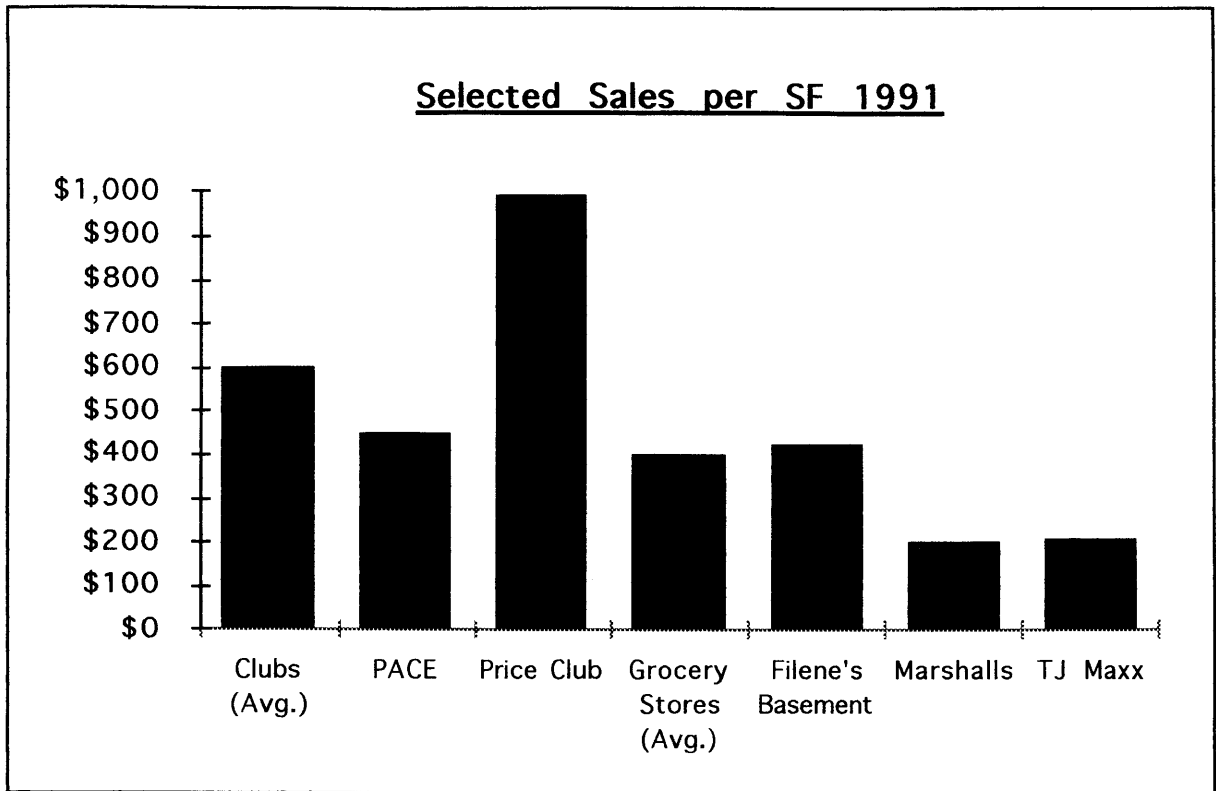
### Developer's Concerns

A number of developers I spoke with were extremely concerned with the prices paid in rent or occupancy costs by the clubs, so much so that most said they much prefer building for a fee or selling sites outright to the clubs. In the industry shakeout many see as inevitable, they do not want to be left owning buildings of 100,000+

SF with a mortgage based on spiked rental projections. One experienced developer, who happens to have a substantial equity interest in a major supermarket chain, has just completed negotiations to sell a site in his "power center" development to one of the Big Five clubs at a price equating to net rent of \$14.00 per SF per year. Despite the legendary benefits of owning real estate, this developer was more than happy to sell the piece; in fact he insisted.

With low margins of 8-10 percent, volume is one key to the success of the club format. The average sales per store for the industry in 1991 was \$60.8 million; the averages among the five clubs listed above ranged from a low of \$44.6 million (PACE) to a high of \$99.3 million (Price Club). This data does not take into account differences in average store size among clubs as many upgrade older, smaller stores to today's prototypes, but rough figures translate to an annual sales per square foot average of close to \$600 with many individual units running in the \$1,000 range. Significantly, many studies using exit interviews of club shoppers have put the average distance traveled to shop the club at 13-15 miles; most clubs and developers acknowledge a drawing area of 25 miles or more in radius, dependent upon population densities, transportation networks, and proximity to other clubs.





### Market Penetration and Saturation

Currently the emerging Massachusetts market has one warehouse club for every 421,500 people<sup>9</sup>. In Boston, approximately 69% of the population is aware of the clubs; in Los Angeles and Dallas/Ft. Worth, where the clubs are considered to be mature, the figures are 82% and 79%, respectively. These numbers imply that Boston might be approaching the other two markets in terms of "awareness."

Membership levels, however, tell a much different story. In Boston, an estimated 21% of the population has a membership with a club, and only 17% actually shopped at a club in the past year. In contrast, Los Angeles' membership rate was 41% and their shopping

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<sup>9</sup>Combined MSA's of Boston, Worcester, Springfield, New Bedford, (MA) and Manchester, Nashua, and Portsmouth, (NH)/ existing clubs, or 6,322,500/15.

rate was 36%; Dallas/Ft. Worth's membership rate was 51%, their shopping rate 41%. It is reasonable to assume that there is some lag between consumers awareness of the clubs' existence and their ultimate decision of whether or not to join a club. As more clubs open in more convenient locations in Massachusetts, the membership and shopping rates will undoubtedly rise. The prediction of Dr. Tigert's study is that this market will be in a growth stage until it reaches maturity, defined as when 31% to 41% of the adult population actually shops at a club.

#### Who Shops at the Clubs and for What?

Just what merchandise the warehouse clubs sell and to whom is an interesting matter. Originally these clubs were focused primarily on the small business user who needed goods in bulk for breakdown and re-sale. Restaurants and convenience stores were major customers, buying caseloads of goods on a cash basis for their own businesses. They were truly wholesale clubs selling industrial-sized portions. Today, however, approximately 70% of club members are individuals, with the remainder being small businesses of all kinds.

A study led by Douglas J. Tigert, Phd., professor of Retailing at Babson College, which surveyed 2,150 active warehouse club members in eleven different cities including Boston, found that the average warehouse club shopper spends approximately \$160.00 per trip and shops the club once every three weeks.<sup>10</sup> Of this amount, \$90.00 (56%) was grocery-based; the remaining \$70.00 (44%) was

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<sup>10</sup>Tigert, et al, p. iv.

highly concentrated among paper products, cleaning/ laundry supplies, health and beauty aids, clothing, office supplies/stationery, audio/visual supplies, and books. This 50-60% concentration in grocery sales was consistent with all other studies and interviews. Among many items less frequently purchased by household shoppers, but which capture significant market share in their fields, are major appliances and electronics, small appliances, cigarettes, toys, and tires. In contrast, business cardmembers' non-food purchasing is totally dominated by office supplies and stationery. Overall food spending in dollars was dominated by households over businesses by a ratio of 8:1; non-food spending favored the household again, this time by a ratio of 4:1. These figures denote a trend away from the old definition of these clubs as "wholesalers, not retailers."

It is clear from the clubs' shift to smaller (but still larger than those traditionally found in supermarkets), more convenient packaging sizes and their current emphasis on perishables like meat, fresh vegetables and baked goods that these clubs are choosing the general consumer over the small businessman as their target for growth. Indeed, Dr. Tigert's study concludes in bold type that "WAREHOUSE MEMBERSHIP CLUBS COULD LIVE MORE EASILY WITHOUT THE BUSINESS CUSTOMER THAN WITHOUT THE HOUSEHOLD CARDHOLDER."<sup>11</sup> Not all studies are in complete agreement on this point. A smaller study of customers at six different clubs, three in South Florida and three in suburban

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<sup>11</sup>Tigert, et al, p. viii.

Chicago, was undertaken by James M. Degen & Company, Inc. This study concludes that while business shoppers may constitute a smaller segment of overall membership, their average purchase amount per trip is double that of households and that they also shop the clubs twice as frequently. Less emphasis should be placed on this survey for several reasons. First, it was conducted in early 1990, and is outdated in an industry as young and rapidly changing as the clubs'. Secondly, the survey is much smaller than Tigert's, comprised of exit surveys from less than three hundred shoppers at six stores in only two states. Third, the study differentiates between purchases for the household and the business place simply by asking how the membership card was procured; in fact many business card holders not only shop for both the business and the home but, as small business owners, may be presumed to consume more than the public in general.

All of these elements combine to make these big boxes a much different place to shop than your traditional supermarket or discount store. As they saturate an area, the clubs are forced to compete not only with traditional retailers but with each other. Yet differentiation among themselves is difficult in an industry dominated by so few players. Designs and layouts are remarkably similar, and when someone does come up with a new idea, it is easily copied within the format of the "big box". As merchandise is most frequently purchased by the clubs on a "best deal" basis, there is no brand loyalty established with the customer nor the manufacturer. Along with private labels, the fresh food/perishables

department is a prime area of in-store growth for the clubs that allows them to differentiate themselves from the other clubs.

The rush to fresh foods departments, defined as either a meat, fresh vegetable, or bakery department, is swift and almost complete. Virtually all of Costco's 100 opened stores had fresh foods as of January 1, 1992, and Pace and BJ's were at 97% and 95% respectively nationwide. This is up from previous year percentages of 88.5% and 72 % for respectively. The other clubs show similar trends.<sup>12</sup> The trend has been to add fresh foods to all existing club stores that do not currently have them, and to incorporate them in the design of all new stores. Nearly every store opened in the Massachusetts market over the last three years offers fresh foods, and many are expanding those sections by adding departments. Because the majority of the meat and produce sold in all venues, including supermarkets, is unbranded, this is an area where the clubs can really differentiate between themselves based on quality, freshness, and pricing.

#### What the Warehouse Club Shoppers Don't Like

The primary complaint of club shoppers is the waiting. Shoppers must wait in line with their various items as they are checked at the register. By the nature of club shopping the packages are cumbersome and each customer may have a large number of items. After being checked at the register items are again checked, this time by a security guard, before members are allowed to exit.

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<sup>12</sup>Dean Witter Reynolds Research, Spring 1992 Table I.

As in all retail operations, it is management's job to predict the flow of customers and staff the store according to peak and off-peak times. It has been suggested that at times the clubs' maniacal fixation on margins has kept them from assigning adequate checkout personnel.

The second most cited complaint by club shoppers was that they wanted smaller packaging. The large sizes and quantities were either more than they needed, more than they could store, or more than they could physically handle. Many different studies note that although the elderly are the fastest growing segment of the United State's population, they are not a major user of the clubs. This is due, it is thought, to their inability to either carry or use the size items typically offered at the clubs. The long walks, from a car parked in a lot containing 500 spaces, and within a 100,000+ SF store, were also often cited as negatives. Overall, the third most frequently mentioned negative aspect of club shopping was overcrowding. In Boston, however, it ranked only fifth, mentioned by 9% of respondents. It was behind both brand inconsistency, annual fees, and slow check out among Boston club shoppers.

While Dr. Tigert's survey does not measure the depth of these drawbacks, it should be clear that virtually all of the higher ranking negative factors actually define the clubs. The positive of shopping at the club, perceived savings, is gained by the clubs' maintaining a tight reign on costs. This means low employee/sales ratios, bulk packaging, best-buy purchasing, and self service by the customer wherever possible. I believe that the fact that Boston respondents placed almost a two-to-one higher negative on the annual fees than

the survey reflects the fact that the recent evolution of the clubs makes them appear more like traditional retailers, and invites consumers to question the validity of the membership fee.

The clubs opened here are the latest evolutionary phase of clubs, emphasizing the baked goods, fresh vegetable and meats, and optical services that cater to the traditional retail customer. The margins on these sectors must be lower than in the big ticket areas like consumer electronics and paper products simply due to the extra employees needed to handle the fresh goods and the losses due to spoilage. After interviews, it is my conclusion that the clubs are using the fresh perishables sector as a draw to attract members who, it is assumed, will pay the membership fee and make other major purchases over time. As the clubs move closer to offering a more traditional retail merchandise mix, as they have in Boston, consumers will begin to equate them with retailers and question the membership fee. Retail executives interviewed expressed a strong belief that the first casualty of competition among the clubs will be the membership fee.

The average membership fee of \$25 represents 1 1/2% of a \$1,560 annual grocery bill (average household food purchase of members x average trips), paid up-front. Even from the beginning, not everyone paid for their memberships. Tigert's study showed that fully one third of the members received their first card free, and further that 19% have never paid for a membership. The study also shows that the clubs would lose approximately 1/3 of their membership should they decide to raise the fee by \$10; if they raised it by \$25 to a total of \$50, they would lose approximately 2/3

of their existing members. In Tigert's study, this \$25 increase in the fee equates to approximately 20% of the annual savings shoppers perceive themselves obtaining through club purchases.<sup>13</sup> Losing 2/3 of total membership over a \$25 increase, which represents only 10% of consumers' own estimation of savings suggests both a fairly steep demand/price elasticity curve and a perception of better alternatives at that level.

### III. The Hunted: Industries Affected by the Big Boxes

#### Grocery Stores

Clearly warehouse clubs will have a major impact on the grocery stores industry. With up to 60% of a club's annual sales in the grocery department, an area in which a club opens may see as much as \$60,000,000 in annual sales go to a new competitor.<sup>14</sup> Their 10% gross margins dwarf the grocery industry average of 23-25%, and their lower distribution costs and the clubs' generally low overhead seem to guarantee a virtual lock on the low price market. With between 20,000 and 40,000 SKU's for a larger store, the supermarkets offer more variety, but at what price?

The clubs are a real, new threat to the groceries, and it is bigger than some industry members would like to admit. But in

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<sup>13</sup>Tigert, et al, p. 133. Club member's own perception of savings vs. prices at traditional retailers is 16%.

<sup>14</sup>Tigert, et al, p. 47.



Massachusetts, it is neither the only nor the newest threat, and the groceries do have their strengths.

Research by independent analysts as well as the grocery chains themselves show that the overwhelming majority of people shop for their groceries within 2-3 miles of where they live, and that the superstore format (50,000-70,000 SF) has a drawing radius of 5-7 miles, and smaller stores up draw up to 3 miles, depending on competition, road network, etc. The groceries have a franchise in existing prime locations in established markets with long-time patrons. Long term leases with options to renew and in some cases outright ownership of store locations will provide an excellent platform from which these grocery chains can defend their turf, especially when contrasted with the higher rents and land costs the clubs have underwritten. A typical supermarket rent may be in the \$5.00-7.00 range, with some old leases requiring under \$3.00 per SF.

Why do people shop where they do for groceries, and what are they looking for from the store? Surveys show that the single most important element in choosing a supermarket is its proximity to the consumer's residence. In fact, approximately 50% of all groceries are purchased within one mile of the consumer's home.<sup>15</sup> The second store choice element is price, followed by assortment, quality, and service. One would not expect those orders to change given today's emphasis on the value of time in two earner households, the overall consumer quest for value, and health

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<sup>15</sup>Dean Witter Reynolds Research, Table 5.

considerations. Remember, most people shop for groceries on average 2 1/2 times per week.

### The Health of the Supermarket Industry

The executives at the three local grocery chains I interviewed for this paper - Stop & Shop and Shaw's, the two leading major supermarkets, and Roache Brothers, a fourteen store chain - all had relatively similar views on the clubs' impact on their industry. All of these chains do a majority of their business in this marketplace and all are headquartered here. Shaw's and Stop & Shop have been competing with the clubs in other markets for over five years.

Trade associations like the Food Marketing Institute provide members with comprehensive data on nationwide industry trends. There are other significant trends affecting the local grocery business which, while unrelated to the clubs, must be considered.

The Massachusetts supermarket industry is an extremely competitive one in which, by all accounts, it is extremely difficult to turn a profit. In interviews, it was acknowledged that grocery stores in the area are probably only breaking even on their sale of merchandise; within their range of merchandise, margins are typically higher for non-food items such as seasonal accessories (beach chairs, barbecue grills, etc.). The supermarkets make their money by the leasing of their shelf space to their suppliers. That is, Campbell Soup Company pays a certain amount of money per month for the shelf space its products occupy. The rates are dependent upon the location within the store and the shelf height; easily accessible eye level space near other popular departments would be

relatively more expensive than space at knee level in the rear corner of the store. End caps, those ubiquitous battlegrounds for the Coke vs. Pepsi wars, are also most expensive. The grocery store itself is run as a smaller version of a mall, with more desirable selling locations generating more sales and with the ultimate control of these spaces resting with the supermarket management.

Predictions of a static population with little increase in disposable income are not the only problems the groceries face. The national health movement has surfaced in supermarkets as a switch away from higher margin red meats to lower profit substitutes like fish and chicken. The recession has caused shoppers of at least two of the chains to buy less per trip and also to trade down in both quality and quantity. This of course lowers the chain's gross and net. Another competitive weapon gaining favor over the last three years, apparently without the prompting of club competition, is "double couponing." In double couponing, a store will offer to double the face amount of manufacturer's coupons when redeemed at their stores, hoping to induce shoppers interested in those products to make those purchases and others at their stores. Once thought of as a small-store gimmick, double couponing is now a necessity among all players in the market.

#### How the Groceries View the Threat of the Club

Virtually all of the groceries see the influx of the clubs as inevitable and their impact as being important. None viewed the clubs as being either unique or invincible, or even revolutionary. Many recalled the Gemco stores of the 1950's and 60's, which were in fact

run as a division by the company that is now Stop & Shop. These Gemco's were virtually identical to the warehouse clubs of today, with some minor differences. They were large, warehouse formats selling wholesale-sized quantities. Bradlee's Food Stores were located adjacent to those Gemco's that did not have food departments within. When these stores were forced through competition to increase their hours of operation and add services like bagging, their margins began to look like those of regular grocers and the Gemco's eventually went out of business.

The basic arithmetic is simple. Clubs draw from 25 miles, with an average trip of 13 miles; supermarkets draw from 5-7 miles, with an average trip of 2 miles. Using averages, the trading area of a club is 42 times that of a supermarket.<sup>16</sup> Put another way, there might be 42 supermarkets within the area of influence of one club. The club's impact is spread out over many stores, and while it has been assumed that those groceries closest to the clubs lose the most sales, that idea is being tested aggressively in Massachusetts by both Edwards, a low price chain owned by Purity Supreme, and Stop & Shop, the area's dominant chain. Both of these chains have made decisions to locate stores in community centers where clubs already operate. They hope to capture the shoppers the club draws who cannot find everything they need within the club's grocery section.

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<sup>16</sup>Trading areas are circular; the area of a circle is (psi x radius) squared.

### The Grocers Fight Back

Many of the chains, while not expecting the clubs to simply fail, are expressing doubt in their ability to deliver perishables at the margins and in the volumes upon which their existence is based. Extra care in the form of manpower is required to keep meat, vegetables, and baked goods fresh enough to retain customers. This is an important point when taken in conjunction with the warehouse clubs' upscale, value-oriented member prototype. At the same time, they are attempting to pare their own margins, and are not afraid to make merchandise changes to keep pace.

All grocery chain executives interviewed acknowledged a general pattern of growth in the size of their average stores. In the case of Roache Brothers, who run a smaller than average, more upscale store to begin with, they are going to an average of over 30,000 square feet with their latest store at 46,000 SF. The Super Stop & Shop format is now 64,000 SF with an upward trend. An interesting approach that many grocery chains are taking is to clear an aisle of lesser selling items, such as cosmetics, and put in a "power alley" of club-sized quantities of some of the best selling items in the warehouses at low prices.

Many independent studies have shown that on any given day, some items, particularly those that are couponed, are priced lower at a grocery than the clubs, but that overall everyday prices are substantially lower at the clubs. The chains I interviewed contend that, with double coupons, a smart shopper will find equal or better deals at the supermarket. The chains have also given more shelf

life, sometimes a month or more, to specials and coupons that used to run only one week so that shoppers could take better advantage.

The chains all voiced their belief that the clubs, while competition in one sense, were not direct competitors and that to focus solely on them would be suicidal. Their cost and profit structures are so different that they cannot play each other's game and be successful. The grocers rightly state that you cannot get a full order at a club, and point to the fact that the average club shopper visits once every three weeks while their average customer visits 2 1/2 times per week.

An example of how the grocers have attempted to lessen the impact of the clubs comes from Roache Brothers' Bob Anand, Sr. Roache Brothers has a 20, 000 SF mid-to-high end store in Randolph, Massachusetts. For the past five years, their main competition for grocery dollars was a Shaw's, also in Randolph, which was a lower price store. Profit wise, the Roache Bros. store was "a good store," according to Anand. When the Hilltop Steakhouse opened a meat department in Braintree, approximately 4 miles East of their store in late 1990, Roache saw volume go down a little in their meat department. Then in 1991 both a Costco and a BJ's Wholesale Club opened within four miles of Roache Bros. Sales were down approximately 10% over last year's numbers for the first four months after the clubs opened. Roache Bros. then went to offering double coupons, something they had never done at the Randolph store. For the next four months, their volume went back up over their last year's same month sales. Admittedly, they had cut their profit margins to maintain volume, but it is in their opinion an

acceptable trade off. Anand is certain that the customers he got due to double couponing were from Shaw's his real competitor, and just as sure that the 10% he initially lost to the club will stay at the club for the foreseeable future.

Another important factor the grocers emphasize is the notion of brand loyalty among food shoppers. The clubs, with their fanaticism for savings, their "best buy" purchasing strategies and their penchant for bringing out private labels of successful products will only truly capture the lowest price shopper but otherwise alienate not only brand-conscious consumers but the manufacturers themselves. Indeed Ocean Spray, once a major supplier of cranberry based products to over 100 Sam's Clubs, was stung when Sam's came out with their own private label cranberry drink and dropped Ocean Spray. "Sam's Choice" private label goods take up as much as 10% of the shelf space in the grocery and food and drug sections of a Sam's Club. Many of the grocery industry executives I spoke with voiced concerns that they were not getting fair and equal treatment from suppliers on such issues as pricing, sizing, and split deliveries. They feel that the clubs have beaten down suppliers to the point where the grocers are subsidizing some of the deals that the clubs enjoy. The grocers feel that unless this situation is improved, their leverage will lie in their ability to control the shelf space within their stores. That is, when a supplier gets out of line, they would retaliate by cutting down either the quality or quantity of the shelf space leased to that supplier. One senior level manager said, " Wait until they come to me with a new product they want to introduce to the

market. If I feel that they are favoring the clubs' business at the expense of mine, they won't get any space."

### Unit Pricing Laws

According to some grocery industry executives, Massachusetts' reputation as a pro-consumer government is sullied when it comes to the treatment afforded the clubs. By all accounts, most members join and shop at clubs for the perceived savings, of which there are many indeed. However numerous studies show that not all prices are the lowest, neither in the absolute nor on a unit basis. The problem is, there is no way for the consumer to compare at this point. While all supermarkets are subject to Massachusetts Unit Pricing Laws which mandate that every item on their shelf, no matter what the package size, must be accompanied by a breakdown of the items price per unit of weight. This is to allow shoppers to more easily identify the best value, measured as a price per unit, among the fourteen ounce can @ \$1.29 and the eighteen ounce can @ \$1.69. While good for the consumer, this obviously adds cost to the chains which is then passed through to the consumer.

When BJ's was establishing a foothold in Massachusetts, they argued to the state that they were not a grocery retailer but a wholesaler, and since they sold only by one size anyway there would be no in-store comparison for customers to use. They were granted an exemption from the Unit Pricing Laws. Not only does this allow them to keep their margins below those of supermarkets, it does not allow consumers to truly judge the savings they are making by buying in bulk. Presumably if the consumer sees only a



marginal savings to put up with the inconvenience of long lines, the waste of space in having to store the excess product, and the loss of the time value of their money tied up in extra goods, they may see less reason to travel the extra miles to the club. The grocery industry is lobbying very hard to have the clubs' exemption overturned.

### **Head On Crash: The Warehouse Club and Office Supply Stores**

While the business club members are a smaller fraction of total membership (+/- 30%) and shop less frequently than household members, they also spend significantly more per trip. In Dr. Tigert's study the breakdown was \$217 for business buyers and \$165 for household members, a increase of 32%. The overall breakdown of dollar flow spent in the clubs runs 8.3 to 1 in favor of the household buyer; on the non-food side that gap is lessened to 4 to 1. What are the businesses purchasing with this \$217? A smaller percentage of business members purchased food, and most of these items were the coffee/dairy products, soft drinks and soda, and salty snack products associated with employee coffee brakes. Of the non-food items, the vast majority of money was spent on office supplies and stationary.

When a large list of products was given to respondents to note what they purchased during their last trip to a club, 147%<sup>17</sup> mentioned that they had bought something that fell into the

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<sup>17</sup>Because numerous products within one category were mentioned in the survey, results can total more than 100%.

category of office supplies/stationery. These were items like computer paper, envelopes or stationery, telephones, fax machines, etc. The next highest answer, paper products, received a 39% total response; in fact the next six categories, including laundry and cleaning supplies, paper/plastics, health and beauty aids, auto accessories and hand tools only totaled 119% together.

The impact of the clubs here will be most pronounced on the small, high margin local office supply/stationery store. Here, as in the other fields like grocery and home improvement, margins will be cut everywhere including the larger office supply stores. However the really interesting thing to watch will be how the warehouse clubs themselves fair against the category killers like Staples, Office Max and Office Depot. Staples, based in Massachusetts, has a strong position here but Office Max has recently made some aggressive inroads here. These stores carry a much wider and deeper selection of merchandise at prices just as sharp as the clubs, and they are locating in much more convenient patterns than the clubs. Their typical store is approximately 20,000 SF and can be found in either a community or neighborhood center or in a free standing building in a more industrial area. They will certainly be more widespread than the clubs, demanding less travel time and no membership fees of purchasers. The clubs' only distinct advantage over the category killers in this industry is their wider, but not deeper, selection of non-office supply merchandise, and this can be overcome by the category killers locating in shopping centers that also offer these agglomeration benefits. These centers are known as "power centers."

## The Threat to Discount Department Stores

The discount department store industry is undergoing change. These discount stores sell a wide range of various quality branded merchandise at low price points. Sales per square foot in the discount industry average around \$200 per SF. The majority of these stores are anchors in community centers, with a few such as Sears anchoring regional centers.

The national consumer trend towards a tighter price/value relationship plays into the traditional strengths of the discount department stores. Nationally, the discount stores share of the overall retail market was at 16.2% in 1980, fell to 11.6% in 1985, and was at 17.3% and rising at the end of 1990. Unfortunately many of the traditional discounters are in no shape to respond. This is especially true in Massachusetts, where the ailing Bradlee's and Sears chains dominate the discount market.

According to many of the industry executives interviewed, the discount industry has its roots firmly planted in the stingy New England soil. The Yankee penchant for "adaptive re-use" is legendary, if not entirely accurate. Filene's Basement, Marshall's, Ames, Ann & Hope, Mammoth Mart, Hills, Zayre's and Bradlee's Gemco, the original warehouse club are but a few of the examples of New England's discount retailing prowess mentioned.

The problem was that during the 1980 many of these stores stopped being discounters. Their margins ballooned to 24-26% as layers of management were added. Many like Ames and Hills were saddled with huge debt as a result of overly aggressive acquisitions

and LBO's. At the same time, mail order catalogues and outlet malls were attacking the discounters primary customers. The result was that many of the traditional discounters lost their focus.

However, as a retailing format there is little wrong with the discount department store. In fact the press has mistakenly lumped some of the best performers in the industry in with the warehouse big boxes. Wal-Mart and KMart stores are traditional discount department stores that have experienced strong growth throughout the 1980's. Inflation-adjusted productivity results for the years 1982-1990, measured by sales per square foot, show annual compound increases of 8.1% and 6.7%, respectively. Their numbers of store units have increased dramatically over the past five years, and each has targeted the Massachusetts market for growth.

While not warehouse format boxes, these better discount department stores do have some similarities with the boxes. They are large, typically averaging between 80,000 and 105,000 SF, and they offer more flexibility in size ranges than the boxes. Entrepreneurial skills are pushed as store managers are encouraged to carry up to 15% of inventory as local merchandise. Venture Stores, a spin-off from the May Department Store chain, has increased checkout speed by 13.5% by instituting cashier production standards with incentives. Wal-Mart offers an ESOP to all employees, from the stock clerks to the CEO. The best discount department stores use the same state of the art POS inventory controls the boxes, in fact the same as all of today's successful retailers.

The very real threat to the Massachusetts discount department industry is that the better operators like KMart and Wal-Mart will unseat them here. There is a very real chance of this occurring, but even if it does it will not be damaging to the industry in general, the consumer, or the shopping center owners. While Bradlee's is generally regarded as a poor to middling operator, their locations in this market are second to none, and they own a significant portion of them. Industry experts interviewed for this thesis thought it inconceivable that even the best operator would enter the market on a head to head basis with Bradlee's and incur the inevitable competitive bloodletting that would occur. A more likely scenario would be that Wal-Mart or KMart, after getting comfortable with the market by opening and operating some stores around the perimeter, would make a play for the weakened Bradlee's franchise.

### **The Threat to Department Stores**

The department store industry went through a period similar to that of the discount stores in the 1980's. While financial machinations weakened many of the oldest and most respected names in the business, those department stores which kept their focus on operations came through strongly. From the period 1982-1990, May Department stores and Dillard's increased their productivity, measured by inflation-adjusted sales per SF, by 8.0% and 6.1% respectively. Nordstrom's is another department store which has prospered throughout this period. According to Stores magazine's annual issue of the top 100 retailers, the traditional department

stores share of the overall retail market was at 11.7% in 1980, peaked at 13.4% in 1985, and has settled at 12.9% today.

The threat to the department store industry is not from the boxes. All department stores have de-emphasized their hardgoods lines virtually to the point of nonexistence. Most have fewer "departments" than they may have fifteen years ago, but those that they do have are have more selection and better relative pricing than in the past. And of course they have new departments with the latest trends, such as young learning centers with electronic instruction facilities. Many manufacturers are tied to the department stores with exclusive merchandising arrangements, whereby for example only Filene's Department Stores would be able to carry Liz Claiborne's line within a certain trade area.

The International Council of Shopping Centers (ICSC) has spent considerable effort researching the department store industry. Although the popular press gave wide coverage to the closing of some department stores due to the mergers of the 1980's, the ICSC's data shows that 60% of these locations were reopened as department stores within three months of closing, and a full 85% were reopened in less than a year. They suggest that the remaining 15% are located in centers that do not currently have the demographics to support a department store. Most are in centers that were prematurely developed in advance of a emerging market areas, typically in the California, Texas, and Florida markets. On shopper trends, the ICSC has determined that the typical regional and super regional shopper spends the same amount per trip today as in 1985, but that the average length of trip has fallen by about 30

minutes. This supports the theory of the more focused, time constrained shopper of the 1990's. They have also found that when surveyed, consumers cite as the three most important reasons for shopping where they do as location, convenience, and selection. According to the ICSC, this has basically remained consistent for the past ten years. The department store anchors located in regional and super regional malls remain the most efficient method of delivering the desired mix of merchandise in a logical and orderly environment.

#### **IV. Big Box Category Killers: The Home Improvement Industry**

The home improvement sector looks to be a "home run" in the 1990's, and while the big boxes have the momentum in the race, they do not have the lead yet. However, they are only an acquisition or two away. Consolidation in the industry is inevitable and essential. Today, the big boxes have the retailing format while the Grossman's and Somerville Lumbers have location and customer history. The major players in this segment among the big boxes are Home Depot; Homeclub; HQ, a division of Hechingers; and Builders' Square, a division of KMart.

The home improvement industry is going through an evolution of its own. It is currently one of the most fragmented sectors of retailing, dominated by hundreds of smaller local firms. The top three companies nationwide control less than 15% of the entire home improvement market. Industry executives from both the big

box and traditional companies predict three trends. The first is a consolidation of the players in the industry, as competition will force the weaker, less competitive operators to combine. The second is an overall expansion of the market, due to the demographics trends already discussed. The third, a shift in the emphasis of retailers target from the professional or semi-professional contractor toward the amateur do it yourself (DIY) consumer, is a result of this demographic shift.

Traditional home improvement firms like Grossman's and Somerville Lumber have mostly viewed the DIY market as an afterthought to their primary contractor customer. They operate under a two-tiered pricing structure, offering lower prices and better credit terms to the contractor. They even offer separate areas within each store for contractors to conduct their business in, with separate registers and in some cases different inventory. As a consequence, their retail sections are suspected of subsidizing some of the activities of the contractor business. Additionally, having established locations long ago, they have a wide variance of store sizes. Grossman's has retail stores in Massachusetts that vary in size from 11,000 square feet up to 60,000 square feet. This creates a problem in maintaining any consistency of inventory among its stores. A Grossman's customer going to two different stores may experience a tremendous difference in the products offered there. This creates a further problem in maintaining consistent sales and advertising information; much of the advantage of spreading advertising dollars over multiple units is lost due to the fact that all the stores carry different inventory levels.



A breakdown of merchandise sold supports this different focus. Grossman's does approximately 60% of their dollar volume in lumber and building supplies; the equivalent figure for the boxes is approximately 20%. The traditionals have an outdoor drive-thru area with register for contractors, while the boxes have an in-store section for contractor sizes and qualities. The Home Depot has just moved this section in all their stores from the rear to the right side, to enable the contractors to more easily get in and out with their larger purchases.

Part of this story is one of the management of growth. Somerville and Grossman's started as large lumber yards with a single, central location. Their growth came in the form of small stores developed in a radial pattern being fed from central inventory. Not wanting to cannibalize their original store market, they spread to smaller, outlying areas, like the West Bridgewater location of Somerville Lumber. As suburban growth spread and densities got higher, they might add another small store to service the new trade area, as the old store was just too small. Home Depot had no such initial constraints; they have come into the market and can locate stores using today's demographic patterns to put themselves in a more lucrative position. The results are that Home Depot's Avon store will offer better access and exposure on the same Route 24 corridor as Somerville Lumber's smaller, less accessible one.

These home improvement big boxes are buying better sites than the traditional users currently have, and they are paying more for the land. While John Roberts, Vice President of Real Estate for

Home Depot admits that some of the high prices are due to an "auction mentality", he feels that the prices are justified for a few reasons. First, the boxes are being exposed to sites that only three years ago would have been viewed as prime office or hotel sites with commensurate price tags. With the cities and towns more interested in office jobs and tax dollars, retailing uses with their traffic generation would have been nixed. Secondly, while the land costs are high, these firms are taking advantage of the lower construction labor, lower development fees, and lower interest rates of today. Thirdly, these firms are extremely well capitalized, with Home Depot getting a recent round of debentures sold at a rate of less than 5%. Home Depot's stock has risen 3,148% in the 1980's. Grossman's, on the other hand, has teetered on the edge of bankruptcy and had to endure a nasty battle over management control for the past three years.

The Home Depot chain is generally credited with having invented the most direct response to these trends; the other big boxes have recognized the validity of their format and copied it. Their prototype store is now 80-100,000 square feet, with an average volume of \$35-40 million.<sup>18</sup> They target the DIY market with a wide and deep array of inventory. Their operating format is imbued with the type of culture often associated in the press with the Wal-Mart Company. They have a visible, dynamic leader in Bernard Marcus, who still addresses employees every week from their in-house television studios with a segment entitled "Breakfast

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<sup>18</sup>Les Gilbert, "Prototype Store Set by Home Depot", HFD July 29, 1991

with Bernie." While in store employees are not on commission, they do receive bonuses and all employees are actively encouraged to participate in an ESOP offering them a 15% discount on stock equaling up to 25% of their annual salary. Home Depot employees are not sales clerks but generally industry professionals, carpenters, and plumbers enticed by steady income and full benefits. Almost all are full time employees. They undergo screening, including drug testing, and training, which easily surpasses that of the traditional stores.

There are differences in the way the big boxes operate relative to the traditional retailers. Of course, a main difference is in inventory; the boxes work with no central purchasing or distribution, keeping all of the stock in the selling space at each store, while the traditionals buy and distribute centrally, incurring inventory costs. They use the newest technology in bar coding, POS information and Just-in-Time Inventory to keep costs down. With the velocity, or speed of turnover, that the boxes achieve, they rarely incur any finance charge on their merchandise. It is sold to the consumer before the payment is due. Additionally, as much as 15% of the merchandise in any Home Depot is discretionary, ordered by the store manager to suit his customers needs. The more professional sales staff is encouraged to stay on the floor and assist customers with their needs, and the sales people do not work cash registers or load merchandise. Nor do they stock shelves, one of the traditional chores of sales clerks. All Home Depots are re-inventoried overnight by a special staff trained for this sole purpose. With so many items stocked, and with the customer typically unsure

as to the exact requirements of their needs, the sales staff is spending 100% of their time servicing their customer. While Home Depot does offer their own credit card, they not only pre-screen their customer but actually sell their receivables immediately to an outside company that runs their credit operation. They offer delivery of items for a \$25 charge, while Somerville Lumber advertises free delivery. In defending this policy, Home Depot says that they are not in the trucking or delivery business, and that the average customer doesn't need delivery, and that those buying a large order don't mind paying the charge because they know that they are saving so much on the order. The big box industry points to the free delivery of the traditionals as another area where the big boxes have a cost advantage which they can pass through to the consumer.

Another advantage that the big boxes have is their pricing structure. They utilize an everyday low pricing (ELP) approach, whereas the traditionals use a special sales approach. The home improvement boxes, unlike the warehouse clubs, do advertise. Their savings through ELP are realized via lower labor costs as a result of not having to constantly change prices and in-store quantities for the many sales the traditionals run. The traditional retailing executives I interviewed acknowledged that the prices at the boxes were lower, one stating that. "the warehouses scream 'Price! Price! Price!' while we say 'Quality.'"

An observation made by both the traditional and big box home improvement retailers is that the influx of the boxes into an area will expand the market. It is believed that the boxes' high profiles,

more modern format, and larger inventory act as an inducement to more home improvement activity. The technology of the home improvement industry is getting more user friendly at a rapid pace. Many jobs, such as installing architectural glass block or replacing entire window systems, have been designed for the DIY market and now require minimal amounts of special skill.

The traditional home improvement retailers realize that they are in for a struggle. Grossman's has competed with the big boxes in California, Connecticut and Rhode Island going back as far as eight years. They will fight by focusing more closely on their core customer, the contractor. In the words of one CFO, they will try to be wider and deeper in "the products we choose to compete in." Their posture, however, is relegated to a defensive one. They will have to close their smaller stores which admittedly cannot compete. And they do not have the capital structure to open new stores in the size or number of the boxes. They will certainly lose a portion of their retail DIY sales to the boxes. Somerville and Grossmans will have to become more efficient in all aspects of their operations to survive at all. Most of the local lumberyards that used to be in every town have already closed, the victims of the wave of expansion from Grossman's and Somerville. Those that have survived to this point are at the end of their useful economic lives.

#### **Cannibalization: Box vs. Box**

As of July, 1992, Home Depot's goal was to open 26 stores in the Massachusetts market. Their siting criteria combines density, road patterns, and the number of single family housing units in a

given trade area. Roberts of the Home Depot states "We like as many stores as possible in any market place. We will continue to build to the limit of the market regardless of what our competition or the economy does." Roberts cites their experience in Atlanta, where as recently as four years ago they felt that their six stores were ideal for that market; they now have thirteen, all of which are doing at least as well as their poorest performer was doing before the expansion. He points to the fact that Massachusetts population is on average less mobile than most of the rest of the country, choosing to remodel and add on rather than move, as a reason for needing so many stores here.

Most of the big boxes prefer to own their real estate because they believe that they can finance and build it more quickly and cheaply. They realize that they must be creative to find the right locations in Massachusetts. Not truly destination oriented, they need more of a traditional retail location than do the warehouse clubs. They will locate in a community or neighborhood center, if the right characteristics are present, and also like proximity to regional malls. Interestingly, these home improvement big boxes fairly scoff at the idea of "power centers" in Massachusetts, believing that well-located sites of sufficient size are impossible to find here. Roberts of the Home Depot goes so far as to say that the definition of a power center is so nebulous that today it is defined as "anything with one of us in it."

The Massachusetts market will become an historic battleground for these big boxes. It is the first market in the country in which the two leaders, HQ and Home Depot, go head to head. Home Depot

has already cleaned up on Hechingers, HQ's parent that had started an extremely successful retailing format in the early 1980's. Hechingers carried more of a higher end decorating store than a home improvement store, was set up as a traditional retailer who bought and owned their inventory and they operated out of a 70,000 SF format. When Home Depot came to places like Atlanta with their big box warehouse format they not only drove Hechingers out of the market but convinced them to start HQ as a clone of Home Depot.

As interesting as this battle will be the fight between the warehouse clubs and the boxes. While both use the same format of no inventory, low overhead, and warehouse stores, there are other significant differences pointing toward domination of the field by the category killers like Home Depot. First, they require no membership fees. Second, they carry a wide and deep array of items, as opposed to the clubs' commitment to carrying a small selection within a category. Third, the category killers have a commitment to consistency in branded merchandise; their experience tells them that many people will only purchase certain brands of power tools, for instance. The warehouse clubs will only have the product their buyers have recently determined to be the best buy.

## V. The Question of Synergy

The question of whether or not these new big boxes create synergy with any other type of center is as of yet unanswered. There is

evidence that suggests that in some cases there is an increase of business for an existing center when a power center opens, in some cases there is a decrease, and other cases show no real impact. Homart Development has attempted to answer this question by monitoring the performance of selected super regional centers in suburban Chicago.

The Fox Valley Mall is a four-anchor center of 1.25 million SF. The anchors are Lord & Taylor, Marshall Field, Sears, and JC Penney. In the period 1980-'85, the center had a compound growth rate in sales of 6.4% vs. the MSA compound average of 5.8%. During the period from 1985-'90, the competitive retail capacity of the area doubled to a total of 4.2 million SF, with an estimated one million square feet occupied by either warehouse clubs or category killers. Compound growth rates for this period for the center were 8.5% for the Fox Valley Mall, well above the MSA average of 6.8%. Fox Valley was able to increase its growth premium even in the face of new competition from the big boxes.

The Hawthorn Mall is a one million SF mall anchored by three department stores. During the period from 1980-'85, Hawthorn achieved a compound growth rate in sales of 10.7% vs. the 5.8% of the MSA. The amount of retail space was increased by approximately fifty percent over the next five years in the trade area of the mall, estimated as a concentric circle with a radius of 25 miles. New entrants to the area included a Sam's Club and a Wal-Mart, among many others. The compound sales growth rate for Hawthorn Mall over the 1985-'90 period was 6.3%, lagging the MSA's 6.8%. For reasons that Homart's research department was



unable to determine, there was a negative impact on the existing mall even though, in their opinion, all other factors were similar to the Fox Valley Mall comparison.

The grocery stores are also experimenting with the concept of synergy with the big boxes. Both Edward's and Stop & Shop in Massachusetts have located within shopping centers with an existing warehouse club, even sharing signage at the center entrance. The reasons given for their location choices in these instances were, first, it was the best available location within that market. Secondly, they felt that they could draw some extra business by filling the full orders of some of the club shoppers who had traveled from outside the supermarket's normal trade area. Thirdly, they would try to compete with the clubs using coupons and advertised specials.

The warehouse format stores are so new to this area that there are no real results in yet. In fact, as seen in Homart's research, the question of synergy is still unanswered nationwide.

## **VI. Conclusion: The Implications for Property Classes in Massachusetts**

The Massachusetts economy will recover, but not quickly and not in the form of the mid-1980's explosive growth. Jobs will be created in the medical fields, particularly biomedical, in education, and among the vast small businesses that are the backbone of this country. The hi-tech industry will no longer dominate our perception of economy as it once did, and overall recovery should be slow and unexciting over the next three to four years. Disposable income and population will both remain relatively flat. Time constraints and the search for both value and savings will exert polarizing pressures on consumers. Overall, I expect to see a continued bifurcation of soft goods and hard goods in the retail sector, manifested by the further emphasis on higher margin fashion goods at the regional mall with more volume oriented hard goods located in adjacent "power centers". This is the precise plan that Homart Development has for the recently purchased Natick Mall and Shoppers World in Framingham. In the meantime, the clubs will be proliferating at a dangerously high rate in an effort to gain domination of this market. The saturation point, reached already in areas like Dallas/Ft. Worth and Los Angeles, will cause the cannibalization and pain endemic to the imbalance of supply and demand factors in any business. With Sam's Club and Price Club, the two largest companies in the business, already putting holds on any Boston area expansion, signs exist that the saturation point may be

close at hand. Predictions of consolidation within the club industry, which as we have seen has taken place before, center around the potential of folding BJ's strong local franchise into one of the other major clubs.

The big boxes are yet another in the many evolutionary steps retailers have taken over time in response to new technology, changing demographics and tastes and trends. In remembering the short, unhappy life of the Gemco's, the club format is not even new. They are a response to consumers demands for a new, tighter price/value relationship after the spending binge of the 1980's, and their impact, both real and perceived, is surely magnified by the recession. They are here to stay, but they will not take over the world. When broken down, the warehouse clubs and the category killers, including the home improvement industry used as an example in this thesis, are fundamentally at odds with one another. The clubs are trying to be a low cost one-stop shopping center for all of one's general household needs. They try to be convenient not in the sense of being located around the corner, but in the sense that they can fill almost all of your needs, at least the ones they can make money filling, with one trip. The category killers, on the other hand, attack one aspect with religious fervor, like home improvement, to the exclusion of all others. Neither of these two strategies is particularly convenient. The clubs' waiting lines, large store sizes, lack of consistency and "excitement" fly in the face of today's calls for service and efficient use of shoppers time; the category-killer concept requires an individual trip for each different category of item desired, and they negate impulse buying across

categories. In fact, of all the people interviewed for this thesis, officially and unofficially, less than 5% actually shopped at warehouse clubs.

A number of clubs will exist and flourish in the Massachusetts marketplace. If as suggested by the Tigert study the saturation point of membership is approximately 40% of the total population, a figure of 722,550 memberships is reached<sup>19</sup>. This membership will be spread among the 37 units which will be open by 1994 if the clubs proceed with their current plans. There will then be one club in this market for every 170,000 people. As a reference, the area currently with the highest level of saturation of clubs is Anchorage, Alaska, with one club for every 75,600 residents; the area with the lowest level of saturation is New York City, with one club for every 858,600 people.<sup>20</sup> Which clubs thrive and which are shuttered will be a function of how well they run their operations, how well they buy, how well they distribute, and how well they sell their merchandise. It will also depend upon how well they manage their relationships. Their high volume strategy is dependant on precise and timely POS information and cooperation from their manufacturers. There is a real question as to how these relationships will hold up in the face of the complaints from other retailing formats and the manufacturers own fears of being eventually replaced by the clubs' private labels.

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<sup>19</sup>Combined MSA households of Boston, Worcester, Springfield, New Bedford, (MA)and Manchester, Nashua, and Portsmouth, (NH).x .40.

<sup>20</sup>Dean Witter Reynolds, Membership Warehouse Club Industry, Table 1, Spring, 1992.

The clubs cannot create an environment where they are all things to all people. The very nature of their format will not allow them to stock fill in items that do not turn over with sufficient velocity yet that consumers need to get their full order of groceries or office supplies. Their merchandising, according to Sol Price, founder of the industry leading Price Club, involves "the intelligent loss of business." Their excitement is created by the consumer not knowing what brands or even what products might be among their 3,000 SKU's on any given week. They will take business from everyone; a lot from the grocery chains, a good bit from the discounters, and enough from all the small mom and pop stores to close many of them. And then they will begin taking it from each other.

#### Hardest Hit: The Community Centers

Grocery store revenues will initially be hurt the most, and some of the weaker chains will probably fail, to be folded into the healthier chains. Discount department stores that typically anchor community centers along with the groceries will continue to suffer, as much from poor capital structure and ineffective management than from competition from the boxes. In both cases the percentage rents at the community will be lessened as these retailers drop margins to fight the big boxes. As anchor tenants in these centers, grocery stores have been able to negotiate favorable lease terms. At between 1%-2% of break-even on average, their percentage rents are a miniscule portion of the centers rental income. The discount department stores have similar percentage rent profiles so that their

sacrifice of some profit to retain volume will not significantly impact center value. A mild general devaluation may occur as a result of this; it may have already occurred. But if the property contains the proper fundamental elements of a good retail property it will retain its value and could indeed increase in value as the center's management replaces inefficient, outmoded operators with some of today's better retailers.

The influx of smaller-sized category killers like Office Max, Bed 'n Bath, and Toys R Us, as well as the potential food and drug clubs envisioned by Dr. Tigert will be able to step in to good retail locations vacated by the losers. This scenario has already occurred at the Fresh Pond Shopping Center in Cambridge. When Ames Department Stores went under bankruptcy protection, they sought to close their 75,000 SF store in Fresh Pond, although they still had over ten years remaining on the lease. The location is superb, considered by those in the retail trade as "100%." While the clubs looked at the site as a premier location, they could not make their format work within the confines of 75,000 SF; their merchandise mix and volume requirements are so stringent, due to their 10% margins, that even a 100% location would not be enough. Yet Fresh Pond Shopping Center still came out a winner. They split the 75,000 SF into two units and leased half to Staples and half to Kids R Us, both of whom are considered strong draws with great credit. And both leases were well above what Ames would have been paying for the next ten years.

### Regional and Super Regional Malls

Regional and super regional malls have incredibly strong franchises in Massachusetts. Their focus on the fashion/apparel industry and soft goods in general and the ability to create an exciting, one stop shopping environment make them unique. Their huge size and strong locations create a critical mass which when combined with the permitting problems found today act essentially as barriers to entry for competition. The continuing evolution of retailing will take place for the most part within the confines of the enclosed mall. Many of the department stores' recent problems relate to capital structure and should be rectified by improving operations.

### Neighborhood Centers

Neighborhood centers will not be impacted to a large extent by the big boxes. While their basic tenancy is made up of grocery and service stores, they are used by local residents on an almost daily basis; consumers will not be willing to travel the ten to twenty miles to get to the nearest club when all they need is \$20.00 worth of groceries and the dry cleaning for two days. The dynamics of retailing will affect these centers, however as some grocery chains falter due to the added pressure from the clubs. I expect that in situations where a center meets the criteria of a good retail property, as defined above, the void will be filled quickly and profitably.

The business of retail is competitive, fast paced, and offers limitless potential for profit. This environment is a laboratory for new ideas, new fashions, new mousetraps. The big boxes are an

extension of the newest ideas in retailing, combining the latest in technology, demographic trends, and merchandising. As I have attempted to show, they are not for everyone. Nor are they in many cases as dissimilar from other more traditional retailers as the press may have one believe. And because of their strengths, the category killers will compete with the clubs more fiercely than the traditionals. And then, after ten or so more years, they will be thought of as a "traditional" retail delivery format.

Left unexplored by this thesis is the impact of these new warehouse format retail types is their impact on the smaller Mom and Pop locally owned retailers in the smaller downtown shopping areas. Unquestionably the outlook is bleak. These retailers are chronically undercapitalized and lack the market share to gain the volume discounts of the larger chains. Their inherent small size makes them unable to carry the selection of the new big boxes. The boarding up of downtown Main Street stores across America has been well-chronicled by the press, and has been blamed first on the suburban malls and then on the large format discounters like Wal-Mart and KMart. What these stores have are strong ties to the community through local ownership. However their ability to react quickly and accurately to local trends is being equalled if not bettered by the local management focus and the new distribution systems of the boxes. The smaller local stores will be the hardest hit of all by the newest phase of retailing, the warehouse format.



## EXHIBIT I

### TYPES OF SHOPPING CENTERS As Defined by the Urban Land Institute

1. A **neighborhood center** provides for the sale of convenience goods (foods, drugs, and sundries) and personal services (laundry and dry cleaning, barbering, shoe repairing, etc.) for the day-to-day living needs of the immediate neighborhood. It is built around a supermarket as the principal tenant. In theory, the neighborhood center has a typical gross leasable area (GLA) of 50,000 square feet (SF). In practise, it may range in size from 30,000 to 100,000 SF.
2. In addition to the convenience goods and personal services provided by the neighborhood center, a **community center** provides a wider range of facilities for the sale of soft lines (wearing apparel for men, women, and children) and hard lines (hardware and appliances). The community center offers a greater variety of merchandise-in sizes, styles, colors and prices. It is built around a junior department store, variety store, or discount department store as the major tenant, in addition to a supermarket. It does not have a full-line department store, though it may have a strong specialty store or stores. In theory, its typical size is 150,000 SF of GLA, but in practise, it may range in size from 100,000 to 450,000 SF. The community center is the intermediate type of center; it is the most difficult to estimate in terms of size and pulling power.
3. The **regional center** provides for general merchandise, apparel, furniture, and home furnishings in depth and variety, as well as a range of services and recreational facilities. It is built around one or two full-line department stores of generally not less than 100,000 SF. In theory, its typical size for definitive purposes is 450,000 SF of GLA; in practise, it may range from 300,000 to 850,000 SF. The regional center is the second largest type of shopping center. As such, it provides services typical of a business district yet not as extensive as those of the super regional center.

4. A **super regional center** provides for extensive variety in general merchandise, apparel, furniture, and home furnishings, as well as a variety of services and recreational facilities. It is built around three or more full-line department stores of generally not less than 100,000 SF each. In theory, the typical size of a super regional center is about 800,000 SF of GLA. In practise, the size ranges from from about 600,000 to more than 1,500,000 SF.

NOTE: All centers typically include as site area ( the gross land area within the property lines) an area of sufficient size to provide for customer and employee parking in relation to the GLA as determined by the accepted standard for the parking index.

EXHIBIT II  
Warehouse Clubs

<u>Club Name</u>	<u># Existing*</u>	<u># Planned**</u>
1. BJ's	Chicopee Medford Marlboro Nashua, NH North Dartmouth Salem Weymouth	Danvers Framingham Hyannis Leominster Portsmouth
2. Sam's	Saugus Westboro	Hingham Hyannis North Attleboro
3. Price Club	Seekonk	
4. Pace	Natick Manchester, NH	Braintree Danvers Dedham Dorchester Reading Seekonk Worcester
5. Costco	Avon Danvers Nashua, NH	Burlington Dedham Waltham Worcester
	Totals: <u>15</u>	Totals: <u>22</u>

\*Currently under construction

\*\*Not all of these sites will necessarily be built. Clubs often negotiate for multiple sites in the same area to gain leverage.

## INTERVIEWS CONDUCTED

1. John Riordan, Dianne Kutyla, ICSC, New York, NY 6/4/92
2. William McCullum, Tom Reilly, The O'Connor Company, New York, NY 6/4/92
3. Cynthia Wraye, JMB Realty, Chicago, IL 6/29/92
4. Barbara Zenker, BJ's Wholesale Company, Framingham, MA. 7/6/92
5. Paul Vogel, Realty Research Development, Chicago, IL. 6/18/92 and 6/29/92
6. Greg Kerfoot, Homart Realty Chicago, IL 6/18/92 and 6/29/92
7. Gary Brown, FW Woolworth & Co., New York, NY 7/6/92
8. Jack McCarthy, CBL, Inc. Boston, MA 6/23/92
9. Robert Anand, Sr., Roache Brothers Supermarkets, Boston, MA 6/25/92
10. Irwin J. Barkin, I.J.Barkin & Co. Boston, MA 6/23/92
11. Steve Samuels, The Samuels Co. Boston, MA 6/23/92
12. Fred Margosian, Margosian, Levy & Co., Watertown, MA 6/24/92
13. John Kelleher, Shaw's Supermarkets, W. Bridgewater, MA 6/26/92
14. Richard Ponte, Stop & Shop Co's, Quincy, MA 6/29/92
15. Richard Rourke, The Flatley Co's, Braintree, MA 6/12/92
16. Patrick F. McCormack, Dean Witter Reynolds, Inc. New York, NY 7/2/92
17. Sidney Katz, The Grossman Companies, Braintree, MA 7/7/92
18. John Roberts, Home Depot, Waltham, MA 7/8/92
19. Steve Karp, New England Development, Newton, MA 7/7/92

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