

SASKATOON DOWNTOWN GROCERY STORE MARKET SOUNDING

SASKATOON REGIONAL ECONOMIC DEVELOPMENT AUTHORITY
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According to City of Saskatoon estimates, the Saskatoon Central Business District was home to 3,372 residents in 2016. Over the next two decades, 15,000 new residents are expected to live in downtown Saskatoon. In addition to residents, over 17,000 people commute to the downtown every day to work. Currently Saskatoon does not have a grocery store within its downtown area to serve this market.

The City of Saskatoon is encouraging both residential and commercial investment in this area through its City Centre Plan. This Plan acknowledges that in order to attract new residential and commercial uses to Saskatoon's city centre more amenities, such as a grocery store, are required. The City Centre Plan also acknowledges that in order to attract a grocery store to the downtown and make the city centre more appealing to residents, it will need to develop policy measures to promote this use. Therefore, the City has initiated a Market Sounding to determine the level of interest of various businesses that may be interested in owning or operating a grocery store, either in whole or in part, in downtown Saskatoon.

The Saskatoon Regional Economic Development Authority (SREDA) has been requested by the City's Administration to assist in the development of a Downtown Grocery Store Market Sounding. This includes collection of data and preparation of a report for the City's Administration. Given SREDA's expertise in the area of business attraction and economic development, our organization is well-suited to conduct this work on behalf of the City.

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OBJECTIVES

The purpose of a Market Sounding is to gather information directly from an industry to gauge its interest in a project and determine the conditions necessary to secure an investment. In this case, the Market Sounding involves a series of questions posed to the grocery store industry to gauge interest in locating a grocery store in downtown Saskatoon. Questions include the locational and financial needs of the industry, and the types of incentives that may be necessary to secure such an investment in the downtown. The Market Sounding questions are outlined in Appendix A.

This Market Sounding process provides an opportunity for structured, confidential dialogue between SREDA and the private sector. If sufficient interest exists from the grocery industry, the information gained through the Market Sounding process will help determine the best course of action to bring a grocery store development to fruition in the downtown area.

METHODOLOGY

During the first phase of this project, SREDA conducted research on the current context and issues surrounding the grocery retail sector, specifically as it pertains to grocery stores in downtown locations. The obstacles and efforts made by other municipalities to establish a grocery store in downtown locations were identified and described in the first section of this report.

With the support of the City of Saskatoon's Administration, SREDA developed the Market Sounding questions. These questions were developed with the grocery store industry in mind. They are aimed to gauge this industry's interest in locating a grocery store a downtown area. The Market Sounding questions addressed the following topics:

- Current Operations
- Risks and Challenges
- Store Features
- Site Conditions

SREDA distributed the Market Sounding questions along with a project summary to identified companies that may be interested in participating in the Sounding. One-on-one interviews were scheduled with interested organizations to discuss each of the survey questions.

In total, SREDA completed eight interviews (seven over the phone and one in person). The participants included four large grocers (two privately held, one cooperative and one publicly traded), two independent grocers, one developer and one academic with relevant knowledge on the research subject. The interview data was then compiled and summarized based on the topic sections listed above. Three large chain grocers denied the request to provide an interview. All detailed information collected in the interview process of the Market Sounding remains confidential within SREDA.

FINDINGS FROM PREVIOUS STUDIES

During the first phase of this project, SREDA conducted research on the current context and issues surrounding the grocery retail sector, specifically as it refers to stores in downtown locations. Two prominent studies were found at this stage: a feasibility analysis associated with grocery store operations in downtown Winnipeg published in 2013 by CBRE Manitoba¹, and a study conducted by the University of Alberta School of Retailing on current and proposed grocery store locations in seven Canadian urban centres². The following section highlights the main findings of these studies.

The Grocery Store Sector

In the current environment, traditional grocers face increasing competition as other traditional operators expand their offerings^{3 4}. This increase in competition makes the grocery industry one that is hard to enter, and difficult to become profitable in. According to the 2013 CBRE Manitoba⁵ study, gross margins in the grocery business are approximately 25% of sales and net profit is generally less than two per cent of sales, these ratios are significantly lower than other retailing categories.

The table below summarizes the main advantages of large and small players in the grocery business, according to CBRE Manitoba⁶.

Advantages of being big

- Internal service departments such as purchasing, distribution, marketing and finance;
- Economies of scale when it comes to transportation, delivery and inventory.

Opportunities in being small

- Ability to offer specialty products, serve a local market or provide superior customer service;
- Ability to attend to customers particularly in urban centres, through smaller stores.

Optimal Population Density

Population density is the main criteria examined when determining the location for a grocery store. This important indicator is measured in different ways, for example:

¹ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

² University of Alberta School of Retailing (2015). Grocery Stores in Canadian Urban Centres.

³ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

⁴ University of Alberta School of Retailing (2015). Grocery Stores in Canadian Urban Centres.

⁵ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

⁶ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

- When grocery store space is less than three square feet per person, a trade area is underserved. The trade area for a typical urban grocer is about three kilometres radius (International Council of Shopping Centres in May 2008)⁷.
- Optimally, between 4 and 5 square feet of grocery retail per capita is desirable within a 500 meter trade area, with less than 3 square feet being considered a 'food desert'⁸.

Challenges of Having a Grocery Store Downtown

The main challenges highlighted by previous studies include:

- **Economies of scale:** smaller stores cannot take advantages of economies of scale in regards to purchasing, distribution, marketing and finance⁹.
- **Logistics:** stores located in downtown areas may face challenges in transporting, delivering and storing food. Delivery trucks may have to navigate downtown traffic, and inventory may take up a substantial space in store¹⁰.
- **Demographics:** the demographics in downtown locations, such as downtown Winnipeg, may experience lower income and higher unemployment rates, which would reflect negatively in store sales¹¹.
- **Financing:** the process of setting up a new store will require intense capital investment, including leasehold improvements, equipment, inventory and working capital¹².
- **Parking:** Parking constraints in downtown locations may pose a challenge to potential grocers looking to set up in a downtown area¹³.
- **Zoning:** Limits imposed on store sizes in certain areas may pose a challenge¹⁴.
- **Shrinkage:** Statistically, theft is more common in downtown areas, requiring enhanced security from store owners¹⁵.
- **Rents:** The cost of rent is typically higher in downtown areas when compared to suburbs. To remain profitable, the cost of rent should not surpass 4% of gross revenue in grocery stores¹⁶.

⁷ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

⁸ University of Alberta School of Retailing (2015). Grocery Stores in Canadian Urban Centres.

⁹ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

¹⁰ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

¹¹ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

¹² Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

¹³ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

¹⁴ University of Alberta School of Retailing (2015). Grocery Stores in Canadian Urban Centres.

¹⁵ University of Alberta School of Retailing (2015). Grocery Stores in Canadian Urban Centres.

¹⁶ University of Alberta School of Retailing (2015). Grocery Stores in Canadian Urban Centres.

Recommendations to Other Municipalities

The following table summarizes the recommendations provided to the City of Winnipeg, in order to address the challenges of establishing grocery store operations in their downtown core¹⁷.

Three recommendation areas were suggested: creating the environment for change, mitigating the risks and reducing the costs.

<i>Creating The Environment For Change</i>	<ul style="list-style-type: none">• The need to encourage mixed-use development and residential intensification to increase population density;
<i>Mitigating The Risks</i>	<ul style="list-style-type: none">• Work with landowners to pinpoint suitable leasable spaces and discuss opportunities to realize favourable lease terms for a grocery operation;• Establish a targeted recruiting strategy to secure a new downtown grocer;• Prohibit the use of caveats that departing stores often place on their properties to prevent other grocers from operating on that site;• Look at ways to enhance the Blue Loonie program to offset transportation and parking costs for grocery store customers in the downtown;
<i>Reducing The Costs</i>	<ul style="list-style-type: none">• Explore potential mechanisms to address that gap and encourage new grocery store development in the downtown.

Other Opportunities

The study published by CBRE Manitoba¹⁸, also looked at other opportunities to address the grocery demand in locations that do not gather the population density required for a full-service grocery store. These possibilities include microshops and small-scale food stores, and a downtown farmers market.

Regarding microshops and small-scale food stores, the study suggests the development of “incubator sized food stores of 500 to 1,500 square feet”¹⁹. These microshops would be dedicated to selling a specific product category (i.e. produce, baked goods, fish, confectionary, deli, cheese, etc.). Dozens of these microshops could be operated in the downtown area, and keep the development moving forward²⁰.

¹⁷ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

¹⁸ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

¹⁹ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

²⁰ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

The Winnipeg study²¹ also covers the possibility of a large downtown farmer's market. The study points out that a downtown farmers market would not only fulfil a need, but it would also enhance the downtown appeal as a "place to live and visit".

MARKET SOUNDING RESULTS

The following section summarizes the main findings of the market sounding interviews. The interview data was compiled and summarized based on the interview topics.

Current Operations

Most interview participants currently operate, or have previously operated, a store in a downtown location. Some of the respondents run stores in British Columbia (Vancouver, Kelowna, Surrey), and others in Manitoba (Winnipeg). One of the participants had previous experience in operating a grocery store in downtown Saskatoon, one participant runs a food cooperative in Saskatoon, and one participant was a developer.

When asked about the risks associated with a downtown location, most respondents expressed concern about the lack of foot-traffic and insufficient population density to provide the sales volume that makes operations economically feasible. Safety concerns were also mentioned. Depending on the city and the store location in the downtown area, stores may face issues such as theft. One participant mentioned the risk of starting a business in a downtown location that may not be considered a "real" or "acceptable" grocery store in the eyes of the local residents, due to the store size.

Risks and Challenges

Regarding barriers that may prevent an organization from entering the downtown grocery store market, most participants talked about the costs associated with setting up a grocery store and most emphasized the high cost of real estate, financing and rent costs. Expanding on real estate, some participants cited the difficulty of finding the appropriate site for a grocery store in downtown locations. Location considerations included finding a building/location with the appropriate square footage and the associated rent costs. One participant mentioned the parking lot on 2nd Avenue and 25th street may be an ideal location for a grocery store in downtown Saskatoon.

A few participants stated that having the adequate space for parking, and managing the cost of fixtures and equipment would also present a barrier for potential entrants of the downtown grocery store market. One participant mentioned the impact of the decline in the value of the Canadian Dollar compared to the American Dollar and recent Saskatchewan budget

²¹ Kaufmann, Peter (2013). Downtown Grocery Store Feasibility Analysis. CBRE Manitoba.

announcements as factors significantly impacting grocers looking to set up a store anywhere in the province.

Considering the factors that are critical to the success of a downtown grocery store, all participants brought up population density and the number of households surrounding the store. These numbers allow store owners to predict the number of potential customers, sales and revenue. One participant mentioned there should be enough residents within a 2 to 4 block radius from the store to make it feasible. This participant also mentioned that the customer of a downtown store will shop on average three times a week, and carry a maximum of two bags, for a distance of two blocks. According to this same participant, a store may capture a maximum of 70% of the market surrounding its location, and that in order to be profitable, a store should aim to serve 10,000 customers per week, with an average purchase of \$20.

A different participant indicated that within a 4 block radius, the minimum customer base would be approximately 3,000 people (with a reasonable age distribution – if all seniors, this number would need to be higher). This participant went on to explain that in order to be specific about the population required, one would need to know the competitive landscape. For example, are there competitive grocery stores whose trading area would reach in to that 4 block radius? If yes, one would assess the ratio of the population that might have a preference for the other store and adjust the population requirement accordingly.

A few participants referred to the store mix and sufficient range of products as critical components to business success. The store mix should be carefully tailored to attend the demographics surrounding the store. A few participants mentioned that it may be limiting for a store to focus on attending only the downtown residents, and that the store needs to also focus on serving the surrounding neighborhoods. One participants mentioned that the ideal store needs to fit the downtown core, in terms of prices and neighborhood identity.

In one of the answers, the concept of “activity space” was introduced. A person’s activity space is “the local areas within which a person moves or travels during the course of his/her daily activities”. According to one participant, a store must be located within the residents’ activity space in order to attract them as customers.

Store Features

Most respondents agreed that a version of a full-service store would be the best format for a downtown location. The detailed store features that would make a downtown location successful depend on the market/demographics surrounding the store. Most participants agreed that customers located in downtown areas are looking for a store with fresh and convenient offerings (produce, meat, hot meals, etc.) that they can visit almost daily for small purchases. One participant mentioned the possibility of having an “express” version of a full-service store, this participant mentioned some chains in England have adopted this model for downtown locations.

When asked about store features, one participant mentioned the Saskatoon downtown area is not ready to receive a grocery store; therefore the store type or services provided would not be determining factors for success. According to this participant, it is not possible to determine these features until the downtown core has sufficient population.

With regards to additional services increasing the chances of success, all respondents stated that having a pharmacy is good business and that pharmacy customers tend to be loyal to the store they chose to support. However, one participant with experience in operating stores in other downtown locations noted that in some cases it is not ideal to take away square footage space from the store (especially if the store is already small) to add a pharmacy.

Flowers and liquor (especially beer and wine) were mentioned by a few participants as services that would increase the store's chances of success. One participant mentioned that selling alcohol changes the perceived status of a grocery store. A few other participants mentioned that coffee shops (i.e. Starbucks), bookstore offerings, full service bakery/deli and a restaurant could also increase the success chances of downtown stores.

Site Conditions

The last section of the interview questions asked participants about the ideal site conditions for a downtown grocery store. The following topics were covered by participants.

Property Size

When asked about the ideal property size for a downtown location, participants had different opinions. Some mentioned the ideal property size for a grocery store downtown would range between 6,000 and 18,000 sq. ft., with about 2,000 sq. ft. for the back room. Other participants thought the store size should be much larger, ideally no less than 35,000 sq. ft. One participant stated that a pop-up store could be built in 20,000 sq. ft.

Regarding rent costs, one participant mentioned that in British Columbia a grocer would prefer to pay \$20 to \$30/square feet for a suburban property, compared to \$60 to \$70/square feet for a downtown location. Another participant mentioned that any location with a rent of \$20 per square foot or above, won't be feasible for grocers in Saskatoon. Regarding store space and property size, a few participants mentioned the ideal property for a downtown grocery store would be a mixed use property (grocery store on the first floor, and other services on floors above).

Parking

All respondents agreed that customer parking is critical for the success of a downtown grocery store. One participant mentioned the ideal parking ratio for suburban locations is 4.5 parking spots per 1,000 square foot. For downtown locations with dense urban foot traffic, this ratio could go down to 3.5 to 3.75 parking spots per 1,000 square foot. If the foot traffic does not exist, the ratio should go back to 4.5.

A few participants mentioned a store in the downtown area should provide between 40 and 50 parking stalls to customers; while other said a minimum of 100 parking stalls should be provided. Other participants said 5 to 20 parking spots would be sufficient in a downtown location.

Accessibility

Regarding accessibility, participants pointed out a number of factors that would positively impact a downtown store, such as store visibility, store hours, walking accessibility and the presence of transit routes nearby. One participant noted the presence of transit routes close to the store also makes it easier for employees to commute to work. Another participant mentioned that the general income of the population living in the downtown area and the affordability of accommodation in the neighborhood are also important success factors.

A participant pointed out that it would be ideal to provide access from both sides of the store (i.e. two points of entry), giving customers the ability to come and go quickly. This participant also noted that traffic barriers could also create challenges for some stores, for example, prohibited right/left turns close to the store.

City Incentives

When asked about incentives that could make a downtown location more viable, most participants agreed that any financial incentives such as tax reliefs or rent subsidies would be of interest to store owners. One participant mentioned that ideally the city would subsidise the cost of fruits and vegetables for a new grocer in the downtown area.

A few participants also mentioned the City's Planning and Development Division should be flexible and reasonable when dealing with interested organizations. From a process point of view, the City should be "open for business" and easy to work with. According to most participants' past experiences it is very hard to work with cities that impose bureaucratic barriers, complex steps, restricting bylaws, red tape, complex licenses or zoning.

One participant mentioned that incentives could be offered to developers who included a food store on the main floor of a building. This participant suggested that there would need to be parameters, so that developers are not receiving perks for a convenience store, for instance. Incentives could be offered to developers who have a food store that carries a higher ratio of produce and whole food items over convenience and packaged food, or that a percentage of total offerings were fruits and vegetables. One participant pointed out that taxes are a small part of the store operation costs; therefore, although tax breaks would be welcome they would not be enough to make an organization decide to locate in the downtown area.

Other Comments

When asked to provide other comments, a few participants mentioned that unless there's a site with the appropriate specifications for a grocery store in downtown Saskatoon, the City should take a long-term approach and get developers and builders on board to bring residents back to

the downtown area. If the ideal site is already in place (12,000 to 18,000 sq. ft. and no pillars), it may be easier to get a grocery store in downtown Saskatoon.

Another respondent noted that customers of a downtown grocery store shop differently than the ones in suburban areas. In suburban areas the purchases will reach the \$300 to \$500 point, while in a downtown area the purchases are smaller (\$40 to \$50 per purchase). As well, customers buy for the day or couple of next days unlike the suburban shopper that takes a longer term approach to grocery shopping. The target market of a downtown grocery store should be the business crowd working in the downtown area. These individuals are busy and looking for convenient and quick meals. The downtown grocery store should focus on product offering and provide fresh and gourmet options.

Lastly, one participant mentioned that it would be interesting to transform the roof of the store into a community garden. This participant also mentioned the possibility of the store accepting food vouchers that are currently distributed to the population by the Health Region.

CONCLUSIONS

This Market Sounding is comprised of a series of questions posed to the grocery store industry to gauge interest in locating a grocery store downtown. Questions included the locational and financial needs of the retail grocery industry and possible incentives necessary to secure investment in a downtown location. In sum, the main themes highlighted by participants are outlined in Figure 1.

Figure 1: Results of Market Sounding Categorized by Theme

Risks and Challenges	Store Features	Site Conditions	City Incentives
Population Density	Full-Service Store	Mixed use Property	Financial Incentives
Safety	Focus on Fresh	Parking	Relationship with City
Set up Costs	Focus on Convenience	Store Visibility	
	Pharmacy	Walking Accessibility	
		Close to Bus Route	

Risks and Challenges

- Insufficient population density to make operations economically feasible;
- Safety issues in a downtown location;
- Costs associated with setting up a grocery store.

Store Features

- Full-service store;
- Fresh and convenient offerings (produce, meat, hot meals, etc.);
- Pharmacy, flowers and liquor (wine).

Site Conditions

- Participants did not reach a consensus about property size;
- Mixed use property (grocery store on the first floor, and other services on floors above);
- Parking is critical for the success of a downtown grocery store;
- Store visibility, walking accessibility, and the presence of transit routes nearby.

City Incentives

- Financial incentives such as a tax relief, or a tax holiday, would be of interest;
- From a process point of view, the City should be “open for business” and easy to work with.

APPENDIX A - MARKET SOUNDING QUESTIONS

The questions below are representative of those we would like to discuss during a phone or in-person interview. Your input is very important to our understanding of the challenges your industry faces with downtown locations, and will help us to identify ways to assist in making a downtown grocery store a reality in Saskatoon. Your time and insights are greatly appreciated.

Current Operations

1. Does your organization have previous or current experience in operating a downtown grocery store in Saskatoon or any other cities in Canada?
 - a. If yes, are they still in operation and in what cities?
 - b. What were the risks encountered when considering these locations, and how did you manage these risks?

Risks and Challenges

2. What barriers do you perceive may exist that prevent your organization from entering the downtown grocery store market?
3. What factors do you believe are critical to a successful downtown grocery store? (*Location, store format, product selection, access, etc.*)

Store Features

4. What store type do you believe would provide the best chance for success in the downtown? (*Convenience, Full-Service, Supermarket, Hypermarket, Member Club, etc.*)
5. In addition to groceries, what additional services would increase the chance for success? (*Pharmacy, flowers, liquor, etc.*)

Site Conditions

6. What would be the ideal property size for a grocery store?
7. How important do you feel parking and vehicle accessibility?
 - a. How many parking stalls do you think would be ideal?
8. What locational factors and site features are most important when locating a grocery store? (*High exposure, easy access, bus route, available parking, etc.*)
 - a. Are there any differences between suburban and downtown locations?
9. What is needed to make a downtown location viable? (*May include City incentives*)
10. Any other key elements and/or barriers relevant to a downtown grocery store that we may have missed?