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Tesco's Fresh & Easy will transform grocery business, insiders predict

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Tesco's new Fresh & Easy stores could change the American diet, so different are they from traditional supermarkets, observers say. What sets this concept apart is not the fresh, high-quality offerings, which are similar to those of Bristol Farms, Trader Joe's or Whole Foods Market, executives who have visited the stores say. It is the fact that those fresh, high-quality offerings are priced low—a kind of amalgamation of the virtues of Wal-Mart and Whole Foods. Fresh & Easy helps keep prices down by offering fewer items in each category, thus simplifying things for shoppers. Unlike many of its competitors, it also employs nonunion labor. And because the stores do not use checkers or baggers, they carry only about 25 employees each.

A TNS Retail Forward comparative analysis shows that a half gallon of store-brand milk costs \$1.98 at Fresh & Easy, \$2.69 at Vons and \$2.99 at Albertsons. An 18-ounce box of Kellogg's Corn Flakes goes for \$2.75 at Fresh & Easy, versus \$4.39 at Ralphs and Albertsons. "Half of their inventory is made up of their private brand," said Jennifer Halterman, senior consultant at the Columbus, Ohio-based retail consulting firm. "As customers become more familiar with the Fresh & Easy name and gain more trust, we may see an increase in the percentage of private-brand goods, which means high profit margins."

The report estimates that there will be 500 Fresh & Easy stores in the U.S. by 2011 and predicts that annual sales will exceed \$4.1 billion. Further, sales will more than double to \$10 billion by the end of 2015. Sales per s/f will be about \$900, according to Halterman, significantly higher than the industry average of \$571.

Each Fresh & Easy store has an identical layout, which is one of the reasons Tesco is able to roll out new units so quickly, sources say. All the stores have eight aisles, each nine ft. wide, and polished concrete floors. The high ceilings and industrial lighting evoke Costco, while the store's size is more reminiscent of Trader Joe's. A third of each unit is dedicated to baked goods, dairy, meats and produce. Fruits and vegetables are prepackaged, with prices clearly marked. A 16-oz. bag of organic carrots goes for \$1.03, a 12-oz. package of washed, ready-to-cook broccoli sells for \$1.88, and a bag of 10 plums costs \$2.81. "Certain customers aren't going to be comfortable with not being able to squeeze that tomato or smell that apple," said Mike Griswold, retail research director at AMR Research, a Boston consulting firm. "But there are also going to be people who are happy that 10 other people haven't been handling what they might eat."

Adding to the convenience of the stores are precut and preassembled meals ready to heat and eat, grab-and-go sandwiches and salads, and single-serve beverages. All checkout counters are self-scanning. Griswold says the typical Fresh & Easy customer is someone who needs to stop at the grocery store on the way home from work to pick up milk, dinner and dessert but lacks the time to go on a treasure hunt. "These people don't want to be overwhelmed by the thousands of choices

at the typical grocery store," said Griswold. "They know what they want, and what they really want is to get in and get out."

Tesco opened 30 of these 10,000-square-foot supermarkets throughout Southern California and in Las Vegas and Phoenix in November and December. And the company says it will open 20 more by the end of February. By the end of this year there are likely to be some 200 Fresh & Easy stores in California, with the company making a particularly energetic push in the San Francisco Bay area.

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