

Module 6 - Departments and Layout in a Rural Grocery Store

To help ensure profitability, every small rural grocery store needs to determine the optimal product mix for their customer base. The product mix could be impacted by several factors, such as the proximity of a dollar store, local and regional diet preferences, and population demographics. Sometimes the easiest way to make decisions regarding inventory is to ask the people that may be shopping in the store. To that end, a brief discussion of market analysis can be found below.

In addition to product mix, there are other factors that can determine store layout. If moving into an existing structure the size and layout of the building may influence the outcome. Availability of funding can also be a limiting factor, as equipment such as refrigeration can be costly.

With that said, the following narrative will explore the most popular departments and typical layout that should be considered as plans are being made for a small rural grocery store. For help with this, we will reference three publications on this topic. They are the “Rural Grocery Store Start-Up and Operations Guide” published by Western Illinois University’s Illinois Institute for Rural Affairs; a “Feasibility Study and Business Plan for a Grocery Store in Autaugaville, Alabama” published by Southeast Research in Montgomery, Alabama; and “10 Steps to Successful Online Grocery” by Naveo Commerce.

According to a study measuring sales from 2010 to 2012, the top six departments account for almost 90% of grocery store sales. The departments, and the percentage of sales, break down as follows:

Table 1. Percent of Sales Per Department

Sales distribution by department	All companies 2010 (%)	All companies 2011 (%)	All Companies 2012 (%)
Grocery	42.37	38.61	39.67
Meat	16.56	18.45	18.26
Produce	8.96	9.87	9.78
Dairy	9.70	10.63	9.51
Deli	6.24	6.53	6.90
Frozen	5.74	5.57	5.70

Figure 1 (Roerink, Anne-Marie, Dennis Lindsay, Bob Graybill, and Shelley Bosler 2014)

It bears mentioning as we compare statistics from one source to another, there will be some differences in how departments are combined, and the number of departments included. It is also important to note there has been turmoil in the grocery industry since the above study was completed, mostly due to the Covid-19 Pandemic. We saw an increase in groceries purchased for home consumption, as well as a focus on frozen food due to longer shelf life and emphasis on ready-to-eat meals. If anything, the Pandemic has solidified the importance of these departments in any grocery store. So, while the percentages may have shifted somewhat, we believe that the overall importance of these six areas remains unchanged.

Five of the six top departments listed above are required in any grocery store. Grocery, Meat, Produce, Dairy, and Frozen include the basic staples customers will expect to find in a store. The deli department is one that can sometimes be considered optional if space is tight and if market demand is perceived to be weak. However, in the “Grocery Trends” section of this report we discuss that ready-to-eat meals and

meal solutions are in demand. These trends may be justification for a deli department as customers look for quick and easy meal alternatives.

Market Analysis

Several times in this discussion of grocery departments we refer to a market analysis. To make best use of space that is often scarce, it is important to evaluate which products will be most in demand and will create the greatest margins. The analysis can be formal, such as a community survey conducted by a third party, a less formal survey conducted by store management, or an informal analysis of the local retail environment. For example, if a dollar store is located nearby and is selling discounted paper goods, the grocer may choose to allocate only a small amount of space to these products. Or if there are few restaurant options in the area, the store may want to make sure to offer ready-to-eat meal alternatives.

Deli Department

A deli department can be a major profit center for a rural grocery store, especially if there are no other meal options available nearby. The deli can be as simple as a self-service grab-and-go counter with a hot and cold case. On the flip side is a full-service counter with a variety of products and an employee available to serve customers. A common practice is to have a daily hot meal special that is available for lunch or dinner or both. According to the article from Naveo Commerce, Deli sales on average account for 5% of a store's total sales with a profit margin of 40%. (Naveo Commerce, 2023) A discussion of margins will be covered in-depth in module 8.

If possible, many stores will include a seating area for deli customers. This not only encourages customers to sit and enjoy meals in the store but will often serve as a gathering place where customers can interact. Rural grocery stores that can become more than just a place to shop, but instead become community institutions, will have a better chance at long-term survival.

Typically, a deli counter will be located toward the back of the store so customers will have to walk through the store and may pick up additional items along the way. However, if the deli will be more of a grab-and-go, the area may be located near the front of the store for customer convenience.

Grocery Department

The grocery department consists of the core items on most grocery lists, outside of fresh and/or refrigerated items. It should come as no surprise that grocery items will account for the biggest percentage of a store's sales. For example, the Autaugaville study referenced above put grocery sales at roughly 40% of overall sales with a margin of 24%. (Southeast Research, 2018) The profit margin for the grocery department tends to be lower than that of the perimeter departments. However, the volume of items sold more than makes up the difference.

Canned fruits and vegetables, snack items and bread are a few of the items found in the Grocery Department. Others are baking items (flour and sugar), cereal, paper goods, and ethnic foods. Another category that is often included under the grocery department is Health & Beauty Care (HBC) and general merchandise items. Depending on the size of the store and the products desired by the market, this can be very basic or more expansive. HBC items consist of personal care, pain relievers and cold remedies, among other things. General merchandise can consist of items such as kitchen and cooking utensils, foil pans, office supplies, and candles.

Produce Department

As the name implies, the Produce Department consists of fruits and vegetables. Given the desire of consumers to buy local, every effort should be made to procure local produce when possible. Here again, attention needs to be paid to the needs and desires of the surrounding community. Key items such as apples, oranges, bananas, potatoes, and lettuce need to be stocked. Not all items necessarily require refrigeration. However, doing so can extend the shelf life of these fresh items. From the Naveo article above, we see that produce sales average 10% of store sales with a margin of 40% to 45%. (Naveo Commerce, 2023)

Dairy Department

A case could be made that the dairy department is one of the most important departments in the store. Items such as milk and eggs are staples in most refrigerators. Beyond these, other items that are found in the dairy department are sour cream and dips, shredded and block cheese, and yogurt. Here again, there may be local alternatives that should be explored if possible. Sales for this department can average in the 10% range with a margin of around 25% to 30%. (Naveo Commerce, 2023)

Frozen Food Department

The first thing that often comes to mind in a frozen food department, is ice cream and ice cream treats. Breakfast items and frozen vegetables are also included in this department. Keeping in mind the trend toward ready-to-eat meals, the rural grocery store should include frozen meals as well as frozen pizzas. Again, with local in mind, some small rural grocery stores have “take and bake” local pies in their freezer case. The frozen food department has a margin similar to that of the dairy department at 25% to 30%. (Naveo Commerce, 2023)

Meat Department

The meat department is another key department for the small rural grocery store. This can be a challenge for smaller grocery stores, given the fresh nature of the product and potential for shrinkage (items being thrown out due to spoilage). However, quality fresh meat can be a major differentiator and drive business. Some smaller stores leverage a local producer (or producers) for their needs, while others use a regional or national supplier (see more in the Suppliers section). Just as in the previous sections, the grocer needs to balance the potential of sourcing local to increase sales as well as costs.

A discussion of the meat department wouldn't be complete without discussing packaged meat. Items like lunch meat, snack items and ready to eat alternatives are enjoying growth in the sector and can present a higher profit margin.

The two studies we have used for reference vary considerably in sales statistics but are similar in terms of profit margin. The Naveo article puts meat sales at 9% of total, whereas the Autaugaville study estimates this will be closer to 30%. It is likely this difference is caused largely by variations in products included in the total. Both studies have margins in a similar range at 27% to 30%. (Naveo Commerce, 2023) (Southeast Research, 2018)

Other Departments

Other products a rural grocery store may consider are alcohol, tobacco, floral, bakery, general merchandise, and pet care. The addition of each can be a draw to customers as well as a positive impact on the bottom line. These advantages must be measured against the additional associated costs, whether they be space requirements or additional equipment/utilities needed. Again, it is extremely important to do a market analysis to determine the most effective and profitable product and

department mix. Grocery stores competing with a dollar store across the street may find an emphasis on fresh foods is a more successful strategy than trying to compete on non-food items.

Store Layout

When creating the store layout there are competing priorities that must be considered. First, it is important to give consumers a pleasant shopping experience. Customers stopping in for just a few things want to be able to find the items they need and be on their way. On the other hand, store management wants to keep customers in the store as long as possible to maximize sales and profit. A reasonable balance must be struck between these two objectives. According to an article at realsimple.com “Every aspect of a grocery store's layout—from the produce display near the entrance, to the dairy case in the back, to the candy at the register—is designed to stimulate shopping”. (Srinivasan, 2023)

While product mix will differ somewhat, there are standard themes when it comes to store layout. Often the first department a customer sees when they enter a grocery store, beyond the shopping carts and baskets, is the produce department. Here the focus should be on fresh, quality fruits and vegetables. This is the opportunity for the store to set the tone with the customer. If the produce selection is of lower quality, the customer may have that same expectation for the rest of the store and will be likely to purchase fewer groceries.

If the store includes a bakery department, it will typically follow produce. Again, freshness is key. As the previously mentioned Grocery Store Start-Up and Operations Guide states, “the smell of fresh baked goods and desserts...helps encourage the customer to ‘shop hungry’.” (Illinois Institute for Rural Affairs at Western Illinois University, 2014) And, of course, a hungry customer tends to spend more on their groceries.

As we progress around the perimeter of the store, next will often be the meat department – or in a small store, a meat case. Based on the outcomes of the market analysis, the meat case will be a combination of packaged fresh meats and lunchmeats. Some stores, especially those that have their own processing, may have an actual meat counter. Other stores may rely on a local, licensed meat locker to source their selection. As was mentioned earlier, freshness matters – and can be a differentiator in the minds of consumers.

Given the cost of refrigeration it makes sense to keep the “cold” departments close together, which is why the dairy case usually is next, and often on the perimeter as well. Given the popularity of items like eggs and milk, the dairy case will often be in the corner of the store opposite the main entrance. This is so customers looking for such items walk past other more impulse, and high-profit items. Frozen foods are sometimes displayed on the perimeter as well, although it is also common for these to be included in stand-alone freezer cases that are more on the interior of the store.

The center of the store will consist of dry grocery items. Thought needs to be put into layout of these items as well. An effort should be made to put higher profit items at eye level. Bigger, bulkier items that are easily seen should reside on the bottom shelves. Specialty items that don't require a lot of inventory and space can be placed on the top shelf. If there are items that appeal to children, consideration should be given to putting those items at ‘child height’. End caps and stand-alone displays are opportunities to put high-impulse, high-profit items front and center. According to the aforementioned Rural Grocery

and Start Up Operations Guide, the dry grocery area should account for roughly 60% of the store. (Illinois Institute for Rural Affairs at Western Illinois University, 2014)

If space and budget allow, and a good market analysis shows there is demand, other departments can be included. If alcohol and/or tobacco are to be sold, they should be in an area close to the checkouts so that they can be monitored as closely as possible. These are high-theft items and, as such, can negatively affect the bottom line if they don't find their way through the checkouts.

While we are talking about the checkouts, they should be located just inside the front doors and should encompass roughly 25% of the store square footage. High impulse items should be readily available. These include such items as candy, soda, magazines and so on. These high impulse items are also high profit items, with margins ranging from 35%-100%. (Illinois Institute for Rural Affairs at Western Illinois University, 2014)

One area we have not yet addressed is the storage and receiving area. When planning for these, it is important to remember that, while important, these areas are not directly generating profits and should be kept to a minimum. The Grocery Store Start-up and Operations Guide from Western Illinois University recommends approximately 10 percent of the store should be allotted for storage and receiving. (Illinois Institute for Rural Affairs at Western Illinois University, 2014) Also, if possible, the receiving area should be located adjacent to the coolers so perishable product can be quickly transferred from truck to refrigeration.

Another department that might be considered is a floral and gift area. These items tend to be high margin, as they are usually impulse buys. If this is included, it should be near the front as the customer enters and exits. Like the produce department, the floral and gift area helps set a fresh and welcoming tone for the customers as they enter the store. For these non-essential departments such as bakery, deli, and floral, consideration should rely on the market analysis.

Below, a sample store layout is described, including recommended square footage by department. Overall square footage is 5000 square feet. As mentioned above, each store and surrounding market demand is unique. (Note: This was generated using Microsoft CoPilot on 5/29/2024)

Sample Grocery Store Layout (5000 Square Feet)

1. **Entrance and Checkout Area:**
 - The entrance should be inviting and well-lit.
 - Allocate approximately **300 square feet** for the entrance and checkout counters.
2. **Fresh Produce Department:**
 - Fresh fruits, vegetables, and herbs.
 - Arrange produce in attractive displays.
 - Allocate approximately **800 square feet** for fresh produce.
3. **Deli and Prepared Foods Department:**
 - Deli meats, cheeses, salads, sandwiches, and ready-to-eat meals.
 - Include a deli counter.
 - Allocate approximately **600 square feet** for deli and prepared foods.
4. **Bakery Department:**
 - Freshly baked bread, pastries, cakes, and cookies.
 - Display near the entrance for enticing aromas.
 - Allocate approximately **400 square feet** for the bakery.

5. **Meat and Seafood Department:**
 - Fresh cuts of meat, poultry, and seafood.
 - Include a butcher counter.
 - Allocate approximately **600 square feet** for meat and seafood.
6. **Dairy and Frozen Foods Department:**
 - Milk, cheese, yogurt, ice cream, and frozen meals.
 - Keep dairy and frozen items together.
 - Allocate approximately **600 square feet** for dairy and frozen foods.
7. **Grocery Department:**
 - Non-perishable items like canned goods, pasta, cereal, and snacks.
 - Organize shelves logically.
 - Allocate approximately **800 square feet** for groceries.
8. **Beverages Department:**
 - Soft drinks, juices, water, and alcoholic beverages.
 - Include a beverage cooler.
 - Allocate approximately **400 square feet** for beverages.
9. **Household and General Merchandise:**
 - Cleaning supplies, paper products, and household essentials.
 - Place near the checkout area.
 - Allocate approximately **300 square feet** for household items.
10. **Health and Beauty Department:**
 - Personal care products, cosmetics, and toiletries.
 - Include a pharmacy section if desired.
 - Allocate approximately **400 square feet** for health and beauty.
11. **Storage and Stockroom:**
 - Store excess inventory, supplies, and equipment.
 - Allocate approximately **500 square feet** for storage.

References

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