

## ALL ABOARD THE KROGER EXPRESS

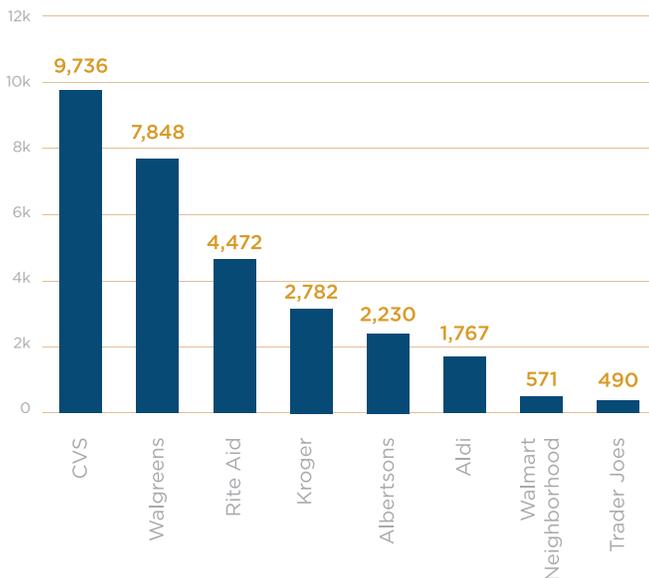
For thousands in the greater Cincinnati area, their weekly supermarket runs just became faster and more convenient. On December 4, 2018, grocery chain Kroger and pharmacy giant Walgreens announced the expansion of their “Kroger Express” pilot that brings branded Kroger sections to 13 Walgreens locations near Kroger’s Cincinnati headquarters. The selection of approximately 2,300 products was chosen using customer data and insights provided by 84.51°, Kroger’s data analytics and consumer arm, and includes Kroger store brands like the organic label Simple Truth. Each 4,000-square-foot “store within a store” would account for roughly a third of an average Walgreens floor plan and offer a one-stop shopping experience for groceries, pharmacy, health, and cosmetics.<sup>2</sup>

In addition to its Kroger Express pilot in Walgreens stores, Kroger recently acquired private meal kit market leader Home Chef in a deal worth approximately \$700 million. Because the meal kits will be available both online and in physical stores, including newly-furnished Walgreens locations, the deal will increase Kroger’s presence in the rapidly expanding prepared foods and online grocery markets.<sup>3</sup> The Kroger-Walgreens partnership also incorporates Kroger Grocery Pickup, whereby shoppers can order Kroger groceries online and pick up their orders either at their nearby Kroger or participating Walgreens locations.

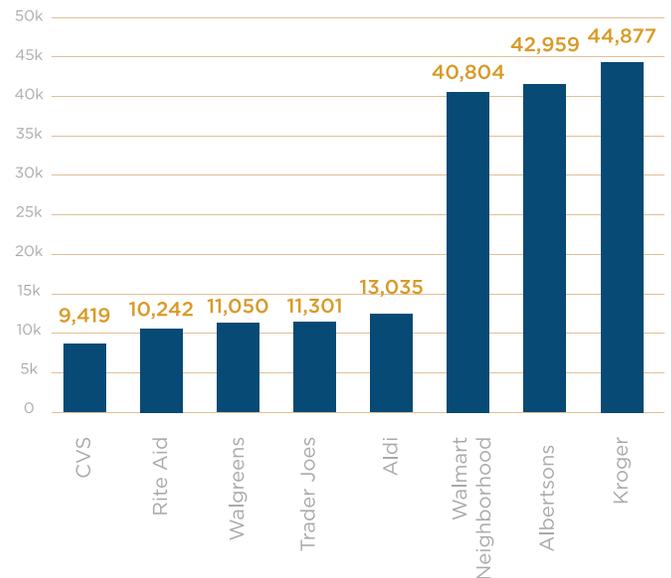
These initiatives represent Kroger’s attempt to keep up with emerging channels such as small-format grocers and online grocery services, which in recent years

## DRUGSTORES: MORE LOCATIONS, SMALLER STORE SIZES

STORE COUNT



AVERAGE STORE SIZE (SF)



Source: Chain Store Guide, 2018

have magnified competitive pressures on traditional supermarket chains like Kroger. Last year, sales at limited assortment grocers such as Aldi, Lidl, and Trader Joe's grew 7 percent versus mainstream supermarkets, which grew at 1 percent.<sup>4</sup> These limited assortment chains, marked by smaller store sizes and extensive private label offerings, have thrived due to growing demand for private label over traditional CPG brands.<sup>5</sup> Aldi and Trader Joe's have target sizes for new stores between 15,000 and 20,000 square feet that can penetrate space-constrained urban retail markets more easily<sup>6,7</sup>, compared with Kroger stores that average 67,000 square feet and benefit from a larger retail center with corresponding parking and amenities.<sup>8</sup>

The Kroger-Walgreens partnership shows how traditional grocers are forging unique partnership opportunities in response to competitive pressures from emerging grocery channels. By leveraging partnerships with drugstores, large national supermarket chains gain access to infill locations closer to consumers, while maintaining freshness, selection, and affordability. In parallel with the partnership between Kroger and Walgreens, Albertsons and Rite Aid reached an initial merger agreement in 2018. This deal would have enabled the nation's second-largest supermarket chain to expand its grocery offerings through the customer base and store footprint of nation's third-largest US drug chain. The deal was eventually called off due to deal pricing concerns from shareholders, but Albertsons management has reiterated the importance of innovations to compete with both larger competitors and online grocery retailers.<sup>9</sup>

Not to be left behind, both Amazon and Walmart have announced more stores for 2019, including new store formats, complemented by a range of curbside pick-up and home delivery options. Overall, as the supermarket industry seeks to provide greater ease of access, speed of fulfillment, fresh offerings, and low cost, the convergence of traditional grocers and drugstore chains highlights the innumerable partnership opportunities between players across the grocery landscape and the retail industry overall.

## REFERENCE NOTES

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### DWIGHT ANGELINI

Managing & Founding Partner  
617 861 9761  
[angelini@longpoint.com](mailto:angelini@longpoint.com)

### TOM STIPANOV

Associate  
617 861 9772  
[stipanov@longpoint.com](mailto:stipanov@longpoint.com)