

Sizing Down: Are “Small Format” Stores the Next Big Thing for Retail?



Over the last few years, the “future of retail” has been a big talking point in an industry striving to meet changing consumer needs and preferences. As we’ve seen in recent news cycles, many large retailers are fighting to stay relevant in that environment — closing the doors of their largest outlets, and prompting some news sources to claim that they’re a dying breed.

With major brands announcing store closures across the US, the least optimistic projections suggest as many as 45,000 retail stores could close within the next five years.

Those numbers are concerning to retail real estate professionals, but they’re still only part of the story. Across the country, many retailers are taking bold steps to reinvent themselves and adapt to a changing market with an entirely new model—one that uses “small format” stores to meet consumer demand for tailor-made, local retail offerings.

The “Small Format” Store

The core idea behind a “small format” store is to offer a curated selection of the products typically found in big-box or department stores. Other characteristics of the format include a much smaller footprint than their full-service counterparts, and an enhanced ability for brands to extend their reach into new submarkets and tap into key consumer demographics.

This isn’t a brand-new concept. As far back as 2011, Walmart was experimenting with an “Express” model, and both Target and Amazon have explored the small format concept in different ways through the years.

What’s changed recently, however, is the growing expectation from consumers that they should be able to meet all their purchasing needs close to where they live and work. It’s a trend mirrored in other sectors, like office and multifamily, where mixed-use “live, work, and play” developments are on the rise. For major retailers, however, tapping into the trend is about cutting down commute times and driving sales by bringing products closer to consumers’ daily lives.

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Reimagining Retail

Among the large retailers experimenting with “small format” are Macy’s, Target, and Ikea. The concept is also gaining traction with grocery chains like Sprouts Farmers Market, which is integrating small format into its environmental impact reduction initiatives.

Macy’s, which recently announced the closure of 150 stores nationwide, is doubling down on its small format “Bloomie’s” concept, based on its sister brand, Bloomingdale’s. Using the Bloomie’s format, the department store giant aims to bring the brand closer to existing and new customer bases, while offering a highly tailored shopping experience driven by local product preferences.

For Macy’s, the strategy seems to be paying off. As recent data from Placer.ai shows, Bloomie’s locations are attracting a higher percentage of visitors from key urban demographics compared to their full-sized Bloomingdale’s counterparts.

Ikea’s small-format “Planning Studios” are just as laser-focused, catering to the specific needs of urban living by offering targeted selections of bathroom, bedroom, or kitchenware. Meanwhile other retailers, like Kohl’s, are using small format stores to tap into local communities’ lifestyles and interests, as seen in their Tacoma, WA concept store, which emphasizes outdoor gear.

Small Stores, Big Benefits

For retailers embracing small format stores, the benefits can extend beyond added reach. These stores offer a unique opportunity to use in-store analytics data, allowing brands to fine-tune product offerings, based on what specific communities actually want.

A good example of this is Target, which is using in-store analytics to refine their product range for stores near college campuses that now stock a wider selection of dorm room basics and easy meals to cater to the student lifestyle.

Small format stores also provide retailers with a space where they can test new ideas in a controlled environment. Instead of launching a risky, large-scale campaign they can focus on smaller, targeted deployments before scaling up a proven concept.

An Opportunity for CRE

Though it’s still too early to say exactly how the small format concept will perform in the long run, one thing is clear: the retail landscape is changing, and retailers must adapt to survive.

For commercial real estate (CRE) professionals, that environment provides a unique opportunity to use our expertise to help clients find the right spaces for innovative new concepts, to build out ideas, and to unlock untapped potential in the markets we know best.