C-Store Trends

Plus: The Best-Selling Products Nationwide

Hottest C-Store Trends

Foodservice is the hottest trend for convenience stores

While convenience stores have offered fresh, prepared foods for years, it is only over the last decade that the trend has accelerated. The reason is two-fold:

More and more time-starved consumers want on-the-go meal solutions, and Retailers have found that foodservice can deliver new customers inside the store, and at a higher profit level than for items like gas.
The result is that convenience stores have continued to evolve from gas stations that happen to sell food to food retailers that happen to sell gas.

The overall convenience store foodservice category includes: food prepared on-site, commissary/packaged sandwiches, hot dispensed beverages, cold dispensed beverages and frozen dispensed beverages.

Food Prepared On-Site

Many retailers have successfully turned their conveniences stores into popular destinations for both hot and cold foods prepared onsite, such as deli sandwiches, flat breads, hoagies, breakfast sandwiches, hamburgers, pizza, grilled chicken sandwiches, salads, soups and wraps.

A growing number of retailers use touch-screen ordering kiosks that allow customers to customize their selections, which streamlines speed of service and ensures the accuracy of orders. And to execute food prepared on-site effectively, foodservice management basics are a must: proper menu management, customer service and product consistency.

Food prepared on-site leads the overall foodservice category, accounting for more than 62%percent of total foodservice sales in 2011.

Convenience stores are stepping up their foodservice programs to keep up with competition from quick-service and fast-casual restaurants, as well as grocery store prepared meals. Many retailers offer a proprietary foodservice program where sandwiches, wraps and other fresh food items are prepared at a commissary.

Hot Dispensed Beverages

Coffee is without a doubt the hot beverage of choice in convenience stores and the number one subcategory of the hot dispensed beverages category, generating 77% of the category's sales. This category typically delivers nearly three-quarters of its sales during morning service hours.

Coffee consumers are looking for coffee blends that focus on freshness, flavor and quality. Customers also like being able to personalize their beverage, with condiments such as flavored creamers, varieties of milk, flavor shots, whipped toppings and flavor sprinkles such as nutmeg and cinnamon. To generate excitement at the coffee bar, some convenience store retailers offer seasonal blends, such as pumpkin spice during the fall and gingerbread coffee in the winter.

In fact, competition for the coffee customer is fierce, as consumers have more locations than ever to choose from, including coffeehouse chains such as Dunkin' Donuts, Starbucks and quick-service restaurants such as Subway and McDonald's with its McCafe© program.

Also popular in this category are hot teas and cappuccino/specialty coffee, which deliver high margins for retailers.

Cold Dispensed Beverages

Nearly every convenience store (94%) carries cold dispensed (fountain) beverages, making this product a true convenience store classic. Sales in both 2010 and 2011 were solid, which is likely due to aggressive promotion and pricing strategies and product innovations.

Recent trends in fountain drinks have focused on "better-for-you" options, with health-conscious consumers looking for more choices and natural ingredients. Many retailers are also choosing to offer their own proprietary fountain program to maximize gross margins.

Retailers also focus on the ice, which can make up to as much as 50% of fountain drinks, and most consumers enjoy chewing on the ice once the liquid is gone. As a result, many retailers offer a softer ice cube known as "nugget" or "chewy ice".

Frozen Dispensed Beverages

This category got its start in 1965 when 7-Eleven introduced the Icee; the name was later changed to Slurpee.

About 71% of all convenience stores offer frozen dispensed beverages, even though the category itself makes up a small portion of an average convenience store's overall sales. Consumers typically enjoy frozen drinks as refreshing "snack" during the day. The popularity of these frozen drinks has also caught on with amusement parks, movie theaters, food courts and quick-service restaurants.

Trends in this category, like cold dispensed beverages, lean toward more "better for you" products, such as green tea and pomegranate, which also helps attract female consumers. Bold flavors such as bubble gum and root beer float are popular with teens.

NACS C-Store Insight

Because fuel is so essential to daily life and consumers are so price sensitive, gasoline is unlike any other product sold in the United States today. Gas prices are often the part of daily conversations, and customers will seek out the best "deal" that they can find. Yet, while customers know the price, they don't necessarily know about the fuel or about what goes into the price or about the stores that provide 40 million fill-ups every day.

Convenience stores sell 80% of the fuels purchased today. While motor fuels drive sales dollars for convenience stores, in-store sales drive profit dollars. On average, 71% of a store's total sales are motor fuels, but motor fuels only account for 36% of profit dollars. That is because retail fuel margins are very thin, averaging less than a nickel per gallon. Retailers know that consumers are incredibly price sensitive and will go somewhere else to save a few cents per gallon of gasoline.

For more than a decade, NACS has developed its annual Retail Fuels Report to explain market conditions, especially as they relate to price swings. While the circumstances may be different year-to-year, the overall pattern in the petroleum markets is surprisingly familiar. The first week of February traditionally marks the beginning of the spring transition to summer-blend fuels for the petroleum industry.

Since 2000, gasoline prices have increased, on average, more than 50 cents between the first week in February and the time of the seasonal high price, which occurs typically in late May. In both 2007 and 2008, gasoline prices jumped more than $1.00 in that period. FUELS 8 In a sense, the petroleum markets are similar to the Bill Murray movie Groundhog Day, in which his character wakes up every day to find that it unfolds exactly the same as the day he had just experienced.

The petroleum markets experience similar conditions over and over — except on an annual, rather than daily, basis. It is because of the similarity to the movie and the traditional start of the spring transition to summer-blend gasoline that NACS has annually published its online resources on February 2, Groundhog Day.

In this report, we have incorporated the most current data on the fuel retailing industry as of late January 2013, and some numbers are just days or weeks old. For NACS-specific data, we have used 2011 numbers. (NACS 2012 State of the Industry data will not be available until April 2013.) It is difficult, if not impossible, to predict where crude oil or gasoline prices will go. There are simply too many variables that could influence the supply and demand of fuel, whether they are hurricanes or other natural disasters or refinery shutdowns. But these resources can help facilitate an open discussion about the issues impacting supply — and prices — through a better understanding of the retail fuels markets and help ease the frustrations consumers often experience when gasoline prices increase. And, most importantly, we hope these resources can help provide insights and expertise on discussions that address the U.S. motor fuels industry.

Key Facts and Figures

The 123,289 convenience stores that sell fuels in the United States cumulatively sell 80% of the motor fuels purchased in the country.

Americans travelled 8.038 billion miles per day in 2012.

There were 156,065 total retail fueling sites in the United States in 2012. This is a steep and steady decline since 1994, when the station count topped 202,800 sites.

This count includes convenience stores, grocery stores, truck stops, traditional gas stations and low-volume locations like marinas.

While about half of the convenience stores selling gasoline are "branded" outlets selling a specific refiner's brand of fuel, they are typically not owned by the refiner.

Major oil companies own and operate less than 0.4% of all convenience stores in the U.S.

~ Chevron Corp. (415 stores),
~ Shell Oil Products US (38 stores),
~ ExxonMobil Corp. (13 stores),
~ BP North America (3 stores)
~ ConocoPhillips Inc. (2 stores)

Alternative fueling stations are growing across the country. There are now about 8,000 stations (about 5% of all fueling outlets) that offer public access to alternative fuels in the lower 48 states

U.S. retail (regular) gasoline prices averaged a record \$3.63 in 2012, and are expected to average \$3.44 per gallon in 2013. On-road diesel fuel prices averaged a record \$3.97 per gallon in 2012, and are expected to decrease to \$3.87 per gallon in 2013.

Since the final implementation of the Clean Air Act Amendments in 2000, the seasonal transition to summer-blend fuel has helped gasoline prices rise significantly.

The average annual increase is 54 cents.

Gasoline taxes averaged 48.8 cents per gallon in January 2013.

Nearly three quarters (72%) of all transactions at the pump are by plastic — either debit or credit card.

Factoring in all gasoline sales, credit and debit card fees averaged 5.7 cents per gallon in 2011.

The gross margin (or markup) on gasoline in 2012 was 18.4 cents per gallon, or 5.1%. Over the past five years, gross margins averaged 16.9 cents per gallon.

Motor fuels sales contributed to roughly one-third of total convenience store gross margin dollars (35.9%).

The average convenience store in 2011 sold roughly 128,000 gallons of motor fuels per

month, or approximately 4,000 gallons per day.

The U.S. petroleum distribution industry includes:

• 144 refineries
• 38 Jones Act vessels (U.S. flag ships that move products between U.S. ports)
• 3,300 coastal, Great Lakes and river tank barges
• 200,000 rail tank cars
• 1,400 petroleum product terminals
• 100,000 tanker trucks
• 200,000 miles of oil and refined product pipelines

(Sources: U.S. Energy Information Administration, American Petroleum Institute, National Petroleum News, OPIS, National Petrochemical and Refiners Association, Association of Oil Pipe Lines, Nielsen, NACS)

Convenience Store Industry Market Research Study

Despite the tough economy and rising costs and competition, the Convenience Stores industry has experienced growth and profitability by offering convenience, value and a greater variety of fresh and healthy products, and over the next five years, greater focus on food service, snacks and fresh food will help boost revenue and profitability. For these reasons, industry research firm IBISWorld has updated a report on the Convenience Stores industry in its growing industry report collection.

Despite the tough economy and rising costs and competition, convenience stores have maintained growth and profitability by offering convenience, value and a greater variety of fresh and healthy products. The small size and accessibility of convenience stores allow operators to adapt to changing environments and consumer preferences, making them more resilient than supermarkets and other retailers. Convenience stores are also increasingly shifting their product mix to offer more food service items that have higher margins and satisfy demand for quick and easy food options. During the past five years, revenue for the Convenience Stores industry has grown at an annualized 1.9% to $40.1 billion in 2013, indicating the resilience of the industry.

According to IBISWorld Industry Analyst Hester Jeon, "As a growing number of consumers become more pressed for time, the speed of convenience stores is proving to be increasingly valuable to busy customers." As a result, other retailers have begun competing with the industry for the convenience-seeking customer.

"The ability of larger stores to maintain lower costs has forced operators to consolidate to remain competitive," says Jeon. In particular, credit card use and interchange fees have gone up in recent years, putting downward pressure on profitability for this industry. Wages have also increased as stores have extended their operating hours to satisfy consumers' needs at all times of the day. Despite growing costs, profit margins have increased marginally to account for 1.4% of revenue in 2013 due to consolidation and the sale of higher-margin goods.

As the economy recovers and disposable income levels rise, industry revenue is expected to increase 2.8% in 2013. In the five years leading to 2018, IBISWorld anticipates cigarette unit sales to decline further, as health concerns and higher prices deter consumers from using cigarettes. Despite declining cigarette sales, smokeless tobacco use is growing and will aid revenue growth in the coming years. While sales of the leading product segment is expected to decline, greater focus on food service, snacks and fresh food will help boost revenue and profitability.

Due to the dominance of single-store operators, this industry exhibits a low level of market share concentration. The dominance of independent operators goes back to the historical beginnings of the industry and continues because smaller companies are can quickly adapt to opportunities better than larger players. Small companies can also compete effectively by acquiring superior locations or offering specialized merchandise and services.

The industry has been consolidating, however, with many of the large operators acquiring smaller players. Some smaller chains have also achieved organic growth by expanding into new markets. The larger companies' market share is expected to rise over the next five years, however, as larger companies seek to acquire smaller chains to enter new regions and lower costs. Despite this move, the industry will maintain a low concentration.

C-Store Retail Report

The convenience store channel is experiencing above-average growth, supported by an increasing store count and a business model that is well suited to address consumers' on-the-go lifestyles.

• Gasoline is a top-selling product for the convenience channel, providing both opportunities and challenges for convenience store marketers vis-à-vis in-store sales activity.

• Cigarettes, too, contribute heavily to convenience store revenues; this segment is under significant pressures from regulation and changing consumer lifestyles, harkening a need for change in existing strategies in this and related CPG categories.

• The foodservice segment is experiencing strong growth within the convenience store arena, and has the potential to act as a catalyst in elevating the channel's reputation around health and wellness as well as value while allowing consumers to fuel up without slowing down.

• Outdoor advertising is a powerful, yet under-leveraged, quiver in convenience store marketers' arsenals.

Industry Overview

Though convenience store shoppers hail from across age, income and ethnic backgrounds, some groups stand out as key areas of opportunity.

For instance, about six-in-10 convenience store shoppers are male. This is good news for convenience store marketers, for men tend to hold a sunnier view of the current and evolving economy as compared to their female counterparts.

Illustrated in IRI's Q1 2013 MarketPulse survey, for instance, 28% of men feel the economy has improved in the past six months, compared to 21% of females. Similarly, 29% of men expect the next six months to bring continued improvement, versus 25% of females.

Logically, then, these shoppers are more likely to make impulsive or splurge purchases. purchases that are quite common in the convenience store aisles.

In contrast to this opportunity, convenience channel marketers face challenges in the fact that their shopper base skews a bit toward younger age groups.

More than half of convenience shoppers are under the age of 39. Among the population as a whole, one-quarter to one-third of Americans are between the ages of 19 and 39.1

This segment of the population has been struggling more than other age groups throughout the economic downturn. In fact, Q1 2013 MarketPulse results reveal more millennials (38%) are struggling today versus two years ago (33%).

These two examples truly tell the story of retail CPG today. In their day-to-day lives, even when they are splurging, consumers are entrenched in a conservative mindset. They are practicing shopping behaviors that are allowing them to get more with less of a financial outlay. And, they are willing to change brands and/or channels in order to do so.

These behaviors will be explored throughout this report.

Convenience store shoppers skew younger and slightly less wealthy versus the population as a whole.

Mentioned earlier in this report, convenience stores generally carry more than 500 SKUs. Nonetheless, convenience store dollar sales are rather concentrated.

On the whole, the top-selling product for the channel is fuel.

On average, convenience stores that sell gasoline see hundreds of fill ups each day. Many of these purchases take place outside the confines of the convenience store building. In fact, 95% of gas selling convenience stores offer pay-at-the-pump services, which eliminates the need for purchasers to come into the retail store.

According to the National Association of Convenience Stores and IRI's AllScan data, inside store sales are also quite concentrated. The top-selling product is cigarettes, which account for about 40% of convenience store dollar sales and 20% of trips. Foodservice also holds a sizable share of in-store sales (about 17%), with packaged beverages rounding out the top three in-store sellers.

Like store demographics, the nature of convenience store sales also offer opportunities and challenges for convenience store marketers. Some of these factors, including fuel prices and lifestyle changes, are beyond the control of convenience store marketers.

Sources Referenced in this Report:
NACS
iRI
Convenience Store News

About Mr. Checkout Distributors

Mr. Checkout Distributors, Inc., has been providing direct-store-delivery to independent grocers & convenience stores since 1989. Our network of wagon-jobbers, direct store delivery distributors, full-line grocery distributors, in-store product merchandisers, wholesale-to-distributor warehouse companies and manufacturer representatives / product brokers can assist you in your in-store merchandising & distribution needs.

Our Members and Associates service over 25,000 independent convenience stores and national retailers coast-to-coast since 1989. Our association of jobbers, distributors, full-line grocery wholesalers and wholesale-to-distributor warehouse companies provide our members access to promotions and opportunity buys from leading wholesale suppliers and manufacturers.

Our In-Store Blitz program and jobber network has assisted in launching successful brands including Stacker, 5-Hour Energy, Krave e-Cigs, Blu e-Cigs, Lil' Drug Store to name a few over the past 2 decades. New product introductions and in-store marketing has appealed to the small start-up brands, looking for a test market program, to the US Census Independent Grocers Project in 2010, in association with Hispanic Marketing Consultants, successfully merchandised 10,000 independent grocers with Census awareness campaign POS.

Mr. Checkout Distributors, Inc. service grocery and convenience stores in the US since 1989 through a network of wagon jobbers (small distributors), merchandisers and Wholesale-to-Distributor Warehouse Companies. We are not a franchise. Each route distributor is independent (has complete autonomy) and has full control over his or her own business and full control over all marketing methods.

If you are seeking to place your product in over 25,000 stores nationwide or take your successful product into big box stores, dollar stores or chain pharmaceutical stores such as Walgreens or CVS, we can connect you to the right channels.