

Are West Coast Convenience Stores Missing an Opportunity in QSR?

In the Eastern U.S. some C-stores have built a strong following based on their food.

Out West it seems that the stores' biggest draw is still convenience—a value proposition that's getting tougher to defend.

KING RETAIL SOLUTIONS



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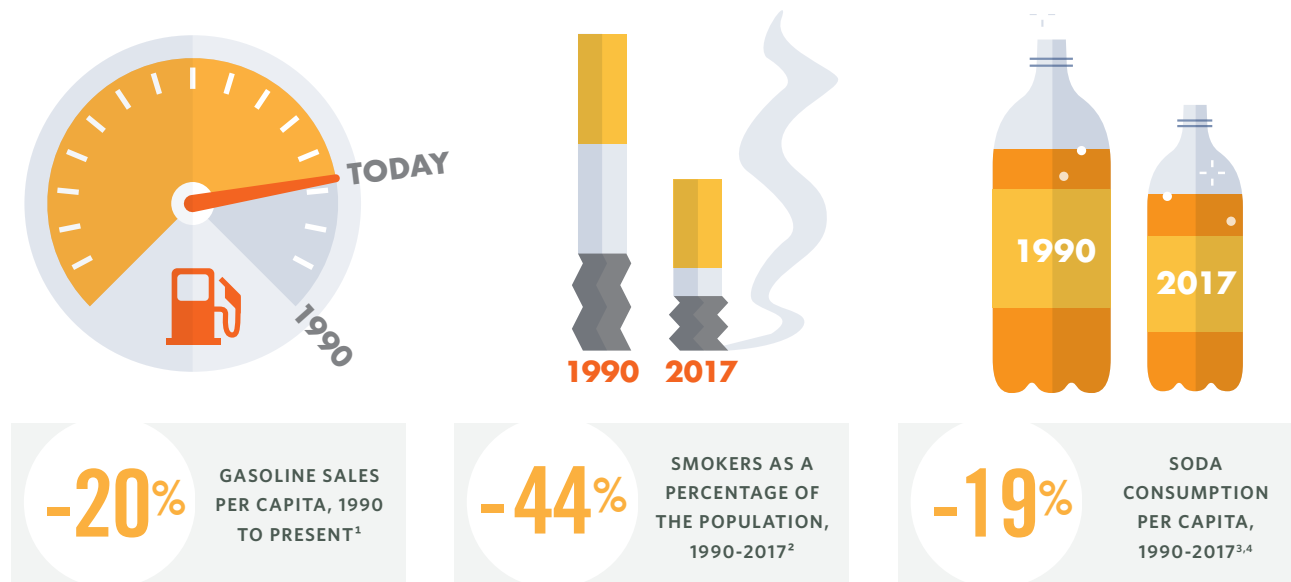
INTRODUCTION

Convenience stores have long thrived on selling gas, cigarettes, and sodas.

And recent statistics continue to bear that out. According to the Convenience Store News 2018 Industry Report, total sales for the industry were \$616.3 billion with fuel accounting for more than 63%. Of the remaining \$226.9 billion (in-store sales), cigarettes made up nearly 30%, and packaged (non-alcoholic)

and fountain beverages contributed almost 14%.

However, sales of these items have stalled in recent years, and experts predict that significant changes in customer buying habits will soon require operators to look for new areas of revenue.



1 | Mislinski, "Gasoline Volume Sales and our Changing Culture." Advisor Perspectives.

2 | "Adult Tobacco Use." National Cancer Institute.

3 | Ferdman, "American's growing love affair with the most wasteful thing to drink there is." The Washington Post.

4 | Holodny, "The epic collapse of American soda consumption in one chart." Business Insider.

Frank Beard, an analyst at GasBuddy, a fuel pricing app says, “By and large, there’s sort of this perfect storm right now where, for years, the industry was relying unofficially on this model of ‘Cokes, smokes and gas’ where you’d have retailers selling fuel, having an interchangeable store offering from one store to the next.”

But as the above chart shows this model is likely running out of time.

To face this challenge, the East Coast chains like Sheetz and Wawa have taken the bold step of adding made-to-order food centers in their stores. This was an expensive bet on QSR. And with significant investment needed in both equipment and personnel to achieve this capability, this is something that chains with stores on the West Coast have yet to embrace.

Still, the latest data are showing this may be a big investment worth making.

“C-store monthly dining frequency has jumped by more than 13% in the past five years; meanwhile, other channels such as quick-service restaurants, grocery stores, and casual dining have stayed flat or declined.”

**ALIXPARTNERS 2017 NORTH AMERICAN
CONVENIENCE STORE CONSUMER STUDY**

SHARING THE AUTO INDUSTRY'S WOES

According to research by the NACS, loyal convenience store patrons are motivated by habit, often centered around driving to and from work. They found that frequent customers—those who stop in from several times a week up to several several times a day—are most often buying items to consume immediately in their car.

But America's love affair with the car is undergoing a profound generational change, one that may soon affect convenience shopping behavior. If people make fewer single passenger trips past their local store, they're less likely to stop in.



“Increasingly, car ownership is a luxury rather than a necessity. In urban areas, where more and more of the population lives, people can avoid parking costs and the expense of insurance by relying on ride services like Uber or Lyft or hourly rentals with services like Zipcar.”

THE NEW YORK TIMES, “THE CAR INDUSTRY IS UNDER SIEGE”

COMPETITION FOR CONVENIENCE FOOD

One of C-stores' consistent strengths in attracting business has been their ability to provide instant gratification. A customer knows he can run in, grab the food he what he wants, and get quickly on his way. But big changes in food preference and technology, including a number of apps that bring nearly any kind of food in a few taps, are set to take their toll on this once unassailable convenience.

According to CS News, with Amazon pioneering same-day delivery on a variety of items, and third-party

delivery services partnering with QSRs, restaurants and other retailers, consumer expectation of delivery is making its way into every market.

This sea change is giving consumers quick access to any food they want, and that includes choices that many convenience stores simply don't carry. For example, many people are now choosing less processed food for health reasons and using delivery services like GrubHub and UberEats to get them as quickly as a drive to the nearest C-store.

“If convenience stores want to compete and grow, they will need to increase their share of the food-service market, including adding healthier options.”

MARIANNE WILSON, CHAIN STORE AGE

CHANGES IN DEMOGRAPHICS

Finally, there are big changes happening as a result of one generation replacing another. These demographic forces are the impetus behind the major changes now taking place in transportation and food preference.

Millennials (those born between 1981-1996) now outnumber Baby Boomers (born between 1946-1964). And they're not doing things like their parents. This next big generation is eschewing cigarettes and soft drinks, and hot dogs on a roller. They still want convenience food. They just want a fresher, healthier, natural version.

According to EuroMonitor, the new wave of customer preferences includes diets such as vegan, gluten-free, paleo, and organic. They report that "Millennial dietary habits stand to revolutionize a channel that has been anything but health-conscious in the past."

WINNING WITH FAVORITE FOOD & A PLACE TO EAT IT

Several years ago both Sheetz and Wawa took the bold step of severing ties with established fast food partners and offering original made-to-order food in their stores. Additionally, they've continued to update their interiors and invested in seating areas where customers can stay and eat if they like.

The result has been something of an anomaly in the C-store segment: strong customer loyalty based on brand rather than location.

"For years, the convenience food service trend has been more advanced on the East Coast, led by chains such as Sheetz and Wawa."

THE LINDA LISANTI, EDITOR-IN-CHIEF OF CONVENIENCE STORE NEWS



A TEST IN THE WEST?

While Sheetz and Wawa have had success with QSR in the eastern U.S., no major chain has followed this blueprint out west. However, there are a few independent operators in this region who have had success with this strategy.

At Green Zebra Grocery, customers can choose from healthier takes on 7-Eleven classics like kombucha slushies and a full-service coffee bar, as well as fresh produce from local farms, bulk bin foods, vegan snacks, and offerings from local brands. The store is about to open its fourth location.

“We think of our stores as a human recharging station as opposed to the traditional convenience store, which tears down your health.”

LISA SEDLAR, FOUNDER OF GREEN ZEBRA GROCERY

In an even a further departure from the typical C-store, Food Fight! offers its customers a mix of healthy and “junk” food, all made from plant-based ingredients. It also offers a limited selection of fresh produce and bulk bin options—another feature that customers are increasingly seeking out.

Customers will always want convenience. But more than that they are looking for the food that fits their taste and lifestyle. With few chain stores in the West Coast willing to try this option, this opportunity seems ripe for the taking.

“Adult Tobacco Use.” Cancer Trends Progress Report, National Cancer Institute, February 2019, https://progressreport.cancer.gov/prevention/adult_smoking.

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