State of the Industry

There's an earnest humility that permeates every NACS State of the Industry Summit, a collective sincerity that outsiders might mistake as insatiability, but that insiders understand to be an honest reflection of an unwavering commitment to excellence.

How else to explain the 2011 Summit where it was revealed that total sales — more than half a *trillion* dollars — set an industry record, as did in-store sales ($190.4 billion), pre-tax profit ($6.5 billion) and store count (146,341) — yet receiving equal emphasis were rising credit card fees, a shrinking profit as a percentage of gross revenue and an in-store margin that could be higher.

The thematic "more" (*more* sales, *more* costs, *more* fees) tempered any temptation at complacency, yet transpiring during an economic downturn that has sent other industries (pick one, any one) scrambling to regain footing as their sales plummeted, there was an empathic element that strived to convey an understanding that, yes, we've been feeling the pain, too.

For outsiders, the data revealed little in the way of commiseration, and instead merited a group hug or at the very least, a sustained round of ap-

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plause, both of which were missing for reasons that regular Summit attendees understand: The SOI Summit is not a time for praise and accolades, but is instead a time for appraisals and learning.

"The people who come to this event are not actually looking for answers but are looking for the right questions to ask," began Fran Duskiewicz, senior executive vice president of Nice N Easy Grocery Shoppes Inc., as attendees settled in to their seats, summing up neatly an operational mentality that forever raises its performance goals.

It's an important State of the Industry characteristic to understand, and it helps explain how during a year when retail, restaurant and housing industries were all down or stagnant, the convenience and fuel retailing industry actually prospered — despite formidable economic obstacles and marketplace challenges.

Where We Are Today

Taking the stage early in the morning on day one of the Summit was frequent event presenter David Nelson, professor of economics at Western Washington University and president of Study Groups.

Despite initially lulling attendees into a false sense of economic security, Nelson's assessment transitioned to one balanced with both strong growth indicators and lingering economic challenges. But the upswing, he began, was hardly unex-

*As the economy struggles to recover and swipe fees remain an escalating challenge, the convenience store industry experiences its **most profitable year ever.***

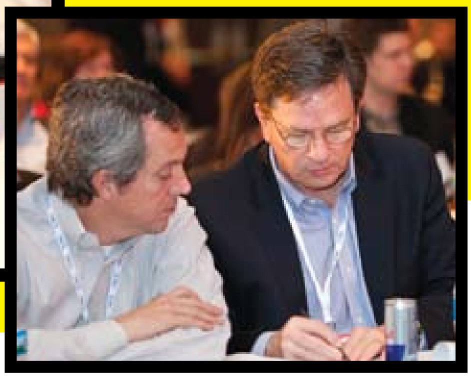
BY JERRY SOVERINSKY

SHAPE

NACS State of the Industry

WALTER ZIMMERMAN

TOM KLOZA



JOE PETROWSKI

pected, coming on the heels of a dismal 2009 where consumer confidence was low, spending had shrunk, housing prices were bottomed-out and $16 trillion of wealth had been erased.

"Real GDP has grown for six quarters in a row," Nelson said, "and there are near record corporate profits in many sectors...there is strong stock recovery... stronger consumer and business confidence...lending is increasing...the unemployment rate is decreasing, and private sector job growth is on the rise."

"We are in recovery now," he added, urging attendees to put themselves in the strongest position to leverage market conditions.

Among the positive figures Nelson cited:

- Retail sales, except gasoline, were up 8 percent year over year.
- Real consumer spending grew 4.1 percent — the best in three years.
- February 2011 consumer confidence index rose to 72, the highest in three years, before dipping slightly in March.
- The unemployment rate has dropped 1 percent in the last six months, reaching its lowest level in two years.

However, he quickly offered a list of caveats, underlining the most pressing economic challenges:

- New home sales are low, and it will take at least until 2015 to return to pre-recession levels.
- Banking remains fragile, and when housing assets decrease in value, their assets fall.
- The federal budget deficit, currently $14 trillion, is a long-term threat.
- While the unemployment rate is dropping, there are 7.25 million fewer jobs today than before the recession, with 4 million people having left the labor force, and nearly 50 percent of the 13.5 million unemployed having been out of work for at least six months.

It's Not Time to Smile Yet

Walter Zimmermann, chief technical analyst at United Energy-ICAP, took the stage just before lunch, questionably timed scheduling since his presentations, typically filled with Armageddon-like scenarios, always tend to sap appetites. But this year's presentation was different.

Sure, Zimmermann's news and supporting data were replete with sobering details: "The outlook for real estate is grim...The stock market is overvalued... Wealth creation is not happening." But coming on the heels of Duskiewicz's presentation — where he announced that pre-tax profit set an industry record and industry sales increased 12.9 percent before declaring, "I'm going to give the industry an A+" — the nervous anticipation that greeted Zimmermann at previous Summits was gone.

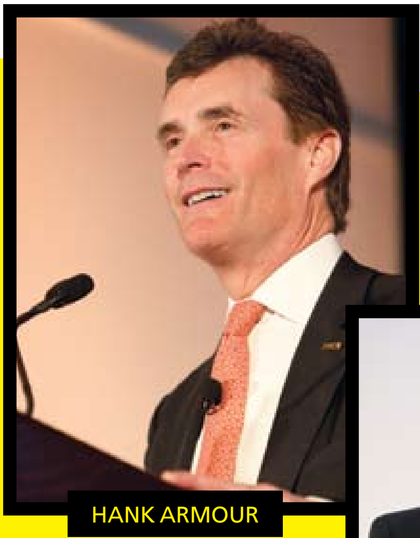
Yes, Zimmermann captivated the audience, but his doomsday what-ifs no longer stung like they did at previous Summits. A confidence filled the room at this year's event, no doubt fueled by the news that the industry had not just escaped the downturn but had actually thrived.

"I don't see as high a probability for an all-out depression as used to be indicated," Zimmermann said, wrapping up his presentation with a modest dose of optimism. "The resilience of the rebound suggests more of a double-dip — except for real estate, which I expect to plummet — but it will be difficult for other markets to break 2008-2009 numbers."

With that, it was time for lunch. And judging from the empty food platters on the buffet tables 45 minutes later, few appetites were compromised this year.

It's Good to Be King

While an opening self-deprecating weight joke primed on onions, calzones and overeating was a fitting integration of the "What Keeps You Up at Night?" theme of Joe Petrowski's presentation, the CEO of the Cumberland Gulf Group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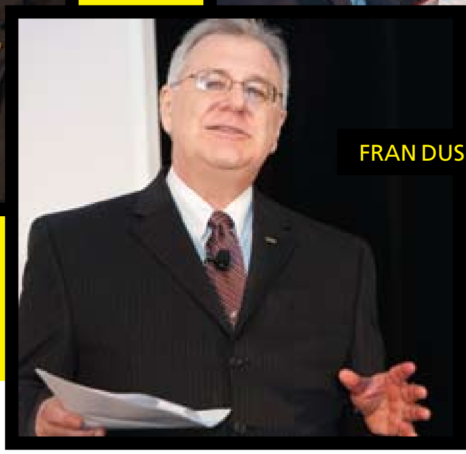

FRAN DUSKIEWICZ

JOHN ZIKIAS

NACS State of the Industry Summit speakers shared data and insights with engaged attendees.

of Companies quickly transitioned into a discussion offering insights as well as novel management approaches.

Should your company own or lease? Should you be part of a franchise or company-operated? Should you offer foodservice? If so, at what price point? Those are just a few of the questions that Petrowski said keep him awake at night, a relentless focus on his company's strategy, which he cited as a CEO's most important responsibility.

"If you're in a business that's declining, no matter how hard you work, you won't win," Petrowski said.

Petrowski stressed the importance of a company's staff, which he said is a primary driver of store traffic. "What makes [customers] want to visit your store is the people [working] in your store," Petrowski said. As a result, Petrowski said he "fusses" over making sure he hires the right people, training them on things as mundane (yet crucial) as greeting the customer, while deploying mystery shoppers who report on performance.

Additional CEO responsibilities Petrowski cited include:

- Avoid major risks: "The CEO's responsibility is to think about the major risks, and not squeeze margins."
- Relentlessly focus on the drivers to profitability.
- Become a cheerleader-in-chief: "I like people who talk, who communicate," he said.
- Avoid at all costs the temptation to screw things up, trusting your staff to perform their duties.

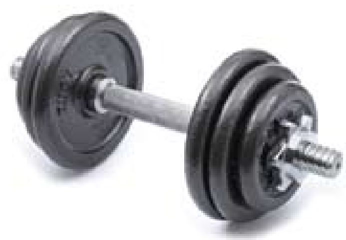
What's on the Horizon?

"What a ride!" exclaimed Todd Hale, senior vice president of consumer and shopping insights for the Nielsen Company, opening the morning session of the second day of the Summit, reflecting on the effect that the downturn has played on the retail landscape.

Urging retailers to balance value with emotion, Hale said, "Value is not about price, it's about the balance between price and benefits" — an important focus as the economy shows signs of an uneven recovery.

Hale cited a number of retail innovations that have been resonating among consumers:

- Online ordering is growing, and grocery delivery services are doing well. As such, retailers could consider a pick-up option at stores.
- Private label brands are on the rise.
- Coupons are experiencing a renaissance while loyalty cards and gas savings are increasingly more important.
- New store formats include smaller footprints, green and ethnic formats



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and pop-up retailers and outdoor malls.

- Self-service checkout is more ubiquitous than ever.

Hale predicted smartphones to play a central role in the way retailers engage with shoppers. Also, the "flexible retailing" movement — with retailers coming directly to consumers either through curbside service, grocery or lunch delivery or drive thru — will take convenience to the next level.

The Magic of Fuel

"To me, gasoline is magical," swooned Tom Kloza, chief analyst at OPIS (Oil Price Information Service), during an entertaining (the only presenter to weave Usher and Liza Minnelli photos into his data) presentation that analyzed crude oil, commodity futures and all things motor fuels.

Kloza said that demand for fuel began to weaken at $3.50 per gallon, and he predicted that once it rises above $4 (by the spring), the falloff would become "significant." (Stay tuned; as of this writing, we're at $3.89.)

He said options for catastrophic insurance are "worth a look," warning that "at any moment, anything could hit," referencing an escalating unrest in the Middle East that could drive prices to unforeseeable heights.

"I could be the first to predict $7 [per gallon] gas, or $330 crude," he said.

Active Advocacy

NACS president and CEO Hank Armour closed out the Summit, and urged members to take an active role in advocating for industry concerns.

"There are a lot of expense items that are directly affected on Capitol Hill, and you can go down the list," Armour said, citing wages and benefits, the effect of health-care reform, and credit card fees as focal points of NACS legislative efforts. "Advocacy is something that you need to view as a tool to manage [those P&L items] ... [your collective] voice is deafening."

"We need you and your colleagues...to speak up on an issue when it's required," he said, noting the persuasive power of 146,000 stores.

He added that advocacy is not only effective, but also efficient, with an ROI that easily outpaces the highest margin item. "Does advocacy work? It absolutely does work," Armour said. "Look at the $1.8 billion annual return [at stake with swipe fee reform], which is the result of an $8.5 million investment. I don't think you guys have seen an ROI like that before."

"LOOK AT THE $1.8 BILLION ANNUAL RETURN [AT STAKE WITH SWIPE FEE REFORM], WHICH IS THE RESULT OF AN $8.5 MILLION INVESTMENT. I DON'T THINK YOU GUYS HAVE SEEN AN ROI LIKE THAT BEFORE."

Closing Assessments

"Our industry is clearly recession-resistant," said Greg Parker, president and CEO of The Parker Companies at *last* year's Summit, summing up how "in spite of the worst economic year on record, we're still where America shops."

But judging from the past few Summits, "recession-resistant" confuses cause and effect. The convenience and fuel retailing industry does not perform well because of any inherent trait. Rather, because of its willingness to self reflect and scrutinize every aspect of operations — especially during times when others would choose to rest on their successes — it is able to resist the forces of recession.

"Every time we meet, there is a wolf at the door, a dragon to be slayed, a chaotic situation that could do us harm," Duskiewicz said during his opening day remarks at this year's Summit. "But when we look at the previous year's data, it appears that we slayed the dragon and kept the wolf at bay.

"That's because we are an incredibly tough, resilient, hard-working industry, and we're very smart."

It was one of the few assessments during the Summit that approached self-congratulatory praise, and one for which NACS members should feel especially proud.

So take a bow. But make it quick — there's a customer coming through your door.

Jerry Soverinsky is a NACS Magazine *and a* NACS Daily *contributing writer.*