A TALE OF TWO HALVES

One Shining Moment

NACS State of the Industry Summit reveals record sales and the successful avoidance of many of last year's "watch outs."

BY JERRY SOVERINSKY

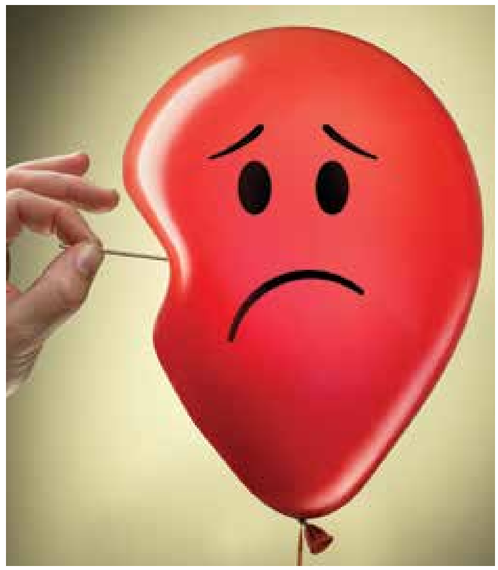
Finally. The glass is half full.

After "Surviving the Downturn" (2009), "Running Out of Gas" (2010), "Flat is the New Up" (2011) and "Top 5 Watch Outs" (2012), this year's theme for the NACS State of the Industry Summit sounded a more optimistic beat: "One Shining Moment."

The acknowledgment to performance excellence was inevitable, for how else to characterize an industry that generated sales topping $700 billion ($700.3) in 2012, with in-store sales growing 2.2% to $199.3 billion and motor fuels sales rising 2.9% to a record half-a-trillion dollars, which combined for a record $7.2 billion in pretax profits.

"I researched what our industry looked like in 1970, sales weren't bad — $2.9 billion per year," began NACS Chairman Dave Carpenter, president and CEO of J.D. Carpenter Companies Inc., in the event's opening address. "Today our industry generates that amount of sales in one-and-half days, 250 times greater than in 1970. So that's pretty astounding."

Familiar presenters showered attendees with favorable data from the previous year. While the economy still shows signs of sustained fragility and a handful of threats pose long-term challenges to the industry — competition from other channels, declining demand for gasoline, falling cigarette profits — there was nearly universal praise for operators who continue to find ways to grow and prosper.



Economy and Opportunities

Taking the stage after the introduction was frequent Summit presenter David Nelson, professor of economics at Western Washington University and president of Study Groups, who began by polling attendees to learn their take on the economy — happy vs. unhappy. By unofficial count, the latter won. And no wonder, he said, as he ticked off the lingering effects of the downturn:

- **The recovery period has stretched to nearly four years.**
- **Real GDP growth is a meager 2.1% per year.**
- **The unemployment rate, while falling, is still 2% higher than normal.**

Despite the dour news, Nelson offered a number of opportunities for convenience operators, in the context of the current economy:

- **Employment:** With unemployment down 1.5% since 2011, "that could have raised inside sales for convenience stores by about 1.7% or $1,500 per month for a typical convenience store," Nelson said, qualifying the statistic with the recogni-

NACS State of the Industry Summit attendees received an inside look at category performance and the status of the economy.

tion that the declining unemployment rate has shown a commensurate drop in the labor force. "So those people aren't out driving and maybe they aren't shopping," he said.

■ **Government fiscal policy:** The expiration of the 2% payroll tax, along with rising gas prices and health-care premiums, are key reasons why 54% of Americans said they will reduce their dining out occasions. Sales at casual dining restaurants have already taken a hit, falling for the first three months of 2013. "Customers that aren't going to Applebee's or Denny's ... they're probably going to look for a lower cost alternative," Nelson said, possibly looking to "fast-food options or a convenience store."

■ **Bank lending:** Commercial and industrial bank loans rose 16% in 2012, as banks made a concerted effort to compete for business with generous lending terms. As a result, "If you're not borrowing now, folks, I think you're missing a huge opportunity," Nelson said.

■ **Private sector:** With home building up in many markets and the National Association of Home Builders estimating that three jobs are created for every home that's built, the dynamic bodes well for convenience stores. "My Study Group members tell me that these are great convenience store customers, people working in the construction trade," Nelson said.

While Nelson said the actual economic output in the United States still lags behind its potential, he estimated the recession risk this year at anywhere from 0% to 30% — "not much" — an assessment that reassured Summit attendees that market conditions were on-track for an even stronger 2013.

The Numbers

Next up was Glenn Plumby, vice president of operations at Speedway LLC, and member of the NACS Research Committee, whose numbers presentation revealed several industry records:

- **In-store sales continue to grow and reached nearly $200 billion ($199.3) last year, a 2.2% lift from 2011.**
- **Pre-tax profits rose 3.0% to $7.2 billion.**
- **Same firm monthly sales rose 3.0% to $589,026, with fuel sales up 2.9% ($479,155) and in-store sales climbing 2.2% ($133,286).**

Establishing the Summit's "One Shining Moment" theme, Plumby ticked through last year's "watch out" checklist, updating attendees on actual performance while leading into the year's shining moments.

While last year's predictions for gasoline consumption (falling), retail gasoline prices (rising) and cigarette sales and margin dollars (falling) all came true, the silver linings — "shining moments" — were numerous for 2012:

- **Gasoline consumption is on the rise in 2013, up 1.3% from 2012.**
- **For the first 12 weeks of 2013, gasoline margins were up 3.6 cents to 16.6 cents per gallon.**
- **Foodservice sales are growing faster than those at QSRs, up 8.7% in 2012.** "We're growing at a faster pace than McDonald's, Burger King, Wendy's and all the big feeders," he said, positioning the growth as an ongoing opportunity: "If we can get more [foodservice] conversion from the

From fuels to consumer insights to industry performance, SOI Summit topics did not disappoint retailers who were there to learn and network.

people fueling . . . we have tremendous upside . . . to really make a difference in our sales."

- **Breakeven cents-per-gallon improved 12% to 9.21 cents last year, flipping around a watch out from last year.**
- **Credit card expenses are slowing, due to enactment of the Durbin Amendment, up just 1.1% last year.**

Other numbers also appeared strong, but Plumby framed them in a context that alerted attendees to ongoing challenges. For instance, while inside store sales rose 2.2%, those at dollar stores were up 5% and sales at drug stores increased 4%. "So, we're sitting here up 2.2% inside and two of our new competitors ... have increases almost double to what we've been able to achieve," he said.

Summing up the challenge for retailers in 2013, Plumby pointed squarely to the inside (of stores). "At the end of the day ... everybody needs to continue to grow," he said. "When you look at what our new competition [is] doing via our sales growth, we need to work a lot harder to offset the cigarette reduction and drive the inside of the store."

Understanding the Convenience Store Shopper

"The economic divide is real," said Todd Hale, senior vice president of consumer and shopper insights for The Nielsen Company, who told Summit attendees that their industry is expertly poised to capitalize on the vast disparity of shopper wallet sizes.

"High incomes out there are making a lot more trips in spending because they can, low incomes are becoming more important because there are more of them," he said. "There are opportunities at the extremes and in the middle . . . and it's not just value that's driving growth, convenience continues to drive growth."

Shopper Insights

Research from the NACS Convenience Tracking Program (CTP) and VideoMining expanded on data collected last year, with an ambitious program that helps retailers gain insights about purchasing behavior throughout a consumer's entire store visit.

Leroy Kelsey, director of industry analytics at NACS, noted that CTP distilled data from 15,000 shopper interviews at 600 stores across 40 states — a 50% increase in data collected from 2011, which yielded an abundance of useful information:

- **Tops in touches:** Respondents said they visited a c-store 178 times last year, compared to 156 QSR visits and 56 grocery store visits, a key metric that speaks to opportunities. But as to whether those shoppers will visit your particular store is a matter of performance. "Every shopper out there has a mental Rolodex where they actually go and scorecard every retailer," Kelsey said. And whether you become part of their consideration set is a reflection of how well you

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Retailers were told to look to the inside of their stores to achieve continued success in the future.

meet or exceed expectations. "You are being judged on your ability to make that connection."

- **Build on your strengths:** You don't need to be everything to everybody," Kelsey said. "You need to build on your success, and building on your success takes a keen understanding of what you're famous for."
- **Meal conversion:** Not surprisingly, the most popular (30%) c-store shopping mission was to purchase a treat, which ranks lowest in terms of spend (22%). The opportunity here, Kelsey said, is to convert those snacking missions to more profitable ones.
- **Ongoing refinement:** Because shopper preferences and motivations change, it's critical to continually tweak your approach, monitoring and managing consumer engagement. "We have to use category drivers and missions and gap analysis to figure out which tuning knobs to use to dial in to the right frequency that's going to grow our businesses," Kelsey said. "And over time, you refine your offer in a way that can grow your business [and] grow expectations."

Working closely with NACS and CTP is VideoMining, which distills thousands of hours of video data that monitor actual convenience store shopping transactions.

Rajeev Sharma, founder and CEO of VideoMining, told attendees that consumers spend an average of 4 minutes and 26 seconds fueling their car — standing still and looking at the pump for the most part — a huge opportunity to convert the audience or communicate an offer, especially noting that 69% of gas customers who pay at the pump do not purchase anything in-store. "They're a captive audience, and as an industry, that's one of the biggest undervalued assets you have," he said.

Closing Assessment

Industry performance was again broken down by quartile and in some instances, decile rankings (see "The Numbers" on page 34), with top tier operators achieving record-breaking numbers. Most of the figures tied in nicely with Plumby's "One Shining Moment" theme. However, in keeping with the Summit's traditional mood of skepticism, it was only fitting that "What's Keeping Me Up at Night" was the Summit's closing presentation.

"What is all this crap about the economy getting better," asked Peter Tedeschi, president and CEO of Tedeschi Food Shops Inc. Referring to his typical c-store customer, he said that Bubba's spending habits are changing: "I think Bubba's habits are being changed because he just doesn't have the money."

Today, Tedeschi said, Bubba is buying lottery tickets at the expense of purchasing other items. "Bubba's got a finite amount of money to spend and he's no longer using it to buy the indulgences that he used to love at our store when he's got a big payoff at Mega Millions. Bubba is now chasing the dream instead." And for Tedeschi, when taking into account gross profit per labor hours, lottery sales are "the worst bet in the house for us."

Rising health-care costs, declining cigarette sales, industry consolidations and big government all loom as ongoing threats, too, he said, a collective burden that will take a skilled and targeted effort to overcome.

"The industry that used to be really low-touch, high-turn — Cokes, smokes, whatever — now with the foodservice game, that paradigm changes," he said. "The mentality needs to change too for you to be successful with it. ...It is a heavy lift."

And after more than 40 minutes detailing industry challenges and risks, Tedeschi's concluding mood shifted dramatically, aligning closely with the Summit's opening day optimistic tone. People continue to be time-starved, he said, and the convenience store industry is uniquely positioned to leverage that dynamic.

"And that is why you should sleep very well tonight," he said. "We are in the driver's seat ... We are really in the best situation to take advantage of what's going to go on over the next 5, 10, 15 and 20 years." NACS

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