

# STANDING ROOM ONLY

THE NACS STATE OF THE INDUSTRY SUMMIT  
PLAYED TO A FULL HOUSE, WHO LEARNED OF  
RECORD-HIGH IN-STORE SALES AND A NUMBER  
OF EVOLVING RETAILING CHALLENGES.

BY JERRY SOVERINSKY

**T**his is a numbers conference,” began 2013-14 NACS Chairman Brad Call in welcoming attendees to this year’s NACS State of the Industry (SOI) Summit in Chicago. “These numbers show two things: that our industry continues to grow ... and that we’re proactive and engaged.”

Indeed, the InterContinental’s ballroom was standing room-only for much of the event’s two days of general session presentations, informal validation that operations are generally healthy and strong for NACS members. Of course, the official confirmation was forthcoming and conclusive, though tempered with familiar SOI restraint.

U.S. convenience stores reached record in-store sales in 2013, with sales climbing 2.4% from 2012 to \$204 billion — the first time in-store sales topped the \$200 billion mark. Combined with fuel sales of \$491.5 billion, overall industry sales were \$695.5 billion, the second highest on record.

“Data drives every major decision in our company,” announced Joe Sheetz, president and CEO of Sheetz Inc., and NACS Board of Directors Executive Committee member, and host for this year’s event, less than 10 minutes into the opening day session, segueing into the data that drove the big numbers. “It allows us to benchmark ourselves ... and to separate trends from fads.”

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Many retailers attend the Summit to measure their company’s performance against their colleagues, and this year’s event did not disappoint. Along with deep quartile and decile breakdowns, this year’s presentations also offered regional cuts to the data, allowing yet more insightful assessments. Together, they revealed an industry that continues to innovate and grow, despite mounting challenges in the form of regulations, increased competition and enduring economic challenges.

## ECONOMIC OUTLOOK

Taking the stage after the opening was frequent Summit presenter and “fan favorite” **David Nelson**, professor of economics at Western Washington University and president of Study Groups, who addressed opportunities for convenience stores in the context of the overall economy.

After offering his perspective on the new Federal Reserve chairman (very qualified and experienced), the employment outlook (the 63% labor force participation rate is near an historic low), and the economic outlook (housing starts are projected to increase, which is good for c-store business), Nelson presented “three hard trends you dare not ignore”:

1. **The U.S. population is growing older while becoming more ethnically diverse**, which is likely to impact existing business models. “How are you designing your offer to reflect the wishes and demands of different populations?” he asked.
2. **Technology is changing rapidly** — online sales are growing twice as fast as those at brick and mortar stores — which

will influence long-term shopping habits. It has also reduced the desire of young people to drive, which could mean less traffic at convenience stores.

3. **Government regulation is affecting many areas of c-store operations**, including fuel sales (a result of higher fuel economy standards), tobacco regulations, minimum wage increases, health care, menu labeling and comfort food taxes, to name a few.

“Take change by the hand before it takes you by the throat,” he concluded.

## THE NUMBERS

Next up were **Glenn Plumby**, vice president of operations at Speedway LLC, and a member of the NACS Research Committee, and **Kevin Smartt**, CEO of Kwik Chek Food Stores Inc. and fellow

NACS Research Committee member, with numbers revealing a wealth of industry records as well as cautionary trends, returns that Plumby equated to a Twilight Zone-ish performance.

- Big box retailers are getting smaller while convenience stores are getting larger.
- Gas consumption continues to decline.
- Sales are shifting from cigarettes to foodservice.
- Population trends and demographic markets are changing.

“Bubba’s hurting,” Plumby continued, referring to the industry’s typical customer, whose share of the national income has dropped 15% since 1967. And as he continues to fight unemployment and loses disposable income, “Are we targeting the right customer?” Plumby asked rhetorically, suggesting that the industry reexamine its customer base. (For more on industry numbers, see “The C-Store Twilight Zone” on page 28.)

“Today, 43 cents out of every dollar is spent on food away from home,” a growing trend and opportunity, said Smartt. Millennials comprise 40% of the convenience store industry’s shopper base, despite being only 27% of the U.S. population, an imbalance that operators must acknowledge and accommodate. “Take advantage of over-indexing Millennials,” he said, a demographic that is driving non-traditional food destinations as they seek community, not just nourishment.

Shifting population densities and a median U.S. age that is growing older are major factors to consider, Smartt said, to ensure stores are optimizing consumer engagement.

Foodservice continues to grow, contributing 18% to 2013 in-store sales and 29% to margins. A significant disparity exists between top and bottom quartile performers here, especially with hot dispensed beverages, where the gross profit differential is 7.3x (\$4,756 vs. \$652).

With sales broken down by region, it was interesting to note sales contribution by category and region, such as:

- **Foodservice contributes 40.9%** of in-store gross profit dollars in the Northeast, and only 19.0% in the Southeast.
- **Tobacco sales comprise 23.8%** of Midwest in-store gross profit dollars, compared to only 16.6% in the South Central.

Cigarettes held onto the number one spot in terms of sales per store, per month (\$44,751), followed by packaged beverages (\$21,114) and beer (\$14,973). Notably, the total for cigarettes was off 3.5% from last year, while gross profit percentage fell 5.7%, a trend every retailer surely understands.

Smartt concluded by imploring retailers to “face the challenges head on, use your resources and don’t get comfortable.”

## THE C-STORE SHOPPER AND SUPERCONSUMER

“You guys are not the only industry in the ‘Twilight Zone’ right now — retail in general is having its challenges,” said **Todd Hale**, senior vice president of consumer and shopper insights



Bill Bishop, chief architect of Brick Meets Click (pictured), and Dae Kim, NACS vice president of research, addressed attendees on day two of the Summit, providing an update on the industry impact of the NACS/Coca-Cola Retailing Research Council and its “Playbook for Success: A 3-Step Guide to Growing C-Store Business.” For more information on the playbook visit [ccrrc.org](http://ccrrc.org).



for Nielsen, who told Summit attendees that CPG growth is relatively flat, owing to slow population growth and a growing economic divide between high and low income earners.

2014 will not be an easy one for retailers, Hale said, with financial headwinds, stagnant wages and slowing population growth limiting spending power. “Chase the right customer,” he said. “Not the competition.”

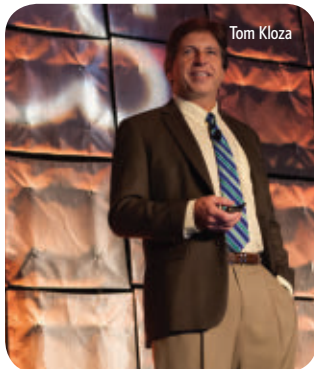




Gray Taylor



Dae Kim



Tom Kloza



Eddie Yoon

Following Hale was **Eddie Yoon**, principal for The Cambridge Group, who introduced the concept of how a “superconsumer” can help grow your business. Representing just 10% of category households, superconsumers contribute 30% of category sales, 40% of category growth and 50% of category profits.

“A small fraction of shoppers drive the lion’s share of economics,” Yoon said, a customer-centric message that directed retailers to focus their attention disproportionately to that group. Identify, prioritize and locate them, he said, collaborating with suppliers to engage these consumers while activating them in loyalty programs.

You accomplish that through three key actions:

1. Ask your suppliers for help in identifying superconsumers by category.
2. Rank your stores by category sales to identify superconsumers. “You’re probably sitting on more data than you realize,” Yoon said. “See which of your stores do a disproportionate percentage of business.”
3. Work with your suppliers to build a joint business plan, enabling a win-win for both.

“Every retailer has super shoppers ... every one of those has a story to tell about what it is they get out of your retail experience,” Yoon concluded. And understanding those stories will enable you to grow your business quicker and more substantially.

## COMMERCE IN THE MOBILE AGE

**Gray Taylor**, executive director of Conexxus (formerly called PCATS) and payment consultant to NACS, was the final presenter at the Summit, providing timely insights into mobile

commerce and its implications for convenience store retailers.

There are more mobile devices on the planet than people, Taylor said, and 80% of adults will own smartphones by 2015, allowing geo-locating capabilities that retailers can (and should) leverage.

While Amazon remains a formidable retailing force that is impacting traditional brick-and-mortar stores, “they have last-mile distribution issues” that play to the advantage of physical stores. “This is an opportunity,” he said. “You own the last mile.”

As digital adoption saturates the marketplace, “You’re not competing on four corners any more,” Taylor said, “You’re competing on 50 corners,” with purchasing decisions made “in the moment” — a big advantage for convenience stores.

But it’s not just a matter of building an app or refining a website. Companies considering entering the digital space should focus on four capabilities for their app:

1. **Own the customer:** Your app should process and retain customer data internally, a critical asset.
2. **Build your brand:** Reinforce your brand to your existing customers while expanding your reach to others.
3. **Increase basket size:** Upsell fuel customers and reach consumers outside of your trading area.
4. **Reduce cost of payments:** Does anyone need to be reminded of the burden of swipe fees?

Additionally, Taylor offered several recommendations for maximizing success in the digital space, including:

- **Integrate your presence:** Make your brand available across social media platforms.
- **Become part of the conversation:** Listen to and respond to social media posts involving your brand.
- **Deliver on your brand promise:** “You can have the greatest media presence, but if you have a poor operation, you’ve disappointed a customer,” he said.

Taylor also addressed data security, making the case for more robust controls including encryption and stronger authentication of cardholders. (For more on the data security landscape see “Half Covered” from the May 2014 issue of *NACS Magazine*.)

Finally, he concluded with a broad view of the digital landscape and what it means for the retailer-consumer relationship, a highly relevant message as retailers look to 2015 and beyond.

“The consumer is in control,” he said. “They’ve got a mobile device in their hand and [they’re] going to tell us exactly how we’re going to interact with them and it’s our job to be flexible enough to serve their needs — the guy who [can do that] is the guy who’s going to control that group.” **NACS**

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