October 2017

FEATURE

BREAKING OUT OF THE COKES, SMOKES AND GAS MENTALITY

By Jerry Soverinsky

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In an announcement that sounded like it came from The Onion, Amazon launched its Instant Pickups service this summer, allowing customers to order from a group of popular items and then pick them up—*just two minutes later*—at a designated Instant Pickup location.

This launch came less than a year after the company introduced its cashierless Amazon Go bricks-and-mortar retail concept, incorporating its "just walk out technology" that allows customers to bypass checkout lines or physical payment transactions. This came roughly one year after Starbucks launched its Mobile Order & Pay functionality on its app, allowing customers to order and pay from their smartphone, minimizing swipe fees for the coffee chain.

All of this got me thinking (very non-judgmentally): Why, convenience store community, does it seem that innovations in retail convenience are being achieved by everyone faster than the convenience store community? (Even adoption of existing technologies and processes has been modest.)

Yes, you're adding kiosk ordering to your evolving foodservice programs. And mobile payments, too. But let's face it, one of your last real homeruns—pay-at-the-pump—came 31 years ago.

Back to Amazon.

Two minutes. TWO MINUTES! This cuts in half the average length of time—four minutes—that customers spend in a convenience store while making a purchase, according to NACS data. It's bad enough that the digital behemoth barged into the grocery category by swallowing Whole Foods. And though its Amazon Go store concept was replete with challenges that delayed its opening, it remains one of (at least) three brick-and-mortar concepts that the company is assessing, according to the *Wall Street Journal*.

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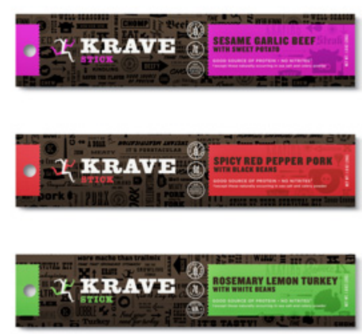

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> **"We've got to break out of the mentality of Cokes, smokes and gas; otherwise, what's the differentiator? Most convenience stores sell the same stuff with the only difference coming from location."**

And...? The typical response to warnings such as these range from indifference to outright denial. ("We own street corners, we've got gasoline, we've got...") Concerned industry insiders who have been studying retail trends, and the convenience industry in particular, insist these developments, coupled with changes in convenience retailing, portend genuine shifts in market share that could affect all retailers, no matter their brand strength.

Two Legs in Jeopardy

"We've got to break out of the mentality of Cokes, smokes and gas," warned Gray Taylor, executive director of Conexxus. "Otherwise, what's the differentiator? Most convenience stores sell the same stuff with the only difference coming from location. We must do something that makes us totally unique."

Even beyond differentiation, the profitability of the traditional triad is eroding, a permanent evolution that promises challenges for convenience store retailers. "The problem with the Cokes, smokes and gas formula is that two of the three legs in the business model are in long-term jeopardy," said Dae Kim, vice president of research for NACS. "Smoking is decreasing among adults, and gas consumption is declining, too. We had a resurgence [of gas sales] these past few years, but how long will that last, with fuel efficiency and electric vehicles in the mix? Liquid motor fuels will be around, but relying on that is a poor strategic choice."

By the Numbers

The tobacco trends are well understood. While convenience stores control a large percentage of market share for tobacco sales (more than 85%, according to NACS data), increased health awareness, coupled with a rise in the number of regulations, have sent tobacco sales on a steady decline. "As states continue to levy cigarette excise taxes, the cost of smoking increased for consumers and squeezed margins for retailers," NACS reported in its recent *State of the Industry Report*. "Facing rising costs, consumers are incentivized to either find products for smoking cessation or quit altogether."

> **"Start testing things on a small scale. Perhaps set aside $10,000 to see if [a new delivery concept] works before committing $100,000. It's about developing an experimental mindset."**

For gasoline, well, where to begin? Motor fuels prices have fallen each of the past several years, from $3.59 a gallon in 2012 down to $2.17 last year. And regular unleaded fuel margins are down 19% since 2014, sliding from 22.1 (2014) to 21.1 (2015) to 19.2 (2016) to 15.5 in Q1 2017. "We're on our third year of $2 (per gallon) gasoline," Taylor said. "Margins are OK, but as soon as it turns, operators are going to be in trouble."

While fuel consumption is slowing just slightly, external forces promise to accelerate the decline. There's better fuel efficiency—from 2008 to 2017, average fuel efficiency (city and highway) for the popular Ford F-150 jumped 50%—and an influx of vehicles to the marketplace that eschew gasoline entirely (more than 370,000 pre-orders were placed for the Tesla Model 3, just under the total number of Toyota Camrys sold in the same year at 388,616). Think that's an anomaly? Market capitalization for Tesla as of April 2017 was $51.5 billion—$1.3 billion more than the valuation of GM.

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Innovating with Technology

Taylor again hammers away at the Cokes, smokes and gas model before turning to foodservice, which he says is a positive step for retailers, but "most of the innovation in the c-store space is in foodservice, which is profitable but labor intensive. And being labor intensive is a pain point for retailers," he said. "Amazon is increasing the level of its service while decreasing head count. And the only way for retailers to do that is with technology."

Taylor ticks off labor-saving technologies, including self-service ordering kiosks and automated milkshake machines, among others. "That's where we should be looking. We've got a huge heads-up on the QSRs, too. For them to innovate, they've got to rip out their kitchens. We don't have kitchens to rip out. We've got a fresh piece of paper."

Taylor cites the self-checkout lanes at supermarkets as an example and says convenience stores can think and do better. "We don't have self-checkout but we can do better. We can leapfrog that and do self-checkout via a smartphone. That's next level. But that's really just one step. We need to just sit down as an industry and take apart everything we take for granted to see if there's a better way to do it."

For emphasis, Taylor returns the conversation to—what else?—Amazon. "When you look at them, they sell 4 million SKUs while refining and perfecting the last mile," he said. "But we're focused on 3,500 SKUs. If we expand our vision of what convenience is—adding services, expanded product lines, for instance—that will help."

For some, that could mean selling printer ink, for example. "Not all stores will have an ink demand, but the ones closest to office parks and colleges will," Taylor said. "Why not stock the most popular brands. Think about expanding your SKUs to 40,000 items. You've got to stop thinking that you're working from a 2,500-square-foot retail space and say that you're working from a cheap warehouse. What you sell is totally what the customer wants."

The marketplace is replete with companies and ideas that, like Amazon, are redefining convenience with technology:

- **UberEATS:** Leveraging technology and its driver network from its popular ride sharing app, UberEATS allows customers to order food from local restaurants, which is then delivered to you wherever you designate—not just at a home or office, but on a street corner or wherever the customer requests.
- **Zalando:** Addressing the frustration when a consumer misses the delivery of a package or parcel, German retailer Zalando has launched a fulfillment service that uses a customer's geolocation to deliver online orders. Available seven days a week, the service allows the company's fleet of couriers to track shoppers using their smartphone location, sending them notifications when a package is out for delivery while allowing them complete control over where it is delivered.
- **Pizza Hut:** In a move that was part Amazon Dash button and part Space Jam, Pizza Hut tested an instant ordering high-top basketball shoe, allowing users to order a pre-selected pizza just by pushing the company's logo on the shoe's tongue. Incorporating Bluetooth technology, the order was then beamed to a local restaurant, which prepared the order and then, using the shoe's geolocation, delivered the order.
- **Urb-It:** The urban delivery service allows customers to order merchandise from a local retailer and have it delivered wherever and whenever they choose in as little as an hour.
- **Cargo:** Based out of New York, the company pledges to help ride-share drivers earn more money and give passengers access to a variety of goods they might need or want while en route. Cargo works directly with ride-share workers—not their employers, like Uber or Lyft—to provide boxes of goods to keep in the car. When a passenger hitches a ride from a Cargo-equipped driver, they can browse the box for what they want and pay on their smartphone through Cargo's website. Cargo boxes generally include snacks, phone chargers and beauty products. Cargo also operates in Boston, and the company plans to expand to more cities.

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At the recent National Restaurant Association Show in Chicago, a primary concern among restaurateurs wasn't food preparation or cooking techniques, but rather delivery—a last-mile concern.

"The consumer wants food at home," Kim from NACS explained. "And for the last 10 years, while we've been focused on foodservice—which is good—we've got to be mindful of what's in restaurateurs' heads, because that gives us insight into the foodservice customer's mindset."

No matter what you consider, cost will always surface as a pain point, something Kim urges retailers to push past. "Cost is always relative. You face operating costs that you're used to. But this isn't all or nothing," he said. "Start testing things on a small scale. Perhaps set aside $10,000 to see if it works before committing $100,000. It's about developing an experimental mindset."

It Starts at the Beginning

Once your mindset is committed, it's time to move forward. "The longer you put off a difficult decision, the worse it's going to be," Kim said. "You'll limit your options if you delay for 10 years."

Taylor agrees, and stresses the move needs to be a top-down commitment. "The next level of convenience is a mind and culture set rather than anything else," Taylor said. If your CEO isn't interested, you're relegated to optimizing the sale of Cokes, smokes and gas. Not a recipe for success.

And let's face it, Taylor adds: "You won't hit any homeruns unless you swing."

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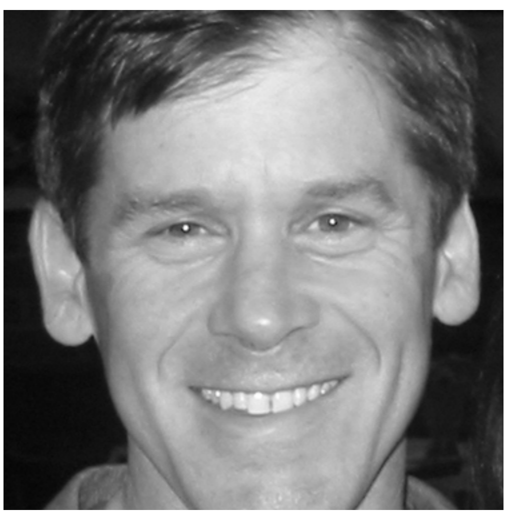

About Jerry Soverinsky

Jerry Soverinsky is a freelance writer based in Chicago. He is also a *NACS Magazine* contributor.