September 2018

FEATURE

Purchase, Return, Repeat

Recent research shines light on how retailers can build customer loyalty while increasing trip frequency and basket size.

BY JERRY SOVERINSKY

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Earlier this year at the NACS State of the Industry Summit, Andy Jones, president and CEO of Sprint Food Stores and a member of the NACS Research Committee, kicked off the event by asking attendees to reflect on a concerning trend: Over the past three years, the number of convenience trips per week has fallen 27.7%, or a full trip less. "That's tough to overcome," Jones said. "Even if we increase the market basket spend, we cannot make up the entire spend from this trip loss."

Addressing this decline is paramount for future retailing success, as countless services that compete with the c-store proposition are emerging and maturing, along with a foreboding Amazon that grew "almost four times that of the top 10 retailers combined that are in most shopping stores" last year, according to Jones, while nearly doubling its market capitalization.

There is no single solution (yet) to lure shoppers back to convenience stores; rather, it will most likely take a collective effort to entice a diverse demographic whose shopping behaviors, consumption needs and retailer expectations differ markedly, both within and across markets.

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Partnering with NACS and its NACSPanel for the third year, Whirley-DrinkWorks!, a designer and manufacturer of travel mugs and custom beverage products, surveyed c-store shoppers to better understand the drivers for trip frequency, loyalty and basket size.

Building on these surveys, Whirley sought deeper information to help address the current erosion of convenience store traffic, accessing the most current industry data. Speaking with more than 500 convenience store customers, NACS and Whirley compiled an in-depth analysis. Let's take a closer look.

CROSS-CHANNEL INTERFERENCE

From 2016 to 2018, convenience stores faced stiff competition from other channels, which have siphoned away market share with aggressive beverage traffic drivers, including coffee and fountain drinks.

On the plus side, c-stores are still seeing coffee as a strong purchase driver—respondents averaged 2.8 purchases a week in 2018, unchanged since 2016. More concerning for convenience stores is the drop in fountain drinks, mostly with millennials, down 0.1 purchase occasions per week to 3.4, while QSRs were up 0.1 occasions to 2.5.

Part of these traffic shifts can be attributed to abundance of new loyalty programs, which the research shows are equally popular with men and women. Among the most loyal customers are refillable mug users, 64% of whom participate in a loyalty program related to fountain drinks or coffee, nearly 1.5 times the rate of non-refill mug users. "The customer who chooses to purchase a refill mug is committed to the retailer brand and understands the refill value," said Jacqui Cintron, vice president of marketing for Whirley. "For these loyal customers it is all about my mug, my store, my brand."

LOYALTY GROWTH OPPORTUNITIES

Some retailers are building on the critical correlation between loyalty and brand, looking to other retail loyalty programs and refining their own to create a truly differentiated brand experience. NACSPanel participants were asked to name their top three favorite drink-related programs from any retail channel. The overwhelming favorite was Starbucks, but the survey results suggest there is significant room for convenience stores to earn a spot in customers' favorites list (see table below).

FAVORITE LOYALTY PROGRAMS

#1 FAVORITE

STARBUCKS	23%
SPEEDWAY	16%
DUNKIN' DONUTS	5%

#2 FAVORITE

STARBUCKS	17%
DUNKIN' DONUTS	7%
MCDONALD'S/THORNTONS*	5%

#3 FAVORITE

CIRCLE K/STARBUCKS	8%
SPEEDWAY/DUNKIN' DONUTS/ MCDONALD'S/QUIK TRIP*	6%

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One thing remained constant when looking at the most popular loyalty programs across all major channels that compete with convenience stores: beverages. Whether it's coffee (hot or cold) or fountain, the ubiquitous drink has secured its spot as the favored loyalty offering as well as one driving shopping occasions.

When asked why they participate in a retail drink-related loyalty program, survey respondents named "purchase x, get x free" incentives as their top reason. Location (close to home or office) was the No. 2 reason—speaking to the namesake attribute for convenience stores—followed by rewards points and refill discounts tied at third. These all are takeaways that c-store retailers can leverage to increase program participation.

Loyalty and refill apps are another engagement opportunity. Forty percent of respondents said they had a c-store app installed in their mobile device, citing the Speedway, 7-Eleven and Circle K apps as the favorites.

"Large firms are getting over the initial resistance to download yet another app with a free incentive—for example, a free coffee or snack," said Leroy Kelsey, director of industry and analytics for NACS. "The pot is sweetened further with a free item with X number of purchases. Once customers download the app, loyalty participation is sustained with benefits such as reward points, fuel or merchandise discounts and customized offers."

When measuring purchasing impact among various control factors, NACS found that a strategic refill program delivers tangible, incremental traffic boosts to convenience stores while enhancing brand value. "The opportunities are huge, with the ability to drive store traffic and even sales of ancillary categories," said Cintron.

QUALITY OVER DISCOUNTS

"Aggressive pricing can wreak havoc on thinning margins, especially in the beverage category," said Kelsey. "If you sacrifice margin for traffic and fail to attach high-margin affinities, the numbers rarely play out in the long term."

When it comes to pricing as a traffic driver, the trip frequency comparison between those seeking discounts on disposable cups and refill mug users is notable (see table below). In every purchase driver category, refill mug users made more purchases per week at a convenience store than those seeking a discount on disposable cups.

Variances in Purchases Per Week at C-stores

	DISPOSABLE	REFILL	REFILL v. DISPOSABLE
HOT COFFEE	1.3	3.9	+2.6
ICED COFFEE	0.8	2.9	+2.1
SPECIALTY COFFEE	1.1	2.9	+1.8
FOUNTAIN BEVERAGES	1.7	4.6	+2.9
FOOD	1.2	3.2	+2.0

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That's not to rule out the profitability of a beverage for a buck when paired strategically with other offers. Hot pricing associated with bounce-back offers, new food product launches and happy hours can drive visits, but not necessarily the quality of the customer basket. And as a standalone tactic, discounting can be perceived as an indicator of lower quality. This is a loss that Kelsey said risks further eroding convenience store shopper loyalty. He said preventing this displacement requires attention on two fronts: form and function.

"Think about the branded refill mug on an office desk, or selfies showing people holding a branded mug posted on social media—those are 'form' elements," Kelsey said. "At the same time, a refill mug provides functional benefits such as keeping drink temperature and minimizing spills."

INSIGHTS ON REFILL TRAVEL MUG USERS

While disposable cups drive the majority of drink sales and profits, the 15% to 20% of shoppers who purchase refill mugs can be important customers and brand ambassadors. Since millennials and Gen Z like to be part of a "tribe" and tend to promote brands and products they relate to, retailers can leverage refill mugs as a promotional vehicle for programs.

According to NACSPanel data, the refill mug user represents a fairly balanced demographic across gender and income, with a noticeable usage increase among younger demographics. Forty-four percent of Generation X and 36% of millennial respondents said they had purchased a refill or travel mug at a c-store in the last 6 months.

To assess the impact of a refillable mug on trip frequency, NACS asked respondents the number of times per week that they purchased various beverages from a convenience store. Compared to loyalty program members and the total c-store shopping population, refill mug users make more purchases at convenience stores each week in all beverage subcategories, especially hot coffee (see table below).

Variances in Trip Frequency Per Week at C-Stores

	ALL USERS	LOYALTY	REFILL	REFILL ALL	REFILL V. LOYALTY
HOT COFFEE	2.8	3.2	3.9	+1.1	+0.7
ICED COFFEE	2.5	2.7	2.9	+0.4	+0.2
SPECIALTY COFFEE	2.4	2.6	2.9	+0.5	+0.3
FOUNTAIN BEVERAGES	3.4	4.0	4.6	+1.2	+0.6
FOOD	2.4	2.6	3.2	+0.8	+0.6

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Refill mug users' primary purchase reason for visiting the store weighs heavily on beverage (81%) compared to food (19%), which suggests an opportunity to drive food occasions as refill mug usage rises. And they have a greater likelihood (56%) of purchasing other items, such as food, snacks or merchandise, than the general c-store shopper (33%). This significant sales potential makes merchandising all the more important. "If you're going to have a refill program, have a clear refill offer," said Cintron. "And have a home for your mug, whether it's in a display or near the dispenser."

KEEPING IT FRESH

While the NACSPanel data reveal increased trip frequency and purchasing behavior among refill mug users, *maximizing* engagement is a reflection of form, as aesthetics play a sizable role in program participation. "As in all product categories, there are the oldie-but-goodie favorites and then the appeal of buying or trying something new. Travel mugs are an impulse purchase—either the style or loyalty/refill offer will appeal to a specific customer," said Michael Custer, convenience channel manager for Whirley.

Keeping the graphics and colors on-trend is important for plastic refill mugs, as these appeal to the value consumer with higher purchase frequencies. A deeper dive into customer preferences shows an even more interesting story when comparing both beverage and food purchase frequency. Consumers who preferred plastic mugs over stainless had higher purchase frequencies in nearly all instances. And of those who preferred the 64-oz. plastic mug specifically, 46% are frequent beverage purchasers (three or more times per week), and 44% are frequent food purchasers.

While stainless steel mugs proved the most appealing product in terms of material and ounce size across all generational groups, the research also shows that consumers are willing to purchase high-end stainless steel refill mugs, which can have a high profit margin for convenience stores.

The results may surprise some, noting the pricing disparity between stainless steel and plastic cups. But for Kelsey, the answers align cleanly with concepts of quality. "Of course, value is a major concern for the

convenience store shopper, but value is the relationship between quality and price. Value cannot be achieved at the expense of quality. It's a relationship that's finely balanced," he said.

At a time when marketplace disruption continues to evolve, luring away convenience store traffic, adopting tactics that address this migration has never been more important. Investing in—and marketing—a beverage program can offer demonstrable boosts in both traffic and in-store purchases, making it an attractive solution for building incremental sales and profits.

This article is written with support from **Whirley DrinkWorks!**, a NACS Hunter Club member. Research for this article was conducted by the NACS research team using the NACSPanel, a panel of 10,000 verified convenience shoppers.

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