



June 2018

FEATURE

# Tripped Up

Store visits drop, competition rises, yet the industry still notches another banner year.

BY JERRY SOVERINSKY

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One company dominated the talk at nearly every presentation at this year's NACS State of the Industry Summit, held April 10-12 in Chicago.

It wasn't a dollar store, despite the chains having added nearly 1,500 stores last year, a 5.2% increase—most among any brick and mortar channel. Nor was it any of the top convenience store chains, which continued a fast pace of merger and acquisition activities, with the top deals affecting more than 3,000 stores.

No, the company that was mentioned by nearly every presenter *has just one convenience store* (which has been open less than two years). Hardly the profile that would seem to dictate such disproportionate attention. Except the company is Amazon.

It's time, explained the presenters, to recognize that yours is no longer an industry of stores that are convenient so much as businesses that deliver convenience, a critical distinction that helps explain the quick pace of change overtaking America's retail landscape, led by Amazon.

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## AND STILL MORE ...

Other State of the Industry speakers offered additional insights, including:

- **Mark DiDomenico**, director of client solutions for Datassential Inc., provided insights into food trends impacting the way people eat in his presentation, “2018 Menu Trends.” While recommending a firm understanding of evolving trends, DiDomenico said the key to success is providing options while recognizing what people ultimately desire. “You can’t just throw vegan cheese on something and call it a vegan meal. Otherwise, they’ll choose a steak. And we love meat so much.” (NACS will share more about DiDomenico’s presentation in the July issue of the magazine.)
- **Tom Kloza**, global head of energy analysis for Oil Price Information Service (OPIS), offered insights into future fuel prices in “How the Decade Ends,” predicting U.S. gasoline prices will slide “but that is years away,” and that there will “maybe be an uptick in higher octane fuels.” As for non-liquid fuels, the threat is “not realistic,” he said. “It’s the EV adoption or fear of much more widespread adoption that will tighten up world oil markets from 2020-2025.”

While the overall theme of the State of the Industry Summit (SOI) was one of reduced store trips, a closer look reveals that the phenomenon is but a symptom. The larger theme is one of relentless, ongoing evolution and change, led by an online behemoth that threatens—no, promises—to disrupt your existing business model. (Maybe.)

“In the past year, Amazon has almost doubled its market capitalization, growing to \$692 billion in just 11 months,” said Andy Jones, president and CEO of Sprint Food Stores in Augusta, Georgia, who presented a financial and industry performance overview. “To put this into perspective, Amazon’s growth is almost four times that of the top 10 retailers combined that are in most shopping malls,” he said.

The Summit delivered stats and numbers and accolades, but the recurring theme was Amazon, whose Amazon Go convenience store format eliminates cashiers; Amazon Instant Pickup service, which offers snacks and beverage orders ready for pickup in two minutes or less; and Amazon private label, whose snacks brands grew at 42% last year.

There’s an elephant in the room and it wasn’t going unnoticed. And yet...

Despite fewer trips per store. And despite a tight labor market that has made it difficult to fill minimum wage jobs. And despite rising dollar store competition and hipster startups that deliver a candy bar at 2:00 am to college dorms or fill up a tank of gas while you’re at work. Despite all of that, the industry set yet another record-breaking year of sales and profits, with overall sales surging 9.3% to \$601.1 billion, and inside sales recording a fifteenth straight year of record sales.

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And so began this year's State of the Industry Summit.

## OPPORTUNITIES AND RISKS ABOUND

"A tariff or trade war scares me," said Bill Conerly, business consultant and author of *The Flexible Stance: Thriving in a Boom/Bust Economy*, who discussed the U.S. and global economies, along with existing labor challenges and the necessity to take a "flexible stance" when approaching business tactics.

"The global economy is decent," he began, "with problems abroad calming. Europe is growing faster than expected and the Chinese economy is growing quickly but decelerating."

Transitioning to the U.S. economy, he compared its growth to the comment he received on his fifth-grade report card: not living up to his potential. "Until the last few quarters, though, things have been pretty good and I'm comfortable where we're going," he said.



Alan Beach of 7-Eleven discussed category performance and successful merchandising strategies.

His presentation touched on the following:

- **Consumer spending** is trending up in the lower income distribution, "and you may see that in terms of your customers now coming to your store."
- **Economic forecast:** Conerly projected growth for the remainder of 2018 with 2019 "up a bit, too." Returning to the tariff/trade war discussion, he said that "it could spiral into a significant problem for the global and U.S. economies."
- **Labor challenges:** "We're entering the tightest labor market from demographic reasons," he said, imploring retailers to develop a long-term strategy. "If you want bigger stores, you'll need more people working, and you must consider this ... Companies that thrive in the next decade will be best at employee retention and recruiting."

Finally, Conerly addressed his flexible stance directive, explaining that outside factors may dictate that "you may need to expand, contract or go sideways." As such, retailers must plan for two distinct scenarios: a recession and a growth period. "Sketch out what you will do if either risk comes to pass," which will be critical for achieving success.

## SHOPPER TRENDS

A frequent Summit presenter, Todd Hale, former senior vice president of consumer and shopper insights and consultant for The Nielsen Company, told attendees that the current U.S. retail landscape includes four components:

1. Economic indicators are improving, "but headwinds remain."
2. Total store sales are soft.
3. The retail format is no longer a guarantee of success.
4. There is a divergence of consumer demands: health and wellness versus indulgence.

Competition continues to heighten, with Dollar General planning to add 900 stores, including a few that adopt its hybrid convenience store format DGX. Additionally, “I’m concerned about Target,” Hale said, noting the retailer’s plan to add additional small format stores in 2019.

With the close of many big box retailers, convenience store retailers must plan for change. “Traffic patterns are going to change, and sales will take a dive because of that. Think how you manage store closings as much as openings.”

Looking forward, Hale offered the following predictions and recommendations:

- “The stars are aligned for growth, are you?” he asked rhetorically.
- With ethnic and clean foods on the rise, along with a demand for comfort and convenience, Hale said to be mindful of your demographic and their demands.
- Transition from print ads to digital ads, capitalizing on consumer expectations.
- As trip frequency decreases, focus on ways to lure shoppers to your store.
- Private labels will continue their resurgence.
- Strange bedfellows will continue to surface (he used the example of Target acquiring Shipt). As such, “consider acquiring a new business that doesn’t have anything to do with convenience stores that can complement [your offerings].”
- “Invest in businesses that provide opportunities for growth,” he concluded, always focusing on evolving consumer preferences.

**WHAT'S COOL? THESE TOP 10 COOL NEW PRODUCTS**

For the first time at the NACS State of the Industry Summit, this year's event showcased dozens of Cool New Products. Similar to the NACS Show, attendees received a scanner to scan their favorite products for follow-up after the event. Here's what caught the attention of this year's Summit attendees:

	COMPANY NAME	PRODUCT NAME
1.	Just, Inc.	JUST Cookie Dough
2.	RSJ Ventures, LLC dba Chef's Cut: Real Jerky	Chef's Cut Real Jerky
3.	NestFresh Eggs	NestFresh Specialty Hard Cooked Eggs
4.	Cookies-n-Milk	Edible cookie dough, Bakery products
5.	CAF INC.	FORO®/REACT®
6.	Greyston Bakery	Greyston Bakery
7.	Sweet Street Desserts	Manifestos
8.	Cookies United	Cakebites & Bake Shop Bites
9.	Golden West Food Group	Jack Link's Mini- Entree Protein Bowls
10.	Promotion In Motion Companies, Inc. (The)	Original Gummi Fun Mix

**DATA-DRIVEN DECISION MAKING**

Next up was Tom O'Toole, clinical professor of marketing and senior fellow at Kellogg School of Management, who addressed the value of implementing a strategic, data-driven business model.

“You don’t have to be the top talent (like Amazon or Netflix) to leverage data analytics,” O’Toole said. “But you can still make use of it ... in any given industry; typically competitors are at different points off the analytics maturity curve.”

The data-business relationship involves three stages:

- 1. Using data to manage the business more efficiently and effectively
- 2. Using data to change how the business is managed

### 3. Developing a new business model based on data enablement

“Most businesses are in the first or second,” O’Toole said, adding that businesses should use data to test and optimize returns, while letting business use cases drive the analytics.

O’Toole urged retailers not to “underestimate the IT requirements and the need for an IT commitment. ... If you don’t have committed IT support, you’re like a captain without a ship.”

Finally, O’Toole acknowledged that one’s primary focus should rest on performance, no matter the sophistication of an analytics strategy. “The success and sustainability of data analytics in practice will ultimately depend on producing business results,” he said.

### LEVERAGING MACHINE LEARNING

Continuing O’Toole’s focus on the value of data analytics in retailing success, Jason Lobel, CEO and co-founder of SwiftIQ, a retail analytics software company, addressed the value of incorporating automation and machine learning into the retailing business model.

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While the overall theme of the State of the Industry Summit (SOI) was one of reduced store trips, a closer look reveals that the phenomenon is but a symptom.

He began by discussing Amazon, noting that the company “is competitive everywhere,” profiting greatly from its ability to use artificial intelligence (AI) to automate every stage of the sale process, from its supply chain to physical stores to digital experiences with consumers.

“In January 2018, Amazon had over 100,000 robots,” double its count in 2017 and five times that in January 2016. The result? A 20% increase in productivity.

Lobel said that some companies are using AI in pricing, a tactic that “can lead to dynamic price optimization.”

Acknowledging that introducing AI may be expensive at the retail level, there are “building blocks of insight automation,” including assessing receipt-level data to understand the what, how and when associated

with consumer purchases. This will help retailers optimize their offerings based on time of year, time of week and even time of day.

“Your margin is my opportunity,” Lobel quoted Amazon founder Jeff Bezos as saying in his rationale for entering new markets. To continue to succeed, retailers must ensure their data is clean and accessible, while collaborating

with suppliers, who have tremendous insights to offer. (For more on Lobel's presentation read "Making Retail Smarter" in the May issue of *NACS Magazine*.)

## EVOKE POSITIVE EMOTIONS

"I friggin' love convenience stores!" bellowed Scott Stratten, author of *Unmarketing: Everything Has Changed and Nothing Is Different*.

Stratten's mantra is simple: Success is not a reflection of slick marketing or ad campaigns; rather, "what counts is how customers feel about your brand," he said. "When you evoke emotion, you prompt action."

Stratten told the story of a Ritz Carlton guest whose young son left behind his stuffed giraffe while staying at a Florida property. Hotel staff found it and returned it to him, along with photos chronicling the giraffe's extended vacation at the hotel (photos of the giraffe at the hotel pool, getting a massage and so on). The goal was to delight the customer—which it indeed did—prompting a retelling of the story that has since gone viral and earned the hotel invaluable PR.

"Their employees feel trusted," he said, a huge benefit to the hotel's operation. "You want to improve your bottom line? Improve the front line. That's both who you hire and how you treat them."

Stratten laid out three customer types: ecstatic, static and vulnerable. "The worst type of customer to have is a static one. That's the 'f' word: 'fine.' Apathy is the great brand killer."

Stratten concluded by relaying a simple equation for business success: "Passion plus knowledge equals profit. End of equation."

"If you give a damn about your products, your customers will, too." (To hear more Scott Stratten, come to the NACS Show in Las Vegas this October where he will be taking the stage as our General Session speaker on October 8.)



Mike DiDomenico of Datassential talked about the landscape of exotic spices and flavors that are driving innovation in foodservice.



SwiftIQ CEO Jason Lobel dove into APIs, artificial intelligence and data analytics.

### **TECHNOLOGY ADOPTION, NOT AN OPTION**

Gray Taylor, executive director of Conexus, was the final presenter at the Summit, providing insights into the fast-paced evolution of technology and its implication for convenience retailing.

Identifying the current state of technology as falling into Industrial Revolution 4.0 (following steam, electricity and electronic information), Taylor said the pace of change is dramatic and changing the entire dynamic of business. "Over the next 10 years, everything you think you know about retail and your customers will be challenged," he said. "You will have competition coming out of every direction. ... You sell time and that hasn't changed, but everyone now wants to sell that."

Taylor discussed AI and the role it is playing and technological developments, as well as companies that are disrupting traditional business models, citing Uber, Netflix and of course Amazon.



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Companies  
that thrive in  
the next  
decade will be  
best at  
employee  
retention and  
recruiting.

1.

Even the primary asset of convenience stores—location, location, location—is being challenged by these established companies, Taylor said, along with startups that aspire to their success. “Twenty years from now, location will be where your customers are, not where your stores are,” he said.

Taylor cited five keys to understanding AI and the role it will play in retail:

Consumer AI will grow faster than enterprise adoption, which will put you under pressure to satisfy new expectations.

2. Corporate AI will address the back-office labor components before moving to the front office.
3. Technical components of AI exist and are improving.
4. Cost of AI is declining, making cost-of-entry at a basic level affordable.
5. AI will impact hiring, with key staff expected to understand how to work in an AI environment.

“Your race is against the competition,” Taylor concluded. “Just be faster than the other guys.”

## COMMUNITY BUILDING

This year’s State of the Industry Summit attendance reached an all-time high of 620 retailers and suppliers, with attendee interest enthusiastic and sustained throughout the event. Networking receptions also brought together attendees for some quality relationship building.

In essence, the Summit was the expression of what the industry can achieve together—record profits, an increase in inside sales and success in the face of great change. It’s a community that supports each other, a necessity in a retail environment that’s embracing disruption, whether we like it or not.

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**ABOUT JERRY SOVERINSKY**

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BY CHRIS BLASINSKY

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