

Can you

REBUILD REFRESH RELABEL REBOOT REFLECT RELEVANT?

to remain

EXCLUSIVE CSP-TECHNOMIC RESEARCH SHOWS C-STORES HAVE A PLAN

BY ANGEL ABCEDE, BRETT DWORSKI AND JACKSON LEWIS

ILLUSTRATIONS BY GUY SHIELD

n today's need-it-now world, much of the same quickly leads to irrelevance.

For the convenience channel, which built its competitive hook on physical location and speedy service, this truth is especially acute. The arrival of home delivery, curbside pickup and Amazon Go—the cashierless convenience-store concept from Seattle-based Amazon—have reordered consumers' expectations for the retail transaction.

C-store operators' unease is stark in the latest exclusive research—*Era of Disruption: Is Your Business Built for Growth?*—from CSP and its sister data firm, Technomic Inc. The study reflects retailers' attitudes and progress in remaining relevant through a survey of 200 convenience-store executives, as well as one-on-one interviews with 21 company leaders.

Eighty-two percent of responding retailers are concerned about their brand's relevance today and into the future, with 80% not sure they can keep up, according to Technomic.

“Generationally, we have shifted into an ‘I want it now’ mentality,” said one retailer participant. “It puts unique pressure on the convenience channel.”

At the same time, 82% say they are updating their stores to align with the changing definition of convenience. For example, Irving, Texas-based 7-Eleven—one of the study's participants—has a dedicated “store evolution team,” which opened its first lab store earlier this year in Dallas. “Their mission is to break new ground and mold the customer experience of tomorrow by generating viable, innovative ideas, then testing, learning and incorporating them into our store standards,” a spokesperson told CSP.

The disruption study reveals a mix of hope and uncertainty about the c-store industry. Retailers are generally optimistic about store count growth but are unsure if today's idea of convenience retail will continue to be relevant. Most operators agree that c-stores are evolving but are unsure if those changes fit the times.

That said, they are priming for a fight. Strategies to retain and grow customers include technology such as advanced loyalty programs, ordering kiosks and mobile pickup services. Others include building bigger, brighter stores with more amenities, and becoming more like restaurants with proprietary foodservice.

But throughout the study results, the same nagging question remains: Are these changes enough to keep c-stores relevant?



REBUILD

transformational retail stems from multiple roots, says Joseph Bona, president and owner of Bona Design Lab, New York. He points to Capital One banks working with Peet's Coffee to develop multiuse locations.

"By offering free Wi-Fi, a comfortable workspace, local coffee and food, and access to free financial advice, a bank is no longer just a bank," he says. "With c-stores, I'm guessing someone is thinking about more transformative solutions where technology is just a piece of the total experience."

Of all the ways convenience retailers can carve out relevance, the most obvious starting point is the physical aspects of the c-store: location, lot size, store size and the fuel-plus-store format. One hundred percent of the retailers surveyed said they intend to grow their companies.

The question is how. Only 32% have plans to remodel their stores, and only 19% intend to build new locations.

Surprisingly, 60% don't intend to upgrade their locations at all. According to the survey, 80% of stores are more than five years old and more than 23% are 10 years or older.

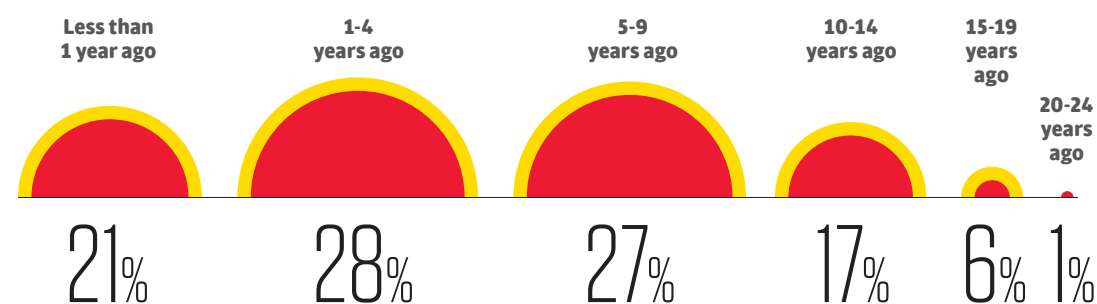
A big issue is money. "When you do a major remodel, it is almost impossible to get a return on your investment," one retailer said.

Unfortunately, inaction won't resolve the relevance issue. "Think about the cellphone you had in 2009," says Donna Hood Crecca, principal with Chicago-based Technomic and co-author of the report. Crecca refers to the BlackBerry she owned in 2009. "I don't use it anymore, obviously," she



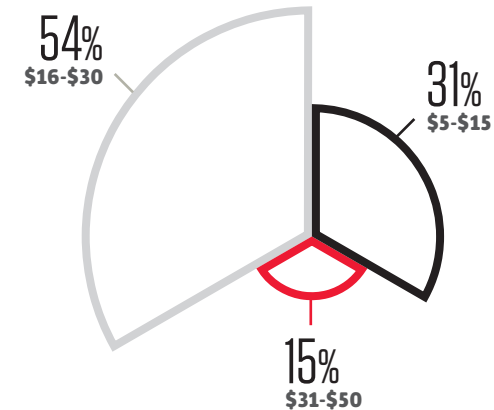
Age of Stores

What percent of your stores were built ...



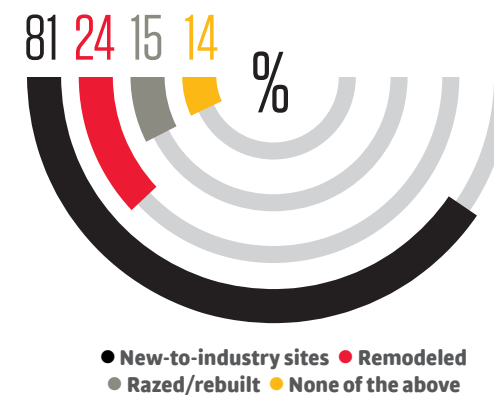
Money Matters

Capital budget allocated annually for future remodel or rebuild (\$ millions)



Growing Stores

How have you increased your store's footprint?*



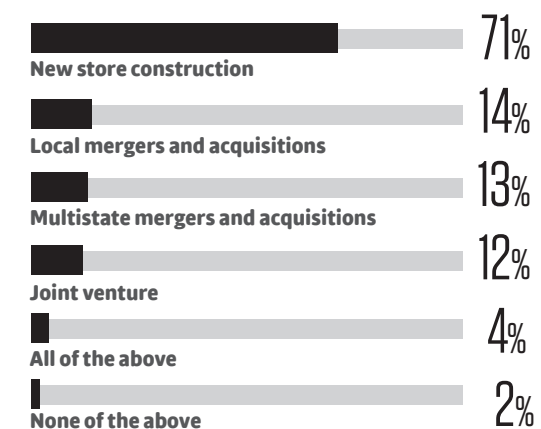
* Participants could select more than one answer.

82%

Amount of operators who are concerned about their brand's relevance to today's and tomorrow's consumers

Store Count Drivers

Which do you anticipate being the primary drivers of store-count increases?*



52%

Amount of operators who indicated that none of their stores has ever been remodeled

says. "Likewise, a store built in 2009 may not feel relevant. It may not meet the needs of today's consumer, let alone tomorrow's."

Of course, the costs of growth are intimidating. NACS State of the Industry numbers show a typical new-to-industry (NTI) store in an urban location cost as much as \$8 million in 2018. A rural NTI store cost nearly \$6 million.

Simply updating stores is costly. Study participants said that over the next three years, they intended to spend in the \$16 million to \$30 million range for remodels or raze-and-rebuilds.

At CSP's 2019 Outlook Leadership conference, Tony Miller, president of Brentwood, Tenn.-based Delek, pointed to his company's 2016 sale of the MAPCO retail chain assets as a way to fund its purchase of Alon last year. While Alon was the biggest 7-Eleven licensee in Texas and the Southwest, Miller said Delek's intent is to transform those assets with a new DK retail brand and a more relevant offer. (See more Outlook Leadership coverage on p. 64.)

Other retailers are keeping relevance in mind as they consider growth. On Circle K's July 10 earnings call, Brian Hannasch, president, CEO and director of parent company Alimentation Couche-Tard, Laval, Quebec, spoke about its more than two-year effort to unify its stores under the Circle K brand. Almost all of its stores in Texas and half in Arizona are still rebranding, which includes a bean-to-cup coffee program and upselling technology. And 7-Eleven, the largest c-store chain in the U.S., according to CSP's Top 202 ranking, also intends to "push boundaries" of convenience retail. Its lab store "serves as a place to see what really resonates with customers and how we can use those learnings to influence future store designs," the company says.

REFRESH

Foodservice has become a driving force behind retailers' motivation to remain relevant. Eighty-two percent of retailers agree that foodservice is a strategic priority and will be important to driving future growth, according to Technomic. And while many have elevated their foodservice programs with fresh, customizable offerings, others remain hesitant to do so and risk falling behind.

"Foodservice is the future of our industry," says Heather Davis, director of foodservice for Parker Cos., Savannah, Ga. "If you're a c-store operator and not involved in foodservice, you're missing out."

Forty-four percent of retailers offer made-to-order foodservice in most of their stores. Another 40% of retailers offer it in less than half of their locations, according to Technomic. And of the 16% of operators who don't offer made-to-order foodservice at all, 12% plan on doing so within a year.

Parker's made-to-order offerings include fried chicken, macaroni and cheese, potato logs, grits and biscuits. Through its ordering kiosks, customers can customize their own breakfast sandwiches, which may include smoked sausage and chicken tenders.

"Our chicken is double-breaded by hand and made from scratch," Davis says. "We get fresh, whole potatoes and cut and fry them ourselves, and our macaroni and cheese is made with fresh noodles, cream and cheese."

In 2016, Parker's tested a barista to provide made-to-order coffee. While it didn't resonate with customers at the time, Parker's is now "testing other avenues" with

its coffee program, Davis says.

"We now recognize that you have to take steps to bring your customers along," she says.

Some foodservice-focused c-stores view quick-service restaurants (QSRs) as their biggest competition and keep that in mind as they design their own programs.

"We've always looked at ourselves as a QSR," says Lauren Hancey, category manager of dispensed beverages for Maverik Inc., Salt Lake City.

Beyond made-to-order offerings, c-stores compete with restaurants through seating. Forty-eight percent of retailers offer indoor seating in most of their stores. Many Maverik customers use its stores' seating for "coffee clubs"—groups that arrive with outside food to mingle—said Brian Sward, senior director of food and beverage for Maverik, at that 2019 Outlook Leadership conference. Maverik doesn't mind this because these customers often

buy more products after sitting for a bit.

"[The coffee clubs] benefit the store financially," he said. "We're seeing basket-size increases when customers sit and hang out for a while."

Parker's indoor and outdoor seating at various locations will become part of all its future stores, Davis says. She calls it "community seating," because many of the tables seat about eight to 10 people.

"We're competing with restaurants and measure ourselves against them," says Davis.

"If you're a c-store operator and not involved in foodservice, you're missing out."



In foodservice, labor is a major cost component. Technomic research finds that c-store operators are worried about retaining employees and high labor costs. Finding kitchen associates has become especially challenging because these employees often require previous training and certifications.

Parker's hiring process for kitchen staff is rigorous. The company hosts several hiring events throughout the year, most of which are geared toward leadership roles and foodservice, Davis says.

"We look for kitchen managers and associates who understand that we have the standards of a restaurant," she says.

While foodservice staff spend their training in the kitchen, cashiers and other employees work a few shifts there as well so they understand safety expectations and Parker's offerings, Davis says.

"Our goal is to pass eventual store managers though our kitchen," she says. "If you can run a kitchen, you can run a store."



POWERED BY



Rethinking Relevance

Retailers retool for customers of tomorrow

BY CSP STAFF

ILLUSTRATIONS BY GUY SHIELD

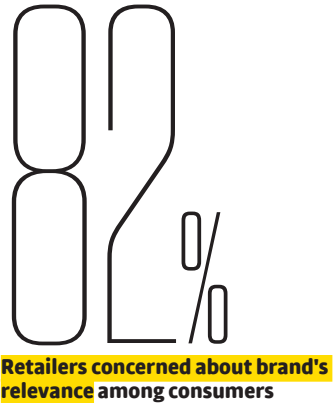


Whether operating out of anxiety or inspiration, retailers are reinvesting in their stores to maintain relevance in an age of retail disruption, according to CSP and Technomic's latest study, *Era of Disruption: Is Your Business Built for Growth?* From upgrading foodservice programs to building bigger boxes, proactive retailers are refusing to sit still as technology, cross-channel competitors and customer expectations evolve. Here are five motivations driving retailer innovation.

Concern

E-commerce and drugstores, dollar stores and mass merchants are biting into the on-the-go shopping occasion, stirring concern among c-store retailers.

Increased competition from other retailers is making us elevate our stores:

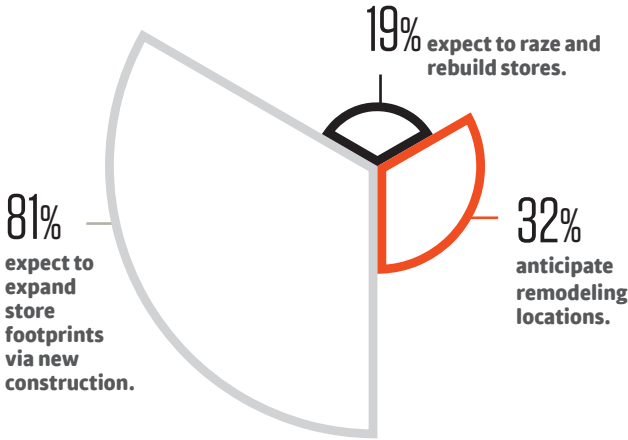


“I think generationally, we have shifted into an ‘I want it now’ mentality. It puts unique pressures on the convenience channel.”
—Large chain retailer

Vision

Spurred by competitive forces and the desire to meet evolving customer expectations, c-store retailers are rethinking the future.

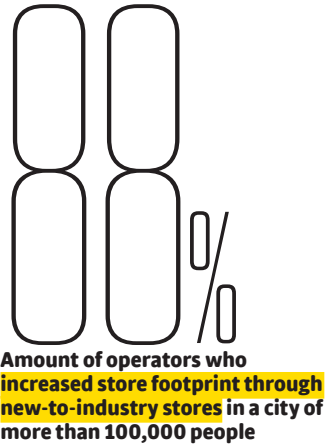
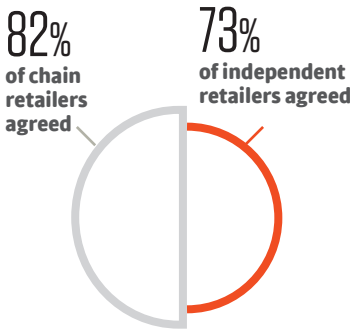
In the next three years ...



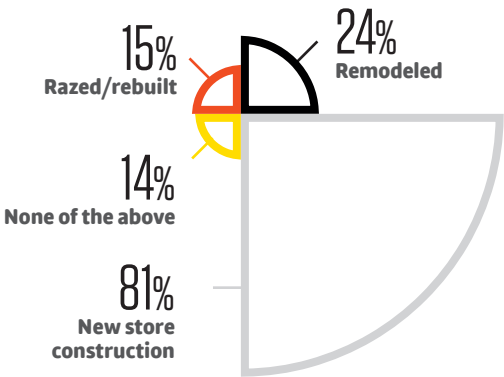
Tactics

C-store operators are committed to opening new stores and remodeling existing ones to remain competitive and up-to-date with evolving technology.

Our company is making significant investments in customer-facing technology:



How have you increased your store footprint(s)?



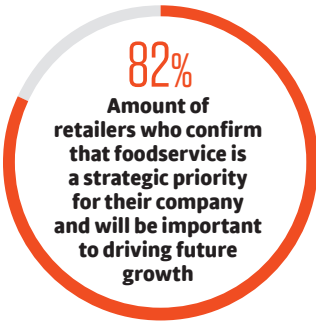
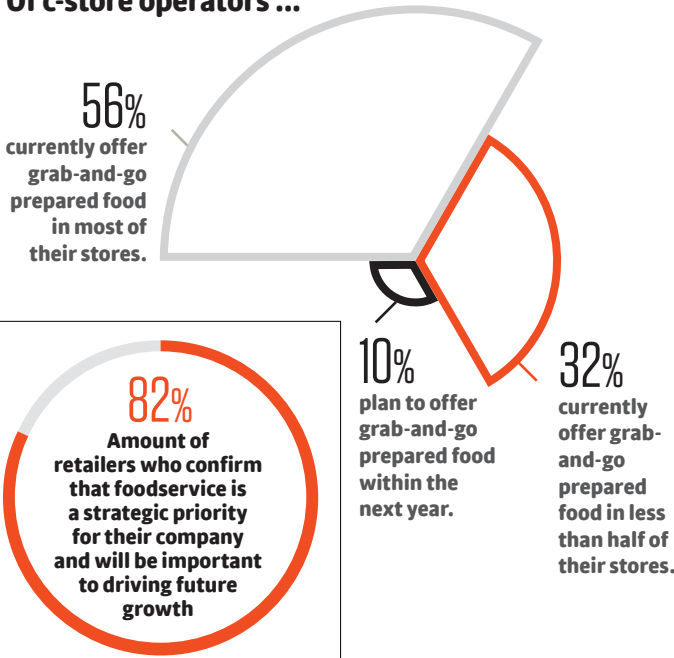
“We are very bullish about [the industry]. We see big opportunities—fuel will probably be flat as we will have more efficient vehicles, but c-stores will grow.”
—Large chain retailer



Front Line

Most c-store operators now offer prepared grab-and-go food offerings as many increasingly see foodservice as a way to build their brand and increase customer engagement.

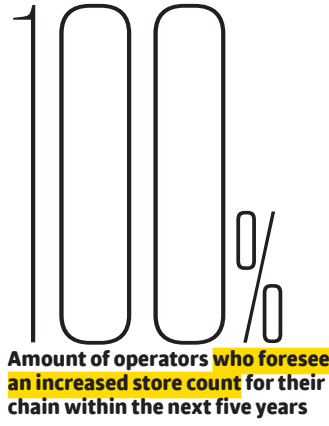
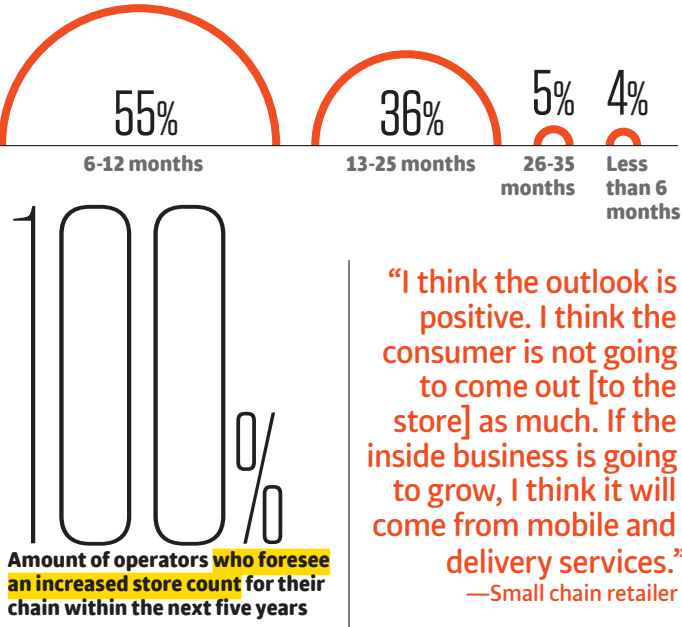
Of c-store operators ...



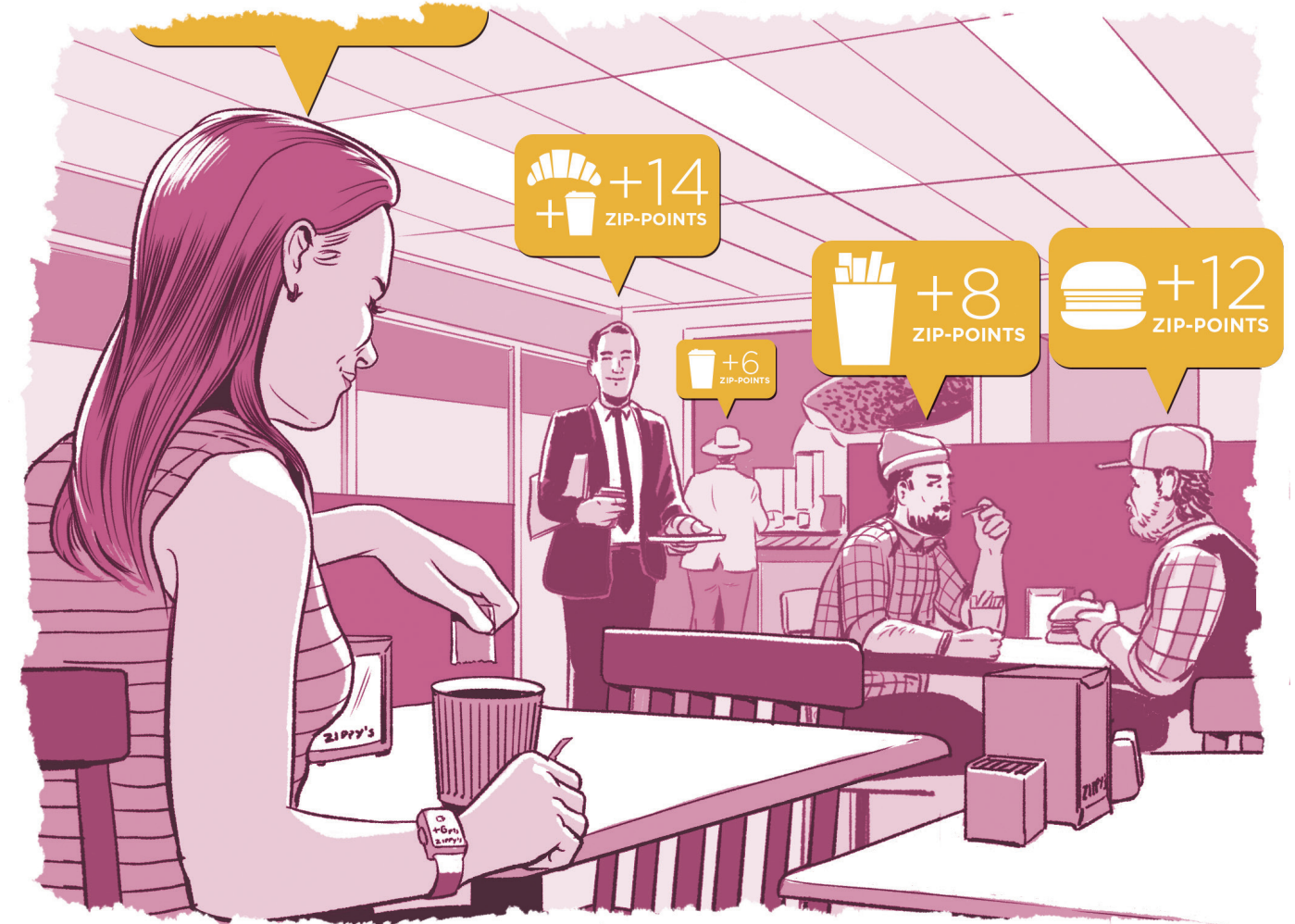
Goal

C-store operators ultimately are optimistic about the future of their c-store businesses.

In how many months do you expect to increase your store count?



“I think the outlook is positive. I think the consumer is not going to come out [to the store] as much. If the inside business is going to grow, I think it will come from mobile and delivery services.”
—Small chain retailer



RELABEL

“We’ve always looked at ourselves as a QSR.”

o remain relevant, many c-store operators are testing new tech and product offers.

In the foodservice space, ovens, grab-and-go coolers and other premium, compact equipment often found in limited-service restaurants offer the ability to deliver food faster. Parker’s kitchen has three fryers; multiple full-size ovens; walk-in coolers and freezers; breading tables; and ample space for shelving and storage. Its equipment is data-driven, allowing the kitchen staff to manage everything that’s being cooked at once. Screens show when the oil filtering process begins and ends, and the ovens have screens that show what is being cooked, the current temperature and the time. These screens also save the item’s history, so the oven sets the temperature and time to that specific item with the push of a picture button.

“Every item we roll out is tested in this equipment,” Davis says.

Maverik tests new equipment

82%

Amount of retailers who agree that foodservice is a strategic priority and will be important to driving future growth

at its headquarters before launching nationwide. The chain has recently explored coffee equipment such as bean-to-cup machines, nitro coffee makers and frozen-coffee machines, Hancey says.

“We ask ourselves, ‘Would this be exciting for our customers to interact with and keep product fresh?’” she says.

Seventy-one percent of c-store retailers offer proprietary foodservice—food and beverage programs under their brand, according to Technomic. More c-store operators offer private-label foodservice compared to receiving it from a national QSR brand (35%) or distributor-branded turnkey program (6%). This is a key differentiator from other c-stores and restaurant chains, Technomic said.

7-Eleven offers a variety of private-label foodservice items through its 7-Select brand, such as protein cookies and grilled chicken skewers. Its proprietary packaged beverages include cold-pressed juices, sparkling waters and energy drinks. The chain plans to pursue bean-to-cup coffee, iced tea, nitro coffee, cold brew and more through 7-Select, the company told CSP.

Parker’s, on the other hand, has every foodservice product item under its private-label line. This includes everything from chicken and breakfast sandwiches to sauces and dips.

“Our brand has a powerful reputation for quality, cleanliness and service,” Davis says. “We use that to push our foodservice program.”



Cannabidiol (CBD), a nonpsychoactive component of hemp and cannabis, continues to emerge in retail. At the same time, the pressure to stock the controversial ingredient—and remain relevant in the process—has been building for c-store retailers.

Twenty percent (20%) of c-store operators said they plan to offer CBD products in the future, and 51% of those retailers said gummies would be their item of choice, according to Technomic. This outpaced beverages (38%), baked goods (36%), candy (33%), oils (31%), concentrates/drops (28%), capsules/pills (26%), dissolvables (23%), vapor (18%) and topical creams (15%).

Parker’s sells CBD-infused gummies, lollipops and drops, but the chain remains hesitant to explore food and beverages that contain the substance, because the U.S. Food and Drug Administration has yet to craft a set of guidelines for its handling and selling in this category, says Heather Davis, director of foodservice for Parker’s.

REBOOT

In the race for relevance, as c-store foodservice offerings evolve, so do the amenities to get that food into consumers' hands.

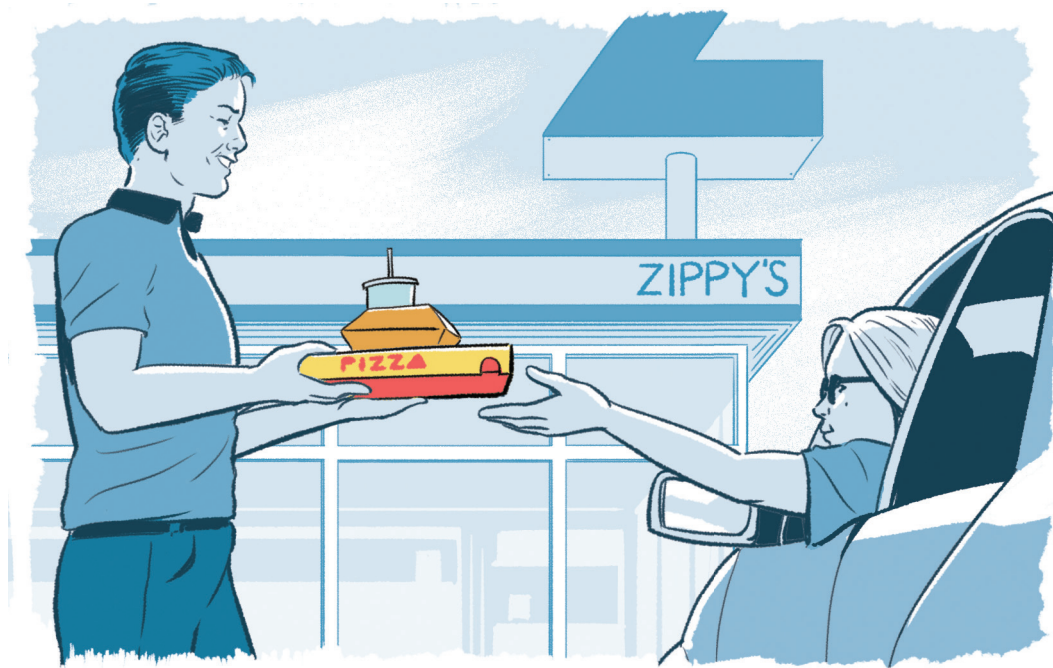
7-Eleven is leading the charge in convenience retail toward offering more tech amenities. The chain's 7Now app, which allows customers to order in-store items for delivery, is available in 28 major markets and reaches 23 million households in more than 200 cities.

And 7-Eleven has gone one step further by introducing "pins" to 7Now, which allow customers to order items for delivery from almost anywhere, even if the location does not have a fixed address. The chain's tech innovation is not limited to delivery: 7-Eleven recently introduced a mobile check-out option through the 7-Eleven app in New York after piloting the technology in a few Dallas locations in 2018.

The food ordering kiosks at Parker's stores give customers customization options that "let people get exactly what they're craving," Davis says. This move reflects findings from the CSP-Tech-nomic study, in which 38% of respondents said they currently offer touchscreen ordering kiosks for foodservice in most stores.

Parker's is improving ease of access for consumers in other ways, too. Davis says 21 Parker's locations partner with DoorDash for delivery, a couple of stores use Grubhub and one uses Uber Eats. "People are impatient: People want what they want now," Davis says.

Parker's does not offer everything on its menu for delivery,



which Davis says is a strategic decision due to the intricacies of delivery. Parker's offers most of its breakfast menu for delivery, but not customizable breakfast sandwiches. The chain does not offer lunch menu items such as combos and deals, either. Davis says stores partnering with third-party delivery providers have to consider everything from the high cost to packaging options.

As Parker's gives customers more access to its foodservice options, it's also working to hold

"People are impatient: People want what they want now."

onto its human touch, despite the advance of technology.

"Technology creates a barrier between the store and the customer," Davis says. "We're putting a process in place to drive our team to engage with the customer—to engage them as if the kiosks weren't there." Davis and the team at Parker's call this strategy "assisted checkout," which ensures a human employee is always there to help customers. This practice makes the ordering process faster for customers, she says.

44%

C-store operators currently offering curbside pickup in most stores

77%

Retailers prioritizing personality and customer-service orientation when recruiting store staff

80%

Operators who see e-commerce as the best opportunity to increase engagement with customers

78%

Retailers who feel e-commerce is the biggest threat to convenience-store traffic and sales

REFLECT

aster and better-operated stores are always optimal, but speed is only one factor in the fast-changing world of retail. “The consumer expectation of the in-store experience has changed quite a bit,” Crecca of Technomic says.

But uncertainty remains despite action from chains to change with the times: Eighty percent of brands surveyed said they are concerned about their organization’s ability to ensure their stores will be relevant to customers five years from now.

Some stores are working to personalize their inventory and amenities to keep up with the times.

“Being more relevant [means] expanding your offerings and getting into more segments—having more of what everybody needs in the store,” writes one retailer participant. “You can’t be a supercenter, but you have to have what your customers need. [Stores] can’t be one size fits all—can’t do the same thing in every store.”

Crecca points to industry competitors, especially dollar stores, as another factor pushing convenience to better understand their customers to more effectively fulfill their needs. Now that dollar stores have cracked the code of catering to lower-income consumers, they are starting to attract high-income consumers looking for deals, she says.

Another existential threat to the industry is declining fuel demand as consumers drive less and in more fuel-efficient vehicles.

And labor costs continue to rise in a tight labor market with plenty

of competition for jobs. “The biggest threat is an increase in cost of labor,” writes one small-chain respondent. “We cannot take on a 50% increase in labor [costs] and still deliver on the customer experience.”

Improving the in-store experience with labor-saving food-ordering kiosks, mobile ordering and other tech amenities is one path forward, but it might not come cheap. “The elevation of tech is obvious, which rolls right back into the implications for cost,” Crecca says. The transition from the gas, Cokes and smokes model might require stores to be built with wireless connectivity in mind. Stores might need different electrical systems to handle an influx of internet of things devices. Some parking lots and layouts might need to be built to accommodate delivery or curbside pickup.

Both consumer sentiment and consumer-facing tech are already changing, Crecca says, and that’s not stopping anytime soon. “E-commerce is not a trend, it’s the norm. Gen Z isn’t coming—

they’re here now. Immediacy is a part of their consumer psyche,” she says, and retailers both offline and online are moving to meet that consumer-driven need for immediacy.

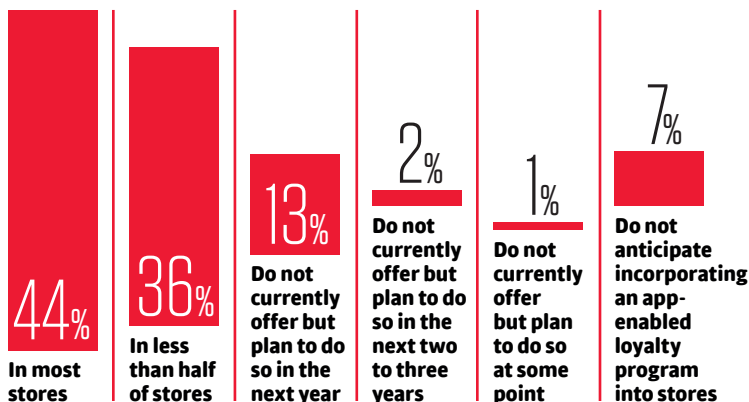
The Federal Aviation Administration has already issued a certificate giving Amazon Prime Air—Amazon’s plane-delivery arm—permission to operate unmanned aerial drones. The drones will be built to fly 15 miles to complete 30-minute deliveries of small packages weighing no more than 5

pounds. Amazon could launch the flying drones “within months,” according to a recent Amazon blog post. This initiative and others like it could change the norms of e-commerce all over again, and more innovation is sure to follow.

Crecca says c-store retailers need to consider their business through a long-term lens and ask if they will be relevant next year—and in 15 years. “From now on,” she says, “the only constant is disruption.”

CSP

Do you offer an app-enabled loyalty program with points or rewards?*



GET THE REPORT The CSP-Technomic Era of Disruption Study is available for download at www.cspsdailynews.com/exclusive-industry-reports

*Numbers add up to more than 100% due to rounding