COMMERCIAL ZONE® PRODUCTS

CONVENIENCE STORE TRENDS

WHITEPAPER

THE CONVENIENCE STORE INDUSTRY IS POISED FOR INDUSTRY-DEFINING SHIFTS IN THE COMING YEARS, AS CHANGES IN BOTH THE MARKETPLACE AND CONSUMER BEHAVIOR WILL CHANGE THE CATEGORY DRASTICALLY.

High performing stores of the future will look back on this period as one of significant transformation, having adapted to evolving customer expectations, emerging technologies, and changing market dynamics. To thrive in this dynamic environment, convenience stores – and those who manage and supply them – must look ahead to industry-reshaping trends and reset their compasses accordingly.

This whitepaper will discuss the ways in which the c-store industry is evolving, including the impact of external forces such as electric vehicles, as well as internal factors like the drive to capture a larger portion of fast food spending. These changes will significantly influence the way businesses operate within the industry.

The goal of this whitepaper is to help convenience stores make smart investments in their future directions by defining the current industry changes that are driving transformation.

CREATING A CUSTOMER EXPERIENCE FOR EXTENDED STAYS

Convenience stores are no longer just quick stops for fuel and snacks; they are moving to directly compete for dollars with restaurants, coffee shops, and retailers such as drug stores. To do so, stores are either creating shopping and dine-in options themselves or strategically partnering with established brands for on-site options. To fully make this vision work, stores must create the kind of environment that invites customers to settle in and stick around.

Donna Hood Crecca, a principal for the market research firm Technomic, was recently quoted as saying that, "Consumers are into the type of seating and offering in a c-store that invites you to stay a while. For that younger consumer to come in for half an hour, watch TikTok… there's an opportunity to build that.[1]"

Providing high-speed internet access and comfortable seating areas have become essential components to enticing customers away from other lounging options, as customers seek an inviting ambiance for extended stays.

In very good news for c-stores, recent research demonstrates that the industry may already be making inroads. A research study from Technomic demonstrated that convenience stores in general performed well against broader competition, with consumer scores outranking QSRs on metrics including food, location, service, and – crucially – 'overall satisfaction.'[2]

C-STORES OUTRANKED QSRs

ON FOOD, LOCATION, SERVICE AND OVERALL SATISFACTION

Source: Technomic

While this shift will force the industry to think differently about many aspects of their businesses – including store design, purchasing, and labor – market forces are defining this as a crucial battleground.

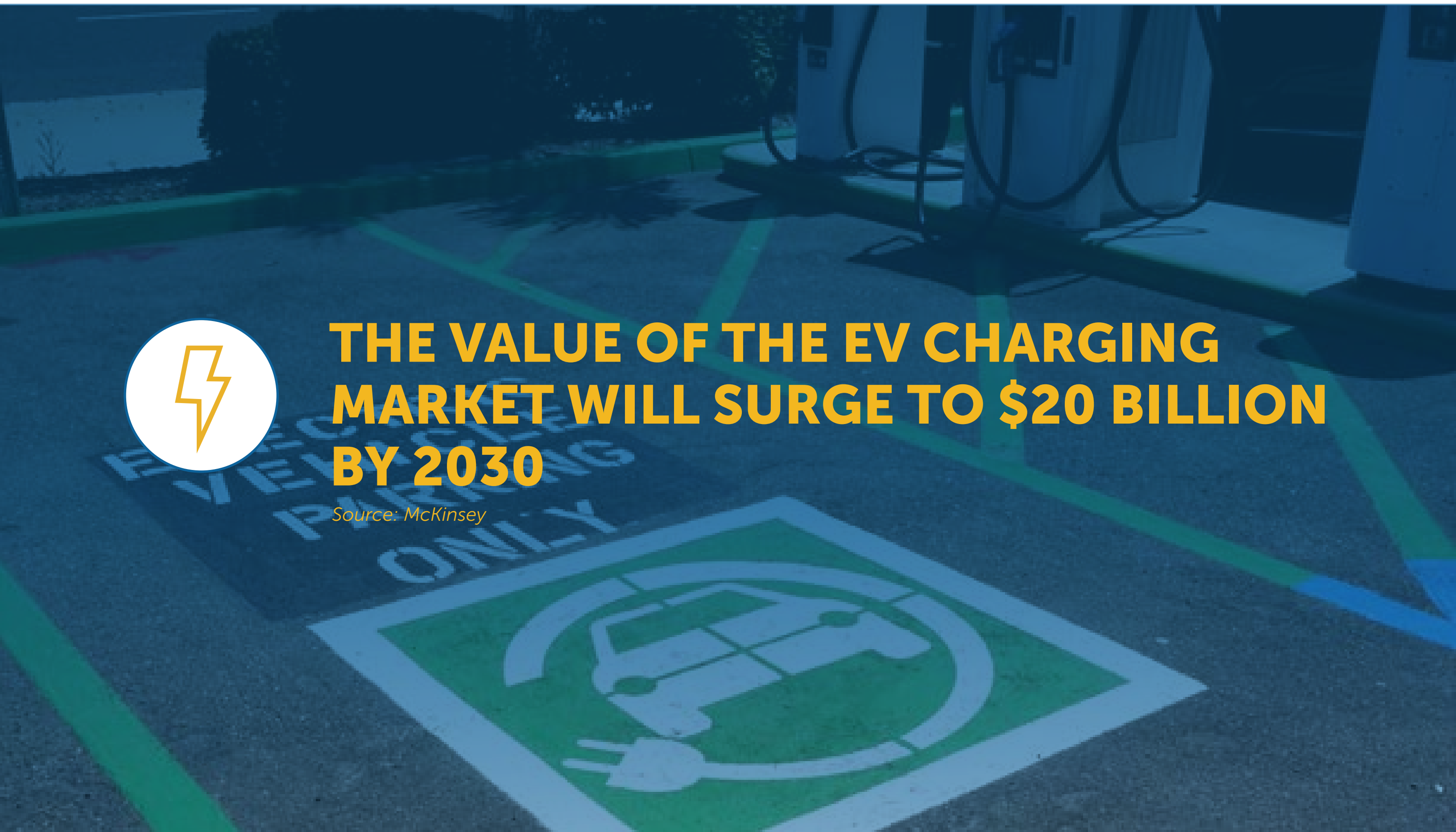
ELECTRIC CARS AND THE CHANGING LANDSCAPE

The electric vehicle market is experiencing remarkable growth, with much of the uncertainty owed to regulatory and political wishy-washiness in the rear-view mirror. Consider the following: according to Kelley Blue Book, electric vehicle sales in the first quarter of 2023 showed 44.9% growth compared to the same period in 2022. This totaled 258,882 EV sales in that quarter, which was a record in the United States market.[3] In that same quarter, fully 7.2% of all new car sales were electric, up from 3.2% just two years ago.

With consumer preference and industry commitment working in tandem, the growth of EVs will dominate market trends for the next decade. Manufacturers are shifting to mostly (or all) electric lines and governments, both state and federal, are creating regulations and goals for the industry that continue to accelerate electric vehicles' market share. As it stands today, almost 25% of the country's population lives in states where sales of internal combustion engines are set to be phased out entirely.[4]

The rise of electric vehicles (EVs) is significantly impacting the convenience store industry, as convenience stores must adapt to the needs of electric car owners. This adaptation includes replacing traditional fuel pumps with charging stations. This in and of itself represents both a shift and an opportunity in the way c-stores generate revenue. Defined as negligible by analysts today, a recent McKinsey study predicted that the value of the EV charging market will surge to $20 billion by 2030.[5]

This highlights not only the significant potential for convenience stores to embrace EV charging infrastructure, provide an essential service, and reap the financial rewards, but also creates synergy with the goal of extending customer stays.



THE VALUE OF THE EV CHARGING MARKET WILL SURGE TO $20 BILLION BY 2030

Source: McKinsey

EXPANDING FOOD OPTIONS AND COMPETITION

Convenience stores will need to adjust their revenue streams to make up for what is predicted to be a decline in fuel retail. One area that the industry can make up for those losses is in the food space, as the total global forecourt market is expected to grow from $22 billion in 2019 to $30 billion by 2030.[5]

To cater to a broader range of customer preferences, convenience stores are expanding their food options beyond traditional grab-and-go offerings. This includes incorporating fresh groceries, expanding coffee choices, offering pre-prepared meals, and providing indulgent treats like ice cream and fresh bakery products. By expanding their food offerings, convenience stores can compete with established brands and meet the growing demand for healthier options, and this tactic may already be working – according to bluedot's 'The Convenience Experience Report,' 59% of U.S. consumers reported considering purchasing a meal from a c-store when stopping for fast food.[6]

The desire for healthier snacks and meals is driving significant market growth in certain segments. According to Meticulous Research, the healthy snacks market is projected to reach $152.08 billion by 2029, with a compound annual growth rate (CAGR) of 6.5%.[7] Convenience stores can tap into this market by including healthier options in their food selection, such as fresh fruits, salads, and organic snacks.

While overall customer sentiment may be shifting to healthier options, the market has still retained its sweet tooth, according to Anne-Marie Roerink, a principal at consulting firm 210 Analytics. "While gasoline, cigarettes, soda, and beer were the pillars of old for driving foot traffic, convenience stores have reinvested their food offering, and ice cream and other frozen novelties have become flagship offerings for many of them."[8]

THE TOTAL FORECOURT MARKET IS EXPECTED TO GROW FROM

$22 BILLION IN 2019 TO $30 BILLION BY 2030

Source: McKinsey

Convenience stores will need to latch on to a broad array of trends from across the food industry to reap market share. This includes forming strategic partnerships with local food providers to offer locally sourced products, aligning with the rising consumer interest in sustainable and locally produced food items.[9] Similarly, 62% of consumers said they would visit a c-store more often if drive-thru or curbside was available.[6]

62% OF CONSUMERS SAID

THEY WOULD VISIT A C-STORE MORE OFTEN IF DRIVE THRU OR CURBSIDE WAS AVAILABLE

Source: Bluedot

TECHNOLOGY DRIVING BUSINESS OPPORTUNITIES

Technological advancements and trends are providing convenience stores with new avenues to both enhance customer experiences and generate additional revenue. While the pace of technology pushes all sectors forward, there are a couple stand out trends that are especially relevant to the c-store industry.

TRANSACTIONAL CONVENIENCE AND EFFICIENCY

Self-pay, a trend that has been expanding rapidly beyond its beginnings in grocery retailers, is growing at convenience store locations and will help the industry adjust to what is anticipated to be enhanced customer traffic. As c-stores compete harder for dollars centered around morning coffee or mealtimes, self-pay will help alleviate surges in customer traffic and will save on labor headaches. In general, customers respond favorably to having the option for self-pay, which is broadly seen as a convenience for those who prefer it.

Similarly, companies are experimenting with ordering systems that reduce the impact on labor and provide another convenient option to customers. For example, Panera recently introduced voice ordering capability using a conversational AI model in partnership with Amazon's Alexa Skills group.[10] Giving customers the option to make their experience quicker and more convenient has proven to be a winning strategy, and recent explosions in technology centered around self-service have broadened the scope of possibilities.

INVESTMENTS IN BRANDED MEDIA

In-house owned and branded media has seen enormous growth across all retail sectors, and the momentum shows no signs of slowing. According to a forecast from eMarketer, digital retail media ad spending in the United States is projected to grow 31.4% throughout 2023 for a total market size of $40.81 billion. In 2024, that total is poised to jump to $61.15 billion which will comprise almost 20% of total digital ad spending.[11]

There are several reasons retailers are observing such explosive growth in branded media, and why many companies are investing in creating their own media channels for customers. In addition to providing entertainment and enhancing the customer experience, branded media drives business outcomes through promotion of one's own products or services, selling ad space to partners, and – perhaps most impactfully – collecting proprietary data, owning that data, and leveraging it has become an enormous industry in the past decade.

LOYALTY PROGRAMS AS THE NORM

Loyalty programs play a crucial role in attracting and retaining customers in the highly competitive convenience store landscape, and now may be the perfect time for brands to enhance their offerings. According to Paytronix, the total number of c-store rewards members dropped 16% from 2019 to 2021, which may be owed to pandemic-related decreases in foot traffic.[12] However, the same group reported that 8-10% of loyalty members are responsible for about 40% of c-store visits. Capturing lapses and new loyalty members represents a huge opportunity for convenience store owners and managers.

With convenience stores being considered for much more than gas and quick food and bev options, creating a broader brand proposition and engendering brand loyalty will be key to fully realizing a return on the investments currently being made. C-store brands are moving into competitive categories where brands already have established loyalty programs – fast food restaurants and coffee/tea brands have well-established apps, so these experiences will be necessary to compete.

The lift to get these programs off the ground is shown to pay off, however. According to a study from Bain & Company, a 5% increase in customer retention produces more than a 25% increase in profit.[13] By personalizing the customer experience and offering specials and exclusive offers, convenience stores can foster brand loyalty and build a strong customer base. That brand loyalty goes a long way, as 72% of customers are willing to pay more to purchase from their preferred brands, and 70% cite the loyalty program of their favorite brand as either 'important' or 'critically important' to winning their lasting businesses.[14]

To compete for customers' loyalty, brands are getting more creative. Starbucks, for example, recently released its second collection of NFTs to its beta users through its Starbucks Odyssey program.[15] In addition to using loyalty programs to simply promote specials or offers, or to help customers accumulate rewards, c-stores should be looking at other ways to engage and build affinity with their customers.

8-10% OF LOYALTY MEMBERS ARE RESPONSIBLE FOR

ABOUT 40% OF C-STORE VISITS

Source: Paytronix

WINNING THE BATTLE FOR LABOR

The growth potential of the convenience store industry is often challenged by the current labor market conditions. In fact, employee churn reached 150% in 2021, the highest it has been since 2012, according to the NACS State of the Industry Compensation Report.[16] Regardless, attracting and retaining talented employees is crucial for supporting business growth and providing exceptional customer service.

To win the battle for labor, convenience stores need to understand employees' values and align their work experiences accordingly. For example, 62% of hourly employees reported valuing flexible working hours more than any other factor, a shift from the previous generation of workers and one that will force retailers to think differently about staffing models.[17]

In addition to taking the preferences of the new labor market into account, combating churn should include ways to reward employees for loyalty and good performance. One example of a brand in the c-store space making inroads is Pilot Co., which has launched a new engagement program to incentivize employees to go above and beyond for their customers. The program, dubbed 'Fueling Recognition', workers can earn points within a custom app for things like exceptional work, hitting milestones, and achieving tenure. The points earned in-app are redeemable for prizes.[18]

By prioritizing employee satisfaction, convenience stores can create a motivated and dedicated workforce, enhancing the overall customer experience and avoiding labor woes plaguing many industries.

62% OF HOURLY EMPLOYEES REPORTED VALUING FLEXIBLE WORKING HOURS MORE THAN ANY OTHER FACTOR

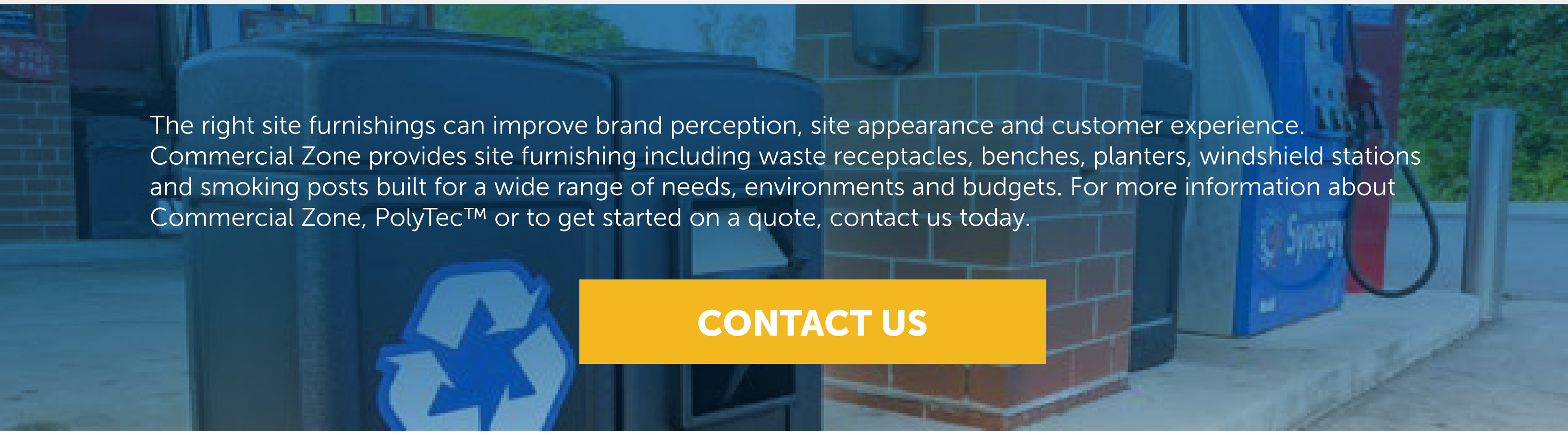
Source: eMarketer

CONCLUSION

Convenience stores are currently undergoing significant transformations to meet the changing needs and expectations of customers. For those willing to adapt aggressively and embrace the opportunity these changes represent, this period will be looked at as a positive inflection point in the future. Staying ahead of industry trends and embracing innovation will be key to maximizing growth opportunities in the c-store sector.

SOURCES

[1] C-Store Dive: 9 trends that will shape the c-store industry in 2023
[2] Technomic: Top-Line Competitive Brand Assessments
[3] Kelley Blue Book: EV Sales Broke Records in First Quarter of 2023
[4] CarEdge: These Are the States Banning New Sales of Gas and Diesel Vehicles
[5] McKinsey: Fuel retail in the age of new mobility
[6] Bluedot: The Convenience Experience Report
[7] Meticulous Research: Healthy Snacks Market by Type
[8] C-Store Dive: Ice cream sales are driving traffic, but inflation could hamper growth
[9] C-Store Dive: Yatco leans into healthier, locally sourced snacking
[10] Retail Brew: Amazon and Panera think conversational AI is the future of easy ordering
[11] eMarketer: What you need to know about retail media in 5 charts
[12] Paytronix: Annual Loyalty Report 2022
[13] Bain & Company: Prescription for cutting costs
[14] Cheetah Digital: U.S. Consumer Trends Index 2023
[15] CoinDesk: Starbucks Odyssey Brews Smoother Second Serving of NFTs With 'First Store' Collection
[16] NACS: Re-Learning Retail Love: The New Best Practices for Acquiring and Retaining Talent
[17] Legion: State of the Hourly Workforce
[18] C-Store Dive: Pilot launches new employee engagement program



The right site furnishings can improve brand perception, site appearance and customer experience. Commercial Zone provides site furnishing including waste receptacles, benches, planters, windshield stations and smoking posts built for a wide range of needs, environments and budgets. For more information about Commercial Zone, PolyTec™ or to get started on a quote, contact us today.

CONTACT US

LET US HELP FIND A SOLUTION FOR YOU

800-782-7273 • cpservice@commercialzone.com • www.commercialzone.com