As *NACS Magazine* celebrates its fifth anniversary, what are some of the big ideas that industry thought leaders can and should use to differentiate themselves in a hotly competitive marketplace where 'convenience' and 'convenient' don't always mean the same thing?

IDEAS AND CHALLENGES FOR THE NEXT CONVENIENCE EVOLUTION BY KEVIN COUPE

I was in London recently, and found myself at a Tesco Express store just across the street from Big Ben and the Houses of Parliament. I wandered in the store (most tourists want to see the usual sights, but not us retail pundits) and found that it was a long, tubular space that featured mostly pre-packaged sandwiches, beverages, chips and candy.

In a nearby neighborhood that was a lot more residential, I visited another Tesco Express and found a store that was significantly larger, offering a lot more product — both in convenience and more traditionally sized packaging — and more fresh foods.

Both were convenience stores, but they had very little in common with each other, except, of course, that they reflect Tesco's highly customer-centric approach to marketing.

I thought again about how the notion of what a convenience store — a convenient store — is when I was on my way to work. I stopped in at the local convenience store and picked up a couple of newspapers, a pastry and a hot coffee. It was one of two trips I made that day; the other was at lunchtime, when I went to the same place and got a sandwich, a latte and a great oatmeal-raisin cookie. That convenience store — the *convenient* store — is named Starbucks.

What is Convenience?

Now, I'm hardly the only person who thinks of Starbucks as a convenience store; as one friend e-mailed me recently, "Personally, I am willing to drive a few more minutes to accomplish more needed goals, or for a better experience. I consider my midday trip to Starbucks a convenience shopping trip. Although I have to drive about 10 more minutes past my local, traditional convenience store, it is more convenient to me because the coffee is better and the store is more pleasant."

Scott Hartman, president and CEO of Rutter's Farm Stores (York, Pennsylvania), agrees that this is a challenge — that when his company does focus groups, customers are likely to identify Starbucks or even Walgreens as convenience stores.

Customers don't care about format and don't really care whether a store is a convenience store or not. What they want — what they need — are stores that are "convenient stores." And that's a difference that is far more than just semantics.

Convenience as a fundamental business concept is one that seems to morph and evolve with every passing season, and as such, becomes increasingly challenging for convenience and petroleum retailers to pin down. That's probably appropriate, because customers themselves are difficult to easily categorize these days. As I visit all sorts of retail stores and try to figure out their relevance to consumer needs and desires, it is evident how much things have changed and continue to change.

Ideas and Challenges

It is extraordinary the degree to which the convenience store has evolved over the past five years, and will undoubtedly continue. Here are some ideas and challenges that perhaps need to be considered by the convenience and petroleum retailing industry as it moves forward in the next five years. As with all such lists, it isn't the final word, but rather meant to be a starting point — and an opinionated one at that.

The challenges and opportunities laid out here may not seem realistic, or even relevant to some retailers. "The problem we have in this industry is that many of us are store-poor," one retailer told me. "We've invested so much in building new stores that we won't have the time, the money or the personnel to do the things we need to do." This may be true, but it also doesn't sound like the blueprint for an effective future.

Tesco Express reflects Tesco's highly customer-centric approach to marketing, and is a huge draw for female shoppers.

In reviewing these challenges, I wanted them to be customer-centric, so I solicited commentary from the retailers, manufacturers and consumers who subscribe to MorningNewsBeat.com to tap into their thoughts about convenience. In many cases, I do not identify the specific person commenting, instead focusing on the idea. >>

EDITOR'S NOTE: To celebrate NACS Magazine's fifth anniversary, we asked Kevin Coupe, founder and "content guy" of the popular retail-focused MorningNewsBeat.com, to provide his perspective on the state — and future — of the convenience industry. The only guideline we gave him is that he adhere to the mission of the magazine when it was launched five years ago: to provoke and to inspire thought.

ONE RAISE THE BAR ON FOOD

FOODSERVICE IS THE SINGLE biggest opportunity, cited by almost everyone with whom I spoke or corresponded. The industry has come a long way in the past five years, but there are miles to go before the industry can sleep when it comes to improving food quality.

One Buffalo resident who also works in the food business told me that she believed "traditional convenience concepts must either adapt to baby boomers' new lifestyles or adapt to the next generation's lifestyles." The traditional convenience store has always been focused on males aged 18 to 45, especially in manual labor types of employment. Coffee, cheap food and cigarettes tend to be the products of choice for these guys. But as the United States becomes more of a service-based economy, those preferences will change.

New Target Customer

"I am 36 with two kids and suddenly the target demographic of retailers everywhere," she told me. "So I suppose that I can speak with a little authority that what I want is what retailers should deliver. I avoid traditional convenience stores like the plague — the food is garbage and the coffee is sludge. But here in Buffalo, we have a car wash chain called Delta Sonic. I can get gas and a car wash. But they have also added a Dunkin' Donuts. (Can I hear an amen?) But then they also added a hot foods counter that serves fresh pizza, BBQ, carved sandwiches, etcetera. There is even a little grocery section with a small selection of produce and dairy items plus some grocery staples." In other words, a convenience store she could love.

Mark Wolbert, senior director of convenience stores for Delta Sonic, told me that reaching out to new consumers and creating a differential advantage has been a real priority for the 27-unit company. "We're a car wash company — that's what butters the bread — and we're 40 years old," he said. "But a few years ago we decided to put an emphasis on making the experience in the store the same as what they get at the car wash."

This has evolved to an in-store, private-label program that offers brick-oven pizza, roasted turkey breast, made-to-order salads and paninis. "This is not convenience store food," Wolbert says. "It is restaurant-quality food."

Buffalo News restaurant critic Janice Okun agrees. In a review published about Delta Sonic just over a year ago, she wrote, "Before last week, I had never eaten a good meal behind a gas pump. Now I've had that experience...we may be witnessing the beginning of change."

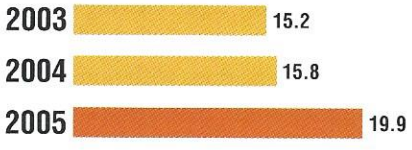
Now, to be honest, Wolbert concedes that the concept is only in two of his 27 units, and that it isn't yet profitable; he says that he's considering partnering with outside companies (such as the deal he has with Dunkin' Donuts) to find a way to make it work more efficiently. But he fervently believes that raising the bar for his food business is the right move at the right time.

One independent who thinks he's figured out how to serve the foodservice business in convenience-sized slices is Bill Knight, the Boca Raton, Florida, developer who created NexStore Market. In fact, the reaction to his concept, which is primarily a gourmet market with a strong selection of fresh and prepared foods, has been so positive that he says he is beginning to line up locations for a NexStore Express concept that does not have gasoline dispensers and features grab-and-go selections prepared at the main Boca store.

As he develops satellite locations, Knight also says that he is looking for ways to create better ways of communicating to con-

Foodservice Sales Grow

Foodservice sales in convenience stores continue to climb (in billions of dollars)

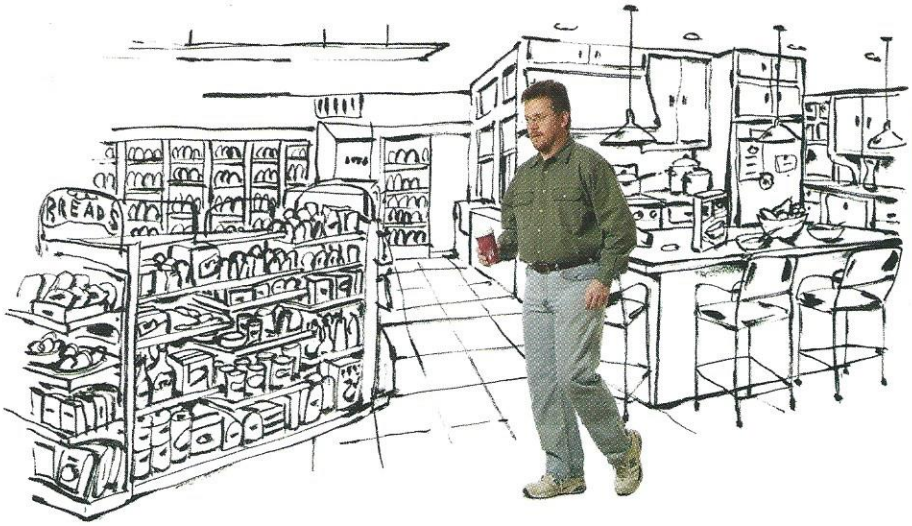


(Source: 2006 NACS State of the Industry report)

sumers how healthy many of his meals are. "Nutrition is a big item with us," he said.

One caution, however. As important as fresh food and nutritional correctness may be, not all customers are going to find religion when it comes to issues such as obesity and trans fats. Ed Roitz, president of Fleming Corporation in Pittsburg, Kansas, put it best: "Even though healthier food sales will increase (low fat choices, salads, etcetera), we still see few signs that sales will falter for burgers and fries, biscuits and gravy, and the like."

However, if convenience stores are to get better at the food business, it may create other opportunities. >>



TWO LOCATION, LOCATION, LOCATION

THERE IS A FASCINATING polarization of opinion on this issue. One retailer told me, "Location is convenience, the customer tells us this consistently — retail is always about position, position, position. Getting it right… improves your chances of success."

One industry observer, however, suggested to me that this was myopic. "Anyone who depends solely on location … is making a big mistake," he said.

Interesting.

The truth is that both are probably right. Getting the right location is certainly a primary key to success, but it isn't the only key. Not anymore. And conversations with numerous people suggest that "the right location" may mean something very different today than it did five or 10 years ago.

One Midwestern convenience store retailer I spoke to suggested that he's come to the conclusion that there is only so much growth

> "We call it [mobile stores] the 'McGyver' of convenience stores."
>
> —RICHARD ONESLAGER

left in the suburbs that his stores have traditionally occupied. "To give my company a different wrinkle, I'm looking at an old 10,000 square-foot building in an urban area where I think I can put in a convenience store, put some gas pumps around it, a lunch counter and maybe even get a local pharmacy to go in there," he said. (The geographic specifics are being left out here for obvious competitive reasons.) "It would be a real hybrid store for us," he said, but it reflects a basic understanding that new kinds of opportunities need to be identified if his company is going to grow and survive.

Another idea: "If Dunkin' Donuts can strike a deal with The Home Depot, then why can't a convenience store chain?" asked Paul Schlossberg, founder of DF/W Consulting.

Go Where shoppers Are

This isn't a new concept, but it certainly is one that could explode. There are plenty of locations where there are few, if any, convenience stores, such as airports, college campuses, office parks — and even bus and train stations that funnel hundreds, even thousands of people through their lobbies each day.

Glen Terbeek, now retired, developed the original SmartStore concept when he was a partner at Andersen Consulting, and he echoed the notion that "retailers will need to go where the shoppers are; they can't expect the shoppers to come to them anymore, especially for respected, nationally branded items…The future will be focused on closing the gap between creating the shopper's 'moment of desire' and delivering the 'moment of value.'"

For example, Bristol Farms, the small California grocery chain now owned by Supervalu, recently opened a new "convenient store" in the basement of an upscale shopping center in downtown San Francisco. About 15,000 square feet of the space is dedicated to fresh and prepared foods for on-premises or take-out consumption, with just three short grocery aisles dedicated largely to convenience-sized CPG products. It generates big traffic and enormous volume not just from the mall shoppers, but also because it is just outside one of the city's busiest Bay Area Rapid Transit (BART) stations. It may not be a convenience store in the traditional sense, but there is nothing inconvenient about it.

Pick Up and Move

Another location-oriented innovation is mobile stores, which can be utilized for specific events in targeted locations.

"We're looking at something like that, primarily for sporting events," said Richard Oneslager, CEO of Balmar Petroleum (Denver, Colorado), noting that not only would such mobile offerings carry convenience foods and beverages, but also could sell mouth guards and even rent lawn chairs. "We call it the 'McGyver' of convenience stores," he said (referring to the old television series in which the hero is able to survive life-and-death situations by using things like a Swiss Army knife, duct tape, a rubber band and a paper clip).

"The 'McGyver' of convenience stores:" Now there's a concept.

New Vending Machine

Another concept that could stretch the notion of convenience retailing and help its appeal to an increasing mobile customer base is what's currently called "non-attended retailing," which used to have the old-fashioned name "vending." The modern version of this old-fashioned technology, molded to appeal to a young, tech-savvy consumer, could give retailers a way to offer different kinds of products.

Take, for example, the vending machines developed by Zoom Systems that sell high-end electronics such as $300 iPods — vending machines that, according to the company, are exceeding all of its expectations. During the 2006 end-of-year holidays, two of Zoom's vending machines at Atlanta Hartsfield Airport couldn't keep the iPods in stock. "We found no customer resistance to swiping a card and buying a $300 item from a machine," Mark Mullins, executive vice president of Zoom, said. In fact, the machines have been so successful that they are in more than 300 locations around the country, selling everything from skin care products to batteries.

Look at the success that McDonald's is having with the Redbox DVD rental kiosks, manufactured by a company that it partially owns. McDonald's began testing the concept in 2003 (see NACS *Ideas 2 Go* 2003) and has expanded it to more than 800 locations — and that doesn't include the other 1,000 locations where there are Redbox units. Redbox rented more than 15 million DVDs last year — at the cost of $1 per night — according to McDonald's. That may not be as much as the Blockbuster or Netflix business, but it isn't chopped liver, either.

"We're looking at vending as an independent offering, as a way to sell high-margin merchandise we don't want disappearing off the shelves," said Oneslager. It might not be iPods, but a likely candidate would be ink jet cartridges for computer printers. >>

THREE PEOPLE *ARE* AN ASSET

WHEN ASKING MY READERS about the industry, one consumer told me, "I have rarely been into a convenience store since pay at the pump became available."

Another reader wrote, "Convenience stores need to improve the experience of shopping at the store, which doesn't necessarily mean 'in' the store. I want to get what I want 'at' the store, quickly and easily, without actually having to go into the store."

Yet another reader said, "The industry is going to have to overcome the cheesy/sleazy perception that most of us grew up with: with the cigarette and snack store behind the gas pumps. I need to feel that they are priced competitively with the grocery store down the street and that their selection is appealing. The assortment needs to answer my needs; which is not tobacco, soda and lottery tickets. If I'm buying tonight's dinner, I'd like to think that it's less than two hours old and prepared and handled in a food-safe manner. Parking should be close and check out should be fast — truly a run in and out."

And still another reader chimed in: "For convenience stores to be competitive they are going to have to tailor their stores more to women's needs. They have to figure out a way to entice women from paying at the pump with their debit cards and leaving the store, to going inside the store to purchase a fresh, handmade loaf of bread, or a chocolate mousse pie."

I'm not sure if the need for a chocolate mousse pie is universal, but the point is obvious. These are the realities of the convenience business — it has created a paradigm in which, by offering the most convenient buying experience at the pump, it discouraged people from actually walking in the front door and buying other things. Some are addressing this dilemma with ordering kiosks at the pump, while others are simply working overtime to improve the in-store offering so that it serves as a greater draw.

Creating a welcoming environment inside the store certainly involves layout and product assortment, but it is much more than that. Almost everyone I spoke with said a critical component in getting people into the store was having better, more talented, engaged and committed employees.

"Those that do this well see clear benefits in not just costs but importantly in delivery on site," said Bruce Rosengarten, global vice president of retail marketing at Singapore-based Shell Oil Products.

Jim Conway of Conway Oil Co. (Albuquerque, New Mexico) put it another way: "With the baby-boomer maturation," he said, "we'll need to serve this customer base more effectively, and also utilize them and integrate them into our workforce."

Some examples of how it can work already exist in the industry. In the NACS Ideas 2 Go 2005 DVD, Bobby & Steve's Auto World (Minneapolis, Minnesota), described its unique 10-year contract that all new technicians sign — guaranteeing, for example, that technicians who last a decade get a check for $50,000. Nobody leaves. And they call their cashiers "enthusiasm engineers" and work hard to make sure they live up to the billing.

Of course, it isn't always the easiest lesson to learn. "I had a nephew looking for a job out of college," said Richard Oneslager. "But my sister said she'd never let him work for a convenience store company." >>

FOUR MAKE CONNECTIONS

ONE OF THE MAJOR opportunities and challenges facing the industry is creating better and more lasting connections to the customer by moving into sophisticated loyalty marketing, which Scott Hartman says is inevitable. "I think our industry is going to have to figure this model out," he says, noting that while the convenience industry is coming late to the loyalty party, the timing may actually allow it to be more effective.

If Hartman's hunch proves correct, that would give the convenience and petroleum retailing industry an advantage over the supermarket industry, which, while many of its players adopted loyalty marketing years ago, has generally used technology as a way of offering electronic discounts. Few, in fact, have done the kind of data analysis necessary to really understand who their customers are and what they are buying.

"When the grocery guys did loyalty marketing, they basically gave away stuff," says Hartman. "Our model is different. We can't just give away stuff." That said, he emphasizes that the entire industry "is very ignorant about whom our most valuable customers are, and there is a huge lift to understanding who they are and making sure that we don't lose them."

One consumer told me that convenience stores, despite their small size, tend to have too much "stuff" and that they are trying to be all thing to all people. "It seems to me," he wrote, "that merchants need to analyze stock movement and concentrate on their best sellers, which would enable them to clear out some of the slower-moving items cluttering their stores."

But a retailer with whom I spoke suggested that this was simply too much for many retailers to do. "Most of us won't do loyalty marketing very well because we don't have enough time or personnel or resources to analyze the information and determine how to use it," he said. "We've talked to loyalty card providers and we know that it is what we need to be doing, but we just don't have a lot of time. Listen, we've been in scanning for a number of years, and we don't often use that information, either."

Clearly, there is work to be done on a number of levels.

There's also another juncture, I think, on which connections to the consumer can be made.

Two events occurred almost simultaneously in January that struck me as more than coincidental, at least in terms of the impli-

cation. The news story that made headlines was the announcement about Apple's new iPhone, which is designed to give users even greater access to the Internet than previous mobile phone incarnations. The iPhone announcement reflected the broader reality: that mobile access to the Internet is going to become more common, less expensive and have greater functionality.

Put this shifting reality into the context of the announcement, made at almost the same time by Sheetz Inc. (Altoona, Pennsylvania), that it has relaunched its Web site, which will include "updated nutritional information, corporate sponsorship opportunities, job searches and a feature for travelers to plan their trips around the closest Sheetz locations," according to the company.

Now, think of how many people in the country don't remember a world before Amazon.com, and for whom the definition of convenience is being able to order practically anything without having to leave the house. (Hey, I'm 52 and I hardly remember a world before Amazon.)

Any retail entity that wants to be relevant for the next generation of consumers has to have a Web strategy. Sheetz is just one company that seems to be working on the premise that they need to be connected to shoppers not just on street corners, but also online, which is smart. >>

FIVE SELL TIME

IT IS NO ACCIDENT that perhaps the two most talked-about convenience store developments in the United States today are the growth of global retailers and how they are redefining the space. One that hasn't even opened yet, Tesco, will reportedly begin to roll out the first of its 300 planned stores in California, Arizona and Nevada during the fourth quarter of this year. The other is Famima!!, the Family Mart division from Japan that has been generating real buzz in Southern California and reportedly has some serious expansion plans.

Phil Lempert, food trends and consumer editor of NBC's "Today Show," told me that he's been extremely impressed by the Famima!! concept, mostly because it seems to recognize that the format needed to be reinvented for a new demographic, that the same old product selection and the same old store format simply wasn't adequate to attract a 21st century clientele. "It's a convenience store for younger, hipper people," he said.

"I'm impressed by the scale with which Tesco is rolling out," said Richard Oneslager. "They're not stepping lightly." While it is too early to know whether Tesco will have a big impact on the U.S. convenience and petroleum retailing industry, Oneslager said that this is almost beside the point. The fact that Tesco is likely to be more targeted in its product selection and marketing approach should provide a positive role model for the industry. "We've all tried to be all things to all people," he said, suggesting that the industry's desire to sell "universal products" has lulled retailers "into thinking we have to be all things to all people. It is frightening how homogenous the c-store offering is."

"Look, consumers are redefining what they mean by quality," said Harvey Hartman, chairman of the Hartman Group, a consumer research company that specializes in contextual analysis of consumer behavior. "It doesn't just have to do with products. It also has to do with how and where products are sold. Customers don't just want convenience. They want everything — and they're not willing to swap one thing for something else."

"Convenience stores are selling time," one MorningNewsBeat reader said to me...and that struck me as one of the most accurate statements I heard. The rest — fresh food, meals-to-go, gasoline, tobacco, snacks, beverages, etc. — perhaps are just details to be molded and shifted and even completely changed as customer needs and desires shift and change.

Then again, as a famous architect once said, "God is in the details."

Let the next five years begin.

Kevin Coupe is the founder and "content guy" of MorningNewsBeat.com, the daily online information service that offers "news in context and analysis with attitude." He can be reached at kc@morningnewsbeat.com.