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Gasoline fuels growth of convenience store industry

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Some convenience store companies that survived the 1980s may reflect upon those years as the “decade of problems.” Yet now they can look forward to the 1990s as a “decade of change and opportunity.”

Confronted by a host of demographic, financial, and competitive developments over the past few years, the “C-store” (traditional convenience store) segment of the industry is seeking new avenues of growth, while the “G-store” (gasoline convenience store) segment has already found the road to profits.

Total convenience store industry sales grew at an annual rate of 13.2% from 1984 to 1989, reaching $93.2 billion by the end of the decade. However, this robust growth rate was driven more by an increase in gasoline sales than by convenience merchandise, as many traditional C-stores added the higher ticket category of gasoline in the 1980s to counter the competitive attack of petroleum marketers.

Some leading traditional C-store operators, represented by nameplates such as 7-Eleven and Circle K, have been plagued with increasing burdens of debt and highly visible bankruptcy filings. Many now suffer from a lack of capital to update tired stores trapped in unsafe locations.

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Gasoline convenience stores (G-stores) have hurt the traditional C-store chains.

Gasoline Fuels Growth of Convenience Store Industry

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The greater competitive threat occurred when major oil companies initiated country-wide conversions of their name brand gas stations to gasoline convenience stores. By 1989, this segment represented almost 40% of the 83,000 units in the industry. This percentage is expected to increase as the deep pockets of petroleum giants allow for more aggressive expansion.

Targeting the Local Market

Management Horizons finds that about 24% of all households shop convenience stores at least once a month. For men, they are the most frequently shopped store type, with 55% shopping them at least once a month.

Heavy shoppers of convenience store outlets are usually employed in pink or blue collar occupations and reside in non-urban, lower to middle income areas.

Because the industry’s traditional consumer market of 18- to 34-year-olds is declining in number, forward-thinkers are updating their appeal to target more lucrative age groups such as those over 45, or ethnic groups including Hispanics and Asians.

As the market clout of these consumers continues to build during the 1990s, the industry will be forced to address issues relating not only to merchandising and store formats but also those concerning health and safety needs and cultural differences.

Smaller, regional chains have adopted niche marketing to cater to local market needs. For example, the White Hen Pantry chain in the Chica-
go area offers a wide selection of fresh and prepared foods, positioning itself as a "neighborhood food store." Jackson, Mississippi-based Jr. Food Marts offers its signature freshly Creole fried chicken prepared to local tastes.

The major oil companies are also experimenting with localized marketing by testing facility sizes with different footprints by market type. These include store formats geared to specific urban and suburban neighborhoods as well as roadside units off expressways.

A Full Menu of Services

Convenience store operators have recognized that foodservice offerings attract more females, older consumers, and those with higher incomes. In addition, food items provide higher margins and profits per square foot than other in-store merchandise and potentially draw customers from fast food and supermarket competitors.

Some traditional C-stores have capitalized on foodservice profits through joint ventures, such as 7-Eleven’s branded partnerships with Dunkin’ Donuts.

For petroleum marketers, foodservice helps to attract the 20% to 30% of G-store customers who do not buy gas. Chevron operates food marts in a significant number of its gas stations nationwide as does Shell.

Amoco’s Split Second stores in the Tampa, Fla., area feature in-store seating with a full menu of freshly prepared foods, while Arco AM/PM Mini Marts achieve nearly 18% of total inside sales from foodservice.

Besides foodservice, convenience store operators are adding a variety of other services, including automated teller machines, car washes and fax machines, to attract the time-pressed consumer. In addition, the industry’s outlets sell more lottery tickets than any other kind of business, with over half of all units selling tickets in 1989.

A service expected to gain wide consumer approval is unattended automated fueling, which allows customers to quickly fill up and go. However, some operators are wary because this offering eliminates the need for customers to enter the store, thereby losing the potential for add-on sales.

One solution is a drive-up window, such as the prototype being tested in the Rocky Mountain and Plains states, where severe weather conditions discourage entering retail facilities. The windows are often combined with menu boards and intercoms at gas islands to allow customers to place food orders while filling up. Two Market Express convenience stores in Utah do 15% to 20% of their business in drive-up sales.

Impact of Legislative and Environmental Forces

Pending legislative actions could have significant impact if instituted. The number one issue is proposed legislation requiring petroleum marketers to have underground storage tank pollution liability insurance. The Americans with Disabilities Act will affect the industry through employment-related requirements and guidelines to provide equal access.

Other legislative actions include beerigas bans, safety legislation to protect clerks, government mandated benefits, and health inspections of food operations. In addition, local deposit and recycling laws involving mandatory separation of goods and collection of sorted recyclables have already been implemented in many parts of the country.

While the convenience store industry averages 32% gross margins on general merchandise, total gross margins are reduced to about 22% by the slim margins on gasoline. The weaker gross margins are offset by high inventory turnover rates for in-store merchandise, which are in the range of 15 to 17 times per year.

Despite such high turnover rates, the industry has made little use of point of sale technology to measure inventory performance. It lags behind most other retail segments in the development of merchandising information systems to increase front end efficiency, improve customer service, and provide critical input for managing inventory.

Industry Outlook: Growth Linked to G-Stores

While many traditional C-stores struggle to overcome their dated image and identify a clear strategy for today’s market, G-stores appear to be capitalizing on everything the old model lacks: cleanliness, convenience, safety, friendliness, and an appeal to men and women alike.

Because economic recovery and relatively low gasoline prices will boost automobile travel and increase patronage of gasoline stations, explosive growth opportunities exist for those G-stores that can successfully combine convenience merchandising with the established draw of name brand gasoline. For traditional C-stores, success will come only by becoming more like G-stores or providing a strong fast food offer.

—Teresa D. Williams