INDUSTRY OVERVIEW – CONVENIENCE STORE WITH GAS

What Is A Convenience Store?

The following information is taken from the NACS research report Convenience Store Industry Marketing Strategies and Store Formats prepared by Gene Gerke of Gerke & Associates, Inc. It describes the characteristics of the different types of convenience stores represented by the data in this report.

In the not too distant past, every convenience store looked about the same - 2,400 square feet of packaged consumer items. Today, companies in the industry are approaching markets with different types of stores and different product offerings. There are mini-convenience stores under canopies, conventional size stores with expanded foodservice, and even hyper-convenience stores with the extensive variety of product offerings and in-store seating for foodservice. The fastest growing segments of the convenience store market are considered by many to be "nontraditional" stores. That is, store formats other than 2,400 square feet, either larger or smaller.

The changes in store formats have implications for all elements of the industry. Retailing executives are concerned with competitive impact and their marketing strategies and niches. Product suppliers want to be aware of format variations as they dictate requirements for appropriate product packaging, promotion and distribution for the stores. Equipment and systems vendors want to design their equipment and systems to fit the various types of store formats. Investors and financial analysts want to understand the economics of the changes taking place and the likely impact on the convenience store industry. Finally, the various governmental agencies--local, state and federal--need to understand the various store formats.

Based on this research, six formats were identified as representing trends in the convenience store industry. The six convenience store formats are:

- Kiosk;
- Mini Convenience Store;
- Limited Selection Convenience Store;
- Traditional Convenience Store;
- Expanded Convenience Store; and
- Hyper Convenience Store.

A general description of the subject type is provided below.

Limited Selection Convenience Store

These stores, which range from 1,500 to 2,200 square feet, are becoming more numerous. They are often affiliated with oil companies and are in the size range of a converted two-bay service station. Both gasoline and store sales are generally important parts of profitability. They differ from the "mini convenience store" in a broader product mix and grocery offering (although still somewhat limited by traditional convenience store standards). Also, simple foodservice (hot dogs, nachos, popcorn, etc.) may be offered. Although gasoline buyers are normally still the main part of the customer base, traditional convenience store patrons are important. Striped parking and extended hours are common.

Traditional Convenience Store

Most of the original convenience stores fall into this category. They are about 2,400 to 2,500 square feet in size and offer a product mix which includes dairy, bakery, snack foods, beverages, tobacco, grocery, health and beauty aids, confectionery, and perhaps prepared foods to go, fresh or frozen meats, gasoline, various services, and limited produce items. Most stores of this size have 6 to 12 striped parking spaces or some form of convenient pedestrian access. Hours are extended compared to average retailers with a large percentage open 24 hours per day. Such operations are normally owned by convenience store chains, but oil companies have also built or acquired stores of this size.

According to NACS Constitution and Bylaws, the NACS Definition of a Convenience Store is:

"..a retail business with primary emphasis placed on providing the public a convenient location to quickly purchase from a wide array of consumable products (predominantly food or food and gasoline) and services.

Convenience Store News (January 11, 2010)

According to James Russo, vice president of global consumer insights for The Nielson Co, restrained spending is reflected in the key category sales projections throughout the Convenience Store News 2010 Forecast Study. The study predicts per-store unit volume declines in the confectionery, packaged beverages and cigarettes categories, and a continued decrease in the gallons of gasoline pumped this year. The study goes on to talk about how consumers are “broke and scared” and that consumer confidence will remain wary even as the market begins to improve. The good news is inflation remains low because the demand for dollars remains strong worldwide.

The following page has a table of 2008 actual and 2009 and 2010 forecasted convenience store and gas sales.

Motor Fuel
(Regular, Midgrade, Premium, Diesel)

	2008 actual	2009 forecast	2010 forecast
Average retail price per gallon[1]	$3.45	$2.37*	$3.09
Gasoline (all grades)	$3.31	$2.36*	$3.20
Diesel	$3.81	$2.43*	$3.31
National billions of gallons	184.5	180.6*	179.3
C-store billions of gallons	149.7	146.5	145.4
National sales of gasoline ($ Billions)	$636.1	$428.9	$579.1
C-store sales of gasoline ($ Billions)	$515.9	$347.8	$469.7

[1] Weighted average price of all grades and diesel fuels

*Prediction from EIA/Dept. of Energy, Short Term Energy Outlook

The table shows a decline is average retail price per gasoline and diesel gallon sales from 2008 to 2009 with an increase is expected in 2010. Overall gallon sales will decline from 2008 to 2010. Jeff Morris of ALON USA explains the reasons for this drop in gas demand is the increase of more fuel efficient vehicles, new standards for automakers and potential increasing expense of carbon and emissions.

The number of convenience stores decreased from 2007 to 2009, but is expected to remain stable from 2009 to 2010. The table below shows number of convenience stores.

Number of Convenience Stores

- Number of stores - Average
  - 2008: 145,212 decrease of 0.3%
  - 2009*: 143,841 decrease of 0.9%
  - 2010*: 143,841 increase of 0%

- Number of stores – End of Year
  - 2007: 145,872 increase of 0.8%
  - 2008: 144,459 decrease of 1.0%

* 2009 average uses actual numbers for '08, keeping trend flat for '10

Source: Nielsen TDLinx

Total in-store sales were somewhat stable between 2004 and 2006 with decrease in sales from 2006 to 2007 and an even further decrease in sales from 2007 to 2008. Total in-store sales (including food service and merchandise) are presented in the table below.