



# What Fuels Consumer Behavior

September 15, 2011



# Today...



- About NACS
- About our industry
- What fuels consumer behavior?
- Categories and best practices



# NACS' three pronged focus



## ■ Knowledge

- State of the Industry (SOI) Data through CSX
- Support of Technology standards (PCATS)
- Industry research
- Educational products
- NACS Magazine & NACS Daily
- NACS Help Desk

## ■ Advocacy

- Government Relations
- Media Relations

## ■ Connections

- The NACS Show
- NACStech Show
- SOI Summit
- HR Forum
- NACS Leadership Forum
- NACS Global Forum & Study Tours
- NACS Social Media
- NACS International



# ABOUT OUR INDUSTRY



# About our industry



- Our 146,300 stores...
  - Equal more than Warehouse Clubs (Costco) + Supercenters (Walmart) + Dollar stores (Dollar General) + Mass Merchandise stores (Target) + Supermarkets (Kroger) + Drug stores (Walgreen's) combined

*Over 90,000 of stores are run by single store operators*
- 2010 sales equaled \$576 Billion USD
- We process about 166 million transactions per day
  - Equal to the entire mobile population of the United States shopping with us daily
- 98% of Americans shop at c-stores once/month
- We sell 82% of the motor fuel sold in the U.S.



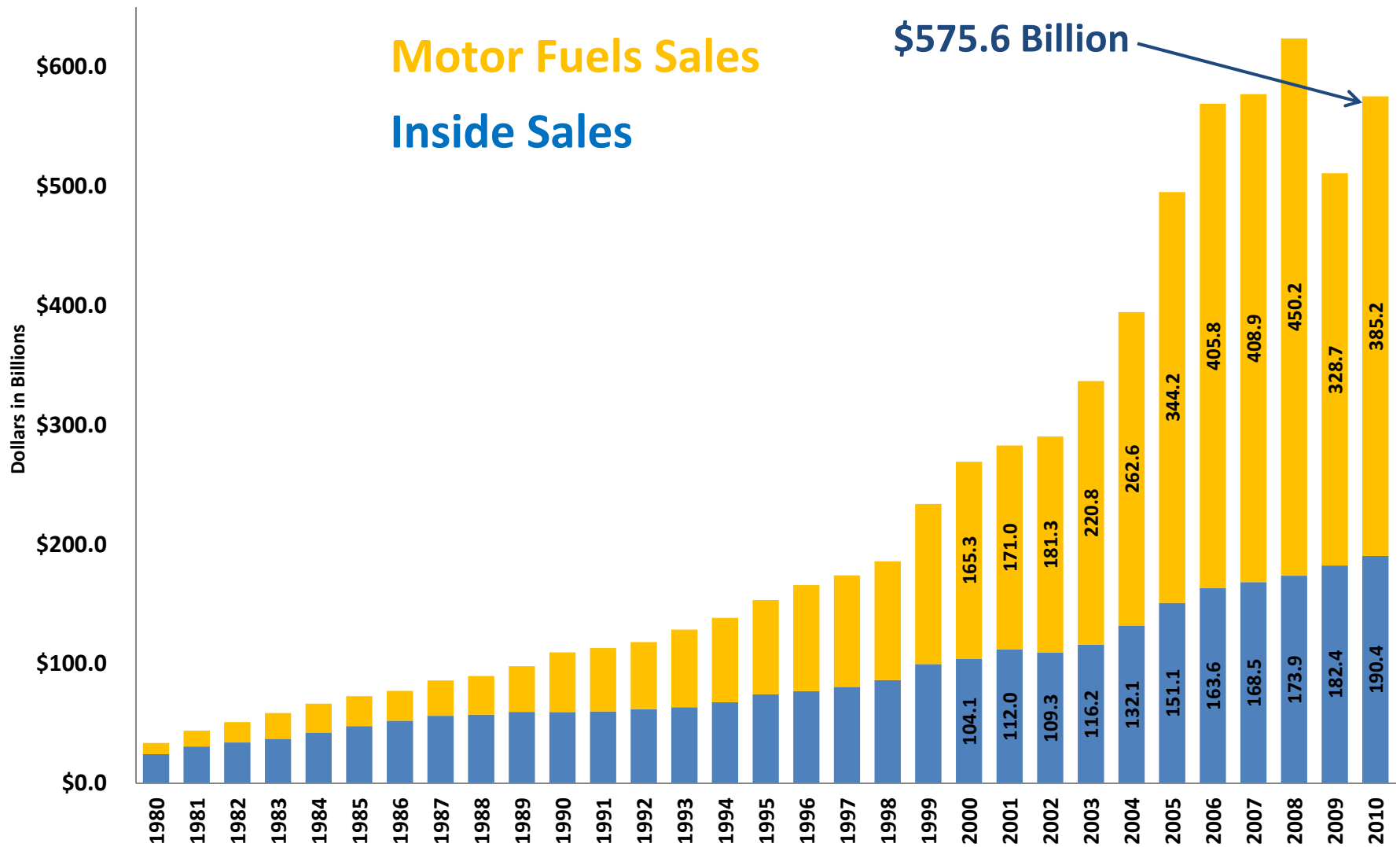
# About our industry



- We employ about 1,500,000 million workers on the retail side alone
- Some of our members made *Fortune Magazine's* 100 Best Companies to Work For in the USA in 2010
- We have stores in every congressional district...and Congress is getting the message!
- Our stores are physically closer to the homes of America than any other channel of trade
  - We are the “neighborhood” store
- We are the mosaic of America
  - Every race, creed, gender, income, age



# Industry Sales





# WHAT FUELS CONSUMER BEHAVIOR?



# What fuels consumer behavior?



- Even in a down economy, consumers want to be rewarded
  - Immediate consumption = immediate gratification
- Consumer driving behavior is really changing
  - The tipping point is here on lower consumption
- Consumers today treat your fuel price as part of your brand
  - High gasoline prices present new opportunities to grow in-store sales
- Paying with plastic is here to stay...for at least a few more years

# What fuels consumer behavior?

- Even in a down economy, consumers want to be rewarded
  - Immediate consumption = immediate gratification
- iTunes
- Kindle
- On-demand
- Viagra
- VIA



- Anatomy of disintermediation...sort of...





# What fuels consumer behavior?



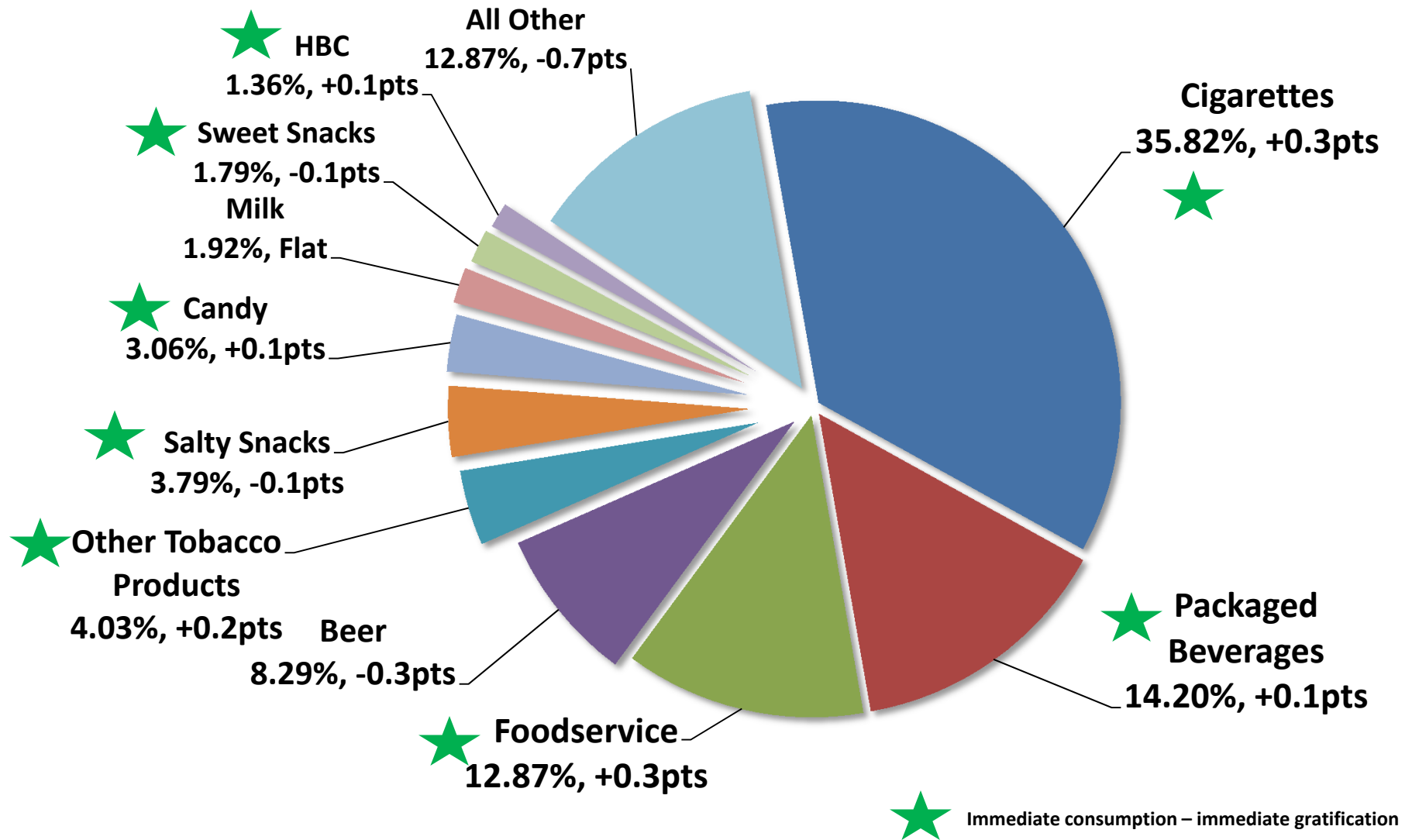
**"I always choose immediate gratification over vague rewards at some unspecified time in the future."**



# In-Store Sales Contribution



Average Monthly Sales = \$127,533 ▲ 4.4%

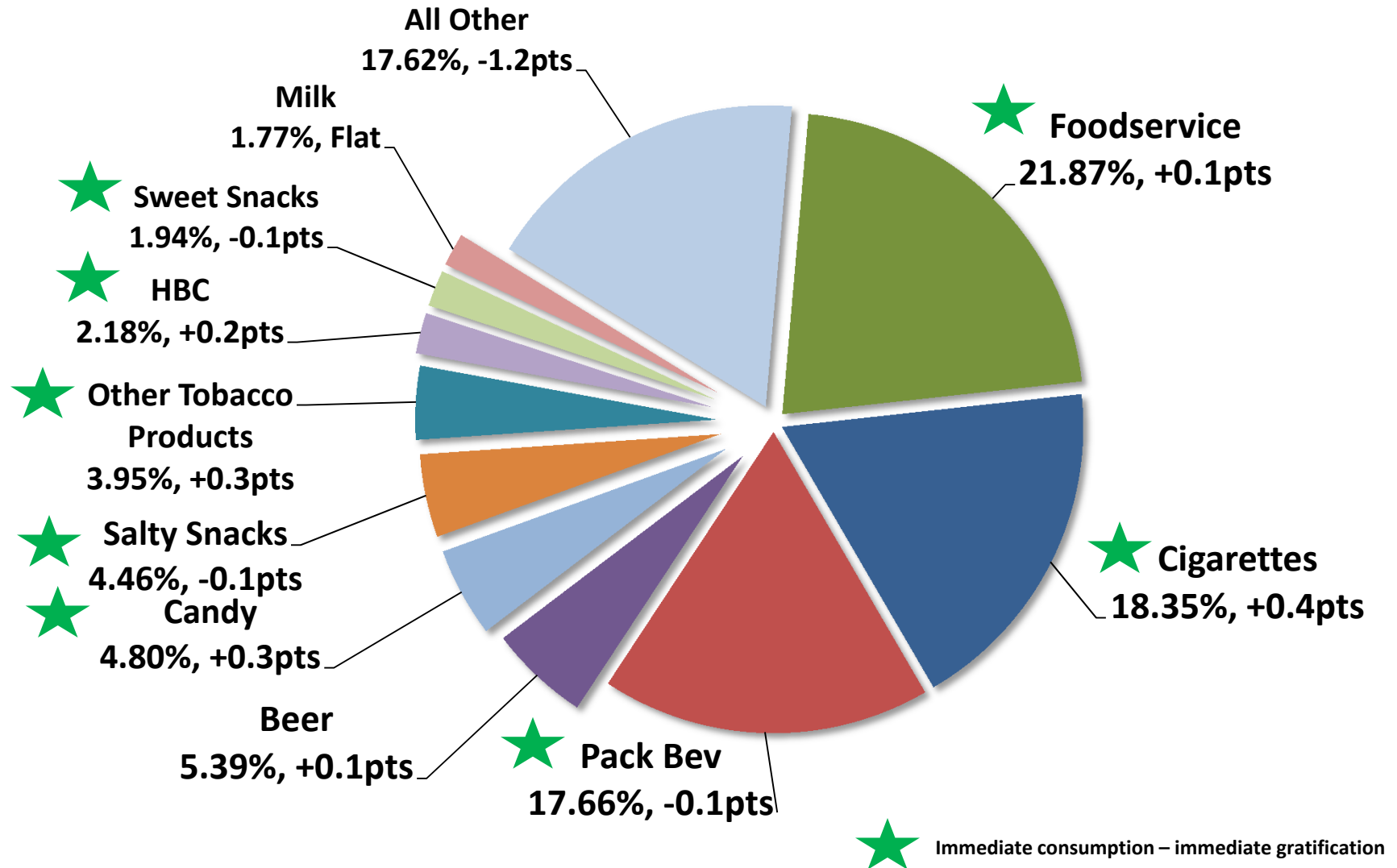




# In-Store GP Dollar Contribution



Average Monthly Margin = \$40,744 ↑ 4.4%





# What fuels consumer behavior?



## Chicago Tribune

### U.S. gasoline demand posts 20th straight decline

BY STAFF WRITER

CHICAGO TRIBUNE  
AUGUST 9, 2011 ET

U.S. retail gasoline demand fell last week as high prices and economic uncertainty kept drivers off the road. MasterCard said in its SpendingPulse report Tuesday.

Average gasoline demand in the week to Aug. 5 dropped 3.3 percent year-on-year and 1.8 percent from the previous week, the report said.

Over the latest four weeks, average U.S. gasoline consumption fell 2.2 percent from year-earlier levels, marking the 20th straight decline for the four-week average.

Consumer driving behavior is really changing

### Demand for gasoline in United States continues to decline

Published: Wednesday, May 04, 2011, 8:16 PM Updated: Wednesday, May 04, 2011, 8:16 PM

By The Associated Press

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NEW YORK (AP) — Gasoline demand continues to fall in the U.S. as pump prices keep climbing.

Reports from government and industry groups show motorists have been cutting back on the amount of gas they put into their tanks for more than a month. That could signal trouble for the economy since Americans typically cut spending on other activities before they do less driving.

Since January, the national average for a gallon of regular unleaded has risen 91 cents, or 30 percent, to \$3.98. The main reason is a 20 percent gain in the price of oil this year. Gas rose more than 30 cents in April alone, as refinery problems led to an unusually big drop in supplies.



# What fuels consumer behavior?



Consumer driving behavior is really changing

Energy Department statistics show that gasoline demand in the United States is running 157,000 barrels a day below 2010 levels.

The screenshot shows a news article from The Detroit News website. The article is titled "Americans driving fewest miles since '04" and is by David Shepardson from the Detroit News Washington Bureau. The text discusses a report from the U.S. Department of Transportation's Federal Highway Administration, stating that Americans drove 15.5 billion fewer miles in the first half of 2011 compared to the same period in 2010. The article notes that this is the lowest level of roadway use since 2004, when drivers logged 1.451 trillion miles. The article also mentions that the all-time high for first-half travel was set in 2007 at 1.497 trillion miles.

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Last Updated: August 24, 2011 1:00AM

## Americans driving fewest miles since '04

David Shepardson/ Detroit News Washington Bureau

Washington— Faced with high gas [prices](#), Americans drove 15.5 billion fewer miles in the first half of the year — as roadway use fell to its lowest level since 2004.

The Federal Highway Administration said in a new report that U.S. drivers logged 1.453 trillion miles through June 30 — down 1.1 percent over the first half of 2010.

The last time Americans drove less in the first of the year was 2004, when they logged 1.451 trillion miles, the government said.

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This year's six month tally is down 44 billion miles over the all-time high for first-half travel set in 2007 of 1.497 billion miles.



# What fuels consumer behavior?



- Consumers today treat your fuel price as part of your brand
  - Price and convenient location typically rank in the top two reasons as most important for consumers when choosing where to buy fuel
- High gasoline prices present new opportunities to grow in-store sales
  - Consumers are more likely to buy items to combine shopping and/or dining trips than the overall population
  - Consumers between 18 – 35 are NOT driving less and are our most profitable demographic for inside sales

# What fuels consumer behavior?





# What fuels consumer behavior?



Paying with plastic is here to stay...for at least a few more years

## Mobile Payment Growth Comes Slower Than Expected

Douglas Quenqua | July 21, 2011 | 1 comments

A future in which we make every purchase via mobile device will have to wait just a bit longer. According to research firm Gartner, mobile payments aren't taking hold as quickly as some expected.

More than 141 million people around the globe will make mobile payments in 2011, a 38 percent increase from 2010, according to the new report, "Market Trends: Mobile Payments Worldwide, 2011." The total cost of those payments will be \$86 billion, up from \$49 billion in 2010, an increase of 76 percent.

Nonetheless, that growth - coming off a relatively small base to begin with - is less dramatic than many analysts had expected.

"In developing markets, despite favorable conditions for mobile payment, growth is not as strong as was anticipated," Sandy Shen, research director at Gartner, said in a written statement. "Many service providers are yet to adapt their strategies to local requirements, and success models from Kenya and the Philippines are unlikely to be translated to other markets."

Given the global ubiquity of cell phones - 5 billion of the world's 7 billion people have at least one, according to a 2010 State Department study - it would stand to reason that the mobile payment market would be exploding. And in some developing countries, where mobile device users are less likely to have traditional bank accounts, they are.

But in developed countries, the primary technology that makes payments via mobile devices possible - primarily near-field communication (NFC) - is proving more complex than many had anticipated. Less surprisingly, consumers are simply proving resistant to parting with money over a mobile connection.

"We believe mass market adoption of NFC payments is at least four years away," said Shen. "The biggest hurdle is the need to change user behavior by convincing consumers to pay with mobile phones instead of cash and cards."



# What fuels consumer behavior?



FORRESTER®

Paying with plastic is here to stay...for at least a few more years

## In Europe, Scaling Back European Mobile Payment Promises

Forrester Research has issued a report out of Amsterdam that throws cold water on European retailers' plans for enabling mobile payments in the coming years. The upshot: It will take much longer than expected to gain widespread adoption.

Forrester says despite the enthusiasm from retailers for mobile payments, "consumers don't want it, providers can't offer it and technology can't support it." Further, the problems will not be resolved during the first half of this decade.

The problems will limit mobile transaction in Europe to 26 billion Euros in 2005, or 87 Euros per mobile user, just 0.5% of consumer spending, Forrester says.

Last year, payment for "mobile content" dominated the market. Soon, leadership will shift to small-value transactions, like vending machine payments, by 2003. The trend will move to high-value transactions, such as grocery payments, in 2005, says Forrester.

Belgium, France, Greece, Luxembourg, and Spain will adopt mobile payment slowest, averaging 3.47 Euros per mobile user per month in 2005. Austria, Ireland, Italy, the Netherlands, Portugal, Switzerland, and the UK will see an average of 6.77 Euros per mobile user per month in 2005. The Nordic countries plus Germany will lead in mobile payment adoption, averaging 10.90 Euros per month in 2005, Forrester says.

Among the many reasons for slow adoption: European consumers don't trust mobile payment systems and have resisted attempts to change their habits, Forrester says.



# INSIDE CATEGORIES & BEST PRACTICES



# Category Sales

By Quartile (Store Operating Profit Per Month Per Store)



2010		Top Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	Bottom Quartile
Cigarettes	★	\$68,621	\$38,995	\$31,314	\$30,453
Packaged Beverages	★	\$22,194	\$17,282	\$12,884	\$12,236
Beer		\$15,779	\$14,947	\$16,906	\$11,647
Other Tobacco Products	★	\$7,116	\$5,340	\$4,481	\$3,963
Salty Snacks	★	\$6,106	\$5,120	\$4,390	\$2,471
Candy	★	\$4,551	\$4,192	\$3,450	\$2,853
Prepared Food	★	\$23,876	\$8,163	\$10,088	\$10,386
Hot Dispensed Beverages	★	\$8,608	\$5,163	\$1,866	\$1,956
Cold Dispensed Beverages	★	\$4,023	\$2,529	\$2,908	\$1,531





# Gross Profit

By Quartile (Store Operating Profit Per Month Per Store)



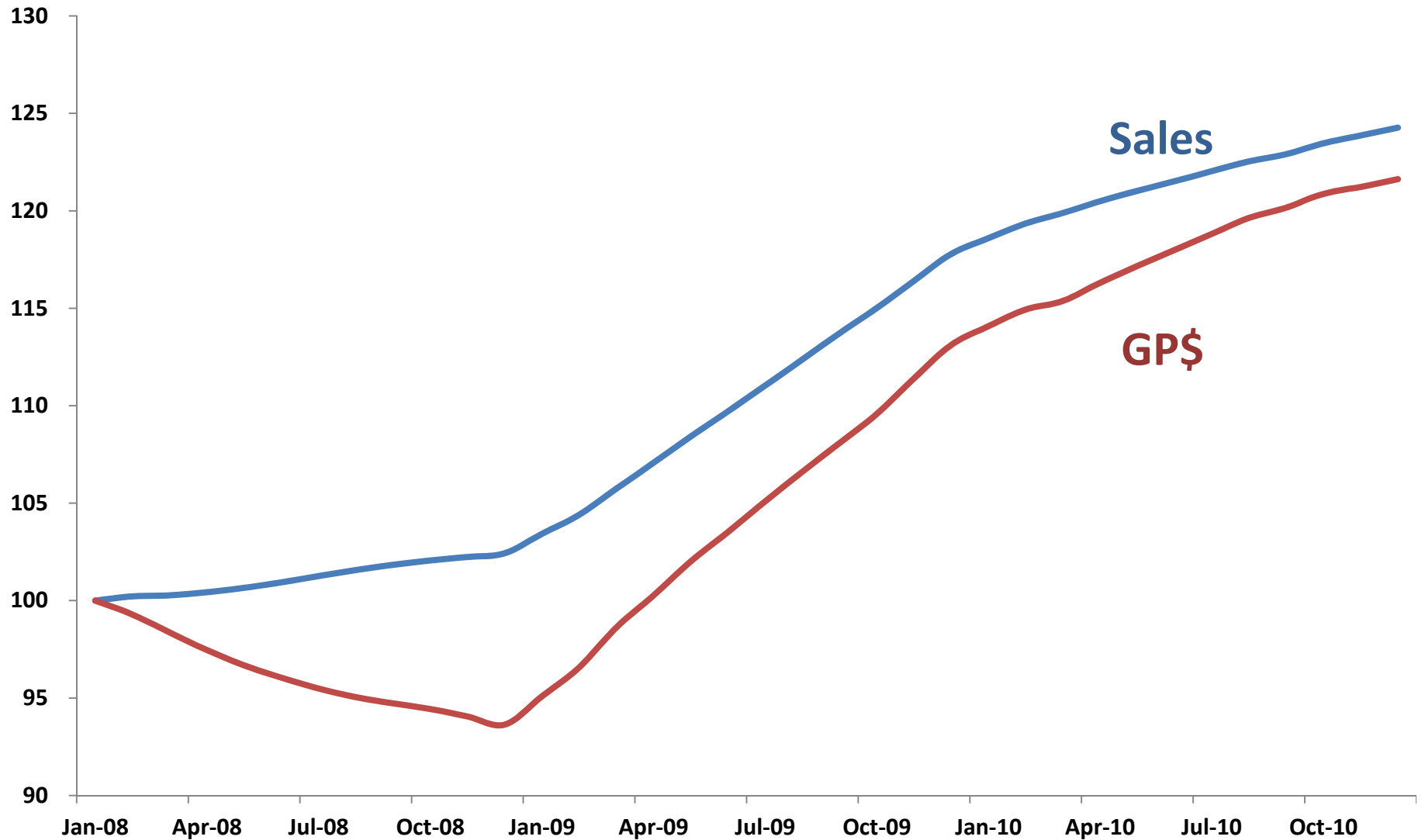
2010		Top Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	Bottom Quartile
Cigarettes	★	\$9,400	\$7,511	\$5,121	\$5,438
Packaged Beverages	★	\$8,741	\$6,801	\$4,876	\$4,431
Beer		\$2,869	\$3,301	\$3,388	\$2,481
Other Tobacco Products	★	\$2,184	\$1,693	\$1,385	\$1,158
Salty Snacks	★	\$2,217	\$1,931	\$1,723	\$842
Candy	★	\$2,200	\$2,101	\$1,838	\$1,326
Prepared Food	★	\$12,973	\$4,113	\$5,143	\$5,175
Hot Dispensed Beverages	★	\$5,602	\$2,251	\$1,053	\$815
Cold Dispensed Beverages	★	\$2,039	\$1,388	\$1,462	\$659





# Cigarettes Growth

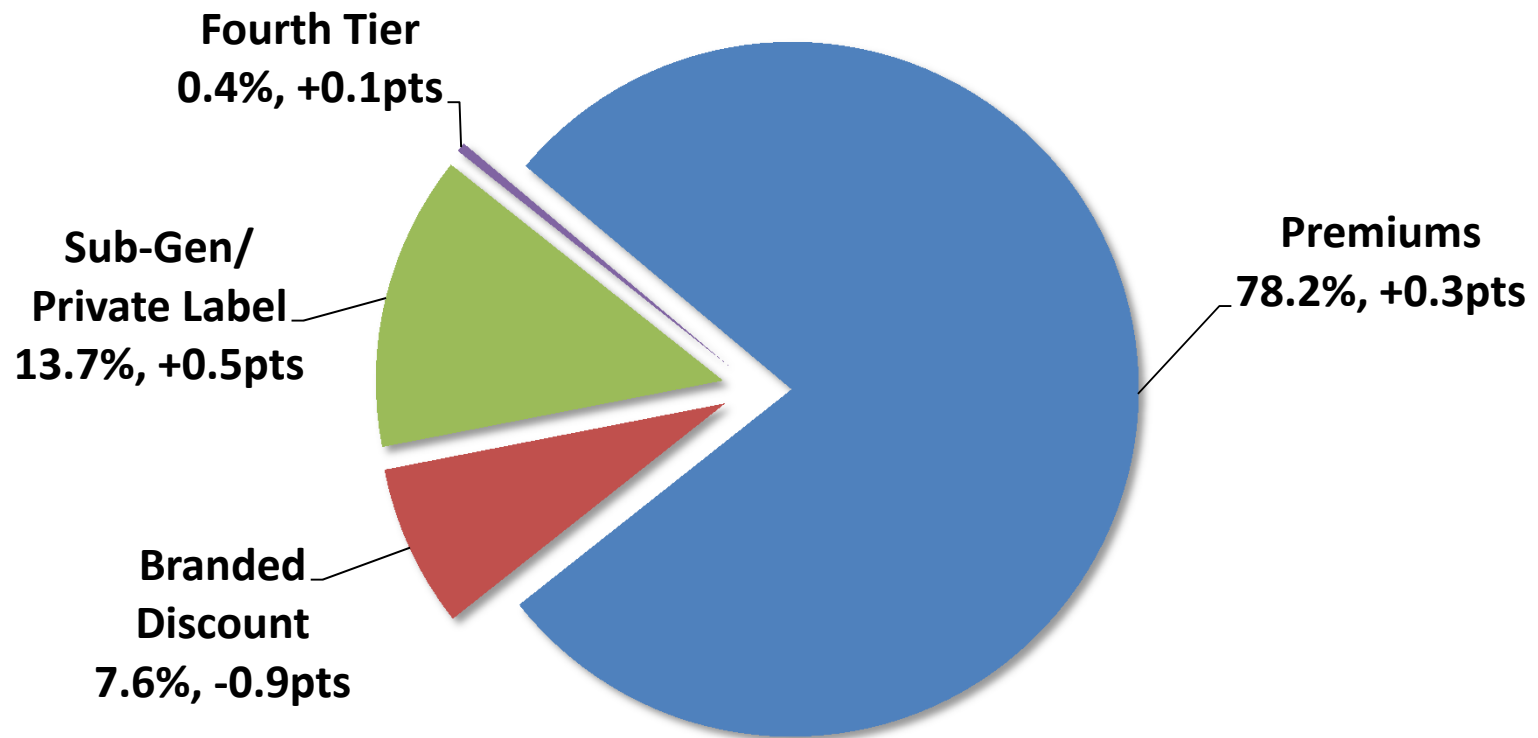
Jan 2008 = 100



Source: NACS State of the Industry Survey of 2010 Data & CSX, LLC.



# Cigarettes





# Cigarettes Gross Profit

2010 vs. 2009

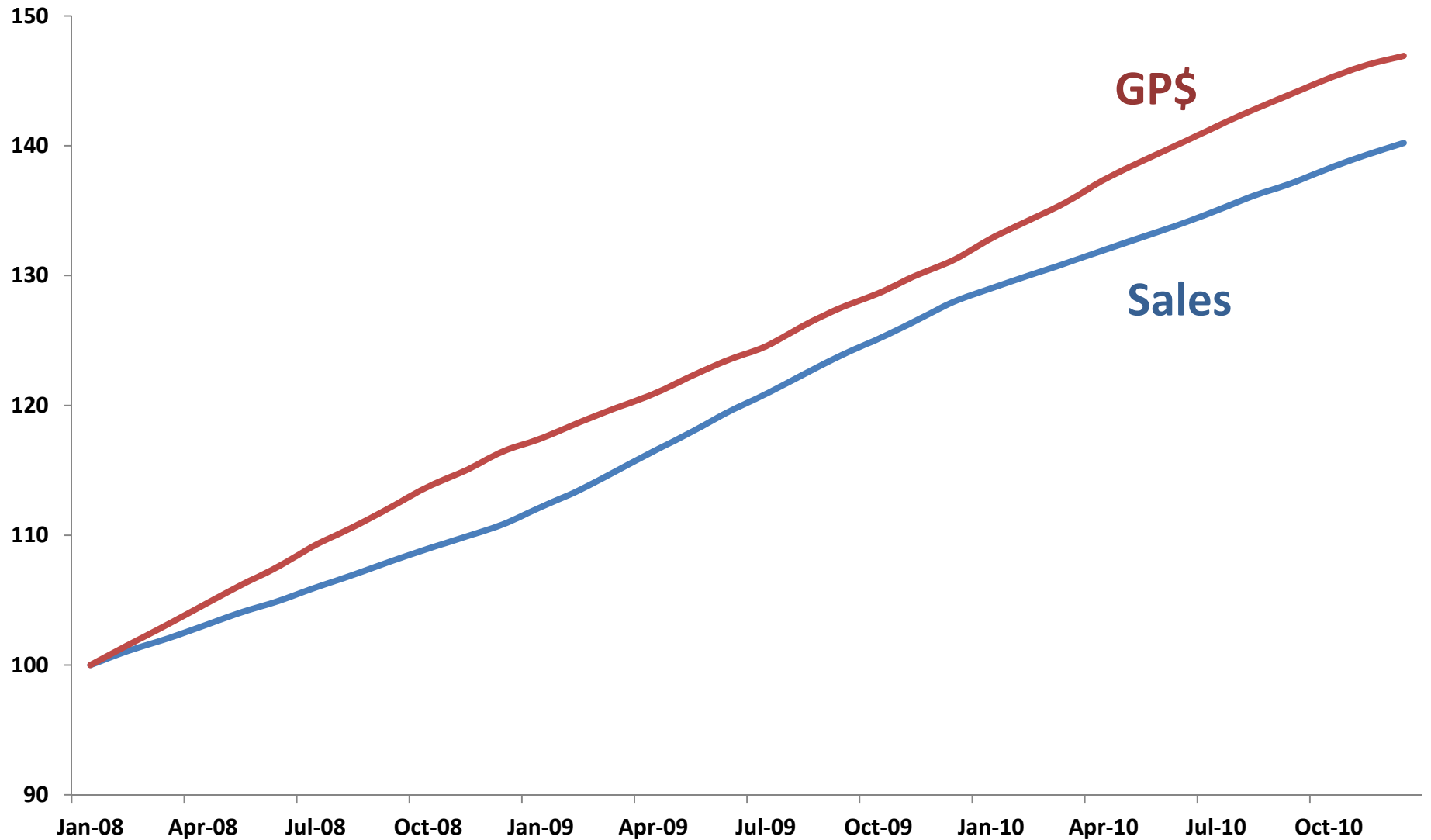


Subcategory	Monthly Average GP\$/Store	Change	GM %
Premiums	\$6,209	7.9%	16.23%
Branded Discount	\$596	(5.4)%	16.06%
Sub-Gen/Private Label	\$1,093	12.1%	16.27%
Fourth Tier	\$29	30.9%	13.89%
Total	\$7,927	7.4%	16.21%



# OTP Growth

Jan 2008 = 100

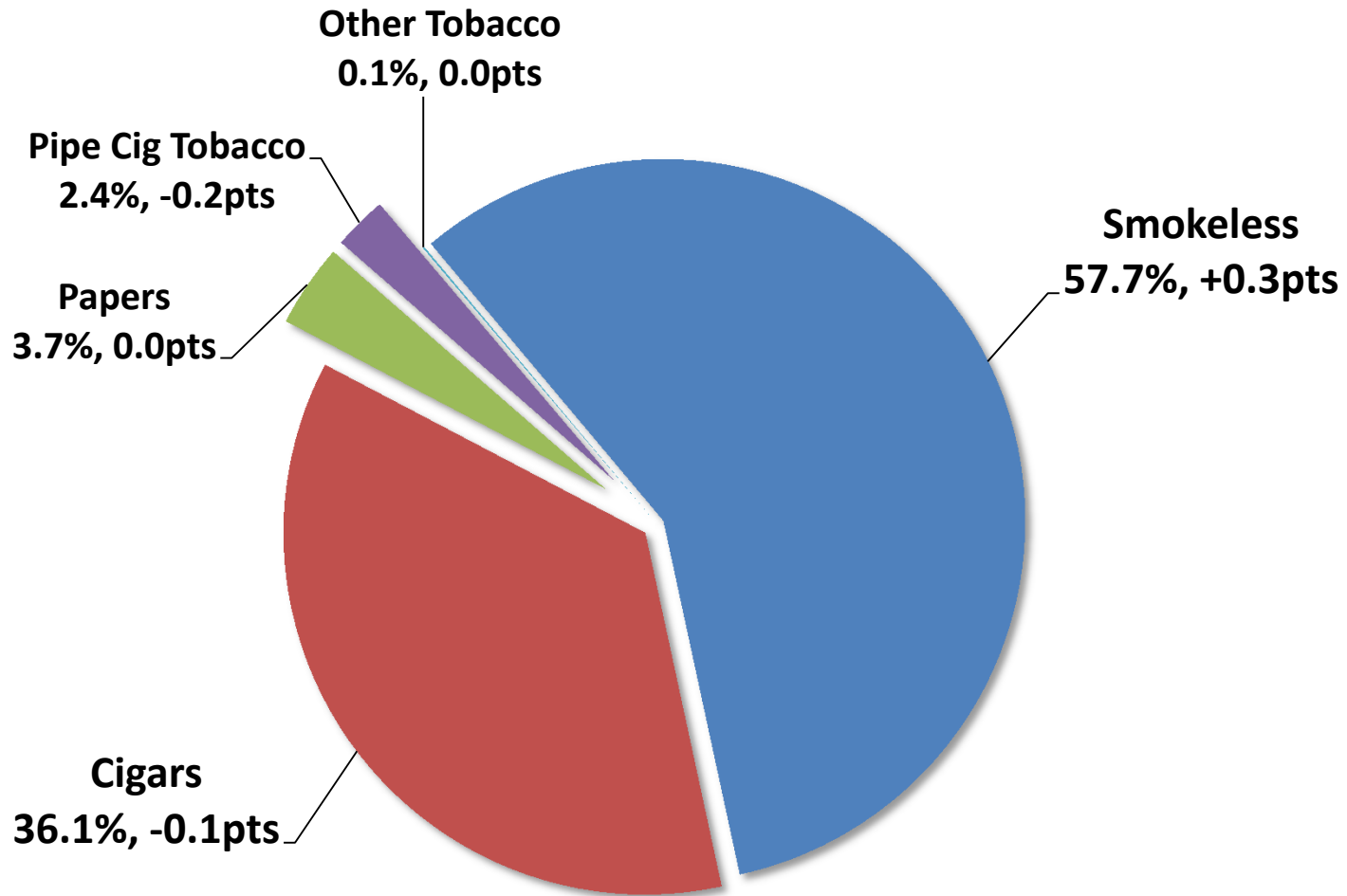


Source: NACS State of the Industry Survey of 2010 Data & CSX, LLC.



# OTP Syndicated Sales

Average Monthly = \$3,634 per Store





# OTP Syndicated Sales

2010 vs. 2009



Subcategory	Sales (Millions)	Sales Change	Units Change
Smokeless	\$3,683.7	13.4%	10.9%
Cigars	\$2,302.3	12.4%	8.7%
Papers	\$237.3	13.7%	11.6%
Pipe/Cigarette Tobacco	\$153.2	4.0%	(24.4)%
Other Products & Pipes	\$4.9	31.0%	24.4%
Total	\$6,381.2	12.8%	9.3%

Source: Nielsen Syndicated – Convenience Tracking – Total US



# OTP Gross Profit

2010 vs. 2009



Subcategory	Monthly GP\$/Store	Change	GM%	Units Change
Smokeless	\$890	15.1%	26.5%	10.9%
Cigars	\$744	11.7%	35.5%	8.7%
Papers	\$118	7.5%	55.0%	11.6%
Pipe/Cigarette Tobacco	\$43	9.3%	31.0%	(24.4)%
Other Products & Pipes	\$2	10.2%	35.8%	24.4%
Total	\$1,798	13.0%	30.9%	9.3%



# What are best practices?



- Cigarettes - be in stock
  - Know what the best SKUs are
  - Thin the herd...weakest SKUs are eating up valuable open-to-buy dollars
- Greater dedication to the OTP category | profit center
  - Merchandising & Marketing
  - Store Operations
- Better assortment planning
  - Take advantage of item assortment tools either within your company or those provided by your wholesaler or manufacturer
    - Perform assortment and space analysis to gain the highest return from available space
    - Quantify impact of different assortment scenarios



# What are best practices?



- Greater visibility of product
  - Get OTP off the bottom or sides of tobacco fixtures and give it a good home
  - Engage suppliers on fixturing that works to support visibility, differing store configurations, and sales & profits
- Operations and Marketing works best together to ensure proper store level execution
  - For small operators who wear both hats, need to make sure you can deliver in the store what you are advertising to your customers
- Train store staffs
  - Make sure product is always stocked and faced; re-merchandising is a perfect activity to perform between waiting on customers
  - Rotate product: consumers always look at the freshness date

# What are best practices?



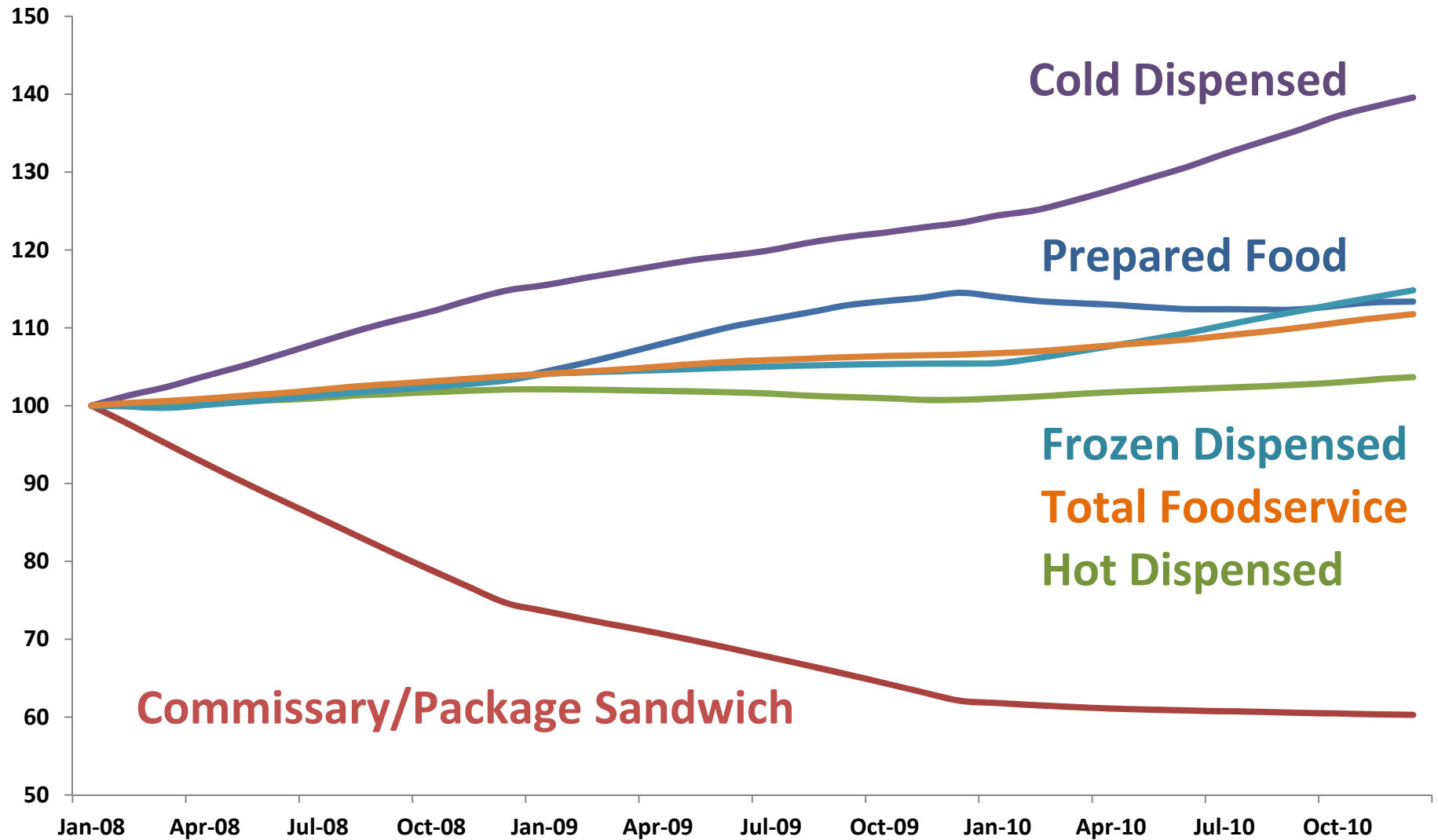
# What are best practices?





# Foodservice Sales Growth

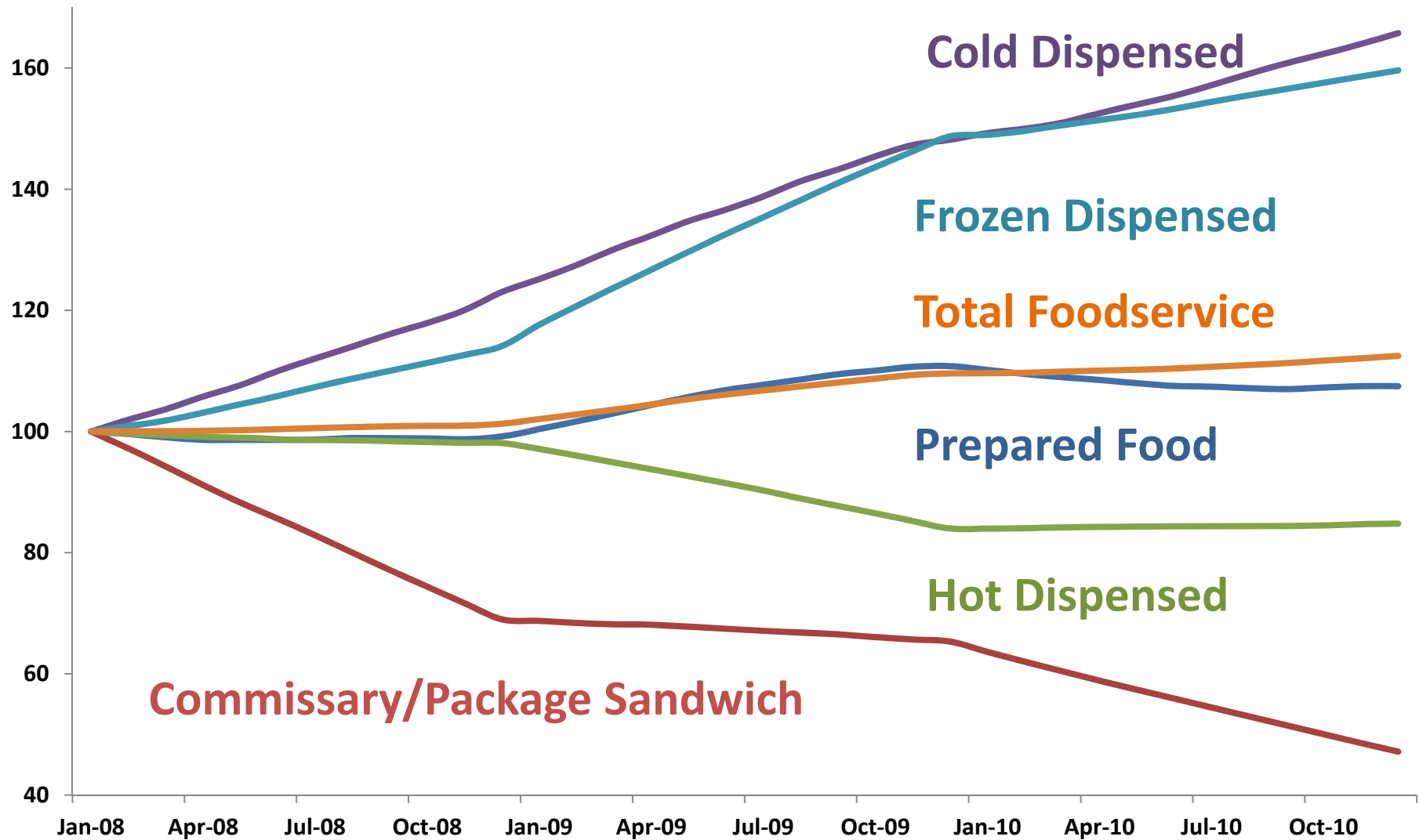
Jan 2008 = 100





# Foodservice Gross Profit Growth

Jan 2008 = 100



Source: NACS State of the Industry Survey of 2010 Data & CSX, LLC.



# Foodservice



Per Store/Per Month	Sales \$	Margin \$	GM%
Prepared Food	\$19,162	\$10,251	53.5%
Hot Dispensed Beverage	\$6,939	\$3,676	53.0%
Cold Dispensed Beverage	\$2,965	\$1,610	54.3%
Frozen Dispensed Beverage	\$2,263	\$1,351	59.7%
Commissary/Packaged Sandwiches	\$1,732	\$628	36.2%



# Foodservice Sales and Margin Change



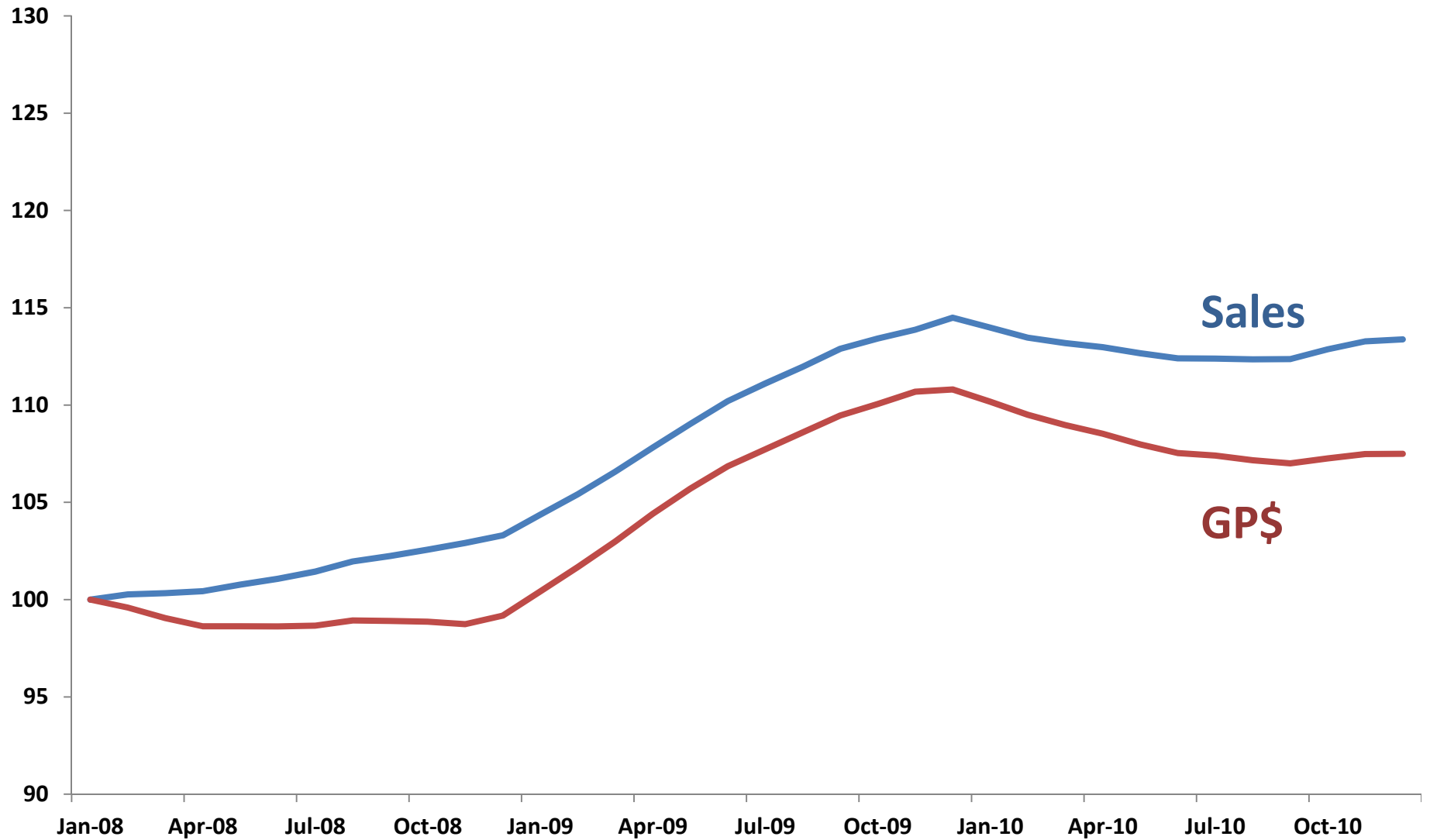
2010 vs. 2009

Per Store/Per Month	Sales % Change	GP % Change
Prepared Food	1.6%	(0.2)%
Cold Dispensed Beverage	11.9%	11.7%
Frozen Dispensed Beverage	7.3%	5.5%
Hot Dispensed Beverage	2.1%	0.1%
Commissary/Packaged Sandwiches	(3.5)%	(25.5)%



# Prepared Food Growth

Jan 2008 = 100

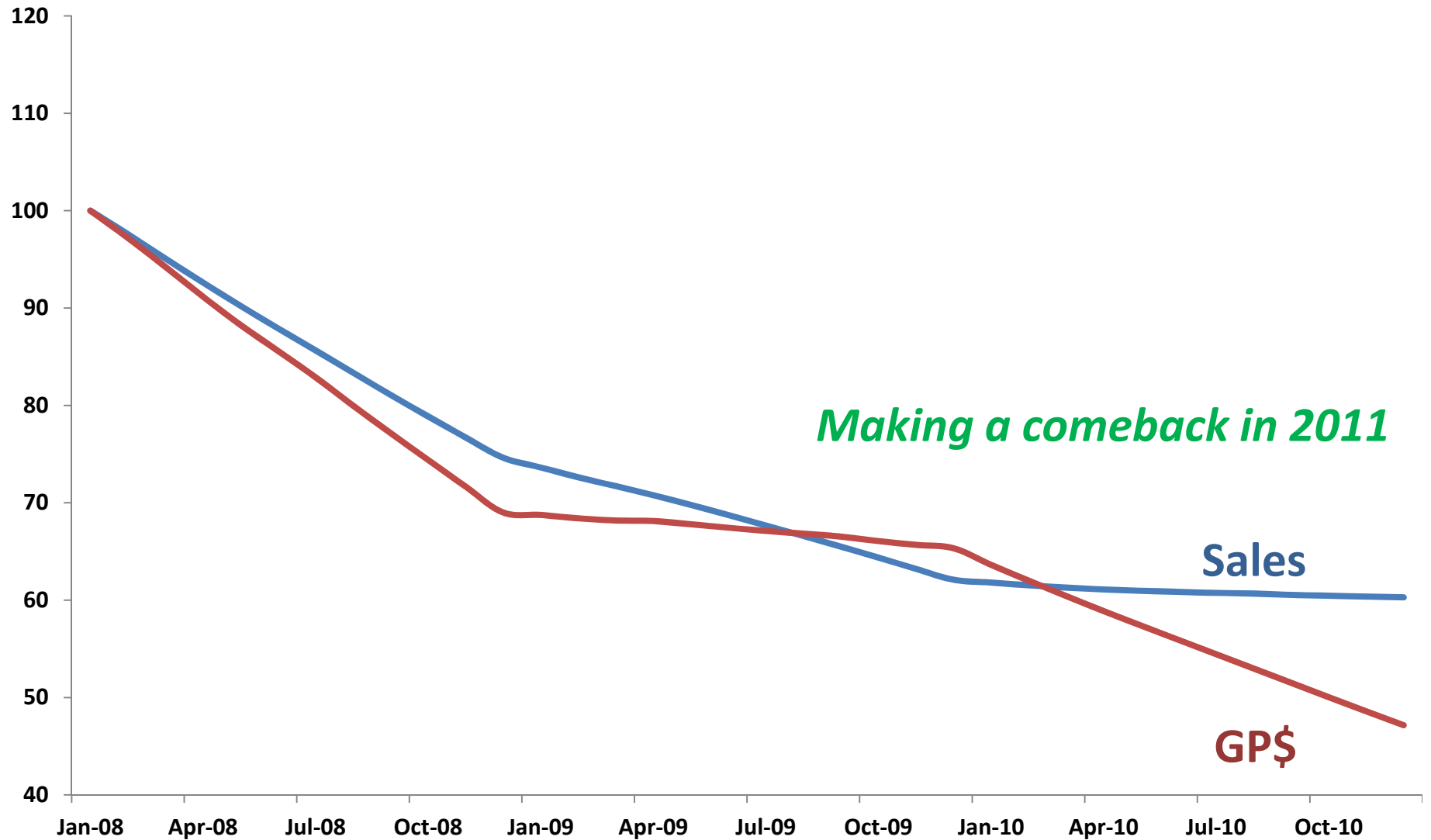


Source: NACS State of the Industry Survey of 2010 Data & CSX, LLC.



# Commissary | Packaged Sandwich Growth

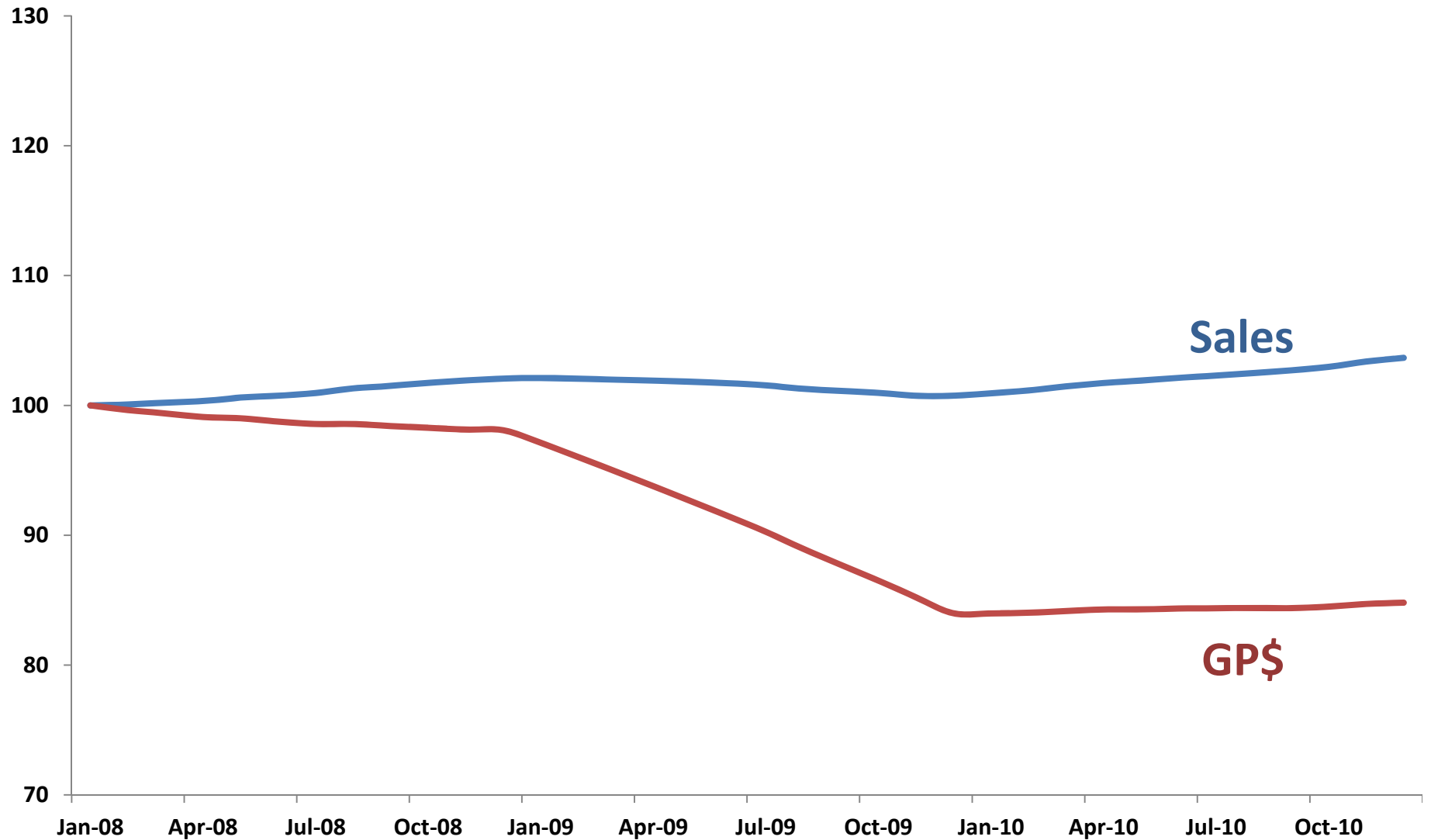
Jan 2008 = 100





# Hot Dispensed Growth

Jan 2008 = 100

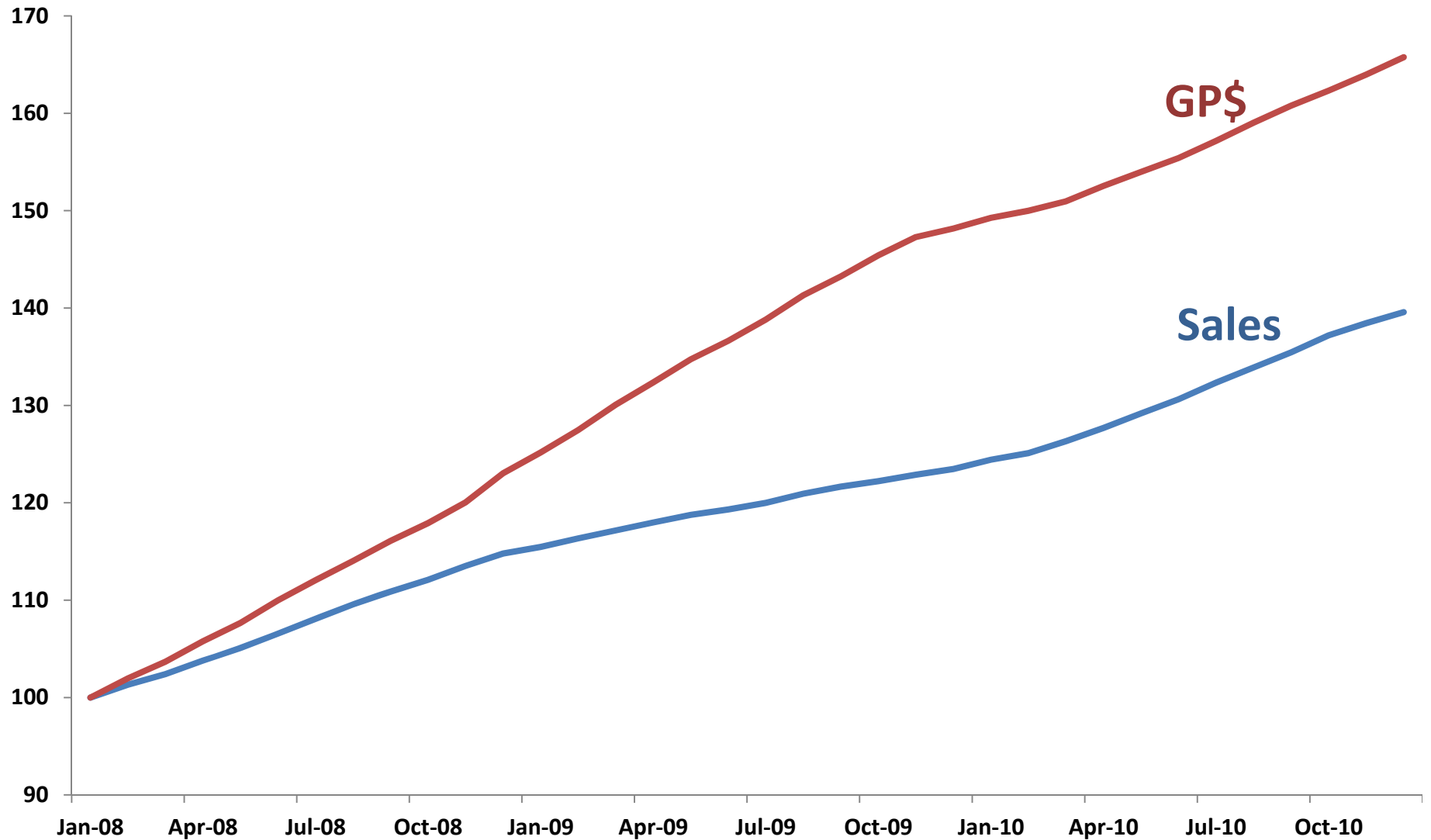


Source: NACS State of the Industry Survey of 2010 Data & CSX, LLC.



# Cold Dispensed Growth

Jan 2008 = 100

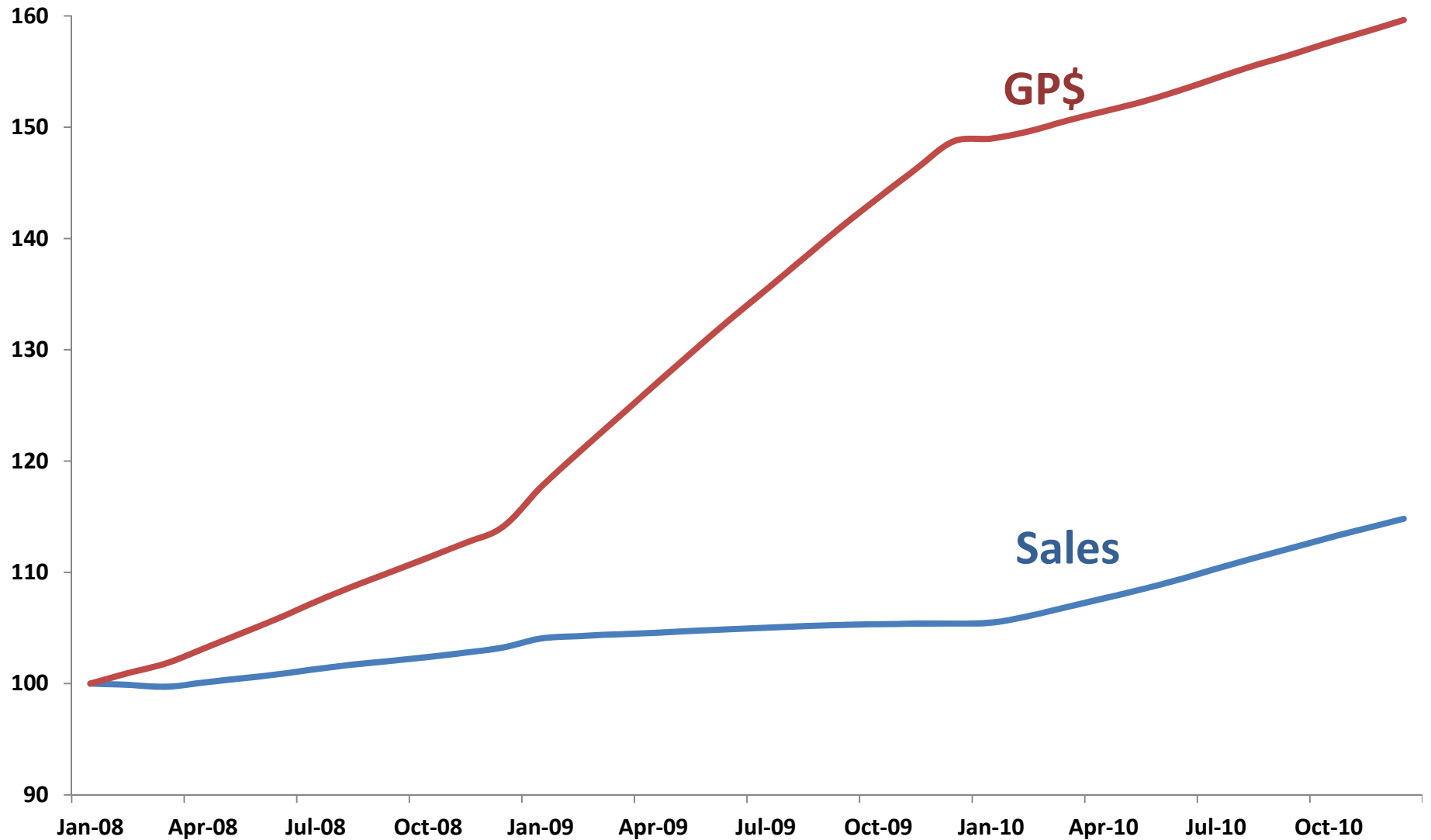


Source: NACS State of the Industry Survey of 2010 Data & CSX, LLC.



# Frozen Dispensed Growth

Jan 2008 = 100

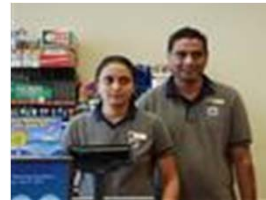


Source: NACS State of the Industry Survey of 2010 Data & CSX, LLC.

# What are best practices?

## Foodservice is not just another category

- From the cleanliness of the parking lot to the cleanliness of the washrooms as well as the food itself...all will be considered when customers are making a purchase
- Need to pay attention to all the details
  - Clean store
  - Fast, friendly service
  - Quality food



## C-store Foodservice comes with customer perception “baggage” that needs to be overcome

- Food and gasoline don't mix
- Food isn't fresh



## Foodservice requires commitment

- Time, people, and resources



# What are best practices?

## Start simple and get the basics right

- Coffee
  - People buy gas once a week but they buy coffee every day
  - One bad smell will spoil the whole program
  - When in doubt, dump it out
- Fountain
  - Always in service means always selling
- Roller grill
  - They're not made of gold and don't increase in value the longer you keep them
  - When in doubt, throw it out
- Condiments provide options
  - What separates us from the competition is the customer's ability to customize
  - Coffee...fountain...roller grill



# What are best practices?

## Install an evaluation process

- Preparation processes and profitability
- Tasting and testing
- Customer feedback



At the end of the day, everyone in the organization should be proud enough of the foodservice program to serve food at least twice to...

- Their kids
- Their grandkids
- Their parents
- Their expectant wife
- Their girlfriend or boyfriend
- Their pastor...



# Bottom line.



- Despite a tough economic environment, we're bound to sell more stuff as consumers become more time starved and looking for a "reward"
  - Consumers want immediate gratification
  - We provide that by offering the greatest assortment of immediate consumption refreshments of any channel
- Greater focus on the immediate consumption categories will lead to greater sales & profits
  - Move up the "quartile ladder"



# NACS can help Marketers create more profitable Dealers

- NACS Jobber | Dealer Membership Program
  - Jobbers become full Retail Members
  - Dealers become full Retail Members...for a fraction of the typical membership cost
- Marketers can differentiate themselves...
  - Provide more benefits and discounts
  - Provide more information and education
- See me or contact me for more information



# OPPORTUNITIES NOW HERE



# Thank you!



- Contact Info

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