



**Convenience and Petroleum Retailing
Industry Update:
Facts, Figures, and Best Practices to Help
Marketers and Dealers Succeed**

February 16, 2010



Today...

- About NACS
- About our Industry
- Understanding consumers
- Changing operator landscape
- Differentiation



ABOUT NACS

The Association for Convenience & Petroleum Retailing



About NACS

- Founded in 1961
- More than 2,000 retail member companies
 - Operating more than 75,000 stores in the US
 - Operating more than 300,000 stores globally
 - Members in 49 countries
 - 49 of the 50 largest companies in the industry
 - 72% of our US members operate 10 or fewer stores
 - Increasingly diverse retail membership
 - Jack-In-The Box, Delta Sonic, Kroger, Publix, Giant Eagle, Follett College Book Stores, TA Travel Centers
 - PetroCanada, now Suncor, Quickie Convenience Stores, Tesco, BWG, Topaz, Welcome Break, Total, Pick n Pay, Seicomart, Dairy Mart, Famima, PTT, Woolworths AU, Coles Express, JMEL, OXXO, Repsol, Ipiranga, PetroChina, Sinopec
- More than 1,800 supplier member companies

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
 - Category Management Conferences
 - NACS Global Forum & Study Tours
 - NACS Social Media



ABOUT OUR INDUSTRY

The Association for Convenience & Petroleum Retailing

About our industry

- Our 145,000 stores...
 - = 50,000 more than: Warehouse clubs+ Supercenters + Dollar stores + Mass merchandise stores + Supermarkets + Drug stores
 - Over 90,000 of stores are run by single store operators
- Our 2008 sales totaled US\$624.1 billion equaling over 4% of the US GDP
- 160 million transactions per day
 - Every 40 hours the industry serves the equivalent of the entire mobile population of America (6 years to 85 years old)
- 98% of Americans shop at c-stores once/month
- We sell 80% of the motor fuel sold in the U.S.

About our industry

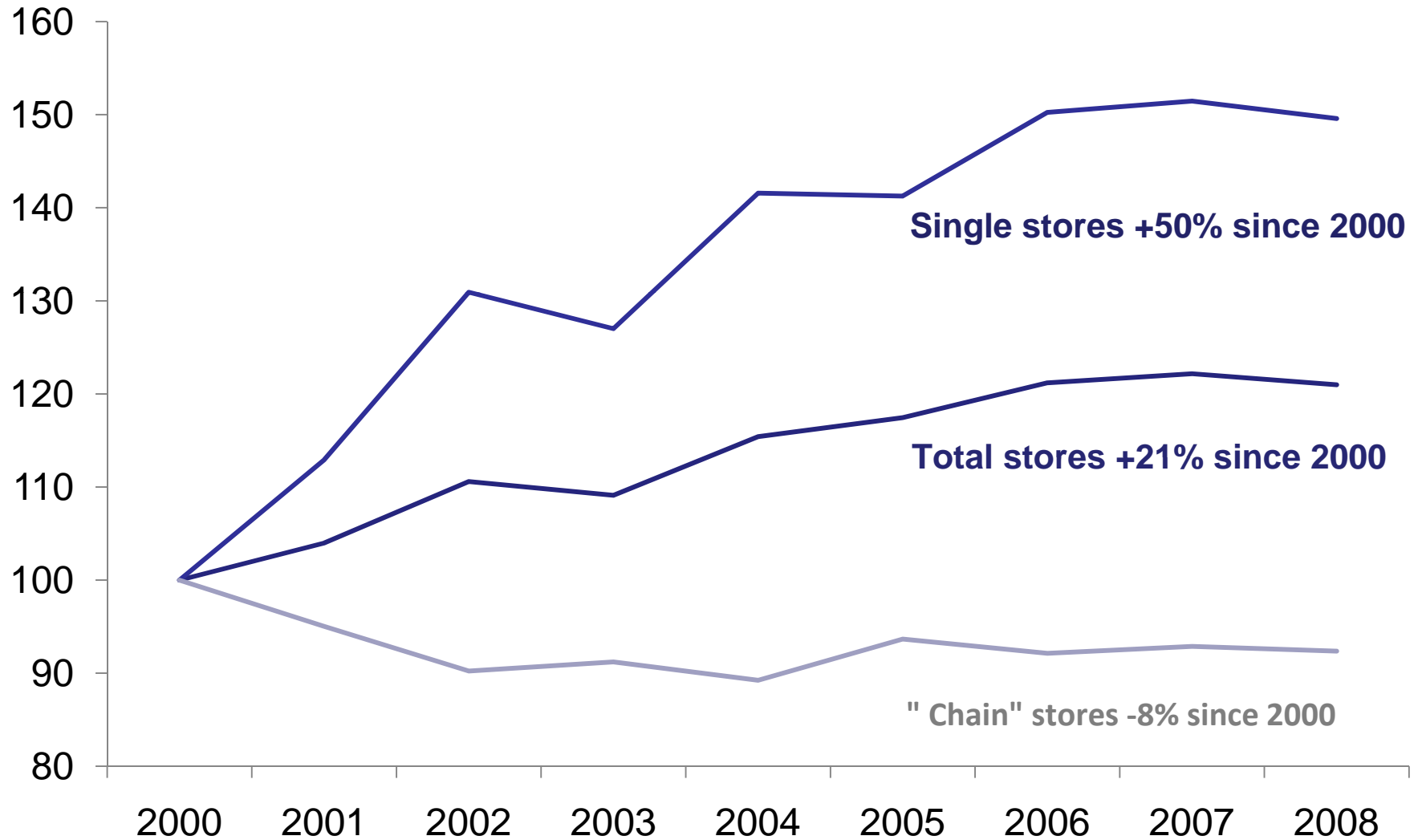
- We employ over 1,700,000 million workers on the retail side alone
- Some of our members made *Fortune Magazine's* 100 Best Companies to Work For in the USA in 2010
 - #41 (QuikTrip)
- We have stores in every congressional district
- Our stores are physically closer to the homes of America than any other channel of trade
 - We are the “neighborhood” store
- We are the mosaic of America
 - Every race, creed, gender, income, age

Industry Snapshot

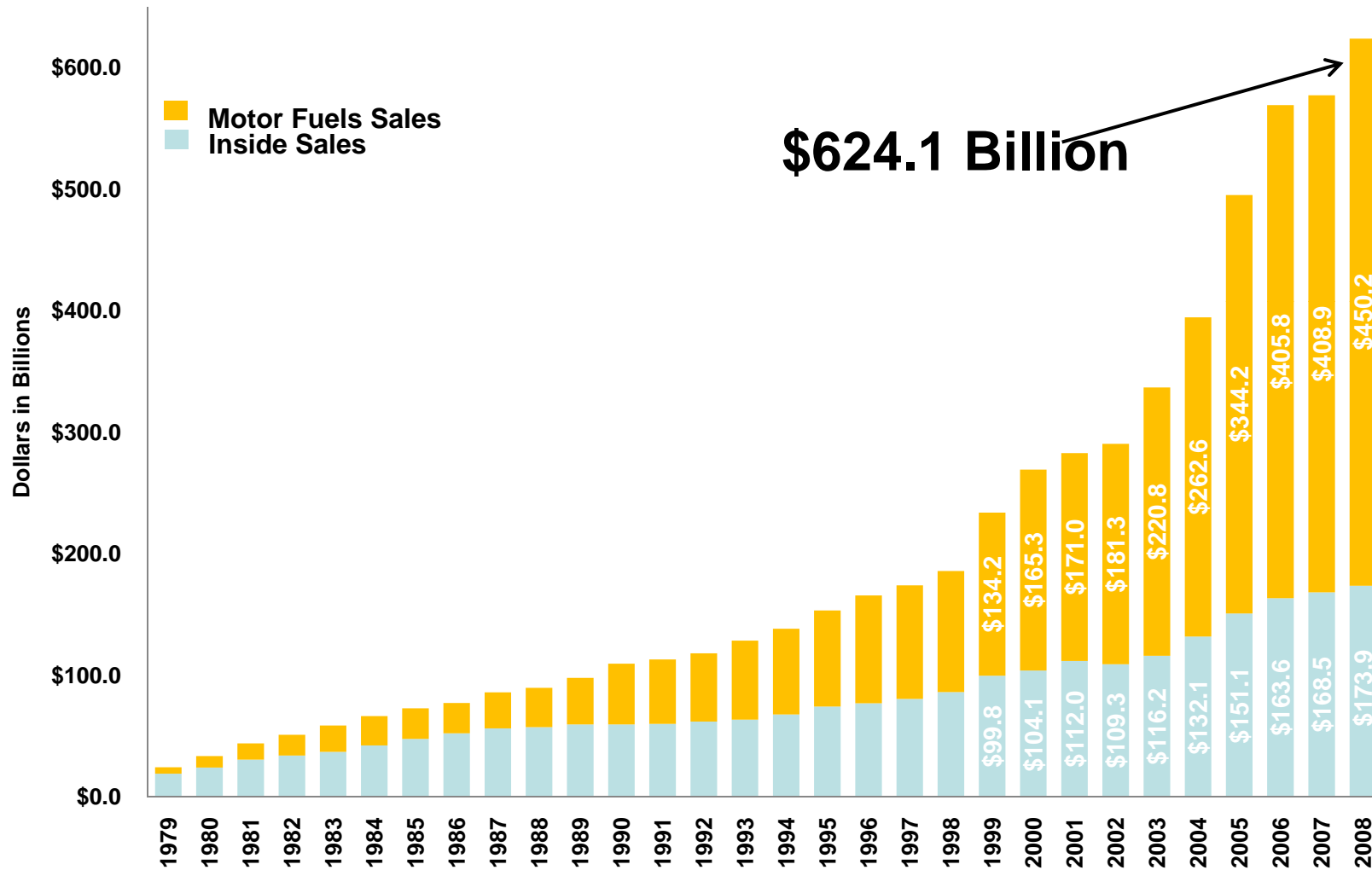
	2007	2008	Change
Industry Stores	146,294	144,875	(1.0)%
Industry Sales	\$577.4B	\$624.1B	8.1%
Industry Pretax Profit	\$3.4B	\$5.2B	54.2%
Credit Card Fees	\$7.6B	\$8.4B	10.5%
Number of Employees	1,714,300	1,727,700	0.8%
Fuel Pool Margin (cpg)	14.6¢	18.0¢	23.3%

Source: NACS State of the Industry Survey of 2008 data powered by CSX

Store Growth by Firm Size



30 Years of Industry Sales



Source: NACS State of the Industry Survey of 2008 data powered by CSX

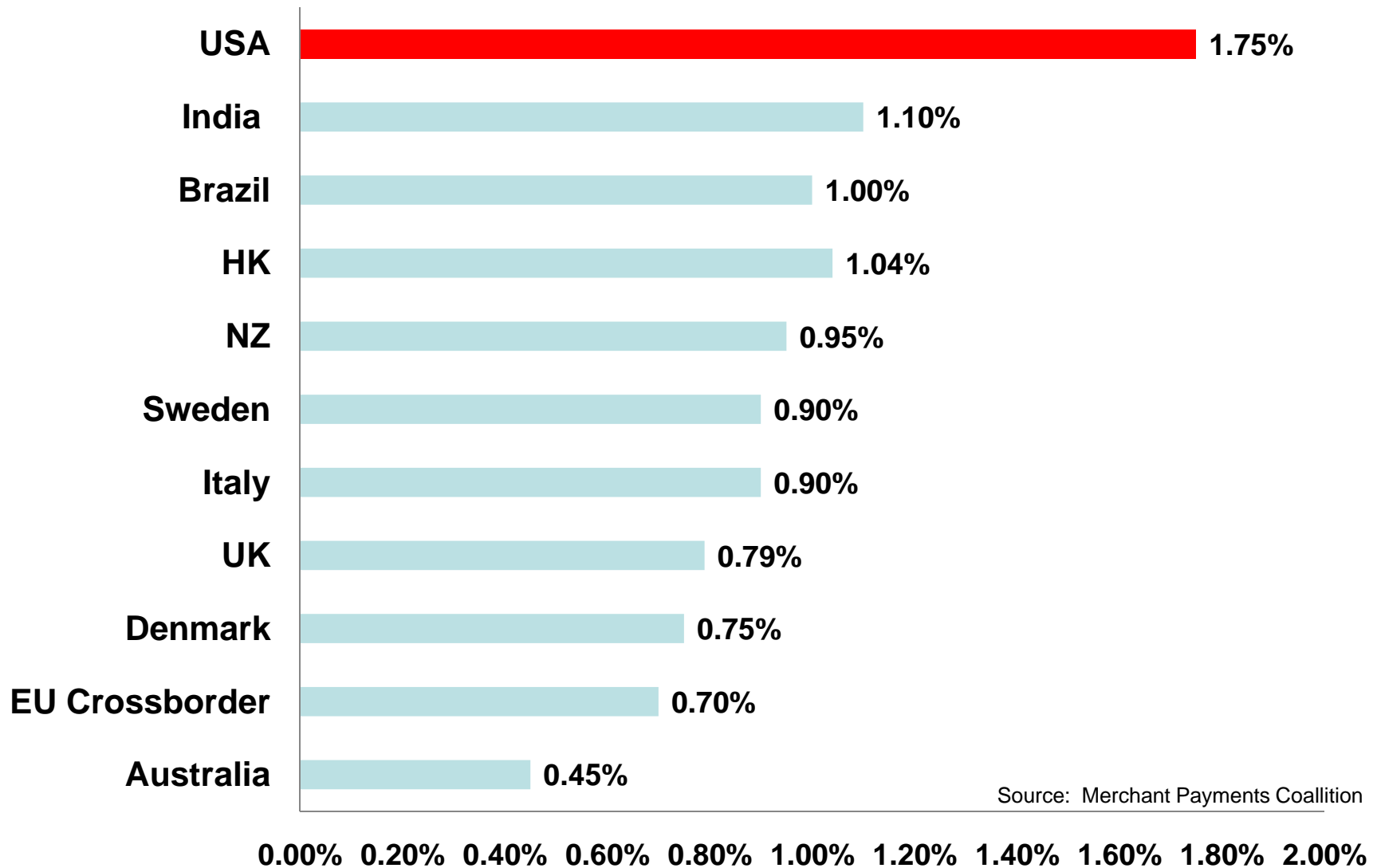


Core Direct Store Operating Expenses

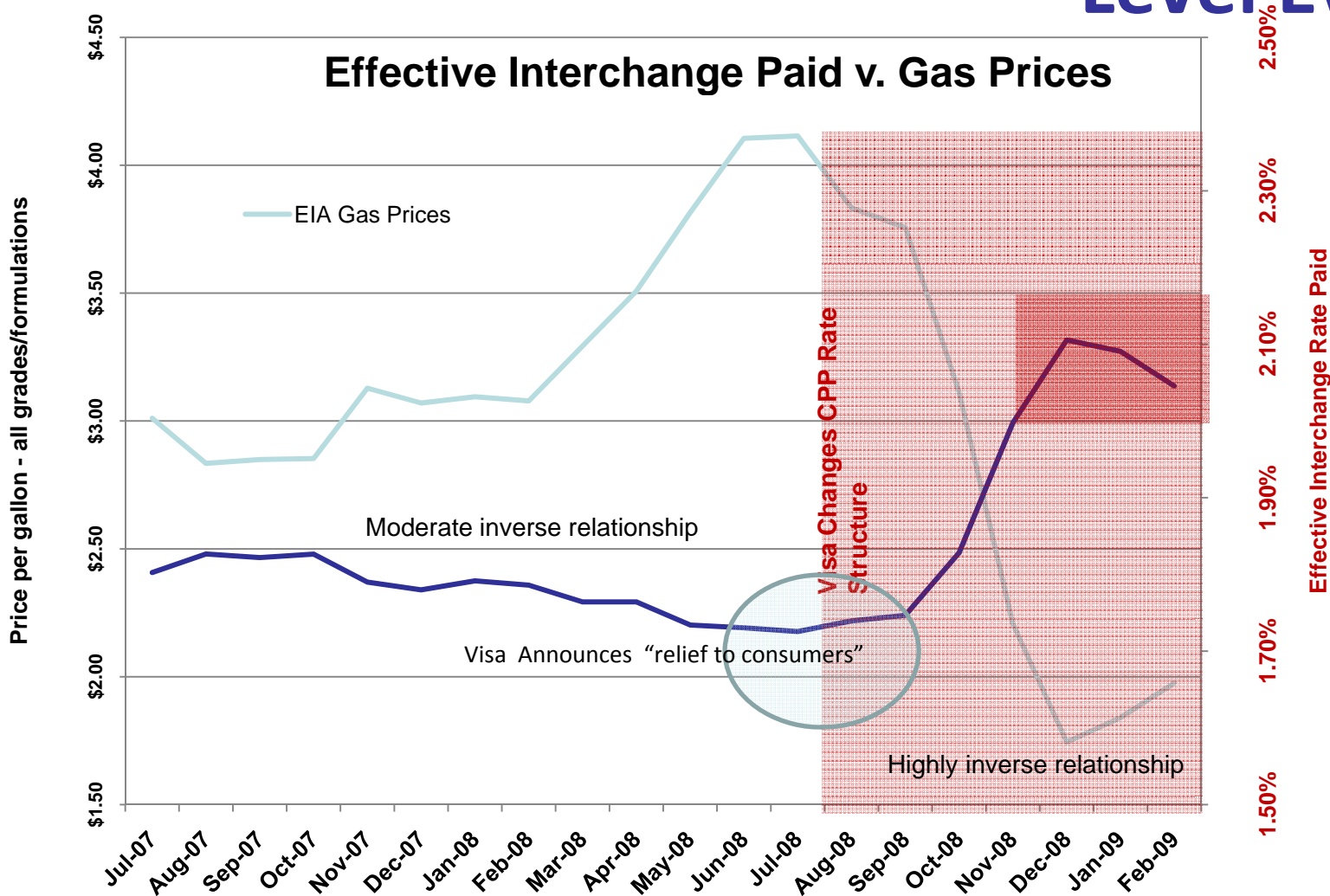
Per Store/Per Month	2007	2008	Change
Wages & Benefits	\$17,813	\$18,245	2.40%
Utilities	\$3,667	\$3,965	8.10%
Repairs & Maintenance	\$2,837	\$3,016	6.30%
Supplies	\$1,102	\$1,118	1.50%
Total DSOE	\$34,086	\$36,060	5.80%

Source: NACS State of the Industry Survey of 2008 data powered by CSX

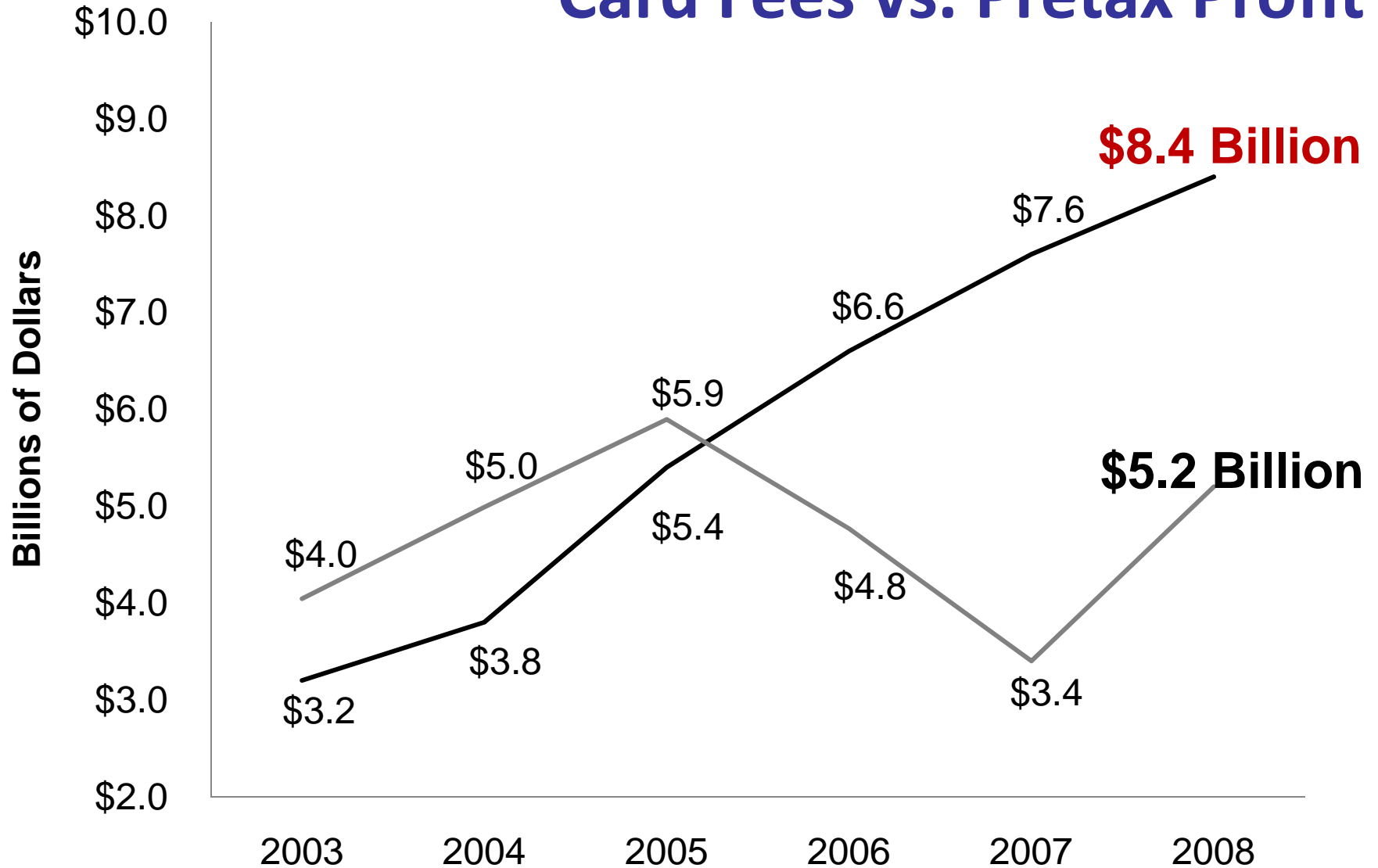
Interchange Rates



Interchange Rates Increased to Highest Level Ever

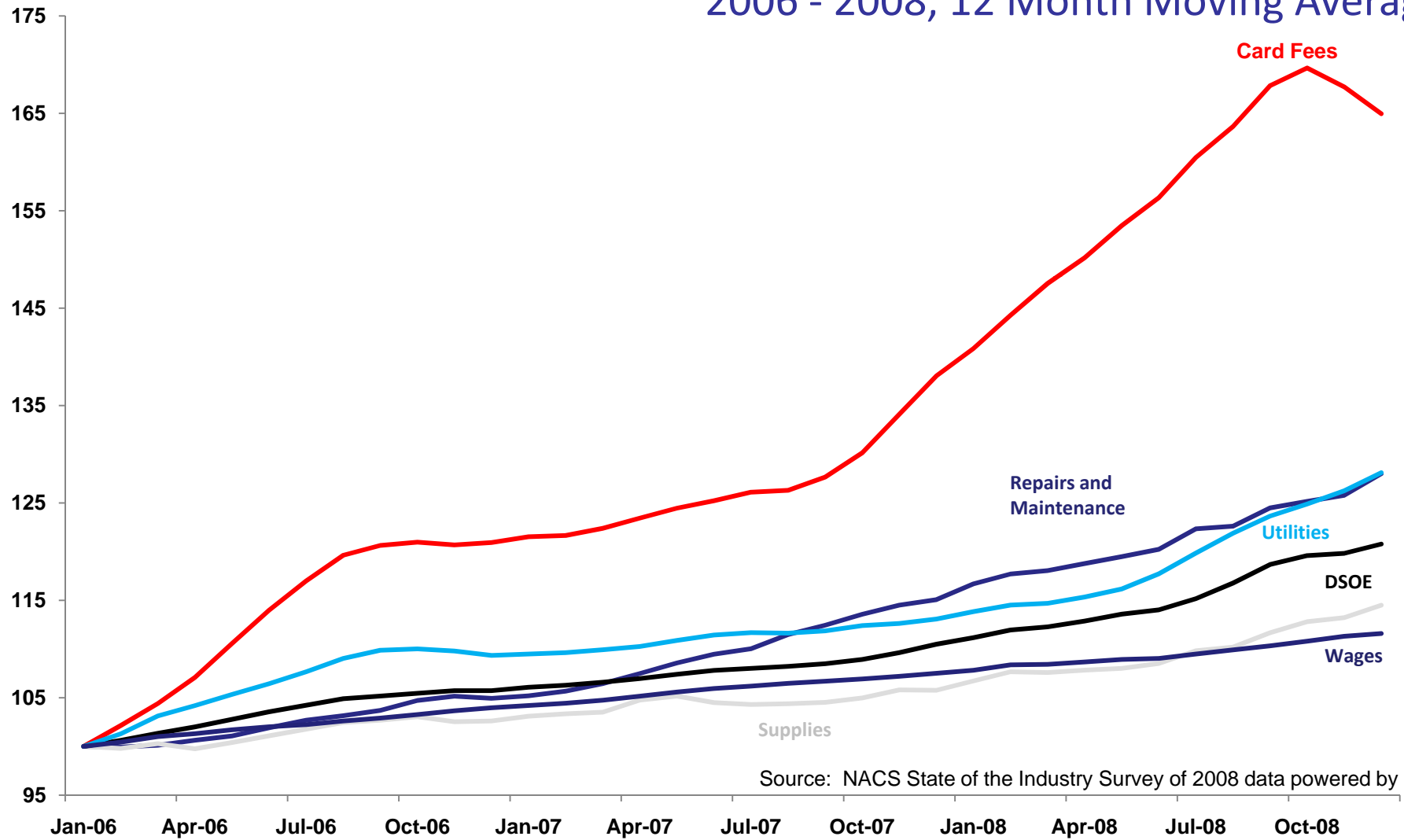


Card Fees vs. Pretax Profit

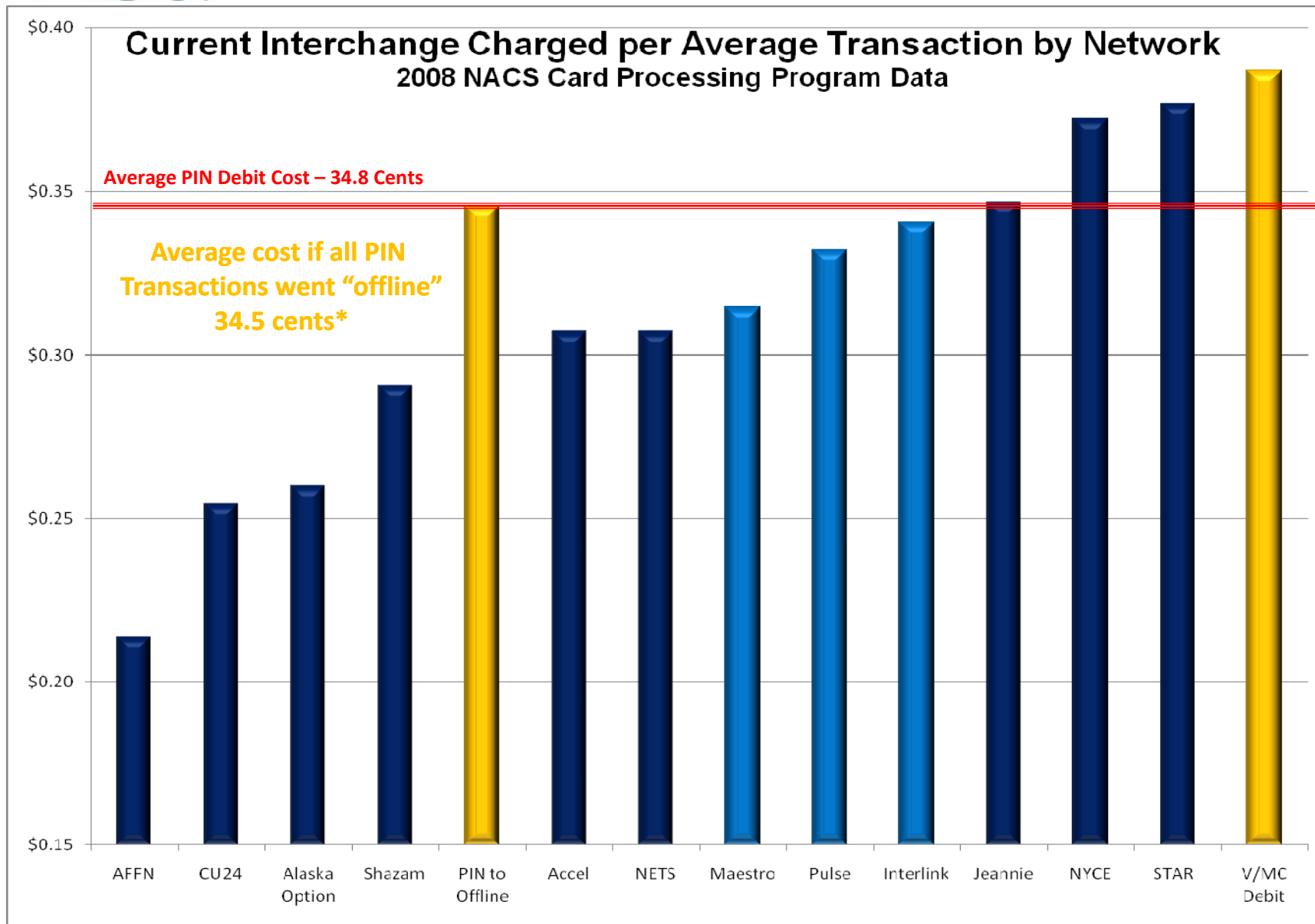


Growth Rate of Key Expenses

2006 - 2008, 12 Month Moving Average



Source: NACS State of the Industry Survey of 2008 data powered by CSX





UNDERSTANDING CONSUMERS

The Association for Convenience & Petroleum Retailing

bub·ba (bŭb'ə)

noun, slang:

1. A white working-class man, stereotypically regarded as undereducated and gregarious with his peers.
2. A man of the Southern U.S., variously characterized as easygoing, companionable, assertively masculine, etc.
3. A typical c-store customer

bub·ba (bŭb'ə)

song, Rascal Flatts:

Bubba is a friend, he`s a beer drinkin` buddy of mine
But lately somethin`s happened that ain`t hard to define
Bubba`s got himself a cousin and I`m gonna make her mine
And she`s brushin` both his teeth
And she`s makin` him biscuits and gravy I just know it
And she`s lovin him in that double wide late late at night

Y`know, I wish that I had Bubba`s girl
I want Bubba`s girl
Why can`t I find a cousin like that?
Like bubbas girl
I want I want Bubba`s girl
Why can`t I find a cousin like that!

Understanding consumers

Bubba:

- **Age:** 18-55 years old
- **Cultural influences:** Beer, NASCAR, pick up trucks, cigarettes, beer, baseball, beef jerky, football, beer, dip, mom, hunting dogs...
- **Brand loyalty measured in:** a lifetime
- ***The industry's stereotypical customer profile***



There's more to operating a successful convenience and petroleum retailing site than just catering to Bubba...

Understanding consumers

Beyond Bubba:

Different types of shoppers value different shopping experiences, and retailers that best tap into these values and shoppers' needs will capture a greater share of the convenience business, which is no longer confined to c-stores outlets, according to ***Fast Forward: Emerging Opportunities in Convenience Retail***, a report from the **NACS/Coca-Cola Retailing Research Council**.

Understanding consumers

Beyond Bubba - Fast Forward: Emerging Opportunities in Convenience Retail

The **NACS/Coca-Cola Retailing Research Council** identifies three types of c-stores:

- Neighborhood stores
 - Customers live close by and shop for fill-in items and specific category purchases
- Commuter stores
 - Located on high-traffic thoroughfares and shopped mostly by blue- and white-collar commuters
- Interstate stores
 - On major highways and frequented by long-distance travelers and professional drivers

Understanding consumers

Beyond Bubba - Fast Forward: Emerging Opportunities in Convenience Retail

To better customize their products and services, retailers need to better understand various types of shoppers, the report concluded. They were identified as:

- **Drop-In Daily customer**, or the familiar "Bubba" who drops in daily as a break from work
- **The Local Loyalist**, who thinks of the stores as the center of the neighborhood
- **The Over-Stretched Mom**, who shops on the way home from work to fill in the gaps
- **The Mobile Professional**, who stops in during the commute for coffee and competitively priced gasoline;
- **The Highly Hesitant**, who visits for snacks, but otherwise avoids c-stores
- **The Long-Distance Driver**, who drives for a living and wants familiar brands of gasoline and clean bathrooms

Understanding consumers

Gen Y & beyond:

- **Born Between:** 1977 and 2002
- **Age:** 7-32 years old
- **Cultural influences:** dot-com bust, Internet, September 11, mp3, Iraqi War, Paris Hilton, Facebook, Twitter
- **Brand loyalty measured in:** Days



Understanding consumers

Teens (Ages 14-20):

A teen participant of the NACS/Coca-Cola Retailing Research Council Teen Study was asked why he chose a specific store over another. He responded:

"It's close, and I needed gas and a Hershey bar and a Coke."



Notice the description wasn't a "candy bar and a drink."
The Association for Convenience & Petroleum Retailing

Understanding consumers

Gen X (baby bust):

- **Born Between:** 1965 and 1976
- **Age:** 33-44 years old
- **Cultural influences:** television, Atari 2600s, personal computers, grunge, health, the environment, latch-key kids
- **Brand loyalty measured in:** It depends on...
 - Loyal to brands that perceive responsibility over status
 - Disloyal to brands that perceive status above responsibility



Understanding consumers

Gen X (baby bust):

- Loyal to brands that perceive responsibility over status
 - Honda
 - Apple
- Disloyal to brands that perceive status above responsibility
 - Rolex
 - Hummer



Understanding consumers

Baby Boomers:

- **Born between:** 1946-1964
- **Age:** 42-60
- **Cultural Influence:** The 1960s, Vinyl, Vietnam War, Kennedy Assassination, Woodstock, Easy Rider, Moon Landing
- **Brand Loyalty Measured in:** Years



Dan Gilligan

Understanding consumers

Baby Boomers:

- First “ME” generation – driven by wealth and success
 - After growing up rebelling against their parents’ wealth and success...
- By the end of this year, they will reportedly spend \$3 trillion a year



Understanding consumers

Baby Boomers:

- While mostly “brand fixed,” still just as likely to switch brands as younger buyers
- 33% of consumers older than 50 agree it is “risky” to buy an unfamiliar brand
- 36% of consumers 16-34 feel the same way
- 30% of consumers 35-49



Understanding consumers

Baby Boomers:

- Woman make the vast majority of purchasing decisions – spending trillions of dollars each year. And one huge segment of this demographic wields more spending clout than any other: Boomer Women between the ages of 41 & 60.
- Women are going to control two-thirds of the consumer wealth in the US over the coming decade.
- Over the same period of time, the Boomer woman demographic will grow 30 percent.
- We know they buy 20 oz bottles of Diet Coke...and fruit, pizza, milk, and candy bars...why don't they buy them from convenience stores?



Understanding consumers

Baby Boomers:

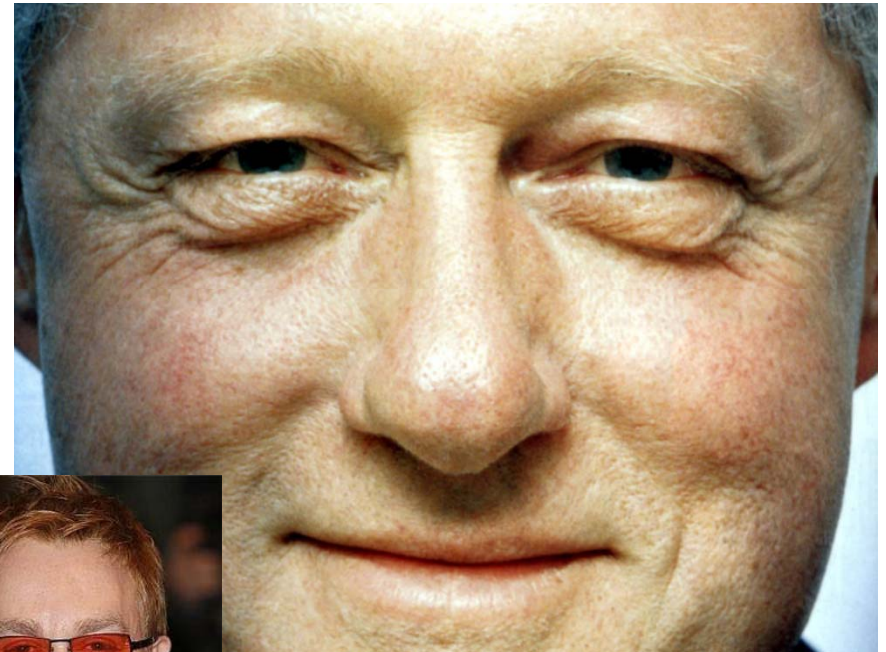
- Today, this is the generation that knew better than their cautious, fuddy-duddy parents
- The generation that protested, that had ideals and marched to the beat of defiant music: "Street Fighting Man," "We Want the World and We Want It Now," "Hope I Die Before I Get Old."



Understanding consumers

Baby Boomers:

- It's the generation that pursued pleasure, proclaimed "I can have it all" and refused to grow old -- "60 is the new 40," etc
- And now, after years of taking credit for changing the world, baby boomers are taking the rap for the reversal of fortune that's shaking the world



Understanding consumers

Cuspers (“late boomers”):

- Born roughly between 1954-1965
 - Barack Obama, born 1961
 - Sarah Palin, born 1964
- Value traditional notions of family but see men and women as equals in parenting
- Go back to older American values -- civility, community, responsibility -- yet keenly embrace technology and use the Internet naturally



Understanding consumers

Cuspers (“late boomers”):

- For marketers, they are a fast-emerging challenger brand that's fascinating to watch as it defines itself and attracts fans.
- Cuspers define themselves by what they're not: greedy, selfish, confrontational, hung up on past battles.



Understanding consumers

African Americans:

- By 2050, African Americans will account for 14.6% of our nation's population, increasing 71%
- In 2008, African American buying power increased to 921 billion dollars – 189% increase over the last 18 years



Source: U.S. Census Bureau

Understanding consumers

Asian Americans:

- Extremely brand loyal, especially the younger generations
- Brands as badge of status
- However, can be very fickle and switch brands often and easily, but usually return to the original brand



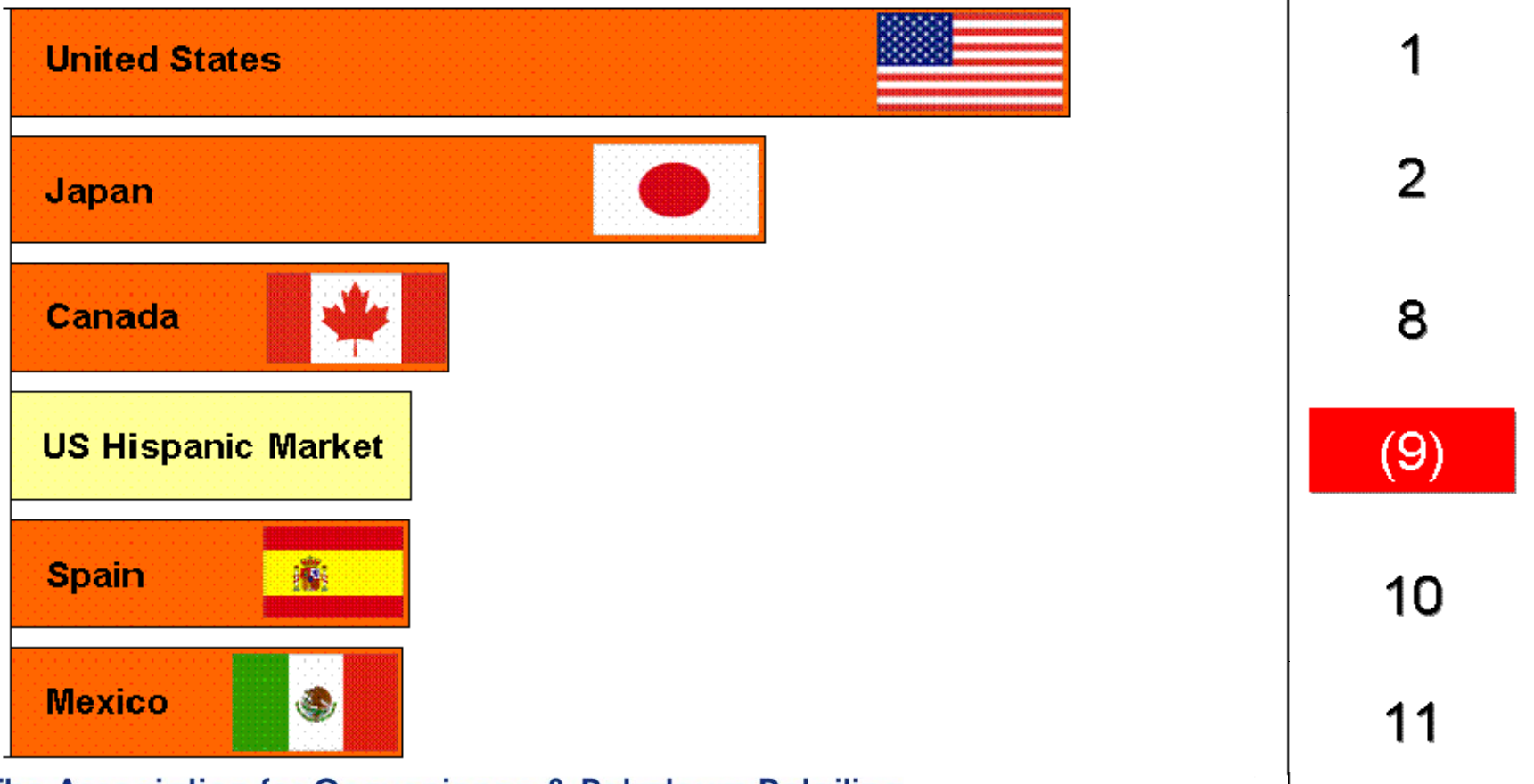
Source: 2007 VNU Business Media, Inc.

Understanding consumers

“Did you know...U.S. Hispanic purchasing power is the equivalent of the 9th largest nation in the world?”

Gross Product Comparisons

World rank



Bottom line...

- Bubba is not the only customer in town...and you better get to know yours and cater to their needs
 - Teens
 - Gen X & Y
 - Boomers
 - Cuspers
 - Boomer Women
 - African, Asian, & Hispanic Americans
 - Military
 - Tourists
 - Truckers
 - Stay at home Moms
 - ...and more!



CHANGING OPERATOR LANDSCAPE

The Association for Convenience & Petroleum Retailing

Changing operator landscape

Ethnic Americans

- Ethnic Americans continue to grow in both presence and influence in our industry.
- Immigrants from places like India or Pakistan have two choices when they arrive in this country: find a job or own a business.
- In other countries business ownership is considered an honorable profession.
- Since 2006 NACS has spoken to over 2,500 Ethnic American operators and their family members

Small operator profiles

- Influx of immigrants to the industry
 - India
 - Pakistan
 - Korea
 - Egypt | Jordan | Lebanon | Iran
 - Eastern Europe
- Many small operators were college educated, had previous business ownership experience, or both

Small operator profiles

- Small operators owned the majority of their sites while the rest leased
 - Majority sold fuel
- Most had little to no understanding of fuel marketing when entering the business
 - ...other than US-born “mom & pops” who grew up in the business

Small operator characteristics

- We identified two major types of small business operators
 - The Shopkeeper
 - The Entrepreneur



Small operator profiles

The Shopkeeper



- Leases or owns their site
- Runs a cash flow business.
- Has family work for free but pays for room & board, college tuition, car, cell phone, etc.
- Next generation will typically not continue the business
- Shopkeepers are the hardest to reach and are a challenge to motivate

The Entrepreneur



- May own other businesses
- Little family involvement
- Will keep some semblance of financials
- Their next generation family members continue the business
- More challenging to work with...tenacious negotiators and typically savvy businesspeople

Small operator profiles

Who's more important?

The Shopkeeper



The Entrepreneur



They both are important and are the future of our industry...and so, we're all affected by the growth of small operators



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
- Contact me for more information



DIFFERENTIATION

The Association for Convenience & Petroleum Retailing

Remember this?



Remember this?

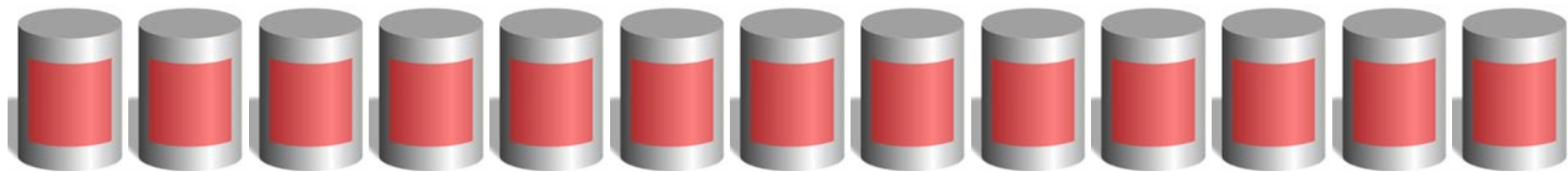


Reality is...



How do we differentiate ourselves?

Bottom line...



We are over assorted!!!

Bottom line...



12' of oil and auto parts

4' of pet food



Bottom line...

Who knows what this is?



The Association for Convenience & Petroleum Retailing

Bottom line...

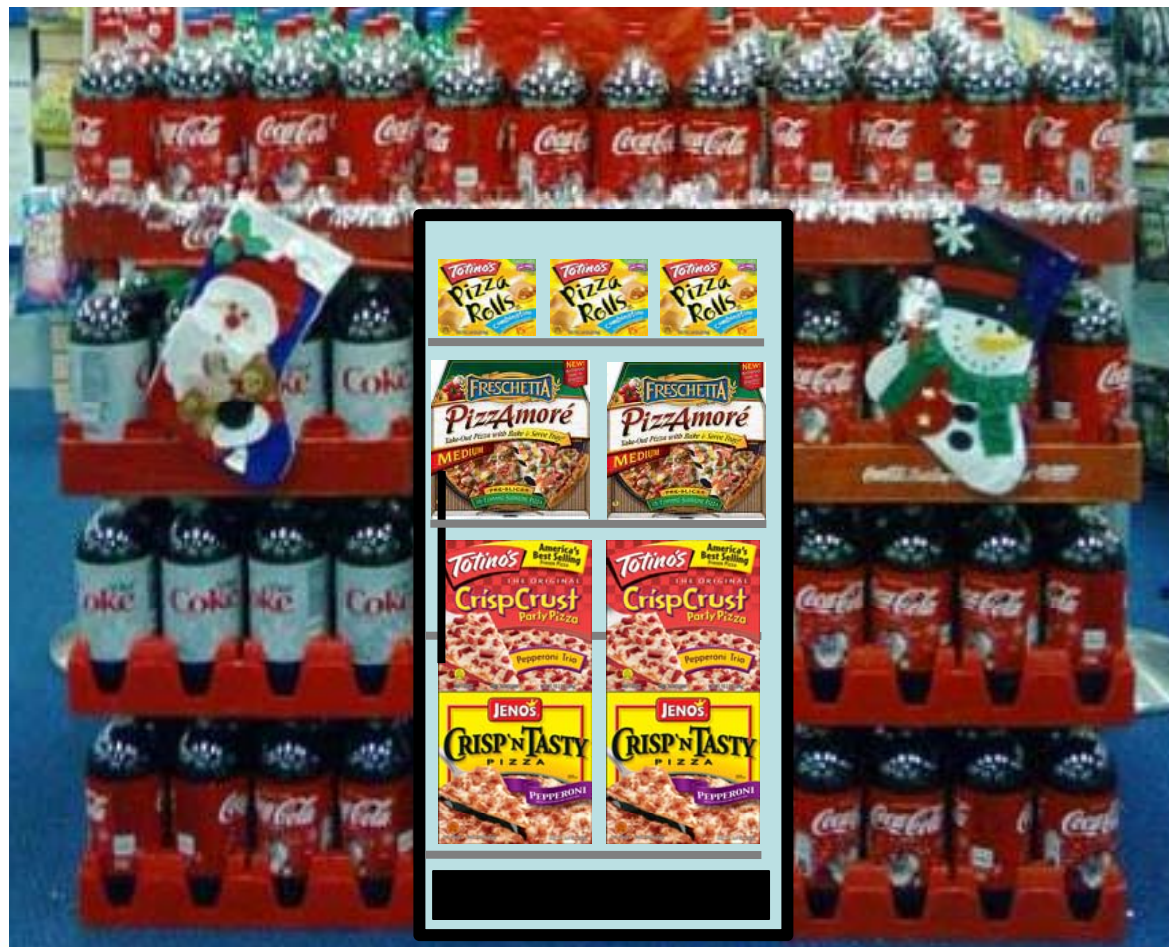
Who knows what this is?



The Association for Convenience & Petroleum Retailing

Bottom line...

What if we could find a better use for that space?



Bottom line...

What if we could find a better use for that space?



Bottom line...

What if we could find a better use for that space?



Bottom line...

What if we could find a better use for that space?



Bottom line...

- We can replace slow moving items with products that tie in with what we sell
 - Ice, beer, and soda: ***pop up and traditional coolers***
 - Hot dogs and hot dog buns: ***single use grills***
 - Gasoline: ***single use and traditional gas cans***
 - Bottled water: ***filtered water sold in refillable containers***
 - All kinds of cold beverages: ***fresh popcorn***
- We can sell smaller, “auto-friendly” sized products
- We can sell higher margin items
- We sell refreshment
- We are the “Pantry of America” ...we offer that small reward many of our customers are looking for

Bottom line...

- Our industry puts up with more crap than any other channel
 - Credit card fees and mandates
 - Perception that we make a huge profit selling motor fuels
 - Customers driving to hell and back to save 40¢ on a fill up
 - Regulation after regulation including new FDA control of tobacco
- Despite a tough year, we're bound to sell more stuff as consumers become more time starved and looking for a "reward"
 - We need to understand our customers better
 - We are squeezed by space
 - We need to know our competition better
 - We need fresh eyes



OPPORTUNITIES NOW HERE

<http://www.nacsonline.com/NACS/RESOURCES/RESEARCH/Pages/NACSCoca-ColaRetailingResearchCouncil.aspx>



Thank you!

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