

Growing Appetite  
for C-Stores  
Opportunities Remain  
for Growth



nielsen  
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## Defining Convenience Stores

For this report, convenience stores (C-stores) are 800 to 5,000 square-foot, carry 500 to 1,500 SKUs and include stores that may or may not sell gasoline and offer fast food services.

### Making a Store Convenient Can Be Hard Work

Convenience stores may be small, but they wrestle away a big market share from other types of stores. It takes persistent effort to meet evolving consumer demands and to compete. It also takes the right information. Where do C-stores stand in the marketplace? Who is shopping at convenience stores and what are they purchasing? How can storeowners and manufacturers work together to boost sales? What innovations are industry leaders around the globe working on to address coming headwinds?

It can be a challenging and fragmented market, but the right insights help make sense of it all and give a glimpse into the opportunities.

### Choosing Convenience

Americans are flocking to convenience stores, leading to enormous growth in the industry. More than 8,100 C-stores have been added nationwide since 2005, bringing the total to 148,764, a footprint that dominates the big and small box retail landscape. In fact, there are more C-stores than warehouse clubs, supercenters, dollar stores, supermarkets and drug stores combined. Most other types of store formats have also added locations in the past seven years, some at a higher rate than C-stores, but no other retail format can match the number of new C-stores. This much is clear: as much emphasis as American consumers have put on cautious spending in recent years, Americans like convenience. There is now one C-store for every 2,000 people in the United States.

It is perhaps unsurprising that convenience stores are more numerous. They are, after all, less costly to build and operate than their larger-format counterparts. However, the total number of C-stores only tells part of the story. They also outshine the marketplace in revenue growth.



## Revenues Growing Too

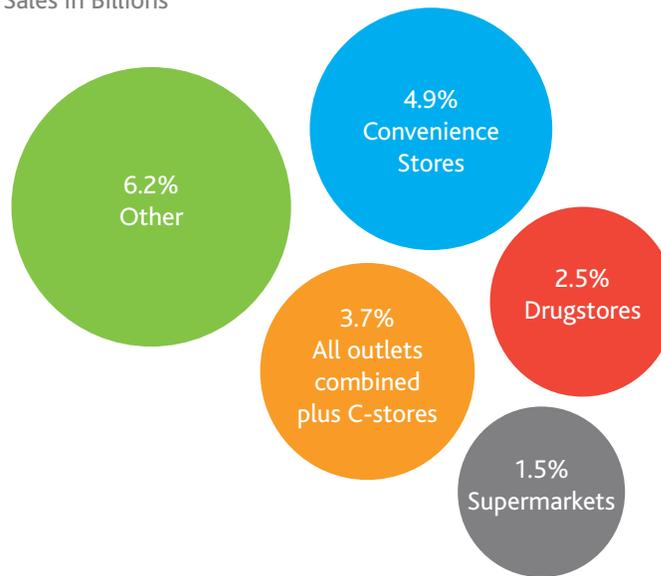
C-store year-over-year sales in the U.S. grew 4.9% in the 52-week period ending August 4, 2012, compared to 3.7% growth for the marketplace overall. Without even taking gasoline sales into account, C-store sales have topped \$123 billion. Compared to the same 12-month period, the \$310 billion grocery store segment grew by 1.5% and the \$49 billion drug store category, not including prescription sales, grew by 2.5%.<sup>1</sup>

## C-Store Chains

Since 2007, 23 of the top 30 largest C-stores increased their store count. The top ten chains added 1,588 stores – more than the combined store count increase from the next 20 largest chains. We see some minor store count compression from the remaining chains, but those smaller chains and individual store operators command 68% of the overall store count within the C-store format.

Within the top ten chains, the non-oil company outlets such as 7-Eleven and Couche-Tard led the way in terms of store count expansion. On the other hand, oil company outlets like Shell, BP and Chevron Texaco display negative or slower store growth. This is in large part due to oil companies focusing on their oil business rather than their retail stores.

Revenue Growth  
Total Sales in Billions

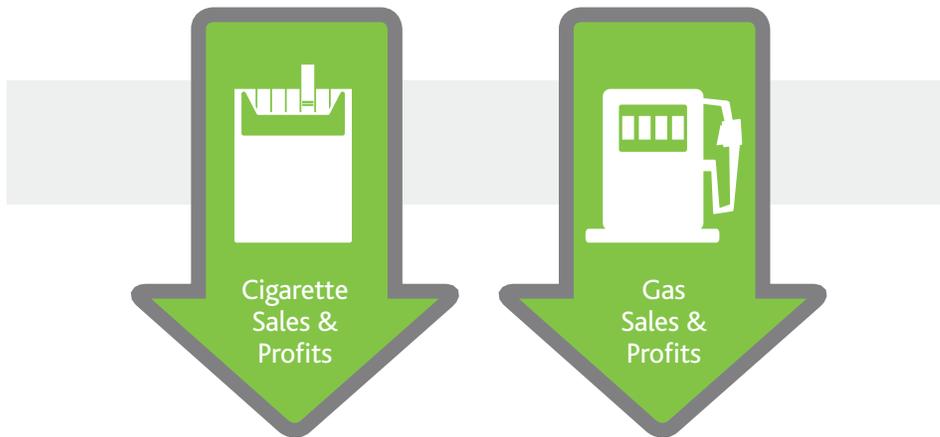


Expansion From Top Tier Chains, But Smaller Chains and Independents Still Command 68% of Total Store Count

C-Store Universe (% of stores)	2007	Mid-2012	Change	Leading Gainers
Top 10	34,838 (23.8)	36,426 (24.5)	+1,588	7-Eleven (+1,319) and Couche-Tard (+577)
11-20	6,542 (4.5)	7,144 (4.8)	+602	Pilot Flying J (+183) and Quick Trip (+123)
21-30	3,453 (2.4)	3,939 (2.6)	+486	Sheetz (+79) and Kwik Trip (+45)
All Other	101,461 (69.3)	101,255 (68.1)	-206	–
<b>Total C-Stores</b>	<b>146,294</b>	<b>148,764</b>	<b>+2,470</b>	–

<sup>1</sup>These sales represent UPC-coded products across the universe of departments and categories coded by Nielsen.

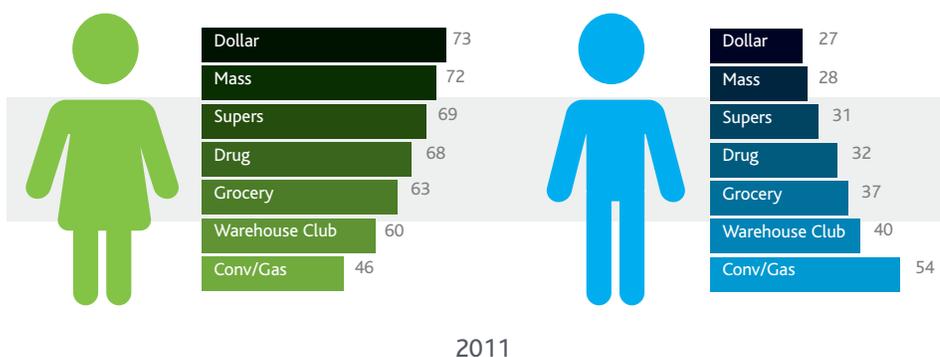
## Leading Trip-Motivators Decreasing



## C-Store Customers

- 73%** are without kids
- 65%** are households with two members or less
- 54%** are households with incomes below \$40K
- 27%** are male-only

## Share of Retail Channel Shopping Trips



## Speed Bumps Ahead for C-Stores

By far, C-stores have the most locations nationwide, but over the past five years, others in the small box category are increasing store count at a faster clip. Dollar Stores added 19% more stores and drug stores added 6% more, compared to 2% in the C-store category. This trend is likely to continue because, in addition to competition with other retail formats, two of the leading reasons people stop at C-Stores are under pressure. First, more fuel efficient vehicles mean fewer trips to the pump, and second, increasing cigarette health education and taxes are taking a big bite out of tobacco demand. With fewer consumers needing fuel and tobacco, what will motivate consumers to visit C-stores?

## Who Is Shopping Where?

Convenience stores pull 54% of their sales from households with incomes below \$40 thousand and 73% are without kids. In fact, around 65% of all C-store sales come from households of two members or less, and 27% are male-only. Unlike all other retail channels, where women command 60% share or more, men drive 54% of shopping trips to C-stores, making them the highest contributor.<sup>2</sup>

C-stores also have a particularly strong multicultural market. Unlike larger retail formats where purchases from African Americans make up between 9% and 11% of sales, African Americans contribute greater sales in C-stores (17%) and other small retail formats like dollar stores (21%) and drug stores (13%). C-stores also capture a higher share of spending (13.7%) from Hispanic households. In contrast, Asian household share of spending in C-stores (1%) is lower than other channels examined. However, there has been a rapid 29% growth in the number of C-stores in the Asia Pacific region over the past two years. U.S. and Canadian C-store operators might learn something from retailers in that part of the globe to propel sales among this growing and affluent population segment in the Americas.

<sup>2</sup> In the 52-week period ending December, 31 2011.

## Name Brands Dominate

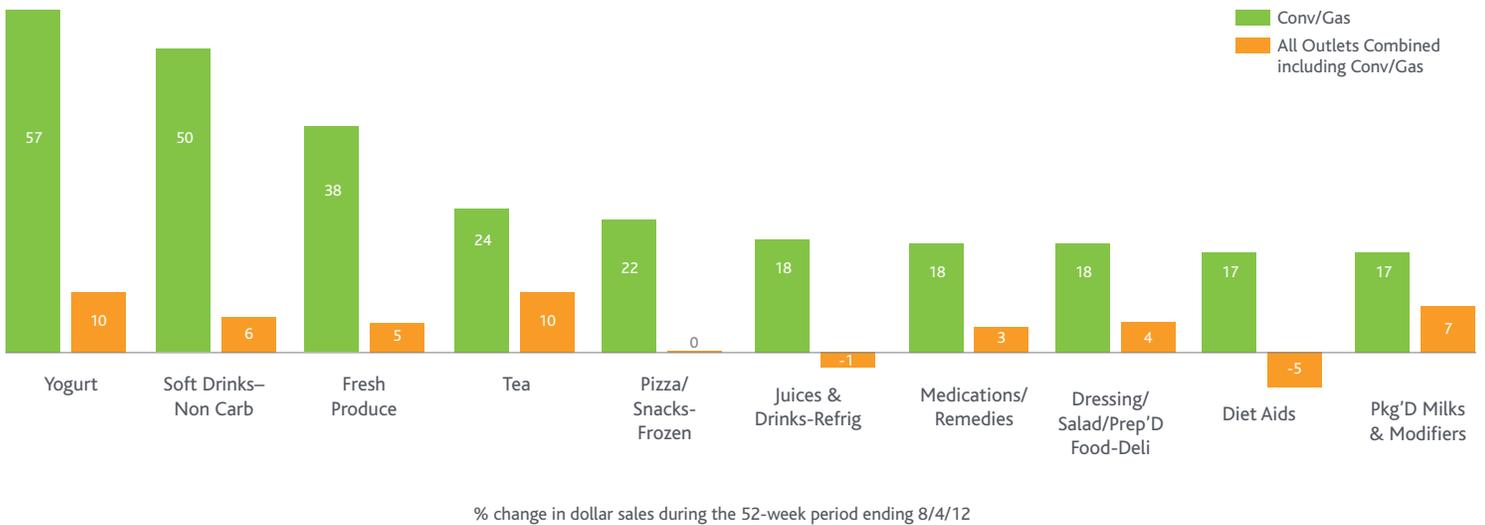
Unlike other retailers who often sell private label brands, C-store shelves are dominated by brand name products. Only 2.4% of C-store sales are private label goods, compared to 19.1% at supermarkets and 15.6% at drug stores.

Name brands in several categories rely on C-stores for a significant portion of their sales. For example, C-stores claim 85% of all tobacco and accessories sales in the U.S. and 53% of all beer sales. Consumers also buy a considerable amount of their carbonated beverages (38%), snacks (21%) and candy (21%) from C-stores. However, some of the fastest growing categories include healthy options such as yogurt, fresh produce, tea and salad.<sup>3</sup>

## Private Label \$ Share



## Fastest Growing Categories in Convenience Stores



<sup>3</sup> In the 52-week period ending August 4, 2012. Data collected from Nielsen measured retail channels.

## Innovations Likely to Drive Future C-Store Growth

The current trends in consumer lifestyles have led to great innovations that benefit today's busy consumer. The emerging leaders in the C-store realm have focused efforts toward on-the-go meals that provide quick and/or healthy options. Within the past year, common grocery items like yogurt and fresh produce have increased sales in C-stores by 57% and 38%, respectively. C-stores in the UK have incorporated further innovations with a focus on freshly prepared food options. They offer grocery staples to take home and prepare as well as healthy food to go. These stores are making it easier for consumers to eat fresher, buy less and shop more often. The trend is gaining traction across the U.S. and can draw higher income shoppers. C-store drive-thrus are also gaining in popularity with Americans, making most store items (including grocery staples such as bread, eggs and cereal) available without leaving the car.

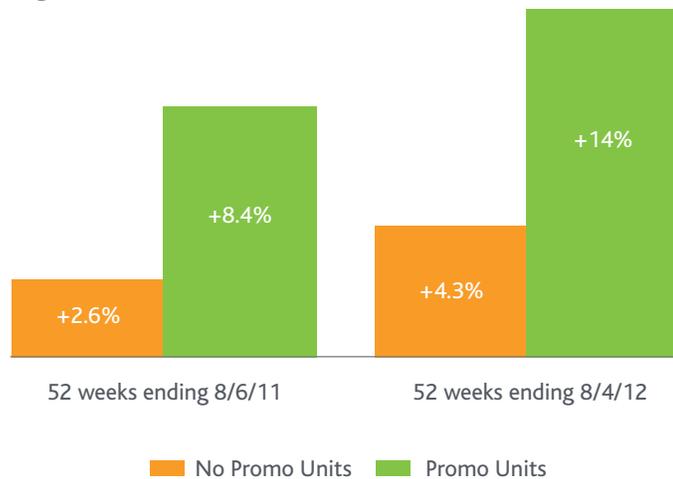
Following another European retail innovation, U.S. leaders in the industry have introduced small-scale, fully automated C-store machines that are freshly stocked daily in convenient locations such as universities and apartment buildings. About the size of an enclosed bus stop, robotic kiosks are self-contained, refrigerated vending machines that can carry up to 200 items. To keep transactions simple and convenient, these machines accept cash, debit and credit cards, and even federal supplemental nutrition-assistance program cards.

## Promotions on Display

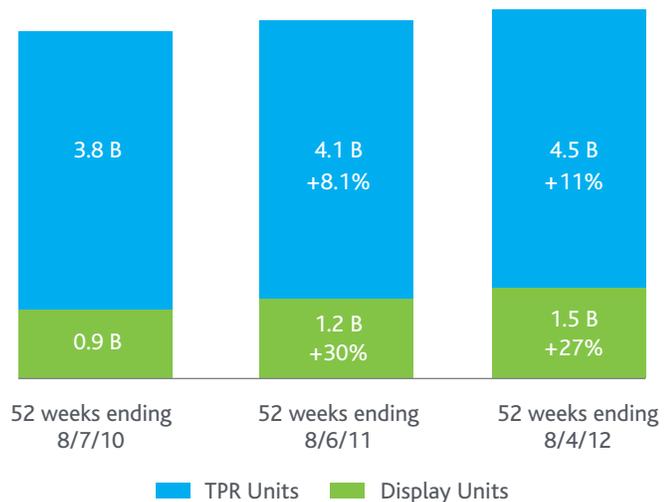
With weakening demand for gasoline and tobacco, consumer trip compression is a big challenge for C-stores. While sales trends are crucial, trip and purchase incentives are equally important. Success demands collaboration with brands to utilize smarter and more effective promotions and business partnerships. Consumers will respond strongly to promotions as seen by a 14% growth in promoted unit sales, which is over four times the rate of growth of non-promoted unit sales.<sup>4</sup> All in all, C-store sales are growing, and promotions are a big reason why.

So how to promote? Innovative C-stores have been taking a lesson from other competitive channels and are incorporating more compelling promotions to drive greater in-store sales. Items sold with more common, low-effort Temporary Price Reduction (TPR) promotions drove 8.1% and 11% growth for like annual periods in 2011 and 2012. However, product displays, which typically enable a higher level of shopper engagement, grew by 30% and 27% over the same time frame. Smart retailers have increased their displays and other promotional techniques, and it's helping to optimize in-store promotions.<sup>4</sup>

Unit % Change for Total Convenience



Product Displays Enable Higher Engagement



<sup>4</sup> In the 52-week period ending August 4, 2012.

## Innovations from Nielsen

New Causal Facts from Nielsen offer updated insights into understanding merchandising opportunities in the convenience channel. These will help manufacturers and C-store retailers understand how location, signage and display types affect sales to optimize in-store sales. These offer weekly granularity and are available at both market and account level.

### Granularity: Understand how Location, Signage and Display Type Affect Sales

- Location by display "zones"
  - Impulse
  - Food/Bev./Prep Area
  - In Aisle
  - Cold Vault Area
  - Perimeter
  - Outside of Store
- Signage by "vehicle"
  - Marquee
  - Electronic
  - Pump Topper
  - Window
  - Static Cling
  - Other
- Display captured by "type"
  - Temporary
  - Semi-Permanent
  - Retailer
  - Countertop
  - Cooler

## New Collaborations

Interesting partnerships between C-stores and other retailers and manufacturers may also accelerate growth. One such collaboration with an internet retailer uses C-store locations to house delivery lockers for online purchases. By providing a secure location for deliveries, Internet merchants are able to cut shipping costs and C-stores are able to attract customers. Taking a page from Asia Pacific retailers in countries such as Indonesia and Thailand, domestic retailers should look for new revenue opportunities by considering in-store technology for paying utility bills, buying movie tickets and receiving money transfers.

## Looking Ahead

After looking at successful trends in C-store innovation, it's clear that many of them will play an important role in the future of retailing, but what can be expected in retailing over the next five years?

Ecommerce, club, dollar, supercenters and pet stores will continue to drive strong CAGRs (compounded annual dollar growth rates) between 2012 and 2016 – between 8.5% and 4.1%, respectively. Drug stores will beat the average channel growth rate and not lose share, while all other channels (including C-stores, growing or not) will lose share. Specialty retailers will be particularly challenged. With Nielsen insights on retail innovation around the globe and more granular assessments of what really works to drive in-store sales, U.S. C-stores have the opportunity to accelerate growth and continue their winning ways.

## About Nielsen

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows and related properties. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands. For more information, visit [www.nielsen.com](http://www.nielsen.com).

## Pathways to Growth

- 1. Connect with the right shoppers:** Understand the needs of current shoppers and capitalize on the trends of expanding multicultural markets.
- 2. Keep options fresh and convenient:** Offer items for consumers' growing preference for a healthy and on-the-go lifestyle.
- 3. Incorporate new revenue streams:** Utilize business partnerships, C-store kiosks and drive-thrus that increase accessibility for consumers and boost opportunities for business.
- 4. Optimize promotions:** Encourage more visits and increased spending by utilizing smarter promotional techniques.