

# Convenience Stores 2022: A Smoother Road Ahead

A Special Report from Media Group Online, Inc.

Convenience stores did their best to remain convenient to customers during the pandemic. As with many other retail verticals, however, the abrupt change to many people's work schedules and their reluctance to shop inside stores disrupted the entire convenience store model.

Approximately 80% of all motor fuels are bought at convenience stores, but with fewer people working and remaining at home, the demand for these products declined significantly.

Similar to many other local businesses, convenience stores have continued to face labor challenges and supply-chain issues. Plus, the seemingly temporary increase in people working from home during the pandemic has now morphed into a permanent and almost revolutionary hybrid-work model. More people are working solely from home, working partially from home or working at satellite offices.

This month's Special Report from Media Group Online will guide you through the dangerous curves and bumps in the road convenience stores have had to endure and the smoother road they are optimistic is their path into the future.



# In Reverse Gear for 2020

The latest numbers (2020) from Convenience Store News' 2021 Industry Report show an industry stuck in reverse.



- Total sales of \$532.9 billion decreased 17.9% YOY.
- Total motor fuel sales of \$2898 billion decreased 29.9% YOY.
- The total store count of 150,274 was 2,446 fewer than 2019.
- Single-store owners were most affected, losing 2,912 units to a total of 92,196.

The two primary bright spots for the industry were chain stores increasing their unit count by 466 to a total of 58,078 and a 3.3% increase in in-store sales. In-store merchandise sales drove that increase as foodservice sales suffered substantially.



## Comparison of Total Merchandise and Foodservice Sales, 2018–2020

Sector	2018		2019		2020	
	Total	YOY Change	Total	YOY Change	Total	YOY Change
Merchandise	\$191.5 B	+1.4%	\$195.5 B	+2.1%	\$207.2 B	+6.0%
Foodservice	\$37.9 B	+2.4%	\$39.8 B	+5.2%	\$35.9 B	-9.9%
<b>Total</b>	<b>\$229.4 B</b>	<b>+1.6%</b>	<b>\$235.3 B</b>	<b>+2.6%</b>	<b>\$243.1 B</b>	<b>+3.3%</b>

*Convenience Store News, June 2021*

The top three subcategories that contributed the most to the increase in 2020 merchandise sales:

- Cigarettes: \$66.67 billion (+3.5% YOY)
- Packaged beverages: \$31.59 billion (+3.9 YOY)
- Beer/Malt beverages: \$24.66 billion (+14.0% YOY)

All subcategories of foodservice recorded YOY decreases:

- Prepared food (on-site or off-site): -6.6%
- Hot dispensed beverages: -24.3%
- Cold dispensed beverages: -5.7%
- Frozen dispensed beverages: -6.2%

Unsurprisingly, the subcategories with the largest YOY increases were directly attributable to the pandemic and people being stuck at home:

- Wine & liquor: +30.9%
- Ice: +20.6%
- Ice cream & frozen novelties: +17.3%

While the pandemic caused a sales decrease in most subcategories, it also exacerbated direct-store operating costs. Wages increased by 11.2% per store to \$393,949 and all labor costs by 10.3% per store to \$467,665. All other direct-store operating expenses increased even more at 14.9% to a per-store total of \$201,875.

# Moving Forward During 2021 and into 2022

In a recent NACS Pulse survey, two-thirds of convenience store owners said their total 2021 sales exceeded 2020, compared to just 16% who reported a comparative decrease.

Two of the three subcategories that helped to sustain convenience stores during 2020 recorded additional sales increases during the first half of 2021 compared to the first half of 2020, according to Convenience Store News' 2021 Midyear Report Card.

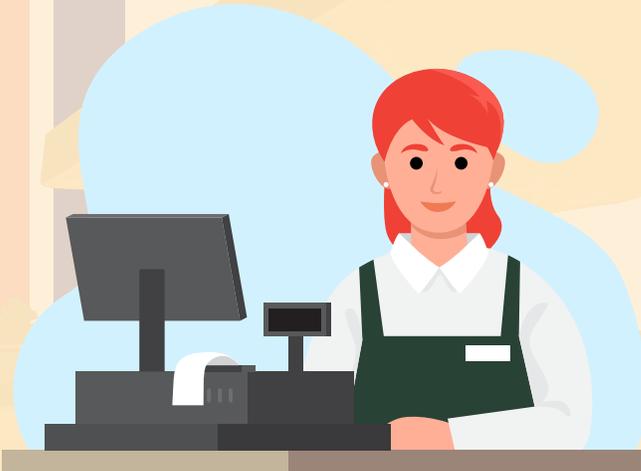
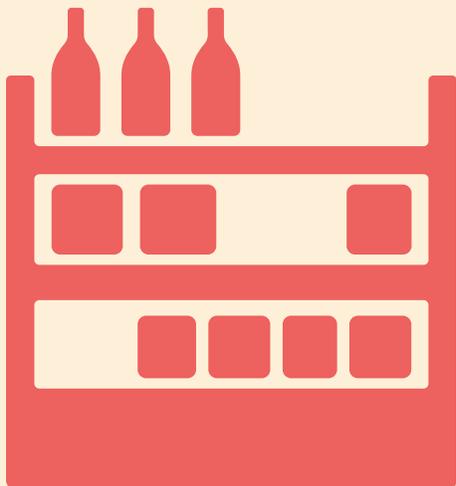
- Cigarettes: +2.9%
- Packaged beverages: +13.8%
- Beer/Malt beverages: +1.6%

The 9.7% increase in merchandise sales and 5.3% increase in health & beauty care (HBC) products indicate more customers felt safe shopping inside their local convenience store.

The 2022 Convenience Store News Forecast Study reveals the smallest operators (20 stores or less) are having more difficulty recovering than larger operators (21 or more stores). Of those smallest operators, 67% had a very or slightly negative view of the general US economy while 50% of larger operators had a very or slightly positive view.

Interestingly, 39% of small operators said 2022 would be their "best year ever" compared to only 6% of large operators. A larger percentage (56%) of large operators scored their 2022 prospects at a "4" (on a 5-point scale) compared to 39% of small operators.

Despite the general optimism for 2022, surveyed owners said labor turnover and hiring would have the most impact on their sales and profit growth.



## Issues Expected to Impact Convenience Stores' 2022 Sales and Profit Outlook

Issue	Largest Impact	Ranked in Top 3
Labor turnover and hiring	39%	72%
Motor fuel prices	6%	53%
The pandemic	8%	28%
Tobacco/e-cigarette regulations	6%	28%
Increase in e-commerce	11%	22%
Changing expectation of "convenience"	11%	19%
Declining foot traffic	6%	19%
Emerging technologies	3%	17%
Brick-and-mortar competition	6%	14%
Industry consolidation	0%	14%
Demographic changes	3%	8%
E-commerce competition	3%	6%

Convenience Store News, January 2022

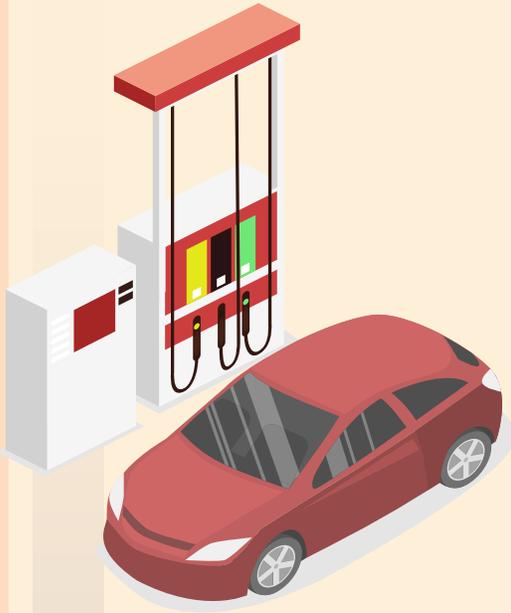
## Consumers Are Spending and Ready to Travel

Despite significant increases in inflation during multiple months, continued uncertainty about the pandemic and adjusting to new work situations, consumers were undaunted during January 2022 as US retail sales increased 3.8%, the largest increase during the past 10 months.

The reported trillions of dollars Americans saved and didn't spend during the pandemic, increasing household income and a restricted labor market in which job seekers can ask for and receive higher wages are fueling these retail sales gains. Some economists, however, think retail sales will moderate into 2022.

Nonetheless, auto industry analysts estimate a pent-up market for four million new vehicles and the residential real estate market needs approximately one million new, single-family homes to satisfy homebuying demands.

Americans have been waiting, often impatiently, for the pandemic to become endemic to travel in large numbers again and two sources indicate many will be taking road trips, which should be a boon for convenience stores.



- **The Traveler Value Index 2022 Outlook from Expedia Group** – 78% of consumers surveyed in eight countries, including the US, Canada and Mexico, during November 2021 said they are planning more short trips during 2022.
- **The RV Industry Association** – Through November 2021, total RV shipments increased 43.5% YOY. Fueling the demand is the 72 million Americans who expect to take an RV trip with an owned, rented or borrowed vehicle.

Another positive trend for convenience stores is the increase in total travel on US roads and streets during Q4 2021 compared to Q4 2020.

### Comparison of Total Travel on All US Roads and Streets for Q4 2021 and US Regions

Comparative Metrics	October 2021	November 2021	December 2021
YOY change	+7.1%	+12.3%	+11.2%
Northeast Region YOY change	+8.0%	+12.9%	+15.3%
South Atlantic Region YOY change	+8.1%	+12.7%	+11.5%
North Central Region YOY change	+7.0%	+14.4%	+10.8%
South Gulf Region YOY change	+6.9%	+9.9%	+9.4%
West Region YOY change	+5.9%	+11.7%	+10.5%

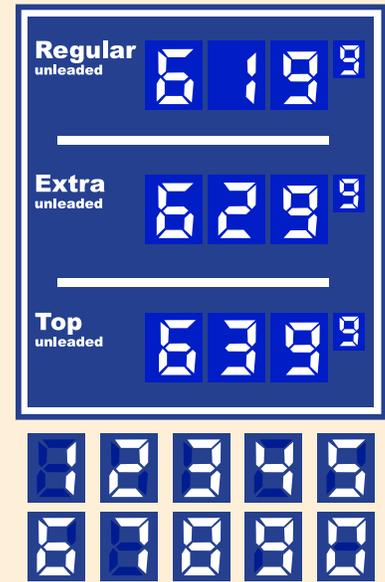
*US Federal Highway Administration, February 2022*



# Higher Fuel Costs May Impact Rebound in In-Store Sales

Although 53% of convenience store owners said they expect motor fuels sales to increase during 2022, that is not necessarily a positive trend. The increase in motor fuel costs was ranked in the top three issues expected to have a major impact on convenience stores' 2022 sales and profitability among 53% of survey respondents (See page 3).

Typically, inside sales are negatively affected when a gallon of gas is almost \$4.00. More drivers are unable to fill their vehicle's tank and if they do, then they have less disposable income to shop inside a store. Some may react to the high price of fuel and drive less, which reduces convenience store visits. As customers spend more for fuel and use their credit cards, the credit card companies receive a larger share of those transactions.



Diving deeper into Convenience Store News' 2021 Midyear Report Card reveals the subcategories with the largest sales increases.

- Cigarettes: subgeneric/private label +4.9%
- Packaged beverages: enhanced water +36.8%
- Beer/Malt beverages: nonalcoholic +32.3%
- Candy: bagged/repacked peg candy +20.5%
- General merchandise: telecommunications hardware +49.5%
- Health & beauty care: vitamins/supplements +34.2%

Some customers likely wanted to save money (subgeneric/private label cigarettes), others suggest health & wellness concerns (enhanced water and nonalcoholic beer/malt beverages) and others as alternatives to other retail channels (telecommunications hardware and vitamins/supplements).

Among the convenience store owners surveyed for the 2022 Convenience Store News Forecast Study, most expect substantial sales increases in the largest categories.



## Convenience Store Owners' 2022 Sales Forecast for Major Subcategories

Subcategory	Increase	Remain the Same	Decrease
Motor fuels	53%	36%	3%
Prepared foods	52%	22%	6%
Cigarettes	36%	39%	19%
Other tobacco products	50%	22%	11%
Packaged beverages	42%	50%	3%
Beer/Malt beverages	19%	67%	3%
General merchandise	31%	50%	17%

*Convenience Store News, January 2022*

# More Competition for Foodservice

Although the quality and value of the foodservice category at convenience stores has improved markedly during recent years, that improvement has increased foodservice competition. More customers are attracted to foodservice items at convenience stores, but they think of them as one choice among many, including fast-food and fast-casual restaurants, many grocery chains and other convenience stores.

According to Convenience Store News Foodservice Study, 53% of all surveyed convenience store operators said their 2020 foodservice sales decreased. Interestingly, more large chains experienced this decrease (65%) than small operators (42%).

The first half of 2021 was a complete turnaround as 74% of surveyed owners said their foodservice sales had increased and an almost equal percentage (72%) recorded an increase in foodservice profits. Even larger percentages expected these increases for the entire year: sales 84% and profits 80%.



## Convenience Stores' Foodservice Categories by Their Average of All Foodservice Sales, First Half of 2021

Category	Total	Small Operators	Large Operators
Prepared food	51%	58%	44%
Hot dispensed beverages	21%	18%	24%
Cold dispensed beverages	24%	22%	26%
Frozen dispensed beverages	11%	11%	11%

*Convenience Store News, June 2021*

Several convenience store chains have initiated foodservice strategies not only to compete, but also to thrive in the sector.

- **Specializing in a food type** – Customers want variety, but Casey's General Stores, for example, have promoted itself as a leading source for exceptional pizza.
- **Localized menu** – Some stores have researched the foods specifically identified with the region and then partnered with local suppliers to offer foodservice customers those unique menu items.
- **Testing stores** – 7-Eleven's Evolution Store format is where the chain tests new food items, such as vegetarian/vegan dishes, and proprietary restaurant formats.

With the foodservice category forecast to total \$12.2 billion by 2023, operators must study their customer profiles because they are likely younger than the traditional customer and what other menu items competitive foodservice outlets are introducing and serving.

# The Prepared-Food Customer

Although prepared foods generate 51% of the sales of the entire foodservice category and there is more competition for those prepared-food dollars, convenience stores are not satisfying their customers, according to Convenience Store News 2021 Realities of the Aisle Study.

The study discovered a 28-percentage point decrease from the first half of 2020 to the first half of 2021 of customers who said they had purchased prepared food at a convenience store or 80% and 52%, respectively. It is likely the pandemic is responsible for some of this substantial change as people were still reluctant to enter many stores.



## Top Reasons Customers Didn't Buy Prepared Food at a Convenience Store, First Half of 2021

Reason	Percent
Didn't plan to make a prepared food purchase when visiting the store	31%
Prefer not to buy prepared food at a convenience store	31%
They weren't hungry during their visit to the store	31%
Food was too expensive	23%
The selection was too limited	22%

*Convenience Store News, July 2021*

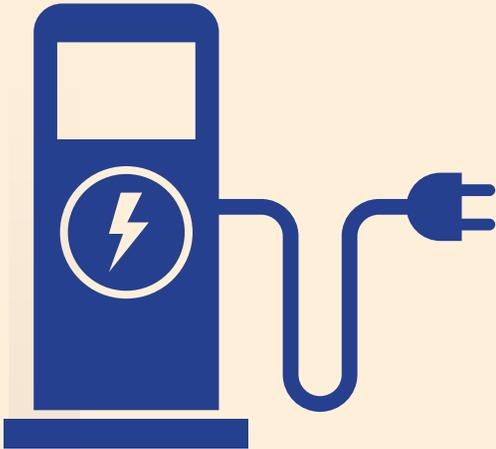
Other factors also negatively impacted prepared food sales during the first half of 2021.

- Customer satisfaction decreased from 71% (2020) to 64% (2021).
- Customers' perception of prepared foods' quality and price/value didn't improve from 2020 to 2021.
- 57% of surveyed customers said menu items they had eaten at casual dining restaurants were better than prepared food at convenience stores and 52% said the same about fast-casual restaurants.



Another looming competitive disadvantage for convenience stores is the many fast-food and fast-casual restaurants adding more delivery, drive-thru and curbside pickup as well as "kitchen-only" locations. These were low on the list of convenience store customers' list of important attributes for buying prepared foods, but as more consumers experience these new services at restaurants, convenience store customers will be expecting similar services.

## More Technologies to Engage with Today's Consumers



Technology is another competitive challenge for convenience stores. For decades, they had almost no competition for the sale of motor fuels, but as vehicles transition from internal combustion engines to electric motors, electric-vehicle charging stations are being installed at shopping centers, truck stops, travel centers and other locations throughout local communities.

Convenience stores are also adding EV charging stations, however, the actual competition will come from the home, where currently 80% of all EV charging occurs. People will need charging stations on their travel routes, but the convenience of charging at home is unlikely to allow convenience stores to be the dominant source of “electric fuel.”

As mobile apps, digital payment systems and other consumer-facing technologies are becoming more common and particularly useful during the pandemic, convenience store owners are motivated to add these technologies.

### Top Five Technologies Convenience Stores Were Planning to Add, First Half of 2021

Technology	Percent
Text messaging to customers	40%
Email marketing	37%
GPS/Geolocation alerts	37%
CRM software	34%
Merchandise/Foodservice ordering at the pump	34%

*Convenience Store News, June 2021*



This Media Group Online Special Report shows the convenience store industry can still deliver the “convenience” customers expect, except those conveniences must evolve to higher quality foodservice, especially prepared food, and new fuel and digital technologies.

Convenience stores must operate in a more competitive landscape, but competition breeds the innovation and improvements the industry requires. Whether Americans are traveling on the roads and streets in electric vehicles or the future autonomous vehicles, convenient stores will remain a vital source of essential products for the millions of US travelers.

*Sources Convenience Store News Website, 2/22; Reuters Website, 2/22; Expedia Group Website, 2/22; RV Industry Association Website, 2/22; US Federal Highway Administration Website, 2/22; Automotive News Website, 2/22; Door and Window Market Website, 2/22.*

*Prepared: February 2021*

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