Convenience & Foodservice: A Good Pairing

The foodservice category continues to thrive in the channel, with more growth possible

By Angela Hanson

FOR CONVENIENCE STORE RETAILERS that offer foodservice programs, 2017 reaffirmed what everyone already knew: It's a foodservice world and c-stores must live in it if they want to maximize growth and profits.

Overall foodservice sales increased 3.6 percent across the c-store industry in 2017, while average per-store sales of foodservice rose 3 percent, according to a May 2018 study conducted by Q1 Consulting Services, the results of which were provided to *Convenience Store News*.

Prepared food led the way for the category, accounting for 68 percent of the category's share and 11 percent of in-store sales. Prepared food saw a 4-percent increase in average per-store sales.

Hot dispensed beverages was a distant second, accounting for 21 percent of the category's share and rising 1 percent in average per-store sales. Meanwhile, cold dispensed and frozen dispensed beverage sales were flat to slightly negative for the year.

C-store retailers report that hot sandwiches, non-sandwich breakfast foods and hot breakfast sandwiches, in particular, saw an increase in sales in the past year.

The impact of foodservice on a c-store's business goes beyond just the category financials, too. On a scale of 1 to 5, with 5 being the most important, c-store operators surveyed in the Q1 Consulting study cited foodservice as being important to: driving transactions (a score of 4.55), satisfying the customer (4.46), and maintaining customer loyalty (4.65). So, enhancing a foodservice program has the potential to drive overall improved results for a c-store.

Foodservice Metrics

	PERCENT OF IN-STORE SALES	AVERAGE ANNUAL STORE SALES		TOTAL INDUSTRY SALES (in millions)		FOODSERVICE SHARE
	2017	2017	% Change	2017	% Change	2017
Prepared food (prepared on-site or off-site)	11%	$164,131	4%	$25,159	4.6%	68%
Hot dispensed beverages	3%	$49,652	1%	$7,611	1.7%	21%
Cold dispensed beverages	1%	$19,663	1%	$3,014	1.1%	8%
Frozen dispensed beverages	1%	$7,789	-1%	$1,194	-0.1%	4%
Foodservice Total	**16%**	**$241,235**	**3%**	**$36,978**	**3.6%**	**100%**

Source: *Convenience Store News* Market Research, 2018; Q1 Consulting Services, 2018

On the Menu

While many c-stores have begun offering more adventurous fare to capitalize on the millennial generation's desire for new eating experiences, the most commonly offered prepared foods in the past year were long-standing favorites: cold deli sandwiches/subs/wraps, fresh bakery items, salads, fruit cups, soups, hot breakfast sandwiches, hot dogs and hot sandwiches.

On the beverage side of foodservice, long-standing favorites like coffee, espresso-based beverages, carbonated soft drinks and iced tea also remained the most commonly offered.

Expanding one's foodservice offering can attract a bigger market, but doing so without regard to what current customers and potential customers want could have the opposite effect. Retailers surveyed indicated the most important factors they consider when adding a prepared food item are the availability of branded products, consistency, buy-one-get-one offers and shelf life. Healthy or better-for-you attributes, including natural or organic, are not currently a top factor, but this could change in the future as consumers evolve in their healthfulness.

C-stores face more foodservice competition than ever, as any other foodservice retailer within a certain vicinity of the store qualifies as a competitor. Interestingly, though, retailers report that the "food everywhere" message, or the presence of foodservice in new and evolving channels, is actually helping the overall market and having a positive impact on c-store prepared foods.

To increase foodservice sales, 89 percent of retailers pointed to combo meal deals as their most effective promotional activity, followed by reduced price (67 percent), two-for deals (27 percent) and in-store signage (7 percent). To create trial for new items, 64 percent of retailers cited in-store signage as the most effective, followed by reduced price (39 percent).

The Consumer View

Along with knowing their own strengths and limitations as foodservice retailers, c-store operators must maximize their understanding of consumer habits.

The opportunity is there: When asked how often they ate away from home, 61 percent of consumers surveyed in the Q1 Consulting study answered always or often. When broken down into demographic groups, there was little difference between the percentage of men and women who always or often eat away from home, at 60 percent and 61 percent, respectively.

Age and income make a greater difference. Consumers aged 16 to 27 are the most likely to say they always or often eat away from home (at 73 percent), followed by those aged 35 to 44 (66 percent) and those aged 25 to 34 (65 percent). Habitually eating away from home is also correlated with a higher income level, as 71 percent of consumers that earn $75,000 to $99,999 annually report always or often eating away from home, followed by 67 percent of those that earn $100,000 or more, and 62 percent of those that make $50,000 to $74,999.

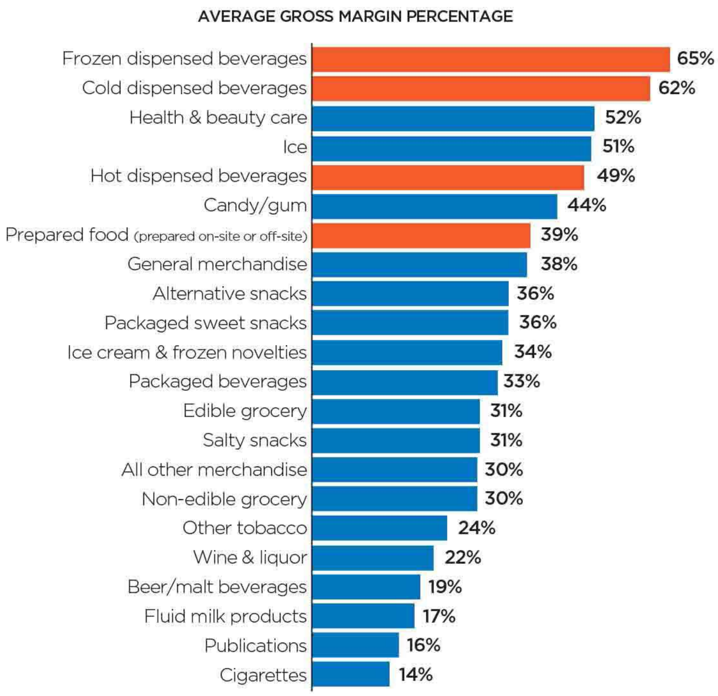
Where away-from-home eating occasions take place depends on what type of need the consumer is looking to satisfy. For example, they are more likely to visit full- or limited-service restaurants for meals, and more likely to visit c-stores when they want a snack or a beverage.

As eating habits shift away from consuming three meals per day to more frequent snacking and grazing throughout the day, c-stores are well positioned, especially if they can offer products that are fresh, healthy or "quick energy" producing, according to Q1 Consulting.

Thirty-two percent of consumers report that they typically purchase prepared food/grab-and-go meal items in the afternoon, from 2 p.m. to 5:49 p.m. Lunchtime (11 a.m. to 1:59 p.m.) is the second most popular daypart for c-stores, at 25 percent.

Unlike some c-store staples, however, consumers tend to pre-plan their foodservice purchases, with 66 percent indicating they make the decision to buy prepared food/grab-and-go meal items before entering the

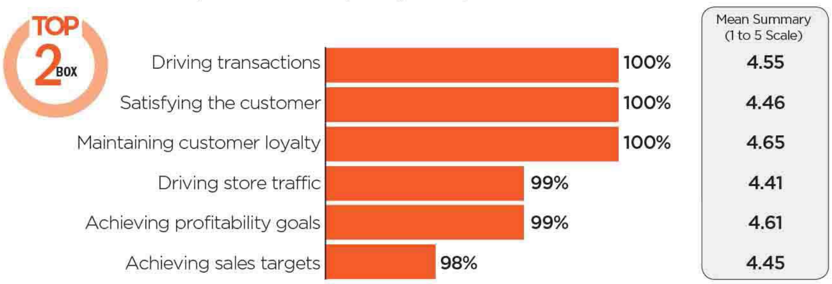
In-Store Gross Margins



Source: *Convenience Store News* Market Research, 2018; Q1 Consulting Services, 2018

Importance of Foodservice

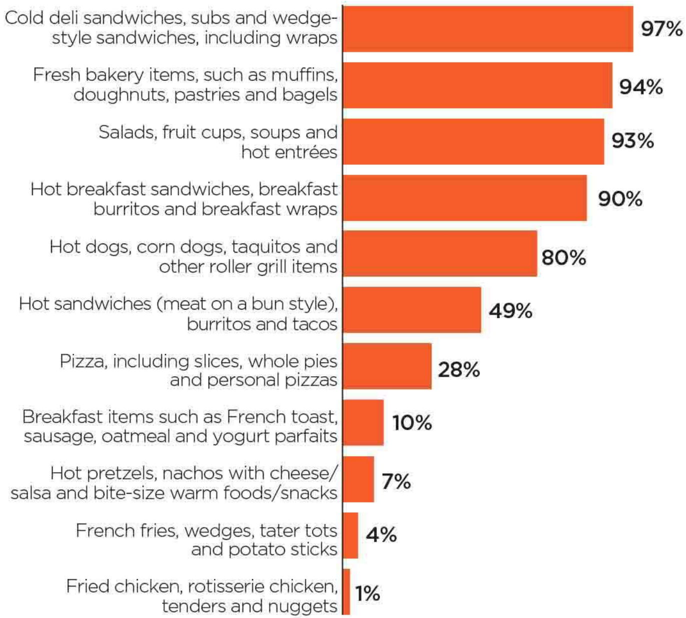
On a scale of 1 to 5, where 5 is most important, how important is foodservice in terms of...



Source: Q1 Consulting Services, 2018

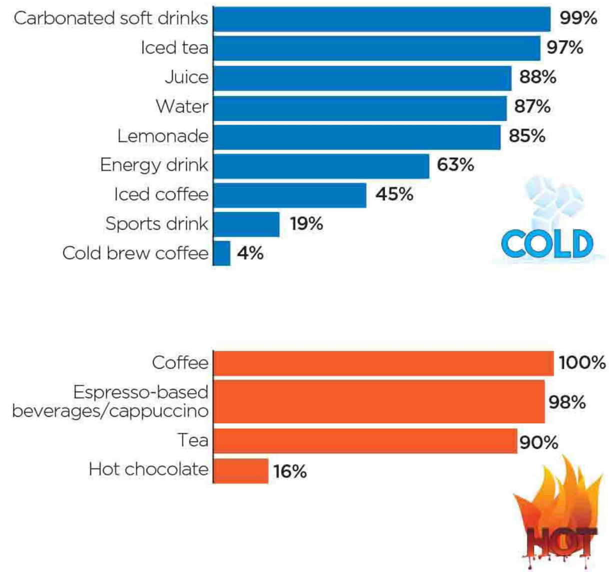
Prepared Foods Offered

Which of the following prepared food, grab-and-go or made-to-order items do you offer?



Types of Dispensed Beverages Carried

% OF RESPONDENTS OFFERING...



Source: Q1 Consulting Services, 2018

store vs. 34 percent who make the decision while inside the store.

Once inside the store, the biggest influence on the decision whether to make a prepared food purchase or not is how fresh the offering looks; this was cited by 82 percent of surveyed consumers as being important/very important. Other significant factors are grab-and-go/self-serve accessibility (66 percent) and how the product is displayed (62 percent).

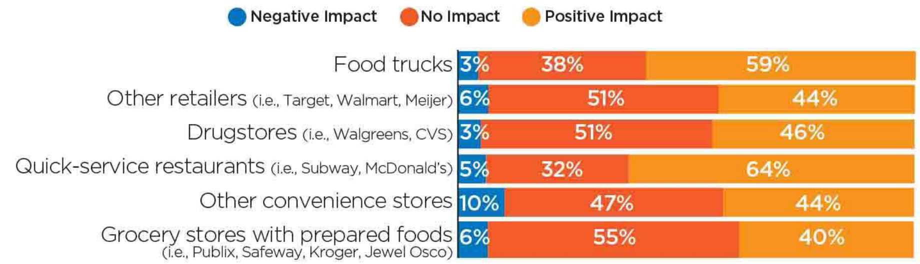
What helps consumers judge whether a food product is "fresh?" Most will look for an expiration date on the package (57 percent), visually inspect the food through the package (54 percent) or check to see if the food is as warm or cold as expected (32 percent).

Freshness is also the No. 1 better-for-you characteristic that consumers seek. However, opinions vary on the importance of being able to find better-for-you products in a c-store: 33 percent say it is somewhat important, while 28 percent say it is very important. Male customers aged 18 to 24 place slightly more importance on this than the average c-store customer.

Upon making a prepared-food purchase, nearly eight in 10 consumers (79 percent) say they eat the item right away, while 17 percent eat it within one to two hours. More than half of prepared-food purchases are eaten by the buyer on the go while inside his or her car (57 percent). The other most common locations are at home (21 percent) and at work/office (14 percent). CSN

Segment Competition

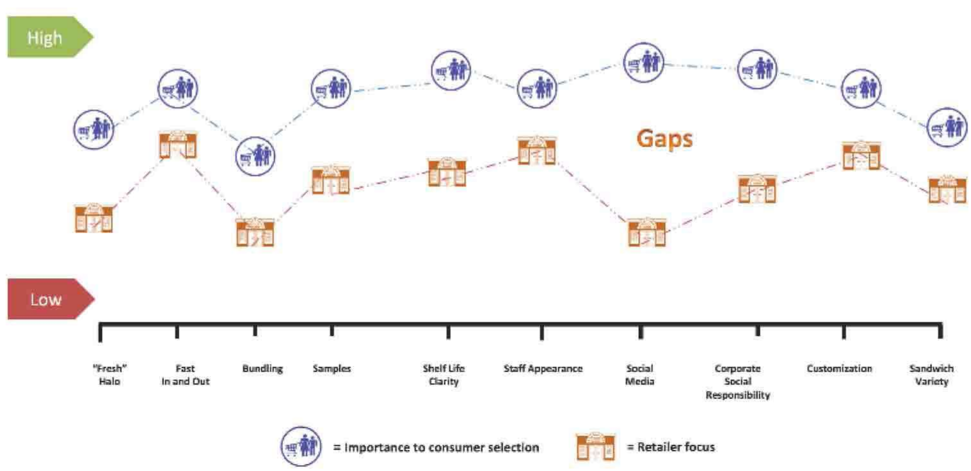
What degree of impact have the following foodservice venues had on your foodservice sales over the past two years?



Source: Q1 Consulting Services, 2018

Retailer vs. Shopper Attitudes on Critical Factors

Based on the study results, a number of gaps exist between what retailers are delivering and what consumers are demanding.



Source: Q1 Consulting Services, 2018

Retailer vs. Shopper Gaps Analysis

SAMPLES

Consumers indicate samples would entice them to try new menu items. While this may be a common request (along with lower price), there is still a significant gap between what retailers offer in terms of promotions that drive trial and what consumers request.

SHELF-LIFE CLARITY

C-store shoppers buy with their eyes. Not only does packaging have to be high-quality, transparent and durable, the expiration dates (or "best consumed by" period) is important to consumers and a noticeable gap between the two parties.

SOCIAL CONSCIOUSNESS

Today's high-visit-frequency c-store consumer demands more from its foodservice venue. In addition to service, food quality and store appearance, corporate social responsibility factors — including biodegradable packaging, cage-free eggs, no preservatives, living wage, etc. — are areas many retailers overlook.

SOCIAL MEDIA

With millennials ready to take over as the top food away-from-home demographic, social media is to them what high-tech stock options were to Gen X in the 1990s: they expect it. More retailers outside of the stalwarts (Wawa, Sheetz, QuikTrip, Circle K, 7-Eleven) must be active daily in social media.

Source: Q1 Consulting Services, 2018