

C-STORE DISPENSED BEVERAGE ROUNDTABLE

WHAT'S TRENDING, WHO'S BUYING AND WHAT'S NEXT?



PRESENTED BY



WHIRLEY-DRINKWORKS! DISPENSED BEVERAGE ROUNDTABLE PARTICIPANTS



Darrin Samaha

Vice President, Brand Manager,
Yesway



Jacqui Cintron

Vice President of Marketing,
Whirley-DrinkWorks!



Dana Sump

Senior Category Manager, Packaged
Beverage, Casey's General Stores



Lynn Cleveland

Director of Marketing,
Clipper Petroleum



Abbie Westra

Director, Retail Content Group;
Editor-in-Chief, CSP Magazine – Winsight



John DeAngelis

Director of Retail Operations,
Nouria Energy



Ira Gleser

Vice President, Industry Relations,
Whirley-DrinkWorks!



Jim Fiene

President and CEO,
Midwest Retail Group LLC



Greg Lorange

Senior Category Manager-Dispensed
Beverage, Cumberland Farms



Craig McGoffin

Category Manager, C-Store,
Meijer



As the convenience-store industry goes head-to-head with competitive threats, restrictive regulations and softened traffic, it's imperative that retailers leverage the category with the greatest opportunity: foodservice and dispensed beverages.

That thirst for evolution and growth set the stage for the third annual Whirley-DrinkWorks! C-Store Dispensed Beverage Roundtable, held during CSP's 2018 Convenience Retailing University. The event brought together leading retailers to share ideas on how to create a dispensed-beverage strategy that meets the needs of today's consumers and helps the industry overcome business headwinds.

As seven retailers discussed their food and beverage business over the four-hour roundtable, five key takeaways surfaced:

- The need to broaden the definition of the c-store shopper.
- Creating a product offering and marketing strategy to meet consumers' needs.
- Opportunities for the premiumization of dispensed beverages.
- Smart beverage pricing strategies driven by the retailer's brand and business model.
- The potential for dispensed beverages as a loyalty builder.

Attendees share their experiences with changing consumer habits at CRU.



But before diving into dispensed-beverage strategies, the roundtable participants sought to define who's shopping at c-stores and what they're looking for—and how that person is changing.

BROADENING THE DEFINITION OF THE C-STORE SHOPPER

While blue-collar males continue to be the primary c-store shopper, females and consumers of all income levels rely on c-stores more than one may think. According to a Technomic c-store consumer survey, 61% of women shop at a c-store at least once per week, compared to 68% of men. Meanwhile, 66% of consumers with a household income of less than \$35K visit a c-store at least once a week—the same as households with \$100K income or more.

Hispanic consumers also represent a large portion of c-store shoppers, with 71% of Hispanic c-store consumers reporting visiting at least once a week. They're looking for friendly service and socially responsible brands with quality, unique food and beverages offered in good portion sizes. Free Wi-Fi and a loyalty program are also enticing factors for this group.

And of course, younger consumers continue to prove themselves loyal c-store consumers. Seventy-seven percent of 21- to 34-year-olds and 70% of 16- to 20-year-olds are reporting c-store

visitation of once per week or more, spanning both Gen Z and millennial consumer bases.

To better understand the needs of today's c-store consumer, retailers should look to two of Technomic's eater personas: the Busy Balancer and the Functional Eater. These groups make up about half of all c-store foodservice consumers. (See sidebar, pg. 4)

Given that Busy Balancers and Functional Eaters both fall into the millennial group, it's crucial that c-store retailers understand this generational cohort. Thus far, millennials and Gen Z have been unencumbered by their parents' negative perceptions of the channel. The key will be retaining their loyalty as they age, increase their disposable income and evolve their tastes and preferences.

If retailers aren't appealing to these groups, they could be missing out.

Aimee Harvey, managing editor, Technomic, says, "Technomic's most recent research of the c-store shopper shows that millennials comprise the most frequent visitor base. Among millennials who visit c-stores, 78% come in once a week or more often, while 94% come in once a month or more often. And they're most likely to stop in for beverages when they do -- so speaking to the needs and preferences of this customer is crucial

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Darrin Samaha
Vice President, Brand
Manager, Yesway



BUSY BALANCER

IDENTIFYING CHARACTERISTICS:

- Female
- Millennial
- Mid-upper income

THEIR MINDSET:

- Juggles a career, family and personal life
- Positive outlook on life
- Busy, but embraces stress

HOW TO GET THEM IN THE STORE:

- Breakfast
- A wide variety of beverages
- Healthy but craveable food and drink

FUNCTIONAL EATER

IDENTIFYING CHARACTERISTICS:

- Male
- Young millennial
- Lower income

THEIR MINDSET:

- Uses meals and snacks as functional fuel
- Opts for familiar food and destinations
- Focused on getting through the day

HOW TO GET THEM IN THE STORE:

- Craveable options
- Satisfying choices
- Offering convenience



for ongoing success in the c-store segment.”

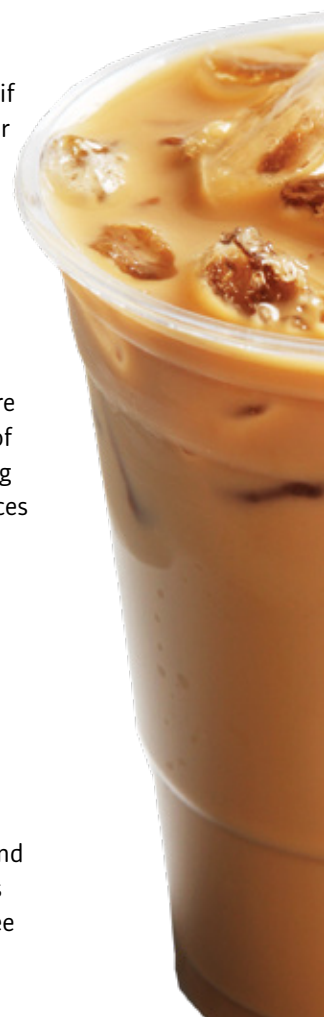
“It’s also worth considering the life stages and age ranges of the millennial population,” she says. “According the U.S. Census Bureau, the youngest millennials are 26 and the oldest are 41. Older millennials differ greatly from younger millennials, so it’s also important to remember which millennials you’re targeting if you’re a retailer hoping to secure more of their patronage.”

OPTIMIZING PRODUCT OFFERINGS TO THESE GROUPS

Beverages are a critical category for this expanded definition of the c-store shopper.

Jim Fiene, president and CEO of Midwest Retail Group, pointed out that females were responsible for the success of the rollout of iced coffee in his stores. “It was ... young females, coming and getting 32 ounces of the same stuff that they get at Starbucks,” he said.

The tribalism of millennials can also help drive loyalty and sales in dispensed beverages. Trendier and more niche products and marketing campaigns are more likely to catch the eye of millennials, and those products will be quickly identified by millennial shoppers and shared in their social circles—think 7-Eleven’s mustache straws, or Cumberland Farms’ coffee



promotions featuring David Hasselhoff. With that sharing, millennials become “part of the tribe” that uses and loves that product.

“I think millennials are very loyal to certain brands for that reason of wanting to be a part of it,” said Darrin Samaha, vice president and brand manager of Yesway. “But also, I think there is a recognition of quality of responsiveness of a brand and being able to communicate in almost a one-to-one way with these companies. And if [brands] respond to it, they will respond in kind and be loyal to that brand for a lengthy period of time.”

Roundtable participants also identified horchata as a growth product, particularly in areas with a strong Hispanic consumer base. Offered at 7-Eleven stores in some regions, it’s been a runaway hit, Fiene said: “It’s been a rock star for us, absolutely a rock star.”

Along with demographic demands are geographic considerations, and retailers cannot afford to use a cookie-cutter approach to their food and beverage programs and marketing strategies. Regional consumer preferences should drive how retailers go to market. Lynn

Cleveland said that at her stores in Georgia, customers tend to favor very sweet drinks, even adding packets of sugar to dispensed Powerade. On the other hand, John DeAngelis, Nouria Energy’s director of retailer operations for its 117 stores, said that his stores right off highways bring in consumers who want protein drinks and Greek yogurt, while his inner-city customers are looking for a sandwich and chips and rural customers are enticed by a pizza special.

And while many Midwest retailers cited an increase in iced coffee and iced tea sales in the past year, Greg Lorange, dispensed beverages category manager for Cumberland Farms, said both have been longtime strong sellers at his stores along the East Coast. In Florida, he said, “fountain is king,” while “in New England, coffee is king. So geography matters.”

SMART PRICING IN AN ERA OF PREMIUMIZATION

Hot pricing—or offering deep discounts—continues to be a lever that operators use to get customers in the door, particularly on the fountain.

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*Greg Lorange
of Cumberland
Farms and Darrin
Samaha of Yesway
share their in-store
experiences with
beverage trends.*



“If you have a decent foodservice program, you don’t need to go play in the hot-price, deeply discounted beverage pricing game.”

Ira Gleser

Vice President, Industry Relations, Whirley DrinkWorks!

And while hot-pricing beverages can help drive traffic and potentially increase subsequent food sales, it comes with risks. Consumers could come to expect the discounted price, pushing back against a price increase.

“Do you need to be 69, 79, 99 [cents]?” said Craig McGoffin, category manager, c-store, for Meijer. “Once you get there ... it’s hard to get away from it. When you start going down to 99 cents, it’s hard to come back up.”

And hot pricing is not always necessary. “If you have a decent foodservice program, you don’t need to go play in the hot-price, deeply discounted beverage pricing game,” said Ira Gleser, vice president of industry relations for Whirley DrinkWorks!. Dana Sump, senior category manager, packaged beverages, at Casey’s General Stores, whose pizza program is second to none in the industry, concurred.

That sense of tribalism plays into smart pricing, too. When consumers are clamoring to try the next big thing, there’s no need to sell it at a discounted rate. Instead, running a strategic promotion can help steer quality shoppers to the store to try the product.

And there’s a bigger shift at play that provides retailers an alternative to hot-pricing: the rise of premiumization. It’s a trend that’s hit the fountain, the cold vault and the coffee bar, and trending preparations of coffee including iced, cold-brew and nitro show how consumers’ tastes are changing.

Sump agrees that consumers are looking for more premium options.

“We are starting to see some of those trends that are happening—what I call coastal trends—that are finally happening in flyover country ... and people are willing to pay. ... Nobody seems to scoff at dropping [\$2 or \$2.50] for a beverage anymore.”

“From the dispensed side, I think the challenge is that it’s no longer just a carbonated-soft-drink business anymore,” he continued. “It’s everything.”

Cleveland of Clipper Petroleum said that stores also were upping their coffee game. “We are getting ready to test a ... nitrogen cold-brew coffee, so we are in the process of installing that at a couple stores,” she said. As for how they chose in which stores to test it, Cleveland said stores in areas with a lot of Hispanic customers were the ones they chose.

Consumer demand for premium beverages means retailers should offer an array of upgraded drink options, both in hot, cold and frozen dispensed formats. While the



Attendees at this year’s roundtable had the opportunity to discuss challenges and opportunities with dispensed beverages.

premiumization of hot dispensed beverages is well underway, opportunities exist on the fountain, too. Retailers should look to the cold vault for translatable trends such as enhanced waters, iced teas, craft sodas and, again, horchata. What's critical is working with beverage and equipment supplier-partners to find the right products that match the retailer's customer base and market.

BUILDING LOYALTY WITH DISPENSED BEVERAGES

Beyond both product and price, loyalty continues to be the magic bullet for driving traffic and sales, and retailers are finding refillable cups and corresponding programs a critical tool in increasing customer loyalty. Refill programs can come in various price points to cater to consumers across the financial spectrum.

"That's the hairstylist in the mall that comes by three times a day and fills up her same cup for a fountain drink," Fiene said. "It's the guy that works at the auto body shop that comes in six days a week ... and fills up the same cup."

"When they are thinking, 'I need to get my coffee,' they are thinking of that brand."

"The mug is the only form of advertising that

your customers actually pay you for," said Jacqui Cintron, vice president of marketing for Whirley-DrinkWorks!. "So they will spend money at your store to carry around your brand. It's about my mug, my store, my brand. The refill mug consumer is very loyal."

Refill programs can also drive loyalty among eco-conscious consumers. "What it's really doing for us at the moment, besides being brand-building, is answering the need for that customer who really is concerned about using a [disposable] cup and the impact that it makes on the environment," said Lorance of Cumberland Farms. However, he pointed out that retailers need to be careful not to overmarket sustainability efforts, considering most retailers still use disposable cups.

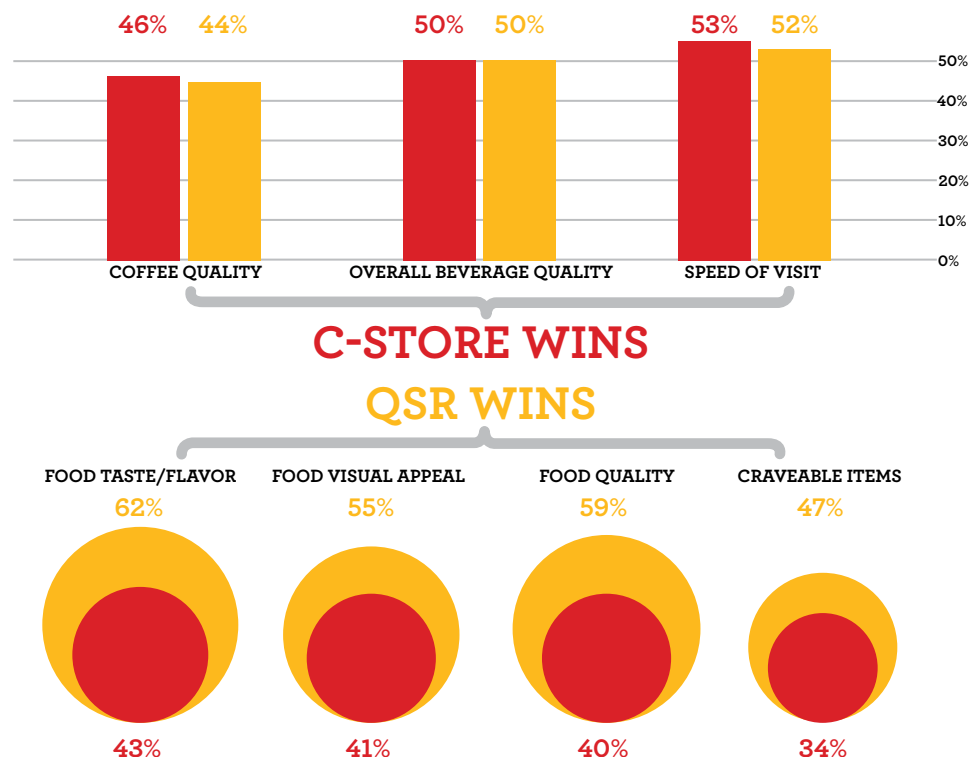
Nonetheless, since introducing higher cost stainless steel refillable mugs in his stores, Lorance has had to reorder them regularly due to demand.

Collaboration across marketing, category managers and operations is key to successfully promoting and growing loyalty programs. For the launch of its Yesway rewards program in summer 2017, the West Des Moines, Iowa-based chain did a five-week "block party-style" tour, with Yesway tents, prize wheels and more. "We

"We are starting to see what I call coastal trends that are finally happening in flyover country and people are willing to pay. Nobody seems to scoff at dropping two, two and a half dollars for a beverage anymore."

Dana Sump
Senior Category Manager,
Packaged Beverages,
Casey's General Stores

When Technomic polled consumers on their perceptions of convenience stores vs. quick-service restaurants (QSRs), the result was a mixed bag. C-stores won on speed of service and beverages, while QSRs dominated on food-quality attributes.



SEVEN STEPS TO A STRONGER BEVERAGE PROGRAM

STEP 1

Tap into the tribalism of millennials to build loyalty.

STEP 2

Offer a wide variety of high-quality beverages to meet the needs of female shoppers.

STEP 3

Offer premium beverages at a higher price point.

STEP 4

Price wisely based on both your foodservice and dispensed-beverage offer.

STEP 5

Use refill programs to drive branding and build loyalty.

STEP 6

Go hyperlocal with flavors, products and marketing outreach.

STEP 7

Consider how technology innovations can tie into your beverage program.

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Whirley-DrinkWorks!

did a lot of sign-ups for the [loyalty] program and we saw some great success, and really injected some enthusiasm into the program start,” said Darrin Samaha, vice president, brand manager, for Yesway. “We are really excited about what we are seeing and the numbers that we are generating.”

Yesway is focused on what Samaha calls “frictionless loyalty,” which incorporates all the various ways a consumer can interact with the brand, pay for products, redeem rewards and order food in one strategic ecosystem. “I like the ability to track and really prove our ‘why’ with digital,” he said.

HUNTING DOWN THE “NEXT BIG THING”

Today’s consumers use mobile apps for just about anything imaginable, and c-store mobile apps let them continually connect with a brand on everything from ordering to rewards programs. With digital loyalty programs, the ROI can improve with minimal effort, simply because the app keeps the brand top of mind. Retailers should build on every initiative and continue testing programs for success.

“I think it’s really important to offer multiple touch points for customers,” Samaha said. “In the rural markets where somebody may not be comfortable with the app, we get them a card. And vice versa: The millennial, who doesn’t even know what a card is, wants the app. We want them to get very comfortable with that connectivity to us.”

Delivery can also be a point of contact; while third-party delivery services are traditionally offered for restaurants, c-stores—including Wawa, Sheetz and 7-Eleven—are jumping in too. The key will be understanding what check

average will yield results for the retailer. “We don’t do it everywhere. We do it in just over 600 locations,” Sump said of Casey’s in-house delivery program. “We’re trying to figure out how to ‘slice and dice’—how can we deliver beer with pizza? How do you deliver age-restricted items, or beer or alcohol, with a pizza program? You start peeling that onion back and there’s all kinds of layers of state regulation.”

But as tech trends rise to the mainstream, the need for drink variety and quality will never disappear. For hot-dispensed drinks, premiumization and tiering are helping to boost sales, while value (such as hot pricing and refill programs) and function (such as high protein or low sugar) are driving cold-beverage product innovation and sales. And across the board, premium options are table stakes for today’s consumer, whether they’re seeking health or indulgence.

Overall, there’s lots of upside for retailers to leverage the power of beverages to drive store traffic and foodservice sales. Consumers rate quick-service restaurants higher than c-stores for food flavor and variety, according to Technomic’s Consumer Brand Metrics, but c-stores are far more competitive on beverage quality and variety. And three critical consumer groups—females, Hispanics and younger generations—all cite high-quality and unique beverages as critical to their c-store visit. Through smart beverage pricing, product premiumization and strategic loyalty, c-store retailers can expand their consumer net and bring in more of today’s shoppers.

