



C-Stores Adapt to New Consumer and Competitive Pressures

- ✓ ALWAYS THERE FOR YOU.
- ✓ UNASSUMING, BUT WELCOMING.
- ✓ HELPS WITH MANY OF YOUR NEEDS.

Sound like a best friend? Or your neighborhood convenience store? For tens of millions of shoppers, convenience stores serve as best friends in the retail marketplace, offering 24-7 access, familiar products and store layouts, and easy ways to navigate through a busy week. The C-store channel is evolving, however, and this has implications for the lottery industry as it represents such a significant platform for the sale of Lottery products.

To understand the current state of the C-store industry, it is helpful to explore seven critical aspects of the C-store business model:

1. Describe the magnitude of this retail channel in numbers of stores and revenue generated
2. Examine the competitive pressures on the channel from the explosion of home delivery services
3. Discuss the impact of ride-sharing

services and efficient vehicles on fuel sales

4. Look at the multicultural element in the channel's shopper profiles
5. Examine the impact of food services on the C-store business model
6. Investigate consumer loyalty programs and self-service systems
7. Discuss implications for Lottery

1. C-STORES REPRESENT A HUGE RETAIL CHANNEL

There were 153,237 convenience stores in the United States in 2018. That averages to more than 3,000 for every state plus the District of Columbia. However, that number actually represented a 1.1 percent decline in store count from a record of 154,958 in 2017. That decrease was driven by a loss of 2,918 stores among single-unit operators which, despite the decline, still constitute more than 62 percent of all C-stores in the U.S. There are now five percent fewer independents in the channel than there were only two years ago.

C-stores account for more than one third of the total number of brick-and-mortar retail locations. Further, 122,000 C-stores sell fuel and account for 80 percent of total vehicle fuel sales in the U.S.

Lottery sales represent nearly 9% of all C-store sales. And stores derive an additional dividend for the residual sales made to lottery players who buy other products when they come in to play the lottery. Approximately half of all lottery tickets in the U.S. are sold through this channel. Unlocking the full potential of this symbiotic relationship is mission-critical to both Lottery and Retail.

7-Eleven, Circle K, Speedway, and Casey's General Stores are the largest C-store chains. 7-Eleven has more than 9,000 stores, Circle K nearly 8,400, Speedway about 2,750, and Casey's approximately 2,100.

The industry has been characterized by aggressive mergers-and-acquisitions activity the past few years. Most notably, Marathon Petroleum Corp. acquired Andeavor; that transaction will enable Marathon's Speedway retail brand to expand through the conversion of the merged SuperAmerica stores.

Clearly, the C-store channel is ever-present, and its position of power is not going to wane any time soon. An estimated \$661 billion (yes, with a B) in sales cranked through C-store registers in 2018.

2. HOW CAN C-STORES COMPETE WITH HOME DELIVERY?

The exploding consumer phenomenon of on-demand delivery services has diminished C-stores' market position as a fast-and-easy grocery fill-in destination. Trip frequency in the C-store channel has decreased 28 percent the past five years. Such services as Grubhub, UberEats, and DoorDash (plus local supermarkets' home delivery vans) have altered the food retail landscape.

Further, the competitive landscape in grab-and-go fresh foods is intensifying. Whole Foods opened its Market Daily Shop in an upscale New York neighborhood. Something of an "upscale c-store," it features prepared foods, fresh produce, and a floral section.

C-stores are evolving and adapting to this dynamic with packaged ready-to-cook home meal solutions, fresh foods, better-for-you snacks, and quick-pay options (mobile apps).

And, of course, the lottery industry has seen a number of private lottery ticket courier services enter the marketplace during the past few years. While still early stage, these services have the potential to further erode market share for C-stores.

3. Sales Fueled by, Um, Fuel

Most C-store shoppers get gas. There's even old joke that shoppers get two kinds of gas: the kind you buy at the pump and put in your car and the kind you get from eating the C-store burritos.

C-stores account for 80 percent of total

motor fuel sales in the U.S. However, there are some marketplace realities putting pressure on that source of revenue. Electric and hybrid vehicles are proliferating, reducing fuel consumption with each passing year. Additionally, ride-sharing services such as Uber and Lyft are shifting the dynamics of vehicle use.

Some C-stores have installed electric vehicle charging stations and are experimenting with different ways to lure those customers inside the store while they wait for the charging to complete.

4. THE CHANNEL OF MULTICULTURAL SHOPPERS

Demographers predict that 25 years from now – by the mid 2040's – the United States will be predominantly multicultural. The historical race and ethnicity proportions are rapidly changing even now, and C-stores reflect those population shifts among their shoppers.

More than one-third (37 percent) of all C-store visitors are multicultural shoppers; among core shoppers (those who visit at least once weekly), the percentage rises to 43. Hispanic-American and African-American shoppers represent important C-store visitors, with 65 percent and 56 percent, respectively, stopping in at least once a week.

The Hispanic-American market possesses \$1.5 trillion in buying power, according to Nielsen research. This market clout revolves around three key factors: their younger

median age, the fact that they live in larger, multi-generational households (which distributes such expenses as housing costs), and they are digitally tuned in. Asian-Americans also represent a huge economic force: they have \$986 billion in buying power, according to Nielsen.

Beyond multiculturalism, the gender mix among C-store shoppers is changing, too. Women now constitute 50 percent of C-store traffic, which is low compared with other retail channels but represents a gain in the convenience space. Women frequently buy different products than do men, including, for example, cosmetics. 7-Eleven in 2017 launched its own private-label line of cosmetics called Simply Me Beauty. As Rite Aid and other chain drug stores that appealed predominantly to women begin to shutter, the C-store channel has opportunities to attract more female shoppers.

5. FOOD – FRESH, FLAVORFUL, FAST

Food purchases are nearly as important as the sale of fuel to the C-store channel. Food accounts for 16.5 percent of total C-store sales. And the three watchwords in the food category are fresh, flavorful, fast.

The types of foods have migrated from the traditional bag of salty potato chips to plant-based, better-for-you items, such as kale chips, beet chips, puffed cauliflower, and other non-GMO items. Protein-rich sources, including nuts, seeds, beans lentils, and even algae, are in high demand among more health-conscious consumers.

Locally-sourced food ingredients and organic options help attract Millennial consumers. If stores are able to construct short supply chains, experts encourage them to promote them at point-of-sale. Nothing says "fresh" like a sign stating that the tomatoes in your salad were grown by Farmer Becky just around the corner.

Although few industry insiders would have foreseen this years ago, the volume of fruits and vegetables sold in C-stores is nearly the same as popcorn and pretzels, about \$242 million in sales according to the National Association of Convenience Stores. That is a fraction of the produce sold in grocery stores, but it represents a key opportunity for growth for C-store operators.

6. LOYALTY PROGRAMS AND SELF-SERVICE SYSTEMS

As with most business categories, loyalty programs are important to C-stores. About one-fourth of C-store loyalty program



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participants will shop exclusively at “their store,” according to a C-Store Shopper Profile report. And two of five will spend more than \$10 per shopping trip.

Loyalty programs achieved the highest consumer rating (3.6 on a 5-point scale) in a study of preferred store services. For context, made-to-order food service was second at 3.1.

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A loyalty program that encompasses both personally identifiable information and point of sale purchase data can generate insights to assist retailers with product mix optimization, real-time promotional/discount offers, and time-of-day opportunities.

If stores can successfully couple loyalty programs with fast-pay and/or self-service systems, they can significantly distinguish themselves from the competition.

7-Eleven, QuikTrip, and ExtraMile have enabled quick-pay methods such as Apple Pay.

Self-service checkouts have become increasingly popular (e.g. Amazon Go); however, shrinkage is an on-going challenge in the C-store channel, so improving the security features will take precedence before wide-scale adoption of self-service systems will occur.

7. IMPLICATIONS FOR LOTTERY

C-stores and Lottery are interdependent. Already noted is that Lottery sales represent nearly 9% of all C-store sales and approximately half of all lottery tickets in the U.S. are sold through this channel. Other facts:

- Weekly lottery sales per C-store total \$8000 on average
- Lottery sales peak on Wednesdays and Saturdays in this channel
- Strongest lottery sales occur between 3 p.m. and 5 p.m.

- Ninety-five percent of lottery buyers purchase at least one additional item inside a C-store
- The overall basket ring by lottery customers averages \$10.35
- Those shoppers who do not buy lottery products spend \$6.29

Perhaps counterintuitively, giant lottery jackpots actually depress total store sales. One study revealed that during the largest jackpot drawings, sales on non-lottery items dropped dramatically. Store traffic increased, but market basket values dropped because of a shift to the purchase of more lottery tickets. Long lines at the register and an influx of lottery customers chasing

the big jackpot actually suppressed total store sales.

Lotteries have made concerted efforts to keep open lines of communication with C-stores. And lotteries should continue to push strategic ideas such as:

- Investments in technologies and techniques to accelerate check-out
- Connecting lottery to fuel and food sales (at the pump, at the kitchen counter)
- Lottery tickets “to go” as part of the burgeoning home delivery phenomenon
- More lottery games that feature multicultural themes
- Integrating lottery with C-store loyalty programs and customer data mining

CONCLUSION

Unless AI-powered robots and drones take over our entire lives, we will continue to visit C-stores. The ubiquitous accessibility of C-stores is a major component of their value, makes them difficult to dislodge from shoppers’ consciousness and lifestyles, and makes their business model so defensible against Amazon and other disrupters. And since Lottery is a foundational element of the C-store experience, Lottery will continue to find its way into the C-store market basket. Its forms, value, and presence will no doubt have to evolve to attract the players of the future, but the marriage of Lottery and C-Stores will be a long and happy one. ■



New Hampshire residents introduced to the Lottery.”

Another route to attracting Gen Z is to appeal to their commitment to building a sustainable, inclusive world in which individuals and organizations are valued for their ethics and their willingness to embrace issues that lift people up. In this sense, Lottery’s role in supporting Good Causes is more relevant to Gen Z than it is to previous generations. The millions of dollars given to education, the environment, and public infrastructure by Lottery will be appreciated and respected by Gen Z.

Delivering lottery products to this group will be the challenge. How can we drive them into retail stores? How do we get them interested in our games? How do we demonstrate the environment value of lottery?

The Lottery industry has closely monitored the maturation and evolution of Millennials and now Gen X for the past several years. There has been a presumption that as young adults age into their 30s and 40s – when their incomes increase, free time decreases, and the pressures of career and family life begin to weigh – they will migrate to playing the Lottery. Even though recent historical evidence may point to this arc of a player’s adoption of Lottery, there is reason to be concerned that Gen Z will not follow precedent. Gen Z is expected to depart from many of the lifestyle and behavioral patterns set by previous generations. This presents an opportunity for lotteries to evolve their games to better fit the game-style preferences and attention spans that have been molded by the digital world.

Digital types of Lottery games – built on a foundation of eight-second attention spans and undergirded by overt connections with Good Causes – may capture Gen Z. Simply waiting until they “grow into it” may not. ■