Executive summary
Convenience retailing…

1. …is faced with major threats: The major grocery chains (and QSR to a lesser degree) are increasingly developing their store designs and product offerings to target the convenience shopper.

2. …is hindered by several weaknesses: The major threats to convenience retailing are compounded by premium prices, low margins, inefficient distribution, and an over-reliance on cigarettes and other unhealthy products.

3. …has key advantages: Key advantages for convenience retailing lie in the demand for fuel and the vast store footprint across many retail brands, resulting in a large amount of store traffic; an element which can be leveraged for future growth.

4. …requires change: The current convenience retailing proposition is not sustainable for future growth, with a number of changes identified as necessary so as to compete successfully and achieve sustained growth in the lead up to 2020.
The keys to success…

1. **collaboration**: Both suppliers and retailers need greater horizontal and vertical collaboration across the convenience retailing industry to compete with the economies of scale and supply chain power of the major grocery chains.

2. **innovation**: A number of convenience retailing innovations can be seen globally in a number of areas, such as new product offers, store design, as well as leveraging available technology.

3. **differentiation**: Differentiation within and outside convenience retailing is key and can be applied to the overall proposition, product offering, store design, and technologies utilised. Convenience retailers, essentially need to develop and market a clear reason why shoppers should visit their stores rather than increasingly convenient grocery and QSR outlets.
Report overview
# Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>2</td>
</tr>
<tr>
<td>Report overview</td>
<td>5</td>
</tr>
<tr>
<td>Research overview</td>
<td>10</td>
</tr>
<tr>
<td>The state of convenience retailing</td>
<td>19</td>
</tr>
<tr>
<td>Thought leader interviews</td>
<td>28</td>
</tr>
<tr>
<td>Australian convenience shopper survey</td>
<td>152</td>
</tr>
<tr>
<td>Convenience retailing in 2020</td>
<td>191</td>
</tr>
<tr>
<td>Key trends and best practice</td>
<td>200</td>
</tr>
<tr>
<td>Research summary</td>
<td>268</td>
</tr>
</tbody>
</table>
Introduction

The identification and understanding of potential future trends is a critical issue for all retailers, especially those involved in the convenience industry given the high level of competition for the consumer dollar.

Through discussions with a range of thought leaders involved in convenience retailing and associated industries globally, this research identifies the key strategic issues facing convenience retailing in the lead up to the year 2020.

Specifically, this report provides insight into the current and future industry perspective of convenience retailing thought leaders, the Australian convenience shopper, current and emerging convenience global trends and best practice, and a picture of convenience retailing in 2020.

The report provides the convenience retailing industry with a solid foundation of understanding and insight with which to plan and develop strategies in 2011/12 and beyond.
Introduction cont...

Convenience retailing summary: Convenience retailing is under pressure from increased competition for the convenience shopper dollar, be it from grocery as convenient shopping destinations or Quick Service Restaurants (QSR) in the fast, casual meal space.

This research investigates the short, medium and long-term trends and implications for the convenience retailing industry primarily in the Australian market. Local and global trends and thought leader interviews underpin the research to provide a summary of convenience retailing trends today and in the future.

This report: The report is structured around a number of key sections, including: an overview of the research, the current state of convenience retailing, interviews with global convenience thought leaders, an Australian convenience shopper survey, a view of convenience retailing in the year 2020, and finally, a summary of relevant current and emerging global trends and best practice.

A brief overview of each major section is provided on the following page.
Report structure

Section 1: Research overview. An overview of the research objectives, approach and sample.

Section 2: The state of convenience retailing. An overview of the current structure and performance of the Australian convenience retailing industry.

Section 3: Thought leader interviews. A discussion of the findings of in-depth interviews with global convenience thought leaders.

Section 4: Australian convenience shopper survey. The results of a survey of 1,000 Australian convenience shoppers.


Section 6: Key trends and best practice. An overview of the key trends and best practice strategies discussed in the thought leader interviews.

Section 7: Research summary. An overall summary of the research highlights.
Research overview
Sponsorship thanks

Thank you to the following sponsors who have made this project financially possible and for their invaluable input into the research design:
Research objectives

The broad objectives of the research were as follows:

1. Identify short (1 to 3 years) and long (4 to 10 years) term trends facing the Australian convenience retailing industry;

2. Combine perspectives from a variety of convenience retailing industry thought leaders, including retailers, franchisors and their members, policy makers, private equity investors, industry consultants and analysts, and industry suppliers;

3. Identify and understand the Australian convenience shopper, including their expectations, preferences, and behaviour regarding convenience retailing now and into the future; and

4. Review current and emerging global convenience retailing trends and best practice to provide inspiration for the Australian convenience retailing industry.

The research approach is visually represented on the following page.
Research approach

1. Research workshop
   - Agreement on objectives & outputs
   - Agreement on design & sample

2. Secondary research
   - Review of secondary sources to build a picture of the state of convenience retailing
   - Consider the past and future 10 years

3. Depth interviews
   - One-on-one depth interview discussions
   - Broad cross section of convenience retailers, suppliers and industry associates
   - 40 interviews globally

4. Consumer survey
   - Online survey of 1,000 Australian consumers
   - Choice modelling task to understand relative importance of convenience retailing offer

5. Future gazing
   - Synthesise stages 1 to 4 to build a picture of the optimal convenience retailing offer in 2020
1. Research workshop

The first step of the research project involved an initial research workshop facilitated by the research team at the Australian Centre for Retail Studies (ACRS), Monash University with a small number of industry thought leaders. Research workshop participants included the core ACRS research team, the AACS Executive Director, Chairman and several board members, as well as the research project sponsors: CC Amatil and Caltex Australia.

The primary purpose of the research workshop was to clarify the project objectives, develop specific criteria in the selection of convenience retailing industry thought leaders, global regions and organisations to be interviewed, the lines of relevant questioning in the interview and shopper survey phases, as well as reach agreement on the proposed method and output requirements.
2. Secondary research

To develop a picture of the current and future outlook of Australian convenience retailing and to provide context for the thought leader interviews and shopper survey, secondary information sources were consulted. Secondary sources included convenience industry (and associated industries) intelligence and market analyst research reports, trade and academic publications and various online sources.

Secondary research involved an iterative process from gleaning background information to inform the project design and objectives upfront, to the identification of current convenience retailing industry structure and performance, to the discussion of key trends and best practice strategies as raised in the thought leader interviews.

The secondary research findings are detailed within the current state of convenience retailing and the key trends and best practice sections of this report.

The secondary research, in combination with the primary research findings, provides a solid foundation for an understanding of Australian convenience retailing in 2020.
3. Depth interviews

The first primary research phase involved in-depth interviews with global convenience retailing thought leaders between July and September, 2011. In doing so, 40 in-depth interviews were conducted across Australia, New Zealand (NZ), Asia, the United Kingdom (UK), and the United States (US).

Given the exploratory and qualitative nature of this research, in-depth interviews were deemed best suited to explore and capture global thought leader perspectives on what the future holds for the convenience retailing industry. Consistent with the discovery-driven purpose of this phase of the research, the sampling technique sought to generalise theory rather than be statistically representative. Therefore, the sample used included interviewees deemed to be able to authoritatively comment on the critical issues facing convenience retailing.

In line with Monash University’s research ethics guidelines, all respondents were assured of their anonymity in order to allow for comfort in the free flow of discussion.
4. Shopper survey

The second primary research phase comprised of a survey of 1,000 Australian convenience store shoppers. The objective of this phase was threefold:

1. To profile convenience store shopping behaviour and preferences;
2. To identify segments within the Australian convenience store shopping population; and
3. To develop a picture of the ‘ideal’ future convenience store through measuring of the relative importance of the convenience offer in driving the shopper’s choice to visit a particular convenience outlet.

The shopper survey sample was representative of the Australian population in terms of age, gender and geographic location.
5. Future of convenience retailing

This phase of the research involved analysis of both the primary (thought leader interviews and convenience shopper survey) and secondary research data to develop a comprehensive, research-driven perspective on Convenience 2020.

The view of the convenience retailing industry’s future has therefore been developed through thought leader views on the major convenience retailing trends, as well as shifts in society, economics, politics and technology. The individual views of convenience industry stakeholders were grouped into patterns and themes alongside the convenience shopper current and future perspective. This process yielded an ‘optimal’ convenience retailing offer in the year 2020.
The state of convenience retailing
Introduction

Overview: This section of the report provides a brief overview of the current state of Australian convenience retailing industry as gleaned through secondary research sources. Specifically, industry performance drivers and success, major consumer markets, major products and services on offer, as well as growth strategies are addressed.

Highlights: Industry operators have performed well, with annual sales rising by about 2.1 percent. This stable growth is expected to slightly increase over the next five years. The largest proportion of convenience retailing shoppers have continued to be aged between 35 and 49 years, are time poor, cash rich, and usually visit convenience stores for staple items. Cigarettes sales, although the largest product segment have declined considerably from previous years. The key players in the industry are 7-Eleven, Coles Express, Woolworths, Caltex, BP, and NightOwl Convenience.
Despite the challenging convenience landscape, retailers have continued to perform well, with annual sales rising by about 2.1 percent to reach an expected $6.5 billion in 2011. This stable growth is expected to slightly increase over the next five years, by about 2.8 percent per annum to reach $7.5 billion. This growth will be achieved predominantly through an improved fresh food offer and looking to international markets for key trends and best practice.
Over 11 million Australians aged over 14 years purchase from convenience stores in any given 7-day period.

The largest proportion of convenience retailing shoppers have continued to be aged between 35 and 49 years. With those aged 50 to 64 years being the second largest market.

Source: IBISWorld, 2011
Convenience shopper segmentation cont...

The dominant group of convenience shoppers (aged between 35 and 49 years) are regarded as:

- ‘Time-poor’ due to family and work commitments;
- More inclined to shop for newspapers and magazines (42%), snacks (46%), drinks (40%) and staple (48%) items;
- ‘Cash-rich’ and hence have considerable buying power;
- Visit convenience stores more often than any other age group; and
- Is ageing in line with the general Australian population.

Consumers aged 50 to 64 years (the second largest convenience market) spend marginally more on magazines and newspapers compared with their younger household counterparts who predominantly purchase staple items.

Retail demand for convenience stores in the coming years will, however, be driven by the newly emerging Gen Z, who are expected to account for about 10 percent of the Australian workforce over the next decade. Gen Z consumers are digitally savvy due their exposure to and experience with a range of technologies.

Source: IBISWorld, 2011
Cigarettes sales, although the largest product segment, have declined considerably from previous years due to changes in tobacco regulations and a growth in excise tax of 25 percent.

Beverages are the second-largest product segment, with sports drinks, energy drinks and water representing the three main growth areas inline with shopper preferences for healthier drink alternatives. Other growth areas include; private label milk sales, communications and healthier food options.

Source: IBISWorld, 2011
Key competitors

Source: IBISWorld, 2011
Tools of the Trade: Growth Strategies for Success

New Age Economy
Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labour skills are key to product differentiation.

Investment Economy
Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

Labour Intensive
Supermarkets and Other Grocery Stores

Capital Intensive
Convenience Stores

Traditional Service Economy
Wholesale and Retail. Reliant on labour rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

Change in Share of the Economy

Old Economy
Agriculture and Manufacturing. Traded goods can be produced using cheap labour abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialise in niche, high-value products.

Source: IBISWorld, 2011
# Tobacco Legislation

<table>
<thead>
<tr>
<th></th>
<th>Point-of-sale advertising</th>
<th>Display</th>
<th>Promotions, contests and giveaways</th>
<th>Mobile (transportable) tobacco sales</th>
<th>Flavoured cigarettes</th>
<th>Other</th>
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</thead>
<tbody>
<tr>
<td><strong>Australian Capital Territory</strong></td>
<td>prohibited</td>
<td>none</td>
<td>1</td>
<td>prohibited</td>
<td>none</td>
<td>policies to regulate are under consideration</td>
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<tr>
<td><strong>New South Wales</strong></td>
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<td>2</td>
<td>prohibited</td>
<td>pending amendments to ban sales from cars, caravans, stalls, tents or market stands</td>
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</tr>
<tr>
<td><strong>Northern Territory</strong></td>
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<td>prohibited</td>
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</tr>
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<td>1</td>
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<td><strong>South Australia</strong></td>
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<td>3m2</td>
<td>1[26]</td>
<td>prohibited</td>
<td>prohibited</td>
<td>sale of sweet or fruit flavoured products is banned</td>
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<tr>
<td><strong>Tasmania</strong></td>
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<td>1m2</td>
<td>1[27]</td>
<td>prohibited</td>
<td>none</td>
<td>buzz marketing and non branded advertising banned smoking and the sale of tobacco banned from underage music events</td>
</tr>
<tr>
<td><strong>Victoria</strong></td>
<td>prohibited</td>
<td>4m2</td>
<td>1</td>
<td>prohibited</td>
<td>n/a (buzz marketing is banned)</td>
<td>none</td>
</tr>
<tr>
<td><strong>Western Australia</strong></td>
<td>prohibited</td>
<td>1m2</td>
<td>1</td>
<td>prohibited</td>
<td>prohibited</td>
<td>ban the display of sweet or fruit flavoured cigarettes</td>
</tr>
</tbody>
</table>

Source: Cancer Council Australia 2011
Thought leader interviews
Introduction

Overview: This section of the report details the findings of the in-depth interviews conducted with convenience thought leaders. A total of 40 individuals (retailers, franchisors and their members, policy makers, private equity investors, industry consultants and analysts, and industry suppliers) were interviewed across Australia, NZ, Asia, the UK, and the US. Interviewee quotes are filtered throughout this section to bring to life some of the key points of discussion.

Structure: Given the depth and breadth of the thought leader interview discussions, this section is structured around four overarching areas:

1. The past decade
2. Looking ahead: Short (1 to 3 years) and
3. Looking ahead: Long (4-10 years) term trends
4. Convenience SWOT
## Sample composition

<table>
<thead>
<tr>
<th>Role</th>
<th>Australia</th>
<th>Overseas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail executives/franchise owners</td>
<td>12</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Suppliers</td>
<td>10</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Consultants/analysts</td>
<td>6</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>12</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

Where varying insights were found between geographic regions, these have been expressly noted in the commentary of the report. Where no reference is made to a specific location, the finding was found to be relatively consistent across regions and in Australia.
Definitions of convenience retailing

Thought leaders agreed that the definition of convenience retailing is an evolving and wide-ranging one. For instance, it is no longer sufficient to define it as just “being open 24/7” and “having good parking”.

The general definition of convenience retailing among thought leaders was:

“Petrol and convenience stores meet a variety of immediate needs for customers and range from large organised chains to small mom-and-pop operations”

This definition was typically viewed in two ways: in terms of petrol convenience (i.e. United) and pure convenience (i.e. City Convenience).

The common view of industry thought leaders is that the definition would continue to evolve into the future as convenience retailing faced increasing competition from other sectors (i.e. grocery and QSR) and sought new product and service revenue streams.

“These days, about 95 percent of what we sell is consumed within about five minutes of leaving the store. So it is very much about a ‘quick fix’, impulse-type purchase. That has changed a fair bit from 15 or 20 years ago when it was very much a grocery top-up type occasion, especially when supermarkets weren’t open 24 hours. Now you’ve got CBD type stores instead of big petrol pumpers in the suburbs, but the product mix across the two is similar. So it’s meeting a consistent need of an immediate fix of your products.”
Definitions of convenience retailing cont...

Thought leaders also believed that the definition of convenience retailing can vary by country, with the Australian and NZ markets largely defined by the fuel offer and shopper mission. The increased threat of grocery was also discussed as becoming intertwined with the definition of pure convenience retailing.

“It’s not really a convenience channel, it’s a petrol channel essentially and especially in Australia... A lot of companies call it CMP or P and C, and we’re very much led by the fact that 90-odd percent of stores are actually driven by fuel which, along with NZ, is the highest in the world. Most of the growth that we’re seeing is coming out of more stand alone formats so we would identify small 250 square, maybe up to 300 square metre footprint, like in a Foodworks or an IGA Express as part of the convenience channel as well. If you’re going to identify it as convenience in petrol then those stores should be looked at as well, which they’re currently not.”

“Consultant

“The convenience retailing industry really is anything from a 7-Eleven to a Caltex to a Coles Express. So well-organised and structured petrol stations or even stand alone convenience all the way down to a fruit barn or a corner store... So convenience is a massive spectrum from the high end of that and then you have the very disorganised ma-and-pa corner store.”

Consultant
Definitions of convenience retailing cont...

Three key factors emerged from thought leader definitions of the convenience retailing industry overall:

- **Stores**: With the purpose of meeting an immediate need for consumers, typically smaller format stores with long trading hours (as compared to general retail trade hours). Convenience stores in the UK and US were discussed as more progressed in their design, product offer and overall experience, leading the way for convenience retailers globally.

- **Products**: Centered on impulse, which in itself has changed over time from grocery top-ups (especially when grocery was not 24hr) to include a broader offering. Overseas markets were recognised as having a much greater focus on fresh food, with local developments forecast in the short-term.

- **Consumption**: Products offered at convenience stores tend to be consumed in a short period of time, with about 95 percent of products consumed within 5 minutes of purchase.
The need for change: Australia

Thought leaders were asked for their perceptions on the need for change in the Australian convenience retailing industry.

Here, thought leader responses were polarised, with some suggesting that Australian convenience retailing did not require significant change over the next decade, while others stressed that change was absolutely critical to the success and sustainability of the industry.

One common aspect discussed was that Australian convenience retailing is primarily focused on petrol, and that there are invaluable lessons to be learned from global best practice in extending the convenience retailing offer beyond fuel, as demonstrated by the quote below.

“I think there is a drastic need for change in the Australian convenience industry. Convenience as we know has done a great job of redefining what was the corner store and extracting volume and traffic from those stores. But we now need to look at best practice convenience from around the world, which is far beyond petrol. One of our biggest problems is that we see [in Australia] convenience primarily as a petrol station.”

Supplier
The need for change: NZ

In NZ, several thought leaders felt that further (i.e. post the Shell ‘Z’ rebrand) convenience industry consolidation was necessary in the short to medium term due to the number of major oil companies in operation and the current state and size of the local economy and market.

“If the big corporates are looking at better ways to spend their money and if they spend $1 to pull something out of the ground and they turn that into $10, that’s a far better proposition than spending $1 in retail and getting $1.20 or $1.25 out. Industry players are reconsidering and re-evaluating how they do business and if New Zealand isn’t a strategic market anymore, then I don’t think the changes we’ve seen are the last.”

Franchise owner
Industry response to change

In discussions of the convenience retailing industry change over the past decade, several thought leaders commented on the industry’s mixed ability to understand and respond to the various shifts that have taken place. Several regional differences in responding to change were also discussed, including:

- Australia and NZ as relatively slow response markets.
- Although innovative in several respects, several Asian (with the exception of Japan) convenience retailing markets were also noted as slow to respond to industry and consumer change as a result of a focus on rapid store expansions.

“A lot of the Asian retailers still haven’t really become focused enough on understanding and segmenting their consumers. There’s still a big focus on store expansions at any cost and opening stores as fast as they can, which has so far provided them growth, but they’re now running into the challenge of average store efficiency dropping quite dramatically in some cases because the overall market volume is flat... Obviously some of the Asian countries are developing economically much faster than others so there has to be a really strong link between how quickly the country and/or market is developing and the amount of capitalisation that is feasible to deliver optimal efficiencies.”

Analyst
Industry response to change cont...

“The convenience industry’s response to change has been mixed... It’s a tough industry to be in and to remain really agile... The global oil companies who own and operate their sites obviously have a far deeper bank account than some of the independents do, so some people would love to be able to evolve more quickly and make some of these changes... At the end of the day, these are smaller businesses and if you spend too much money and there’s not enough coming in, then you’re not going to have the doors open for much longer.”

Retailer

“The Australian market is relatively small and often inhibits new entrants to the market and [limiting] possible innovation in the sector. There is no real convenience retail in Australia compared to the UK.... Both consumer groups are time poor, but [in Australia] there is no driver for real change or competition.”

Analyst

“Some of Australia’s major convenience groups need to become more competitive and understand the value proposition a lot better, as well as becoming a lot more consumer focused. This involves a move away from the one-size-fits-all approach to their stores, their ranging, and in their overall approach to category management. They have been a little slow to react as they are attached to the high margin equation, while the competitive environment has been changing all around them. They are starting to understand the need for it, but they’re still playing catch up.”

Supplier
Informed change: Shell rebrand to ‘Z’

An example of a well informed change in the convenience retailing market discussed by thought leaders was Shell’s market exit and rebrand in NZ. The point of discussion here stemmed from consumer insights-driven change.

Greenstone, which bought the Shell retail and distribution network in NZ in April 2010, is rebranding 10 of its stations ‘Z’, with all 220 stations to be renamed by June 2012. The overall cost is estimated at $35 million, with the resulting stations to be more focused on convenience food through the introduction of food and coffee to stores. To inform the decisions underpinning such change, the company carried out a large scale research project, which questioned more than 17,000 people, about what they wanted from a petrol station, before concluding that the change should be made. Those surveyed said they could not identify Shell as being a NZ company while it had the multinational's branding. In line with the local culture, one of the world's most prominent brands would be successfully replaced "by something entirely Kiwi".
Global industry development

Thought leaders discussed several differences that exist in convenience retailing globally, with the largest between Australasia and the UK and the US as more established markets. Regional differences were also highlighted between Australia and Asia, with vast diversity across the Asian markets and therefore a strong recognition that “one size does not fit all” [Retailer].

Market development was discussed as the biggest difference globally, with Korea and Japan recognised as being high performing convenience retailers as a result of a strong focus and ability for executional consistency.

“Asia is very diverse and every country, every market is very different. But then there are commonalities with Australia because at the end of the day, we’re all human beings so there’s stuff that happens in Australia that is basically the same.” — Retailer
Global industry development cont...

Several specific global convenience retailing developments were also discussed by industry thought leaders:

- In terms of **understanding the different types of consumer segments to inform overall convenience retailing strategy**, Australia (particularly 7-Eleven) Japan and the UK was discussed as leading globally.

- In **productively utilising store space**, Asia (particularly 7-Eleven and Circle-K in Hong Kong, and Japan in general terms) was mentioned as leading globally and particularly as compared to Australia, the US and Europe.

> “Convenience in Asia is much more efficient in using space... They drive greater productivity out of every square inch of the store and get quite creative about how to merchandise and use backroom storage space. They get very creative in how to fit categories into a fixture and how to present and promote products out of a small space. The use of a counter area to really drive impulse opportunity is done extremely well. That’s one of the key things from a convenience point of view, is that ability to maximise that space and be really hungry for a sale because you know you’ve only got limited space to drive it. In Australia, the US and Europe, convenience tends to get a bit complacent and lazy about maximising store space.”

*Consultant*
Global best practice

Global best practice was discussed by thought leaders as related to the general market and particular convenience retailers.

**General market:** Japan was consistently acknowledged as a best practice market given the high prevalence and share of the major convenience retailing brands and stores (i.e. 12,000 or 13,000 stores and a 25 percent share for 7-Eleven), but also for its uniqueness in low presence on the high street and consumer demand for fresh produce through convenience outlets. Key learnings from Japanese convenience retailing included:

- Store space utilisation
- Focus fresh food (discussed as between 40 and 50 percent of sales)
- Sophisticated and insight-driven product and promotion strategies via data analysis (i.e. innovative time-of-day food offers; up to three times a day)
- Network consistency

> “Many Japanese convenience retailers have a second-to-none back office system from an information point of view. They’re able to do any sort of data interpretation in-store in real time and find out which categories are performing. They can bring up any promotions that are in play, including things like what’s on TV, what’s advertised, and beam it up instantly in their back office and review that. It really is quite sophisticated and it’s just amazing.”

Consultant
Global best practice cont...

Beyond Japan, the UK and Ireland were mentioned as having a food offer that “just goes light years ahead of where we are” [Retailer] in Australia. It was noted, however, that this development is well supported by a consumer base that is prepared to buy products from a convenience store and use convenience as a core form of fresh produce shopping.

**Retailers:** 7-Eleven (particularly in Asia and in Australia) was most commonly mentioned as a best practice convenience retailer with regard to understanding shopper preferences, behaviour and segments, ongoing store design and innovations, store space productivity and product offer development.

BP’s Wild Bean Café was also noted as “at the forefront of some of the innovative food offers in Australia” [Consultant] as was the Simply Food offer from Marks & Spencer in the UK.

“7-Eleven in Hong Kong not only have newer, innovative stores, but also look at the maturity of their network and actual organic growth. There’s very little new growth in terms of store numbers, because they’re literally everywhere. So they’ve gone back into some of their older stores to cut back on rent, they’ve kept the space but subdivided the store and kept half of it and the other part has been leased off – refitted or reconfigured. So that’s a great case study of how a business has gone back to look at its legacy network and improved it considerably.”

Consultant
THOUGHT LEADER INTERVIEWS: The Past Decade
Introduction

The first section of the thought leader interview discussions was centered on the past 10 years in identifying the major trends that have impacted and shaped Australian convenience retailing today. Industry thought leaders discussed several key trends in this regard, including:

- General market factors
- Convenience retailing consolidation
- Buying group consolidation
- General consumer factors
- Rise of the ‘fuel only’ shopper
- Growth in top-up shopping
- Shifting consumer preferences
- Operational factors
- Competitive factors
- The competitive set
- Blurring industry and product boundaries
- Product shifts
- Marketing factors

As previously discussed, there was general consensus among thought leaders that the Australian convenience retailing industry’s understanding and response to these trends has been slow on a global scale.
General market factors

Several broad market conditions were discussed by thought leaders as having shaped convenience retailing over the past 10 years, including:

**Economic pressures:** Consumer sentiment has been affected by rising petrol prices, increasing interest rates and the GFC.

**Stagnant industry growth:** Over the past 5 years, convenience retailing industry profits have been shrinking and growth has slowed considerably. As such, convenience retailers have placed a greater emphasis on advertising, marketing and store design.

**Regulation & policy:** Shop-trading hours and the display and pricing of cigarettes have presented major challenges for convenience retailers.

**Technology & systems:** Computerised POS systems have increased productivity and reduced supply chain errors.

**Workforce:** Access to a flexible workforce who are willing to work 24 hour trade has been relatively easy, however key challenges have been in developing an experienced workforce who can maintain a high level of customer service.
Convenience retailing consolidation

Consolidation has been changing the local (and to some extent, global) convenience retailing landscape in recent years, largely driven by some traditional oil companies questioning their retail assets and the subsequent exit of brands such as Mobil (Australia), Chevron (parts of the US), BP and Shell (NZ). Such activity was discussed as the result of the channel entry of Woolworths and Coles, and market economics.

The issue of consolidation was discussed as varying in different global regions in line with the entry and/or expansion of some of the major players at the expense of smaller independent operators (i.e. 7-Eleven and Family Mart in Asia). More specifically:

- Japan: Whilst almost at saturation, is uniquely and highly competitive among all major players
- Australia: Majors account for between 50 to 70 percent
- Philippines: Majors account for around 2 percent
- Indonesia: Majors account for around 6 percent
- Malaysia: Majors account for around 23 percent
Buying group consolidation

Thought leaders also noted the consolidation and nationalisation of several industry buying groups in Australia over the past 10 years. This has resulted in a strengthening of the major buying groups at the expense of smaller groups.

“There has been a lot of consolidation of buying groups in our industry and the nationalisation of buying structures. Woolworths, perfect example, went from a state structure into a national structure and then more traditional P&Cs, seeing the emergence of big buying groups for petrol convenience retailers. You’re seeing things like 7/11 come in and invest heavily and purchasing old Mobil sites and revamping them.”

Retailer
General consumer factors

Consumers have been increasingly seeking solutions that allow them to maximise their free time; working hours have increased, thus creating a time poor society, but also one with a higher amount of disposable income. These factors coupled together have fuelled the demand for convenience products.

The convenience demand has remained the single largest factor determining consumer choice to shop at convenience outlets over the past decade, with other factors including the improving range and quality and price of products, discussed by several thought leaders. Thought leaders also noted that store locations have also proved crucial for both convenience retailers and shoppers, with the aim to be located in areas of high passing traffic.

Thought leaders noted that since the GFC, there also has been a noticeable and general shift toward consumer value consciousness.

“Consumers are a lot more savvy about how they shop and we are seeing that in all areas. People are looking at value and not just brand or product label. So as a result, there’s a greater focus on smart buying or value buying. Given that convenience is at the premium end of the market, there is a real need to meet the changes and establish a position in the market.”

Retailer
General consumer factors cont...

Channel perceptions: In the past, convenience stores were regarded as expensive alternatives to grocery outlets, however shoppers have increasingly become more willing to pay higher prices as a trade off for convenience (i.e. ease of service and ample parking).

Consumer sentiment: Fluctuations in consumer sentiment have played a central role in the demand for convenience goods and services. Thought leaders mentioned rising petrol prices, increasing interest rates and the GFC as having placed a strain on consumer sentiment and a limit on non-essential spending.

Disposable income: It was also noted that consumers have altered the mix of products purchased from convenience stores alongside trends in real household incomes (i.e. luxury items forgone for staple items during the GFC).

Population growth: As the population has increased in certain areas, thought leaders discussed the local consumer demand for a higher number of local convenience stores.
Rise of the ‘fuel only’ shopper

Several thought leaders commented on the noticeable consumer shift away from convenience stores (i.e. store traffic declines) in favour of the product price competitiveness and ranging in grocery, and the food service offer in the QSR channel.

The rise of the ‘fuel only’ shopper, as conditioned by the grocery majors via loyalty programs (i.e. fuel discount redemption), was also discussed by thought leaders as a driving force in this context.

“People are moving away from convenience stores… Our customer counts are in decline, our shop conversion rate from the forecourt to shop… We have many more fuel only customers, seven out of ten people that come into the shop only pay for their fuel and buy nothing else.”

Retailer

“The entry of Coles and Woolies into the market, offering fuel discounts, driving sales through fuel rather than convenience has totally changed the shopper mindset. They have significantly driven the fuel mission and fuel discounting with their loyalty programs, which has taken the industry back into fuel, and we are going to have to work really hard to recover from that.”

Consultant
Growth in top-up shopping

Another major trend discussed in reference to the past 10 years is the consumer shift toward top-up grocery shopping occasions, which has had positive implications for convenience retailers. Thought leaders attributed the top-up shopping trend in many developed markets to older, more affluent consumers looking to smaller, more convenient formats. The top up shopping trend was also noted to follow the surge in double income households and longer trading hours.

In fact, top-up shopping has almost become the norm in developed countries. In Australia, large, bulk shops are shifting to many short, top-up visits, with just one in five supermarket shopping visits as main grocery stock-ups (Euromonitor, 2011).

Thought leaders from the UK specifically noted that the vast majority of local shoppers conduct top-up trips in between their bulk grocery shop, which has been leveraged by the local convenience industry.

“A lifestyle trend that has been around for some time in grocery and convenience is that people are making later purchase decisions. We've got smaller households or less storage space, less commitment to say the big chest freezer … and so people are shopping more often, so we see a slow but constant erosion of the trolley shop into a frequent top-up shop. So instead of being for the next seven to ten days, it's been more about the next one to three days and that bodes well for small stores – a absolute opportunity for convenience retail.”

Consultant
Growth in top-up shopping cont...

“We do quite a lot of research to understand shopper behaviour, one of the biggest insights over the past 12 months that we’ve seen is a move away from big basket main grocery shopper missions to much smaller missions. Even the emergence of what we call this non shop mission, so people aren’t going in to shop they are going in for one specific item. They may go in and just purchase a packet of cigarettes, they may go in and just purchase some gum or just a Mars Bar or something like that, just a drink. It’s becoming increasingly important to ensure that, not only you’ve got the right range at the right place to prompt an impulse purchase but that you’re disrupting that shopper to make them pick something else up, when they’re not actively going out and shopping.”

Supplier
Shifting consumer preferences

Several global thought leaders discussed consumer spending patterns and their shifting notion of value (i.e. constantly increasing) as impacting convenience retailing over the past decade.

Consumer tastes have shifted toward healthy and fresh food and drink options at the expense of confectionary, carbonated drinks and tobacco.

A number of thought leaders also noted that premium fuels have played a role in changing consumer behaviour over the past 10 years in driving choice of a particular branded outlet.

"They [Coles and Woolworths] have changed the perception of convenience shoppers, towards an expectation of value whether that's from petrol vouchers or the multi-packs or the two-for-ones... So its really changed that perception forever.”

Supplier

“We have recognised that changing consumer tastes which have led to declining sales in our traditional core products such as confectionery and tobacco, and an increasing demand for fresh.”

Retailer
Operational factors

Product margin reduction and pricing pressure were commonly mentioned by thought leaders as an increasing challenge and risk for convenience suppliers and retailers in operational terms over the past decade.

Product commoditisation, either through private label product development or cigarette plain packaging legislation, was discussed as a key driver in this regard. In addressing this issue, thought leaders discussed strategies to differentiate products, through branding and innovation efforts, in an effort to grow and protect margins.

“Retailers, particularly the majors, need to think long and hard about the whole private label thing because it does actually take you down that road [product commoditisation] even earlier than plain packaging will. There is always a link between brand equity and consumer loyalty and the perception of how much I am prepared to pay for this product. So the more you commoditise that product, either voluntarily through private label, or through plain packaging, then the risk is that you devalue the category on all levels.”

Supplier

From the franchise business ownership perspective, convenience retailing was noted as having become more organised and structured over the past decade.
Competitive factors

Thought leaders discussed that competition within the convenience retailing industry has remained high over the past 10 years, largely based on price, location and customer service quality. Convenience retailers have also been subject to heightening competition from other industries, including:

**Grocery:** Coles and Woolworths, via their alliance with petrol retailers, has increasingly caused tough trading conditions as they are able to offer petrol discounts, in-store promotional deals, lower prices (due to economies of scale and scope), private labels, and self check out facilities. This has, in turn, attracted a large portion of convenience shoppers. Grocery formats have also become more convenient, which has impacted on the price that consumers are willing to pay at a convenience store. As previously noted, several thought leaders noted a combined fuel market share of anywhere between 50 to 70 percent for the grocery majors.

**QSR:** Takeaway food retailers and QSR have also become a threat to the convenience industry over the past 5 years in particular, largely affecting the snack food product segment.
The competitive set

Interestingly, several thought leaders distinguished between the different layers of competition faced by the convenience retailing industry, as follows:

- **Primary**: defined as traditional convenience retailers, the major grocery chains in petrol and the grocery chains in general (which over time have themselves become increasingly convenience, in terms of access and product ranges available for immediate consumption)

- **Secondary**: ready-to-eat food retailers and QSR outlets were considered secondary competition in the current landscape. Any outlet selling groceries or food, whether eat-on-the-go or take-home were included here.

- **Peripheral**: increasingly juice bars and on-the-go consumables.

“Our competitor set is people that are selling petrol, groceries or food offers, be they eat on the go or take home. Then there are those that sell cigarettes, newspapers, and sort of consumable items on the go. So there are multiple places that people can buy those categories of products. So if I summarise competitors, it is anyone that sells groceries, food, and on-the-go consumables. Consumers today have many choices as to how they can buy those things. I guess as an industry we have tended to be in this place that if someone is on the go and wants to just pick up one or two of those products, we live in this smaller basket.”
Blurring industry and product boundaries

As a result of the grocery majors in convenience retailing, the industry sector boundaries have blurred and, in particular, across food, drink and petrol categories.

The increasing blur between grocery and convenience was also discussed as a major contribution to industry consolidation activity among the smaller independents, as well as challenging the large organised chains from a pricing and a value perspective over the past 10 years.

Convenience based facilities such as self-serve check-outs have also been increasingly introduced into grocery to further appeal to the time-poor consumer.

“Certainly in the last 12 months, grocery has blurred the line between convenience and grocery by making more noise around traditional impulse lines – not just beverages, but also confectionary and snacks and also putting cold drinks at front of store and investing in self-serve checkouts, making it easier for shoppers to go in and out and making it more like a convenience... That, plus the proximity factor of the grocery-combined Woollies and Coles, and even IGA, their footprint plus Aldi now entering the market and their value offer – all of those things combined make it as easy for shoppers to buy convenience products in grocery than convenience.”

Supplier
Blurring industry and product boundaries cont…

Several Australian thought leaders also discussed the recent KFC television advertisement that aired during the time of the interviews. The general consensus was that KFC’s attack on the ‘servo pie’ was validation that the convenience retailing food offer was starting to have an impact on QSR.

KFC have also developed their own version of a pie targeted at the convenience store customer.

“Our competitors are Coles and Woolworths, big box retailing supermarkets, and also QSR restaurants because that is where our focus is going forward. If people want to have a meal on the run, it’s much easier and much more pleasant to stop at a McDonalds so we need to say “they’re our competitors” – saying otherwise is a thing of the past. We should be measuring ourselves against supermarkets and also QSR because they’re becoming more convenient…”

Retailer
Product shifts

The convenience retailing product offer has changed considerably over the past 10 years. Whilst cigarettes represented the largest share of sales, this has declined in recent times, due to changes in tobacco display regulations, excise taxes and public venue smoking bans. Looking to growth opportunities, convenience retailers are expanding into non-traditional product categories, embracing the coffee culture and communications product categories.

This trend was discussed as developing faster in the UK and the US, for instance, with expansion into fresh food, financial services, and entertainment products (i.e. CDs, DVDs). Many convenience stores in Australia are focusing on their food offerings, adding gourmet coffees, an expanded line of nutritional beverages and in some cases fresh foods. In 2007, 7-Eleven Australia, launched a $22 million ‘Energising Everyone’ 10-year growth program. Part of this program has been the increased focus on profitable growth categories, such the freshly prepared food range ‘Munch’ (7-Eleven, 2008), an example highlighted by several thought leaders.

“We have had huge success in changing perceptions around food, but we have had to spend $100,000 in service areas— even thought it’s based around grab-n-go. But it is a long-term investment, its been more than 10 years for us, and it’s not just going to happen overnight. Consumers also need to be convinced that we are a viable alternative for meals.”

Retailer
Marketing factors

The evolution of general marketing and in-store promotional activity was also noted changing over the past 10 years, with multi-buy pricing (i.e. 2-for-1, 3-for-1) common and a continued promotional strategy in a bid to drive store sales and combat margin pressures. The evolution of general marketing and in-store promotional activity was also noted changing over the past 10 years, with multi-buy pricing (i.e. 2-for-1, 3-for-1) common and a continued promotional strategy in a bid to drive store sales and combat margin pressures.

Thought leaders commented that this strategy has been around for some time and that more strategic thinking needs to take place around customer promotions beyond value and price in the short to medium term to develop a ‘fresh’ offer and protect retail prices and product margins (this is discussed in more detail in the short-term outlook of convenience retailing).

“Retailers have been pushing the boundaries in terms of the amount and type of promotions they run and level of income from suppliers has increased over the last couple of years as unit sales have stagnated. The convenience retailers have really tried to drive store sales through multi-buy promotional programs which over time has gained a lot of traction.”

Consultant
THOUGHT LEADER INTERVIEWS: Future Trends
Introduction

Thought leaders were encouraged to discuss the key trends on the convenience retailing horizon for the short and long-term future. In the short-term future, thought leaders were questioned on the key trends they thought would impact the convenience retailing industry in the next one to three years. They were then asked to consider convenience retailing between now and the year 2020 to discuss longer term future trends.

Convenience industry thought leaders revealed several future trends likely to impact the state of convenience retailing, and in order to provide structure to this section, these themes have been clustered into major categories of: operations, stores, products and services, technologies, and the consumer. Underpinning these categories were in depth discussions of the need for innovation and differentiation, as well as the role of the economy.

“If nothing changes, Coles and Woolworths will win this game hands down!”

Retail Executive
Short-term stagnation

While several strategic opportunities and trends likely to develop in the local convenience retailing industry were discussed, it is important to note here that the level of development and change over the next 3 years was not expected to be significant given the flat convenience retail industry growth.

“The next three years won’t see a hell of a lot of change. The retailers today are waiting for things to change in terms of the economic times. I think there’s going to be some foundations laid in terms of moving towards more overseas practices and learnings, but that’s going to take three to five years to get implemented…”

Consultant

“Looking forward is interesting as we have had a few years of very little growth. If that becomes the norm, some will be able to weather it – especially those with petrol – but at some point there will be a drop off in terms of the available investment in convenience as a format if there is no growth. Otherwise the sector will have to be totally reinvented!”

Retailer

The perspective of thought leaders also differed in the amount of change predicted in the long-term future, where some suggested it would be “pretty much business as usual” [Supplier], while others noted “a mini-revolution of sorts, driven by the changing consumer and technological developments” [Retail Executive].
A focus on innovation

Innovation as the overall context for future convenience retailing industry change and development was the general consensus among thought leaders. The major facets of innovation discussed were related to the convenience product offer, distribution channels, the store environment and experience, and shopper engagement.

Innovation was also linked to general industry and supply chain partnerships; “If you’re looking to create that point of difference, you have to be innovative and constantly searching for that differentiated category offer, which in most cases can only happen through a solid supplier partnership” [Consultant].

“The behaviour of the market and the shopper is changing so dramatically and so quickly that you can’t sit still any more. You’ve got to continually look at being innovative.”

Consultant
A point of difference

Linked to the need for innovation, a point of difference in convenience retailing was also commonly discussed by thought leaders in terms of looking to a sustainable long-term future. This strategy has become increasingly important in line with the channel blurring between convenience and grocery.

“The long-term future links back to the convenience channel’s ability to re-position themselves as a shopping destination. Consumers have evolved from a passive approach where they once happened to be driving past and needed petrol, stopped in and maybe bought a chocolate bar. In the future convenience has to reposition itself as being a true shopper destination and compete head-to-head with supermarkets. So conversely convenience stores have to position themselves so that when shoppers leave the house they are planning to go to a convenience store to do their shopping, and not to just pick up a few items on impulse. That requires a change in category management principles, engaging the value proposition, creating a point of difference, and much more. Innovation in many parts of the offer is definitely the key for convenience stores to reposition their image in shopper’s minds.”

Analyst

“I think there is global recognition that there needs to be a point of difference in convenience. 7-Eleven are leading the way in terms of what they do in the market from a promotional point of view and in terms of store layout. The other thing that we’re seeing specifically in Coles Express is a blurring of the lines between the supermarket business and their alliance with Shell. Both from a product and a promotional point of view, especially in the last few months you’re seeing more ranging of products that are non-traditional convenience skews, your Dolmio meal solutions that you wouldn’t necessarily associate with that sort of channel. To ensure the long-term survival of the channel, convenience really needs to develop and promote a clear point of difference in the market.”

Supplier
A point of difference: Beyond fuel

As part of the search for differentiation in convenience retailing, thought leaders discussed the need to strategically consider the future offer beyond fuel. This discussion was underpinned by the need to truly engage the convenience shopper and in developing a more sustainable business operation that is not overly dependent on fuel sales (which was commonly highlighted to offer small margins).

“*The delineation between convenience and fuel is a critical one for the future of the industry. 7-Eleven have that, quite a strong convenience presence and they understand what’s important to convenience shoppers and now they have a fuel offer, whereas a lot of these other retailers have traditionally been fuel dependant. They’re fuel brands and they’ve attached a convenience store to their fuel offer. So that’s probably where 7/11 have a better understanding of what’s required to engage the shopper and why they’re sort of leading the charge on thought process and what they need to do. And for 7-Eleven it’s an element of what they do, but it’s not the driving factor which is more sustainable. A lot of the discussions in the industry are on how the fuel retailers incorporate their fuel offer to accommodate Woolworths and Coles. However, we need to be more focused on the shopper and what the shopper actually wants in their convenience store.”*

Consultant
Role of the economy

In discussions of convenience retailing over the next 10 years, several thought leaders also noted the role of the economy, and the state of global economic conditions, in shaping the likelihood of key trends and overall industry growth. Within these discussions, differences in the economic outlook and growth potential across regions and countries were highlighted (particularly Asia), as demonstrated by the convenience supplier quote below.

“A lot of future trends will be driven by economic circumstances over the next four to 10 years, and that will differ depending on what area of the world you’re talking about - which countries, which markets. In Asia, there’s a lot of markets emerging economically but probably that rate of growth will slow a bit over the next few years as the impacts of the rest of the world hit. In terms of the Asian markets, I see Indonesia really kicking ahead. The organised chains are actually quite small in Indonesia... but they’re growing rapidly, expanding rapidly, everyone has big expansion plans into Indonesia and if you visit the country, you look at how they’re performing economically, stability wise, their openness to foreign investment, etc. India, although it’s a big market, will need to change a lot of things for it to reach its potential, so I think it will probably stagnate for a while in terms of C-store growth. The Philippines economically will probably take a little longer to get there; Korea will stay strong, but it’s almost reached saturation point as far as expansion of the big chains; and Japan will probably start to see shopper behaviour changing over the next few years, driven by economic circumstances and the upheaval from what’s happened with the natural disasters. In terms of other major markets, Malaysia is still growing, but emerging economically as well, so I think that’s another good market in terms of growth potential.”

Supplier
Operations
Market consolidation

Due to convenience retail competitive activity remaining intense in the short-term, low interest rates and shopper price sensitivity, several Australian thought leaders felt that industry concentration will continue. This was discussed with particular reference to the short-term, which was expected to lead to the demise, merger or acquisition of some smaller players.

In this regard, thought leaders commented that convenience stores may well follow a similar trend to that of supermarkets, whereby only a few key players control over 50 percent of the industry.

“In the next three years, we’ll see further consolidation in the industry where a couple of the retailers who haven’t well-defined their place will split up their business and sell some of it off and keep the good sites and then try and redefine what they stand for. They’re supporting quite a large cost operation and retail operation which requires a lot of resources to support that and there’s probably quite a large tail… So I think that what they’d be looking to do is consolidate that and sell some of it off and focus on the core of what they’re about.”

Supplier
Convenience retail ownership

Thought leaders in Australia and NZ also discussed the changing nature of convenience retailing ownership, with owners now from China and India which is also a trend expected to continue in the future.

“The major change is ethnicity with an influx of both Chinese and Indians buying up stores. In some areas, it’s about a 50/50 mix.... They have a totally different way of trading, and we educate them to the best of our ability to trade to the local environment, but some of them get it, some of them don’t and that’s probably the biggest change. And it’s somewhat a challenge as well as we’ve had to adapt our business to employ Chinese representatives that can speak Mandarin, and that’s been a real strength within our business. We’ve got some very good Chinese-speaking representatives and its just made the world of difference in communicating with that particular ethnic group.”

Supplier
Capital investment

Thought leaders discussed the fact that the convenience retailing industry will likely be subject to a low level of strategic capital investment in the short-term. This was related to the significant investments that currently lie in fuel infrastructure and therefore a financial strain on convenience retailers in making other investments.

“There are a lot of old tanks in the ground and not a lot of people do think about this, but some chains will need to replace some or all of the tanks in their network over the next 10 years and that can cost upward of $1 million per site so the cost of re-doing stores will be secondary… With that going on in the background, and people saying where do I need to spend my money, lot of it’s being spent in the back end rather than the front end to develop shop formats and the forecourt…”

Analyst

“By 2015 and 2017 there are two parts of legislation that every petrol station in Australia has to be complied with. One is fibreglass double skin tanks under ground. The spend of that is about between $800,000 and $1 million per site. When they did this in the States, 25% of the petrol stations shut down. This is something that is going to impact our business and I’m just so surprised no-one is talking about it. Right now there’s a whole bunch of people I think sitting around scratching their head thinking “Well do I spend that million bucks or do I just clean it up. Am I going to get a return over the next 10 or 15 years on this property? What’s my best return on it?” I know a lot of independents are actually thinking that way right now.. If we continue what we’re doing, keep concentrating on satisfying a small target market of the 18-25 year old then in ten years time we won’t have a business.”

Consultant
Regulation: Tobacco

There was much discussion about the role of tobacco in convenience retailing with industry thought leaders, and a recognition that it brings a significant proportion of sales. The general consensus was that the tobacco category will continue to shrink and therefore place significant pressure on profits. This raised great concern for short-term future profits in line with increases in taxes, decreases in consumption and the regulatory changes (i.e. such as plain packaging).

One line of discussion (and perhaps extreme) was that the tobacco category would become non-existent in the long-term future. This was particularly noted in NZ, where the Government plan is planning for the country to be smoke-free by 2020 (although this is not yet confirmed).

“The massive excises on tobacco, whereby you can’t advertise or show what brands are being sold, has had and will continue to have a massive impact on the industry... Particularly when the excise came in last year, there was an immediate massive impact on the whole channel in terms of affordability compared to the supermarkets... The excising price has caused a disparity between the price of a packet of cigarettes in a supermarket versus the convenience store which is a huge challenge for the future.”

Consultant
Regulation: Environmental sustainability

Automatic tank gauging was discussed as a possible future regulation related to environmental sustainability that would impact fuel pricing in convenience retailing.

Apart from this potential regulatory change, the issue of environmental sustainability was discussed as not high on the convenience agenda in the short-term, but a widely acknowledged imperative in the long-term.

“If you look at the overwhelming number of things to contend with in convenience it’s [the environment] not huge on the agenda yet. Somewhere down the track, it will become more prominent I’m sure. But it comes back to that hierarchy of needs thing where right now for a lot of people, day-to-day and making ends meet is more important so the green thing goes into the background... But I think more and more it will be a consideration.”

Supplier

“It’s absolutely important for future growth because many of the consumers that use convenience stores are quite highly educated. These are also the consumers who really understand and are attracted to a sustainability agenda. Whilst I don’t think convenience stores should be the leaders of sustainable platforms going forward, I think they ignore it at their peril.”

Consultant
Environmental sustainability

The overall issue of environmental sustainability in convenience retailing generated mixed responses from thought leaders globally. Although there was general agreement that it is a critical business issue today, practice in convenience retailing (beyond offering more environmentally-friendly fuels and infrastructure for more environmentally-friendly vehicles) was reported to currently be niche, due to the state of the current market and the value conscious consumer.

Several thought leaders also believed that although making good business sense for suppliers, environmental sustainability made little sense (and is a difficult push) for retailers and customers in the short term.

“We have been at the forefront of many green packaging initiatives and invested heavily in this strategy. However, we took this to retailers with a clear message of reducing their carbon footprint, and by and large, the response has been “that’s fantastic, but so what?” So it hasn’t made a difference at all in terms of assisting the retailers and reaching customers. Overall, green has a pretty lukewarm reception in convenience. It is an oxymoron when you think about, to expect these guys to have an interest in green products when a lot of these stores a run by petroleum companies and their core product isn’t green. It’s unlikely to be a competitive advantage. Research shows consumers are motivated, but it seems the retailers are the roadblock.”

Supplier
Environmental sustainability cont...

“I’d like to say yes environmental sustainability is important in the business, but in all honesty, it’s still pretty niche. As a retailer, you’ve got to accommodate the wishes of those people that are looking for that sort of stuff. But at this stage it’s not a massive driving force in our business. It’s still about the core products and the core categories... I’m not saying that they don’t have a part to play but at 2 o’clock in the morning, even though people might be looking for fair trade coffee, if they want coffee, they are going to buy a coffee regardless. They’re important but they’re still a small segment of customers and therefore it won’t be on our agenda for a few years to come yet.”

Retailer

“I definitely do see it having an impact in the future. You don’t really see much in the retail environment currently so will it become more and more critical? I think yes because the consumers will, I think, over time just demand it more and more. Do I really see it as being something that is a priority for too many people now including the retailers? No, okay apart from the fact that they are fuel companies and they have obviously got that mandate around sustainability. All of the suppliers are on the packaging covenant which is about minimising your waste, minimising your packaging and you can see examples of Mount Franklin bottles out in the market that are a third of the thickness of the plastic. There are certainly efforts out there but I don’t see it as being a game changer or anything at this point in time.”

Supplier
Environmental sustainability: Benefits

Although acknowledged as niche in business practice currently, environmentally sustainable strategies were discussed by thought leaders as providing an opportunity to satisfy future shopper demands as well as eliminate waste and reduce operating costs.

“The way we approach [sustainability] is that it reduces costs. I have seen examples in retailer operations where a retailer has charged for carry bags, reduced usage and realised significant savings. You can take that saving and reinvest it in the community – so once the customers are on board, you get the tick for reinvesting it in the community, but you also get a tick from a cost point of view. We have reduced our carbon footprint in our supply chain in the last 12 months significantly, and the operating cost reductions are significant. The way we approach sustainability is that it either reduces costs or saves us money, regardless of whether the consumer is ready for it or not.”

Supplier
Environmental sustainability: Stores

One of the more forthcoming thought leader discussions on environmental sustainability was in relation to store design environmental aspects, including the building materials and energy used in its operation.

Environmental sustainability in convenience retailing was also noted as a future differentiator, competitive advantage and customer loyalty driver, as discussed in the following quotes:

“What’s important are things like environmentally friendly packaging in terms of the products that they use, using sustainable materials in developing stores. When operating 24/7, obviously there’s a strong utilisation of electricity, so it’s being smarter about utilities usage. The amount of refrigeration in stores, again is making sure that the most carbon friendly type of refrigeration equipment is used. Probably publicising some of that and being more vocal about what they’re doing. From the point of view of attracting that consumer group into their business is going to make people more loyal to the brand.”

Analyst

“That’s what I see from a carbon perspective is that we’re going to become more and more aware of it... Someone like BP are on the right track by putting solar on top of a lot of their stores so BP are definitely in a favourable position in terms of that and as the reputation they have in the world right now... The other day 7-Eleven in the US launched their first outlet which offers an electric charging station.”

Consultant
Environmental sustainability: Fuel

Another key area where environmental sustainability was discussed as critical was in regard to fuel alternatives as part of the fuel offer. Thought leaders discussed the potential short-term trend for environmentally friendly fuel alternatives as part of the fuel offer, as well as the use of more environmentally friendly fuels within the business, particularly in the distribution of products.

“I know some retailers have invested in E-10, the ethanol fuels and all that sort of stuff, but I’m not sure of the motivation behind it and whether it’s genuinely to have that offer or whether it’s to take advantage of government rebates or whatever might be on offer. I’m not sure there’s a genuine backing behind it yet and therefore it doesn’t translate to a genuine offer to consumers I don’t think.”

Consultant

“The one thing, an area that is the next focus for us, is obviously transport. Usage of bio-fuels. We have got to get more sensitive to understanding that even though there are many competitors out there, as an industry and for sustainability, we’ve got to work together. We need a solution for supply in Australia. And that is not having two sets of trucks going to the same site on the same day.”

Consultant
Environmental sustainability: Fuel cont...

Linked to the environmental consideration of alternative fuel types were several international examples of fuel regulations, flagged as issues that may face Australian convenience retailing in the short to medium term future. For instance, in Canada there was reportedly regulation as to how much profit can be made by a convenience retailer per litre of fuel, and in Denmark, there was reported regulation on fuel sales per convenience store.

Regulation around fuel was also discussed by convenience thought leaders as taking a strategic focus away from the forecourt, given the time and energy expended in meeting these legislative requirements.

“Legislation around fuel has tightened up and predominantly the retailer’s focus is now so much around fuel – it dominates the whole shop, the forecourt… There’s so much OH&S environmental legislation regarding fuel and the ACCC are looking at you all the time. Then there’s weights and measures, which sucks up a lot of time and energy so consequently retailers that run large forecourts find a lot of their time spent looking after this this new legislation they need to deal with.”

Franchise owner
Margin pressure

Thought leaders discussed that the convenience retailing industry has always, and will continue to, struggle with margin pressure, which has a major impact on profitability of the category. As such, strategies to grow margins were discussed as key in the short and long-term, future.

Thought leaders involved in the supply of convenience goods noted that the channel has somewhat unrealistic margin expectations and is constantly pushing for better value to be on par with grocery stores. However, it was suggested that convenience retailers were generally unwilling to consider wearing some part of the margin reduction to be more price competitive.

“On the one hand, the convenience channel is constantly putting pressure on suppliers to enable them to offer better value and be on a more even playing field with grocery stores. But whilst they want to take a 30 to 40% margin on everything they sell, this is a pipe-dream… They have completely misunderstood their role as a retail business in that, on the one hand, they want to be competitive on pricing, but on the other refuse to change their margin expectation in expecting suppliers to fund that. This is a totally unrealistic and unsustainable expectation that needs to be addressed sooner rather than later.”

Supplier
Competitive pressure

Thought leaders discussed that competition will likely increase in the immediate and longer term future as supermarkets and other grocery retailers continue to seek a larger share of the convenience market and offer services such as self-service checkouts. This competitive pressure has changed the whole dynamic of the convenience retailing industry.

“You can get into a Coles or a Woolworths store buy two items and come out pay for them and hop back in the car almost now as quickly as you can get into a convenience store. They have really narrowed the gap on the convenience channel from a time and from a value perspective. ..You have got the consolidation of the retailers and so the big getting bigger and you have got this massive channel shift coming in from the likes of Coles and Woolworths and Aldi and the competition that they have created and you can really see in the last twelve months the strategy of the Coles and the Woolworths of the world to start to attack these impulse lines and now you go into a supermarket it is not a strange thing to see a gondola end in Coles that is full of medium sized bars for a dollar so they really are attacking the convenience channel from all angles to increase their share of the pie and to place more and more pressure on the convenience sector.”

Analyst
Supply chain

The supply chain was commonly noted as a key weakness in bringing a differentiated convenience retailing offer to market, particularly in Australia.

Thought leaders also discussed the need for a more efficient convenience retailing supply chain, which will bring better inventory management, fewer handling errors and faster delivery, as well as reduced ordering and replenishing times, all of which will realise its potential as a source of competitive advantage.

Many thought leaders suggested that major developments (i.e. the establishment of convenience buying groups) would need to be made in the convenience retailing supply chain in order to progress the industry and be sustainable in the lead up to 2020.

“The supermarkets have moved from an unsophisticated supply chain to a modern and relatively good supply chain operation and have been successful at shrinking the number of days between an order placed and it being sold on the shelf. Admittedly it is not as easy for convenience retailers, without the store numbers in many cases. But there is best practice to learn from, take Woolworths and Project Refresh, which is akin to what Tesco has done, is best practice in supply chain development. The Holy Grail is to have exactly the right amount of product on the right shelf at the right location at the right time, and then have it replenished the next day – only then will convenience have a truly competitive fresh offer.”
Supply chain cont...

Some thought leaders mentioned that convenience product price rises in recent years are related to the fact that suppliers have had to essentially manage the supply chain for convenience retailers. Looking into the long-term future, supply chain efficiencies and cost reductions were discussed as necessary, but that this could only be achieved if convenience retailers themselves took greater control and management of their supply chains.

“Convenience retailers are somewhat spoilt in terms of the supply chain – I mean the suppliers send the merchandisers in, send the trucks with stock to stores, small orders are dropped off at many different locations. Convenience retailers have not really had to worry about the supply chain … but now as price increases have been coming in, now many have taken notice … perhaps control of the supply chain is the holy grail in 2020!”

Consultant

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Consultant

“The supply chain is certainly one thing that the convenience industry really struggles with as a differentiator. There have been various discussions about a channel solution, and it can be a differentiator and a competitive advantage. To get to this point, however, there has to be a fair bit of evolution in actual supply lines, and how people get products to stores, maybe convenience buying groups is the solution here but that’s going to disadvantage the milk bars because they’ll be left out in the cold a little bit... But then when the supplier is under so much pressure these days with what the supermarkets are doing, with generic products, the home brands, it must be increasing the cost to be able to put the branded products in the store… So I think that that will have some fairly severe implications in the market.”

Franchise operator
Threat of the grocery supply chain

The increasing strength of the supply chain of the major grocery chains was noted as a major trend that will continue to impact convenience retailing in the short and long-term. Thought leaders discussed particular threats such as economies of scale, logistical processes and technological efficiencies which were key advantages held by the major grocery chains.

“Woolworths and Coles have relied heavily on their logistics processes to free up cash to be able to invest in their business in the future and that’s been their big strategy over the last 10 years. You know, we’re seeing some of that now in the traditional convenience channel but again behind where it needs to be, the convenience supply chain is just not progressing as quickly as it needs to be.”

Supplier

“Purely from an economies of scale and sheer geographic footprint, they’re [grocery players] so big and growing, they have the ability and capital opportunity to be able to keep expanding which puts a lot of pressure on traditional convenience operators. I don’t see in the short-term that going away. I actually think that it’s probably going to be an issue down the track as far as value as a retail environment. Unfortunately there’s no easy way out of that one!”

Retailer
In the short to medium term, convenience thought leaders discussed little to no threat of international players entering the Australian market. This belief was largely due to the comparatively small market size, existing market share of the major players (including grocery and QSR) and distribution challenges in country geography.

“I really don’t think any international players will look to Australia in the foreseeable future... If you look at Tesco and that they are pulling out of Japan and looking at their business in the US... It’s just not easy to expand... From a convenience point of view, if you were going to come into this [Australian] market, it’s too small a market, too wide a geography, with too many entrenched players here. So it would be a very, very tough market to come into. Other forms of retail, obviously there’s more opportunity, but in convenience, well, that’s a tough one!”

Consultant
Mission management

The strategic shift from category management to ‘mission management’ was discussed as a major future trend and sustainable business strategy in convenience retailing globally. Mission management was discussed by thought leaders in terms of arranging products in-store that is timely and relevant for the shopper, for instance basic evening meal products, or suggestions, grouped together by the right time of day. This approach was also discussed as a strategic move in convenience retailing to combat the threat from grocery.

The degree to which mission management was in practice differed by market, with the UK already seeing the benefits of this approach and Australia lagging behind considerably.

Several barriers to the effective adoption of mission management in the local convenience retailing industry were also mentioned, including:

- Currently largely a supplier driven strategy; and
- Retailer capability to communicate to staff and execute in-store

"The convenience stores have to be the leaders of the move to mission management, but they’re not today. They have to really pick up their game and be proactive, as opposed to just reactive against each other in the longer term."

Consultant
Mission management cont...

Thought leader discussions on category and mission management were part of the broader theme of providing increasingly convenient solutions that shoppers are demanding of convenience retailing; essentially offering an “easy shop”.

“Mission management is about making sure that you’re covering the core needs of core consumers. Making sure that you’re keeping people coming in the door by satisfying the basic needs of their core brands and SKU’s, from a pricing perspective and value perspective, better than your competitors… And then looking for opportunities to support suppliers with new brand launches, innovative and different specialty products, exclusive offers, that sort of thing… There’s probably only a few markets and a few groups who could currently do that well.”

Analyst

“In general, Australasia is not really at the level of mission management yet… But it is definitely something we’re exploring. We’re looking to doing some research over the next six to 12 months with a couple of major markets to try and establish the emotional link of shoppers to different types of stores; different types of chains; channels, to understand why they shop the way they do… because if you’re going to talk about shopper missions, you need to understand why or why not shoppers currently do shop certain groups or channels. We’re a long way from understanding that… We have some fairly basic knowledge, but I think that will change dramatically over the next few years for one reason or another.”

Supplier
Mission management cont...

In the long-term, and by 2020, the majority of thought leaders stressed that the shift to mission management needed to be embraced by the whole industry in order to successfully and collectively fend off the competition from the grocery channel. In doing so, though leaders discussed (with particular reference to the UK):

- The need for shopper occasions and missions research;
- Product ranging/merchandising considerations for shopper problem solving;
- Relevant products for making basic evening meals, grouped together in-store (i.e. suggestions for “tonight’s dinner”);
- Appointment of ‘mission managers’ to identify shopper missions and develop cross-category solutions and promotions; and
- Cross category ranging and solution call for greater supplier-retailer collaboration and new KPIs.

“It’s one thing to have the theory of it and to talk about it, but it’s another thing altogether to actually make it happen in store and get that consistent execution and commitment to it. Part of it is being able to demonstrate to the retailers that this thing will actually add value to them. There’s quite a bit of effort on both sides to manage these things and there are costs involved and it does require some specific capability. Once again, getting and keeping and training the right staff in a lot of cases that actually supports this activity in store, is a huge part of it.”

Supplier
Industry collaboration

In response to the growing competition from major grocery chains, and the inherent weaknesses in the convenience retailing supply chain, a number of thought leaders discussed the need for enhanced industry collaboration. This collaboration was suggested vertically, between retailers and suppliers, as well as horizontally, between competitor retailers or competitor suppliers.

Thought leaders suggested that valuable collaborations could be made in terms of promotions (i.e. cross promotions and multi-buys including products from a variety of suppliers and distribution e.g. retailers jointly ordering from key suppliers to achieve economies of scale).

“Yes, we need to suck it up a little bit and say ‘Hey if we want to be around, we are going to have to collaborate a little bit here’ – obviously not on price but collaborate for the good of the channel. I think there are opportunities there.”

Supplier
“Yes, I do [think collaboration is possible]. I think they [retailers] just need us to lead it. They need someone to champion it, someone to bring it together. And for me, the AACS industry gives us, an ability to bring that to life. It’s not there today, but that is a big one for me. But for someone like Coke, it’s not. Because they’re already going through a 3PL process. We’ve got to stop looking at just our own backyard and saying ‘well how do we get everything onto one truck like 7-11 have introduced?’ Now, that might be a partnership with Swire where they build an infrastructure over the next 10 years that services all convenience in the market place. That might be the ideal world. But who’s actually going to lead that and make that happen.”

Supplier

“It’s something we’ve been talking about for the last 12 months and our retail partners haven’t had the appetite for it until now, I spoke about 7/11 and their promotional offers still leading the charge. I think it’s been driven by the fact that they’re seeing 7/11 do this and gain a point of difference from them. We have brand message with lends itself perfectly to that sort of promotional mechanic and despite a number of efforts across the board in different retailers to try and get something like that executed, the appetite hasn’t been there until recently...”

Supplier

“It’s joint responsibility, it’s got to be supplier and retailer the problem is because it’s such a fractured industry and there’s so many different moving parts to it, it doesn’t have an all encompassing ‘this is what we’re doing’ whereas someone like a Woolworths does.”

Analyst
Products & services
Products & services

As mentioned in the past decade section, the convenience retailing product and service offer is expected to continue to evolve in the short-term, including:

- Continued growth in communications products;
- Continued development in healthier food and drink options (at the expense of ‘indulgent’ food and carbonated drinks), and the range of frozen meal solutions;
- In-store kiosks to provide Internet access, wider consumer choice and lower stock levels for retailers;
- Vending machines for added convenience and wider product offers (i.e. DVDs, books, consumer electronics);
- Lottery operations; and
- General merchandise (e.g. gaming cards or iTunes cards).

“With tobacco such a high percentage of sales, and if that continues to erode, you’ve either got to find some emerging categories or you struggle to make a profit... Consumer electronics is one example of an emerging category but it’s going to take time to change people’s purchasing habits from being use to buying them at Dick Smith or JB Hi Fi.. It’s about making people aware that you can get them at convenience store and I guess the advantage that a convenience store has are the hours of trade. Dick Smith might close at five o’clock, but we might be open at five o’clock in the morning. We just need to play to our advantages in looking for emerging product categories.”

Franchise owner
Continued decline in tobacco

All convenience retailing industry thought leaders discussed the continued decline in the tobacco product category over the short, medium and long term as a result of government legislation and the consumer shifts toward a healthier lifestyle.

This trend was the driving force behind the need for convenience product and service offer expansions in the lead up to the year 2020.

“Tobacco will never grow again in this channel, and in fact you’ve got to start thinking about tobacco in the next 10 to 15 years as being half the value of what it currently is... 18 to 30 year old males are the biggest category of smokers who are also the biggest category giving up at the moment, which is having a major impact and we’ve never competed on price, so in fact we’ve pushed people out of the category to start with... We’re trying to charge now $20, $18.50 a pack so in the next two years it’ll be $20 plus for a pack of cigarettes. Legislation is going to make it damn hard to market the product in any way... We’re already seeing cigarette missions decline by 22 percent on 2009 and this is just going to get worse.”

Consultant
Food & drink expansions

Convenience thought leader discussions on the short-term future centered on the importance that the food and drink categories would play. The food and drink offer in convenience retailing was broadly discussed around expansion in three main areas (profiled in more detail on the following pages):

1. Healthy options
2. Fresh
3. Coffee

It is important to note here that some thought leaders discussed the role of food as an unknown, as demonstrated by the following quote:

“In the next five years, millions of dollars are going to come off [tobacco] sales and obviously lead to profitability from a core category that is irrelevant today, is food going to deliver that? I don’t think it is. I think food is important, going forward, but at the end of the day there’s an education process from a consumer point of view as that takes place. Unless the consumer wants to consume food from a convenience store at the level that retailers are talking about it, it’s not going to work.”

Consultant
Food: Fresh & healthy options

It was almost unanimous among thought leaders that the most important factor impacting the convenience food offer in the coming years would be a focus on healthy food options.

Discussions centered on the fact that there was undoubtedly a market in healthy options that remained largely untapped by the convenience retailing offer. However, several inherent problems that would need to be overcome in the short-term were noted, including sufficient staff levels to make the products (if made on-site), supply and the store experience.

“Healthy versus indulgent product options is an important consideration moving forward. I don’t think we have found a way to offer something healthy very well yet. If you think about Boost Juice, there’s a real market there that we haven’t been able to capture… But there’s a market there. I guess it comes back to the fact that healthy options require more staff to make the product on site or the supply channel to get distribution to stores. Making food on site which none of us want to do, whether it be labour or health and safety, is a bit of a sleeping giant!”

“The store experience is undoubtedly a problem in Australia, but it is possible to overcome… In Hong Kong you see even small format 7-Eleven stores with just one single round table and two chairs and people come in and buy noodles and sit there and eat them and then move on. It can be as basic as that!”
Food: Fresh & healthy options cont...

Within thought leader discussions of the short-term trend toward healthier product options, there was a clear point raised around finding a balance between such new emerging categories and those that have become a ‘staple’ in convenience.

Thought leaders warned about the need to not ignore or de-value those convenience shoppers who were not necessarily looking for healthy options, and may in fact be seeking products considered ‘unhealthy’ such as energy drinks, chocolate bars, and so on.

“There is a real call for I guess ‘better for you’ products... However in most cases, the real core shopper, the person who is going to spend the most money in this channel, is the tradie. They are on the road all of the time, they are working hard with physical work, and they need fuel all the time. This core person is still interested in energy drinks and soft drinks and all of that sort of stuff so you can’t move away from it altogether... It’s about attracting a broader audience into your business and so certainly ‘healthier for you’ products but not forgetting about your core.”

Consultant

So when it comes to healthy groceries, I don’t think so, I think generally most of our convenience shoppers are blue collar, want a pie and a coke and, to a lesser degree, aren’t really searching for something healthy, those healthy shoppers will be generally going to a mall and getting sushi or something like that. So I’ve not seen a healthy — I don’t see any benefit over here at the moment of a healthy offering.”

Consultant
“I think that the rising obesity places a health burden on the Australian health system and will lead to some sort of government view on regulation. Obviously soft drinks, snacks and confectionary which are big ticket items within convenience as well as smokes all contribute to health issues in the Australian public, it might well be that soft drinks and confectionary come under scrutiny if you’re not self-regulating. As a supplier we’re trying to take sugar out; I know that the snack suppliers have been advertising and taking fat out of all their products and so I think suppliers are genuinely trying to meet that trend and also get ahead of the game by selling more stuff because people are wanting to buy it and it still tastes good. I think sugar will be one thing and whether it can be regulated or not I’m not sure, I think energy drinks will be another area which we play in and then there’s the whole plain packaging debate which I don’t think will ever get off the ground. I know that AACS were lobbying in the tobacco segment and I just wonder whether there needs to be any work done simply in terms of engagement anyway around what the industry is doing and being on the front foot for obesity and for energy.”

Supplier
Food: Fresh & healthy options cont...

UK thought leaders reported that fresh food was performing very well in store, while those from Australia noted a current lack of a true local ‘fresh offer’.

“We have all treated food service a bit like it’s a dry merchandise category. We almost treat serving a sandwich the same way we treat having a can of baked beans on the shelf! So I think we’ve all got to change our systems to be much more QSR focused where the systems from IT to supply chain, to the training system for the stores, are very much around you’re actually a food service store, and you have some baked beans on the shelf over there!”

Franchise owner

“[Fresh food] been on the table for so long… We’ve been talking in convenience about a fresh offer and the need to get this right. If you look at global models, especially in the UK, you can see that it’s actually their largest profit contributor and it changes the whole perspective of what a convenience store is. Over the last five to ten years we haven’t made any ground on a fresh offer. I think the Munch offer within 7-Eleven and some of those experiments have definitely highlighted a willingness to invest behind it, but I probably think we’ve still got a lot more work to do on how we actually get a fresh offer up and running within this market.”

Supplier
Food: Food service

As a means of further differentiating the product offer from the major grocery chains, a number of thought leaders discussed the opportunity for convenience retailers to offer a full service food. This was seen as an area that convenience retailers could create a competitive advantage over grocery chains and challenge that offered by the QSR.

“I find it amazing how retailers say “Oh yeah, we're flat” – we're not flat, we're in massive decline! They're not measuring it properly. What are we going to do to stop that decline and especially when tobacco is so dominant in sales and profit to us?... We've got a couple of options here; one thing is we go into grocery and I mean that's got to be a joke. We're competing against Coles and Woolworths and their phenomenal supply chains... We're not going to compete against Coles and Woolworths on toilet paper and cereal; we just can't– it's impossible but I think we can compete on providing them a good fast food offer, and BP are starting to look at that fairly closely and have already moved their mix toward fresh food.”

Consultant

“But probably a category that's growing dramatically, and we're encouraging it as well, is probably the food-to-go. Food-to-go and coffee is part of the package, it's probably somewhere where BP has been very successful with. They've really set the benchmark there and set the catalyst for the growth and acceptance of a strong food-to-go offering within convenience.”

Analyst
“A major opportunity that a lot of people within the convenience channel are talking about now is the food service offer - beyond just a pie and a sausage roll and a pasty in the pie warmer. Having a proper food service offer with really quality sandwiches with quiches etc is critical... You go into a good petrol and convenience outlet today and there is generally a pretty ok food service offer there so we will continue to see that focus on food services because it is a point of difference. Competition then intensifies in the quick service restaurant... Regardless, the food service offer is vital. We have got massive amounts of traffic flow coming into the channel like how many cars are there on the road so every single one of those cars is probably going to get fuel once a week, so it is about the conversion of all of those transactions and food service playing a major part. An example is Peregrine – they have a first class food service offer on their sites where some people aren’t pulling up there to get fuel, they are pulling up there to go in and get food, which is ultimately where convenience wants to end up... Because people are using these strategically located petrol stations that are decked out to the nines that have got a Subway offer in them, they have got their own food service offer, and you know you are going in there to spend money and time to eat.”

Analyst
Vast differences were discussed in the food offerings of convenience retailing stores across different regions, with the UK seen as somewhat of a leader in this area.

“I think we’re a long way off globally. If you go into the European market you see the fresh offer, the sandwiches, it is like worlds away from where we are here. I think that’s where convenience certainly in Northern America as well the UK, have been able to extract greater profitability, value, and sustainability, through growing that food in the instant consumption market, that people use as a destination point for lunch. I mean, you’ll see sushi, and you’ll see all type of things in the markets there, which are also about healthy living which is something that we don’t do well in our convenience market here. Obesity is going to certainly be an Australian issue for time to come and in the UK, they’ve taken on the fast food service restaurants. Through their offer, QSR have taken convenience head-on. Once again, because you get a different experience going to one BP or another and it can be good and bad... consumers will not accept that. They’re expecting that at every McDonalds they walk into, basically getting the same offer globally.”

Supplier
Drinks: Coffee

Cold drinks were discussed by industry thought leaders as a mainstay of convenience retailing, reportedly around 20 percent of sales and often a primary reason for convenience store visitation.

Coffee was commonly discussed as the relatively new ‘hot’ drink category in convenience, and one that over time has the potential to grow considerably (some retailers have already seen large growth).

The move into the coffee product category in Australia was discussed as being led by the 7-Eleven “dollar coffee”. There were, however, some polarised opinions regarding coffee quality and the related strategy to market.

“It’s [dollar coffee] undermining the product category… Essentially, you are telling people, it’s a coffee, it’s not great, actually it’s pretty ordinary, and we’re embarrassed about it, but we will sell it for a dollar. It’s undermining the whole strategy…”

Analyst

“Dollar coffee has opened consumers to consider convenience as a channel for coffee, and further discussion that the investment in the short to medium term would likely be on increasing quality and moving the price point upward.”

Consultant
Drinks: Alcohol

There has been much debate recently as to whether convenience stores should be permitted to sell alcohol, which was a key point of discussion among industry thought leaders. In the same way that convenience retailers are trusted to sell tobacco, alcohol was noted to be “no different” [Consultant]. The fact that convenience stores in the US and Europe sell alcohol was also key to this local debate.

Although alcohol had a reportedly uncertain future in convenience retailing, thought leaders felt that its inclusion in a convenience store would assist to level the playing field with the grocery majors, and alleviate some of the margin pressure the channel has imposed over recent years.

“Alcohol and convenience work together. In convenience outside of Australia, alcohol has always been part of that offer especially in Asian countries. Obviously there’s a whole debate around accessibility, availability, underage drinking, etc. They are the sensitive issues, but at the end of the day, if it’s legislated and there’s rules that you’ve got to follow, you follow those rules. To me, it’s no different from alcohol being available in a bottle shop... Because bottle shops are open almost convenience hours now. Obviously it’s not a full alcohol range, it would be certain alcohol, like tobacco, but it’s legislated and you manage it in that way. I just think it’s almost archaic that it’s been held back to this degree.”

Consultant
OTC pharmaceuticals

Several thought leaders discussed the potential opportunity for convenience retailers to offer over-the-counter (OTC) pharmaceuticals in the medium to long-term, in line with the push from grocery in this regard.

The nature of the convenience retailing industry and need for a revitalised and extended product offer were discussed as key factors in the channel’s ability to offer pharmacy products.

“Pharmacy will end up at supermarkets at some stage... Security is an issue in pharmacy at night, and security is an issue in convenience at night. So the potential could be if two major industry groups like the Pharmacy Guild and a large chain got together, they could actually provide the consumer with a better offer... If you look everywhere around the world, pharmacies are in major supermarkets now. Now it's too late for convenience to get on that because you go to Wal-Mart, or you go to Costco, or you go wherever, and you can do everything when you're there and shop while you're waiting for scripts. If this is to be an option, convenience needs to move quickly to catch up but in reality this will be at least 5 years away.”

Consultant
Product branding

A related product discussion raised by industry thought leaders was the importance of branding, in response to the rise in private label convenience product offers in an effort to increase margins. Key concerns were the balance between the product offer and differentiation through brand equity and loyalty, and that private labels have the potential to erode the consumer’s premium image and perception. Product branding and building associated trust in convenience brands outside of private labels is therefore considered important in the short-term.

“There needs to be a real balance between the exclusive product type offer and differentiating yourself versus the whole brand equity/loyalty equation. Private labels tend to erode that premium image and perception and in the short-term it’s probably okay, particularly in terms of margin, but longer term it’s changing consumer perception about what they’re prepared to pay and what a brand is worth. After all, retailers are also trying to build the ‘brand’ of their stores and a consumer’s perception is driven largely by the types of products they sell and how they are merchandised. I think that’s something that will probably go through a cycle and it may already be quite a way through that cycle in many markets where retailers are starting to understand that private label isn’t the answer to everything and that you need big brands for customer loyalty and so that you can justify higher pricing to deliver increased margins.”

Supplier
Product differentiation

The need for differentiation was also commonly discussed with reference to the convenience product offer, linked to the fact that “the convenience (and in many instances, grocery) supply base is 70 percent the same which makes it difficult to negotiate exclusive offers” [Retailer]. However, a core convenience product offer was noted as necessary (i.e. cigarettes, drinks, confectionary, chips and snacks).

Product differentiation was acknowledged as a long standing convenience challenge, but also one that could no longer be accepted. The consensus among thought leaders was that innovations in the type of product on offer, or the way in which it is presented in store is a short-term necessity.

Key product differentiators highlighted were consumer electronics (e.g. ‘technology on-the-go’) and the online, vending, and mobile channels in distribution.

“If you look at the range and offer in a BP, a Caltex, a 7-Eleven, a city convenience, it’s effectively 98% the same. There’s always going to be a core product offer, but a point of difference can come from how you present that in store, how you engage the customers with that offer and also the ability to create new categories within your offer. So there’s got to be a level of innovation there that comes into play... So there’s an element of risk, but there’s an element of innovation, creating some new offers within convenience. Not just waiting for the supermarkets to keep taking a share from them, but actually fighting back to say; “We’re the innovative business here, we’re the ones that have flexibility and young customers coming in that are innovators and early adopters of technology, etc.”

Consultant
Services: ‘Click and collect’

The notion of ‘click and collect’ (possibly drive through) tied to general online shopping was discussed as a short-term term opportunity and revenue driver in the convenience retailing industry. In this way, thought leaders discussed convenience retailers leveraging their store networks to become pick-up points for online purchases in the hope that they will purchase in-store. Several international examples in pharmacy (i.e. Walgreens) and hardware (i.e. Home Depot) were acknowledged as successful in this regard.

However, greater consumer education of this service was mentioned as a necessary driver of success.

“The online shopping trend is probably the one that potentially holds the greater value… One idea may be around purchasing something online from your office before you head home, and because one of the strengths in convenience stores is the amount of locations… It could be very easy to sit there and just drive through, your bags all packed, you grab it and you’re straight out the door again as opposed to stopping, trying to get a park, then looking for it on the shelf. A lot more people are open to the fact of purchasing things online than there’s ever been and that’s only going to grow stronger and stronger.”

Retailer
Services: ‘Click and collect’ cont...

Several thought leaders referenced the recent move between Coles grocery and Coles Express in this regard as tangible pressure to develop and trial this initiative.

“A great idea lies in using convenience store networks as a pick-up point for online purchases, or purchases from anywhere actually. A couple of the bigger networks are saying that perhaps they could almost be a pick-up point. I thought that was just natural, a no-brainer, in terms of using the real estate for something meaningful and bring people in and hopefully they’ll buy... But it’s also about educating consumers to understand that this service is available. It’s not necessarily about the volume of people that come in to use the service, it’s that when they do come in, measuring do they spend anything additional in the store, driving the transactions. And when you think about convenience stores, the leverage within networks across very wide geographic areas, access to different consumer segments, locations, geographies, etc, to date they haven’t maximised that network. It’s been a case of “we built a network and people come to us” and that’s it. Whereas it’s now about leverage in that network to maximise the opportunity to draw and publicise and attract people into them, as opposed to just relying on the impulse opportunity… Convenience retailers need to become more proactive about driving traffic into stores and this has to be a no brainer!”

Consultant
Services: Home delivery

The technology supporting a home delivery service in convenience retailing was discussed as a short-term investment consideration and in extending the convenience service offer. The UK market was discussed by several industry thought leaders as leading in this regard.

“Home delivery shopping is growing, albeit from a small base. Actually it’s growing quite exponentially in the UK and what we find is that when people internet shop they don’t then top up at supermarkets and they can’t internet for a de-stress, fancy a treat and so they tend to use smaller and more local stores for that.”

Consultant
Services: Postal and banking

Similar to the suggested click-and-collect service offer, thought leaders also discussed the opportunity and somewhat natural extension to offer postal and banking services throughout convenience store networks. This strategic move was referenced against similar moves in the UK.

“I think part of short to medium term service offer would be pharmacy and banking, definitely… The broad direction of the post office in the UK is to incorporate post offices much more into mainstream stores, so rather than having a separate post office counter, having it incorporated into the retail unit, and I think that’s going to happen much more, and I think that that will underpin a very strong services category in the convenience sector… In providing banking, you know there might be some cut down banking offer, but certainly there are services like foreign exchange, dole payments, postal stuff absolutely I think that’s going to be a growing part of the market… Postal services will probably be at a very low margin, but I think that’s going to be a major product market.”

Consultant
The consumer
Consumer shifts

Thought leaders discussed short-term consumer shifts framed around shifting demographics and tastes (as mentioned in *The past decade*).

Short-term consumer shifts were discussed in comparison to the past decade, where it was acknowledged that consumer trends changed slowly and retailers had an opportunity to analyse their implications and make well-informed decisions. Today, and in the short-term, consumer trend cycles were noted as emerging more rapidly.

As such, it was recognised that it is increasingly necessary for convenience retailers to understand their shoppers – in terms of who they are and what they buy. The value of this data is seen to contribute to more consumer-centric retailing overall, and specifically with regard to tailored offers and toward the practice of mission management. In fact, several international thought leaders noted that category management is dead, and mission management the future.
Consumer shifts cont...

Thought leaders also noted that the trend toward consumer value consciousness will continue in the short and long-term. This period of more ‘considered’ consumer spending was discussed as creating an ideal environment for low price ‘value’ retailers (i.e. Aldi, Costco), a surge in private label products (i.e. 7-Eleven’s ‘7-Select’ and BP’s AMPM) and value-oriented marketing (i.e. Coles’ ‘Feed Your Family for Under $10’). A common point in this discussion was that the value consumer takes longer to return to previous notions of value, which presents implications for the convenience retailing offer in the short-term.

“As a result of the GFC there will be a continued emphasis on discount, on value for money. Retailers are realising that consumers are shifting toward value, for instance Aldi and Tesco are manufacturing their own brand of products and having great success. Customer desire for value for money will definitely increase as consumers become savvier about where they spend their money. There is also likely to be a move away from credit to debit payment cards world-wide…”

Analyst

“I think it will get worse quicker… The longer that this economic uncertainty/concern/poor consumer confidence rolls on, the more value will be on people minds… It already is, and it takes a while to shake off… It takes longer for people to move back up than it takes for them to move down so I think we will see hard times for a while within convenience retail.”

Retailer
Customer experience

Thought leaders also discussed the need for a greater focus on the customer experience in convenience retailing. In this context, it was noted that to have a significant impact, this focus needs to be industry-wide in that it will be “almost a cultural shift for convenience” [Retailer].

“I think there’s a huge gap in terms of the shopper experience, shopper engagement in store that the fact that you have someone behind the counter and you can engage with that person, but the perception of customer service in this particular channel is not very high, suggests to me that there’s a gap there, there’s simply an enormous gap around what each of these retailers are trying to achieve with the resources that they’ve got. Someone like a Coles Express does it very well where they upsell and you know the sales results that we generate out of upselling when on promotion are phenomenal. There’s a huge gap for every other retailer to do that.” [Supplier]

“Instead of serving someone in 35 seconds and they’re gone, it’s about creating an experience and destination where they can come and if they want to stick around a little bit longer they can... That transition is massive because the research says that as soon as someone handles a nozzle, the last thing they want to do is touch food, even if it’s wrapped... It’s a big step, in their mind they’ve purchased fuel and that has nothing to do with putting some food in their mouth. But that’s a big challenge that we’ve got to somehow overcome over time.” [Retailer]
Customer loyalty programs

The importance of strategically driving loyalty from the convenience base was another key message from thought leaders, as a strategy for shopper engagement in the long-term, and particularly in light of the grocery threat (i.e. to provide a reason to shop at a convenience outlet versus grocery). It is important to note that thought leaders stressed that this strategy needs to focus beyond the fuel mission, which currently dominates convenience loyalty.

Tesco’s Clubcard was acknowledged as “a world leading phenomenon” and a benchmark for the convenience retailing sector in the collection and use of customer information in driving strategic growth. Woolworths was noted by many thought leaders as a local best-practice loyalty example, following their successful partnership with Qantas.

“I think we’ve got the loyalty thing in play at the moment with the grocery guys and the fuel offers, but that works only for fuel and there’s little conversion at the shop – they’re different sort of shoppers. I think there is absolutely room for loyalty programs in the convenience channel but they need to be different than old loyalty programs. And they can’t be supplier-led or brand-led - It needs to be a channel-led loyalty program… None of these things are easy, otherwise they would have been done… When we look to markets like the UK, they’ve actually moved towards an industry or a channel-wide loyalty offer where, as a convenience shopper, I can get rewards across multiple chains which seems to be working really well so that’s a model that should be looked to.”

Retailer
Customer loyalty programs cont...

One limitation in developing customer loyalty in convenience (as it currently stands) is the low transaction value; "When your average docket value is $8, it is hard to give away too much in terms of loyalty, but technology developments will allow us to tie consumers to the store more so than now" [Retailer].

Staff capability and their communication ability to actually discuss customer loyalty and exclusive trade promotion programs was another challenge highlighted in the development of long-term convenience customer loyalty.

Several customer loyalty differences across markets were also noted:

“When you talk to people in the US about customer loyalty and reward programs, it’s a game changer. For instance, they have this thing called price rollback, their equivalent of the Coles and Woollies 4 cents off, where you go to your grocer, and you stack your rewards. And so you might have $1.40 at the moment per litre, and you’re allowed to buy 60 litres. And so you’ll come in and swipe your loyalty card, and the pump will say would you like to redeem your points today, and you hit yes, and if the price is $1.41 then it will roll back. Literally the price on the pump rolls back from $1.41 to 1 cent. You buy your 60 litres and it costs you 60 cents, and you swipes your card and it charges your card 60 cents!”

Retailer
Customer loyalty programs cont...

In line with Tesco noted as a best practice case example of customer loyalty, the major inspiration was related to Tesco’s ability to meaningfully target their customers based on the loyalty intelligence they collect and analyse.

“As much as anything loyalty cards are a way to show shoppers that you are targeting towards their needs because you’re able to monitor what they’re doing and deliver accordingly and the kind of famous examples would be the way Tesco uses the reward card. You literally have a baby and when you’re in hospital you will be given a voucher for a bumper pack of your first needs for baby and you get that in-store and its got the birth of your child on it, and almost as if by magic the moment they seem to be into solid foods you get some vouchers for some solid food and then when they’re into the next stage of nappies you get nappies, and then you get stuff about books and paints. It’s very, very targeted to the fact that we know the age of your child and we know the different stage they’re going into and it got to you just at the time you’re starting to think about that. If the supermarket are doing that, I think you’ll see either smaller retailers doing it or a combination of retailers in convenience in the short-term.”

Consultant
Localisation

Thought leaders discussed two aspects of convenience retailing localisation, both of which are focused on shopper engagement: localised (i.e. tailored) product offerings and local sourcing in support of the immediate economy and community.

Local product offers were linked to customer intelligence via digital payment cards or loyalty programs and the use of that data in a meaningful way.

“We have got far better with our diverse networks on creating offers that are specific to certain segments of the market. So it’s not necessarily about doing everything one-size-fits-all, it’s about doing things differently across the network based on what we know about our customers.”

Retailer

Local sourcing discussions centred on products travelling ever-increasing distances from production to consumption (and then disposal). As such, ‘food miles’ (i.e. the distance food travels to consumer) was a key concern for the long-term sustainability and success of convenience retailing. Linked to environmental sustainability, this involves impacts in the underlying food system, such as energy, dependence on fossil fuels, traffic congestion, as well as social and economic impacts on rural communities and developing countries; all of which are increasing on the shopper’s agenda in terms of product and store choice.
Promotions

Thought leaders discussed a current focus of convenience retailing on in-store promotions, particularly multi-buy offers. However, many also warned of the need to be more strategic in promotional offerings, given these promotions do not protect the retail price of products, and therefore margins, as well as consumers’ perceptions of convenience store prices.

Thought leaders also discussed a need to be flexible with promotional offers, by giving consumers some choice of items. Key to this flexibility was not restricting promotions to items within the same product set (i.e. pure 2-for-1 deals) as well potentially offering cross-brand promotions. 7-Eleven was discussed a leader in such strategic product promotions.

“7-Eleven are fairly smart with promotions in the fact that they are saying ‘you can buy any of these products here and then you buy the second one and you get it for a dollar’. They are not saying that it has to be specific product, they are saying here is a range of products for you to choose from… It is very much up to the suppliers to be coming to the table and saying ‘we believe that these are the opportunities that you need to be going down’ but it is up to the retailer to drive it, to recognise it and also to recognise what their competitors are doing and why they are doing what they are doing.”

Supplier
Shopper Intelligence

Underpinning the previous consumer based trends discussed by thought leaders was the need for customer intelligence (i.e. data), and to understand the needs and behaviour of various shoppers. Thought leaders suggested that convenience retailers now have access to a vast array of data and information, and that future success would be dependent on how well this data was used and integrated into strategic thinking.

“Who is coming in? What are they buying? There is so much more data around now because the retailers are getting more sophisticated, the suppliers are getting more sophisticated you just have to look into every single nook and cranny to try and grab a little bit of value because the quest for the consumer dollar is just so immense at this point in time. People have to look at their business under a microscope in order to get that next little edge or get that next little bit so far more sophisticated retailing in the channel now than there would have been twelve or fifteen years ago by a long way.”

Analyst

“What's needed is a lot more research on how a shopper shops the store and accompanied investment into the ambience, the in-store feel, experience... It's all about starting to understand the shopper better, which means how we interact with the shopper will change to be more engaging, interactive, and so on... However, in Australia we're incredibly behind in this knowledge.”

Supplier
Technology
Technology uptake

The rate of available technology uptake was mentioned by several thought leaders as part of a broader discussion on likely convenience retailing technology trends to play out in the future. Thought leaders also linked this to a general failure on part of the industry to engage technology-oriented shoppers.

The rate of technology uptake was considered relatively low compared to other retail industry sectors, with some noting research studies in support of this:

“I saw IBM present and I can see why we’re in the bottom quartile of use on technology. In the convenience channel, what we see out of Europe actually supports technology in this channel and shows the ability to be able to see products that customers actually want while on the go. The Tesco South Korea thing is a great example… where people have changed their behaviour in terms of where they buy because the offer’s there. In this channel, in Australia, the offer hasn’t changed so right now technology would probably be a negative, but if our retailers actually adopted some of the learnings from overseas, technology could be a real positive and exciting change for the channel.”

Retailer

“For the last ten or fifteen years, we’ve done nothing with technology and the tech savvy shopper. In fact, we’ve ignored those generations and done nothing in the last ten or 15 years to engage them into convenience stores… Okay Telco’s in there, but it contributes nothing to bottom line profitability and it’s a declining market anyway… We need to be on board with technology all-round.”

Franchise operator
General technologies

Thought leaders discussed an increase in the development of electronic payment and ordering systems such as payment via mobile phones and smartcards in the very near future.

Other areas such as WiFi infrastructure, vending machines, kiosks and mobile phone advertising will also likely play out in convenience retailing in the short to medium term future, with some concern for industry readiness (i.e. investment in infrastructure and processes).

“Technology will without a doubt impact the industry in the short, medium and long-term. We’re seeing it already within the terms of coupons sent to mobile phones. There’s a whole bunch of stuff around and I only see that escalating and as people become used to that technology more. I think it’s still got a reasonably big part to play in our industry. The difficulty is ensuring that you have IT infrastructure to support it and that the store can keep pace with it. Technology’s great, but when you’ve got a store that can’t cope with it then it’s no good to anyone…”

Franchise owner
‘Pay at the pump’

Thought leaders expressed mixed views regarding ‘pay at the pump’ technology in convenience retailing.

Although acknowledged as a natural alignment with the convenience proposition by many, and therefore a likely short-term trend, some held the view that the technology will only further encourage the ‘fuel only’ mission and will drive traffic away from stores.

“I don’t think [pay-at-the-pump] is in anyone’s best interests... I think Caltex specifically have put it out there that; “Oh well, if we’ve got a shopper that wants to pay at the pump well they obviously don’t want to shop in our store anyway. They’re there purely for a fuel only mission, so we’re going to provide them with the service to do that.” I get that if you’ve got research to suggest that is actually going to provide you a point of difference, but I think it goes against a lot of what the industry is trying to do around conversion to store sales...”

Consultant
Wi-Fi

Many thought leaders discussed Wi-Fi as a technology to be offered by the convenience retailing industry in the short-term in line with consumers’ increasing demand for Internet access when on-the-go.

Success in driving store traffic in this regard was gleaned through similar moves by QSR (e.g. McDonalds) and grocery (e.g. Tesco).

“I think there will be more convenience stores with free Wi-Fi in the short-term... I think that there will be still plenty of stores who focus on impulse and getting people in and out as fast as possible, but I think there will be differentiation in technology services like Wi-Fi and will definitely be a factor to consider for the future. There’s almost the point now where a lot of small format retail, whether you call it convenience or not, almost trying to ask customers now to buy time, which is the same thing, but in a sense buy time in the outlet, spend time in the store...”

Consultant
Cashless payment

Already being utilised by some convenience retailers, and expected to grow further, was the use of cashless payment methods, particularly ‘tap-and-go’ payment.

This technology was suggested to have many potential benefits to convenience retailers, particularly in the reduction of queues and speed of service delivery.

“I know in some of the retailers now, you just touch your credit card on that little touch pad, you don’t have the time, you’re in and out really quickly. That’s good for reduction of queues, it’s better for a whole load of things so absolutely, I think looking at payment options is one of a number of things which make it convenient to shop in a convenience store. It has to be really sleek I think to get excited – not just turn up – but to actually get excited about going to a convenience store.”

Supplier
Cashless stored value cards

One of the key long-term technologies discussed by thought leaders centred on the cashless stored value cards in line with the development of this technology in general, which extended on the cashless payment trend discussed previously.

Convenience retailing was referred to by several thought leaders as holding a unique position to bring this type of innovation to the shopper.

“Having experience the introduction of the Octopus card into Hong Kong, within 12 to 18 months no one carried cash anymore. It could be like going into a convenience store, 7-Eleven, and on the counter there’s an Octopus reader and you literally just say, ‘I’d like to put $100 on that’ and it’s done within ten seconds and that’s it… I know we’re so far behind and the debacle of Myki and everything there is just laughable, but this technology will come. Once they’ve sorted out the issues, we will start to move down that road of cashless stored value cards. Convenience plays such an important part of that, from the point of view of providing a service. To me, convenience stores have just got to be right at the forefront of any sort of innovative service that can be offered, because it’s a traffic driver. It’s all about driving traffic into the stores so that then potentially they’ll buy something else.”

Consultant
Multichannel retailing

In the past, consumers have generally obtained information and made purchase decisions using a single channel. However, as acknowledged by the vast majority of thought leaders, customers today use a combination of different channels at different stages of the decision making process.

By using a selection of different channels, customers are now able to deal with a single organisation to search for information, purchase products or return purchases.

Convenience thought leaders generally felt that multichannel retailing is an important key to convenience retailing success in the next decade. In fact, several channels were discussed as offering enhanced and more engaging communications and distribution, particularly online, mobile and social media.
Multichannel retailing cont...

A few thought leaders noted that the shift to multichannel retailing in convenience would likely be a few years away yet, as many convenience retailers are still focused on the basics of success.

It is important to note here that this opinion varied considerably by region, with the UK, US and Europe much more developed in this regard.

“Most convenience retailers are overwhelmingly still reliant on people coming in the door and making impulse purchases or – as a shopping destination for picking up either their food, their lunch, their noodles, their cigarettes, etc. Convenience needs to be a little bit careful about multichannel retailing because there is really no point of difference between you and a supermarket. Sure it will help you compete to some degree, but I think the numbers are still only around 10 percent of people who buy online regardless of what products or categories you’re talking about… The convenience offer generally, if it operates as it should, relies heavily on getting people in the store, satisfy their core needs and then give them an opportunity to see, touch, feel, for that impulse purchase. Most of that is still driven by right store location, right product ranges, merchandising and good promotions. So I don’t see it happening in a major way yet. In markets like Japan and Korea there are opportunities and it’s being done in a small way but again requires really strong ability to execute. Conceptually it makes sense, but one poor experience will kill it off very quickly as an option.”

Supplier
Online channel

A number of thought leaders identified the substantial use of the online channel in general shopping behaviour, and therefore the importance of convenience retailers operating online. One of the major advantages of the online channel discussed by thought leaders was the potential to speed up interactions with consumers, in line with the time poor consumer.

Coffee retailers such as Starbucks were seen as prime examples of how the online channel could be utilised effectively, allowing consumers to pre-order their coffee before picking it up in the store.

“[Online’s] just the way people communicate, interact and search out information and it continues to grow exponentially and is predicted to continue to and if that’s the way we live, then shopping has to reflect those changes so I think certainly a capability around online, iPhone and generally technology is a necessary consistent change. Just the speed of that delivery, people just want it delivered faster, we expect faster and it becomes a kind of spiral and small stores can’t survive any longer just on the fact that they’re in the right place or that they’re friendly and local.”

Consultant
Mobile

The mobile channel was discussed by many thought leaders as offering an opportunity to bring even greater convenience to the convenience store shopper, with location-based information services, payment/purchase abilities, as well as more engaging and interactive marketing communications. The next evolution of convenience loyalty programs was also linked to the mobile phone.

The development and uptake of the mobile platform in convenience retailing was also noted as different across global markets.

“The development and use of mobile technology varies by market. In some, product is still delivered by bicycle to some of the stores... Mobile in countries like Korea, Japan everybody has a mobile phone and wireless is available everywhere so they’re already using the mobile platforms in terms of consumer offers, loyalty programs.... In Australia, it will depend on the willingness of the retailers to engage on that front and their ability to be able to execute it at the back end. It comes down to at store level where that sort of consumer interaction happens and the communication of the different types of promotions and loyalty programs, so you’ve got to get that discipline right first before those things will start to work... If you look at the US as an example where increasingly things like coupons from loyalty programs and discount vouchers are being chased because economically it’s pretty tough. It may not get to that level in Australia, but I’m sure that there’s an increased focus and an opportunity to do more of that. The fact that the two-for-one offers and multi-packs have grown so dramatically over the last few years tells you that convenience shoppers are looking for value and those types of offers. The challenge is how you can deliver convenience, as in provide that quick service and get people in and out, whilst still effectively communicating those types of offers. The mobile phone is an ideal enabling device.”

Supplier
Mobile: Coupons & proximity SMS

In a similar way to social media, the mobile phone was also mentioned by thought leaders in relation to offering more interactive and engaging convenience marketing communications. In this way, smartphone barcode coupon redemption was highlighted, as was proximity marketing via mobile SMS as a means to additionally capture potential local convenience shoppers.

In the context of convenience retailing, proximity SMS promotions was specifically discussed as expanding the scope of place-based interactive marketing to offer a more spontaneous and direct interaction with shoppers. This technology would also allow convenience retailers to create a memorable shopping interaction for shoppers and, by extension, motivate return store visits.

“I think where it will end up is an offer will go to your iPhone, and you’ll get a barcode that you would go in and scan and get a half price on a particular coffee or whatever. And then it will go a lot further than that – it might be that you drive past a particular convenience outlet and it shoots you an SMS saying “Did you realise that if you come in here you’ll get a half price coffee?” So the technology talks to people as they go past, I think there’ll be that interaction, and the technology already exists. It’s all the stuff that we don’t know that’s coming around the corner over the next five years that will also play a huge role.”

Supplier
Mobile: Applications

The related development and success of mobile applications for smartphone devices was commonly mentioned regarding short-term convenience technology developments, with 7-Eleven’s progress in this regard identified as industry best practice.

An iPhone application developed for 7-Eleven Sweden combines a store locator with coupons for a free coffee and biscotti. After downloading the application, users type in their phone number and receive a unique coupon code sent straight to their iPhone. To claim their coffee, they just show the code to a 7-Eleven assistant; no purchase necessary. The coupon is only valid once, and free coffee one month will likely be followed by free ice cream the next month. This was highlighted as a best practice example by thought leaders.
Mobile: Applications

“There are apps now where because it has GPS, it knows where you are and you can press an app that says “I want a coffee” and it knows your profile and your profile might be “I’ll have a black coffee with two sugars” and then it sets an alarm off inside the shop when you get to the forecourt and you fill it up and it says “Steve’s on the forecourt, Steve’s on the forecourt right now. He normally buys 50 litres so he’ll be in the store in three minutes”. When he comes in the store, he picks up his coffee and he goes.”

Franchise Operator

“You go to a Starbucks and you used to wait your five minutes for your coffee or something. You can now pre-order that by an app so that it’s ready and you literally order it a couple of minutes before and then you go in and collect it and so apps are starting to be used for call and collect. Apps are being used for highest comparison, so I can literally scan a barcode and it can tell me the price in different locations so I can see if I’m getting a reasonable price. So consumers are starting to use technology in that way.”

Consultant
Social media

Social media was discussed by thought leaders as a **newly emerging marketing and communication channel** available to the convenience retailing industry in the short-term.

In line with observations of the broader retail industry, social media was suggested to be used as a complement to existing forms of marketing and promotions (i.e. not in isolation and as part of the marketing investment mix), and as a means to offer greater engagement and two-way communication with the convenience shopper and in the delivery of some convenience product promotions.

“All of our brand teams now are incorporating social media as are our suppliers and retailers. Retailers are wanting to use it to drive people into stores and they’re wanting to get suppliers to do the same thing on particular account offers or brand offers or promotional offers. Equally, suppliers are using it for their brands to drive brand loyalty and brand awareness and brand excitement and all that sort of stuff.”

Supplier

“Traditional point of sale and traditional promotional activity will shift to have more of a focus on social media... If you had one pot of money I think more of the mix of that money will go to social and interactive media rather than traditional media for any communication to be really convenient.”

Retailer
Contactless payment

Contactless payment methods have become commonplace in Australian convenience retailing, with thought leaders seeing this trend developing in the long-term and toward mobile payment systems.

It was discussed that the convenience payment revolution will be driven by the financial services sector, particularly credit card companies Visa and MasterCard, who claim that these cards will benefit retailers and consumers alike. In convenience retailing, but also any environment where speed is critical (i.e. QSR, cafes, snack vendors, supermarkets, and car parks), contactless technology will bring unique advantages.

Other payment methods discussed with thought leaders globally included biometric fingerprinting where registered shoppers have their payment card information linked to their fingerprints.

“I certainly think mobile payments, and paypass is becoming a bigger issue in stores. It has very quickly taken off… You can see it taking off in the UK and Japan where people are just into absolute convenience, but they can also use their Oyster card in London, or Octopus card in Hong Kong, for convenience payments as well as transport. I think as Myki takes off, people will accept that all these things are fairly good and be using cards like that for convenience payments.”

Retailer
Staff technology: iPads

Future technologies were not limited to those related to the consumer, with some thought leaders discussing the impact and use of iPads for convenience retailing staff members.

This technology was seen as particularly beneficial for the supplier sales force, allowing for orders to be taken or tracked while in a retail store. This benefit crossed over to retailers, allowing for flexible and efficient ordering processes within the store itself.

“With the advent of iPads and iPhones, we will be able to load programmes and things like that… Our sales guys can walk around the store, scan and send their order through that way. But that technology is probably already there, we just haven’t taken advantage of it yet. So it’s really just keeping an eye on all available technology…”

Supplier
Stores
Store merchandising

To address some of the challenges facing the convenience industry, time-of-day merchandising was discussed by many thought leaders as paramount in the short, medium and longer term, with leading operators altering the location of stock and the nature of promotional offers throughout the day to better cater to the type of consumers in store. Variation in this regard was discussed according to market development (with Japan a commonly discussed leader), economies of scale, and general logistics of the country.

The right product mix and expanding the food range was discussed as also important in this regard, with some concern for consumer readiness:

“When we talk about the consumer, we need to be a lot more specific and targeted through flexible time-of-day store merchandising. However retailers need to understand that only in certain areas of the market in Australia are consumers ready for it. It’s also linked to the logistical ability to deliver against that offer which is difficult given the size of the country. To me this is a critical driver in Australia but also Asia... However I think it’s a bit of a chicken and egg saying consumers aren’t ready for it… It’s more about the fact that we probably couldn’t deliver it anywhere outside of certain areas within major capital cities… you can go ahead and try to deliver it, but at the end of the day if you get consumers in the door and they try it and it’s not up to scratch, then you’ve failed, and you’ve probably put the process back considerably in respect of that.”

Supplier
Store experience

Related to store merchandising, the overall convenience store experience was discussed as needing attention in the medium term. This notion was in reference to the “sameness” of the store environment and experience within the convenience retailing industry, but also in terms of raising the industry store experience to be on par with that offered by the broader retail industry (i.e. grocery, fashion, etc).

7-Eleven was recognised for setting the current and local industry standard.

“Probably the most engaging petrol convenience retail shopping experience would be 7-Eleven, especially their new updated sites. It’s just a cool place to be and you know they’ve got a different range of offers there, their promotional activity is engaging… They’re happy to invest in it as well so the expectation is not all the suppliers are just coming up with the ideas, they’ve got a specific agenda that they’re chasing, they’ve got an objective and a strategy to get there.”

Retailer

Areas to be addressed ranged from basic store facilities (i.e. toilets) to atmospheric elements (i.e. cleanliness, temperature, aroma, music and design features). International markets such as Hong Kong, Japan, Korea, and the UK in particular were commonly recognised as more developed in this regard and thus markets to look to for convenience store experience best practice.
Areas to be addressed in the context of the store experience ranged from basic facilities (i.e. toilets) to atmospheric store elements (i.e. cleanliness, temperature, aroma, music and design features). The overall focus of thought leaders in this area was on the need to create a more appealing and engaging store environment, to encourage shoppers to spend more time in the store.

International markets such as Hong Kong, Japan, Korea, and the UK in particular were commonly recognised as more developed in this regard and thus markets to look to for store experience best practice.

“The experience in convenience stores has to change. The bland, basic generic convenience store just can’t sustain itself... What would that experience look like? To me, it’s about creating an exciting, fun environment. It’s also a clean and safe environment that people feel comfortable shopping in... Basic facilities like clean toilets is often a big problem. Getting the atmosphere and environment right... Convenience stores need to take experiential retailing to another level in the future... If you go overseas and look at some of the things that are happening, Australian convenience needs to go down that path, but we are a bit slow to do that. The quality deliverable overseas is critical and there are chains who are absolutely renowned for store design and offers.”

Consultant
A related long-term challenge is the consistency of the store experience across convenience store chains and franchise networks. This issue was discussed as related to the variation in staff working across convenience outlets and their ability to execute network-wide offers, as well as the general problems experienced in franchise business models in the control and delivery of brand and customer service.

"Convenience retailing has moved very much from more of a passive shopping experience to an increasingly consumer driven assault on the senses in store. The majors have also driven the whole expectation of increased value with twin packs, and constant pricing activity, which has really changed the environment in the last 10 years in Australia."

Supplier

“The reality is each individual licensee runs their own show... Globally we don’t have a huge amount of input and leverage in those businesses, because effectively they’ve grown to maturity in terms of how they operate their business. So they do tend to do their own thing... As long as the brand is kept intact, and they’re very focused on that, we give them a bit of leeway.”

Retailer
New product/service opportunities

With regard to long-term product and service growth opportunities, thought leaders discussed the pressure placed on the industry by grocery retailers. One commonly discussed opportunity that has been successfully introduced into grocery is financial services products, with credit cards and insurance now impulse purchases from the aisles, as well as OTC pharmaceuticals. Thought leaders discussed the longer term potential to incorporate such offers.

Opportunities to further align with QSR and general food outlets (e.g. the Brumbies/On the Run alliance) to extend the site offer were discussed by thought leaders. One possible long-term benefit was becoming a convenience ‘destination’ in the form of ownership or joint venture alliances, with the general view to improve and leverage the forecourt.

“Pharmacy and banking are things that we may see move into the space as an opportunity. In terms of how close we are to that being something which everyone’s looking at, I am not sure... I think everyone’s focused on bringing in, or at least looking to, possible net products and services in stores. I also see it with video stores, the likes of Lucky 7, and their aligning with the likes of Video Ezy.”

Supplier
People

Several issues related to people in convenience retailing were raised by thought leaders, all of which are necessary to the long-term success, competitiveness and professionalism of the industry:

**Retention**: It was noted that the convenience retailing has one of the highest staff turnover rates of all retail industries, which is a huge labour cost. As such, retention strategies were discussed as increasingly important in the short-term, particularly as other retailers (i.e. Bunnings) compete for the same labour pool.

**Quality franchisees**: The importance of skilled franchise owners was also discussed in terms of both the investor and those working within the business (i.e. earning a wage). Effective recruitment will therefore also play a crucial role in the long-term future and even more as the cost of employment rises.

**Customer service delivery and consistency**: Given the variation of in the quality of employees within a franchise network, the difficulty in pushing for a network-wide solution that is aimed at improving frontline service levels was discussed as important in the medium to long-term.
“There’s the franchising side of it and there’s the company side of it. You have the franchising where there is 26 or 27 nationalities in the business. A big percentage of those are from China and India, and then it goes all over the place and becomes very diverse. Obviously from a business and investment point of view, running a business 24/7 takes a lot of time, effort and commitment, from everyone including extended family, or who’s willing to work and put in to make the business viable, for a return that isn’t enormous. People use it and leverage it, for example, to come into the country, get a passport and provide jobs for the family. When you start getting to two, three or four multi franchisees and more stores, it becomes a very viable and profitable business, particularly if you’ve got some big fuel network stores in there. But the single store operator franchisee, whether it’s 7-Eleven, whether it’s Caltex, whether it’s someone else, you’re not going to be able to retire on it. It appeals and attracts a whole vast range of diverse communities to work in there. That obviously creates a perception of convenience, particularly after-hours, at night, and you’ve got a student in there who has been put in because he’s cheap, probably being underpaid, and sitting there with his books and can’t really speak English, but he’s studying away in the background, sitting on a crate. That really is a big issue. The perception around the whole professionalism of convenience, I think, is a really core issue. What that means is that the stores aren’t getting properly serviced in terms of the merchandising, the safety aspect, the energy in the store, out of stocks at night time, product is out, the jump wires on the counter from a selective point of view, the doors being locked at night time because they’re considered not safe, or there are gangs in the area. That type of thing, it all creates a perception around convenience which comes back down to the people, which is a real issue. How do you move beyond that? That’s a big one. That’s a really big one!”
People: A career in convenience retailing?

Several convenience thought leaders discussed the long-term requirement of the industry to **develop convenience retailing careers** in an effort to address many of the ‘people’ issues that have lingered over the past decade. NZ was commented as a market most developed in this regard.

“In New Zealand, for example, you walk into your average BP, Shell, convenience store and often you’ll have people, employees, that have been working in those businesses for most of their working life and it’s been a career… They’ve created a career out of it, so they’re being rewarded accordingly and it’s a different mentality. A career in convenience is just not marketed in that way, it’s seen as a job for someone from India, someone from China, a student, who needs a bit of cash, who’s not going to be paid much money, but it’s a job of convenience for them to do. That’s the sort of perception it’s got from a people point of view. To start creating a perception beyond where it is today and say that there is a meaningful career out of it. But certainly, I think, some of the franchisees in convenience are making big money. Even if it wasn’t necessarily a company story, it may be advertised or promoting through convenience of the success of franchisees within the business. I can think of two or three excellent franchisees who run very good businesses and they’ve got four or five stores between them, and they pay their staff the correct award rate, and they’ve got very happy, loyal staff who have been around a while. That’s a mix of both international and local Australian staff. They’ve been around and there’s a reward structure and there’s career structure in their businesses. So there are examples out there, but do you hear about those? Are they advertised? Are they promoted as such? Not really. I think that potentially is a pathway to help improve it.”
Services: Barcode banking

Several thought leaders discussed the use of additional technology-based services such as barcode banking, which has been introduced by 7-Eleven in California. With this service, shoppers can pay their uniquely barcoded bills with cash at local 7-Eleven stores in less than 60 seconds. The payment is then immediately posted to the customer’s account, and they receive detailed receipts as payment.

With convenience retailers increasingly open 24 hours a day, seven days a week, barcode banking technology was discussed as yet another means of offering the convenience shopper greater flexibility in how and when they pay utility bills. This, in turn, was predicted to encourage future convenience outlet visitation.
Role in the local community

Several thought leaders discussed the importance that a convenience retailing store can play within a local community, which is well-aligned to the consumer demand for “all things local”.

As part of this discussion, it was also suggested that there are many untapped opportunities for convenience stores to engage in local area marketing activities and support local charities, schools and events in building local awareness and customer relationships.

“Convenience stores are local, they are part of the community, all these things are increasingly important to consumers. They employ local people. They’re kind of the heart of a community in some ways... Take away the high visit frequency outlets like a C-store and you actually take away the reason to go to a village high street or urban high street, which would in turn kill the high street and we’ve seen a lot of that in different developed countries. So the purpose is fundamental in being a kind of cement in the bricks of a community. That is almost a default output of the nature of convenience outlets; they cave the other way and the community may start to fall apart because there’s no centre, no hub.”

Franchise operator
THOUGHT LEADER INTERVIEWS: Convenience retailing industry SWOT
Introduction

Overview: Throughout the thought leader interviews, several strengths (S), weaknesses (W), opportunities (O), and threats (T) related to current convenience retailing were identified.

This sub-section provides a summary of these discussions in the form of a SWOT analysis matrix, which highlights where the industry’s strengths and growth opportunities lie, as well as the internal and external elements challenging future growth.

The convenience retailing SWOT matrix can be used to inform industry strategic planning and has been considered in the development of the view of Convenience retailing in the year 2020 (the following section).
**Strengths**
- Convenience is on trend
- Prime store locations
- Forecourt parking
- Some leading brands
- Network scale

**Weaknesses**
- AU & NZ limited population sizes
- Distribution travel distances
- Store experience
- High product pricing and low margins
- Poor customer service standards
- Low customer loyalty
- Slow response to market changes
- Negative food quality perceptions

**Opportunities**
- Changing customer tastes
- New product offers (e.g. food service, consumer electronics)
- Store loyalty programs
- New service offers (i.e. postal, banking)
- Time of day merchandising
- Technological advances (e.g. social media, mobile)
- Growth in cafes, restaurants and takeaway industry
- New distribution channels (i.e. online)
- Strategic alliances (i.e. QSR, Cafes)
- Environmental sustainability

**Threats**
- Margin pressure
- Grocery channel (i.e. margin pressure, declining market share, supply chain power)
- Change in government legislation
- Cigarette category sales decline
- Changing customer base
- Change in population age
- Technological advances
- New distribution channels
- Economic conditions
- Decreasing profits
- Consumer price sensitivity
Australian convenience shopper survey
Introduction

Overview: This section details the results of a survey of 1,000 Australian convenience store shoppers. The survey addressed convenience store shopping attitudes, behaviour and preferences, as well as a choice task to identify the optimal convenience store offer for the future. The survey sample was representation of the Australian population in terms of age, gender and geographic location.

Structure: The survey results are structured around the following three broad sections:

1. Convenience customer segmentation
2. Survey results: By total market and by consumer segment
3. Shopper convenience outlet/offers choice task results

The convenience shopper survey highlights are presented within each of the following sub-sections.
CONVENIENCE SHOPPER SURVEY: Segmentation
Segmentation approach

**Overview:** The consumer survey allowed for the identification of a convenience shopper segmentation. These shopper segments assist in understanding how customers differ in terms of their preferences and behaviour, with the aim of assisting in tailoring marketing, promotional offers and product offerings.

**Highlights:** Two clear convenience shopper segments were found:

1. *The Fuel Shopper* (60%)
2. *The Top-up Shopper* (40%)

Segment membership profiles differed across demographics, as well as visit frequency, spend and shopping purpose.

The two segments are comparatively profiled in the table on the following page.
## Segment profile

<table>
<thead>
<tr>
<th></th>
<th>The Fuel Shopper (60%)</th>
<th>The Top-up Shopper (40%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>Most visits for <em>fuel only</em> (79%)</td>
<td>Most visits for <em>top-up shop</em> (35%)</td>
</tr>
<tr>
<td></td>
<td>Some purchase <em>snacks</em> (5%)</td>
<td>Most likely to purchase a <em>meal</em> (7%, compared to &lt;.05%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>29% <em>also purchase fuel</em></td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>Visit less frequently, but many visit <em>weekly</em> (50%)</td>
<td>Most likely to visit <em>daily</em> (17%)</td>
</tr>
<tr>
<td><strong>Spend (excl. fuel)</strong></td>
<td>Majority (59%) <em>spend less than $5 on a given (only 9% spending over $20)</em></td>
<td>Most likely to <em>spend over $20 on a given visit</em> (39%)</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td>Wide spread</td>
<td>Wide spread</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td><em>Female</em> skew (59%)</td>
<td><em>Males</em> skew (48%)</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td>Wide spread</td>
<td>Wide spread</td>
</tr>
</tbody>
</table>
CONVENIENCE SHOPPER SURVEY: Survey results
CONVENIENCE SHOPPER SURVEY: Survey results: Demographic profile
Demographic profile

Overview: This sub-section presents the demographic profile of the total convenience shopper survey sample, as well as differences by segment membership. Age, gender, employment status, occupation, life stage, and role in grocery buying were captured as key demographic variables in profiling and segmenting the convenience shopper.

Where relevant and significant differences exist, the survey findings are filtered by the abovementioned demographic variables.

Highlights: Top-Up Shoppers were more likely to be younger, with a higher proportion of this segment under the age of 45 compared to the Fuel Only segment.

Having a young family led to more top-up shopping, with a higher proportion of Top-Up Shoppers having a young family. In contrast, a higher proportion of Fuel Only Shoppers were part of an older family, or in the empty nest stage of life, and therefore less need for top-up shopping missions.
Age: While the overall age of respondents was based on ABS quotas, some differences can be seen between the segments. Specifically, the *Top-up Shopper* segment had a higher proportion of respondents aged under 45 years, while *Fuel Only Shoppers* were skewed to 45 years of age and above.
**Gender:** The total sample included a slightly higher proportion of *females* than *males*, which was also reflected in both convenience shopper segments. However, a larger proportion of females was found in *The Fuel Shopper* segment than *The Top-up Shopper* segment, suggesting that females were less likely to visit convenience stores for top-up shopping purposes.
Employment: A spread of respondents with various employment statuses were surveyed, with no significant differences between the segments.
Occupation: A range of occupations were also surveyed, with no significant differences found between the segments.
Life stage: The *Fuel Only Shopper* were more likely to be in the *empty nest* life-stage compared to the *Top-up Shopper* segment. This could be explained by these shoppers not having children, and thus being less likely to need to top-up on items for their family.
Role in grocery shopping: *Fuel Only* and *Top-up Shoppers* were equally likely to be the main, joint, or limited grocery shopper in their household, with no differences seen between the segments.
CONVENIENCE SHOPPER SURVEY: Survey results: Purchase behaviour
Purchase behaviour

**Overview:** This sub-section presents the overall behavioural profile of the convenience shopper, and filtered by the convenience shopper segments. In profiling convenience purchase behaviour, purchase drivers, frequency, spend, and current and potential product types were captured in the survey.

**Highlights:** Overall, the majority of respondents had visited a convenience store within the last few days, with *Top-Up Shoppers* visiting most recently.

The majority of *Fuel Only Shoppers* had spent less than $5 in the convenience store, highlighting an opportunity to encourage in-store purchasing of these shoppers. In contrast, the majority of *Top-Up Shoppers* spent more than $20.

Overall, the majority of shoppers did not believe convenience stores should be able to sell alcohol, although males and younger respondents were more positive towards this possibility.

The main barrier to shopping in a convenience store was premium pricing, consistent across segments and varying demographics.
Recent purchase: Top-up Shoppers were significantly more likely to have made their latest purchase in a convenience store on the *same day* as conducting the survey, or within the *last few days* inline with the nature of this shopping mission. In contrast, Fuel Only Shoppers were significantly more likely to have purchased in the *last week, last fortnight or last month*, highlighting less frequent purchase behaviour.
Primary purpose: Overall, the most common primary purpose for visiting a convenience store was to purchase fuel, particularly for those shoppers in the Fuel Only segment.

As expected most common primary purpose for the Top-up Shopper segment was to purchase a top-up, with less than a quarter visiting the store primarily to purchase fuel.

Purchasing a drink, was the third most common purpose for visiting a store, but the second most common primary purpose for respondents aged 18-24.
Other purpose: Overall, the most common other visit purpose was to *purchase a drink*, although just over a quarter of respondents suggested they had no other purpose apart from their primary purpose.

The major difference between the segments in terms of other purposes for visiting a convenience store was that over a third of the *Fuel Only* segment suggested they had *no other purpose* other than *purchasing fuel*. In contrast, over a third of the *Top-Up Shopper* segment listed a secondary purpose of *purchasing fuel*. 
Recent visit purchases: Overall, the product most commonly purchased on the last visit to a convenience store was *fuel*, which held true for both segments. However, the *Top-Up Shopper* segment were significantly more likely to have purchased *cold beverages*, *chips and snacks*, *magazines*, *groceries*, *food to go*, *cigarettes/tobacco*, *communications products*, and *health and beauty products*, and to have used the *ATM*. Females were more likely to have purchased a *meal* and *basic groceries*, while males were more likely to have purchased *cigarettes and tobacco*, *magazines/newspapers*, or *car maintenance products*. 

![Percentage of sample (%)](chart.png)
Other potential purchases: Overall, a quarter of all respondents said that they would consider purchasing all of the products listed that they had not purchased on their last visit, while only 1 in 10 suggested they would consider purchasing no other types of products.
Spend: Overall, nearly half of all respondents had spent under $5 in their last visit to a convenience store. However, there were substantial differences between the segments. 6 out of 10 Fuel Only Shoppers had spent less than $5 on their last visit, while this was less than a third of the Top-up Shoppers segment.

For these Top-up Shoppers, the most common amount spent in store was over $20. This therefore highlights an opportunity for convenience retailers to target strategies to increase the amount spent in store by those shoppers primarily visiting to purchase fuel.
Should convenience sell alcohol? The majority of shoppers thought that convenience stores should *not* sell alcohol, which was true for both the *Fuel Only* and *Top-up Shopper* segments.

However, significant differences were found between the segments, with a significantly higher proportion of *Top-up Shoppers* thinking that convenience stores should sell alcohol, although a minority. Males, and younger respondents were also more likely to think that the sale of alcohol should be allowed through convenience stores.
Alcohol purchasing from convenience: Whether shoppers would purchase alcohol from convenience stores closely mirrored whether they thought convenience stores should sell alcohol or not, with similar proportions of respondents answering yes or no to each question. Additionally, males and younger respondents were also more likely to say they would purchase alcohol from a convenience store.
Barriers to convenience purchasing: The main barrier to shopping at a convenience store was premium product pricing. Interestingly, *Top-up Shoppers* rated each factor as more of a barrier than *Fuel Only Shoppers*, despite their greater propensity for shopping at convenience stores.
Factors encouraging fuel purchase: Minimal differences were found between segments in terms of the factors encouraging fuel purchase.

Fuel purchasing overall was based primarily on functional elements, with the main factors location of the store and the price of the fuel. Loyalty to a particular brand was seen as the least important factor, which is in contrast to the view of several industry thought leaders.
**Expanded product range (Top 8):** Food products dominated the top new products shoppers believed to be offered by convenience stores, particularly fresh and *healthy options*, with females relatively more positive towards these product types.

The product most thought to be suited to convenience stores was *post office services*. *Top-up Shoppers* had a more positive attitude toward each of the potential product types than *Fuel Only Shoppers*.

However, it must be noted that the overall ratings are relatively similar.
Expanded product range (cont…): The products least seen as potential to be offered in convenience stores were *BBQ packs of meat, on-the-go technology* and *soup-to-go*.

Alcohol was also not seen as a positive potential product, in line with the above findings which showed that the majority of shoppers thought convenience stores should not sell alcohol.
Convenience store assessment: When asked to rate their regular convenience store, shoppers were most satisfied with the safety and security, followed by the payment options available. Shoppers were least satisfied with the in-store promotions and mobile applications available.

Females were generally more positive towards their regular convenience store, particularly the loyalty programs, ambient store factors and social factors.
CONVENIENCE SHOPPER SURVEY: Survey results: Shopper choice task
Shopper choice task

**Overview:** This sub-section presents results of a discrete choice modelling task designed to test consumer preferences convenience stores based on various alternative features.

**Highlights:** Based on this choice modelling, the most important feature of a convenience store was the *products*, with *bakery*, *pharmacy*, and *grocery* products having the most positive impact on the appeal of a convenience store. In contrast, *healthy food options* and *alcohol* were seen as the least important product categories. However those seeking food viewed *healthy food options* as quite important.

*Loyalty programs* was the second most important feature of a convenience store, with *loyalty redemptions* the most important element in this regard, consistent across shopper missions.

A *multichannel offering* was the third most appealing feature of a convenience store. Those with a *fuel or meal mission* saw *social media* and *home delivery* positively, while those with a *non-food mission* preferred *online information* and *mobile applications*. 
Shopper choice task cont...

Choice modelling is an advanced research technique used to assess the value placed on different ‘features’ of an offer. This was included in the convenience shopper survey to model shopper choice of future convenience store alternatives.

The choice task presented survey respondents with a ‘bundle’ of store features, which were informed by the research workshop, thought leader interviews and are comprised combinations of the following individual elements:

1. **Channels**: Ability to find product/service information online, ability to interact with retailer via social media, mobile application providing information, and direct to home delivery

2. **Loyalty**: Loyalty programs (i.e. FlyBuys, etc), loyalty redemptions (i.e. fuel dockets), In-store promotions (i.e. 2 for 1 products), and availability of digital coupons (i.e. via mobile)

3. **Products**: Healthy food options, fresh food, pre-prepared, or ready-to-eat meals, bakery items, alcohol, pharmacy products, grocery products, and organic and fair trade products

4. **Store experience**: Appealing store design, products located together on the shelf at different times of day (i.e. drink and sandwiches located together at lunch), ability to pick-up any goods purchased online (e.g. from eBay), and banking and postal services (i.e. bill payments, stamps)
Convenience shopping missions

A convenience shopper can enter a store with one of many missions. It was therefore relevant to assess the importance of each convenience store feature and the corresponding specific elements (described on the preceding page) across these different shopping missions.

Again informed by the research workshop and thought leader interviews, the convenience shopper survey respondents were randomly allocated into one of four different convenience store shopping missions:

1. **Fuel**: to purchase fuel
2. **Meal**: for breakfast or lunch
3. **Snack**: to purchase a snack
4. **Non-food**: to purchase non-food items, such as communication products
Convenience store choice features

The table below shows the relative importance of the four convenience store features tested in the shopper choice task (NB: This is for the total sample, and irrespective of brand).

By far, the most important aspect for convenience store choice was the *products* on offer, three times more important than *loyalty offers*, as the second most important attribute.

<table>
<thead>
<tr>
<th>Feature</th>
<th>% importance</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>67%</td>
<td>1</td>
</tr>
<tr>
<td>Loyalty offer</td>
<td>20%</td>
<td>2</td>
</tr>
<tr>
<td>Channels</td>
<td>10%</td>
<td>3</td>
</tr>
<tr>
<td>Store experience</td>
<td>3%</td>
<td>4</td>
</tr>
</tbody>
</table>

The relative importance of these features are discussed further in this section.
### Store features: Relative appeal importance

The table below shows the relative preference rankings for factors within each of the convenience store features presented to shoppers.

<table>
<thead>
<tr>
<th>Products</th>
<th>Loyalty</th>
<th>Channels</th>
<th>Store Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pharmacy</td>
<td>1. Programs</td>
<td>1. Online information</td>
<td>1. Pick-up products ordered online</td>
</tr>
<tr>
<td>2. Grocery</td>
<td>2. Redemptions</td>
<td>2. Mobile application</td>
<td>2. Products located based on time of day</td>
</tr>
<tr>
<td>5. Organic/ fair trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Fresh food</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Alcohol</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Healthy food</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Convenience store feature: *Products*

The *products* with the highest impact on store appeal across the overall convenience shopper sample were *bakery items, ready to eat meals, pharmacy products* and *grocery products*. In contrast, *healthy food options, fresh food* and *alcohol*, were significantly less important in the choice of convenience store.

*Bakery items* and *pharmacy products* had positive impacts on store choice across all store missions, but the importance impact of other items varied across shopper missions. For instance, *healthy food options* was a positive driver for those on a *fuel, meal or snack* mission, but was not among those on a *non-food* mission.

*Organic and fair trade* products held relatively little importance for shoppers as compared to other product options in driving convenience store choice, and this was consistent across various missions.
Convenience store feature: *Channels*

The two most important *channel* features were the *ability to find products/service information online* and *mobile application providing information*. Both of these factors had a significantly positive impact on the appeal of a convenience store, highlighting the importance of multichannel retailing in the convenience setting.

In contrast, *home delivery* and the *ability to interact via social media* were the least important factors, with no relative impact on the appeal of a convenience store.

However, differences were found in the appeal of channel features across shopper missions. Specifically, while the ability to *obtain online information* was the most important feature overall, it had no impact for shoppers on a *snack* mission, and *mobile applications*, the second most important feature overall, only had a significant positive impact on consumers with a *non-food* mission.

Furthermore, *social media* had appealed to *fuel* customers and those with a *food* mission, while *home delivery* was a significant driver for all shoppers, except those with a *non-food mission*, despite being relatively unimportant overall.
Convenience store feature: *Loyalty*

The two most important *loyalty* features for a store were *loyalty programs* and *loyalty redemption*. In contrast, offering *digital coupons*, and *in-store promotions* (e.g. 2 for 1 deals) were relatively less important compared to these features.

The relative importance of these features was consistent across the various shopper missions, with *loyalty programs* and *loyalty redemption* consistently the most important loyalty features, and *in-store promotions* relatively unimportant in comparison to these features.

The one variation in loyalty features based on shopper mission was in the relative impact of *digital coupons*, which were a significant driver of store appeal for most consumers, but not those on a *non-food* mission.
Convenience store feature: *Experience*

The *ability to pick up any goods purchased online* was by far the most appealing *store experience* feature for the total sample. In contrast, the remaining store experience features, such as *appealing store design*, were relatively unimportant, and had no significant impact on store appeal.

This result was consistent across the various shopper missions, highlighting the consistent appeal of this *ability to collect goods purchased online*. However, given *store experience* had only a relatively small impact on convenience store appeal overall, the relative importance of this factor was low as compared to other store features, such as the *products* offered and the *loyalty programs* available.
Convenience retailing in 2020
Introduction

Overview: Through a synthesis of the secondary and primary (thought leader interviews and convenience shopper survey) research findings, this section provides an overview of Australian convenience retailing in 2020.

Common themes, strategies and best practices were found across all phases of the research, which informed the view of the future.

Convenience retailing in 2020 is structured in line with the ‘optimal’ convenience store features identified in the shopper survey and complimented by the perspective of thought leaders. Thus, the view of convenience in 2020 is based on the following aspects, in rank order of importance:

1. Products
2. Loyalty
3. Channels
4. Store experience

“In 2020, we need to be most careful with channel blurring so that we don’t lose that point of difference as a convenience store. You can try and be all things in trying to be a supermarket or a hypermarket and compete with all the things that they’re doing. But at the end of the day, for true convenience the point of difference is that consumers can come in, get quick service, make those impulse buys, it is convenient in terms of the location, and they carry not everything, but definitely the right range.”

Retailer
Introduction cont...

Broadly, the retail world has changed significantly in recent years and will continue to do so for some time to come. Some of the convenience industry drivers of change over the past few years have been the economic downturn and market instability, decreased consumer confidence and spending, technology developments, fluctuating fuel prices and interest rates, rising unemployment, and increasing Government regulation. These shifts have, in turn, brought about a number of legal, industry, economic, technological, political and societal uncertainties, such as; the climate change debate, an ageing population, growing consumer power and technological connectedness, and financial market volatility, as well as uncertainties such as oil prices, generational change, and debt levels.

With consideration of these factors, and in light of the research findings, it is possible that convenience retailing in Australia will either progress with little change, or we will see a revolution and reinvigoration. In this section, we take stock of the findings and present a possible future for Australian convenience retailing in 2020, where the category is vastly different from today. If not totally achievable, this section provides inspiration for future strategy planning.
The future convenience store offer

The following features were found most appealing to Australian convenience store shoppers, and therefore form the basis of the ideal convenience store of the future.
Products

The product offering held the most importance and appeal for shoppers in choosing to shop at a particular convenience outlet, with bakery, pharmacy and grocery products the most appealing (reinforcing the role of food products).

This was consistent with the view of global convenience thought leaders, who suggested that an overall enhanced food offering, as well as specific offers in fresh and healthy food. These product categories/extensions were consistently noted as key in enabling convenience retailers to effectively compete with grocery and QSR outlets.

Thought leaders also highlighted future convenience product trends in frozen meals, coffee, and alcohol, as well as varying the product offer throughout the day to appeal to various shopper missions (i.e. mission management) and customising the range to local shopper catchment areas. Several non-food products such as consumer electronics were also recommended.

The convenience store in 2020 will therefore have a product offer based on a comprehensive understanding of the convenience shopper, their missions, and that is differentiated from grocery and QSRs in a bid to become a shopping destination in its own right.
Loyalty

Following on from the convenience product offer, loyalty was the second most important store feature for convenience shoppers. Most appealing were the loyalty programs offered, and loyalty redemptions available, such as fuel discounts.

Thought leaders suggested that a focus on loyalty was a good way to enhance the overall customer experience and engagement, and to obtain customer intelligence to use in tailored offerings. The convenience loyalty program was discussed as needing to be industry-wide, crossing multiple brands and outlets, and focused on product offers and promotions beyond fuel.

However, several barriers were noted in the delivery of customer loyalty offers in store, however these could be overcome with greater store staff education and customer awareness.

The ideal convenience store in 2020 would therefore offer collaborative customer loyalty programs and redemptions beyond the fuel mission and based on specific (i.e. individual) shopper needs and convenience missions, therefore enhancing the overall convenience value proposition.
Channels

The distribution channels employed in convenience retailing was the third most important factor driving store appeal and choice. The most appealing elements for convenience shoppers were the ability to access information online and mobile applications. This was consistent with the view of thought leaders, who suggested the future requirement to employ multichannel retailing and the use of the online channel specifically in becoming “truly convenient”.

While social media was not highlighted in the shopper survey, thought leaders saw this channel as an ideal future platform in offering convenience shopper interactivity and engagement, and in linking other channels together.

Additionally, while home delivery was not rated highly in the shopper survey, ‘click-and-collect’ services linked to general online shopping was a future phenomenon identified by thought leaders in line with overseas development and success in this regard.

Therefore, convenience retailing in 2020 should offer a variety of channels for shoppers to engage with the brand and store across information search, purchase and communication behaviours.
Store experience

Overall, the in-store experience was seen as a hygiene factor by convenience shoppers, with relatively little importance as compared to other store features. However, this may be attributed to the current and generally low standard of the convenience store experience as compared to other retail industry sectors.

Thought leaders suggested enhancing the store experience as a key way to encourage convenience store visitation, through atmospherics elements such as music, scent, and design, as well as additional service offerings such as banking, postal services, in line with global trends. Thought leaders also predicted a store experience (i.e. design, product and service offer) that reflects environmental sustainability and greater efficiencies such as through payment technology; stores may not operate with cash; “By 2020, there will be no real cash dealt within the business” [Retailer].

Freshly prepared food will also call for larger format stores with more comprehensive kitchen facilities, chairs and tables for in-dining, and perhaps no front counter. The people aspect of the convenience store in 2020 will also need to be well-managed to offer a professional and consistent level of customer service.
Store experience cont...

“"It could well be a scenario where there are no people in the shop at all, it could be a vending-type scenario where you walk at the pumps... the technology is available right now to go to the pumps, fill up your car and while you're standing there, there could be a menu and you say “Yeah, I need a packet of smokes, I need some milk, I need some bread, I need some butter” and you key it all in at the pumps and there's a vending machine that spits it all into a bag for you. You can do it right now... Just like one big, giant vending machine!”

Franchise operator

“Rather than being a useful destination because of its relative location, the convenience store must become a destination from the wider catchment, which is useful... Only then will you get a symbiotic relationship where people come for the coffee or for the sandwich, but then we go through a mental stage of thinking ‘well what other missions can I cluster onto this channel?’”

Consultant
Key trends and best practice
Introduction

Overview: As gleaned through the secondary research and thought leader interviews, this section discusses the key trends and best practice strategies in convenience retail globally.

Structure: In terms of convenience retailing global trends and best practice, five broad themes were identified and frame this section: consumer shifts, products, marketing and communications, technology, and environmental sustainability.
KEY TRENDS & BEST PRACTICE: Consumer shifts
Eating out of home

In 2011, newfound growth post the GFC has been seen across the cafes, restaurants and takeaway industry. This trend presents several key implications for convenience retail:

- ‘Time-of-day’ merchandising: involves altering the location of stock and the nature of promotional offers throughout the day. For instance, coffee, newspapers and breakfast bars are key selling products during the morning period, while confectionery goods and other snacks are in high demand during the afternoon. Such strategies have been used in Japan, the US and Canada where they have proven to boost store sales.

- Demand for freshly prepared food: for consumers, ‘fresh’ is not often associated with convenience stores. However, in recent years, international convenience stores, particularly in the UK and Europe are expanding their range to include fresh food products. Common products include fresh bread, deli items, pastries, organic food, custom made sandwiches and fresh fruit.
Global time poor consumers

- Factors such as technology, instantaneous communications, accelerated social diffusion, and an increased willingness to accept change, are driving time poor consumers in search of options that add time to their day. Consumers are therefore, turning to ready-made meals as a fast and convenient alternative to home cooking or dining out.

- With the worst of the recession fading, Europeans are more willing to pay for convenience. Changes in household structure including a rise of single and shared households, is driving consumers to seek out convenient meals for one.

- In countries such as China and India, which historically have more relaxed lifestyles, longer meal breaks and vacation periods, are increasingly adopting fast-paced lifestyles due to the booming economy.

- With the marriage rate in Japan declining, the national demographic is increasingly being skewed towards singles. The effects of living a stressful and frantic lifestyle has made home-cooked meals a hassle for single households. (Euromonitor International, 2011)
Hired help: Taskrabbit

The time poor trend has paved the way for services that provide ‘runners’ to perform tasks for busy people. For example, TaskRabbit allows users to post tasks on the TaskRabbit website, along with what they are willing to pay. Runners then bid on the task, and the ‘sender’ makes his/her choice based on price, speed and runner user reviews. Grocery shopping and assembling IKEA furniture are two of the most common requests. The service is currently available in Boston, New York, Chicago, Los Angeles, Orange County, and San Francisco. Currently Taskrabbit facilitates over 4,000 tasks a month with an average customer satisfaction score of 4/5. (Euromonitor International, 2011)
Willingness to pay for convenience

- A recovering economy, longer working hours, long distance commutes and an increasing number of career-oriented individuals means that people have less time to worry about daily chores. Spending time in queues has also quickly become an unpopular activity.

- From ready meals to mobile shopping to media-on-demand, consumers are yearning for convenience, even at a price.

- When choosing a local convenience store, consumers tend to seek out a chain that they can trust, one that provides outstanding customer service, and most importantly, that has a clean, well-lit store environment.

- Shoppers often avoid convenience stores due to safety concerns, poor customer service, an unwelcoming store environment and a limited product range.
Co-creation

- Co-creation is the practice of developing new systems, products, designs, or marketing through the collaboration of brands with consumers external to the organisation.
  - This trend is essentially shifting the power from producer to consumer

- At its core, co-creation enables customers to:
  - Engage in challenging tasks
  - Share their knowledge with producers
  - Sense of contribution

- Co-creation empowers and engages the consumer. For instance, coffee chain, Quick-check, allows customers to create their own coffee.
Co-creation: QuickChek

QuickChek, which operates 125 food store locations throughout New Jersey and New York, launched the iLoveMycoffee.com interactive website in January 2011. iLoveMyCoffee.com invited users to ‘build-your-own’ coffee concoction between January 3 and March 20 for a chance to win a year's worth of free coffee and to have the winner's face and coffee recipe featured on QuickChek coffee cups. Customers can tailor their favourite drinks by mixing any of QuickChek's range of coffee, cappuccino and hot chocolate options and adding their own unique combination of milk, sweeteners and toppings.

Users can also access the "Follow the Fixins" interactive coffee memory pattern game on the microsite and play for a chance to win coupons and a variety of QuickChek prizes. As of early March 2011, the site had just over 10,000 visitors. Although the contest is over, iLoveMyCoffee.com remains active.
DEATH BY CHOCOLATE CINNAMON

By Jen Winkler, about 1 month ago. Rank: 1

INGREDIENTS

- CHOCOLATE MACADAMIA NUT
- CINNAMON ROLL
- (1) NATURAL SUGAR
- (1) CINNAMON

VOTE

SHARE THIS RECIPE ON FACEBOOK

SHARE THIS RECIPE ON TWITTER

EMAIL A FRIEND THIS RECIPE

PRINT THIS RECIPE
New generations

- Emerging consumer generation, Generation Z (Gen Z), also known as the ‘Net Generation’ or ‘Digital Natives’, have witnessed widespread use of the Internet, gadgets, games, and social networking sites.

- Research has found that Gen Z are more dependent on technology than any other generation. Technology such as the Internet, smartphones, social media sites, online shopping, Skype, iPads, game consoles, and cameras all play a key role in their daily lives (Business Asia, 2011).

- As part of the technology mix, Gen Z are likely to demand email, text, mobile marketing, location-based marketing, and Quick Response (QR) codes. It will be up to retailers to implement such applications effectively in order to gain high returns from this particular generation.

- It should also be noted that Gen Z tend to be very open about their personal lives and hold strong opinions about brands. As a result, they have a high propensity to share their thoughts online, mostly via social media.
New generations: Tesco introduces Wi-Fi

- Many young generations, particularly Gen Z, expect retailers to offer free Wi-Fi access in their stores.
- In recognition of this trend, Tesco currently offers its customers free Wi-Fi Internet service in selected stores. Tesco shoppers are then able to compare prices and read product reviews.
- Many other outlets including Starbucks and McDonalds, offer free Wi-Fi to their customers. The theory behind free Wi-Fi is that the more time customers are sitting at tables, the more money they are going to spend in-store. Many retailers with this service have noticed increased store traffic.
- Schlotzky’s, a casual sandwich chain in the US, found that more than 40 percent of its customers say free Wi-Fi or the free use of in-store computers is the primary reason they visit the restaurant (Wired UK & Observer Tech Beat, 2011).
New generations: 7-Eleven

In May 2010, 7-Eleven partnered with Zynga (an online gaming company) to offer, Farmville, Mafia Wars and YoVille branded items on many of the convenience retailer’s products. Approximately 7,000 stores in the US and Canada were involved in campaign and it was the first retail tie-in for Zynga, allowing millions of consumers to redeem exclusive virtual items within Zynga games during a six-week period. Users were able to purchase specially marked 7-Eleven products to receive a redemption code that could be used for a new, limited-edition virtual good.

The 7-Eleven Zynga partnership, provided millions of Zynga fans and regular players with access to incentives on more than 30 products in-store. The campaign was successful in bringing Zynga fans into stores with exclusive items for Zynga games. Not only did 7-Eleven successfully target a previously untapped niche market, but a group of passionate gamers who were very open to the brand (7-Eleven, 2010).
Customers lining up at a 7-Eleven store during the Zynga promotion
KEY TRENDS & BEST PRACTICE: Products
Private label

- For many consumers, private labels are considered an attractive and cheaper alternative to branded goods.

- Supermarket sector - 50 percent in the UK and 23 percent in Australia
  - 38 percent of Australians are buying more grocery private label brands than a year ago
  - 50 percent are buying the same
  - 62 percent of consumers say the quality of private label products are as good as regular brands (Eye on Australia, 2010)

- Other retail industry sectors include convenience (7-Eleven), clothing (Myer Miss Shop), stationery (Australia Post Office Supplies), beauty (Priceline Savvy Cosmetics), homewares (Big W House & Home) and pharmacy (Terry White).

- Shoppers are continuing to buy private labels, post GFC, taking permanent market share from national brands.
Healthy alternatives: McDonald’s

In response to declining sales, McDonalds Australia made a significant effort to counter negative public perception by launching its healthy food Salads Plus menu in 2003. In addition, McDonald's mounted a campaign promoting its national Open Doors day in July 2003, which offered Australians the chance to see how McDonald's burgers were really made. One of their aims was to kill the host of urban myths about McDonald's products including ‘milkshakes made from pig fat’. Despite slow sales in the first six months, marketing initiatives help lift sales significantly. In late 2003, McDonald’s expanded its range to include cereal and yogurt. Since its inception, McDonald’s has reported average growth of 15 percent per annum and in 2005, McDonald’s achieved record revenues of $20 Billion.
Healthy alternatives: Baby Carrots

Bolthouse Farms, the company behind Baby Carrots, launched a campaign, "Eat 'Em Like Junk Food," in September 2010 in two test markets in the US. Three television spots aired, as well as a web series, *Munchies.* Display ads, printed in supermarkets presented Baby Carrots as "the original orange doodle," and billboards suggested never fear carrots and beer. Bolthouse Farms also installed Baby Carrot vending machines at a two high schools. By November, sales in Bolthouse Farms test markets were up 10-12 percent over the year before, compared to minimal improvement in the control group. The vending machines were selling 80 to 90 snack packs per week; a number of schools have approached the company about installing their own machines, and Bolthouse Farms is investigating what it would take to scale vending into a real business. Bolthouse Farms announced early this year, that there are plans to expand the campaign to other markets.
Ready-to-go meal solutions: Couche-Tard

“Couche-Tard Menu” is a self-service convenience store concept for prepared and ready-to-eat meals and fresh food items. Stores are organised around a central counter, stocked with cold drinks and grab-and-go food. A section of standard Couche-Tard convenience store products, as well as ready-to-eat products are also stocked in-store. A food advisor in each store is available to help customers with their selections while ensuring that the products offered meet Couche-Tard’s rigorous quality and freshness criteria. “Menu” is part of Couche-Tard's efforts to lift foodservice sales from five percent in traditional stores and to 20 percent at the Couche-Tard Menu stores. Couche-Tard spent US$2 million renovating its eight existing stores to implement the new concept in Montreal, Canada.
- Sushi
- Soup
- Smoothies
- Pizza
- Pasta
- Wraps
- Coffee
- Sandwiches
- Fajitas
- Sorbets
- Yoghurt
- Dessert
- Pastries
Alcohol in grocery stores: Aldi

Discount supermarket retailer, Aldi was recently granted approval to sell alcohol at 34 of its stores across NSW, as well as online and by phone. With existing rights to sell liquor in VIC and ACT, Aldi still awaits approval to sell in other stores. Aldi stores in VIC have sold alcohol since 2003 and the ACT since 2007. Stores in NSW will feature a dedicated area for approximately 75 alcohol products, with majority being Aldi branded products. Aldi states that the move for alcohol within its stores is about providing their customers with a convenient shopping experience all under one roof. A number of authorities and community groups including NSW Health were concerned that the sale of the liquor at such low prices would exacerbate alcohol-related health issues. To combat this, Aldi earlier this year became the first Australian retailer to partner with DrinkWise.
Co-branding: Tim Hortons & Mirabito

Canadian quick-service restaurant chain, Tim Hortons, recently signed a new development agreement with convenience store chain, Mirabito to open 44 co-branded convenience and gas locations throughout New York by 2012. The new co-branded stores will be comprised of both self-serve and full-serve restaurants. Mirabito recently revamped its existing convenience stores with new store interiors to incorporate the Tim Hortons Cafe & Bake Shop brand. Tim Hortons appeals to a broad range of consumer tastes, with a menu that includes premium coffee, flavoured cappuccinos, specialty teas, home-style soups, fresh sandwiches, wraps, hot breakfast sandwiches and fresh baked goods.
KEY TRENDS & BEST PRACTICE: Channels
Digital coupons

- In 2009, the growth rate of digital coupons outpaced paper coupons by a factor of more than 10 to 1.
- More than 300 million consumers around the world will have used mobile coupons by 2014 generating a redemption value of £6 billion globally.
- Redemption rates are high for mobile coupons, at 15 - 25 percent compared to 1 percent for paper coupons.
- Australian retailers are starting to use social media to distribute coupons. Last year, a Melbourne company launched a social media site called Myzerr, whereby retailers can set up a page to promote coupons for free. Users can then download their coupons, follow their favourite retailers and share the coupons with friends.
- In the US, some of the best coupon deals can be found at convenience stores including CVS, Walgreens and Rite Aid.
Digital coupons cont...

- US convenience store, Spinx, is active in the digital coupon space. The use of Twitter helps draw customers to the Spinx website for printable coupons or to inform them about current specials. The retailer is also testing mobile couponing including a mobile application that allows coupons to be retrieved from a mobile phone (see following page).

- Group buying giant, Groupon recently acquired 60 million global subscribers. Since its launch about two years ago, the daily deals site achieved a valuation in excess of US$1 billion - the only other start-up to have achieved this was YouTube.

- Another major player is Living Social, which recently raised an additional US$400 million of funding on top of the original US$175 million it gained from Amazon in December 2010. The deal values the site at more than US$3 billion.
Digital signage

Digital signage is described as video or multimedia content that is displayed in public places for informational or advertising purposes. A digital sign usually consists of a computer or playback device connected to a large, bright digital screen, such as an LCD or plasma display.

Digital signage can be seen in department stores, schools, libraries, office buildings, medical facilities, airports, train and bus stations, banks, auto dealerships and other public venues. If the display is connected to a computer, the data on the screen can be updated in real time by means of an Internet or network connection.

A survey conducted in 2010 by digitalsignage.net found the following to be the main perceived benefits of digital signage:

1. Faster message reach to target audience (51%);
2. Instant message change (48%);
3. Improved audience experience (38%);
4. Revenue generation- through advertising (37%);
Digital signage: 7-Eleven

7-Eleven convenience stores across the US have created one of the country's largest broadcast TV networks, which is expected to reach more than 200 million viewers per month. Harris, communications and information technology company, will manage content production and advertising sales for the 7-Eleven TV network, as well as provide hardware, software and managed services to Digital Display Networks. The network has already been deployed in 500 stores, a number which will rise to 6,200 under the US$75 million deal, and features 24-7 content, including news and weather, entertainment and advertising. In Australia, Aeris Solutions in conjunction with Moving Tactics have installed trial digital signage at 7-Eleven stores in Melbourne. The four screens are located at the ATM, which is designed to capture the attention of waiting customers.
Vending

- The development of electronic payment technology is opening up vending to higher-priced products and increasing the channel’s convenience factor.
- iPads, high-speed Internet, ATM’s and self-service check-in at airports, are driving consumers expectations for instant gratification. According to Euromonitor (2011), unpackaged drinks (i.e. hot drinks) are forecast to be the strongest growing vending category over the 2008-2013 period.
- Interestingly, Russia will be the most dynamic market, in line with a local growing taste for coffee instead of tea, demonstrated by a rise in the number of specialist coffee shops during 2002-2007, which increased by 168 percent.
- Confectionery and crisps remain the mainstay of public packaged foods vending, however recent demand for healthier packaged foods has created opportunities for the vending of alternative low calorie products.
To highlight the consequences of poor work safety practices, WorkSafe Victoria brought to life the terrifying nature of workplace incidents with the launch of a vending machine designed to sell spare body parts named, *The Body-O-Matic*.

A vending machine where customers can purchase an iPod by using the touchscreen to select and pay for the product.

Source: Toxel.com
Vending cont...

Bike Dispenser allows customers to rent a bicycle from one vending machine, ride it to their destination, and drop it off at another vending machine.

Vending machines conveniently located in clubs and restaurants around London sell comfortable Rollasole ballet flats.
Vending: Best Buy

In 2008, Best Buy installed vending machines inside airports, in order to appeal to travellers. Products include media players, mobile phones, digital cameras, portable gaming devices, accessories, headphones and Best Buy gift cards.

Source: Mark Gandy CFO.com
Kiosks

- In-store kiosks provide retailers with another channel for customers to access products. Benefits of in-store kiosks:
  - Ability to order and pay for goods
  - Provides cross-selling opportunities
  - Free up space on the selling floor and in back-rooms
  - Easier to maintain an effective level of store inventory
  - Offer new ways for customers to interact with salespeople

- Retailers are also partnering with other businesses to offer customers more than what is physically available in store. Recently, Ticketmaster partnered with Walmart to place ticket kiosks throughout Walmart stores in the US. The partnership allows fans to purchase and print out tickets directly through the kiosks and offers exclusive deals to Walmart shoppers.
Kiosks: Wawa

US convenience store, Wawa, installed self-service kiosks in more than 500 sites, indoors and outdoors, and next to fuel pumps where customers can order products. Powered by Radiant systems, Wawa has seen significant improvements in both new item promotions and add on sales, and an increase in customer satisfaction. More than 65 percent of customers rated the overall experience, ease of use, and speed as very satisfactory.
Online shopping

- 2009 online retail sales:
  - **Australia** - $24 billion (PayPal, 2010)
  - **US** - US$155.2 billion (Forrester, 2010)
  - **UK** - £30.6 billion (Forrester, 2010)

- Overall, Australian online retailing will reach $36.8 billion by 2013

- Sales in the US are expected to grow by 60 percent from 2009 to US$248.7 billion in 2014

- The 2011 PricewaterhouseCoopers (PWC) online shopping report states there has been a 13 percent increase in the amount spent online last year, and predicts it will rise to $21.7 billion by 2015. The report estimates that just under half of this is being paid to overseas stores
Multichannel retailing: Farm stores

Within the convenience sector, a trend is emerging which allows shoppers to order online and pick-up in-store. In Australia, this has already been implemented with Coles and Woolworths offering such service. Another example is US convenience retailer, Farm Stores, which offers drive-thru convenience outlets. Under the Farm Stores iExpress service, customers can order online and pick-up their order from 17 selected Farm Stores located throughout South Florida. Customers simply select a date and time to pickup their order, as well as the closet Farm Store location. All groceries are stored, frozen and refrigerated until they are picked up.
Social media

Recent growth of social media has been phenomenal and it is no longer sufficient for a retailer to ignore such communities and conversations. We are now in a participation age, where consumers are seeking interaction and are sharing product reviews and brand experiences. The opportunity for retailers lies in the fact that Australian shoppers are more likely to share positive experiences with their peers as opposed to other cultures, such as in China, where people are more likely to share negative opinions when interacting in social media platforms (Nielsen, 2010).

Further statistics from Nielsen (2010) include:
- 74 percent of the world's Internet users visit social media platforms; YouTube, Wikipedia and Facebook are three of the top seven platforms visited;
- Time spent using social media rose 210 percent from 2009 to 2010;
- Average time spent on Facebook and Twitter increased 200 percent and 368 percent respectively; and
- Twitter has had phenomenal growth at 579 percent in annual unique visitors.
**Social retailing**

Social retailing is the next evolution in social media, whereby shopping meets social networks and consumers are encouraged to communicate across channels about the products and services they are interested in.

A recent study in the US surveyed 10,000 visitors of the biggest retail websites, and found that:

- 56 percent of shoppers have elected to *friend, follow or subscribe* to a retailer on social sites such as Facebook, Twitter, and YouTube.
- Facebook is, by far, the best place to reach shoppers. More than half of everyone who shops online uses Facebook, and of those online shoppers who engage in social media, more than 80 percent use Facebook. However, half of the top online retailers have a minimal Facebook presence.
- 49 percent of respondents who *friend or follow* companies through social media do so to learn about special deals and options and 45 percent of users want to learn about products.

*Source: WGSN 2011*
Social media: Kwik Trip

Kwik Trip, a petroleum and convenience store retailer with 425 locations in the US, has embraced social media to allow its customers to access up-to-date information about its chain and promotions. Kwik Trip uses Twitter, Facebook, YouTube and email to communicate with their customers. Within six months of using Facebook, the chain had acquired more than 7,700 fans. All social media channels are linked, which allows the brand to keep the brand message consistent.
KEY TRENDS & BEST PRACTICE: Stores
Smaller format stores

Recent years have seen the smaller format stores become more prevalent, with many benefits over larger stores including:

- Consumer experience in large retail establishments is becoming increasingly unattractive
- The amount of time it takes to negotiate the seemingly endless aisles in a larger store is a drawback to time poor shoppers
- Bigger stores usually means longer lines
- The larger size of the store takes away from personalised service and does not allow for a product assortment tailored to a particular demographic niche
- Travel time to a large store can be considerably more than just visiting a local store

The growth in online retail is also a key driver in smaller store footprints (Booz & Co, 2011). A study conducted at the University of Southampton found that if consumers can access the same quality of fresh food and product ranges locally as they do in larger supermarkets, they will divert their top-up shopping closer to home.
Smaller format stores: Waitrose

In the UK, Waitrose opened small format convenience stores (3,000 square foot) that focus on a fresh food offering. Waitrose found that their customers purchase everything they need for the next 24-48 hours. Therefore, the smaller format stores focus on three key areas:

- Food to eat now: bread, sandwiches, salads, deli products, individually wrapped cakes
- Food to take home and eat later: quick & easy meal suggestions, fresh meat and fish ranges, restaurant style dishes
- Everyday items: health and beauty, cleaning products
Hybrid convenience stores

- Hybrid convenience stores provide both convenient shopping and comfortable dining services, with chains in Taiwan, such as 7-Eleven and Family-Mart, providing tables and chairs of bar style seating within their premises for customers.

- Hybrid convenience stores can be categorised into three types:
  - Traditional stores with outdoor café styled patio dining tables and chairs/benches
  - Those equipped with wireless network service and an indoor, bar-shaped table with bar stools next to the deli section, and
  - Those with an internal dining area/section whose layout and atmosphere resemble that of a modern fast food restaurant.

- A hybrid convenience store will appeal to a modern urban market with consumers who prioritise speed, efficiency and convenience. However, it must be seen as a fast and hygienic alternative to a traditional restaurant.

- These hybrid stores are seen as ‘hang outs’ by teens who find the products affordable and prefer to socialise at the 24 hour stores. Some stores also have power outlets so customers can charge their mobile phones or laptops and access free Wi-Fi.
KEY TRENDS & BEST PRACTICE: Marketing and communications
Mobile applications

- There is a growing consumer attachment to mobile devices, used increasingly as a valuable tool for research, comparison shopping and retailer interaction.
- Smartphone adoption is increasing exponentially and by 2015, smartphone penetration in Australia is tipped to reach nearly 62 percent of all mobile phones. It has been suggested that by 2012 usage of Internet enabled mobile devices will overtake online PC browsing.
- Consumers are increasingly using their smartphones for m-commerce, mobile geo-locator applications, mobile loyalty cards, mobile gift cards, and mobile coupons.
- Murphy USA, is a convenience retailer with more than 1,100 convenience stores nationally. The retailer offers an app that features up-to-the-minute fuel prices at its store, as well as surrounding competitors. The text-messaging service warns subscribers a few hours before prices go up and also offers mobile coupons.
Mobile applications: Domino’s:

Domino’s pizza GPS delivery app is different from the typical Domino’s application, during its creation, Dominos’ highlighted three specific points for this app - easy, GPS, and coupon.

- **Easy**: The app is well designed and comfortable to use. After customers log into their Domino’s Pizza web account, they can place an order for any item on the Domino’s menu.

- **GPS**: The customer is then prompted to pick their delivery location. Customers can use the GPS function of the iPhone to automatically pick up their location. Once their location appears on the map, customers can move it around to pinpoint a different location for pickup including a park or public building.

- **Coupon**: The app also includes a simple game where customers can slice a pizza into evenly sized slices, with the points won from the game used to buy coupons.
Loyalty and reward cards

- Loyalty and rewards cards are commonplace in retailing.
- A recent study by the marketing firm, Maritz, determined that consumers who are part of a customer loyalty program, are more likely to spend more money than non-members.
- Ikea Family is also a community focused program, with rewards offered in-store, at home and online. In-store customers can receive offers such as free hot drinks, exclusive product, and meal savings and an extended return policy. Each time a customer loyalty card is swiped at the checkout, Tesco Ikea donates $0.10 to charity.
- Tesco’s Clubcard is Britain’s most successful loyalty card scheme. In 2009, one in two households in Britain owned a Clubcard. For every £1 spent, the customer earns one point towards cash vouchers, which can be redeemed either in store and online. Customers are also sent coupons for products they frequently buy, as well as for selected products that Tesco believe the customer may be interested in, based on their previous shopping purchases (Sunday Times, 2009).
Loyalty and reward cards: Rutter’s

Pennsylvania-based convenience store chain, Rutter’s Farm, is enticing shoppers with a sweepstake promotion on its loyalty card programme titled, Rutter’s Rewards. The Register, Scan and Win Sweepstakes promotion will award more than 1,000 prizes to customers each month through 2011. Prizes include free petrol for a month, a free cup of coffee or soup for one year, Rutter’s gift cards and large-screen TVS. Rutter’s Rewards is free to join at any Rutter’s store and can be registered online or their mobile application. Customers who use their rewards card will continue to earn cents-off-per-gallon savings when they purchase any items bearing a Rutter’s Rewards icon.
KEY TRENDS & BEST PRACTICE: Environmental sustainability
Environmental sustainability: Burgerville

US fast food chain, Burgerville, has adopted local product sourcing and community involvement as part of its ethos and corporate culture. The chain has been in existence since the 1960s, and is committed to supplying its customers with local, seasonal and organic food options. This often means that produce is only offered when it is in season. The retailer recycles its canola oil into biodiesel fuel after use, invests in a wind-generated electricity program, and encourages staff, with its composting and recycling scheme. While their food may be priced marginally above other chains, it can be justified by the extra effort involved.

For example, the burgers are made from pastured vegetarian-fed and antibiotic-free beef. The eggs are from cage-free hens that have never been treated and even desserts and sides rely on seasonal, local ingredients - blackberry milkshakes are only available in season. The group is clear on the good business sense an environmental focus makes; with double-digit same store sales increases in 2006 and 2007 (Burgerville, 2009).
Environmental sustainability: 7-Eleven

7-Eleven in Japan has found success with an eco-friendly store prototype that they will officially open in 100 different locations in 2011. The green stores use LED lighting, solar-powered electricity and reflective flooring. The roof mounted solar panels will account for a third of the stores’ electricity, and sensors in the indoor lights will automatically adjust the lights when less power is needed. The main obstacle to the green convenience stores, called eco-konbinis, is the price. 7-Eleven said that it costs as much as 30 percent more to build than a normal 7-Eleven. About 5,000 stores in Taiwan operate as eco-konbinis, and stores in Malaysia, the Philippines and Hong Kong are trialling LED lighting. In 2009, the first environmentally sustainable 7-Eleven opened in Florida, US.
Environmental sustainability: MotoMart

Town MotoMart, which opened in 2009, contains a number of energy efficient elements, including Kalwall, insulated translucent skylight panels to allow for natural light and energy efficient hand dryers in the restrooms. The store’s cold vault features LED strips that require 50 percent less electricity 75 percent less energy compared standard fixtures. MotoMart compared its New Town store to an almost identical site it owns. In comparing the energy usage of the two stores, in 2010, the analysis showed the LEDs resulted in a reduction of 121,620 kilowatt hours (kWh) for the year. MotoMart estimates that it will take about 3.8 years to get a return on investment for the LED displays at the New Town site. As a result, all new MotoMart stores will include LEDs, and the company plans to retrofit 3-4 stores a year on average with LED lighting.
Environmental sustainability: Rutter’s

Rutter’s Farm Store’s also features cutting edge energy efficiency at its locations. Its Fayetteville store opened, which opened in May 2011, marks its “greenest” store to date. The store features a white reflective roof, triple glazed tinted windows, heater-less doorframes and 22 skylights. The store’s restrooms a fixed with an infrared detector that provides light when body heat is detected. The exterior of the store is illuminated with LEDs and its car washes, reclaims and reuses about 85 percent of all wash water. Measuring two comparable stores, Rutter’s found a 38 percent saving in electricity thanks to the LED lighting alone.
KEY TRENDS & BEST PRACTICE: Technology
Biometric fingerprinting

- The technology is point of sale (POS) based on using two-factor authentication process, in which a finger scan takes the place of the card swipe, as well as the customer enters in a PIN number.
- In the US, biometric payment has gained popularity in grocery stores, petrol stations and convenience stores. An online poll conducted in October 2010 by the Unisys Corporation, revealed that consumers trust fingerprint biometrics over photo identification, PIN numbers or handwritten signatures to verify their identities when using a credit card or requesting personal information.
- The results indicate increasing consumer acceptance of biometric technologies to secure financial transactions and combat identity fraud.
QR codes

- The QR code is continuing to infiltrate daily life, acting as a key element in bridging the gap between online and offline content. Globally, mobile barcode scanning traffic increased over 800 percent from April 2010 to April 2011.
- By embedding a mobile barcode on a billboard, consumers are able to interact with the advertisement.
- QR codes can contain information in both vertical and horizontal directions and can hold much more content in a smaller place than standard barcodes. In New York, this technology is being seen in the windows of a number of retailers including Bloomingdale’s, Barneys and Macy’s (WGSN, 2011).
QR codes: Tesco

Grocery giant, Tesco has combined mobile phone technology and convenience in creating a virtual grocery store on a train platform. Hoping to raise the convenience for commuters in South Korea, Home Plus (Tesco) launched a series of virtual stores on subway platforms that enabled people with a smartphone to shop. The virtual stores displayed images of items found in a standard Home Plus shop. QR codes were placed on each product, enabling commuters to take a photo of the code and add in the merchandise to their virtual shopping basket. The total order was then delivered to the customers door once they returned home. During the campaign, Tesco saw online sales increase by 130 percent, with over 10,000 customers trying out the concept.
Home plus subway virtual store

BACKGROUND
In South Korea, Tesco Homeplus has a fewer number of stores compared to No.1 company E-mart. Koreans tend to shop in stores near their homes just because it’s more convenient and reachable. As a result, No.2 company Tesco Homeplus had to overcome the obstacle - a fewer number of stores.

MISSION
Could we become No. 1 without increasing the number of stores?

IDEA
Let the store come to people!
We created virtual stores hoping to blend into people’s everyday lives. Our first try was subway stations. Although virtual, the displays were exactly the same as actual stores - from the display to merchandise. Only one thing was different, people use smart phones to shop.

This is how it works.
1. You scan the QR code of product with your phone,
2. The product automatically lands in your online cart.
3. When the online purchase is done, it is delivered to your door right after you get home.

RESULT
People can shop at Tesco Homeplus wherever they go, not having to visit the actual store. Moreover, they could change their waiting time to shopping time. After this campaign, online sales increased tremendously. 10,287 consumers visited the online Homeplus mall using smartphones. The number of new registered members rose by 76%, and sales increased 130%. Currently, Homeplus has become No.1 in on-line market and is a very close 2nd offline.
iPads in retail

- Tablet devices are becoming increasingly prevalent in society, with 21 percent (and rising) of mobile traffic coming from tablet use (WGSN 2011). There are five main ways iPads are being used in retail:

1. **Self-service kiosks:** customers can unlock content, find out about product information, browse merchandise and surf social networks.

2. **Assisted selling:** purchase history, new products and videos can be uploaded to the iPad. It is used to assist the retailer in showcasing other products that may currently be out of stock or only sold online. It can also be helpful in comparison shopping, customers can sift through various items comparing various elements such as price and style.

3. **Customer relationship management:** iPads can also be used to sign up customers for promotions and email alerts either at the register or in the hands of employees. They can store previous customer purchases and up to date loyalty card information.

4. **Customisation:** customisation can easily be achieved on the iPad as customers can take control of the design process from jewellery to sneakers. It is a new and empowering experience and in the end the customer receives an item tailored to them.

5. **Point-of-sale:** retailers have begun using iPads to eliminate long queues and create a self service option for customers.
Contactless payment

- Australians have a strong appetite for contactless mobile phone payments, according to the results of a four-week trial released by ANZ and Visa, with almost 90 percent of participants saying the trial either met or exceeded their expectations.

- Participants in the trial found mobile payments to be a convenient and easy replacement for fumbling for cash, ideal for fast, simple transactions such as a coffee or newspaper.

- To be able to use the technology customers must download an application and install a microchip into their phone cover.

- The application must be activated in order to pay.

- Currently the payment option can be used on purchases under $100.00.

Sources: Visa Asia & Inside Retailing
Contactless payment: Caltex

Caltex has partnered with Commonwealth Bank to install contactless readers in 387 Star Mart convenience stores throughout Australia. Commonwealth’s readers will accept both MasterCard and Visa contactless payments, eliminating the need for customers to enter their PIN or provide their signature. According to ZDNet, Caltex plans to expand the technology beyond metropolitan areas to include a further 393 stores by the end of the year, bringing the nationwide total to 780. (Contactless news 2011)
Contactless payment: Starbucks

Starbucks has launched a mobile payment program in all of its US company-operated stores, which allows customers to pay for in-store purchases by scanning a barcode on their mobile. The mobile payment application is built as an extension of the Starbucks card. In addition to the mobile payment capability, the app allows customers to manage their Starbucks Card account, check their card balance, reload their card, check their My Starbucks Rewards status and find a nearby Starbucks store with the store locator feature. From Starbucks’s perspective, the initiative further elevates the customer experience by delivering convenience, rewarding loyalty and continuing to build an emotional connection with their customers. Since its launch, more than three million users have paid for their products using the Starbucks Card Mobile app.
Contactless payment: Starbucks
Mobile payments

- Research conducted by GfK in April 2011 tested the appeal of mobile payment services in nine markets: Brazil, China, France, Germany, Italy, South Korea, Spain, the UK and the US.

- A significant universal finding from the research was that trust is the biggest driver of service preference and is the most important factor influencing the adoption of mobile payments.

- The benefits of mobile payment fall into two broad categories:
  - **Convenience:** Consumers find mobile payments offer a quick and simple method of paying small purchases.
  - **Ecosystem Integration:** There are a number of benefits of mobile payments compared with using a contactless card. A mobile phone offers a user interface where consumers can interact with their account via Apps or in a browser. Apps also interact with other applications and mobile services, such as location, consumers could be offered promotions on products of interest in stores nearby, based on previous purchases. In addition, product recommendation engines can be developed by either suggesting products to consumers based on previous purchases or linking an account to a social network site, so that the consumer can receive tips on what their friends have bought.
Mobile payments: By Country

Source: GfK
Automated convenience: Shop24

All Seasons Services recently unveiled its first Shop24 automated convenience store in the US, expanding its operations from Europe to seven countries. Shop24 offers 24-hour access to as many as 200 items, including milk, batteries, iPod download cards, and health and beauty aids, in a freestanding, self-service, outdoor unit. To date, Shop24 has seen its popularity grow outside of the US, with over 60 million consumer transactions recorded in 160 locations in seven countries throughout Europe. Consumers can create a "Shopping List" and purchase products either with cash, ATM or credit and debit cards by entering the product code on an interactive screen. A robotic arm then collects the product and delivers it to the 'take-out' gate within 20 seconds. Shop24's product portfolio includes fresh and chilled products, as well as other pre-packaged grocery and convenience products.
Research summary
Key findings: Need for change

Polarised view of need for change: While some respondents thought no real change was necessary for convenience in Australia, others thought it was absolutely essential for survival of the industry.

Shift of focus from petrol: A common element of change discussed was a need to follow global best practice and shift the focus of convenience away from petrol and on to the in-store experience and product offering.

Convenience slow to react: Despite changing trends in the market, particularly in relation to consumers, convenience retailers were seen as slow to react across Australia, NZ, and, to a lesser extent, Asia.

7-Eleven a benchmark: Across a number of markets, particularly Australia and Asia, 7-Eleven was seen as a leader in terms of understanding consumer segments and store space utilisation.

Japan the global leader: Japan was seen as the global best practice leader in terms of convenience stores, particularly utilisation of store space, fresh food product offerings, sophisticated and insightful product promotions, and network consistency. However, it was also noted that Japan was somewhat unique given the low density of supermarkets.
Key findings: Past decade

Past decade dominated by consolidation and changing consumer needs: At the forefront of the change over the past decade was the consolidation of convenience stores and an expansion of the major players in a number of markets. Changing consumer preferences and behaviour have also impacted the industry, with a continued and growing need for convenience while placing pressure to alter store locations and design, as well as a growing health consciousness heightening the demand for fresh and healthier food options.

Internal and external competition: While primary competition remained with other convenience stores, growing competitive pressure stems from outside the direct industry, particularly from grocery players who have been (and will continue to) focused on convenient aspects. Growing competition has also come from QSR outlets as convenience stores have moved to a greater focus on on-the-go food offerings.

Changing product range: The convenience store product offering has been evolving, particularly around food in incorporating fresh and healthy options.
Key findings: Short-term future

Operational pressures apparent: Thought leaders identified a number of short-term trends which would impact the operations of convenience retailers. Specifically, changing regulations were predicted to impact the sale of tobacco, environmental behaviours and pricing, while competition from grocery was suggested by many to require a rethink of store operations and greater collaboration between convenience store retailers and/or suppliers.

Continual product evolution: The convenience product offering was predicted to continually evolve in the short-term. The focus of this evolution was primarily on food in the need to offer quality healthy and fresh food options, as well as coffee. Being permitted to sell alcohol was also desired by a number of retailers, and seen as a further means to compete with grocery majors, as was further product differentiation such as ‘on the go’ technology.

The ever-changing consumer: Consumer needs and shopping habits were predicted to continue changing in the near future. Thought leaders predicted a continued increase in value and health consciousness, as well as a continued increase in the frequency of grocery shopping but reduction in basket size, providing a key opportunity for convenience retailers.
Key findings: Long-term future

**Innovation is key:** The long-term future trends discussed by thought leaders were framed within innovation, particularly in product offers, distribution, the store environment, and customer engagement. Specifically, convenience retailers need to be innovative in their supplier, and even competitor, relationships to successfully address increasing competitive conditions.

**Mission management, the environment and supply chain on the agenda:** Operationally, thought leaders saw a key need to adopt mission management as a medium term strategy. This involved developing the store and product offer in line with common shopper missions, as well as potentially changing promotions throughout the day. Environmental sustainability was also seen as a key trend on the horizon, but one with less urgency. Supply chain efficiencies were also noted as key into the longer term.

**The age of technology:** Technology was seen as a key element of the medium to long-term future of convenience retailing. Specific advancements were multichannel retailing (including social media and mobile).
Key findings: Long-term future cont...

**Vast changes in-store:** A number of changes were predicted to occur in stores by industry thought leaders. As part of this change, store merchandising was paramount, particularly by time of day in line with shopper missions. The store experience was also predicted to undergo a number of changes, particularly in providing a more engaging shopper experience. QSR style food, financial services and pharmaceutical products were discussed in this context. The development of convenience stores as ‘destinations’ and the offer of ‘click and collect’ services was also seen as a long-term store-based convenience trend. Finally, thought leaders identified a need to consider and manage the people aspect of the store environment in the future, so as to enhance retention and overall customer satisfaction.

**Shopper engagement is key:** In terms of shoppers, the major long-term trend discussed by thought leaders was the need for better engagement and interactivity via new technologies. Thought leaders predicted this occurring through the localisation of product offerings, as well as enhanced loyalty programs and available technology.
Key findings: Convenience SWOT

Thought leaders identified a number of common SWOT elements, as follows:

**Location the major strength:** The major convenience retailing strength lies in the vast network size and store locations in accessing a wide number of shoppers.

**High pricing and the store experience major weaknesses:** The higher prices in the convenience industry as compared to grocery, combined with lower unit margins, were major weakness for convenience retailing, as was the currently un-engaging and uninspiring store experience.

**Many opportunities identified:** Many opportunities were identified by thought leaders, including the potential to offer new services (e.g. postal or banking), use of new distribution channels, and changing consumer preferences.

**Internal and external threats:** Threats to the convenience retailing were both internal to the industry, such as margin pressures and changing consumer preferences and shopping habits, as well external pressures in changing legislations and a push from the major grocery chains in adapting stores and product offerings to target the convenience shopper.
Key findings: Shopper survey

Key highlights from the convenience store shopper survey were:

**Majority shopping for fuel only:** Segmentation analysis found the majority (60%) of consumers visiting convenience stores primarily did so only to purchase fuel, with the remainder (40%) visiting for top-up purchases. Older respondents were more likely to visit primarily for fuel, as were ‘empty nesters’. Younger consumers were more likely to visit for a top-up shop, as were males.

**Regular visits to a convenience store are common:** The majority of consumers (60%) had visited the store within the last few days of completing the survey, and this proportion was even higher (82%) for the Top-up Shopper segment. This confirmed the key strength of convenience retailing discussed by thought leaders as frequent visitation outlets.

**Amount spent in store varies by segment:** Fuel Only Shoppers predominantly spend very little in the convenience store itself, with 61% spending less than $5 on their last visit. In contrast, 42% of Top-Up Shoppers spent over $20 in their last visit to a convenience store. This highlights a key opportunity for convenience retailers in better engaging and maximising the amount spent in store by those consumers visiting primarily to purchase fuel.
Key findings: Shopper survey cont....

**Alcohol not commonly supported:** Nearly two-thirds of shoppers (64%) believed that convenience stores should not be allowed to sell alcohol, and the same proportion said if it was, they would not buy alcohol from a convenience outlet. This was in contrast to thought leaders interviewed who suggested that selling alcohol is a positive move in convenience retailing.

**Price the key barrier to purchase:** The largest barrier to purchasing products from a convenience store was the perceived premium pricing. The *Top-up Shopper* segment rated this as a significantly higher barrier than the *Fuel Only* segment, likely based on more regular experiences of product pricing in store.

**Neutral view of new products:** Consumers were generally neutral in their view of the appeal of potential new product categories to be offered in convenience stores, although the *Top-Up Shopper* segment were somewhat more positive than *Fuel Only Shoppers*. Post office services were viewed most positively across the overall sample, however the *Top-Up Shopper* segment rated freshly baked items and grocery products most positively. A difference in perspective was found between these results and the qualitative interviews, thought leaders suggested these new products, as well as healthy food options.
Key findings: Shopper survey cont...

A choice task was also presented to consumers to determine the relative preference for various features of a potential convenience store offer.

**Products in-store the key:** The *products* offered within a convenience store was the key driver of the appeal of a particular outlet, with three times more in importance than *loyalty* offers (the second most important driver). This was followed by the shopping *channels* available, which recorded half the relative importance of *loyalty*, and a sixth of the importance of *products*. Finally, the *in-store experience* had only a minimal importance. This was inconsistent with industry thought leaders, who suggested an absolute need to focus on the in-store experience to better engage the shopper.

**Pharmacy and bakery products most preferred:** Overall, *bakery items* and *pharmacy products* were viewed as the most positive convenience food extensions among shoppers. *Healthy food options* were also viewed positively by all shoppers, except those on a specific non-food mission. This supported findings from the thought leader interviews, which also highlighted the possible inclusion of other services in a convenience store, such as OTC pharmacy products and fresh or healthy food options.
Key findings: Shopper survey cont...

**Digital channels desired:** Within the channels offered, online information and mobile applications were seen as relatively more important than social media or home delivery. However, those on a fuel or meal mission viewed social media and home delivery also positive. This highlights the need for convenience retailers to consider multichannel retailing, as discussed in depth in the thought leader interviews.

**Store experience not important:** Overall, the in-store experience was not a big driver of convenience store preference for consumers. However, the ability to pick-up goods purchased online from within the store was seen as a positive, and was preferred over an appealing store design, products being located on the shelf at different times of the day, and banking and postal services. This was somewhat inconsistent with the thought leader discussions, which suggested the need to create an appealing store design and to reorganise the store and its merchandise according to different times of the day around the shopper mission.
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Australasian Association of Convenience Stores

The Australasian Association of Convenience Stores (AACS) provides a platform for suppliers, retailers and associated businesses within the Australian convenience industry to develop their individual businesses, whilst providing training and education for staff. AACS is a recognised source for information by the Government, media and other interested parties on issues affecting the convenience industry. AACS provides a range of services including:

- Networking events that allow members to discuss current issues impacting the convenience industry
- Promoting the needs of the industry through effective and credible lobbying and the provision of information
- Industry forums, study tours, store simulation training and the annual scholarship program
- Publishing and distributing the annual ‘State of the Industry’ report
- Access to current and relevant information on issues affecting the industry e.g. health, safety, sustainability, tobacco and gambling regulations, etc.
Australian Centre for Retail Studies (ACRS) is a specialist retail research centre within the Department of Marketing at Monash University. ACRS has a long history of working with retailers in Australia and globally across four broad areas:

- Commercial research: both consumer-based and business-to-business, commercial-in-confidence and propriety research
- Thought leadership research: bringing retail trend and consumer insights to the global retail sector
- Executive education: customised programs developed and delivered by our team of experienced retail educators and facilitators
- Retail best-practice study tours: showcasing new retail innovations and concepts around the globe commissioned by retailers and industry engagement seminars