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Power-Up Your C-Store

Four Dynamic Actions for Customer-Driven Pricing, Promotions, and Loyalty

The Convenience Store industry is growing fast but unevenly, and competitive challenges abound. Now is the time to use pricing to win more trips, more profits, and greater customer loyalty.

Power-Up Your C-Store

FOUR DYNAMIC ACTIONS FOR CUSTOMER-DRIVEN PRICING, PROMOTIONS AND LOYALTY

THERE'S PLENTY GOING RIGHT for the convenience store industry of late.

If the current spate of store openings is any indication, the convenience store industry knows this well. But challenges loom too, as retail disruption, declining trips and rising expenses put pressure on profits. How will winners separate from the pack?

- C-Store industry gross profits increased 6.1% in 2017, but total expenses increased faster, by 7.7% per store per month, according to CSX.

- Store visits have fallen an average of one trip per person per week (-27%) from 3.6 in 2014 to 2.6 in 2017, NACS reports.

- In 2017, all of the top 10 merchandise categories, inclusive of tobacco, saw positive dollar sales growth, driving total forecourt sales to a record $237.0 billion through 155,000 locations, according to data published by NACS.

EXPENSES OUTPACE PROFITS

6.1%

7.7%

Profit Increases **Expense Increase**

YoY Trends

SOURCE: CSX
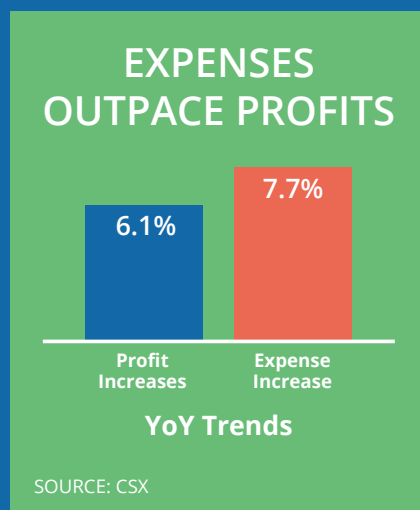
- As a sign of industry optimism, a recent report from IHL Group estimates that 85% of C-Store companies anticipate net store count growth for the full year 2018, while just 3% expect net store closings.

- Over the first seven months of the year, IHL reports gross sales in the convenience/gas sector were ahead 14.8%.

C-STORE GROWTH TREND 2018
C-Store Chains Planning

83%

3%

Net Store Growth **Net Store Decline**
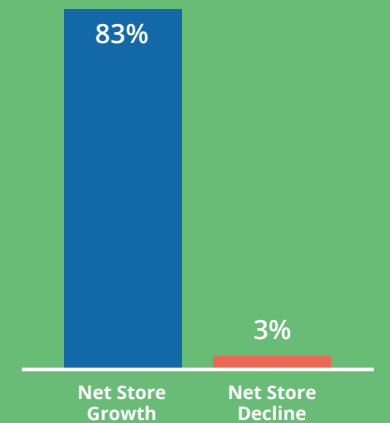
SOURCE: IHL Group

Isn't it time to start pricing to win more trips and customer loyalty?

This guide from Clear Demand outlines four core pricing management opportunities convenience store operators can pursue to earn greater customer loyalty with sustained profitability in today's highly dynamic marketplace.

Read on, and visualize a more customer-centric and profitable future...

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Great Disruption, Great Opportunity

THE PRESENT C-STORE EXUBERANCE is occurring at a high-water moment for most of retail. In the first half of 2018, Walmart, Target, Kroger, Aldi and the dreaded Amazon led the market with record sales increases, reflecting a broad upturn in the consumer economy.

There have been a few high-profile casualties of late too, most prominently last year's Toys 'R' Us and Radio Shack bankruptcies, the slow decline of Sears/Kmart, and store closings at numerous apparel and grocery chains.

Early in 2018, some commentators were calling this restructuring a "retail apocalypse" and blaming it on the "Amazon factor," the rise of digital/ mobile selling and home delivery. What does this mean for convenience store operators?

With profound change comes both great disruption and great opportunity.

So is now the time to think more seriously about your overall pricing capabilities and strategy?

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C-STORES BY THE NUMBERS:

$550B
TOTAL SALES
2017

$237B
INSIDE SALES
2017

+14.8%
YOY SALES
JAN-JULY 2018

155,000 stores

-27%
WEEKLY STORE VISITS
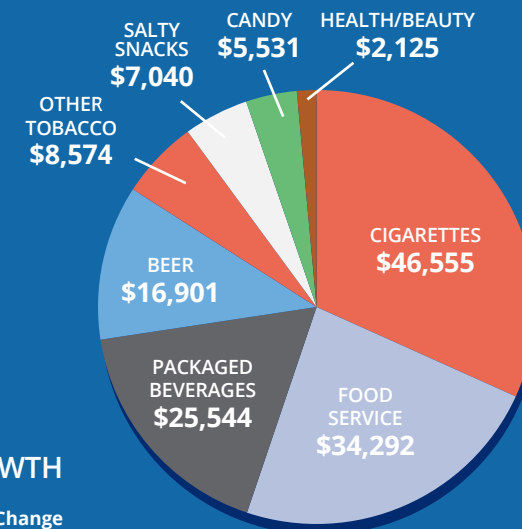2014 - 2017

Not All Categories Are Equal

AGAINST A MOSTLY GOOD ECONOMIC BACKDROP, convenience stores confront a wave of unprecedented challenges, driven by changing consumer trip behaviors and a continually-churning competitive environment.

To understand this fully, consider that convenience stores are really several differently-performing businesses under one roof (NACS):

Tobacco products, still the largest portion of in-store sales at 34.1%, continue to decrease in units as cigarette consumption declines. The category contribution to margins, however, is less robust at just 17.1% of gross profit dollars in 2017.

Food service, including hot and dispensed beverages, account for 22.5% of in-store sales, but contribute 33.9% of gross profit dollars.

Non-alcoholic packaged beverages accounted for 15.8% of revenue dollars and 20.1% of gross profit dollars.

Beer accounts for 12.4% of revenue in C-stores where it is sold (8.5% overall).

Snacks and candy contribute significantly as impulse and promoted purchases.

Gasoline sales remain by far the largest contributor to total sales in the 123,000 stores where it is sold, accounting for 57% of total industry revenues.
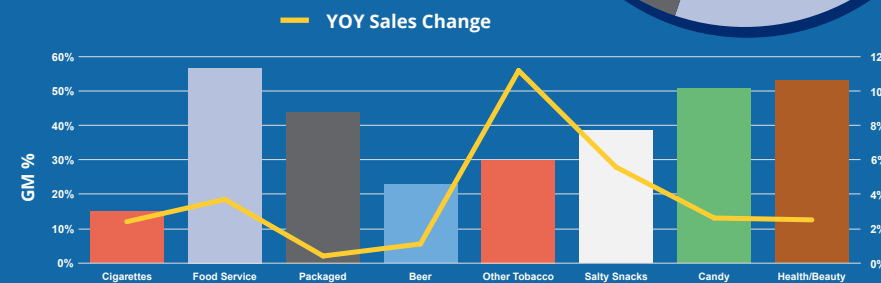
C-STORE SALES BY CATEGORY

AVERAGE MONTHLY SALES PER C-STORE (2017)

SALTY SNACKS **$7,040**

CANDY **$5,531**

HEALTH/BEAUTY **$2,125**

OTHER TOBACCO **$8,574**

CIGARETTES **$46,555**

BEER **$16,901**

PACKAGED BEVERAGES **$25,544**

FOOD SERVICE **$34,292**

LEADING IN-STORE CATEGORIES (2017)

AVERAGE GROSS MARGIN AND MONTHLY SALES GROWTH

— YOY Sales Change

GM %

Cigarettes | Food Service | Packaged Beverages | Beer | Other Tobacco | Salty Snacks | Candy | Health/Beauty

SOURCES: NACS/Research/Fact Sheets; 2018 NACS State of the Industry Summit

These trends occur at a time when gasoline gallons are declining due to increased fuel efficiency, expansion of alternative fuels, and a general decline of hours spent driving due to things like ride-sharing and generational preferences.

Each of these major categories requires a specific and rigorous and timely pricing discipline, to conform with regulations, tax codes, corporate guidelines, promotions and loyalty objectives.

With costs and competition exerting more pressure, pricing execution is a major pain point for C-Store operators. Mistakes can be costly in terms of profit margins and lost sales, while obscuring performance data that can be crucial to running your business.

USE ANALYTICS

For Intelligent Pricing

WITH AN AVERAGE TRANSACTION COUNT OF 1,100 SHOPPERS PER STORE PER DAY (NACS), every visit presents an opportunity to deliver shopper satisfaction, learn something about shopper response, obtain customer insights, and earn a fair margin.

Do you track and understand the insights your guests give you every day from their store visits? How about responses to in-store price changes and advertised promotions? Do you understand the price gaps between different sizes of the same product? Do you track the price elasticity of your key categories and SKUs?

What insights are locked within your vast flows of POS data but eluding analysis?

Rethink Convenience

Shopper habits and expectations are changing fast, along with the very definition of convenience.

It's always been largely about location and time-saving, and shoppers are spending less time than ever in stores. The U.S. Bureau of Labor Statistics reported a 12-percent decline in the time customers spent shopping for consumer goods from 2004-2014.

In the mobile era, speed sometimes trumps price, or even location. Witness the current growth of app-based delivery services, like Grub Hub or Uber Eats. And all eyes are nervously watching the Amazon Go test store in Seattle that features "just walk out" technology designed to save customers precious seconds formerly wasted at the point of sale.

Convenience stores have long made the most of location as a core traffic strategy. Grab and go snacks, food service, beverages and smokes may seem immune to digital price competition. *But are they really?*

THERE'S GOLD IN YOUR DATA

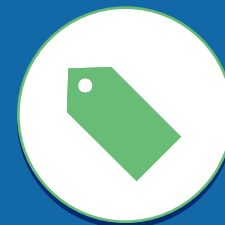Key sources of continuous business intelligence for C-Stores

POS TRANSACTION DATA
- Basket details
- $$ spending
- Promo lift

SHOPPER LOYALTY DATA
- Visit frequency
- Spending level
- Offer response

COMPETITOR PRICING & PROMOTIONS DATA
- Everyday prices
- Competitor deals
- Online Deals

INVENTORY & ERP OPERATIONAL DATA
- Stock levels
- Cost of Goods
- Seasonal factors

Refine Your Price Image

A RETAILER'S PRICE-VALUE REPUTATION depends on its consistent attention to its "price image." This describes the perception a shopper forms about a retailer's prices based on multiple transaction experiences.

Price image is a quantitative measure of the difference in value between the average purchased goods and the price paid in total. Certain products weigh heavier in the shopper's mind than others, so it is possible to improve price image while also improving margin.

Your prices send a message to your shoppers. What do you want to tell them?

A few highly visible prices can make or break your price image.

Aim too high on a key value item (KVI) and your shoppers may conclude that your entire store is expensive. Aim too low and you sacrifice margins and make it harder to raise prices later.

Price inconsistently across a line or within a category and shoppers may be confused or suspicious. Price too far above your competitors and you may miss a purchase – and never learn why. Price too far below a competitive item and you leave money on the table.

Price image translates to shopper trust, which is the foundation of loyalty and the pathway to increased visits and larger baskets or transactions.

WHERE CUSTOMERS GET YOUR PRICE MESSAGE MOST

Tobacco and Fuel prices are the most highly visible, highest-impact influences upon your overall price image.
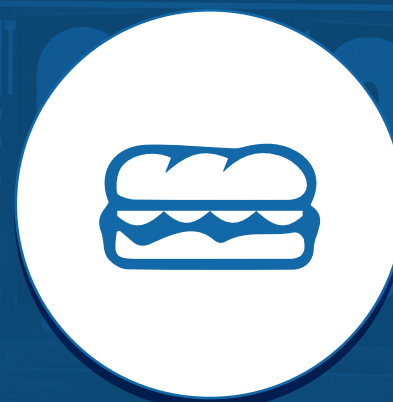
But other categories, notably food service and packaged items, are gaining in importance.

FOUR ACTION STEPS

For C-Store Pricing Success

Price matters more than ever with C-Stores.

Convenience store operators stand to benefit greatly from better pricing and promotions discipline.

Customer-driven pricing makes it all happen.

In the next few pages we go a bit deeper to outline the **Four Key Action Steps** where customer driven pricing can drive value and make a meaningful difference.

FOUR ACTION STEPS FOR C-STORE PRICING SUCCESS

1 PLAY BY THE RULES

2 PROMOTE SMARTER

3 EARN CUSTOMER LOYALTY

4 FIND MARGIN OPPORTUNITIES

1

PLAY BY THE RULES

Play by the Rules

FOR EFFECTIVE PRICING AND IN-STORE EXECUTION.

Every retail pricing decision is bounded by a variety of hard and soft constraints, such as margin, regulatory requirements (like state minimums), competitor prices, price gaps between brands, price parity across size, and promotional frequency and discounts.

Since weekly store price changes in controlled categories like tobacco and beer can be strictly mandated by complex local regulations and tax rules, a pricing system must be both effort-saving and highly accurate to be accepted by a Convenience Store organization.

No doubt, convenience stores are generally more rules-bound than most other retailers, so their pricing systems must be

configured to sometimes put compliance ahead of pure margin goals. This is a non-trivial matter that challenges managers using spreadsheet-based processes on a daily basis.

Automating this process requires a system that can cope with and resolve numerous conflicting priorities to deliver a price file that managers can trust and readily apply. To be highly effective, it should support the operational excellence needed to manage store-level pricing complexity with speed, consistency and efficiency.

A world-class solution should:

- Manage brand/size and competitor price differentials for maximum profit and price reputation.

- Include mechanisms for prioritizing rules and resolving conflicts, including selective "rule softening" driven by rule priority and context.

Pricing Rules can account for the following

- Margin
- One Price Zone to Another
- Competitive Index
- Price Families
- Size Parity
- Product Line (good, better, best)
- Brand Relationships

- Price Change Amount (max/min % or absolute)
- Number of Price Changes (% or absolute)
- Ending Numbers ($1.99)
- Pricing of Multiples (3 for $5)
- Regulation Compliance

CHECKLIST

✓ Does the Price comply with applicable regulations?

✓ Does the Price meet our competitor strategy?

✓ Does the Price conform with management's margin standard?

2

PROMOTE SMARTER

ACTION STEP 2

Promote Smarter

AND MORE PROFITABLY WITH EFFECTIVE FORECASTING, MODELING AND DESIGN.

Promotions are important to drive customer traffic, increase the size of the transaction, and build customer loyalty, but they can undermine category profits if not well designed. It is essential to identify which items are worth promoting and which will actually have a negative impact on margins.

When a price promotion is designed with a "volume at any cost" goal, the results are predictable, but not in a good way: An early
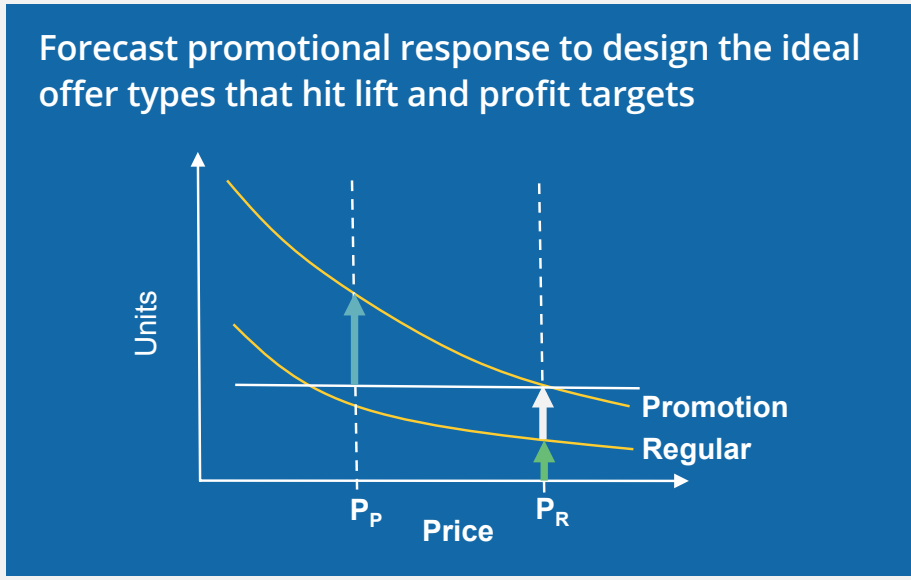
bump in volume, too often ending with an out-of-stock situation before the next order is delivered and with a negative impact on gross margin.

Convenience stores have an opportunity to improve promotion planning and performance using an advanced pricing solution. Machine learning can enable deeper understanding of customer response and the design of offers that deliver desired sales lift without sacrificing profits.

Modeling response with an understanding of price elasticity and interaction effects will help with setting the effectiveness of promotions, and determining what discounts will deliver the best overall response.

The benefits become even more pronounced when designing two-fer, combos and other complex promotions currently popular in convenience stores. Machine learning enables reliable forecasting.

Forecast promotional response to design the ideal offer types that hit lift and profit targets

Units

Promotion
Regular

P_P Price P_R

CHEESE ON THE GO!

CHEESEBURGERS
2 for $3

IT AIN'T EASY BEING CHEESY!
Limited time offer!

3

EARN CUSTOMER LOYALTY

ACTION STEP 3

Earn Customer Loyalty

WITH RELEVANT, PERSONALIZED PROMOTIONS AND RELATIONSHIP BENEFITS.

Enhance loyal shopper behavior for inside purchases – not just convenience, but also great values every day

Convenience store operators are investing in card-based and card-less loyalty programs with the aim of encouraging repeat visits, increasing transaction sizes, attracting trade funds, and capturing detailed sales analytics. This is done to build a more targeted and profitable long-term relationship with customers.

Convenience stores have a vested interest in capturing more trips and larger more profitable transactions. To earn loyalty from shoppers, retailers must show loyalty to shoppers with a compelling every-day value story and interesting offers. Trusted and consistent pricing is one of the most effective ways to get the message across.

To support their loyalty efforts, C-Store operators manage pricing in several ways:

- **PRICE IMAGE**
  Gain a reputation as a place for great value every day.

- **SHOPPER RETENTION**
  Build trust to earn repeat patronage over the long haul.

- **MORE VISITS**
  Promotions and everyday prices can give shoppers more reasons to stop in.

- **LARGER TRANSACTIONS**
  Value prices can lead to larger baskets.

Loyalty programs open a value-added communications channel with customers. Consistently dependable prices are a core element of your trust message to shoppers. They define whether your stores are perceived as a valued resource or just the nearest place to stop at a given moment.
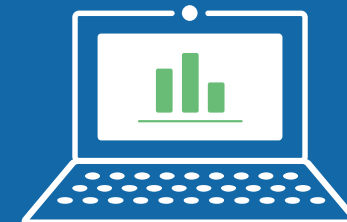
Machine learning can be used to identify personalized offers for loyal customers to drive more frequent shopper visits and larger basket sizes.

Greater lifetime customer value is the payoff.

Your loyalty program can yield a trove of data that is relevant to your pricing strategy:

- **DEMOGRAPHIC**
  who shops your stores

- **BEHAVIORAL**
  how often, what time of day

- **MARKET BASKET**
  what items they buy

- **LIFETIME CUSTOMER VALUE**
  how much they spend

4

FIND MARGIN OPPORTUNITIES

Find Margin Opportunities

AND IMPLEMENT FOR PRICE OPTIMIZATION ON RELEVANT ITEMS.

In the C-Store sector (unlike the grocery channel), everyday price optimization is not usually the option of first resort. Rather it should be pursued "mindfully," since rules management may be the primary focus, especially in key categories such as tobacco and beer.

Pricing constraints such as product line and pre-priced item prices may further limit an optimization process.

Rigorous rule application will deliver meaningful sales and margin benefits.

Across the entire convenience store assortment, however, there will be numerous opportunities to identify and capture specific increments, using classic margin optimization methods.

Machine learning can target categories and items based on shopper behavioral response. This enables convenience stores to manage overall gross margins using POS and other data analytics to identify profit opportunities that will not adversely affect store traffic.

OPPORTUNITY CURVE
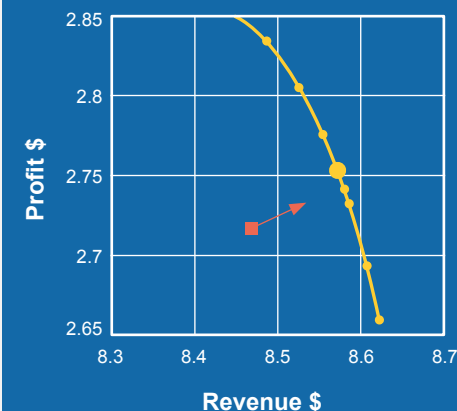
Many C-Stores miss out on additional profit or revenue opportunities by pricing products below the "efficient frontier" where the best balance of revenue and profit can be struck.

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SUMMARY:
Four Action Steps

RULES MANAGEMENT AND COMPLIANCE are very clearly significant priorities for the convenience store sector. Like price optimization, these should be scientific too. Legacy practices that rely on spreadsheets or manual data entry are no longer sufficient to support a competitive retail business.

Take advantage of the learnings proven in other channels over more than a decade. Leading-edge pricing solutions have moved far beyond the "black box" to embrace machine intelligence with transparency and ease of use.

Convenience store operators should pursue a pricing technology that lets you advance in the four Key Value Areas:

1 RULES
Apply complex, sometimes-conflicting hard and soft rules with priorities controlled using machine learning.

2 PROMOTION
Use analytics based on a more accurate forecast to identify the best products and offers for driving traffic and building baskets.

3 LOYALTY
Personalized promotions can attract more shopper trips and larger value, resulting in greater lifetime customer value.

4 OPTIMIZATION
Selectively apply price modeling to identify margin opportunity items after all rules are satisfied.

Today's fully-featured price management solution is available, accessible, affordable, and fits comfortably into the business operations of most convenience store operations.

THE TIME HAS COME FOR CONVENIENCE STORES TO EMBRACE CUSTOMER-DRIVEN PRICING AND ADVANCED ANALYTICS.

1 PLAY BY THE RULES

2 PROMOTE SMARTER

3 EARN CUSTOMER LOYALTY

4 FIND MARGIN OPPORTUNITIES

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Convenience Store Operators

It's time to price to win.

In a strong business climate, there's no more opportune time to implement an advanced pricing system that uses machine learning to manage rules, configure promotions, build shopper loyalty, and fine-tune profit margins.

Forward-thinking operators will act decisively to consolidate their advantages to avoid losing ground to new online and app-based concepts who are seeking to redefine the meaning of convenience with new ordering and delivery services.

Are you ready to make your pricing work harder for you?

This guide provides a brief look at the four key value areas where convenience stores should insist on top performance from a pricing solution vendor.

CLEAR**DEMAND**

Clear Demand delivers more value faster to retailers by helping them optimize their pricing and merchandising initiatives. This is accomplished through the most accurate science, the easiest to adopt products, leading innovations in machine intelligence, and a partnership model that delivers industry best practices and processes. Customers benefit from a large return on investment (ROI) and greater shopper loyalty. Architected on big data and delivered as a software-as-a-service (SaaS), Clear Demand's Intelligent Price Maintenance and Optimization (IPMO) solution utilizes machine learning and can be administered from a public or private cloud. See how Clear Demand can support your retail pricing, promotions, and markdown strategies by visiting **cleardemand.com**.