

# Convenience Stores

## *Industry Snapshot*

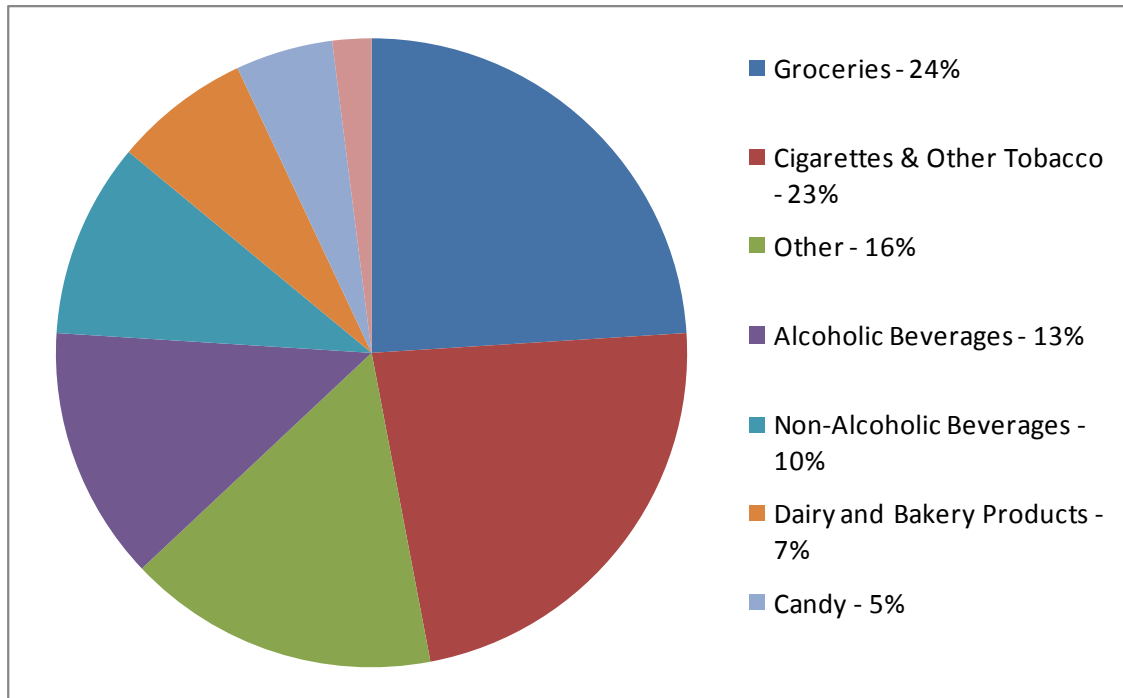


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## Industry Segments

A convenience store is a retail business with primary emphasis placed on providing the public a convenient location to quickly purchase from a wide array of consumable products (predominantly food or food and motor fuels) and services<sup>1</sup>.

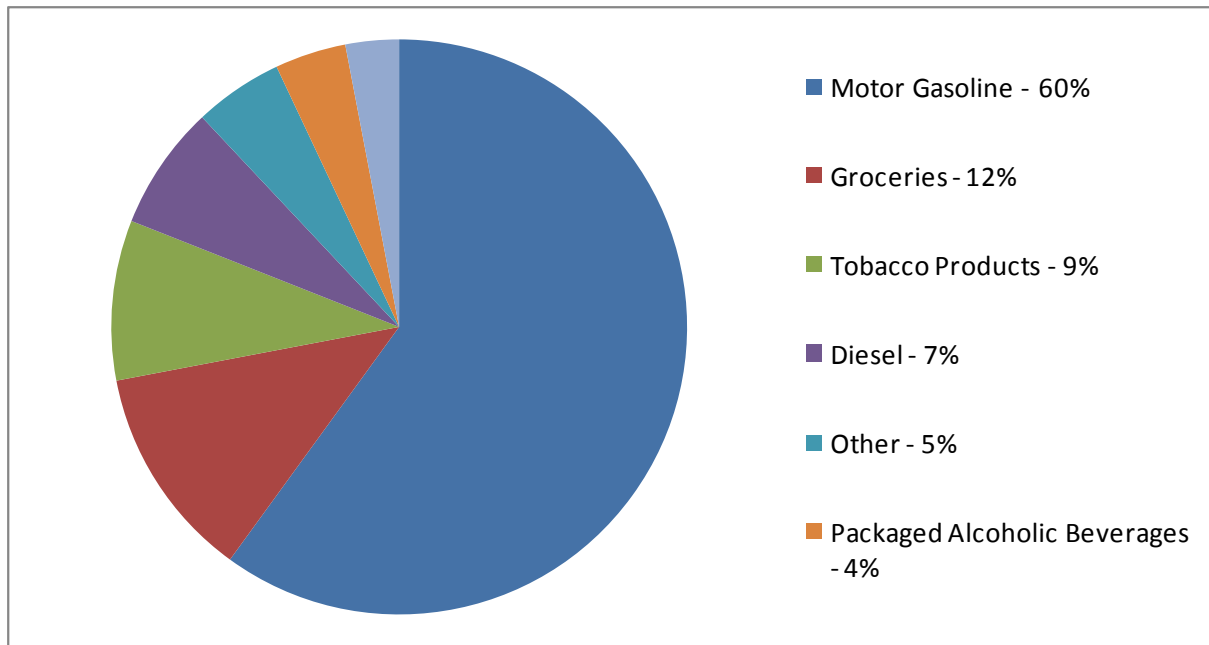
Convenience stores can be divided into two types. The first type is convenience stores that include a broad merchandise mix, extended hours of operations and a minimum of 500 stock-keeping units. These stores exclude grocery stores or convenience stores that are attached to gasoline stations. The product segmentation is as shown in the following chart:



Source: [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44512- Convenience Stores." New York: IBISWorld. December 2, 2009. <http://www.ibisworld.com>.

The second type is gasoline stations with convenience stores. The main items sold through these convenience stores include groceries, tobacco products, meals, snacks, packaged alcoholic beverage and other items such as garden products, books and hardware. The following chart shows a breakdown of the classification:

<sup>1</sup> "Constitution & Bylaws", *NACS Online*, [http://www.nacsonline.com/NACS/About\\_NACS/Constitution\\_Bylaws/Pages/default.aspx](http://www.nacsonline.com/NACS/About_NACS/Constitution_Bylaws/Pages/default.aspx) (accessed January 19, 2010)



Source: [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44711-Gasoline Stations with Convenience Stores." New York: IBISWorld. December 2, 2009. <http://www.ibisworld.com>.

## Industry Data

- According to the National Association of Convenience Stores (NACS), the number of convenience stores was 144,541 as of December 31, 2009, a decrease 0.2 percent. This is the second straight year the count has declined and only the fourth time in the last 15 years that the industry's store count has declined<sup>2</sup>.
- The US convenience store combined revenue is about \$400 billion. The top 50 companies account for about 35 percent of industry sales. Average annual revenue per worker is about \$500,000 for gas stations with convenience stores and \$150,000 for convenience stores not attached to gas stations<sup>3</sup>.

## Convenience Stores

- Profits in 2009 for convenience stores not attached to gas stations are estimated at about \$339.2 million spread across 68,900 businesses<sup>4</sup>.
- Grocery merchandise is estimated to be the largest percentage of convenience store revenues at 24 percent for 2009. This number has declined over the years from 33 percent in 1997 to 25 percent in 2002<sup>4</sup>.

<sup>2</sup> Fact Sheets – Scope of the Industry, NACS Online, <http://www.nacsonline.com/NACS/News/FactSheets/Pages/default.aspx> (accessed January 20, 2010)

<sup>3</sup> First Research, Inc. 2007, "Convenience Stores" Austin, TX: First Research. 10/19/2009. <http://www.firstresearch.com>. Our subscription to this service is possible through donations made by Metcalf Hodges and Wells Fargo Bank.

- Nearly 80 percent of convenience stores sell beer, accounting for nearly one-third of all beer purchased in the United States, about 93 percent of which is sold cold. In fact, the U.S. convenience store industry sells more than 2 billion gallons of beer a year<sup>4</sup>.

### Gasoline Stores with Convenience Stores<sup>5</sup>

- Profits for gas stations with convenience stores are estimated at \$30.9 billion (including gas sales).
- While oil majors have been backing away from retailing at a fast clip, the number of gas stations with convenience stores has fallen relatively slowly, from 92,611 in 2004 to an estimated 92,400 in 2009.
- Gas stations with convenience stores are believed to have lifted their sales volumes in the decade by an estimated 6.3%, partly at the expense of gas stations without convenience stores.

### Success Factors<sup>6</sup>

7-Eleven is the biggest player in the category of convenience stores excluding gas stations. It operates more than 6,000 stores in the US and Canada and has 31,000 store franchises or licenses worldwide. It sells gasoline in 2,100 stores, which accounts for 40 percent of overall sales. The remaining 60 percent of sales comes from merchandise sales. A majority of 7-Eleven's revenue is derived from tobacco products (29.1%). Beverages are another major product seller for 7-Eleven, accounting for 23.5% of total merchandise sales in 2004. At the lower end of the scale, smaller amounts of revenue are generated from the sale of dairy products (4.4 percent) and fresh food (7.7 percent).

The key success factors for convenience stores are as follows:

- Proximity to residential areas to provide easy access
- Access to a multi-skilled workforce that is ready to work flexible hours and are able to provide friendly and helpful service to customers
- Ability to minimize stock build-up to keep costs low, but also have popular products available
- Store layout, design, shelf management, service, product range and cleanliness

### Risks and Challenges<sup>7</sup>

Spending clout, the cost of debt, sentiment and employment levels play a large part in determining the frequency and quality of convenience store purchases. Declining household wealth, rising

<sup>4</sup> [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44512- Convenience Stores." New York: IBISWorld. December 2, 2009. <http://www.ibisworld.com>.

<sup>5</sup> [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44711-Gasoline Stations with Convenience Stores." New York: IBISWorld. December 2, 2009. <http://www.ibisworld.com>.

<sup>6</sup> [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44711- Gas Stations with Convenience Stores." New York: IBISWorld. December 14, 2009. <http://www.ibisworld.com>.

<sup>7</sup> [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44512- Convenience Stores." New York: IBISWorld. December 2, 2009. <http://www.ibisworld.com>.

unemployment, tight credit conditions and an unclear economic picture are forcing many households to forgo impulse purchases. Weakening sales over 2008 and 2009 have reduced overall growth, with five year revenue experiencing a decline of 2.5% per annum. Even prior to the downturn, convenience stores' revenues declined from \$23.2 billion in 2005 to \$21.2 billion in 2009.

Industry competition is intense in this industry. Operators are not only competing with other convenience stores but also with grocery stores, supermarkets, warehouse clubs, superstores and kiosks. Also, super markets are taking advantage of their economies of scale and setting up their own version of convenience stores. This competition has exerted pressure on profit margins of these companies and has also resulted in consolidation of the industry in the recent years.

## Trends

Over the past decade large oil companies have been divesting from convenience stores at gas stations or converting company owned stores into franchises or dealerships<sup>8</sup>. This is due to several reasons. One such reason is the high cost of credit card cost transactions eating into profits for convenience stores. According to the NACS, credit card fees more than doubled in 2007 from \$3.2 billion in 2003. Also, some state laws restrict the number of convenience stores an oil company can own.

Annual sales growth for foodservice products in convenience stores ranged from 10 to 14 percent between 2004 and 2007, according to AC Nielsen. Foodservice sales growth was stronger than growth for total in-store sales and sales of all other merchandise. Convenience stores gained share from supermarkets and drugstores in several categories, including carbonated beverages, bottled water, liquid coffee, salty snacks, tobacco products, gum, frozen novelties, and nuts. Convenience stores lost share in the beer, juice and juice drink, and candy categories<sup>5</sup>. IBISWorld projects total industry revenue for convenience stores to experience modest growth of 1% per annum, over the next five years to \$22.3 billion by 2014<sup>9</sup>. However, industry revenue for gas stations with convenience stores is greatly dependent on the trends in gasoline sales and prices. Sales at convenience stores will provide stability to this industry.

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<sup>8</sup> First Research, Inc. 2007, "Convenience Stores" Austin, TX: First Research. 10/19/2009. <http://www.firstresearch.com>. Our subscription to this service is possible through donations made by Metcalf Hodges and Wells Fargo Bank.

<sup>9</sup> [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44512- Convenience Stores." New York: IBISWorld. December 2, 2009. <http://www.ibisworld.com>.

## Industry Revenue Outlook for Convenience Stores (not attached to gas stations)



Source: [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44512- Convenience Stores." New York: IBISWorld. December 2, 2009. <http://www.ibisworld.com>.

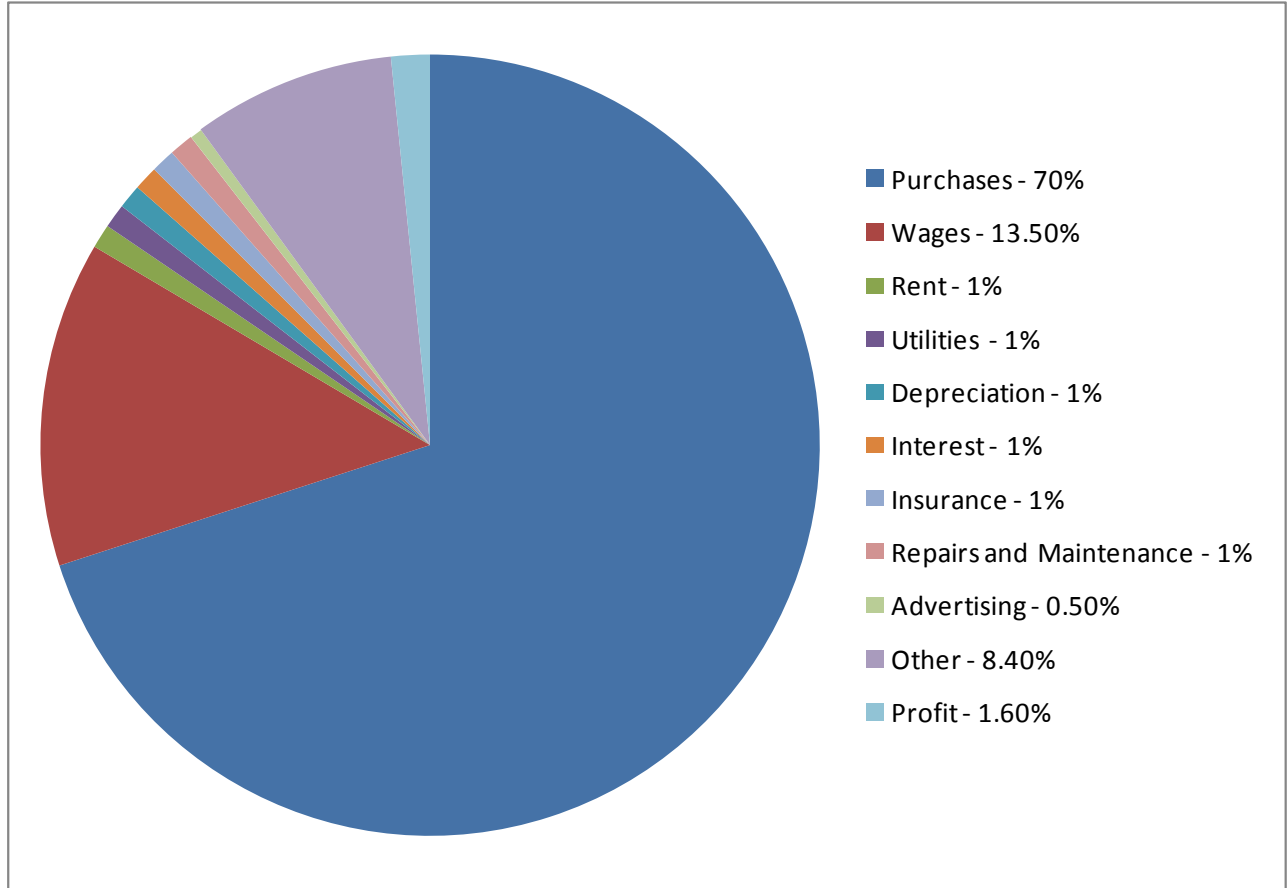
## Consumer Demographics & Expenditures

"Heavy" convenience store shoppers are defined as those who visit a convenience store at least eight times per month and spend \$10 or more on each visit. They make up only 8 percent of the total convenience stores shoppers, but contribute to more than 20 percent of all convenience store visits and 40 percent of the dollars spent<sup>10</sup>. Single young males are the largest market segment for convenience stores. Older females with children are less frequent customers of convenience stores.

<sup>10</sup> "Research firm: Build a better customer base to benefit the bottom line", *NPN Petroleum and Convenience*, [www.npnweb.com](http://www.npnweb.com), accessed January 26, 2010

## Financial Information

The following chart indicates the average cost structure experienced by convenience store operators:



Source: [IBISWorld Pty Ltd.](http://www.ibisworld.com), "44512- Convenience Stores." New York: IBISWorld. December 2, 2009. <http://www.ibisworld.com>.

The following two tables represent financial benchmark information for the convenience store industry. The information is based on 190 companies, out of which 48 are small companies. The first column represents aggregate data for the 190 companies. The second column represents the same information for the 48 small companies.

Income Statement		
	Aggregate	Small Companies
Net Sales	100%	100%
Gross Profit	26.0%	26.2%
Operating Income	1.8%	2.5%
Net Profit After Tax	0.9%	1.9%

Balance Sheet		
	Aggregate	Small Companies
Cash	7.3%	6.4%
Account Receivable	4.3%	2.4%
Inventory	14.6%	22.1%
Total Current Assets	27.3%	30.9%
Total Fixed Assets	42.0%	27.2%
Other Non-Current Assets	30.7%	41.9%
Total Assets	100.0%	100.0%
Accounts Payable	13.8%	5.6%
Total Current Liabilities	37.8%	2977.7%
Total Long-Term Liabilities	19.3%	1.7%
Net Worth	42.9%	-2879.4%

Source: First Research, Inc. 2007, "Convenience Stores" Austin, TX: First Research. 10/19/2009. <http://www.firstresearch.com>. Our subscription to this service is possible through donations made by Metcalf Hodges and Wells Fargo Bank.