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BY STEVE MONTGOMERY, PRESIDENT, B2B SOLUTIONS, LLC

An industry update focusing on convenience store issues

ASK THE EXPERTS



IN A REVIVAL OF A PREVIOUS *NPN Magazine* feature area, we will again be regularly asking industry experts for feedback in their areas of expertise. Our first column will focus on convenience store issues.

Steve Montgomery is president of b2b Solutions, a consultancy that specializes in working with retailers and suppliers in the convenience retail/petroleum marketing industry. He has over 30 years of experience in top management positions in both entrepreneurial and large corporate business environments within the convenience retail/petroleum marketing industry.

After beginning his career as one of its franchisees, Steve served as president and member of the board of directors for Dairy Mart Corporation. He then held the positions of general manager for c-stores and manager



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of convenience retail strategies and programs for Amoco Oil Company.

He led Amoco's efforts to develop and roll out their state of the art Split Second concept and to consolidate their various direct retail operations into a single entity. While at Amoco, he was also a member of its retail systems steering and facility design coordination committees.

Steve has been actively involved with the National Association of Convenience Stores (NACS) since 1976. He is the only person to have been elected to Retailer Board and Supplier Board of Directors. He is current a member of its Membership Committee.

He holds a Bachelor of Science degree in agricultural and food economics from the University of Massachusetts, and a MBA in marketing from Western New

England College. He currently serves as a member of its International Business Advisory Board.

Steve is a frequent contributor to articles on the convenience retail / petroleum marketing industry and is a frequent speaker at industry functions. He has worked with NACS as a program director and program moderator on topics ranging from foodservice to the non-traditional competitors. He is a member of RetailWire's BrainTrust.

b2b Solutions retail clients have ranged from single store operators to large multinational firms. These include such companies as Chevron USA Products Company, Crescent Oil Company, Exxon Company, USA, LG-Caltex, Lekkerland (Switzerland) Ltd., Mobil Oil Corporation, Murphy Oil USA, NACS, Pride Convenience, Inc., and Shell Canada Products Limited. Supplier clients include Coca-Cola USA, Food Concepts, Inc., Harmonic Systems, Inc., Kraft Foods, MGC Communication, Inc., and Westec Interactive.

NPN: What general impact has the current economic situation had on the convenience side of the business?

Montgomery: While the industry is not recession proof, it is recession resistant. On the forecourt the c-store industry sells something that almost everyone needs every day. We look at it as fuel, but the need it fulfills is more basic – mobility, a way of getting from place to place. Without fuel most people can't get to work, to shop, etc. There is no question that when gas prices get to a certain point, people are willing to modify their behavior either by combining trips or, if possible, even changing their method of transportation. However, most Americans have to drive and, therefore, fuel is a necessity, not a luxury. With 80+ percent of all fuel in the U.S. being sold by c-stores, the industry has a built in resistance to lower sales.

Inside the store we sell items/brands that are generally well known to consumers and they are comfortable purchasing. b2b Solutions has long contended that we

are in the business of being convenient points of purchase for items that the brands have presold by the manufacturer to the consumer. Many of our leading items are prepriced (chips, snacks, etc.), meaning the consumer pays no more than they would in alternative retailers or are categories where we carry a far broader selection, such as individual candy items.

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In other cases we may offer a less costly alternative – foodservice for example. When consumers realize that they can buy a great cup of coffee and not pay \$3 for it or can buy a meal deal that includes a drink, sandwich/slice of pizza/etc., and chips for a great price suddenly we are an attractive alternative for breakfast and/or lunch.

NPN: What specific categories are doing well today?

Montgomery: For some companies foodservice has become the fifth traffic driver. The other four (fuel, cigarettes, bottled beverages, and beer) have been key categories for the industry for a long time. Different retailers have carved niches in their markets using these four categories and others. Our experience has shown that how well a specific category is doing for a retailer varies based on three variables, 1) the importance placed on it, 2) the effort the retailer puts behind it and 3) their competitive set, i.e. who are they competing against.

According to the National Association of Convenience Stores SOI data, sales increased for the industry's four key non-fuel categories. It is not known if the sales increase came from higher unit movement or increase in retail prices. The percentage increases in sales ranged from a low of 1.8% (beer) to a high of 4.61% ((packaged beverages) versus and average of 2.91% for total instore merchandise (excluding foodservice). Unfortunately cigarette gross margin dollars were down 6.07%, while increase ranged from a low of 1.96% for foodservice to a high of 8.42% for beer.

NPN: What categories are suffering?

Montgomery: Overall the industry showed sales sales and margin gains in both Merchandise and Foodservice, according to NACS SOI data. Only six Merchandise categories had sales declines - Liquor, Ice; Fluid Milk Products; Other Dairy Deli; Publications and General Merchandise. Of these only three showed a decrease in \$ Gross Margin - Liquor, Publications and General Merchandise.

NPN: What marketing approaches (loyalty programs, etc.) offer an opportunity?

Montgomery: Marketing continues its march from “art” to science. While the c-store industry (as a whole) lags behind others in its collection, analysis, and use of data, we are definitely making progress. As I look at the bookshelves in my office I still have the early work done to justify scanning. Today for the majority of operators this is no longer an issue. The real issue comes with what to do with the data.

b2b Solutions sees the next step in the data evolution being market basket and promotional analysis. Many companies we work with concentrate on looking at top / bottom sellers as individual items. While this provides useful / actionable information, the real value from scanning is not that X outsells Y, but how to increase the sales and profitability of selling both X and Y and what happens when you combine them with Z.

Promotional analysis can include the time lag from when an item is point put on sale until you begin to see an increase in movement (assuming one occurs); the extent of the sales lift; the impact on dollar gross margin; the residual sales lift (if any) and how long it lasts, etc. This can be tested to determine what types of price points yield what types of results. For example, we all refer to conventional wisdom that \$.99 is a far better price point than is \$1.09, but is it? Which makes you the most money? Does it vary by category? By item? Do you know?

The other use of the data is to perform market basket analysis – that is, what was bought with what. This information allows you to fine tune your promotions. Further, we know the correlation is not causation, but, it can also be utilized to fine tune your store layouts by determining category adjacencies.

One thing b2b Solutions recommends is for all clients to have an annual promotional calendar in place that offers customers a reason to shop at their location. This is especially true in today's economic climate. While people may have to buy fuel, they generally have several places where they can buy it. Having a series of in-store promotions that you effectively communicate to both your store and fuel customers gives them one more reason to shop at your location(s).

NPN: Where can a company find operational efficiencies today?

Montgomery: While b2b Solutions firmly believes you cannot save your way to prosperity, there are some areas in which we believe retailers can continue to reduce costs. Labor is still the industry's biggest expense and yet there are retailers whose method of determining labor budgets are based on long standing policies that are no longer valid. Store X gets Y hours of labor – why, because it always did. Stores are always willing to “yell” that they need more labor, but few call to state they need less.

We have found that many companies benefit from going back to zero and rebuilding their labor budgets – especially if it is based on the work load and not a percentage of sales (which have gone up simply by increase in prices). When they do, we recommend

that they look at scheduling in 15 or 30 minute increments rather than the industry's traditional hourly basis. Those minutes saved add up and can represent a substantial savings at the end of the year.

Another top area is the carrying cost of inventory. Many retailers still look at cost in a relatively simple way – invoice price rather than what we refer to as the total cost of acquisition. What are the terms? How long are the funds tied up? What other items am I prevented from buying because I have 100 cases of “X” in the backroom / on the floor, etc.? Unfortunately, we still work with many clients who let their vendors determine the amount of inventory being carried. They don't use “build to's” or fail to use them effectively.

NPN: Knowing that each site faces individual challenges and opportunities, in general, what makes a successful convenience platform for the industry in these times?

Montgomery: This really hasn't changed over the years. It's having the right products and services, in the right quantities, at the right time, purchased at the right price and priced right to offer the consumer a reasonable value.

Unfortunately, one of the areas where b2b Solutions sees retailers falling short is in customer communication. They have good promotions, but fail to effectively communicate them to the consumer. The consumer stops for fuel but never goes into the store. The retailer fails to get trial, and without it, they can never get adoption.

These elements combined with a good overall purchase experience (clean physical plant, good customer service, etc.) will set your c-store apart from most of your competition. Sounds simple – it is in concept, but executing it is not easy. There are a lot of moving parts.

Ours used to be a simple business and too many people think because we operate retail units with small footprints that it still is. Those of us who have been doing it understand that it is not.

The object for most retailers is not to be better than the well known industry leaders; it is to be better than your immediate competitors. Customers are making choices every day among three to four c-stores they pass where they are going to cast their economic vote. Your goal is to be sure they cast it with you. The latest NPN data suggest that what happens inside your store is playing an even bigger role in their decision process. **NPN**

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