Category Close-Up

COLD DISPENSED BEVERAGES

FOUNTAIN OF OPPORTUNITY

The more varied and capable your fountain program, the more it can serve the needs of a broad consumer base.

BY PAT PAPE

Sodas (or pop, depending on what part of the country you hail from) have sailed choppy waters over the past decade. The carbonated soft drink subcategory has declined, while high-end beverages, such as ready-to-drink (RTD) tea and coffee, as well as sports and energy drinks, saw smaller declines, according to recently released NACS State of the Industry data for 2014.

Still, carbonated soft drinks continued to dominate the cold-dispensed beverages category last year with a total sales contribution of 82.8%. Non-carbonated dispensed drinks saw a margin increase at 57.3% and sales of $2,047. Yet despite sagging sales, cold dispensed beverages remain a convenience store staple. Nearly every convenience store (98.2%) carries cold dispensed beverages, which made up 2.6% of all convenience store foodservice sales in 2014, according to NACS State of the Industry data.

Just the Facts:
Carbonated soft drinks continued to dominate the cold-dispensed beverages category last year with a total sales contribution of 82.8%, according to NACS State of the Industry data of 2014.

Americans still consume soft drinks — a lot of them. Last year, a U.S. Centers for Disease Control and Prevention survey of 113,000 American adults in 18 states found that 17% consumed at least one sugary soda per day. Consumption varies based on geography. For example, 12% of New York State survey respondents had one or more sodas per day, but that daily figure was 30% and 32% for adults in Tennessee and Mississippi, respectively.

One way to increase beverage sales — without moving your operation to Mississippi — is to enhance your convenience store fountain, ensuring plenty of cold, refreshing beverages and the goodies that go with them as the hot summer months get underway.

Make It Sweet

Jones Soda of Seattle, Washington, has been selling premium sodas for 18 years. In February, the company introduced what it calls a "craft fountain program" featuring cane sugar sodas, a response to customer demand for alternatives to basic fountain beverages.

The drinks have no high fructose corn syrup, which is sometimes simply dubbed "fructose" on product labels. "It's a better option and a profitable option," said Jennifer Cue, CEO of Jones Soda. "We're excited about what we can do in all channels."

The cane sugar drinks, which will be showcased at the NACS Show this fall in Las Vegas, come in several flavors: traditional cola, root beer, ginger ale, orange-cream, lemon-lime, berry

lemonade and green apple. A diet cola option is sweetened with Splenda.

Along with the drinks, Jones offers retailers unique fountain machines. Each one can be individually customized with photos of the local community, nearby schools and even the faces of customers.

"It depends on what the retailer wants to see," said Cue. "We have premium ingredients, plus great options in equipment. It screams our brand."

Make It Mixable

Jerry Weiner, vice president of foodservice for Rutter's of York, Pennsylvania, has been in convenience retailing for decades, and even he is amazed by today's convenience customers who turn into "fountain-tenders," mixing together numerous flavors with syrups from the coffee bar.

"Customization and personalization," said Weiner. "Those words apply to beverages today, but not just fountain, also coffee and frozen. I see people going to the coffee bar and putting syrups and all kinds of flavorings in fountain drinks and even frozen drinks, which tends to melt them. It's really about having it the way you want it."

Customers may add extra sweetener to a cold drink, enhance iced tea with raspberry syrup or create another combination entirely. "They're taking it upon themselves to mix up their own flavor profiles," he said. "Their imaginations are running it, so how do you keep up with that? Have a whole bunch of choices, and then let customers go crazy."

"One fun thing about the fountain is that the customer is in control," said Charlie Mays, director of marketing for Dr Pepper Snapple Group in Plano, Texas. Mays has also seen "innovative retailers take a proactive approach and display recipe cards that show consumers the variations they can create on their own," he said. "You might have an individual who starts with a Dr Pepper, adds a splash of 7-Up and then adds Coca-Cola or

Category Definition

COLD DISPENSED BEVERAGES

- Fountain-Carbonated
- Fountain-Non-carbonated
- Fountain-Sports Drinks
- Refills
- Fountain Club Mugs
- Other Cold Dispensed Beverages

NACS category definitions can be used to establish performance benchmarks and a framework for retailers and suppliers to discuss market performance comparisons. For more NACS category definitions visit nacsonline.com/categorydefinitions.

SUBCATEGORY PERFORMANCE

2013 VS 2014

	% of Sales		Avg. Store Sales		GP Margin $		GP Margin %	
	2013	2014	2013	2014	2013	2014	2013	2014
Carbonated	81.1%	82.8%	$39,179	$42,365	$21,638	$23,013	55.23%	54.32%
Refills	7.8%	8.1%	$3,768	$4,145	$1,721	$1,922	45.67%	46.38%
Non-carbonated	5.2%	4.0%	$2,512	$2,047	$1,394	$1,173	55.48%	57.29%
Sports Drinks	4.1%	3.4%	$1,981	$1,740	$863	$832	43.56%	47.83%
Other Cold Dispensed Beverages	1.2%	1.2%	$580	$614	$283	$305	48.77%	49.68%
Fountain Club Mugs	0.6%	0.5%	$290	$256	$127	$111	43.89%	43.34%
TOTAL	**100.0%**	**100.0%**	**$48,310**	**$51,167**	**$26,026**	**$27,356**	**53.87%**	**53.46%**

(Source: *NACS State of the Industry Report of 2014 Data*)

Pepsi products. Or they'll fill a cup with Diet Dr Pepper and add regular Dr Pepper [for a sweeter taste]."

Make It Bundled

Over the past few years, convenience store operators have become more aggressive with bundled food offerings, including a fountain drink, at a value price. Retailers have worked to improve food quality and recognize that many busy consumers survive on snacks. "They're creating [bundled] meal selections not only at breakfast, lunch and dinner, but also as snacks," said Mays. "Because of the high margins of soft drinks, the price of a bundled meal has a higher perceived value."

Over the past three years, consumers have been snacking more frequently and consuming smaller meals at each sitting. "You used to have a large sandwich, side and soft drink," he said. "Now you see stores merchandising just the fries and a drink or beef jerky and a drink. Snacking happens any time of the day, and 26% of consumers say they are doing it. A lot of people think it's between meals, but that's not the case anymore."

At Rutter's, "our fountain business is driven by our food business, combo meals and how they are tied together," said Weiner. "If food sales go up, fountain tends to go up. [When it comes to bundled offerings,] consumers have the choice of going to the cooler and getting a litany of products that are healthier options, but they still take the fountain drink."

In addition to bundling, suggestive selling and two-for-ones can also boost fountain drink spend.

Make It Cold

When it comes to customer satisfaction, ice is almost as important as the beverage poured over it.

"Nugget ice is a huge trend, said Meghan Daro, director of marketing communications for Scotsman Ice Systems. "It's soft, chewable and a time-tested favorite for all types of beverages. It absorbs the flavor of the drink, which keeps customers satisfied with their fountain beverage down to the last chewable bit."

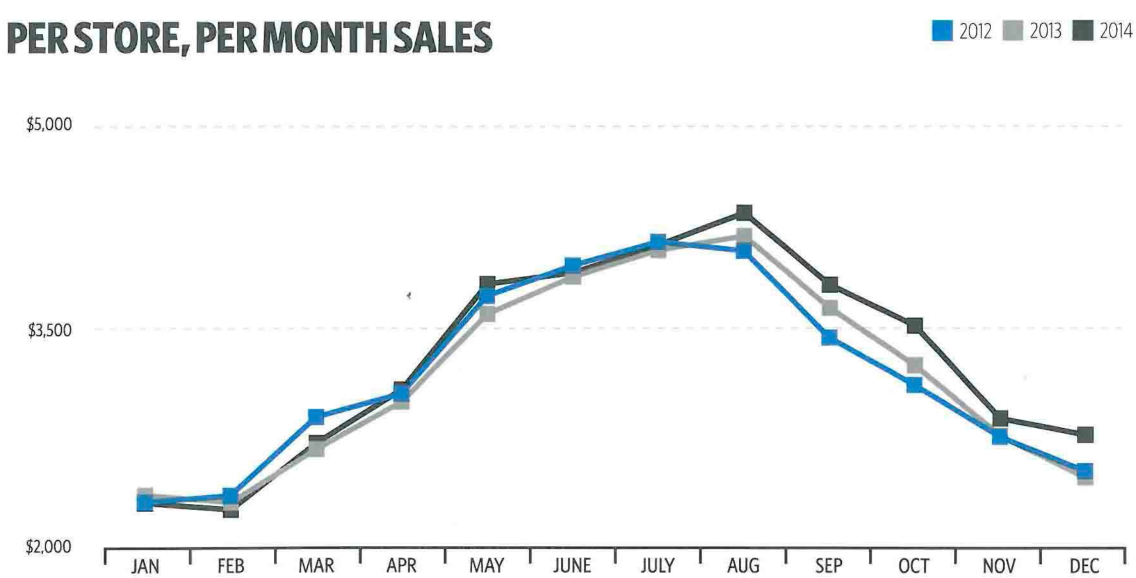
Ice keeps a beverage chilled from start to finish, and "the vast majority of folks who enjoy a fountain drink really enjoy it poured over ice," said Mays. "They think tastes better."

About eight years ago, Rutter's adopted chewable ice at the fountain. "I would not be surprised that in the future there will be ice options much like you have in your refrigerator — chipped, cubed, crushed or whatever," said Weiner. "Right now, we're 100% chewable, and that decision was driven completely by research and consumer feedback."

"Customers expect there to be ice readily available when they stop [for a beverage]," Daro said. "If not, they will likely complain and may take their business elsewhere. If a store continually experiences a shortage of ice, the ice machine may not be sized properly for the specific store's demands."

> **"We're 100% chewable [ice], and that decision was driven completely by research and consumer feedback."**

PER STORE, PER MONTH SALES



(Source: CSX, LLC; csxllc.com)

Make It Many

The best way a store can satisfy customers is by having exactly what they want to drink. That could mean investing more retail space in cold-dispensed beverages. "Retailers are expanding their selections, which includes moving into larger fountain beverage platforms with additional valves," said Clint McKinney, director of convenience retail category advisory and space strategy for The Coca-Cola Company.

"In many cases, these additional valves are being dedicated to flavored brands, such as Fanta, root beer and isotonics, like Powerade," he said. "This means consumers have more access to the variety they expect from convenience stores."

Providing quality iced tea selections also can boost cold drink sales. Bag-in-box options require less manual labor, yet many outlets, such as in 7-Eleven stores, now offer fresh-brewed iced tea in both sweetened and unsweetened versions.

"It's about casting the widest net," said Mays. "People can be creatures of habit and will go for their favorite brand. If it's not available, 46% will choose not to purchase. They'll default to water or not buy a beverage at all."

The more variety and the more capability your fountain has to serve the needs of a broad consumer base, the better off your store will be. Expanding a store's fountain program "may seem like a big [financial] hit at first," said Mays. "But you'll make it back very quickly. It could be six months or less just on incremental sales."

As for cold drink consumption by daypart, the trend of getting caffeine from a morning soda is migrating from the South to the Midwest, according to Mays. "We're even seeing it moving into the Northeast where coffee consumption is pretty heavy," he said. "Soda has the functional quality of coffee: caffeine and a little sugar boost. We're seeing this not only in convenience and gasoline but also in restaurants. Currently, it's about 10% of daypart sales and growing."

No doubt preserving market share in the cold dispensed beverage category will continue to be a challenge. But a number of convenience operators are proactively making improvements and being innovative at the fountain, driving optimism about the future of the category. NACS

Pat Pape worked in the convenience store industry for more than 20 years before becoming a full-time writer and communications consultant. See more of her articles at patpape.wordpress.com.