

Convenience Down Under

Australia's convenience stores are growing through innovation

By Don Longo

Despite operating in a competitive retail environment, the convenience store industry in Australia has for the past four years outpaced the growth of the grocery channel in that nation through a focus on innovation and communicating a clear value proposition.

In a special report exclusively for *Convenience Store News*, Australasian Association of Convenience Stores (AACS) CEO Jeff Rogut said its convenience channel's performance — highly credible against the backdrop of tough retail conditions in recent times — owes much to the focus of retailers and suppliers to enhance the quality of the stores and the offer within. Plus, of course, the innovation that has underpinned the evolution of convenience stores in Australia.

"As an association, we are always reinforcing the fact that our convenience operators and their many employees have every reason to have confidence in the industry. The focus on innovation in recent times has paid dividends in terms of sales performance and customer-service outcomes, and there's no reason this can't continue," Rogut told *CSNews*.

"For instance, the performance of emerging categories like coffee and food-to-go have provided significant growth to the industry, with scope to build on this in the future," he continued. "Our industry has



Australia is served by more than 6,000 innovative convenience store retailers, including 7-Eleven Australia.



shifted its focus to tap into consumers' increased preference for healthier, fresher options."

Australia's convenience channel is fortunate to have more than 6,000 innovative national, as well as state-based convenience retailers, according to Rogut, such as Caltex Star Mart, BP, On the Run, APCO Easy Shop, 7-Eleven, Night Owl, EzyMart, and Coles Express.

AT A GLANCE:

Comparing the U.S. & Australian C-store Industries

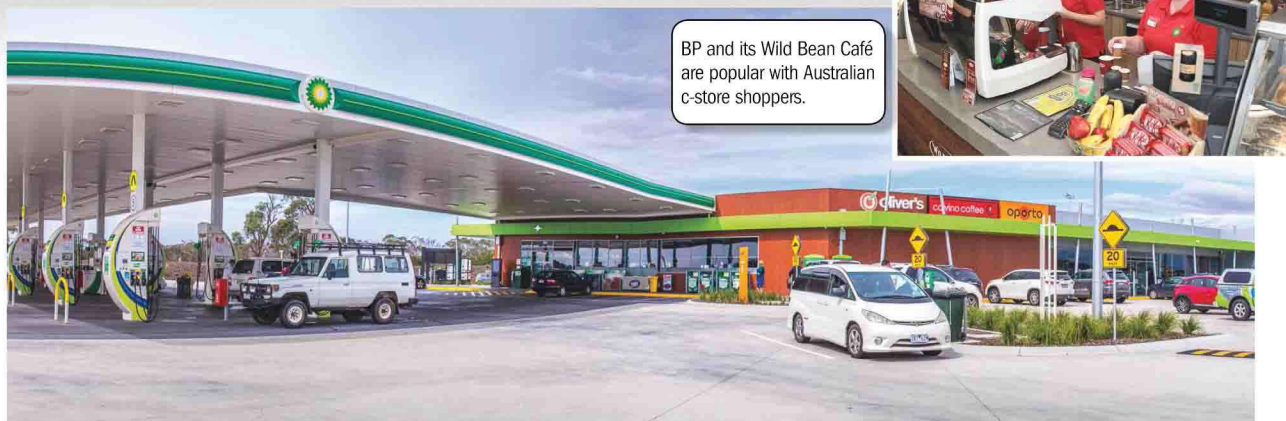
| | U.S. C-STORES | AUSTRALIAN C-STORES |
|------------------------|--------------------------|-------------------------|
| Total Sales | \$602.9 billion (-14.4%) | \$19.9 billion (+1.9%) |
| Fuel Sales | \$389.9 billion (-22.2%) | \$12.0 billion (+1.8%) |
| In-Store Sales | \$213.0 billion (+4.9%) | \$7.91 billion (+3.7%) |
| No. of Stores | 154,195 (+0.9%) | 6,042 (0%) |
| In-Store Gross Profits | \$57.4 billion (+5.4%) | \$2.64 billion (+1.02%) |
| Foodservice Sales | \$33.5 billion (+7.1%) | \$393 million (+13%) |
| Cigarette Sales | \$65.7 billion (+3.9%) | \$2.97 billion (+5.2%) |

Source: 2016 Convenience Store News Industry Report, 2016 AACS Industry Report

FOOD-TO-GO ON THE GROW

The emerging focus and subsequent growth in the food-to-go category, encompassing products such as sandwiches and cakes, is a significant win-win outcome for the industry.

"The continued growth in food-to-go suggests that as convenience stores evolve their model to reflect consumer



preferences for fresh-food offerings, as well as healthier options, shoppers become more comfortable buying food in stores, which is a great outcome,” Rogut said.

“The growth our operators have experienced in sandwich sales is evidence this format is establishing its rightful place in the convenience channel. By investing in a more enticing fresh sandwich offering, with fresh daily deliveries in some cases, retailers can ensure that grabbing a sandwich extends beyond restaurants, cafes and fast-food outlets,” he added.

Food-to-go’s accelerating 13-percent sales growth in 2015 was led by three core categories: fresh cakes (up 28 percent), hot pastry (up 39.8 percent) and sandwiches (up 21.5 percent). Sandwich sales grew 9.2 percent in 2015, up from a marginal gain of just 0.1 percent a year prior.

These numbers are from the most recent State of the Industry Report, compiled annually by AACS, which also showed convenience in-store sales grew by 3.7 percent over the course of 2015. Convenience sales have grown at a faster rate than the grocery channel each year since 2012.

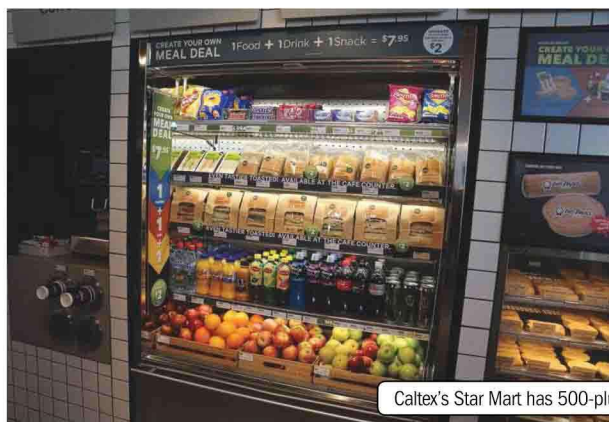
“The need for operators to maintain a focus on the customer and optimize the performance of key categories has never been greater,” Rogut said. “Similarly, the need for our industry to continue to look overseas for new ideas, to understand how international trends in convenience might be replicated or interpreted for the Australian market, is essential.”

TAKING A GLOBAL VIEW

AACS holds regular overseas study tours to provide a pathway for Australian convenience store retailers to keep on top of international trends and innovations in convenience.

Rogut recently visited Japan courtesy of Seven-Eleven Japan to tour the company’s manufacturing facilities, witness new-product testing, visit stores, and understand the distribution process. (See “At the Cutting-Edge of Innovation,” *CSNews* June 2016 issue.)

“Our population in Australia is a fraction of the size of the world’s major markets, yet the lessons in convenience we can take on-board have real relevance here,” Rogut said. “For instance, convenience stores



Caltex's Star Mart has 500-plus locations across the continent.





The Coles supermarket chain operates Coles Express convenience stores.



in Japan receive up to three fresh-food deliveries per day, and these stores are recognized as a viable, even preferable, outlet for fresh meals.”

On the other hand, he added: “Our industry in Australia is thriving despite our smaller population and, in some areas, overseas countries can learn from our successes.”

LEGAL TOBACCO STILL HOT

While new products and a fresh focus have opened up new revenue opportunities for Australian convenience stores, traditional performers like tobacco still play an important role.

While other countries continue to debate the merits — or otherwise — of tobacco plain packaging, the ineffectiveness of the policy, as well as excise increases in Australia, have been reinforced with the strong performance of legal tobacco, according to AACS’ chief.

The association’s latest State of the Industry Report showed that sales growth for tobacco was still in positive territory at 5.2 percent, with the category contributing around \$3 billion in convenience store sales in 2015. Tobacco accounted for well over a third (37.6 percent) of overall sales over the course of the year

and, across all merchandise, remained the largest contributor to sales growth by far.

Regrettably, however, the criminals behind the illicit tobacco market have “enjoyed” even greater growth since plain packaging was introduced. Plain packaging, along with the Australian government’s approach to a high legal tobacco excise, have made Australia one of the world’s most lucrative markets for illicit tobacco.

The government collects no excise on the sale of illegal tobacco, missing out on \$1.35 billion in lost tax revenue last year alone, noted Rogut. One in seven cigarettes consumed in Australia are sold illegally, according to the most recent KPMG research.

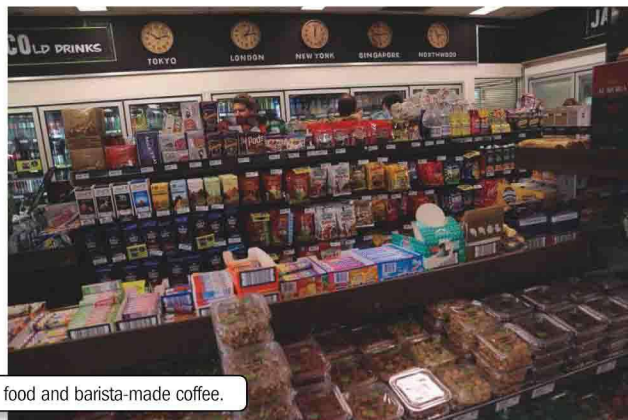
FUEL VOLUMES TOPPED UP

Fuel, a leading sales generator unique to the convenience channel in the country, also continues to perform strongly. Fuel sales volumes grew in 2015 against a backdrop of fluctuating prices. According to the State of the Industry Report, volumes were up 1.8 percent for the year, as convenience stores continue to be the primary destination for fuel purchases.

Even so, more significant growth was apparent in



Jack & Co. specializes in fresh food and barista-made coffee.





Night Owl convenience stores feature a comprehensive grocery and fresh-produce offering.



A Subway sandwich shop is one of several eateries offered by OTR travel centers.

the average litres per transaction figure (up 7.9 percent), following a decline of 12.5 percent in the average price per litre in 2015.

CONFIDENT IN CONVENIENCE

Rogut believes the industry's strong 2015 performance as detailed in the AACS State of the Industry Report reinforces the value proposition of Australia's convenience channel and the investment leading operators have made in innovation.

"By maintaining a firm focus on customer needs and the customer experience, the retailers and suppliers in the industry continue to evolve and innovate

their offer for a bright future," he said.

Looking ahead, AACS plans to sharpen its focus on education, training and development for members. This will include keeping a close eye on international trends and, importantly, maintaining close ties with sister organizations in North America, Europe and Asia.

"The AACS will also continue to advocate on behalf of our operators, many of whom are small businesses, across all areas and issues that impact their business and ability to compete — from tobacco regulation, food regulation and new taxes, pay and penalty rates, alcohol sales regulations, container deposit legislation and petrol theft," Rogut concluded. **CSN**



A fresh but earthy design sets apart the Urbanista Café & Convenience concept.

