



# CONVENIENCE STORES: Retailing's Anomaly

The convenience channel continues to thrive as other retailers face dire challenges

By Angela Hanson & Don Longo

**A**t a time when brick-and-mortar retailers are struggling throughout the nation, convenience stores are proving to be an anomaly in the retail landscape.

2014 was a record year for profits. 2015 was even better. And 2016 was just as financially satisfying for most retailers doing business in the convenience store industry.

Although total industry revenue declined by 6.3 percent last year, to \$565 billion, due to continued falling fuel prices, in-store sales increased by 3.8 percent to a record \$221 billion, according to the 42nd annual *Convenience Store News* Industry Report, the longest-running, continuously published annual report on the health and performance of the convenience retail channel.

The in-store sales gain was 50 percent better than overall U.S. retail sales (excluding autos), which increased only 2.5 percent last year, according to the U.S. Census Department. Supermarkets and other grocery store sales rose only 2.1 percent, and all general

merchandise store sales were flat last year, according to the government figures. Department stores and discount stores continued to lose sales to online retailers such as Amazon.com, suffering sales declines of 5.7 percent and 6.5 percent, respectively.

In terms of store count, the c-store industry added only 340 net new stores last year to bring the total to 154,535. That figure still dwarfs the approximately 42,000 drugstores, 34,000 supermarkets and 29,000 dollar stores in the United States. In fact, the convenience channel has added almost 30,000 units since 2001 and more than 8,000 since 2010, according to Nielsen TDLinX.

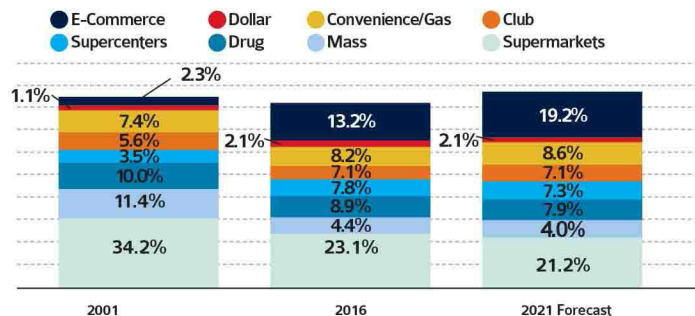
Last year's low gas prices kept motor fuel gallons flowing. Fuel volume sold increased 2.4 percent to 154.7 billion gallons, the highest figure in the past decade. On the other hand, motor fuel revenue, which declined by 11.8 percent to \$343.7 billion, fell to a more than 10-year low of 61 percent of total industry sales.

Industry gross profits were up 3.5 percent to \$96.11 billion, while pretax profits were slightly down last year, but were also coming off a record year in 2015.

In-store sales per store were also a record-high \$1.4 million last year, a 1.74-percent increase. Foodservice sales growth again led the way, with a 6.6-percent sales gain, which though slightly less than the robust 7.1-percent increase of 2015, still represents a record high for the c-store industry.

The top 10 product categories, as defined by Nielsen, accounted for nearly 90 percent of all inside-the-store sales. Cigarettes continued to lead the way at 30.1 percent of in-store sales, followed by foodservice, 16.1 percent; packaged beverages, 12.7 percent; and

## Channel Dollar Share of Total Outlets



Source: Nielsen TDLinX & Nielsen Analytics

beer/malt beverages, 9.56 percent. Categories that gained share year over year were foodservice, packaged beverages, beer/malt beverages, other tobacco products, general merchandise, and salty snacks.

In terms of percentage sales gains, the fastest-growing categories were cold dispensed beverages, up 13.8 percent; general merchandise, up 12.85 percent; wine and liquor, up 11.3 percent; ice, up 10 percent; and other tobacco products, up 9 percent. Prepared food, one of the most important categories inside the store, had a 5.9-percent sales gain, which represented a slight slowdown from the previous year's 7.7-percent gain.

Last year, retailers said their biggest challenge would be to manage both internal and external expectations. They anticipated lower fuel margins, but made up for it with increased sales and profits inside the store.

Among this year's concerns are the availability and cost of labor, especially as stores try to grow their more labor-intensive foodservice operations. Despite the recent strength in fuel volume, they must also prepare for an inevitable flattening or decline, as fuel efficiency increases and miles traveled level off in the coming years.

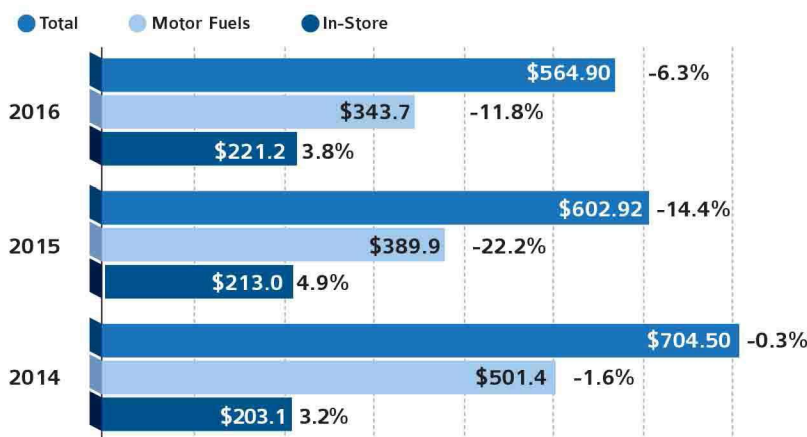
And then, there's increased competition from outside the industry. Starbucks plans to add 3,400 stores in the U.S. over the next five years. Dollar stores continue to grow and make inroads in c-store intensive categories, like tobacco, cold beverages, and even fueling stations. And Walmart will always be a specter with its seemingly never-ending search for the right c-store concept to expand.

While Amazon presents a clear and present danger to many

retailers, the online giant now represents a future challenge for convenience stores, too. Larger brick-and-mortar retailers like Sears, JCPenney, Kohl's, Macy's,

Best Buy, Target and Walmart have already been negatively impacted by Amazon's growth. C-stores have yet to feel the direct impact of the online retailer, but Amazon's plans

## Total Convenience Store Sales



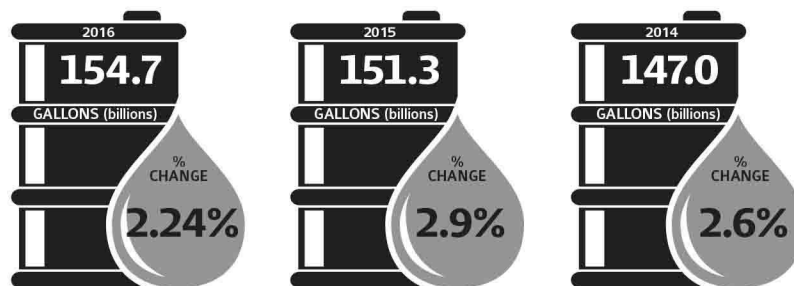
Source: Convenience Store News Market Research, 2017

## Store Growth Analysis



Source: Convenience Store News Market Research, 2017

## Motor Fuel Volume



Source: Convenience Store News Market Research, 2017



to open up to 2,000 Amazon Go checkout-free, small grocery stores throughout the country are cause for concern.

The record profitability of the past three years is likely to keep merger and acquisition activity on the front burner in 2017 as well, especially among the larger retail chains. Meanwhile, regional powerhouses that feature strong food-service programs, like QuikTrip, Wawa, RaceTrac, Kwik Trip and Sheetz, will continue to thrive and grow in their markets and beyond.

### MOTOR FUELS

2016 was a year of contrast for motor fuel sales at convenience stores. The number of gallons sold rose 2.24 percent to 154.7 billion gallons industrywide. However, due to lower gas prices, dollar sales fell 11.8 percent to \$343.7 billion.

The average sales price per gallon, too, declined 12.45 percent to \$2.25, and gross margin cents per gallon fell to 22.9 cents from 23.4 cents the previous year.

Declining gas prices also resulted in the second straight year that the average price per gallon fell below the \$3 mark. From 2011 to 2014, the average price per gallon was above that point, reaching as high as \$3.68 in 2012. Last year also marked the second year that industrywide fuel dollar sales fell below \$400 billion, to \$343.7 billion; after smaller declines from 2012 to 2014, dollar sales fell from \$501.4 billion in 2014 to \$389.9 billion in 2015.

The majority of c-stores continues to offer fuel sales, holding steady at 80.1 percent.

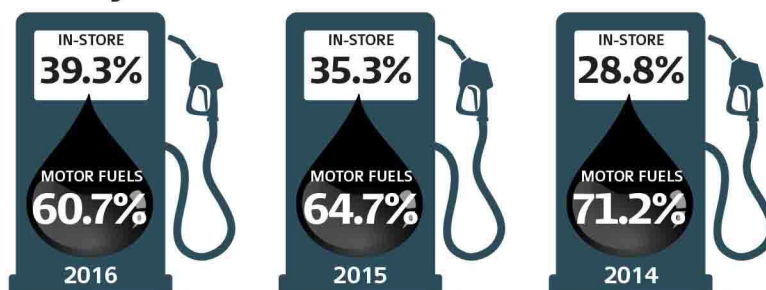
As innovation in the automobile industry continues, c-store leaders are looking ahead to how gasoline sales will be affected, but not every forecast is close to becoming a reality yet.

“There is a great deal of hype surrounding alternative ways to power cars and their impact on gasoline sales,” said Steven Montgomery, president of b2b Solutions LLC. “Hybrids, electric,

natural gas, and even hydrogen have prompted people to write about the end of gas-powered vehicles. Today, only the hybrid format has become a mainstream alternative.”

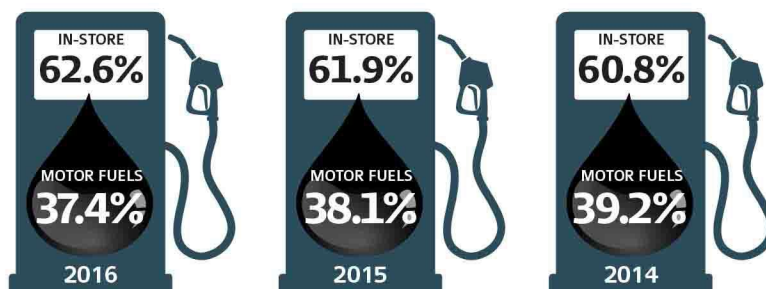
For the foreseeable future,

## Industry Sales Mix



Source: Convenience Store News Market Research, 2017

## Gross Profit Dollar Mix



Source: Convenience Store News Market Research, 2017

## Industry Gross Profit

	2016 \$ BILLIONS	2015 \$ BILLIONS	% CHANGE
In-Store	\$60.18	\$57.42	4.8%
Motor Fuels	\$35.93	\$35.40	1.5%
<b>TOTAL</b>	<b>\$96.11</b>	<b>\$92.824</b>	<b>3.5%</b>

Source: Convenience Store News Market Research, 2017

## Pretax Profits

	TOTAL INDUSTRY PRETAX PROFIT (in billions)	% CHANGE	PRETAX PROFIT PER STORE	% CHANGE
2016	\$9.10	-1.91%	\$58,886	-3.90%
2015	\$9.28	3.45%	\$61,277	2.32%
2014	\$8.97	34.11%	\$59,889	32.02%

Source: Convenience Store News Market Research, 2017

Montgomery expects a larger impact to come from the auto industry's ability to produce vehicles that get more miles per gallon.

"This will come from the use of lighter materials to build the cars or the increased use of turbo engines to drive them, or a combination of both," he continued. "Turbos allow manufacturers to have smaller, lighter, more fuel-efficient engines, thus lowering their fuel consumption. However, the increased use of turbo engines will mean a shift in demand to the higher-octane and higher-priced fuels that they require."

## OPERATIONS

Convenience store operators saw direct-store operating expenses rise

## In-Store Sales per Store

	SALES (in billions)	% CHANGE
2016	\$1,431,390	1.74%
2015	\$1,406,866	3.73%
2014	\$1,356,301	1.57%

Source: Convenience Store News Market Research, 2017

again in 2016, reaching an average of \$572,926 per store, or a 6.2-percent increase from the previous year.

The expenses that saw the highest percentage jumps were workers compensation, which rose 16 percent to an average of \$12,320 per store, and health insurance, which rose 10 percent to an average of \$27,058 per store. Credit card fees and other benefits were the only expenses to see decreases of 2 percent and 11 percent, respectively.

Wages continued their upward trend, reaching an average of \$285,320 per store in 2016 compared to \$264,185 in 2015.

The challenge of finding and properly compensating good employees while remaining profitable will continue, but industry experts acknowledge the importance of investing in the workforce.

"Even the most beautiful new store doesn't work without people," Kevin Smartt, CEO of Kwik

## In-Store Sales by Category

	PERCENT OF IN-STORE SALES			2016	TOTAL INDUSTRY SALES (in millions)		
	2016	2015	2014		% CHANGE	2015	% CHANGE
MERCHANDISE							
Cigarettes	30.11%	30.84%	31.13%	\$66,612	1.42%	\$65,678	3.9%
Packaged beverages	12.74	12.69	12.41	28,176	4.22	27,033	7.3
Beer/malt beverages	9.56	9.51	9.67	21,138	4.39	20,249	3.1
Edible grocery	4.98	5.11	5.13	11,021	1.28	10,882	4.5
Other tobacco products	5.16	4.91	4.89	11,404	9.01	10,461	5.4
General merchandise	3.53	3.25	3.25	7,808	12.85	6,919	4.9
Candy/gum	3.19	3.22	3.26	7,054	2.80	6,862	3.5
Salty snacks	2.74	2.73	2.71	6,069	4.37	5,815	5.8
Non-edible grocery	1.71	1.89	1.91	3,780	-0.59	4,021	3.7
Fluid milk products	1.58	1.70	1.90	3,495	-3.50	3,622	-6.4
Wine & liquor	1.35	1.26	1.19	2,989	11.30	2,686	10.7
Alternative snacks	1.11	1.09	1.05	2,452	5.96	2,314	8.4
Ice cream & frozen novelties	0.95	0.94	0.93	2,098	5.00	1,998	5.3
Health & beauty care	0.71	0.73	0.73	1,567	0.90	1,553	4.6
Publications	0.48	0.50	0.53	1,063	-1.00	1,074	-0.2
Ice	0.50	0.47	0.44	1,102	10.00	1,002	12.0
Packaged sweet snacks	0.30	0.30	0.29	660	2.60	643	8.3
All other merchandise	3.17	3.15	3.18	7,012	4.51	6,709	3.8
Merchandise subtotal	83.86%	84.29%	84.62%	\$185,500	3.34%	\$179,521	4.5%
FOODSERVICE							
Prepared food (prepared on- or off-site)	10.87%	10.65%	10.38%	\$24,043	5.90%	\$22,694	7.70%
Hot dispensed beverages	3.38	3.26	3.23	7,481	7.70	6,944	5.80
Cold dispensed beverages	1.35	1.23	1.18	2,981	13.80	2,618	9.10
Frozen dispensed beverages	0.54	0.57	0.59	1,195	-1.60	1,214	1.10
Foodservice subtotal	16.14%	15.71%	15.38%	\$35,700	6.60%	\$33,470	7.10%
TOTAL IN-STORE	100.00%	100.00%	100.00%	\$221,200	3.80%	\$212,991	4.90%

Source: Convenience Store News Market Research, 2017



Chek Food Stores Inc. and NACS Executive Committee vice chairman, research, remarked during the recent 2017 NACS State of the Industry (SOI) Summit.

Although large convenience stores are becoming more common, the c-store industry as a whole isn't making huge leaps in square footage. The average sales area and total property size saw slight increases, while the average non-sales area remained flat in 2016.

In the future, the most competitive c-stores will also need to budget for new duties that employees will have to perform.

"Delivery, mobile ordering and pickup, and curbside will be very common in the next two years for just about every segment — retail and foodservice," said Tim Powell, vice president of consulting at Q1 Consulting Services. "It's what 18- to 34-year-olds will become used to."

## TOBACCO

Cigarettes made small gains in dollar sales in 2016, while unit volume trended toward flatness or losses. Premium cigarettes grew 2 percent in dollar sales despite a less than 1-percent unit volume decline. Subgeneric/private label cigarettes increased 3.5 percent in dollar sales and 0.2 percent in unit volume. Fourth tier cigarettes, however, fell a whopping 12.1 percent in dollar sales and 16.6 percent in unit volume.

Compared to cigarette sales jumping nearly 4 percent in 2015, the category saw just 1.42-percent growth in 2016. Margin percentage, though, increased to 15.2 percent, up from 13.36 percent. Despite the decline in units, price increases by manufacturers and taxes levied by local and state governments helped cigarettes' share of in-store sales hold steady at 30.1 percent.

## Motor Fuel Sales & Margins

	2016	2015	% CHANGE
Dollar sales (in billions)	\$343.70	\$389.90	-11.80%
Gallons sold (in billions)	154.7	151.3	2.24%
Gross margin cents per gallon	22.9	23.4	-2.10%
Average sales price per gallon*	\$2.25	\$2.57	-12.45%

\*Weighted average, all grades and diesel  
Source: Convenience Store News Market Research, 2017

## Retail Gasoline Prices (per gallon)



Prices include dollars per gallon for all grades, all formulations  
Source: U.S. Department of Energy/Energy Information Administration

## Five-Year Trend: Motor Fuels

	2016	2015	2014	2013	2012
Dollar sales (in billions)	\$343.70	\$389.90	\$501.40	\$509.60	\$515.40
Gallons sold (in billions)	154.7	151.3	147.0	143.3	141.0

Source: Convenience Store News Market Research, 2017

"Premium brand extensions over the last several years by the major manufacturers is a large reason for these trends. Many of these extensions, while classified as premium cigarettes, can sell at a deep discount — sometimes around 30 percent or more to others in the broader brand family," explained David Bishop, managing partner of sales and marketing firm Balvor LLC. "This has helped to narrow price gaps with the lower price tiers, which helps explain to a degree fourth tier's performance. At the same time, larger retailers are expanding their focus on private label as a way to counteract the margin pressures they're experiencing, while also offering a strong opening price point for the more price-sensitive smoker."

## Stores Selling Motor Fuels (Percent of stores that sell motor fuel)



Source: Nielsen TDLine, December 2016

In the other tobacco products (OTP) category, smokeless, cigars and electronic cigarettes all saw increases in dollar sales and unit volume last year. Cigars and e-cigarettes made particularly good unit gains, at 11.9 percent and 13.8 percent, respectively. Papers, pipe/cigarette tobacco, pipes and other OTP products all declined in both dollar sales and unit volume, with pipes decreasing a whopping 66.1 percent in dollars and 27.1 percent in units.

Over the last five years, OTP has seen fluctuations in its percentage of industry sales, but 2016 was a positive year, with the segment rising 9 percent in sales from 5.4-percent growth in 2015. Margin percentage also rose to 28.06 percent from 24.34 percent the previous year, and OTP's share of in-store sales increased to 5.16 percent from 4.91 percent the previous year.

"OTP sales continue to increase. However, the longer-term impact of the Food and Drug Administration's deeming rule on e-cigarettes and vape products has yet to be determined," said Montgomery. "Should the rule stand, it has been estimated that many, if not most, of the manufacturers impacted will not go through the required process. This could

## Direct-Store Operating Expenses

	DOLLARS PER STORE		
	2016	2015	% CHANGE
Wages	\$285,320	\$264,185	8.00%
Payroll taxes	16,163	15,106	7.00
Workers compensation	12,320	10,621	16.0
Health insurance	27,058	24,598	10.0
Other benefits	5,361	6,024	-11.0
<b>Labor subtotal</b>	<b>\$346,222</b>	<b>\$320,534</b>	<b>8.00%</b>
Credit card fees	71,703.66	73,167	-2.00
All other expenses	155,000	146,000	6.10%
<b>TOTAL</b>	<b>\$572,926</b>	<b>\$539,701</b>	<b>6.20%</b>

Source: Convenience Store News Market Research, 2017

## Five-Year Trend: Wages (dollars per store)



Source: Convenience Store News Market Research, 2017

## Category Analysis: Cigarettes

(30.11% of in-store sales, down from 30.84% in 2015)

	DOLLAR SALES % CHANGE	UNIT VOLUME % CHANGE
Premium	2.00%	-0.40%
Branded discount	0.00	-4.20
Subgeneric/private label	3.50	0.20
Fourth tier	-12.10	-16.60
Imports	-4.20	-4.50
<b>TOTAL</b>	<b>1.42%</b>	<b>-1.00%</b>

Source: Convenience Store News Market Research, 2017

## Five-Year Trend: Cigarettes

	2016	2015	2014	2013	2012
Percent change in total sales	1.42%	3.9%	0.1%	-0.3%	2.0%
Margin percentage	15.20%	13.36%	13.60%	13.80%	14.21%
Share of in-store sales	30.1%	30.8%	31.1%	32.1%	32.9%

Source: Convenience Store News Market Research, 2017

result in up to 99 percent of the product on the market today becoming unavailable."

## FOODSERVICE

Between its high margins and major opportunities for incremental growth, foodservice is perhaps the hottest product category in convenience retailing today. Yet all aspects of the category did not perform equally in 2016, with some segments considerably outpacing others.

"Does gas stand for gas station or gastronomy? Increasingly both," NACS Chairman and CEO of 6040 LLC Rahim Budhwani said during the NACS SOI Summit.

Prepared food had a solid year in 2016, reflecting growing acceptance of c-stores as a destination for tasty, quality food. Dollar sales of prepared food increased 5.9 percent. Additionally, prepared food is the foodservice segment that makes up the largest percentage of in-store sales at 10.87 percent.

"The retail industry is changing based on the new shopper who is demanding food that is ready to eat," Powell said. "In the super-market, the center store is taking a hit and new designs are focusing on the perimeter where the prepared foods are located. C-stores are no different."



As fountain drinks, particularly carbonated soft drinks, are among the items most commonly paired with a prepared food purchase, it is no surprise that cold dispensed beverages fared well last year. Dollar sales rose 13.8 percent year over year, though cold dispensed beverages still account for just 1.35 percent of in-store sales.

Hot dispensed beverages had a solid year, rising 7.7 percent in dollar sales. Not faring so well was frozen dispensed beverages. Following a year of flatness in 2015, dollar sales of frozen dispensed beverages fell 1.6 percent last year.

"It is odd that frozen dispensed is declining. I think the overall non-alcoholic beverage category is being diluted by so many other options — functional beverages, bottled water, sparkling water, etc.," said Powell. "The 18- to 24-year-old generation is more driven by health and wellness and social consciousness claims than any other generation before it."

In an analysis of the last five years, foodservice has shown total sales growth of 6 percent or more every year. Growth declined slightly in 2016, but still reached 6.6 percent. Although the margin percentage of foodservice declined slightly during the last five years, the category's share of in-store sales has increased every year, going from 14.31 percent in 2012 to 16.14 percent in 2016.

Sandwiches remain the No. 1 choice among prepared food, at 26.5 percent of the segment's sales. For

## Category Analysis: Foodservice

(16.14% of in-store sales, up from 15.71% in 2015)

	DOLLAR SALES % CHANGE	UNIT VOLUME % CHANGE
Prepared food (prepared on- or off-site)	5.90%	10.38%
Hot dispensed beverages	7.70	3.38
Cold dispensed beverages	13.80	1.35
Frozen dispensed beverages	-1.60	0.59
<b>TOTAL</b>	<b>6.60%</b>	<b>16.14%</b>

Source: Convenience Store News Market Research, 2017

## Five-Year Trend: Foodservice

	2016	2015	2014	2013	2012
Percent change in total sales	6.6%	7.1%	6.3%	6.5%	7.6%
Margin percentage	43.70%	43.72%	44.13%	44.64%	45.05%
Share of in-store sales	16.14%	15.71%	15.38%	14.93%	14.31%

Source: Convenience Store News Market Research, 2017

## Category Analysis: Other Tobacco Products

(5.16% of in-store sales, up from 4.91% in 2015)

	DOLLAR SALES % CHANGE	UNIT VOLUME % CHANGE
Smokeless	5.50%	0.60%
Cigars	7.50	11.90
Electronic cigarettes	8.60	13.80
Papers	-3.10	-4.50
Pipe/cigarette tobacco	-9.70	-12.10
Pipes	-66.10	-27.10
Other	-99.50	-98.90
<b>TOTAL</b>	<b>9.01%</b>	<b>6.70%</b>

Source: Convenience Store News Market Research, 2017

## Five-Year Trend: Other Tobacco Products

	2016	2015	2014	2013	2012
Percent change in total sales	9.0%	5.4%	4.3%	8.4%	4.7%
Margin percentage	28.06%	24.34%	24.20%	24.71%	24.53%
Share of in-store sales	5.16%	4.91%	4.89%	4.83%	4.55%

Source: Convenience Store News Market Research, 2017

the second year in a row, hot dogs and pizza were neck and neck as the second and third most-purchased prepared food items. Chicken ranked in fourth place for another year, but fell from 12.4 percent of prepared food sales to 10.4 percent.

Delving deeper into hot dispensed beverages, coffee remains the critical foundation as it holds steady in share, making up 74.7 percent of the segment's sales. Cappuccino/specialty drinks are a distant second at 17.8 percent of hot dispensed beverage sales.

At the fountain, carbonated beverages are even more dominant, generating 86.7 percent of cold dispensed beverage sales, followed by non-carbonated. This indicates that despite the relative flatness that packaged carbonated soft drinks have seen in recent years, thirsty customers in the fountain area are still overwhelmingly likely to choose this option.

### COLD VAULT

In the cold vault, carbonated soft drinks struggled again in 2016, declining in both dollars and units. However, the losses were relatively small: dollar sales fell 0.30 percent, and unit volume fell 1.10 percent.

Juice/juice drinks and ready-to-drink iced tea also saw slight declines in unit volume, but were flat or saw an uptick in dollar sales, respectively.

Enhanced water saw the most significant growth in the packaged

## Category Analysis: Packaged Beverages

(12.74% of in-store sales, up from 12.69% in 2016)

	DOLLAR SALES % CHANGE	UNIT VOLUME % CHANGE
Carbonated soft drinks	-0.30%	-1.10%
Energy drinks	3.20	1.50
Bottled water	4.00	2.90
Sports drinks	4.70	4.00
Juice/juice drinks	0.10	-1.90
Iced tea (ready-to-drink)	1.90	-0.08
Enhanced water	12.90	9.90
All other packaged beverages	7.20	5.80
<b>TOTAL</b>	<b>4.22%</b>	<b>0.90%</b>

Source: Convenience Store News Market Research, 2017

## Category Analysis: Beer/Malt Beverages

(9.56% of in-store sales, up from 9.51% in 2015)

	DOLLAR SALES % CHANGE	UNIT VOLUME % CHANGE
Premium	-0.90%	0.20%
Import	16.30	15.80
Budget	-3.20	0.60
Popular	-1.90	-1.40
Flavored malt beverages	2.00	4.60
Microbrews/craft	15.20	14.50
Super premium	18.30	17.80
Malt liquor	-2.20	-4.20
Non-alcoholic	-10.30	-9.90
<b>TOTAL</b>	<b>4.39%</b>	<b>3.00%</b>

Source: Convenience Store News Market Research, 2017

beverages category. Reflecting consumers' growing interest in healthy and better-for-you food and drink choices, enhanced water rose 12.9 percent in dollar sales and 9.9 percent in unit volume.

"This segment is also riding on the health-and-wellness wave as these products may be perceived by consumers as better for you than many of the beverage alternatives in the cold vault," said Bishop of Balvor.

Traditional bottled water grew 4 percent in dollars and 2.9 percent in units. Sports drinks likewise had a positive year, with dollar sales increasing 4.7 percent and unit volume increasing 4 percent.

"More and more consumers are becoming health

## Five-Year Trend: Packaged Beverages

	2016	2015	2014	2013	2012
Percent change in total sales	4.22%	7.3%	5.1%	4.0%	9.6%
Margin percentage	41.40%	32.80%	32.67%	32.91%	32.83%
Share of in-store sales	12.74%	12.69%	12.41%	12.18%	11.96%

Source: Convenience Store News Market Research, 2017

## Five-Year Trend: Beer/Malt Beverages

	2016	2015	2014	2013	2012
Percent change in total sales	4.39%	3.1%	3.0%	1.8%	5.3%
Margin percentage	19.10%	18.71%	18.57%	18.17%	18.15%
Share of in-store sales	9.56%	9.51%	9.67%	9.69%	9.72%

Source: Convenience Store News Market Research, 2017

conscious and this will continue to drive this category's growth. This results in retailers devoting more space to functional beverages, which in turn creates more awareness of the category, leading to more trial and adoption," said Montgomery of b2b Solutions. "What is interesting is that this has not resulted in a decline in dollar or unit volume of bottled water and/or sports drinks."

Although the packaged beverages category has seen ups and downs in its rate of growth over the last five years, each year since 2012 has turned

in positive growth. Total sales increased 4.22 percent in 2016, down from 7.3 percent in 2015. Margin percentage jumped significantly to 41.4 percent in 2016, up from 32.8 percent the previous year. The category's share of in-store sales has held steady, increasing by less than 1 percent from 2012 to 2016.

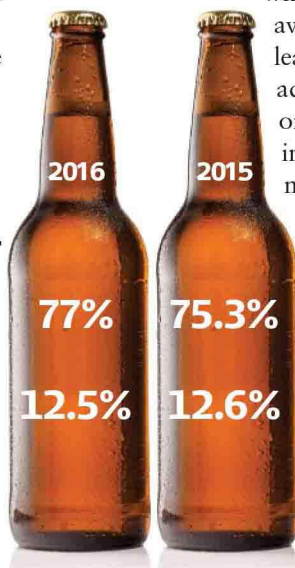
The alcoholic side of the cold vault last year saw more ups and downs, depending on the segment. Super premium, imports and microbrews/craft beer all generated double-digit growth in dollar sales and unit volume. But budget, malt liquor, popular and premium beer all saw declines in dollar sales and declines or flat growth in unit volume.

## Stores Selling Beer

Percent of stores selling beer

**For stores selling beer:**

Percent of in-store sales



Source: Convenience Store News Market Research, 2016



## Category Analysis: Candy

(3.19% percent of in-store sales, down from 3.22% in 2015)

	DOLLAR SALES % CHANGE	UNIT VOLUME % CHANGE
Chocolate bars/packs	-2.20%	-3.50%
Bagged/repacked peg candy	5.50	3.00
Gum	-4.00	-5.90
Novelties/seasonal	8.90	1.40
Non-chocolate bars/packs	-13.30	-11.80
Candy rolls, mints, drops	-1.90	-4.00
<b>TOTAL</b>	<b>2.80%</b>	<b>-1.90%</b>

Source: Convenience Store News Market Research, 2017

“Having a wide selection of craft beers can be a point of differentiation for a retailer. However, the traditional brands still dominate beer sales,” Montgomery said. “Balancing the space devoted to craft beers and the traditional brands will require careful monitoring.”

The number of c-stores that sell beer has increased in recent years, rising to 77 percent in 2016. For stores that do sell beer, beer sales make up 12.5 percent of their in-store sales.

Despite the variations in the different beer segments, overall sales growth of beer and malt beverages has increased consistently for the past several years following a growth slowdown in 2013. Sales of beer and malt beverages increased 4.39 percent in 2016, a jump from the 3.1-percent growth seen the previous year.

## Five-Year Trend: Candy

	2016	2015	2014	2013	2012
Percent change in total sales	2.8%	3.5%	3.2%	3.2%	5.2%
Margin percentage	47.00%	42.49%	41.20%	41.05%	40.92%
Share of in-store sales	3.19%	3.22%	3.26%	3.26%	3.23%

Source: Convenience Store News Market Research, 2017

## Five-Year Trend: Alternative Snacks

	2016	2015	2014	2013	2012
Percent change in total sales	5.96%	8.4%	9.9%	4.9%	12.8%
Margin percentage	43.70%	35.91%	36.02%	34.12%	33.48%
Share of in-store sales	1.11%	1.09%	1.05%	0.99%	0.96%

Source: Convenience Store News Market Research, 2017

## Five-Year Trend: Salty Snacks

	2016	2015	2014	2013	2012
Percent change in total sales	4.37%	5.8%	6.3%	5.9%	10.8%
Margin percentage	36.60%	31.47%	31.17%	29.93%	29.30%
Share of in-store sales	2.74%	2.73%	2.71%	2.63%	2.53%

Source: Convenience Store News Market Research, 2017

## Category Analysis: Alternative Snacks

(1.11% percent of in-store sales, up from 1.09% in 2015)

	DOLLAR SALES % CHANGE	UNIT VOLUME % CHANGE
Meat snacks	1.00%	-0.50%
Health/energy bars	1.80	-2.60
Granola/yogurt bars	7.00	5.90
Other alternative snacks	3.70	2.00
<b>TOTAL</b>	<b>5.96%</b>	<b>-0.40%</b>

Source: Convenience Store News Market Research, 2017

## Category Analysis: Salty Snacks

(2.74% of in-store sales, up from 2.73% in 2015)

	DOLLAR SALES % CHANGE	UNIT VOLUME % CHANGE
Potato chips	4.80%	3.10%
Tortilla/corn chips	2.00	3.40
Nuts/seeds	-2.70	-5.50
Puffed cheese	7.20	7.20
Mixed	1.20	-0.90
Crackers	4.60	1.00
Pretzels	-4.50	-7.00
Popcorn (ready-to-eat)	4.00	3.60
Other salty snacks	3.60	1.50
<b>TOTAL</b>	<b>4.37%</b>	<b>1.10%</b>

Source: Convenience Store News Market Research, 2017

Margin percentage likewise rose to 19.1 percent in 2016 from 18.71 percent the previous year.

### CANDY & SNACKS

Within the candy category, only two segments saw positive growth in 2016: bagged/repackaged peg candy increased 5.5 percent in dollar sales and 3 percent in unit volume, and novelties/seasonal candy increased 8.9 percent in dollar sales and 1.4 percent in unit volume.

All the other candy segments declined in both dollars and units. Non-chocolate bars/packs struggled the most and was the only segment to reach negative double-digits, declining 13.3 percent in dollar sales and 11.8 percent in unit volume. Overall, candy as a whole, fell 1.9 percent in unit volume while dollar sales rose 2.8 percent.

“One factor may be that some retailers have rationalized their candy sets to allow more room for bagged items. The branded sharable size lines now include many of the most popular items, thus contributing to the increased sales,” said Montgomery. “They also provide a higher ring and larger penny gross profit per sales, making devoting more space to them more attractive to the retailer. The repackaged items still provide customers with a wide selection of items at a great price point.”

The declines of 2016 reflect a trend observed over the last five years — candy’s growth in sales and share of in-store sales have both declined, but not sharply. From 2015 to 2016, candy’s change in total sales and share of in-store sales fell less than 1 percent. Additionally, margin percentage increased every year over the last five years, reaching 47 percent in 2016.

Snacks had a better year in 2016, reflecting Americans’ shift toward snacking on the go as a replacement for regular sit-down meals.

“Snacking is now an all-day reality and activity,” Andy Jones, president and CEO of Sprint Food Stores and NACS Research Committee Member, noted at the SOI Summit.

In the salty snacks category, only nut/seeds and pretzels saw both unit volume and dollar sales drop. Conversely, puffed cheese led the way, with dollar sales

## METHODOLOGY

The 42nd annual *Convenience Store News* Industry Report features data from a variety of sources in order to provide a complete picture of the convenience store industry. Store census data was provided by Nielsen TDLinX, which maintains a national count of c-store locations based on NACS’ definition of a convenience store. Dollar sales and unit volume data for a variety of categories was provided by The Nielsen Co. from its Convenience Track retail measurement service, which is based on UPC sales and other methods that are counted through the use of point-of-sale scan data, as well as from data captured via electronic invoice and sales audits. Additional, non-UPC coded merchandise, including prepared food, hot, cold and frozen dispensed beverages, is provided by EnsembleIQ Research Solutions, a sister company of *Convenience Store News*. Government sources include the Census Bureau, Bureau of Labor Statistics, the Department of Energy, and the Federal Tax Administration.

and unit volume both increasing 7.2 percent. Potato chips also saw solid growth, with dollar sales rising 4.8 percent and unit volume rising 3.1 percent, indicating that not all snackers are looking for healthy fare. Overall, salty snacks increased 4.37 percent in dollar sales and 1.1 percent in unit volume.

Similar to candy, over the last five years, salty snacks have seen a decline in total sales growth and stayed flat in its share of in-store sales. However, its margin percentage has increased, jumping to 36.6 percent in 2016 from 31.47 percent the previous year.

Alternative snacks saw a slight decline of 0.4 percent in unit volume in 2016, but dollar sales increased 5.96 percent. This was led by granola/yogurt bars, which increased 5.9 percent in unit volume and 7 percent in dollar sales.

The growth of alternative snacks slowed last year, with the change in total sales falling to 5.96 percent from 8.4 percent in 2015, but its share of in-store sales has held steady over the last five years. Alternative snacks’ margin percentage jumped sharply to 43.7 percent in 2016.

“Snacking will continue to grow as more and more people eat snacks as meal replacements. However, the c-store industry has always had very strong snack sales,” Montgomery said. “The growth percentage may have declined, but the industry has seen consistent margin growth. I expect both of these trends to continue.” **CSN**

## 2016 REPORT CARD AT A GLANCE

C

### TOTAL SALES

Declined for fourth year in a row due to lower fuel prices.

B

### IN-STORE SALES

A 3.8-percent increase is better than most other retail channels.

B

### MOTOR FUEL BUSINESS

Revenue wasn’t down as much as the previous year and volume was up another 2.2 percent.

C+

### STORE COUNT

Added only about 340 net new stores, but still has many more units than any other retail channel.

B

### PROFITS

Record gross profits and pretax profits were just slightly off the previous year’s record high.

B

### FOODSERVICE SALES

About a half percentage point off the previous year’s sales gain, but still impressive.