Fueling Sales

Retailers seek answers as higher gas prices cut into in-store sales

By Angel Abcede

Ever go to a party where no one would come up to you, and you wondered, "Is it me?"

For petroleum retail and convenience store operators seeing fewer customers in their stores, the answer may lie in the old standby, "It's not me. It's them."

That could be. Or it could be gas prices. You may be good enough and smart enough but, gosh darn it, the price of gasoline is through the roof. Those high prices may be forcing your customers to resist that candy purchase or, worse, switch to that big-box discounter a few miles down the road … forever.

Patrick Lewis, partner at the 10-store Oasis Stop 'N Go Convenience Stores in Twin Falls, Idaho, says, "We're fighting, not only because there's less disposable income, but because a lot of customers are on the bubble." While strong loyalty efforts on Lewis' part have helped him retain customers, the industry is facing a dire situation, he says.

"[Customers] may love your business otherwise, but they've become more price-sensitive, [which could lead to] increased attrition and defection," Lewis says. "People you used to count on to be on your property are looking for a discount alternative."

High fuel prices have stirred up a party of challenges both new and old. The short list includes:

- Retaining customers.
- Getting gasoline-only patrons into the store.
- Overcoming the issue of having less disposable income.

Finding ways to keep customers loyal, lure them into the store and loosen their wallets has been an ongoing concern for retailers ever since the onset of pay-at-the-pump. But as prices go above $2 per gallon and stay there in many major markets, issues of lackluster inside sales and customer retention become increasingly important.

Tackling the Problem

But what is the problem, exactly? Dick Meyer, president of Meyer and Associates, New Berlin, Wis., and a partner at industry benchmarking specialists CSX LLC, says CSX has been examining the issue along with other industry trends and has collected data on what he calls a "same-firms basis" over an extended period of time. One of the more significant "apples to apples" observations, he says, has been the correlation between rising gasoline prices and the decline of inside sales.

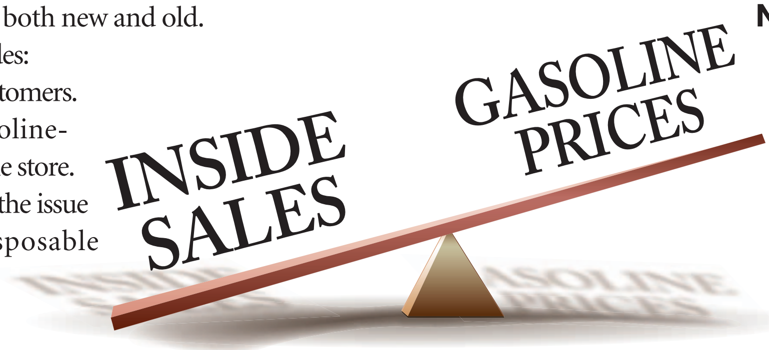
While such a statement may appear to be a no-brainer (of course inside sales go down when gasoline prices go up), Meyer says many retailers spend a lot of time trying to figure out why inside sales are dropping. "If you're in the blind and you don't see how the whole industry is benchmarking, you don't know if [the problem] is consumer-driven," he says. "Or else, you're thinking, 'Is it just me?' "

As soon as retailers understand the scope of the problem, they'll look for a better solution. "You can spend a lot of time looking internally," he says.

Others aren't as quick to embrace the correlation between high fuel prices and declining in-store sales. Teri Richman, NACS' senior vice president, research and public affairs, says, "I still think it's too soon to validly determine if in-store customer counts have been dramatically affected by the sole factor of fuel prices.

"[Prices] change frequently and so do competitive variables," she says. "Many other things … need to be completely understood as consumers face choices in how or what they decide to spend their left-over funds on."

NACS is researching the relationship between higher gasoline prices and in-store sales and hopes to have preliminary information by mid-year. "Even though a customer may only want fuel on a specific store visit, that activity puts the store on that customer's 'store set,' " she says, "which is another way of saying we're likely to see them again on a non-fuel-related visit."



Making the Connection

The CSX data that Meyer alludes to remains very compelling. First off, CSX's benchmark approach compares data from many different companies, but fashions the data so a particular chain's figures are set against its own numbers from the previous year (hence the term "same firms" that Meyer uses).

The most striking comparison comes with data transitioning from the first quarter of 2004 to the second. In that time period, prices at the pump spiked and—coincidence or not—a significant drop in inside sales occurred among those firms, when comparing the first two quarters of '04 vs. '03.

Comparing about 60 companies representing more than 2,200 stores, CSX numbers show a 3.6% increase in the average selling price per gallon of fuel in the first quarter of 2004 over 2003. Inside sales figures for that time show a robust 7.1% per-store increase.

Then in the second quarter of 2004, prices at the pump increase markedly; there's a 26.7% jump in the average selling price of fuel over the previous year, with a corresponding drop in inside sales to a 4.4% increase in 2004 over the same period in 2003.

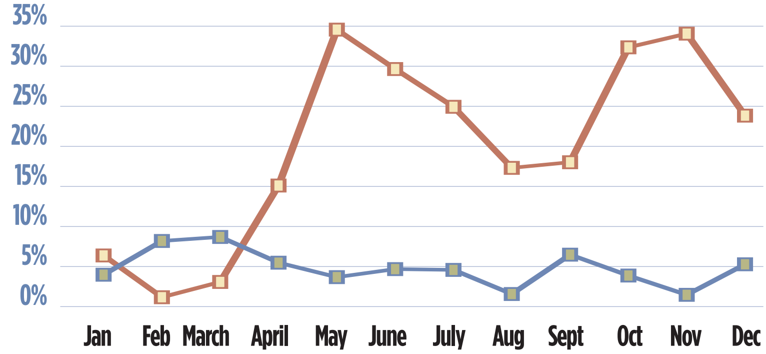
Similar numbers trail out through the rest of the year, with exorbitant increases in fuel paired with sluggish growth inside the store. Third quarter showed a 20.2% increase in the average selling price of fuel and a 3.9% increase in inside sales, and a 30.5% increase in the average selling price of fuel in the fourth quarter accompanied by a 3.7% spike in inside sales.

"Per-quarter trends last year for the same firms' per-store data showed we came out of the gate up high," says Meyer of inside sales. "In the second quarter, we were still good, but then the price of gas started to zoom and all of sudden in-store sales dropped." (CSX presented the data at a CSP CyberConference held March 17. Go to www.cspnet.com/q4review for more information.)

Total Inside Sales Per-Store Percent Change Compared to Average Fuel Selling Price Percent Change

12 Months Ended December 2004 vs. 2003

Percent Change Vs. Prior Year



	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Inside Sales	4.1%	8.3%	8.8%	5.6%	3.8%	4.8%	4.7%	1.7%	6.6%	4.0%	1.6%	5.4%
Average Fuel Selling Price	6.5%	1.3%	3.2%	15.2%	34.6%	29.7%	25.0%	17.4%	18.1%	32.4%	34.1%	23.9%

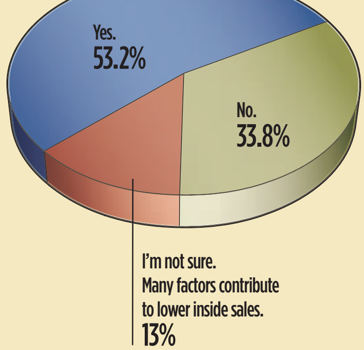
Data from 59 firms representing 2,279 stores created this graph. Source: CSX LLC proprietary database as of March 17, 2005.

For Mark Charter, manager of Harvester General Store, Rhodes, Iowa, the company's gasoline loyalty program has staved off the competition (CSP—March '05, p. 66).

"I agree with the statistic wholeheartedly that higher gas prices take away from inside the sales," Charter says. But, he says, for many retailers, "It's critical to do something, unless you're Casey's General or [Circle K] and you have enough stores to spread around profits and losses."

Gas Prices Hurting Sales

Have recent high gasoline prices hurt your inside sales?



Source: CSP Daily News Poll. Based on 231 respondents.

Richman of NACS agrees that "there is a likely impact on the price of fuel on inside sales, but the real issue is what, if anything, will consumers do as a result of lower disposable income."

Consumers may decide to do a number of things before postponing their c-store purchase, Richman says. They may dine out less or choose less-pricey restaurants. She says consumers appear to have a "pecking order" of what they'll cut back on when disposable income lessens. "In our industry, this is not showing up in a large way just yet," she says. "For example, folks still need fuel, and that morning coffee and cigarettes are also not considered 'disposable' by many."

Focus on Gas

Simply attributing loss of inside sales to high gas prices may be oversimplifying the problem; root causes may run the gamut from neighboring competition to supply-chain challenges.

As Lewis of Oasis Stop 'N Go believes, if the problem were purely one of disposable income, then logic would sug-

Pouring on Credit Cards

One of the other unfortunate effects of higher gasoline prices are skyrocketing credit-card fees. Iowa retailer Mark Charter has found a simple way to address the issue: by adding a drop of water.

Well, maybe a few single-serve containers. Charter, manager of Harvester General Store in Rhodes, Iowa, got a deal on water for 18 cents per container and last spring began giving out one for every $10—with a maximum of five bottles for $50—that a customer pays in cash for his or her gasoline purchase. "We're paying 3% per credit transaction and less than $1 in water," he says. "People seem to like it."

gest that customers disappearing during peak fuel prices would return to the store when prices fall.

The more important issues are retaining customers who may bail in favor of competing discounters, addressing the effect of pay-at-the-pump and reducing dependence on the fluctuations of fuel margins. Lewis and other retailers continue to make strides on these fronts, deploying loyalty programs, increasing operational efficiencies, turning the location into a destination point and initiating better fuel-buying strategies.

Many retailers focus first on the source: gasoline. For the summer, retailers ought to expect volatility to pick up, according to Karen Madden, vice president, sales energy, DTN, Omaha, Neb. Seasonal demand picks up with summer travel and with certain markets needing to comply with area mandates for so-called boutique fuels. Price spikes can occur in these areas due to tight supply and the nation's aging refinery, terminal and pipeline system. But since crude has dropped $9 per barrel since April, "some of the air has been let out of the market's sails," Madden says. "I wouldn't anticipate anything different this year outside of more volatility, as that has been the recent norm."

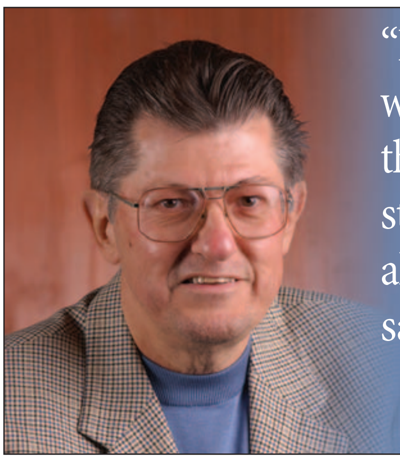
Retailers, especially unbranded but in some cases branded, can choose suppliers to access the best prices, pick among the best terminals to optimize cost or use the most cost-effective transportation carrier, Madden says. Timing purchases is also a way to streamline costs, with retailers "playing the market to some extent by keeping tanks full or empty," she says.

Robert Johnson, an executive adviser for KSS, Florham Park, N.J., says the need to react quicker is paramount for today's fuel-buying retailer. "It used to be that the typical market cycle was 45 days," Johnson says. "But today, the highs are higher, the lows are lower and the cycles are closer together."

Johnson, formerly 7-Eleven's general manager of gasoline and environmental services, says that in the past if a fuel buyer reacted slowly to a cycle, it wasn't a big loss. "But today you don't have that luxury. You have to react quicker," he says.

Fuel pricing and purchasing services are evolving to meet retailer needs, while decision-support software has become available to retailers to help maintain internal business rules and make consistent decisions amid pricing volatility.

Retailers are becoming smarter buyers, says Richman of NACS. She says some delve into hedging (participating in the futures markets), experiment with discounting for cash and, as always, working to reduce the break-even number that defines how low the price can go. "Inside and outside tactics apply here," Richman says. "For example, every penny we save or earn in the store can help reduce the dependence on fuel margins. I also see interest in more electronic price signs for fuel, so that a decision to change a price can be made without long delays as prices change frequently, sometimes multiple times a day."



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—Dick Meyer
CSX LLC

Driving Sales

Beyond the cutting costs involved in fuel buying and selling, retailers have taken steps toward increasing inside sales through "destination" strategies and loyalty programs. Some of the most visible programs include Altoona, Pa.-based Sheetz Inc. and its foray into made-to-order sandwiches, as well as the choice that Bloomington, Minn.-based Holiday Companies made by investing in car washes.

As the Internet becomes more in vogue as a c-store marketing tool, Speedway SuperAmerica LLC,

Free Time: Mark Charter works with a store employee to sign a customer up for Harvester General Stores' "Free Gas" program.

Springfield, Ohio, emerges as an innovator. Just last year, the company updated its Supermoms.com Web site to handle electronic ordering. Mothers can order customized birthday cakes online in the Twin Cities (Minneapolis/St. Paul) market and have the cakes delivered for pickup at any Speedway c-store.

Three-store retailer Tommy Hunt, president and CEO, Calloway Oil Co., Maryville, Tenn., also invested in innovative technology, installing Greensboro, N.C.-based Gilbarco pumps that automatically advertise and dispense coupons. "We wanted to be able to talk to the customer on the island," Hunt says. The $4,000-per-store investment has proved fruitful, according to Hunt, with redemptions of roughly 1,000 coupons per store per month since installing the system several months ago. (See video of Hunt demonstrating the in-pump devices in the June 2005 issue of CSP Digital. Visit www.cspnet.com.)

By investing in these businesses, these retailers have created additional reasons outside of fuel for customers to drive onto their lots.

Other retailers choose loyalty programs that range from simple to sophisticated. Charter of Harvester General Store uses a fuel discount program ("Free Gas") that requires only three-ring binders. "Our gas program has saved our bacon," Charter says. "We have not really experienced a high drop in sales, which have been pretty steady from a year ago."

Lewis of Oasis Stop 'N Go, who also manages a six-state loyalty program called KickBack Points, believes that loyalty programs don't have to be extravagant. He says simple punch cards can be effective. "The heart of a loyalty program is getting your customer vested in your business by getting them involved," Lewis says. "With rewards and recognition, you can accomplish that."

Selling Up

Even simpler than punch cards, Lewis suggests that retailers revisit the art of upselling. A recent study conducted exclusively by CSP and Calgary, Alberta-based Service Intelligence concluded that of multiple categories of customer service, eight of the top players in the industry could improve in the area of upselling (CSP—June '05, p. 30).

"I can see why businesses are reluctant to push it," Lewis says. "It's uncomfortable for the cashier."

While the matter falls into the realm of employee training, he says that once cashiers get used to upselling, the effect is tremendous.

He stipulates that such upselling must be done in an intelligent way. In his case, one of his employees' scripts relates to cigarette sales. If a customer buys a pack that is say, $3.50, the employee's script asks that customer if he'd like to save $1 by buying two. He says his chain refrains from putting competing brands together in these types of promotions, but such tactics "help dramatically."

"You see it every day," Lewis says of his strategy to keep and retain loyal customers. "You see the customer appreciating what you're doing. And the way I'm looking at it, any time you can get them talking is an opportunity to create positive relationships." ■