

CLEARDEMAND

Power-Up Your C-Store '22

New Strategic Actions for Customer-Driven Pricing
and Promotions that Attract Trips and Capture Margins



Inflation places Convenience Store operators in a challenging environment where inside sales are more crucial than ever. Now is the time to leverage intelligent price management and optimization to build baskets and keep customers returning for their favorite products.

An Industry Guide from CLEAR**DEMAND**

Power-Up Your C-Store '22

NEW STRATEGIC ACTIONS FOR CUSTOMER-DRIVEN PRICING AND PROMOTIONS

INFLATION REMAINS THE TOP STORY following a tumultuous year in 2021. Convenience stores were battered from both sides by steep jumps in fuel prices and cost increases on many products sold inside the store.

Expensive gasoline diverted consumer spending power and altered trips. Meanwhile, higher unit prices drove up dollar sales inside the store.

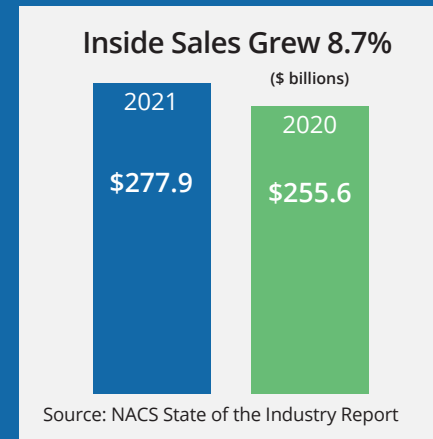
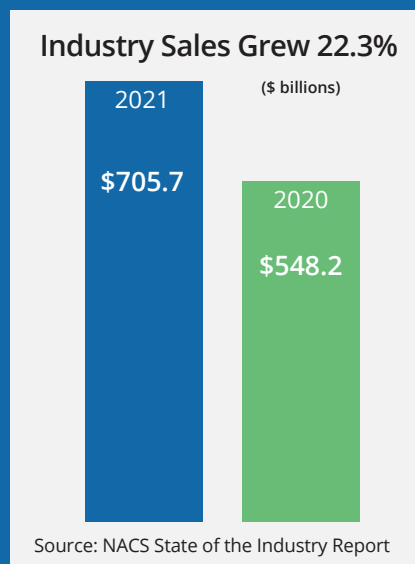
C-store operators were hard-pressed to maintain margins as most of their topline growth came from the forecourt as reported by NACS in its *State of The Industry Report*:

- Total industry sales, including fuel, grew 22.3% to \$705.7B in 2021 from \$548.2B in 2020.
- Gasoline remains the largest contributor of total sales, reaching \$428 billion in 2021 versus \$293 billion
- Inside sales grew also, at a rate of 8.7% to \$277.9B in 2021 from \$255.6B in 2020.

These increases came despite a 1.5% decline in the number of convenience stores, which dipped to 148,026 total locations at the opening of this year.

Also of note:

- The average size of in-store baskets increased 3.8% to \$6.75.
- The transaction count has decreased 6.9% since 2019.
- Food service sales were



tops in gross margin at 51%. They grew faster than all other merchandise categories, gaining 18% YoY.

- Tobacco remained the largest inside sales category, accounting for fully one-third (33.6%) of all revenue on 7.4% growth.

C-store operators must revisit old assumptions about where to build revenue and find margin opportunities.

This guide from Clear Demand looks at pricing challenges across categories and defines an overarching analytic approach. We then outline four new pricing management opportunities convenience stores should implement to adapt their strategies to present realities.

Read on, and chart your path to a more customer-centric and profitable future...

TABLE OF CONTENTS

Headwinds Expose Fresh Opportunities . . . **4**

Each Category Tells a Story **6**

Use Analytics for Intelligent Pricing **8**

Keep Polishing Your Price Image **10**

Four Action Steps **12**

1 Master Your Tobacco Pricing **14**

2 Optimize Regular Pricing **16**

3 Promote With Intention **18**

4 Boost Margins with Food Service **20**

Make It Happen: Core Pricing Disciplines Still Apply **22**

Postscript: Keep Pricing to Win. . . **24**

Headwinds Expose Fresh Opportunities

THE PAST YEAR BROUGHT NEW CHALLENGES to the C-store industry, as pandemic and supply-chain disruptions were compounded by global events and commodity price hikes.

For the first time in recent memory, operators have been forced to confront significant inflation, while their customers were forced into some hard choices, as fuel expenses gobbled up discretionary dollars and trips trended negatively.

Two thirds (66%) reported that their in-store sales were higher in 2021 than in 2020, while just 16% said that in-store sales decreased, according to a NACS "Pulse" survey of retailer members released in January 2022.

Store operating costs remain a steep challenge, as those expenses increased 14.3% year-over-year, driven most by a 10.9% surge in the largest component, wages and benefits.

Resilient operators are responding with fresh approaches to merchandising and more advanced price management techniques.

Many C-stores were already pivoting to meet customer preferences, introducing restaurant-quality food service options and healthier packaged snack items. Prepared food sales surged by 26% in 2021, accounting for 36% of in-store gross profits. NACS reports that robust food service sales were strongly correlated with in-store profits.

Private label products are also coming into their own in the channel, posting a 17% increase in sales volume over the

latest 52 weeks. Store brand programs offer enhanced value and product quality to shoppers, with margin benefits to the operators.

In the tobacco category, more localized buydown programs now require store-level pricing. Along with new price and promotion management APIs from major suppliers, this has motivated c-stores to adopt more advanced solutions to enable better program compliance and precision pricing.

There has never been a better time to think critically about your pricing capabilities, refine your strategy, and take decisive action.

C-STORES 2021 BY THE NUMBERS:



\$706B

TOTAL SALES



\$278B

INSIDE SALES



+8.7%

YOY INSIDE SALES GROWTH



148,026

US STORES



+17%

YOY PRIVATE LABEL SALES

Each Category Tells a Story

IN AN ERA OF RISING PRICES, convenience stores are adapting to a new wave of challenges, driven by changing consumer wallet behaviors and a continually churning competitive environment.

To understand this fully, consider that the 148,000 convenience stores are really several differently-performing businesses under one roof, as NACS reports for the full year 2021:

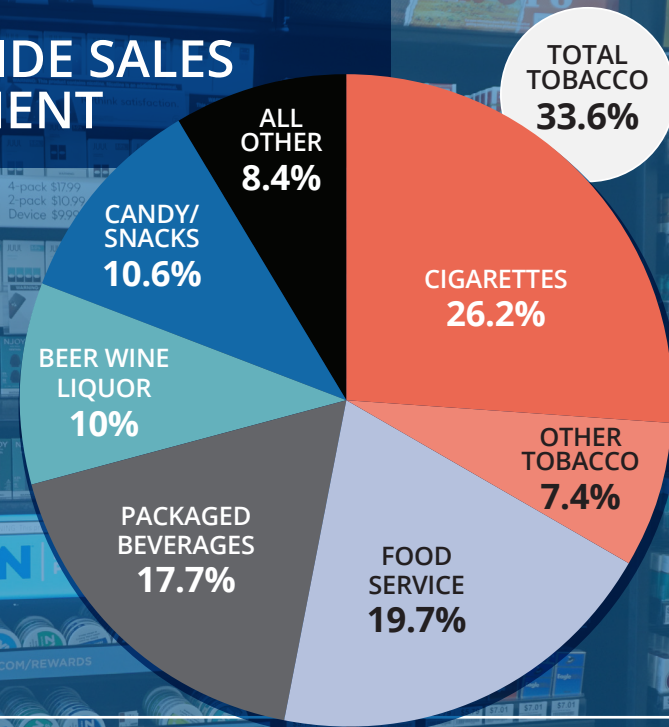
Tobacco Products (cigarettes + other) contributed 33.6% of inside sales, or \$93B nationally. Cigarettes yielded average gross margins of 13.5% and account for a 10.3% gross margin contribution. Other tobacco products delivered 30.2% gross margins for a 6.5% contribution.

Food Service sales increased 18.2% over 2020 to \$54.8B, accounting for 19.7% of total inside sales while delivering a 51% gross margin. The department, which encompasses prepared foods, commissary, hot and fountain beverages, outperformed the total store, delivering 29.2% of total inside gross margin.

Non-Alcoholic Packaged Beverages account for 17.7% of total inside sales and a gross margin of 45%, accounting for 23.3% of total inside gross margin.

Snacks and Candy delivered a combined 10.6% of sales, a decline from 10.6% a year earlier, perhaps losing some dollars to fuel sales. Salty Snacks, 4.4% of total inside sales, had a gross margin of 40.8%, amounting to a 5.2% gross margin contribution. Candy, 3.5% of total inside sales, had a gross margin of 50.3%, for a 5.2% gross margin contribution.

C-STORE INSIDE SALES BY DEPARTMENT



SOURCES: NACS /Research / Fact Sheets; NACS State of the Industry Report 2021.

Alcoholic Beverages (beer, wine and liquor) accounted for 10% of total inside sales, or \$27.8B. Combined, the categories contributed 6.9% of total inside gross margin. Beer (8.8% of sales) delivered 22.6% gross margins.:

Each of these major categories requires a rigorous and timely pricing discipline to ensure that margin objectives are met. Regulated products – tobacco and alcohol – require specific disciplines in place to conform with regulations, tax codes, corporate guidelines, promotions and loyalty objectives.

With costs and competition exerting more pressure, responsive and localized price execution is a major pain point – and opportunity – for c-store operators.

USE ANALYTICS

For Intelligent Pricing

WITH AN AVERAGE TRANSACTION COUNT of 1,100 shoppers per store per day (NACS), every visit presents an opportunity to deliver shopper satisfaction, learn something about shopper response, obtain customer insights, and earn the best possible margin. Analytics are essential:

Do you track and understand the insights your guests give you every day during their brief and spontaneous store visits? On average, the C-store shopper completes their purchase decisions within 71 seconds, according to NACS Speed Metrics Research.

Do you track the price elasticity of your key categories and SKUs? Can you measure responses to in-store price changes and advertised promotions? Do you understand and set the right price gaps between different sizes of the same product, or between national and store brands?

Are your stores in the right pricing zones? Do you know your Key Value Items?. Have you pruned underperforming SKUs from your

assortment so as not to distract the shopper with a cluttered assortment. Do you understand the impact of weather on demand?

Compliance data is also growing in importance. Do you have reliable systems in place to ensure your stores are conforming with state and local pricing rules and tobacco manufacturer buy-down programs?

Are you promoting intentionally? Are you rewarding your loyal shoppers? Are you getting credit for your low prices by drawing attention to discounts?

Are your stores participating in the best tobacco buydown programs based on their local customers?

What other shopper insights are locked within your vast flows of POS data but still elude analysis?

Rethink Shopper Motivations

Shopper habits and priorities have been seriously disrupted in the past 24 months by inflation and the COVID pandemic. That means tried-and-true pricing methods need to be disrupted too.

Intelligent analytics enable intelligent pricing. Working from actual measurers of consumer responses, C-store operators can make more informed and faster decisions.

THERE'S GOLD IN YOUR DATA

Key sources of continuous business intelligence for C-Stores



POS TRANSACTION DATA

- Basket details
- Basket dollars
- Promo lift



SHOPPER LOYALTY DATA

- Visit frequency
- Customer value
- Offer response



COMPETITOR PRICING & PROMOTIONS DATA

- Everyday prices, frequency
- Competitor deal



INVENTORY & ERP OPERATIONAL DATA

- Stock levels
- Cost of Goods
- Seasonal factors

Keep Polishing Your Price Image

A RETAILER'S PRICE-VALUE REPUTATION depends on its consistent attention to its "price image." This describes the perception a shopper forms about a retailer's prices based on multiple transaction experiences.

Price image is a quantitative measure of the difference in value between the average purchased goods and the price paid in total. Certain products weigh heavier in the shopper's mind than others, so it is possible to improve price image while also improving margin.

Your prices send a message to your shoppers. What do you want to tell them?

A few highly visible prices can make or break your price image.

Aim too high on a key value item (KVI) and your shoppers may conclude that your entire store is expensive. Aim too low and you sacrifice margins and make it harder to raise prices later.

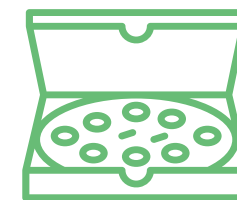
Price inconsistently across a line or within a category and shoppers may be confused or suspicious. Price too far above your competitors and you may miss a purchase – and never learn why.

Price image translates to shopper trust, which is the foundation of loyalty and the pathway to increased visits and larger baskets or transactions.

WHERE CUSTOMERS GET YOUR PRICE MESSAGE MOST



Tobacco and Fuel prices are the most highly visible, highest-impact influences upon your overall price image.



But other categories, notably food service, store brands and frozen foods, are gaining in importance.

FOUR NEW ACTION STEPS

For C-Store Pricing Success

INFLATION has shoppers feeling deflated. The wage gains many were celebrating a year ago have been wiped away by higher prices on essential goods and services.

C-stores are on the front lines of this experience. Gas pumps are a painful reminder. Never has it been more essential for operators to take control of pricing, the message it conveys, and the margins it generates.

The path to price optimization starts with rules compliance and identifying the easiest pricing fixes. Pricing science then looks deeper to find changes that earn greater revenue and profit.

Next come strategic price changes that can add much more profit for small drops in revenue. The goal is true optimization of regular and promotion prices at what we call the “efficient frontier.”

Private label products offer a means to earn higher margins and burnish your price image by offering shoppers high-quality alternative products at slightly lower price points.

Price sensitivity is different for products on deal versus everyday prices. Pricing science provides a means to understand this distinction and apply it for strategic advantage.

*In the next few pages, we present **Four New Action Steps** that operators can take to elevate these principles in today's hyper-dynamic environment.*

NEW ACTION STEPS

1



MASTER YOUR TOBACCO PRICING

2



OPTIMIZE REGULAR PRICING

3



PROMOTE TO WIN

4



BOOST MARGINS WITH PREPARED FOODS

ACTION STEP 1

Master Tobacco Complexity

EVERY RETAIL PRICING DECISION is bounded by a variety of constraints, such as cost of goods, regulatory requirements, competitor prices, price gaps within categories, price parity across categories, and short-term promotional prices.

For tobacco in particular, considerations include state minimums, compliance pricing for buy downs, and precise management of penny profit. Mistakes can be costly in terms of profit margins and lost sales.

A leading manufacturer reports that compliance requirements and manual entry cost the retail tobacco industry \$300 million annually in lost revenue, profits and retailer paid allowances.

In the past year, major tobacco suppliers have introduced new compliance technology in the form of application programming interfaces (APIs) that enable retailers to electronically connect their pricing systems. Cash incentives were offered for enrollment.

Forty-one percent of convenience retail technology leaders expect API adoption to increase during the next one to two years, NACS reports. None expect API adoption to decrease.

Since weekly store price changes in controlled categories like tobacco and beer can be strictly mandated by complex local regulations and tax rules, a pricing system must be both effort-saving and utterly accurate to be accepted by a convenience store organization.

Requirements for success

Tobacco retailers need a reliable solution to manage buydown allowance payments, promotional performance execution, and tracking.

No doubt, convenience stores are generally more rules-bound than most other retailers, so their pricing systems must be configured to put compliance ahead of pure margin goals sometimes.

- Manage brand/size and competitor price differentials for maximum profit and price reputation.
- Include intelligent mechanisms for prioritizing rules and resolving conflicts.
- Save time by automating price changes

Automating this process requires advanced machine intelligence that can cope with and resolve numerous conflicting priorities to deliver a price file that managers can trust and readily apply.

1



MASTER YOUR TOBACCO PRICING

Retailers who implement Clear Demand's Tobacco Pricing Solution:

- Maximize buydown rebates
- Avoid state and county fines
- Automate key pricing processes
- Optimize buydown clusters
- Leverage forecasts to minimize stockouts
- Execute in-store for effective compliance

ACTION STEP 2

Optimize Regular Pricing

INTELLIGENT PRICE MANAGEMENT AND OPTIMIZATION enables convenience store retailers to take control of their shopper experience.

Retailers who master their price management, analytics, and optimization processes enjoy superior performance in terms of margins, revenues and shopper loyalty. Using price to send a message, they establish a consistent value story that builds trust and market share.

They price locally, respond with agility to costs and customer sensitivities, and they integrate regular and promotion prices to deliver best total performance.

Cost changes have grown more than four-fold this year due to inflation, creating hard-to-manage workloads. A sound pricing system improves response time by automating routine price changes, freeing more bandwidth for strategic business decisions about emerging priorities.

A best-practice price optimization solution should:

- **Play by the rules.** Maintain visibility of all business rules and easily adjust settings to accommodate regulatory or strategic changes. Prioritize rules and resolve conflicts using intelligent mechanisms.
- **Minimize stockouts.** Use demand forecasting to minimize stockouts and shrink.

- **Optimize store clusters.** Plan tactics around high margin contribution and trip drivers.

A state of the art pricing optimization solution should incorporate good science to enable you to:

- Use demand forecasting for more accurate order quantities and timing.
- Understand demand at the distribution center level, not just the stores.
- Model what-if scenarios for promos and price changes.
- Respond to seasonality and weather influences.

Price management and optimization positions c-stores to compete effectively for the hearts, minds and wallets of shoppers.

2



OPTIMIZE REGULAR PRICING

REPORTS AND ALERTS

Clear Demand Intelligent Price Management and Optimization supports reporting that enables C-stores to monitor daily which items in the assortment should be subject to beneficial increases or decreases in price.

Each nightly run of the software delivers a list of potential price changes that can be ranked and sorted by a variety of criteria.

ACTION STEP 3

Promote With Intention

ATTRACTIVE DEALS drive the business and help build baskets.

Promotions are essential to drive customer traffic, increase transaction size and build customer loyalty, but they can undermine category profits if not well designed. It is essential to identify which items and vendor deals are worth promoting.

When a price promotion is planned with a “volume at any cost” goal, the results are predictable, but not in a good way: A quick bump in volume, too often ending with an out-of-stock before the next order is delivered and with a negative impact on gross margin.

Retailers need to systematically identify the best items and offers with proper consideration of the vendor deals available. They need to avoid watch-outs such as private label cannibalization that can undermine category profits.

What does it mean to “promote with intention”?

It starts with fact-based strategy and a reliable forecast. Both need to be codified – or embedded – within your planning process. At times this will let you validate “gut feel” and proceed confidently. At other times you will detect flaws and re-align plans for a more positive outcome.

Every retail organization possesses institutional knowledge that serves it well.

Intention also means promotion planners work from clearly-defined objectives. They access solid facts behind every decision.



They measure outcomes relentlessly and analyze results to continuously improve.

Model smarter promotions

Data modeling with intent is key to understanding what discounts will deliver the best desired response. Is your goal pure volume? Are you seeking a high margin contribution? A trip driver?

Modeling response with an understanding of price elasticity and interaction effects delivers a set of answers to guide decision making to the right choice.

Machine learning enables deep understanding of customer response and the design of offers that deliver desired sales lift without sacrificing profits.

To promote smarter, put data behind every decision.

3



PROMOTE WITH INTENTION

PROMOTE TO WIN

Model promotional prices in tandem with everyday pricing decisions to yield the best outcomes.

Use machine learning to identify personalized offers for loyal customers that drive more frequent shopper visits and larger basket sizes.

ACTION STEP 4

Boost Margins with Food Service

PREPARED FOODS AND COMMISARY continue to gain significance in the convenience store sector. It is the fastest-growing, highest margin in the C-store. Restaurant price inflation has opened a price-value opportunity this year.

Operators recognize how well-priced, wholesome and flavorful food and beverage options provide an attractive value alternative for shoppers while boosting overall store margins.

Prepared foods are uniquely insulated from direct price matching, and good quality, well priced items strengthen shopper loyalty and your overall brand reputation.

Deliver appealing value options for your customers

For shoppers suffering from sticker shock at restaurants due to inflation, their local convenience store can represent a safe haven, provided the retailer has priced them to send the right message. Now is a good time to build loyalty.

C-stores have long invested in card-based and card-less loyalty programs (like refillable cups) with the aim of encouraging repeat visits, increasing transaction sizes, and capturing detailed sales analytics.



Work from a sound forecast

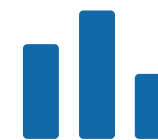
A good handle on anticipated demand can be even more important for made-to-order foods like ingredients for sandwiches and pizza, which have a finite shelf life.

Pricing these products for greater sell-through can cut down on spoilage and the temptation to sell out of date. ability to order to demand.

Optimization and forecasting are the keys to properly price and promote fresh food and drink items relative to fast-food options and provide shoppers with high-quality, high value food choices. With intentional, fact-supported pricing comes rich opportunities to build margins and volume.

What value story do your prepared foods tell shoppers?

4



BOOST MARGINS WITH PREPARED FOODS

FOOD SERVICE PRICING OPPORTUNITIES:

- High margin contribution
- Drive more trips
- Gain share from local restaurant closures
- Sharp promotions reinforce your quality/value story
- Price comparisons more difficult for competitors
- Execute locally versus competitors

MAKE IT HAPPEN:

Core Pricing Disciplines Still Apply

PRICE TO WIN in any macro-environment.

Even your finest experts can't hope to respond effectively to cost and supply chain disruption using spreadsheet tools and processes. Automation is crucial for rapid response and fact-based decision making.

Rules management and compliance are clearly significant technical challenges for the Convenience Store sector. Like price optimization, these should be scientific too. Legacy practices that rely on manual data entry are no longer sufficient to support a competitive retail business.

Take advantage of the learnings proven in other channels over more than a decade. Leading-edge pricing solutions have moved far beyond the "black box" to embrace machine intelligence with transparency and ease of use.

Convenience store operators need a pricing technology platform that lets you master these four disciplines:

Rules Engine

Apply complex, sometimes-conflicting hard and soft rules with priorities controlled using machine learning. Never miss another tobacco buy-down payment



Forecasting

Use science to understand the impact of price changes and plan promotions. Anticipate demand to eliminate shrink and stockouts.

Optimization Engine

Find the best everyday prices on all items, with awareness of price gaps, margin performance and price image.

Enterprise Solution

Adopt a complete SaaS pricing management platform to do it all, with built-in work flows, permissions and user roles.

Today's full featured price management solution is available, accessible, affordable, and fits comfortably into the business operations of most convenience store operations.

EMBRACE CUSTOMER-DRIVEN PRICING AND ADVANCED ANALYTICS:



PLAY BY THE RULES



PROMOTE SMARTER



EARN CUSTOMER LOYALTY



FIND MARGIN OPPORTUNITIES

POSTSCRIPT

Convenience Store Operators

Keep pricing to win.

In today's inflationary and disruptive business climate, there's no greater imperative than an advanced pricing system that applies machine intelligence to manage rules, configure promotions, build shopper loyalty, and maximize financial performance.

Forward-thinking operators will act decisively to consolidate their advantages and keep shoppers coming back. They leverage tools and data to ensure tobacco price conformance, make better category pricing decisions, and design more effective promotions.

Are you ready to make your pricing work harder for you?

Look inside for the four new action steps c-stores should take to turn pricing into a strategic competitive advantage.

CLEARDEMAND

Clear Demand is a best-of-breed software company offering advanced retail price and promotion optimization through a user-friendly interface. We give you all the pricing intelligence you need to succeed in this competitive market. Our cloud-based machine learning grows your business while you sleep. Wake up to daily alerts on cost and competitive changes, profit and revenue opportunities, supplier incentives, and demand trends. Clear Demand is the leader in forecasting sales at the right price and the right quantity. We unlock the value of better promotions with more localized and responsive pricing. Clear Demand delivers easy-to-implement software, retail best practices, and customer support that's got you covered 24/7. Visit us at cleardemand.com.