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The Lean Scene

By Shawn Foucher

Better-for-you products and fresh foods at affordable prices could lure an increasingly health-minded consumer.

Some are kind of freaked out, and some kind of like the idea.

The hardscrabble soda-and-cigarettes crowd, they're still on the lower hump of the learning curve. "They're kind of like, 'Hey dude, where's my Doritos and cigarettes,'" said Alvaro Garza, co-owner of The Green Spot Market and Fuels on the outskirts of Dallas.

But those who like it, really like it. "The moms absolutely love us," Garza said. "They can come here and send their kid into the store and know that, for the most part, the kid is going to make the right decision."

An 1,800-square-foot convenience store that rolled quietly onto the market in February, The Green Spot is everything some industry researchers say doesn't exist: a gas station and food mart rooted in all things healthy, organic and environmentally sound.

It is, to the convenience store industry, what albino gorillas are to Rwanda: a rare, fascinating creature whose existence is a wonder to behold. Truth is, the modest-sized Green Spot is on the forward fringe of a consumer trend that convenience stores are proving slow to capitalize on: health and wellness.

A study by Organic Alliance Inc., released in June at the Healthy Foods International Exposition and Conference in Texas, showed that consumer health food spending in May was about 7.7% higher than it was in November 2007. More than 97% of consumers, in fact, bought some type of health food in May.

Similar research abounds. In a study last month, The NPD Group found fewer Americans are dieting—there was a 10% drop in regimented dieters since 1990—but more than 70% of consumers are actually seeking better-for-you foods that offer reduced fat, whole grain, vitamin fortification, low-salt, cholesterol-free and similar benefits.

And therein lies the challenge for c-stores. Decades-old formats with cigarettes, chewing tobacco, soft drinks, burgers and candy have firmly established the convenience store industry in a grab-and-go business model that caters little to health-minded consumers.

C-store chains have certainly beefed up their made-to-order foodservice programs in response to consumers looking for cheaper meals on-the-go, but not all have honed in on the health-and-wellness trend.

"Think about the offering in convenience stores today," said Todd Hale, senior vice president of consumer and shopper insights for The Nielsen Co. "It's obviously not a place you go to get organics and natural."

Done right, however, a health-focused c-store could fill a critical gap in the convenience environment. "Moving into health and wellness and areas of sustainability is potentially a smart thing to do," Hale said. "But you have to be careful that you don't turn off the shoppers that drive most of your sales."

A Niche or Not a Niche?

The Green Spot's packaged foods are absent the lineup of unhealthy additives, and even the soft drinks themselves aren't really soft drinks, per se, but better-for-you alternatives made by Blue Sky, which manufactures sodas free of high-fructose corn syrup, caffeine and additives.

Garza said there's unquestionably a market for the healthier retail format in northeast Dallas. His store sits near the east shore of White Rock Lake, pulling in a demographic that's upscale, educated, health-focused and in dire need of a nutritional grab-and-go format.

Still, Garza said just about any customer who wanders into The Green Spot finds something comparable to what they'd find in a regular c-store.

"We've been referred to as the Neiman Marcus of gas stations," Garza said. "We're a typical convenience store when it comes to what you can get, but we're very conscious about what ingredients go into it."

That, in a nutshell, is the heart of the health and wellness trend. "There's a reason you can buy a big bag of chips (at a traditional c-store) for 50 cents," Garza said. "You have to really question the quality of those products if they're that cheap."

Other retailers, even some big chains, are molding their foodservice programs to attract health-conscious Americans. Rutter's Farm Stores, a 50-store chain in Pennsylvania, is using healthier and fresher foods to differentiate itself from the competition, said Jerry Weiner, Rutter's vice president of foodservice.

"You used to have what's called 'Bubba food,'" Weiner said, referring to the traditional offering of less-healthy fare for the key 18-to-45-year-old male c-store customer. "Those days have passed. He may not prefer to eat as healthy as other people, (but) Bubba likes quality food, too."

The shift toward healthier foodservice at Rutter's began last September when Weiner returned to the company after a three-year hiatus. He worked at Rutter's for 10 years and was rehired in September to head up the foodservice division.

Weiner's plan played out in 21 Rutter's stores in November and December, when 8-foot walk-around cases were installed to create an additional 36 feet of display space for healthier and fresher grab-and-go items.

The chain, already well known for its fresh and locally harvested dairy and produce items, added fruits, cheeses, sandwiches, wraps and even stir-fry with Oriental noodles and a choice of fried or white rice. An assortment of seven salads including toppings like crab, tuna, pasta and three-bean was added, while the packaged side already had items like Naked juice and yogurts.

The boost in health items at Rutter's hasn't ostracized dedicated customers. "It amazes me," Weiner said. "Regardless of the type of location it's in, it's drawing the masses and getting the wide demographic, which is really what I was after. We couldn't be happier."

Rutter's spin on healthier and fresh products isn't entirely dictated by local demographics. "What I'm finding is it's more driven by the store location than by demographics," Weiner said. Heavily traveled roads and a flurry of competitors nearby may steer a store's foodservice in one direction, while small-town stores away from highways could push it another. "In all these cases, I'm watching the mix vary dramatically."

The chain plans to add fresher, healthier products to at least 10 new stores by year's end.

Money Matters

A keen knowledge of local economies and demographics is critical in shaping a foodservice program, said Thomas Blischok, president of retail solutions, strategic consulting and Integrated Solutions for Information Resources Inc. (IRI).

"The same old assortments will get you the same old results," Blischok said. "They need to think hard about what they offer." He added: "If I were in the c-store business, I'd be working very hard on having an orientation centered on some health and wellness products."

For chains like Rutter's, knowing the local dynamics is all the more important. "I think the larger chains absolutely, positively have to recognize localization," he said. "Smaller chains already have a good pulse on localization."

Some big-name convenience chains are ahead of the curve, though, rolling healthier products into existing foodservice programs or inventing entirely new formats altogether.

Louisville, Ky.-based Thornton's Inc. has been a leader in this area. It introduced a new concept a few years ago, Thornton's QuickCafe & Market, where consumers can choose from new and enhanced products such as fresh-cut sandwiches and salads, fresh fruit, higher quality foods and groceries.

Other retailers have kept with their existing format. 7-Eleven has bolstered its existing foodservice program with healthier food and beverages like Crystal Light Slurpees and low-calorie and fresher options, said Margaret Chabris, marketing communications director for the Dallas-based chain.

Gradually ramping up the foodservice program to a healthier, fresher focus could smooth wrinkled brows from dedicated shoppers who are locked into years-old formats like fried foods, pizzas, nachos and fat-laden fare.

"It's something that's going to be a longer-term play for a c-store operator than it is going to be short-term," said Hale, of Nielsen. "You have to do it gradually in stores where you can have an impact, where there's a shopper base to support the initiative."

Garza believes those shoppers are, or eventually will be, in every market. "Being smart about the foods you put in your body doesn't belong to one demographic," he said. "We try to fit all demographics. Everyone cares about what's going into their bodies."

Ready, Willing, but Able?

Skived by income, certain segments of the consumer population are responding to high food and gas prices in their own unique ways given the current economic tumult, according to an IRI study by Blischok. It has major implications for foodservice categories in c-stores, particularly in determining the salability of health and wellness to specific consumer segments.

Blischok's data showed 52% of lower-income shoppers, those from households earning \$35,000 or less, are buying fewer organic products because they're too expensive. In the same group, 50% are buying fewer private-label goods, 32% are buying fewer healthy products, and 30% are buying less fresh produce.

In the bracket above, the \$35,000- to \$54,000-a-year earners, about 45% are buying fewer healthy products because of cost and 46% are buying less fresh produce.

Compare that to the upper end of the scale, the \$55,000 to \$99,000 group, where only 27% are cutting back on fresh-produce purchases and 28% are buying fewer healthy products. In the \$100,000-plus group, 11% are buying less healthy and 10% are buying less fresh foods.

A Jane Doe making \$55,000 a year has about \$1,500 less in buying power now than she did in January, Blischok said, and she'll have about \$1,500 less than that by December. "At the end of this year, for her to live the same way she was living at the beginning of the year, she'd have to have an income of \$58,000."

Real income isn't rising with inflation, Blischok said, so consumers are changing buying habits to compensate. High gas prices aren't working in c-stores' favor, either. "Many (c-store) categories are down," Blischok said. "What's interesting about that, the reasons they're down primarily, is something we wouldn't have expected: the impact of sticker shock at the gas pump."

The good news: "It's a marvelous time for the convenience store operator to rethink strategy."

A renewed focus on health and wellness could increase a c-store's appeal, Blischok said, but it has to be done effectively and it doesn't have to be focused on foodservice alone. Having a strong section for self-help health items like allergy medications, cough medicines, cholesterol-management, diabetic solutions and the like could meet a growing need.

"Healthcare is exploding for a number of reasons," Blischok said, chief among them the fact that people are more distressed in a troubled economy. Having just one-fourth of 100

or so key health and grocery items could position a convenience store favorably in the minds of consumers, as long as the items are priced competitively.

"How can I use the fact that people stopped at the pump as a plus to come into my store, versus a negative?" Blischok said. "Just having the top 25 of those health items links the convenience store operator with the consumer." An affordable selection of the basics—silly, but essential things like nylons, baby formula or shampoos—could make a c-store shine among consumers.

Again, the product mix will be steered by the store's location and the consumer base. "Pretty much every c-store may find a different set," Blischok said. "You have to understand what this local orientation is."

Some consumers will be willing to pay extra if it's perceived as affordable, Blischok said. They'll pay a small premium if apples or bananas are actually fresh, if the lettuce is crisp or tomatoes are grown locally, simply "because of the perceived freshness and value."

Garza said he and Green Spot co-owner Bruce Bagelman are discovering this gradually, responding to customer requests for certain items and adding new services and programs as the store evolves. They use a local vendor, Roost Catering, to create fresh items like apple turkey and chicken salad sandwiches, but they're now adding a made-to-order taco kitchen to supplement the foodservice program.

"We're finding our niche, truly," Garza said. "We're learning that certain people request certain things." But Garza is hoping the store's fare will eventually appeal to everyone, even the smokers who discover Green Spot doesn't sell cigarettes.

"We don't want to say, 'Oh, you're not smart enough or you're not rich enough to come in here,'" Garza said.