

CATEGORY CLOSE-UP

Hot Dispensed Beverages * Frozen Foods

Brew Up Sales

Today's convenience customer wants quality, value and lots of options.

BY PAT PAPE

Coffee drinkers love their coffee. According to marketing research firm Mintel, about 75 percent of adult coffee drinkers enjoy the hot beverage every day, consuming an average of 3.4 cups. That devotion helped boost the value of the ready-to-drink coffee market to \$327 million in 2008, but like most consumer products, java faces challenges in the current economic downturn.

Mintel reports that 49 percent of coffeehouse and donut shop customers say that they are spending less money on ready-to-drink coffee and coffee beverages. Even 43 percent of respondents with household incomes of \$100,000-plus say they are cutting back. Instead, they are sipping more coffee at home (57 percent), consuming cheaper coffee (16 percent), and even carrying home-brewed coffee in a thermos (14 percent) as they go about their daily business.

LOOKING FOR VALUE

Quick to recognize changes in customer attitudes and spending habits, Starbucks announced early last year that it would close more than 300 units in its upscale coffeehouse chain. Since then, the Seattle, Washington, company has converted several locations into "neighborhood" coffeehouses with the look and feel of an independent operation. Without the Starbucks name over the door, the stores can offer beverages at prices more in line with a convenience store.

Few will deny that Starbucks has influenced the way most coffee consumers think of their favorite hot-to-go beverage. That shift means convenience stores must offer many of the same benefits as an upscale coffee shop to be competitive.

"Even though consumers want more value today, their palettes are trained to know quality," said Katy Boyd Dutt, marketing director for Boyd Coffee, a fourth-

generation, family-owned business headquartered in Portland, Oregon. "You can get a great cup of coffee for \$1 or \$2."

GOING UPSCALE

When Famima!, the Los-Angeles-based convenience retailer, needed a coffee program overhaul, management revamped the stores' entire hot beverage program. Originally, store employees served each coffee customer individually, but "now we're getting higher customer counts, and if you don't go fast, it hurts your business," said Pervez Pir, vice president at Famima Corporation.

Stores received new beverage bars, and the original red and blue coffee signage has been replaced with earth tones, giving the bars "the feel of an upscale coffeehouse," Pir added. Coffee pots now sport new logos, and the look of the coffee cups is updated. Employees received a refresher course on the importance of keeping the coffee area clean



Often, convenience stores must offer the benefits of an upscale coffee shop to stay competitive.

and the product appealing.

Famima!! then introduced its own proprietary blend of coffee, grinding whole beans on site. “We pay a little more for the beans, but we have a bolder, higher quality coffee,” Pir said.

In taste tests, customers preferred the new brand. “Now we need to advertise and let everyone know about it,” said Pir, who has plans for direct mail couponing and placing a “street team” outside the stores to draw customers inside.

THE COFFEE MANTRA

At 7-Eleven, store operators can easily repeat the company’s coffee mantra. “Keep it fresh. Keep it clean. And keep it well stocked,” said Rick Wilshe, category manager for hot beverages. The Dallas, Texas-based chain also keeps java from becoming monotonous by regularly offering different flavors based on the season. “We have a number of core items, and each store has the option of choosing other flavors,” he said.

In addition to flavors, many consumers — particularly those under age 35 — are interested in buying fair-trade and organic coffees. According to the Organic Trade Association of Greenfield, Massachusetts, sales of organic coffee reached \$1 billion dollars in 2007, and most of that was consumed in the United States.

“Customers are asking for it all over the country,” said Dutt of Boyd Coffee, who believes retailers should frequently test new coffee options in order to gauge consumer response and then keep the products that do well. “Convenience stores are fortunate because they can do limited-time offers easily.”

But no matter what varieties or flavors are available, the average coffee customer looks first for quality and then at price. “Frugality is a big trend,” said Wilshe. “And we have a great cup of coffee at a great price.”

HOT DISPENSED BEVERAGES
Q1 TO Q3, 2008 VS. 2009
(per store/per month)

SALES	MARGIN	GROSS PROFIT
\$3,550 Q1 08 - Q3 08	58.60% Q1 08 - Q3 08	\$2,080 Q1 08 - Q3 08
\$3,607 Q1 09 - Q3 09	59.15% Q1 09 - Q3 09	\$2,133 Q1 09 - Q3 09
=1.6% Increase	=0.9% Increase	=2.6% Increase

(Source: CSX, NACS State of the Industry data)

NACS Supplier Board Chairman Jennie Jones, vice president of marketing for S&D Coffee of Concord, North Carolina, advises store operators to be price conscious. “Don’t discount all cups and sell them for one price, such as all cups for 79 cents,” she said. “Take one particular cup — perhaps the mid-size cup — and sell it at a discount. Why give that profit away?”

THE CAPPUCCINO CUSTOMER

Cappuccino, a powder-based product with a stable shelf life, gives convenience customers another hot beverage option.

“If you’re a coffee drinker, you’re a coffee drinker,” said Kim Fowler, coffee category manager for E-Z Mart, the Texarkana, Texas-based chain. “A cappuccino customer doesn’t replace a true coffee drinker. Cappuccino adds to hot beverage sales.”

Currently, E-Z Mart stores are converting to five-head cappuccino machines, “and some stores have more than one five-head machine,” Fowler said. Flavors range from the traditional French vanilla, English toffee and hot chocolate to a fat-and-sugar-free French vanilla. Recent seasonal flavors included

pumpkin spice in December and crème brulee in January.

Jones of S&D Coffee believes cappuccino has morphed into a condiment for some sweet-toothed consumers. “They touch up their coffee with cappuccino,” she said. “People are becoming more conscious of the fat content and may not drink a whole cup [of cappuccino].”

S&D markets paired flavors, such as blueberry coffee and blueberry cappuccino, and Jones suggests that retailers sell the complementary beverages simultaneously. According to Mintel, more than 80 percent of coffee-consuming teenagers prefer coffee drinks — especially sweet creamy coffee — to a cup of brewed coffee.

TEA FOR TWO...OR MORE

While not a major part of the convenience store’s hot dispensed beverage business, tea sales are on the rise. **Hot tea sales at convenience stores climbed 49 percent from 2006 to 2008, reaching \$1.8 billion.** Credit for this jump goes to both core c-store shoppers and younger consumers who see tea as a healthier option than soft drinks.

At Nice N Easy Grocery Shoppes, the

Canastota, New York-based retailer, customers can purchase cups of hot green tea. “We’ve been offering it for about a year now,” said Jack Cushman, vice president of foodservice. “We sell three gallons or so [a day].”

Studies on the health benefits of tea suggest that regular, frequent consumption can have positive effects on mental alertness, the immune system, inflammatory bowel disease and even bad breath. Though Nice N Easy has not surveyed its green tea customers, “we think it is a younger, more health-conscious customer,” Cushman said. “Tea is a good antioxidant.”

With today’s time-pressed tea-lover in mind, Teatogo, Inc., a German company with a U.S. office in Miami, has introduced a patented lid for 12-ounce to-go cups. The unique lid has a slot made for the company’s transparent tea bags, which are filled with loose tea leaves. The consumer fills the cup with hot water and secures the lid on the cup.

The tea bag is inserted into the slot, and the consumer chooses the appropriate steeping time. When it’s time to remove the tea bag, the consumer simply pulls it back up into the lid and out of the way.

“Tea drinkers see the solution and go ‘wow!’” said Armin Dilles, sales and marketing manager for Teatogo. “They fall in love with it.”

With or without disappearing tea bags, Bill Hall believes stores can increase hot tea sales. Hall is a partner in the 127-acre Charleston Tea Plantation, the only tea-growing farm in the United States. He’s also a third-generation professional tea taster, an accreditation he earned after studying for four years in Britain and drinking between 800 and 1,000 cups of tea each day.

Hall advises convenience retailers to boost hot tea sales by following a few simple rules:

- Provide good hot water.
- Offer the accessories that go with hot tea: milk, cream, sugar and lemon.

- Use tea bags that are individually wrapped in a foil pouch to provide a barrier against contamination.

- Buy a fresh, good-quality product, because tea doesn’t improve with age.

“Tea is still the cheapest beverage next to water,” he said. “It is the second most consumed drink in the world.”

Whether customers prefer coffee, tea or a steaming cup of cappuccino, the hot beverage bar is a major hub in any store, drawing customers inside and generating a loyal following. Patrons often buy additional products, such as pastries and sandwiches. Keeping the beverage bar in tip-top shape and stocked with the right products is essential for success.

“If you are going to be a neighborhood convenience store, people have to trust that you have great coffee,” said Pir. “It’s a big part of your business.” **NACS**

Pat Pape worked in the convenience industry for more than 20 years before becoming a full-time writer.

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