INCISIV

State of the Industry

Future of Convenience Stores

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Is this report for me?

Incisiv's 2022 State of the Industry "Future of Convenience Stores" presents key findings and analysis from a study of 128 convenience retail executives.

The study was designed to understand:

- The impact of increased competition and eCommerce adoption in convenience retail and adjacent industries such as restaurants and grocery
- Convenience retailers' outlook towards the future of the c-store, specifically as relates to helping differentiate against competition
- Convenience retailers' current adoption and future plans to acquire key commerce experiences and capabilities

You will find this report especially valuable if you are focused on one or more of the following:

- Understanding the impact of consumer, competitive and macro trends on the future of convenience stores
- Identifying key strategic imperatives to help improve competitive differentiation
- Developing the roadmap or requirements for your next-generation of store technologies

Let's dive in.

A convergence of forces is redefining "convenience". What will c-stores of the near future look like, and what are the strategic imperatives retailers must focus on to get there?

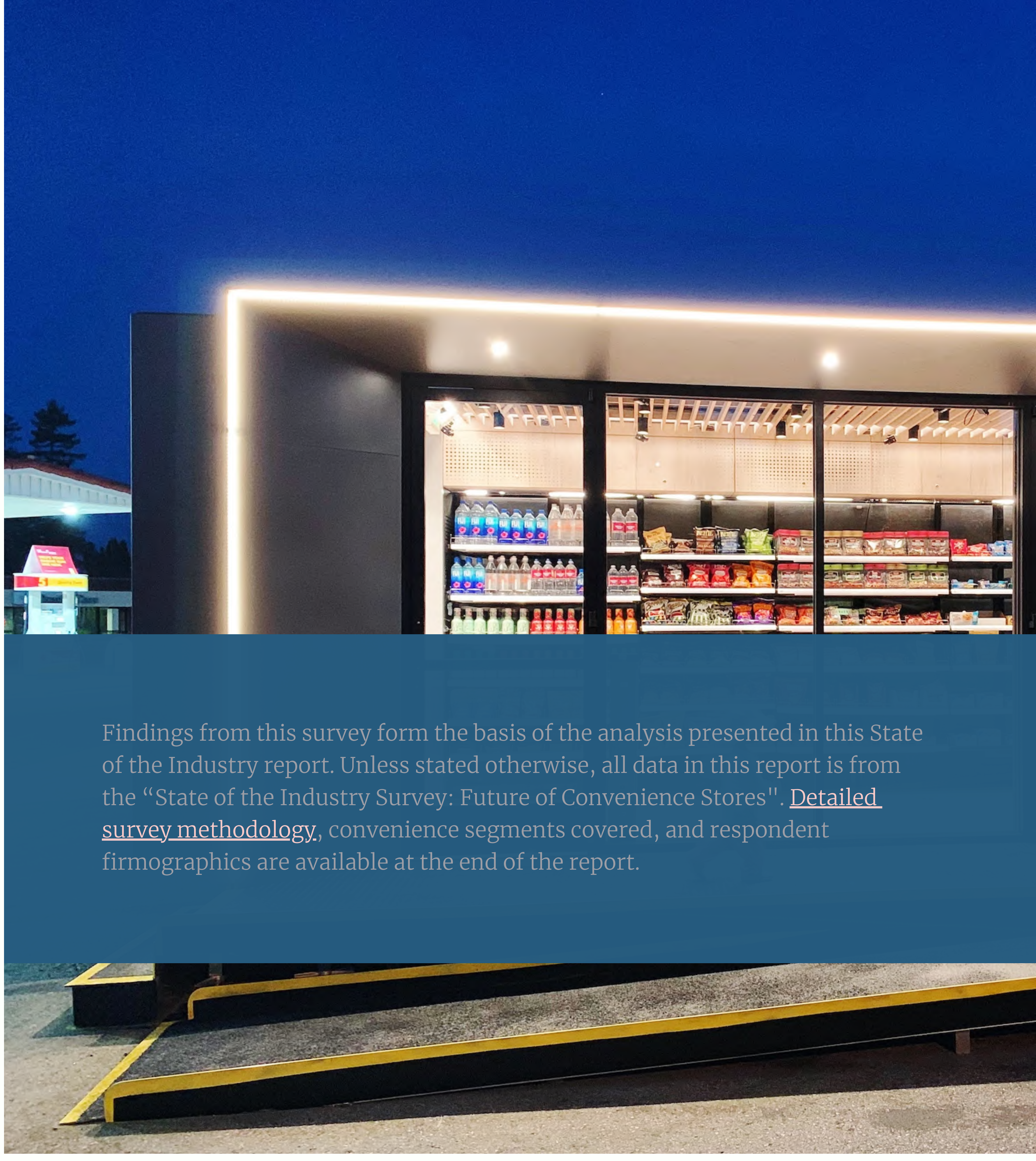
Incisiv surveyed senior fuel & convenience industry executives to understand their outlook and readiness for the future of c-stores.

128

Total respondents

40% from companies with over $1 billion in annual revenue

97% director level or above



Findings from this survey form the basis of the analysis presented in this State of the Industry report. Unless stated otherwise, all data in this report is from the "State of the Industry Survey: Future of Convenience Stores". Detailed survey methodology, convenience segments covered, and respondent firmographics are available at the end of the report.

The corner shop goes digital.

C-stores no longer just compete with the store down the street. Grocery and general merchandise retailers offer a larger assortment of food and home essentials through convenient delivery and pick-up options. Quick Commerce upstarts such as Gopuff offer ultra-fast delivery in urban areas.

Rapid eCommerce innovation is redefining the whole idea of "convenience." Shoppers will be increasingly less forgiving of experiences stuck in the dark ages.

Quick Commerce is expected grow 3X over the next 5 years. Getir, a Turkey based Quick Commerce start-up, has raised $2 billion in funding, and is currently valued at $12 billion.

Strategic imperatives for c-stores to thrive in a digital-first world order:

Offer more mature digital experiences.
eCommerce adoption in fuel and convenience retail is still abysmally low. For instance, only **27%** of c-stores allow shoppers to view store inventory online. However, as has already occurred in adjacent retail segments, expect hockey-stick growth of Click & Collect and other omnichannel experiences.

Unify in-store and digital experiences.
The linear path-to-purchase is dead. With advances in mobile technologies, today's shoppers seamlessly and simultaneously navigate their digital and physical realities. Yet, **82%** of c-stores lack a unified architecture across digital and physical commerce, and only **8%** offer shoppers a unified eCommerce and in-store basket.

Differentiate through experience innovation.
C-stores will have to strengthen their value proposition by offering shoppers something they can't get elsewhere. They will have to become the Swiss Army Knife of retail, offering shoppers a broad spectrum of products, services, and experiences that make their lives easier. They will have to innovate new experiences rapidly. However, **74%** are dissatisfied with their banner's current ability to experiment quickly.

From market share to "stomach share."

Even as online grocery and new competitors erode core market share, food offers c-stores a pathway to continued relevance.

A focus on “stomach share”, i.e. participating in all activities around how and when a shopper consumes food and drink, can help c-stores tap new opportunities that may be hidden in plain sight.

Sheetz, a family owned convenience chain on the East Coast, offers customizable sandwiches and all-day breakfast. It considers McDonald's its biggest competitor.

Strategic imperatives for c-stores to gain greater "stomach share":

Expand fresh food offerings.
72% of c-store executives say it is important to differentiate on higher quality fresh food, but only 32% are satisfied with their banner's current offering. Fresh food can help c-stores across multiple strategy vectors: create a pull for in-store shoppers, create new eCommerce revenue streams (see below), and improve customer loyalty through greater emotional appeal.

Re-imagine the store as a restaurant.
Beyond improving their food offerings, c-stores must act more like restaurants - be visually appealing, invite customers to sit or linger, and offer fast and attentive service. 30% of c-stores are planning to increase in-store space for fresh food prep, and 25% for in-store dining.

Tap into a new market through third-party platforms.
Distributing through food delivery platforms such as Uber Eats and GrubHub can offer c-stores access to an entirely new set of customers, e.g. nearby office-goers ordering lunch at their desk or a digital convenience shopper from a neighborhood further away who wouldn't typically visit the store in person. 81% say integrating with third party delivery platforms is important.

Not your grandfather's c-store.

From cashierless stores to biometric checkout, the likes of Amazon, Hema, and Lotte are redefining the future of stores. In 2018, there were 350 fully automated stores in the world. There are 5,000 in 2022.

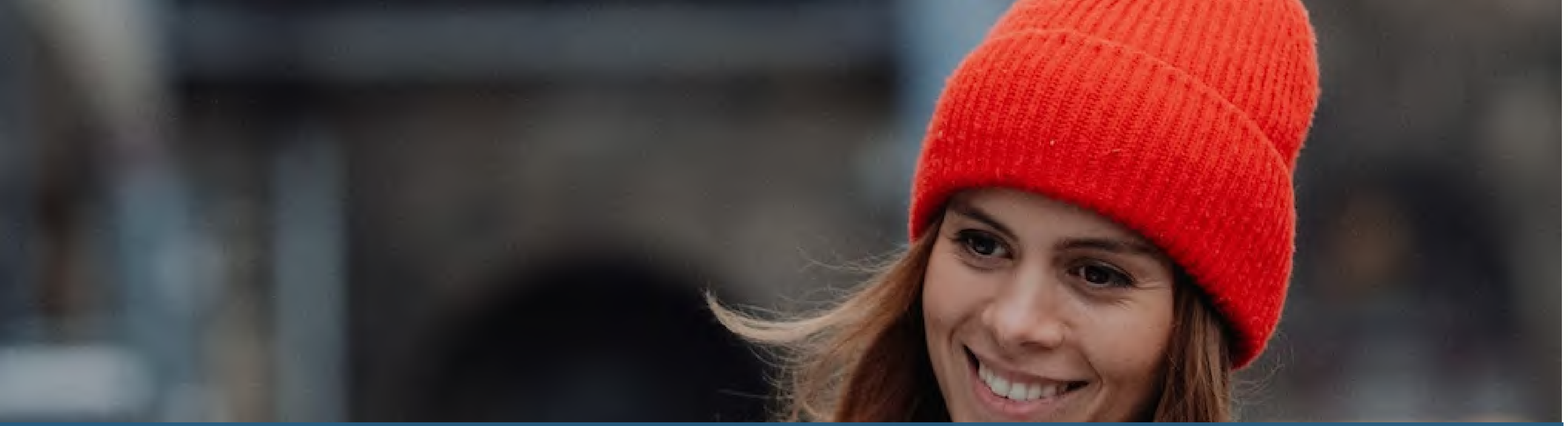
Starbucks and Amazon have collaborated to launch two concept stores in NYC, offering customers the comfort of a Starbucks cafe and the convenience of Amazon's Just Walk Out technology.

Strategic imperatives for c-stores to keep up with the future of store commerce:

Deliver a breezy store experience.
Even though fully automated, cashierless stores will remain the domain of those with the deepest pockets, forward-thinking convenience retailers will focus on flexible, self-driven, speedy checkout. **26%** of c-stores plan to reduce space allocated to fixed checkout; and AI assisted self-checkout is set to outpace traditional self-checkout over the next **12-18 months**.

Reconfigure store operations and supply chain processes.
Only **38%** are satisfied with their current speed and frequency of replenishment. If c-stores are to offer a more diverse set of in-store services and experiences, it is critical they reconfigure store and supply chain processes. For instance, they can gain in-store space by reducing SKU density on display shelves, and increasing replenishment speed and frequency.

Be able to take the store anywhere.
Only **21%** of c-store executives are satisfied with their current capabilities to be able to innovate new store formats.
C-stores must be able to decouple commerce from the traditional definition of "brick and mortar," and take stores anywhere shoppers are — at a local farmer's market, as a store-in-store, as a kiosk at an airport, or as an express store at a co-working space.



A multi-faceted hub of upward mobility.

C-stores have the opportunity to become a unifying agent for three related, but previously independent, consumer trends: the growing importance of health & wellness, the rise of electric vehicles, and the social importance of sustainability.

If c-stores can make it easier for consumers to achieve their most important lifestyle goals, they would have smartly redefined "Convenience 2.0" to be about more than the need for speed.

In Manhattan, EV charging stations now outnumber gas stations 10:1.

Strategic imperatives for c-stores to reposition themselves as a lifestyle solution provider:

Strengthen health and wellness assortment and services.
C-stores can become a hub of health and wellness by offering products and services such as organic produce, health insurance, and in-store skin consultation. They can expand loyalty perks to include benefits such as gym memberships and free annual health check-ups. They can also help shoppers make healthier choices. For instance, **21%** of c-stores let shoppers view nutrient information of in-store food products via their mobile phones.

Rethink engagement in the age of the EV recharge.
What used to be a 5-minute refueling stop for gas, is now a 30-minute stop for an EV recharge, offering c-stores opportunity for deeper engagement. **34%** of c-stores expect to increase outdoor space allocated to EV charging over the next 12 months.

Become a hub of sustainability.
C-stores must offer sustainable products and improve energy consumption in stores. They can also help consolidate recycling, composting, and waste management infrastructure at a local level. By offering lockers that can act as local pick-up and return spots they help reduce reverse logistics carbon footprint. **17%** of c-stores offer "pick-up at locker" currently, and a further **21%** have it on their roadmap.

A focal point for the community.

Consumers are more connected to their local communities than ever before, and c-stores are the epitome of a local business rooted in the community.

Franchises offer opportunities for local entrepreneurs, create jobs in the local community, and act as hubs of important services. C-stores must continue to personalize at a local level, balancing the consistency of a banner's brand against the individuality of a local community.

Foxtrot is a fast growing new-age convenience concept offering locally curated everyday staples, third-wave coffee, craft beers and wine, both in-store and via 30-minute local delivery.

Strategic imperatives for c-stores to become the focal point of their community:

Tap into c-stores' local ethos.
Embracing a local-first strategy comes naturally to c-stores. **62%** of c-store executives consider becoming more relevant to the local community as a critical part of their growth strategy. They can build on this ethos further by partnering with local farms, featuring local artists, curating a selection of local coffee, beer and wine, and supporting local charities.

Take localization to the next level.
C-stores are already quite mature at localizing products and services down to a store and store cluster level. **61%** of c-store executives are satisfied with their banner's current capabilities around localizing assortment. Next, they must become adept at high frequency replenishment, quicker inventory turns, and more frequent store layout resets - being able to turn the store experience on a dime based on evolving local trends.

Become a destination for the local community to gather.
With mall anchors faltering, c-stores are best positioned to take over as the natural destination for a community to gather and hang out. **27%** of c-stores are planning to increase multi-use outdoor space over the next 12 months. **19%** plan to increase space allocated to outdoor dining.

Survey methodology.

Incisiv conducted a hybrid online + Computer Aided Telephonic Interview (CATI) survey of 128 convenience retail executives in the United States. The study was conducted from September 6, 2022 - September 23, 2022.

Respondent Distribution by Number of Stores

51 - 200	24%
100 - 500	45%
501 or more	31%

Respondent Distribution by Annual Revenue

$50 MM - $250 MM	27%
$250 MM - $999 MM	33%
$1 B - $4.9 B	24%
$5 B +	16%

Respondent Distribution by Designation

C-Level or SVP/EVP	31%
VP	26%
Director	37%
Manager	6%

Respondent Distribution by Convenience Retail category

Traditional Convenience Store	41%
Expanded Convenience Store	32%
Hyper Convenience Store	19%
Limited Selection Convenience Store	5%
Mini Convenience Store	3%

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ABOUT INCISIV

Incisiv is a peer-to-peer executive network and industry insights firm for consumer industry executives navigating digital disruption.

Incisiv offers curated executive learning, digital maturity benchmarks, and prescriptive transformation insights to clients across the consumer and technology industry spectrum.

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ABOUT TOSHIBA GLOBAL COMMERCE SOLUTIONS

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