



The Coming Amazon Food Fight: Will Convenience Stores be Winners or Losers?

Amazon's proposed \$13.7 billion acquisition of Whole Foods, giving it a larger foothold in the food retail industry, a merger that critics say could change food retailing in ways we cannot even imagine—is the subject of fevered speculation in an industry that has already been rocked by the surging popularity of “fresh and fast.” The deal has significant implications for every aspect of the industry, not only for the future of grocery stores and supermarkets as we have known them, but also for every other type of food retailer, particularly the country's ubiquitous convenience stores, a familiar sight in virtually every neighborhood and community in America.

With Amazon's purchase of Whole Foods now approved by the Federal Trade Commission (according to the *Wall Street Journal*, 8-24-17), food industry owners, investors and analysts have jumped into the discussion with their opinions, many of them at least disturbing, if not downright frightening, to grocery-focused retailers. In light of Jeff Bezos' mantra (and winning strategy)—“Your margin is my opportunity”—it is not hard to appreciate the gravity and scope of their fear.

Amazon already delivers more than half of all online food orders. Whether its addition of Whole Foods and its network of stores around the country will remake grocery shopping in general—or permanently change the role of convenience stores in the way it has transformed book selling and other market segments-- remains to be seen. The *Wall Street Journal* says that “delivery is one of the fastest growing segments of an otherwise sluggish supermarket sector.” Margins in food are also a problem, leaving little room for experimentation. Always thin, they have shrunk even further over the past couple of years as declining food prices have triggered local price wars among the players.

So what *does* the deal portend, if approved for just one important segment of the food delivery system—your local convenience store?

William Gorton, Minneapolis-based retail food industry analyst and consultant, says the convenience store segment is probably faced with a unique challenge: “How to become *even more* convenient for the food consumer in a climate where every competitor is newly focused on offering the same customer advantages they do--convenience and speedy delivery?”

What Gorton calls getting a “share of stomach” may actually mean, for convenience stores, “defending the share of stomach they have already captured” Doing that will require innovation at a level that convenience stores have not seen before.

“Like all grocers, convenience stores have been more reactive than proactive,” he explains, and they are especially late to the ‘fresh and fast’ game that is now sweeping the industry. That, in fact, may well be the major decision facing the convenience store industry, whether to join up and go even “fresher,” or double down on a wider range and depth in packaged foods, which would pit them competitively directly against the center of the traditional grocery store-- the least profitable segment of the market.

Fullerton is ready to assist our C-store customers in meeting the need to compete even more effectively in the “grab and go” sector of the food market.

We already have a long history of delivering building packages to the convenience store market. The new market direction, with greater emphasis on customer convenience and prepackaged products, will also drive design changes in the buildings themselves-- changes which are already resulting in footprints ranging from 5,000 to 20,000 square feet – sizes that are a very good fit for Fullerton products. We are focusing directly on this market and leaning on our long history with the industry to provide value-added, cost effective design input as they re-invent their store concepts.

The delivery method they choose is also critical to the value proposition convenience stores offer to their consumers. Amazon, through the 400-odd stores it will pick up in the Whole Foods deal, could build a national network of local distribution and delivery centers in urban and suburban communities, taking dead aim at local convenience stores’ primary customers. Yet less than 2% of last year’s \$715 billion in food retail sales was delivered, according to food service research and consulting firm Technomic Inc. And 70% of respondents to a survey by consulting firm AlixPartners LLP said they had no intention of having groceries delivered to their home. However, the advent of superfast, local highly personalized delivery by Amazon could conceivably change all of that.

A new configuration of the basic C-store design we are all familiar with may be required.

What we will soon see is the “C-store on steroids” Basic design and operational functionality will retain some similarities, but the addition of different concept components – from a pharmacy, health and fitness focus to a broader fresh, pre-packaged and restaurant meal focus – will drive a transformation in the stores’ final footprints.

Meanwhile, convenience stores' share of the retail food market has been climbing, selling \$73 billion worth of prepared foods, beverages and other food-related services in 2016, according to the National Association of Convenience Stores, a 72% increase from 2010. Clearly, a juicy target for an aggressive giant like Amazon.

What can convenience store owners do to counter the threat? Here are some recommendations gleaned from experts.

Get More Data--Know and Better Understand Your Customers

According to eMarketer, Whole Foods can help Amazon better understand what people do at physical retail stores, what they want and what they value. With that data in hand, they will bring their unparalleled on-demand distribution skills into play, according to James Bailey, a management professor at George Washington University. Amazon's delivery speed could even be enhanced by building new local networks of more convenient satellite stores around each of the existing Whole Foods stores, similar to the small stores Amazon is testing in Seattle—in effect, creating a sub-distribution network much closer to the ultimate consumer and their home.

Our Customers tell us that current lifestyles will drive speed and convenience. Millennials' demands for more curbside pickup and pre-cooked entrees dictate the need. Building more stores with smaller footprints, sited closer to prime geographic areas and traffic patterns has long been a key to the traditional C-store market. We will see fewer flagship big box groceries being built, with greater emphasis on highly-targeted concept convenience stores.

“Convenience stores already have a lot of information on their customers, much of it gleaned from the gas pumps,” say experts, “but have been slow to understand and use it to modify their offerings and services.” Big regional and national food chains are already delving deep into data to respond and adapt to food customers' changing tastes. For example, Hy-Vee, a 245- store Midwestern chain with sales of \$10 billion, is expanding “grab and go” even more, according to Randy Edeker, the company's chairman and CEO. “I just got a new lifestyle report on millennials and it's how they're shopping. We change with them,” he said.

Automate Operations

Retailers of all kinds are increasingly turning to automation to reduce labor costs, including self-checkout. Those workers whose jobs are replaced by a machine can instead be placed in service and customer-facing positions. Hourly wages are rising, fixed costs are rising, while profits are shrinking, driving retailers at every level to seek out technologies that can do the repetitive labor now done by employees, or even replace them altogether. Some of the methods already being successfully adopted by the restaurant industry and innovative brick-and-mortar food retailers like Aldi can serve as models for changes in convenience store operations.

Go Even “Fresher”

It goes without saying that the fresh movement is here to stay, and convenience stores will have to join and even lead the bandwagon to survive. Most have already dipped a toe, and some have gone even deeper. The financial implications of doing it well are major, and range from heavier investment in refrigeration and other equipment to intensified management and employee training in strict food safety and preparation requirements.

Build More, and Perhaps Larger, Stores

It may seem contradictory, but some analysts suggest that the best counter to Amazon’s potential move into convenience stores’ local markets is to build more, better located, and perhaps even bigger stores to accommodate a deeper and wider selection of food items. Updated, more customer-friendly design to support the “grab and go” customer will also be necessary, including the ability to take mobile advance orders. Square footage should also be varied and tailored to suit the location and the offerings, rather than continuing to build “one size fits all” cookie-cutter units, as is largely the case today.

The growing nationwide shortage of construction and building trades labor will increase demand for off-site – constructed buildings.

The shortage of labor will drive more businesses to consider incorporating Fullerton’s pre-fabricated components into their projects to minimize the impact. Geography will play a part, since budgets and schedules will differ depending on location. Some areas – the Gulf Coast and Florida, for example, will have an even greater need. Labor shortages in those areas will exasperate the impact and will drive developers to turn to Fullerton’s prefabrication capabilities as an efficient and affordable alternative to traditional on-site labor intensive building methods.

Add New Consumer-Friendly Services

Stores should consider modifications to suit the changing needs and demands of the new food consumer. Daily menu “specials” that can be ordered online may be part of them. Drive-up lanes and pickup windows may become an essential service feature, enabling quick response to online orders. Even building materials retailer Home Depot today tells its staff, “online orders get served first, before anyone else.” EV charging stations may also become both a necessary service and a major customer lure as the percentage of electric vehicles driven by customer’s increases and gas-powered auto traffic stops growing or declines. The advent of autonomous driving vehicles and their impact on convenience stores cannot even be quantified at this point, but expect it to be large, and according to some auto industry experts, significant within the next 5 to 7 years. .

Conclusion

In the long run, food retail experts agree, convenience stores who adapt---re-thinking their operations in terms of what millennials and every other demographic wants and needs, tailoring their offerings to the their surrounding neighborhoods, innovating in terms of scope of services, products and fast delivery--will survive and thrive.

The reality of futuristic shopping that some envision Amazon creating and using to overwhelm the U. S food market may be a long way away, according to Goldman Sachs analysts.

“We may be starting to order like the Jetsons, “they said” but most Americans still shop like the Flintstones.”

Best Regards –



**Dave Walock
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