

Identifying Opportunity and Reducing Risk in U.S. Convenience Stores

Owners need to monitor the following risk areas to stay competitive in 2018:

1. Cybersecurity

Convenience stores should comply with PCI standards in order to protect cardholder information. Also, be aware of skimming, in which devices are affixed to gas pumps and ATM machines to steal credit card information. C-stores should implement procedures to monitor pumps and ATM machines, and prevent and/or remove such skimming devices. Additionally, establish controls around the use of artificial intelligence to better understand consumer buying habits. Companies have until October 2020 to comply with EMV chip card technology.

2. Social Media

Social media is increasingly becoming a part of everyday life. Incorporating social media into your business model can improve customer service and provide a low-cost alternative to traditional advertising.

3. Food Service

Food service sales continue to drive the success of the convenience store industry, and you risk losing out on business if you do not invest in food service. Customers are looking for healthier food options as well. The c-store industry has seen large sales increases in "better-for-you" items, with lunchtime traffic as the biggest opportunity.

4. Wage Rates

Eighteen states and 20 cities and counties are increasing the minimum wage in 2018. This may result in workforce reduction and a shift to increased automation.

5. Volatility of Gas Prices

Overall stable gas prices nationwide have led to continued consumer confidence in the health of the economy, which will also benefit convenience stores with increased sales. However, the converse is true as well: should gas prices significantly increase again, then in-store purchases of snacks and drinks will drop. Additionally, Congress is looking at raising federal gas taxes to fund the nation's aging highway projects.

6. Regulation Compliance

Increased regulation may result in higher prices for products such as e-cigarettes and other vapor products, diet and energy drinks, and dietary supplements, or a ban on those products altogether. In addition, menu labeling regulations that will take place by May 7, 2018 will require increased menu labeling that may cause consumers to avoid lower quality or less healthy food options and thus decreased food sales. Convenience stores must also comply with regulations regarding sales of alcohol, tobacco, and lottery tickets or face serious fines and penalties.

7. Mobile Technologies

More than half of all buying is expected to occur on mobile devices, therefore having mobile applications is crucial to achieving success. Incorporating a rewards program in an app can lead to customer loyalty and increased sales.

8. Softening Tobacco Market

While the tobacco market is stable, cigarette consumption is slowing as consumer demand flattens. E-cigarettes can be an important product line in c-stores, as almost half of adult smokers are looking for an alternative to cigarettes.

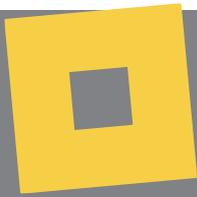
9. Asset Theft

Three persistent threats to c-stores are employee theft of cash from registers, lottery ticket scams, and customer theft of inventory from the shelves. Implement review and monitoring procedures to prevent and detect these threats.

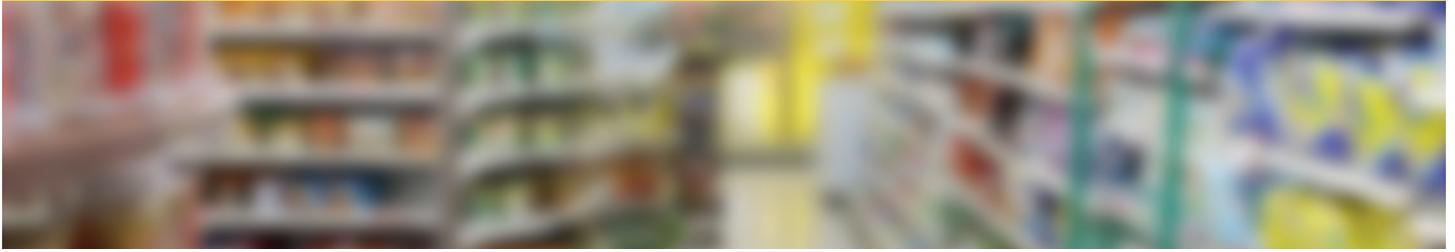
10. Increased Fuel Efficiency

As vehicles are becoming increasingly more fuel efficient, consumers are making fewer stops at gas stations to fill up the tank, resulting in fewer opportunities for c-store purchases. Your store's reward programs can help drive inside sales. The industry is also looking at offering delivery services and drop-off sites to increase business.

Beyond 2018, owners need to monitor competition from nontraditional c-store locations and sources. Amazon and Dollar General are both evaluating c-store options. Owners have also expressed concern in recruiting top talent and having to explore nontraditional labor pools. Additionally, significant changes in the automobile industry in the next 10 years will see autonomous vehicles, ride sharing programs and battery powered vehicles which will dramatically reduce the fuel supply provided by c-stores. C-stores provide approximately 80% of the fuel purchased in the U.S.



National Convenience Store Industry Metrics



Note: Group consists of various publicly traded c-store companies.

	2017	2016	2015
Fuel Gross Profit %	10.4%	10.5%	9.1%
Fuel Margins \$ (per gallon)	\$0.22	\$0.21	\$0.21
Non-Fuel Gross Profit %	36.9%	33.3%	33.4%
Overall Gross Profit %	20.2%	19.1%	17.2%
% of Sales from Fuel	63.4%	62.8%	67.0%
12 Month Return	-10.6%	9.0%	35.9%

The c-store industry appears stable overall, but market returns have substantially reduced over the past two years. This can be attributed to:

- Missed earnings targets
- Reduction in same store sales
- Increase in operational expenses like labor costs



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