Going in the Right Direction?

Editor's Note: *This article is the second in an ongoing series by industry experts David Brewster and Maurice Minno on how c-store executives can better compete in this transformative economy. Future articles in this multipart series will expand on each of Minno's five defining retail directions and provide information, techniques and examples of how each of these, along with other initiatives, can provide valuable business-enhancing knowledge.*

My list of the "Five Defining Retail Directions for 2008 and Beyond" are not in any order of priority. For each of the five, I have included my rationale, and some challenging questions you should be asking about your retail business.

My future vision is shaped by the realities of today's business world, sprinkled with the many unforgiving retail directions now evident. These defining directions are not trends; they are strategic tipping points affecting us all, each in different ways and to different degrees.

Here are five defining retail directions tracking not just for 2008 but for well beyond.

Direction One: Fresh. Fresh to most people today is defined in minutes, not measured in hours or days. Fresh is food made to customer specifications—made to order. Fresh is a leading factor in restaurant menu and concept development. Fresh cannot be disguised with packaging, fancy labels or words that shout "FRESH," especially if the products today are ones customers saw yesterday.

Take sushi, a relatively new c-store offer, as an example. The freshest sushi is chef-prepared to order in a restaurant or at a leading U.S. grocery store. It can also arrive by way of commissary, delivered three times each day, as Circle K does in Japan. Fresh sushi in the U.S. convenience channel is commissary-delivered, typically with an extended three-day shelf life, as seen with 7-Eleven's offering in approximately 2,000 of its North American stores.

Does this definition of fresh meet yours? Does it square with your customers' expectations? The challenge is to build a business model/supply chain that delivers on the freshness your customers want.

Direction Two: Evolve or Die. Reinventing your business is critical to its economic vitality. Study how your business model fits into the overall retail landscape. Understanding what in your business is working and what is not, and recognizing how well your business is positioned, depends on prevailing consumer and retail trends.

One current c-store innovation, beyond the opportunities of foodservice, is prepaid products and cashless payment services. These services feature unique products, are easy to execute, require a modicum of space and appeal to a large and growing (think double digits) segment of the c-store demographic. They are positioned as a destination category with exceptional sales and profit upsides.

How have you innovated in the past 12 months? And what initiatives are you planning for the next 12 months that will evolve your business model to be more customer-centric?

Direction Three: Brands Rule. Your retail brand and subcategory brands (e.g., especially as applied to destination categories such as fresh food and dispensed beverages) communicate impressions to the marketplace at large: current customers, former customers and people you would like to have as customers. Wawa's Built-to-Order Hoagies and Sonic's Bistro and Toaster sandwiches are examples of product brands that send clear messages.

Brand messages stem from the sum of physical and graphic elements—the designs, words, colors and emotional connections they spark. The orchestra of these elements delivers your brand.

Over time, brands need to be rebuilt to remain current and relevant. What are your brands currently communicating to your customers? Is this the message you want your brand(s) to provide today and for the foreseeable future?

Direction Four: Go Greener. Sensitivity to earth-friendly or "green" initiatives is at an all-time high. Moving to a greener business model in the c-store retail sector seems a last great frontier. Contact the Green Restaurant Association (GRA), which was formed in 1993 to help the restaurant industry minimize its negative environmental affects. GRA has established green-certification standards for its members, which is a unique approach for a business in this industry.

I challenge the c-store industry to create its own Green Convenience Store Group. To qualify, I suggest a member meet at least three requirements, such as:

1]. Adopt full-scale recycling throughout a company's sites. Of note are recent c-store and grocery recycling developments: Rutter's Farm Stores has announced plans to recycle at its stores. Also, Tesco's Fresh & Easy has "good neighbor" policies that include caring about the environment, with a specific recycling policy. Other c-store recycling efforts are surfacing in areas such as St. Cloud, Minn., where the so-called "Message in a Bottle" program began in April, sponsored by the Tri-County Solid Waste Commission and the Nonprofit Recycling Association of Minnesota, among others.

2]. Find and use alternatives to earth-harming packaging and products.

3]. From a list of 20 carbon-footprint reducing initiatives, members must promise to implement at least three during each of the next five years. You can do it. You should do it. If we don't do this part together, someone else will do it for us—and we won't like what they do.

Direction Five: Deliver Profitability. Simply put, if you do not operate at a profit, you will not stay in business. There are parts of the c-store business that today are not profitable yet are solid destination drivers, while other categories cover the performance of loss leaders.

Take any of your destination categories, such as foodservice, sweet snacks, salty snacks or fountain beverages. Do you *really* know if these business categories are actually operating, consistently at an acceptable profit level? What is your businesses' real performance, in comparison with the profitability performance metrics you have established for your businesses' model (e.g., operating margin, return on assets deployed, sales-to-capital ratio, overall network profitability, etc.)?

What are you doing—or not doing—today that is directly contributing to your performance results vs. the acceptable metrics you have set? What should you be doing now to change your business model for the future so that it does meet your profitability metrics?

My questions about your destination category performance, for each category and subcategory, include asking these questions: Do you have a standardized process in place for adding new products and for delisting existing products that is fact-based and customer-centric? Is your offering and merchandising distinctive today? Is range rationalization and optimization now necessary to focus the offer on not only the best sellers but also to identify gaps? Do you know which SKUs by category and subcategory are underperforming (e.g., selling less than 0.5% per store per month)?

In conclusion, these five defining fetail directions are shaping the structure and operations of the c-store business. Each of them alone could drive your sustainability However, taken as a whole they provide an actionable framework for positioning your business with a clear vision of the future—and your reach to get there first. ■

"What should you be doing now to change your business model for the future?"

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