



Reviving and Reinventing C-Store Foodservice in the COVID-19 Environment

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The persistence of the COVID-19 pandemic is prompting many convenience-store channel stakeholders to fully acknowledge that what was initially seen as a temporary crisis is now a longer-term situation with significant and far-reaching impacts. Foodservice—confirmed by convenience retailers as a strategic growth category—is significantly affected by the outbreak, not only in the near term, but for years to come.

As part of our ongoing monitoring and thought leadership, Technomic has prepared this whitepaper to provide an update on the COVID-19 pandemic and the implications for convenience-store foodservice.

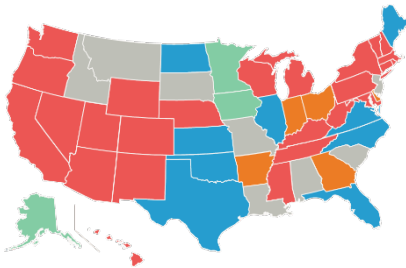


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Current Situation Assessment

The stay-at-home orders initiated in mid-March to stem the spread of the virus are now lifted and most nonessential businesses are reopened. Dine-in service at restaurants now is largely permitted nationwide, although with capacity and other restrictions. California reversed its opening plan in mid-July due to an uptick in cases, and indoor dining in New Jersey will re-open on September 4. Of particular importance to c-stores, regulations and guidelines around self-service food formats have been clarified in most states.

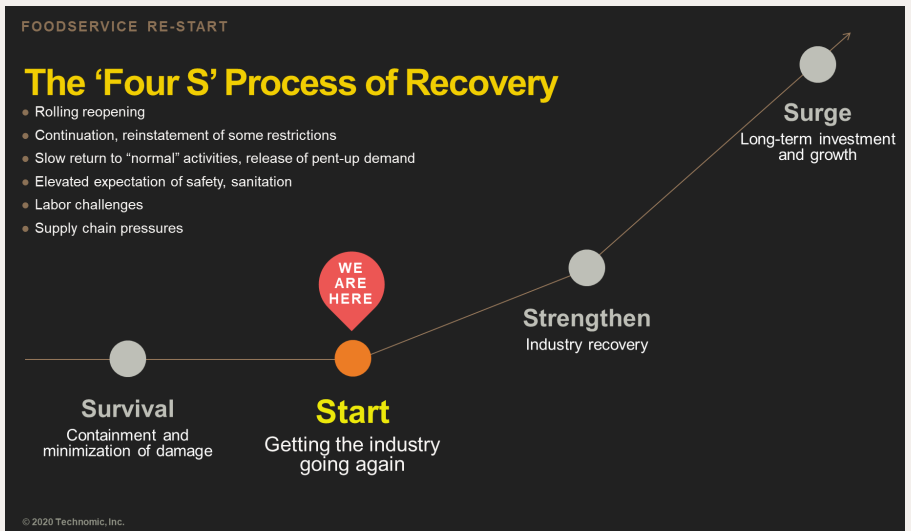
CHANGES TO SELF-SERVICE REGULATIONS AS OF JULY 10*



- All self-service prohibited
- Beverage self-service permitted; food self-service prohibited
- Recommended discontinuation
- Explicitly permitted
- No mention of self-service in state guidelines

The foodservice industry is now in the “Start” phase of Technomic’s “Four S” Process of Recovery framework. C-store foodservice operators, like their peers in other segments, are navigating the uneven and very localized reopening of markets—backstepping when

restrictions are reinstated due to surges of the virus. They’re managing labor challenges and supply chain issues as they welcome customers through the doors again, although in considerably lower numbers than pre-COVID-19.



Three-quarters of c-store patrons reduced their foodservice visits during the height of the outbreak and related restrictions.**

With the reopening of markets, lower confirmed cases of the virus and the initial return to more normal activities, traffic is rising, albeit slowly. Foot traffic to retail and restaurant locations

plummeted in mid-March, then rose in late April but appears to have plateaued since mid-May, remaining well below pre-COVID-19 levels.***

Leading convenience retailers report gradual traffic improvement since late April, but confirm traffic remains well below the same period in 2019. Consumers’ return to some normal activities and outings is benefiting c-stores

*Statewide regulations indicated; regulations may vary at the county/municipality level based on its phase or stage of reopening

** Source: Technomic C-Store MarketBrief Q2 2020

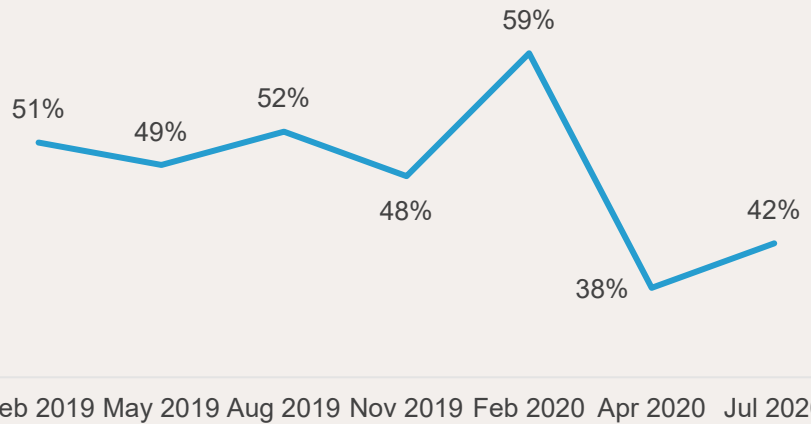
***Source: Technomic, Inc. Economic Impact Navigator, GroundTruth Visitation Data

and the foodservice category. The share of patrons who enter the store nearly or every time they visit for fuel rose 4 points in July versus April but remains below pre-COVID-19 levels. Aside from paying for fuel, the top reason these consumers enter the c-store is to purchase food and beverage items.*

Self-service formats such as dispensed beverages, fresh bakery cases, roller grill, soup/chili kettles and condiment bars were closed either due to state or local regulations or suspended voluntarily by c-store operators to help stop the spread of the virus beginning in March. While the CDC maintains its recommendation that any self-serve foodservice be suspended, many states now permit the offerings. Half of c-stores that had suspended self-service have now resumed the format, according to an informal poll of leading operators.

Self-service generates the majority of prepared food and beverage sales in convenience stores.** Even with operators reopening self-serve and pivoting to staff service for coffee or moving roller grill items to warmer/hot cases, the combination of diminished traffic and the broad self-service suspension is having a severe negative impact on 2020 c-store foodservice sales.

WHEN YOU PURCHASE GAS OR RECHARGE YOUR ELECTRIC CAR, HOW OFTEN DO YOU ENTER THE CONVENIENCE STORE? EVERY/NEARLY EVERY TIME



C-STORE FOODSERVICE 2020 FORECAST SCENARIOS***

2020 Scenario Factor	Best Case	Middle Case	Worst Case
Virus resurgence	<ul style="list-style-type: none"> Limited, localized reactivation of shelter-in-place orders 	Midpoint of Best and Worst Case scenarios	<ul style="list-style-type: none"> Widespread, multiregional shelter-in-place orders reactivated Significant shift toward more virtual learning in Q4
Dining in	<ul style="list-style-type: none"> Dine-in opening remains; reopenings continue except for limited closures due to local resurgence Warm fall season 		<ul style="list-style-type: none"> Widespread halting of reopenings/closures due to multiregional outbreaks Early winter
Economy	<ul style="list-style-type: none"> Recessionary environment, however, employment, GDP and other key factors show improvement quarter over quarter 		<ul style="list-style-type: none"> Deeper recession situation, with volatile economic indicator performance.
Stimulus	<ul style="list-style-type: none"> Extension of unemployment benefits/PPP/Stimulus 2.0 through end of 2020 		<ul style="list-style-type: none"> No/weak stimulus package
C-Store Foodservice Forecast 2020	-19%		-22%

*Source: Technomic C-Store MarketBrief Q3 2020

**Source: Technomic C-Store Foodservice Study 2020

***Source: Technomic Foodservice Industry Forecasts: 2020-21, August 2020

Reviving C-Store Foodservice

The imperative to jump start foodservice sales in c-stores is undeniable. The category draws consumers through the doors, often regularly, and delivers significant margins. Re-engaging the consumer is key, but notable challenges exist. Early in the pandemic, more than half of consumers looked forward to returning to their favorite c-store, and 75% expected to resume their typical frequency of foodservice visits.* By July, nearly four in 10 said they were already comfortable visiting c-stores for foodservice, but 33% said it would be six months or more before they felt comfortable, pointing to increasing hesitancy to return to the channel for prepared food and beverages.** An overall desire to minimize risk of COVID-19 exposure remains a deterrent, despite more than half indicating c-stores are doing a good job on safety and sanitation during the pandemic.*

Looking ahead, eight in 10 consumers are likely to again purchase dispensed beverages and seven in 10 say the same of self-serve roller grill and bakery items.** Seeing sanitation in action will be crucial in bringing them back. Throughout our research, consumers indicate that seeing staff sanitizing

surfaces is crucial to their perception of the safety of the foodservice offering. Even with that, a notable share remains at risk of not purchasing self-serve food and beverages going forward.

Messaging value is also important in the current environment. The core c-store consumer has been more significantly impacted by COVID-19 job losses than consumers overall, and is likely to seek value through low price, portion size and combo deals. Promotions that provide discounts on foodservice items with fuel purchase may also drive traffic. Nearly half (47%) of consumers say a promotion involving a discount on fuel with a combo meal would prompt them to purchase.***

Reviving foodservice also means aligning with recent changes to consumers' lifestyles. Nearly half expect their daily routine to be different when the pandemic subsides* due to changes in employment, school and other activities. Nearly six in 10 c-store consumers transitioned to work from home during the pandemic. And, of them, only one-third have resumed commuting to work.** This shift means less need for foodservice purchases for breakfast and lunch, key dayparts for c-stores, and more competition for those occasions from quick-service restaurants.

Operators are challenged not only by diminished traffic, increased and evolving regulations and changing consumer behaviors, but also by the mandate to execute foodservice at a heightened level of safety. Increased sanitation protocols and operational pivots often require more staff and additional training and equipment for workers, driving up costs and adding complexity. COVID-19-related supply chain issues and increased food costs, particularly for proteins, are also straining c-store foodservice operators.

Technomic's Take: Reinventing C-Store Foodservice

While navigating these current challenges, c-store foodservice operators and their partners must look forward. The COVID-19 pandemic occurred at a time when many c-stores were elevating their foodservice offering by investing in menu enhancements, operational improvements and talent. Challenging as the pandemic is, the event presents an opportunity to fast track innovation to bring c-store foodservice to the next level, thus positioning stores to effectively compete and



*Source: Technomic C-Store MarketBrief Q2 2020

**Source: Technomic C-Store MarketBrief Q3 2020

***Source: Technomic C-Store MarketBrief Q3 2019

potentially thrive in the post-pandemic market. Key areas of c-store foodservice reinvention include:

- **Low-/no-touch but high-tech.** Reducing or eliminating touch points on the path to purchase via tech-driven amenities supports the speed and ease expected in a c-store visit and increases safety by reducing potential exposure to the virus. 7-Eleven was testing cashierless or “just walk out” technology prior to the pandemic, and Circle K announced a pilot in August. Touch-free foodservice formats will likely resonate; the Freestyle app introduced by Coca-Cola presents a new direction for dispensed beverage. Younger patrons are most likely to engage with and expect high-tech amenities, indicating their importance for ensuring the future relevance of c-stores.
- **Sanitation is job one.** Perception of food safety at c-stores had been improving prior to the pandemic and consumers recognize the industry’s efforts to elevate sanitation practices during the crisis. The demand for demonstration of sanitation in action will be ongoing; eight in 10 expect continued focus on sanitation.* These practices must be fully and

seamlessly integrated into all foodservice operations, both back- and front-of-house; building in accountability for team members is recommended.

- **Multiple purchase modes.** Consumers fully embraced restaurant mobile order, delivery, curbside pickup and drive-thru during the pandemic. While availability at c-stores increased during the COVID-19 crisis, the convenience channel still lags fast food in offering these purchase modes. Wawa broke ground in August on a foodservice-focused store that consumers will not enter: All purchases will be sourced via the drive-thru or curbside pickup. Racetrac launched mobile order in April and indicates drive-thru is part of its go-forward plan. C-store operators able to provide varied purchase modes stand to win more occasions.
- **Streamlined menus but format flexibility.** Labor challenges and a need to reduce inventory costs and operational complexity means optimizing menus; multiuse items and ingredients will be important going forward. Consumers are likely to embrace an easier-to-navigate offering that enables quick purchase. However, flexible formats—

making favorite roller grill items available on the grill and in the hot case or offering staff-service of coffee in addition to dispensed—may be necessary to provide an option for those patrons who remain skittish about self-service.

The ability to execute on these areas will vary by c-store operator, based on their store footprints and formats, available capital and personnel resources, and their prioritization of foodservice going forward. While the current situation is demanding, those that are nimble, proactive and willing to accelerate initiatives, take risks and innovate stand to emerge from this crisis as relevant foodservice providers. Regardless of appetite for and ability to invest in foodservice program reinvention, c-store operators will rely on supplier and distributor partners for insights, guidance and support.



*Source: Technomic C-Store MarketBrief Q2 2020

C-Store Membership

Ignite Company Data

Access to 600+ detailed, exportable profiles ranked in order of total U.S. units as well as access to the interactive U.S. Industry Market Size & Forecast page, relevant channel news and presentation decks on industry happenings

Ignite Consumer Data

Access to ongoing consumer foodservice occasion tracking and brand performance ratings for 27 leading convenience stores

Ignite Reports: Continuous Monthly and Quarterly C-Store Trend Updates

C-Store Monitor

Industry intelligence delivered quarterly

C-Store Consumer MarketBrief

Fresh insights delivered quarterly

State of the Industry Webinars

Delivered: Q2, Q3

Consumer Snapshots

Powered by Ignite consumer data, delivered monthly

Annual Whitepaper

Delivered: Q3

Annual Report

Delivered: Q4

Access to C-Store Experts

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