



Retail Thought Leadership

U.S. CONVENIENCE STORE LANDSCAPE Q4 2022

January 2023



IRi

Growth delivered.

Executive Summary

In this report, we follow up on trends identified in previous convenience channel analyses in 2022 and examine how these trends compare to the broader multi-outlet landscape.

In Q4 2022, U.S. inflation lessened, but price-per-unit increases continued in the convenience and MULO channels while consumer sentiment remained low.

Key Trends

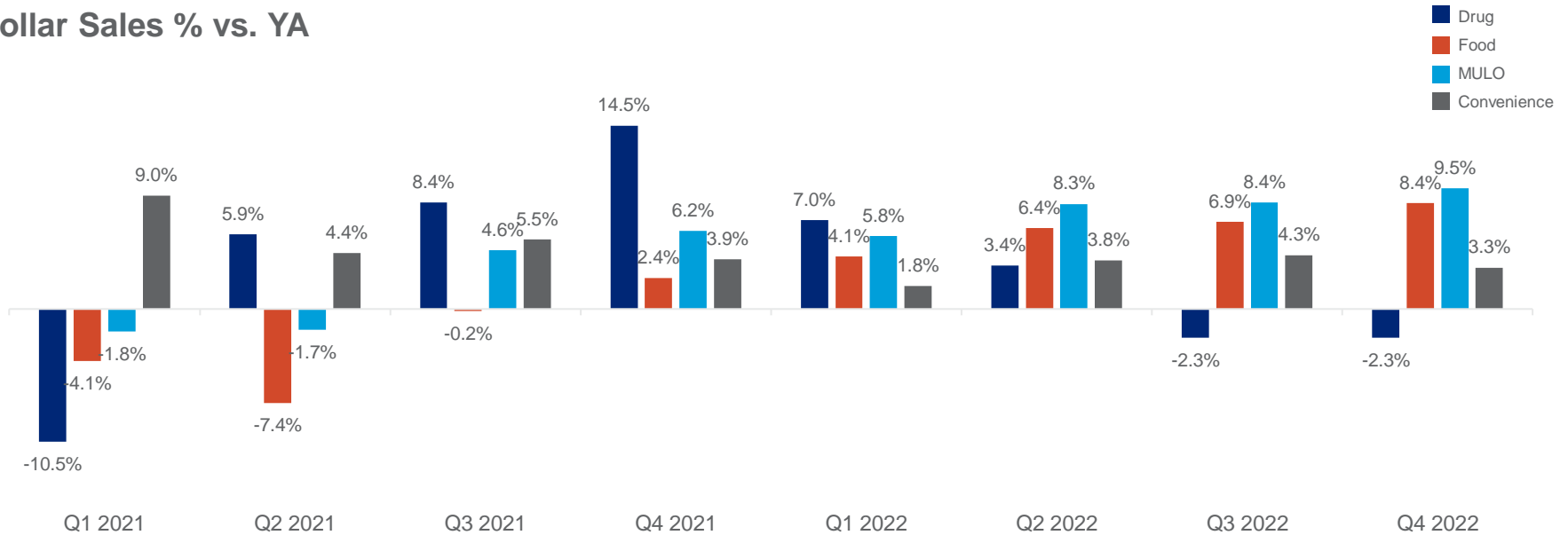
- Convenience channel YOY dollar sales growth slowed in Q4 2022 compared to Q3 (+3.3% vs. +4.3%) while MULO (+9.5%) continued to accelerate and outpace all other channels for the quarter.
- Although the convenience channel increased YOY sales dollars by 3.3% for the year, the channel saw a decrease in dollar share of MULO+C from 18.2% in 2021 to 17.6% in 2022.
- As observed in previous quarters, cigarettes (-4.5% for convenience channel vs. -6.3% for MULO) and beer (5.1% vs. 2.2%) categories in the convenience channel outperformed MULO in % \$ sales vs. 2021 for Q4.
- For the year, customers averaged 7.5% more convenience store trips than 2021, but dollars and units per trip have seen YOY decreases in most recent months.
- The Consumer Price Index increased 6.5% for the 12 months ending December, while the food CPI increased 10.4% for the same period.
- Convenience channel price-per-unit growth accelerated for the sixth straight quarter with a 7.3% YOY increase in Q4 after a 6.5% increase in Q3. For the year, price per unit in the convenience channel increased 5.8% vs. 2021, which is well below the 12.5% increase observed in the MULO channel.
- Convenience channel private label YOY dollar growth slowed compared to previous quarters but continued to outpace growth of national brands in the channel for Q4 (12% vs. 8%).

Opportunities

- Promotional depth and frequency, which remained relatively flat in 2022 vs. 2021 for the convenience channel, will be an impactful lever in 2023 as consumers have indicated they are looking for sales and deals to combat price increases.
- Private label dollar share in the convenience channel increased YOY from 9.4% to 9.9% but remains much lower than share within other retail channels. As inflation concerns continue, c-stores can grow private label sales by increasing assortment and offering low opening price point items within key categories.
- E-commerce sales for total CPG retail saw strong growth in 2022 and is an opportunity for c-stores to invest and innovate in 2023 as digital ordering share of foodservice traffic for the channel lags quick-service restaurants.
- Growth in breakfast traffic for foodservice items in the convenience channel outpaced quick-service restaurants in 2022 and expanded fresh offerings and combo meals can further increase c-store dollar share of this valuable daypart.

Convenience Channel YOY Dollar Sales Growth Slowed in Q4 Compared to Q3 (+3.3% vs. +4.3%) While MULO Growth (+9.5%) Continued to Accelerate and Outpace All Other Channels

Dollar Sales % vs. YA

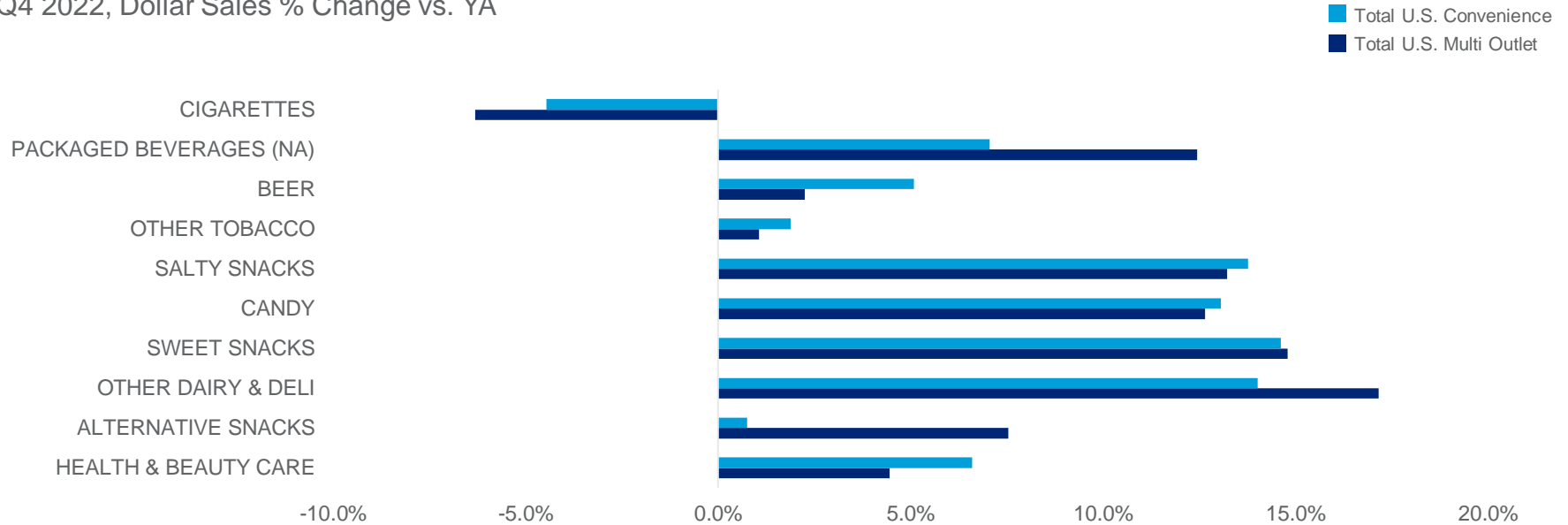


- Multi-Outlet (MULO) and food channels have seen YOY sales growth accelerate in each quarter of 2022, while the drug channel saw YOY sales decreases in Q3 and Q4.
- For total 2022, the convenience channel increased sales dollars 3.3% YOY, which was outpaced by MULO (+8.1%) and led to a decrease in convenience dollar share of MULO+C from 18.2% in 2021 to 17.6% in 2022.

Convenience Channel Outperformed MULO in Cigarette and Beer Categories, But Growth Did Not Keep Pace in Non-Alcohol Packaged Beverages in Q4 2022

Category Performance

Q4 2022, Dollar Sales % Change vs. YA



Trends observed in Q4 align with total 2022 sales, which saw the convenience channel gain YOY dollar share vs. MULO in cigarettes, beer and salty snacks.

Aligning With the Total 2022 Trend, MULO YOY Sales Dollars in Q4 Significantly Outpaced the Convenience Channel in All U.S. Regions

Total Convenience IRI Standard Eight Regions

Dollar Sales % Chg. vs. YA Q4 2022



Regions (Conv.)	\$ Sales (Billion)	% Chg. vs. YA	% Dollar Any Merch	% \$ Any Merch Pt. Chg.	\$ Growth index vs. MULO
Southeast	\$7.9	+6.2%	16.8	+1.1	60
Great Lakes	\$6.6	+2.9%	16.6	+2.3	31
Mid-South	\$6.4	+1.4%	16.0	+1.3	14
Northeast	\$6.4	+3.7%	12.5	-0.6	41
South Central	\$6.3	+2.6%	17.0	+2.1	25
West	\$4.7	+3.5%	15.7	+1.6	38
Plains	\$3.6	+3.4%	15.8	+1.2	34
California	\$3.2	+0.8%	15.3	+0.9	11

■ > 120 ■ 80 – 120 ■ < 80

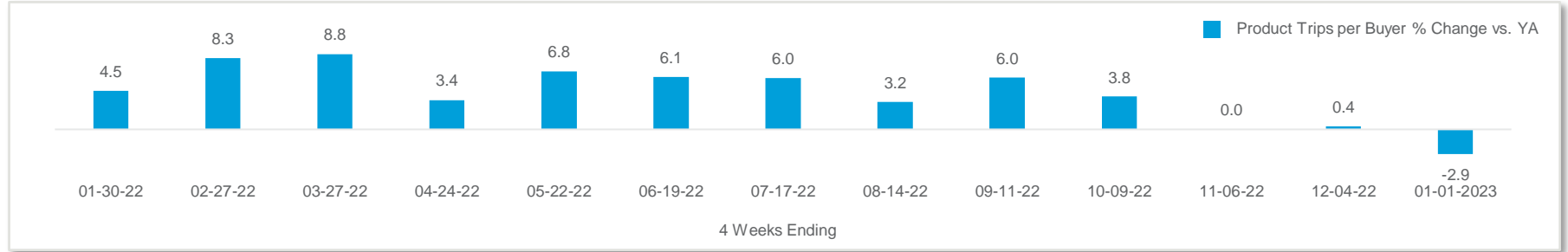
Top and Bottom

Dollar Growth States, Q4 2022

	State	\$ % Chg. vs. YA in C-Store	\$ % Chg. vs. YA in MULO
Top 5	South Carolina	+11.1%	+12.3%
	New Mexico	+7.3%	+10.2%
	Georgia	+6.7%	+9.3%
	Massachusetts	+6.5%	+8.9%
	Florida	+6.4%	+10.5%
Bottom 5	Wyoming	-1.1%	+10.4%
	North Carolina	-0.7%	+10.7%
	New Hampshire	-0.1%	+9.3%
	Kentucky	0.0%	+10.7%
	Connecticut	+0.1%	+9.1%

Trips to Convenience Stores Were up 7.5% in 2022 Compared to 2021

YOY units per trip decreased in Q4, and sales dollars per trip remained flat

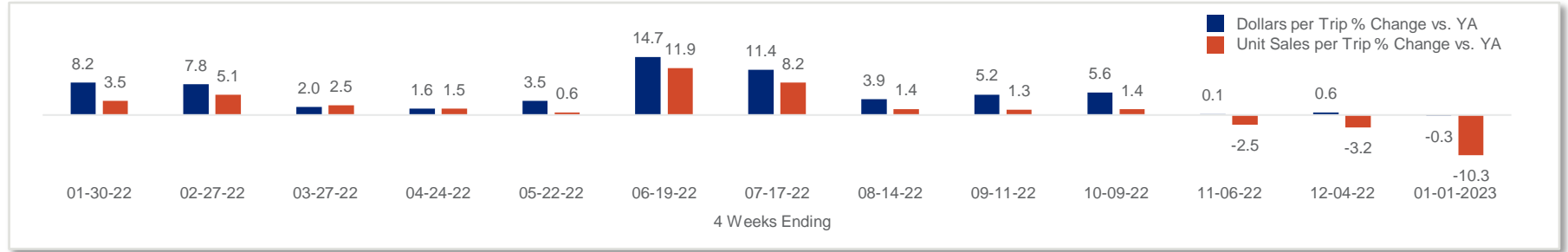


13 WE 04.03.22
Trips: +9.7
Dollars: +6.9
Units: +3.5

13 WE 07.03.22
Trips: +10.4
Dollars: +9.2
Units: +7.2

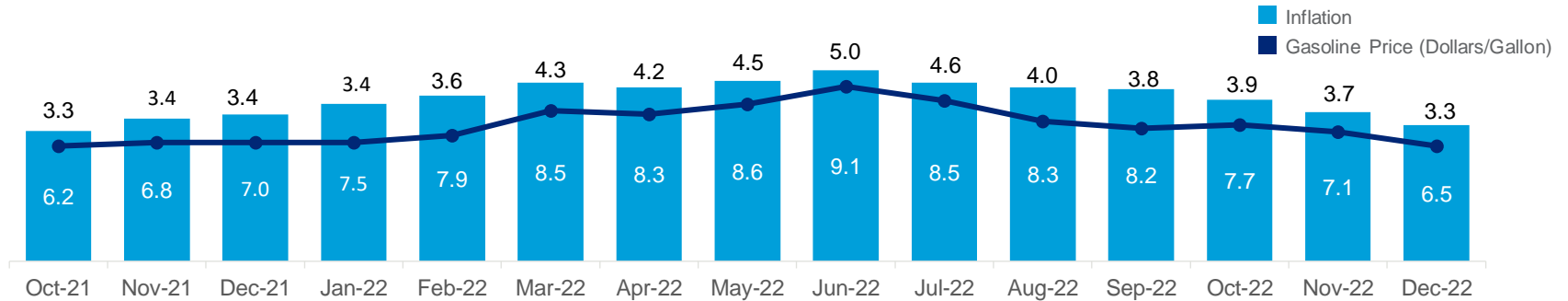
13 WE 10.02.22
Trips: +7.4
Dollars: +8.7
Units: +6.5

13 WE 01.01.23
Trips: (0.8)
Dollars: +1.3
Units: (6.6)



Consumers Continued to Feel Slightly Better About the Economy in Q4 as Gas Prices Retreated From Their Early Summer Highs, Though Food Inflation Remains Stubbornly High

Federal Reserve officials anticipate that inflation will decrease in 2023, but it may take a few years to reach the Fed's target of 2% annual inflation



Overall food prices rose 0.3% in December 2022 from the prior month, up +10.4% year-over-year. Food inflation continues to pressure consumer households.

10.4%
December Food
Consumer Price Index

The U.S. Index of Consumer Sentiment is 59.7, up from 56.8 in November. Despite December's gain, sentiment among consumers remains very subdued as high inflation throughout the year has weighed on moods.

59.7
December Consumer
Sentiment Index

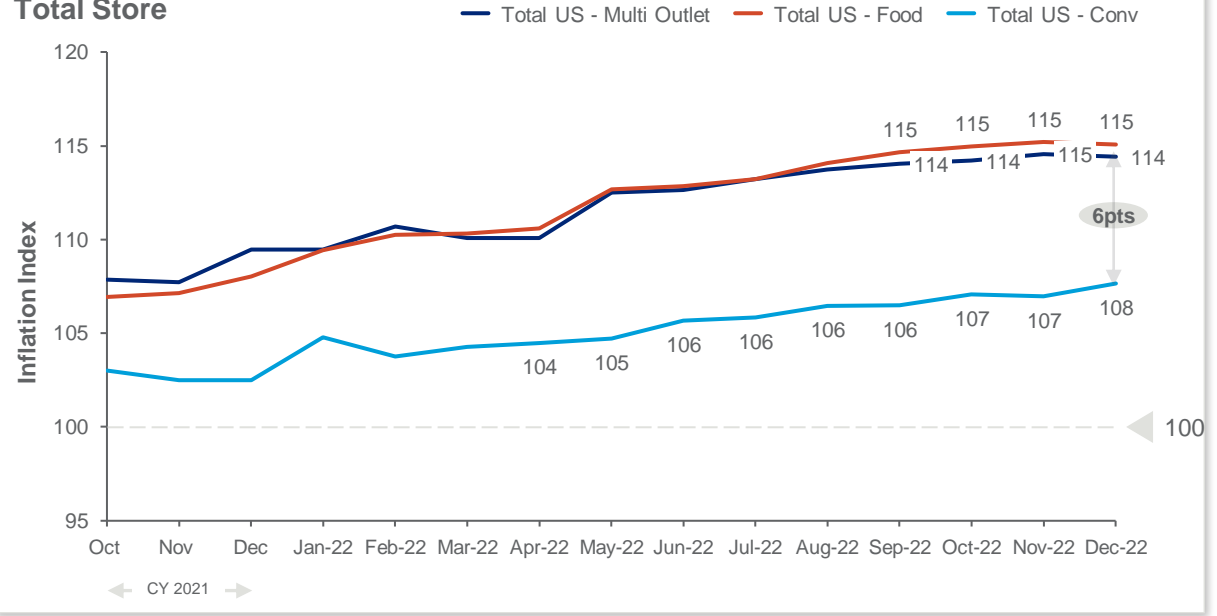
U.S. Inflation Slowed for the Sixth Straight Month in December Following a Mid-2022 Peak

IRI's Inflation Tracker™ shows the convenience channel trending up but still below the broader MULO market

Inflation Index CPG Retail Channels

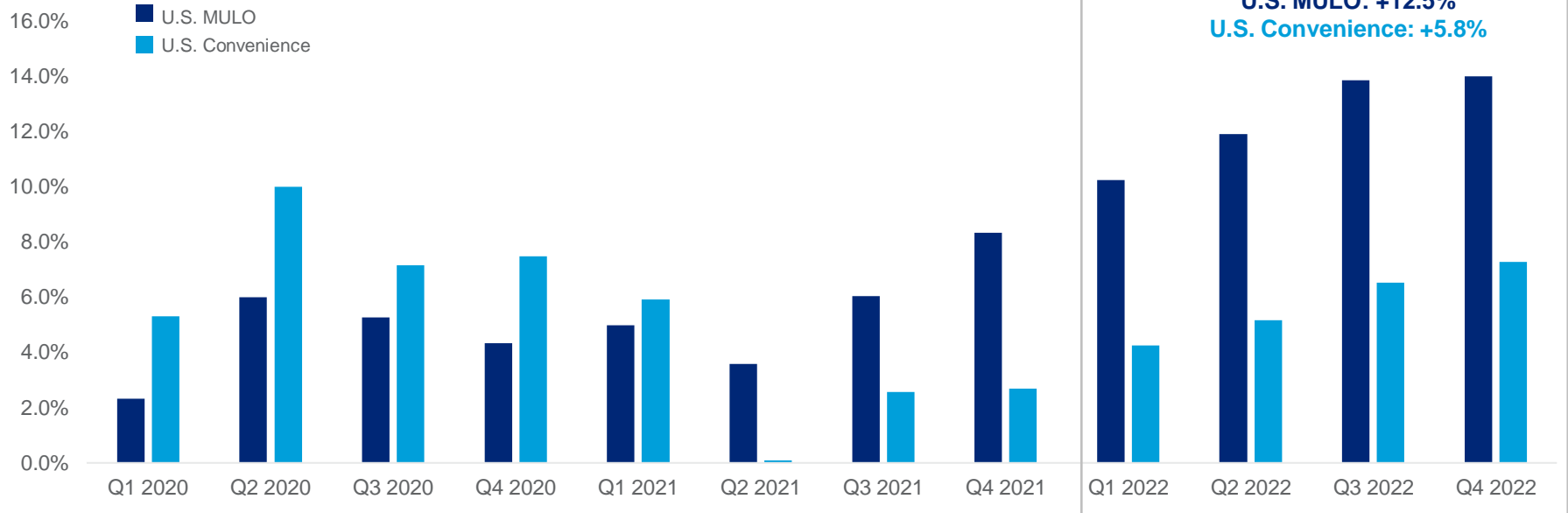
- **The National Retail Federation President and CEO Matthew Shay** stated that “While consumers feel the pressure of inflation and higher prices and there is continued stratification with consumer spending and behavior among households at different income levels, consumers remain resilient and continue to engage in commerce.”
- **NRF Chief Economist Jack Kleinhenz** stated, “I do see slower momentum into 2023 ... given what we have just seen in the last three months; I still think that the consumer is engaged ... but there is a lot of uncertainty.”

Total Store



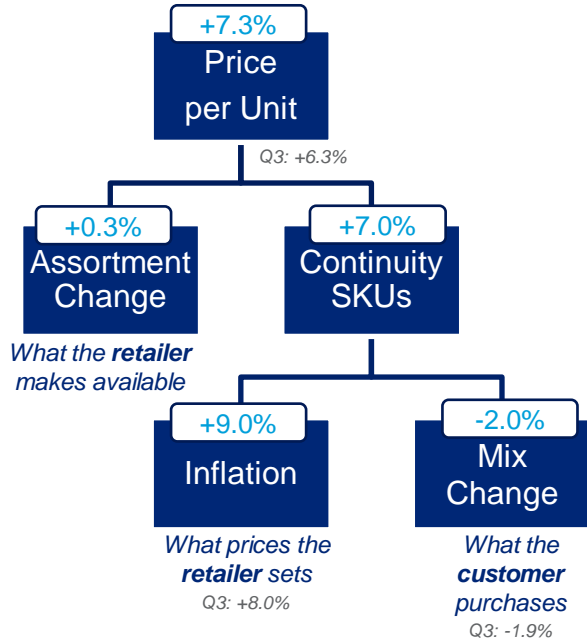
Convenience Channel Price-per-Unit Growth Accelerated for the Sixth Straight Quarter With a 7.3% YOY Increase in Q4, Following a 6.5% Increase in Q3

Price-per-Unit % Change vs. YA

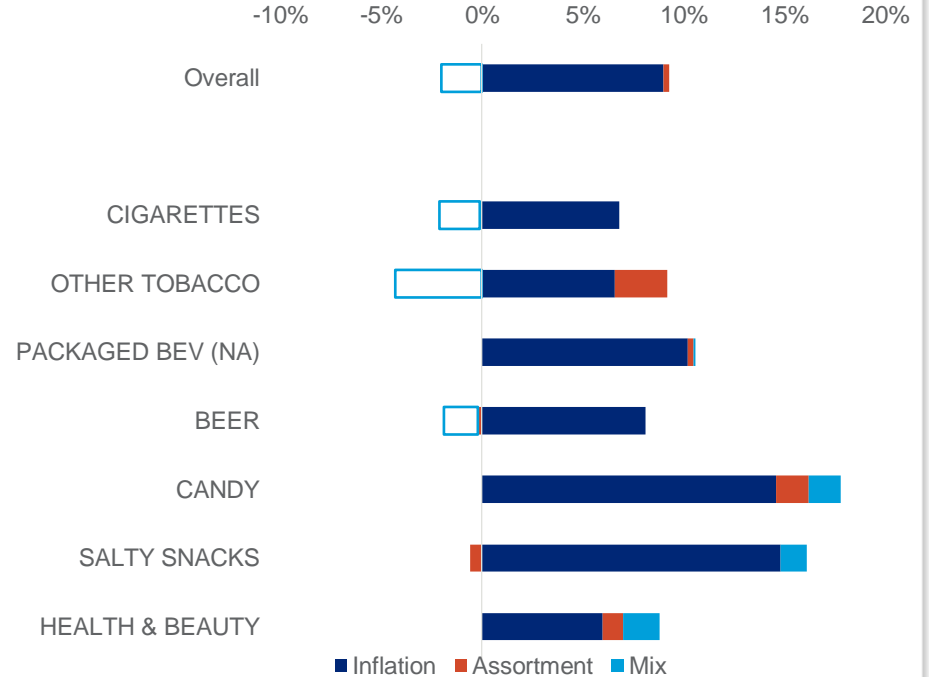


- MULO continues to see much higher YOY price increases than the convenience channel and posted a 14.0% YOY increase for Q4.
- For total 2022, MULO price per unit increased 12.5% YOY, which outpaced the convenience channel's increase of 5.8%.

Price-per-Unit Growth Accelerated
 in c-stores for Q4 and continues to be partially offset by
 customers purchasing less-expensive items.



Cigarettes, Other Tobacco and Beer Categories,
 which make up more than half of total c-store dollar sales, continue to
 show customers are opting for lower-priced products.



Inflation Concerns Continue to Drive Consumers to Adjust Their Shopping Decisions

96%

Are **concerned** about food cost **inflation**

74%

Perceive the cost of goods **are much higher** than last year, up 3 percentage points since August

67%

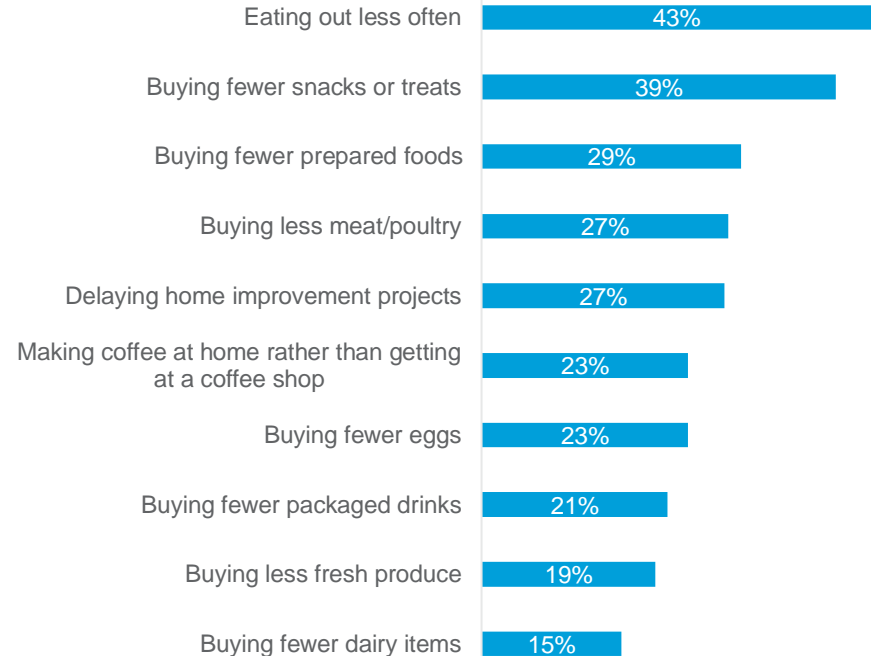
Are **switching** to a **lower-cost brand or private label**

54%

Of those making a change are **looking for sales**, followed by 50% **cutting back on nonessentials**

54%

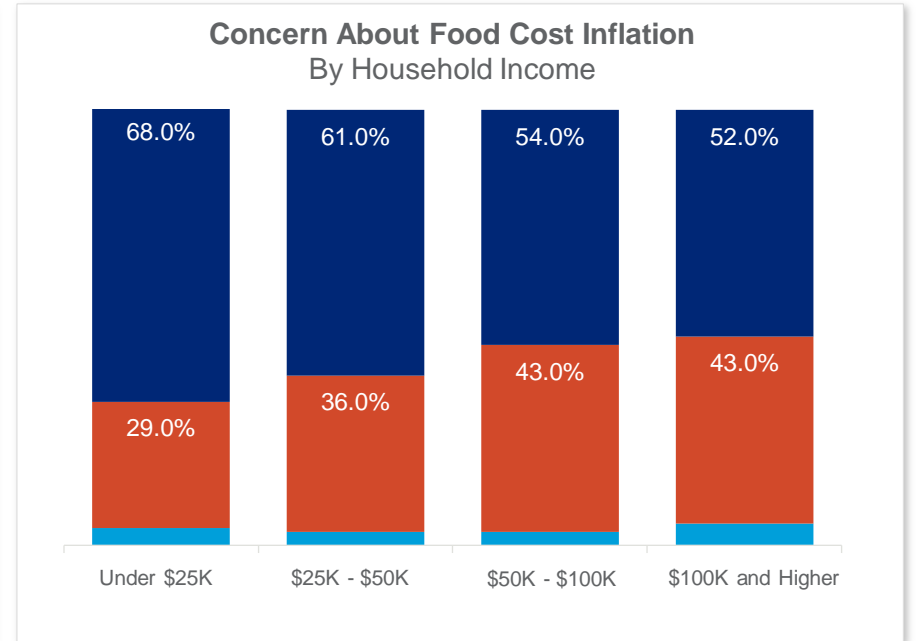
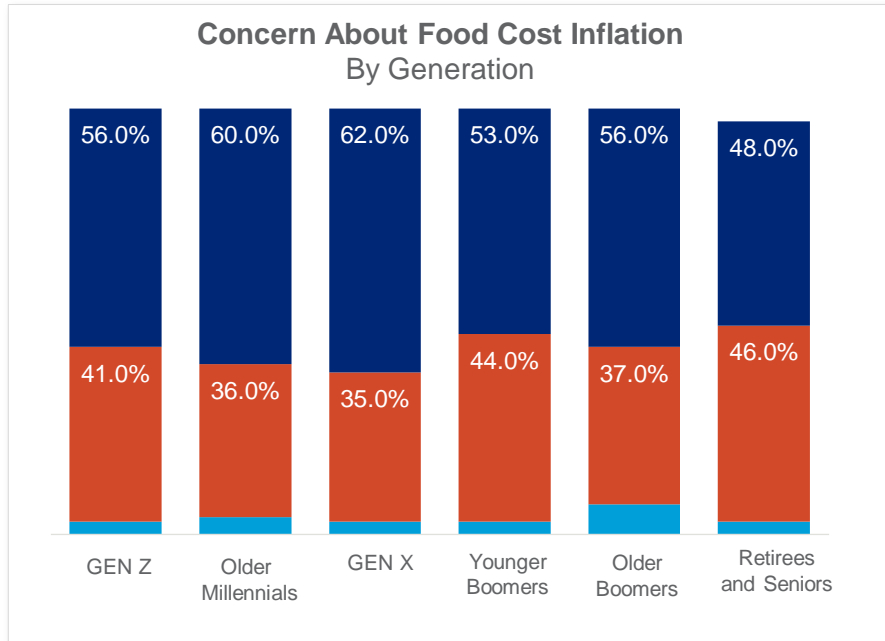
Of those noticing higher prices believe that **fewer items are being promoted**



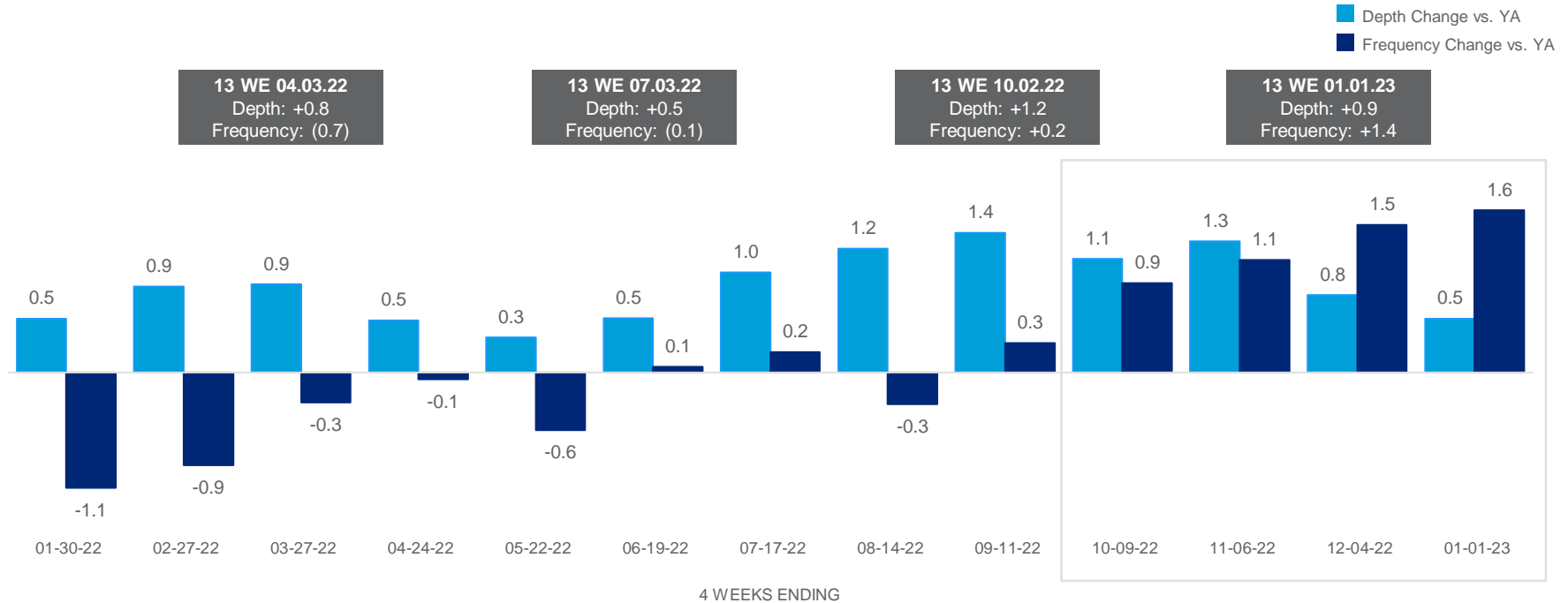
Concerns Around Inflation Continue for All Generations and Income Levels

Low-income households reported the highest levels of extreme concern

- Extremely concerned
- Somewhat concerned
- Not at all concerned



Promotion Depth and Frequency in Convenience Showed Increases in Q4 vs. YA



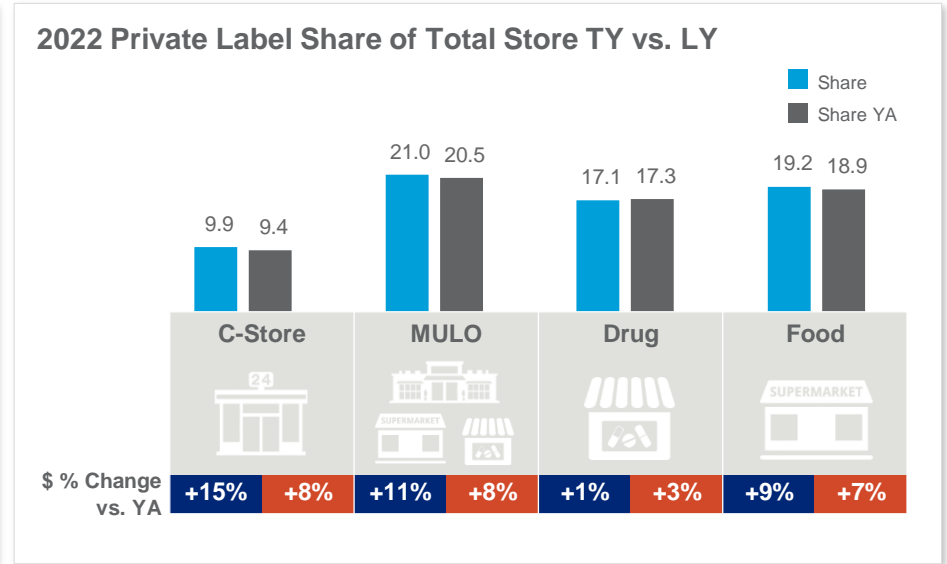
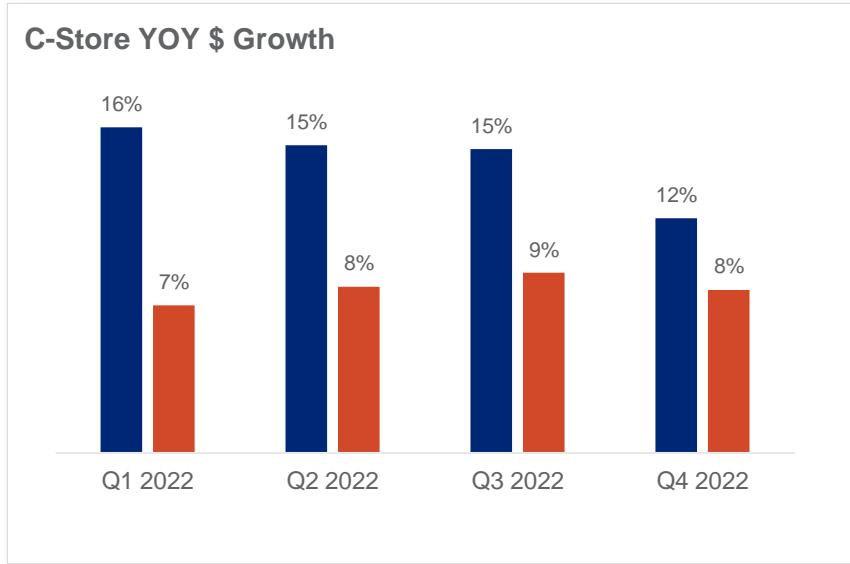
For 2022, Depth increased +0.8 and Frequency grew +0.2



FREQUENCY: Promotions (as measured by % base sales on Merch) indexed to same period prior year; DEPTH: Weighted average % price reduction on Merch is indexed to same period prior year
 Source: IRI POS data through 01/01/23

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YOY Sales Dollar Growth for Private Label Products (+15%) Outpaced National Brand (+8%) in the Convenience Channel for 2022

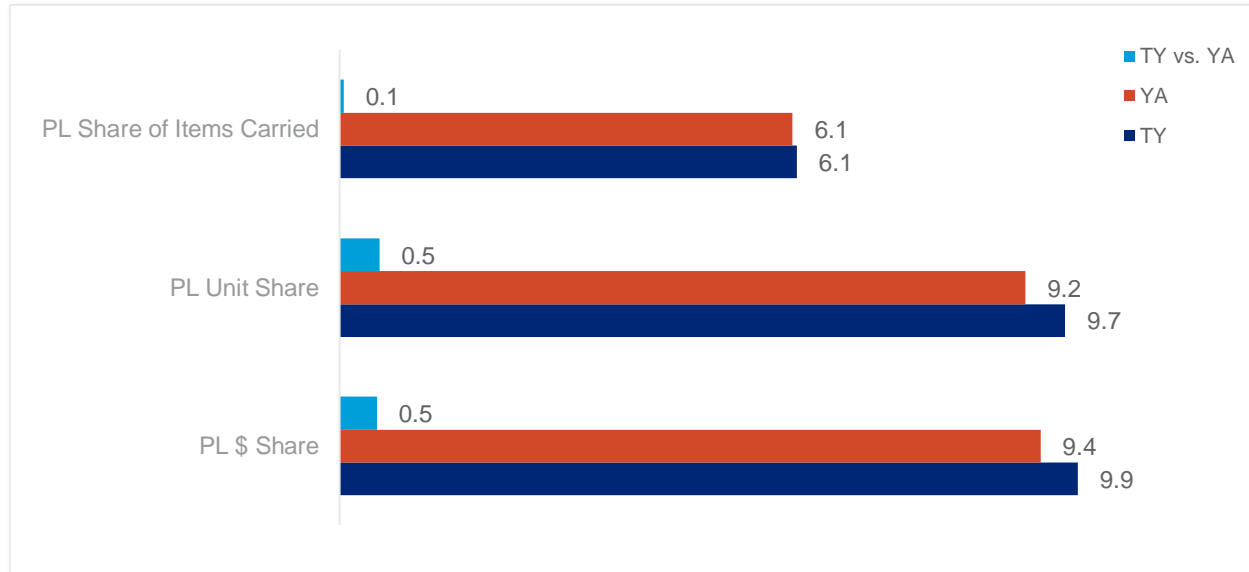


Convenience channel private label YOY sales \$ growth slowed in Q4 compared to Q3 but continued to outpace national brand.

Private label share of total store sales remains low for c-stores compared to other channels but increased in 2022.

Private Label Unit and Dollar Share of Total C-Store Sales Increased in 2022 Despite Share of Total Items Carried Remaining Flat

Private Label Share of Total U.S. Convenience 2022



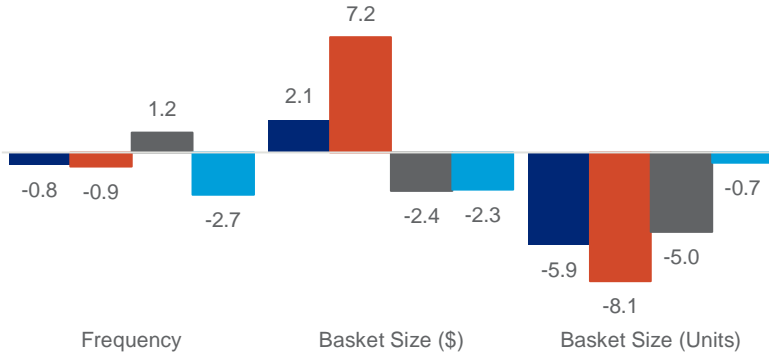
Private label products
made up 6% of average
weekly items carried at
c-store retailers but
contributed
**9.7% of total units
sold in 2022.**

Dollar Spend on Private Label Continues to Increase YOY for All Income Levels

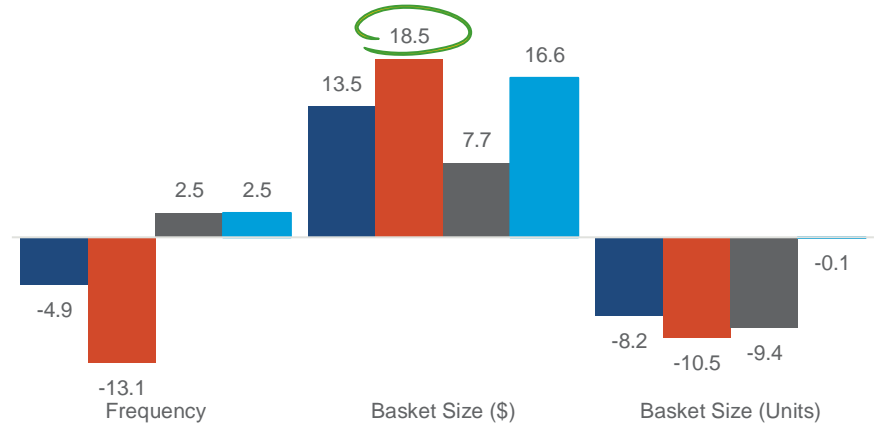
Highest growth in private label basket size is driven by low-income households

■ Average HHLHD ■ Middle Income
■ Lower Income ■ Upper Income

Total Store – Convenience
% Chg. vs. YA



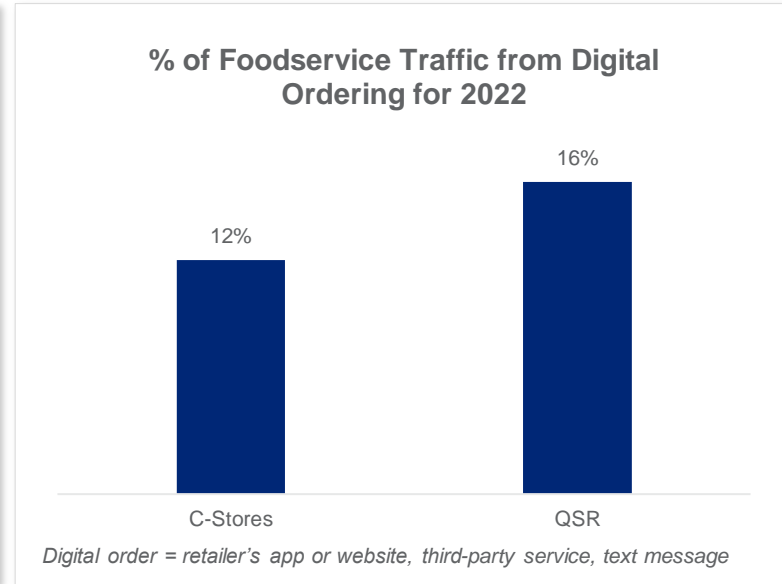
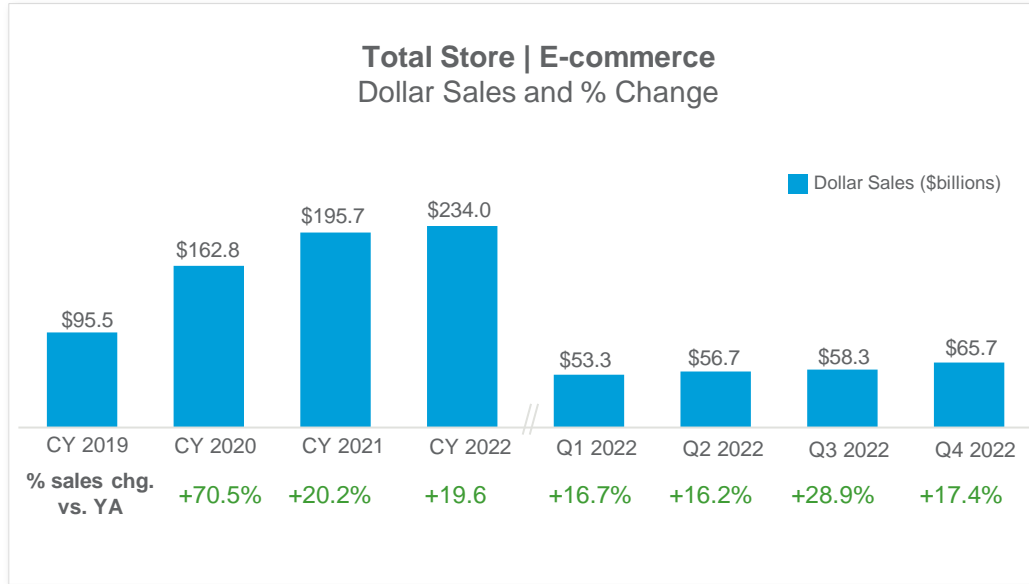
Private Label – Convenience
% Chg. vs. YA



HHs made fewer total trips to convenience in Q4 vs. YA and purchased fewer items per trip.

Lower-income HHs spent more dollars on private label items, despite making fewer trips and buying fewer items.

The Trend of Strong Growth in E-commerce Across CPG Retail Continues and is Expected to Remain Positive in CY 2023



- The pandemic accelerated growth of e-commerce, which hit \$234 billion in CY 2022.
- Investments by leading retailers will further expand e-commerce in the coming years.

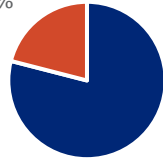
- C-store digital ordering has an opportunity for growth in 2023 as digital share of total foodservice traffic in the convenience channel was well below QSR's digital share in 2022.

Convenience Channel Trips During the Breakfast Daypart Increased 3% YOY in 2022, Slightly Outpacing the 2% Growth in Trips at Quick Service Restaurants

The convenience channel share of breakfast visits for foodservice items increased YOY and remains higher than the share of trips for lunch and dinner dayparts.

Share of Trips for Breakfast Daypart

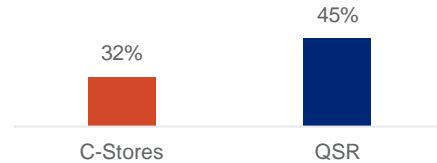
C-Stores 21%



QSR 79%

Compared to c-stores, trips to the QSR channel for breakfast daypart are more likely to include both food and beverage.

% of breakfast occasions that include both food and a beverage



The top three beverages for quick breakfasts are coffee, bottled water, and soft drinks. In the past five years, coffee's growth has been driven by specialty coffee.



Opportunities and Actions

Each share point gained from QSR is equal to 620M visits and \$3.8B annually.

Convert buyers into food and beverage purchasers through combo meals, loyalty programs and LTOs.

Enhance coffee offerings to include more specialty coffee, which is a growing category specifically for young adults.

Retailers Wrestled With Holiday Inventory Leftovers, Leading to Price Discounts Which Impacted Profits

As we move into 2023, it appears that the primary concern for retailers will be maintaining profitability and reducing excess inventory

Inflationary pressures and lingering memories of holiday 2021's supply chain issues prompted shoppers to hunt for gifts earlier in 2022 — to capture savings, deter shipping delays and secure preferred merchandise.

According to a CNBC survey, bloated inventories kept warehouses packed, and respondents said they saw a **400% increase in warehouse prices** as space decreased. That is benefitting consumers, who are picking up heavily discounted items as retailers try to move product out of the warehouses.

Jack Kleinhenz, chief economist at the National Retail Federation, expects companies to manage inventories more tightly in 2023 after being forced to heavily discount goods due to an enormous amount of unsold merchandise.



12/15/2022

Walmart continues to face an overabundance of inventory in some categories and inflationary pricing pressures. In order to mitigate supply chain issues, Walmart is continuing to look for new technology to maintain inventory that includes a commitment to purchase thousands of delivery EVs and opening of next-gen fulfillment centers that use automation and artificial intelligence. The company hopes to mitigate the issues with the help of its suppliers.



12/12/2022

Excess inventory has dragged down the company's profits. Target was forced to clear its inventory through promotions, which caused margins to compress further. Target had to fill its stores with merchandise that was no longer wanted and had to be marked down. Target announced that it would clear its inventory, taking the hit once and accepting a few quarters with low margins.



10/19/2022

In order to mitigate supply chain issues, Kroger has opened a next-gen fulfillment hub in Romulus, Michigan. Powered by Ocado Group technology, the new delivery center's services will employ a suite of technology, including advanced robotics, temperature-controlled vans and delivery trucks guided by machine learning algorithms.



Source: <https://seekingalpha.com/article/4563832-shoplifting-issue-target-but-not-costco-stock>; <https://consumergoods.com/behind-amazons-packaging-strategy-machine-learning-powered-optimization>; <https://www.cnbc.com/2022/12/15/how-walmart-ceo-is-managing-for-more-inflation-and-less-demand-in-2023.html>; Outlook 2023 economictimes.indiatimes.com/news/international/world-news/december-retail-sales-fall-1-1-after-slipping-in-november/articleshow/97094839.cms

Customer Trend Outlook and Actions for C-Store Retailers

2022 Trend



2022 Q4 Update



2023 Outlook



Actions



How IRI & NPD Can Help



C-store **private label growth** outpaced national brand and MULO private label growth

C-store private label YOY dollar growth slowed compared to previous quarters but continued to outpace growth of national brands in the channel (12% vs. 8%)

Private label penetration will continue to increase as customers trade down to offset rising prices

- Increase private label assortment
- Leverage private label to offer low opening price points within key categories

Utilize IRI's Concept Testing to screen product attributes, names, packaging and pricing to successfully launch new private label items

Customers are **seeking deals and promotions** due to inflation concerns

54% of shoppers making a change due to inflation reported they are looking for more promos and more than half of shoppers noticing higher prices believe fewer items are being promoted

Customers will seek out deals and promotions as inflation and concerns remain

- Utilize promotions
- Adjust assortment to build value offerings
- React quickly to competitive pricing

Understand PPU change for your stores compared to the market and how customers are changing their purchase behaviors with IRI's Inflation Decomposition analysis

C-store has seen dollar **leakage to value channels**

The convenience channel saw a YOY increase in sales dollars for Q4 2022 (+3.3%) but did not keep pace with MULO, which continues to see accelerated YOY increases (+9.5% in Q4)

Leakage will continue as customers look to save money

- Monitor shopper trends and leakage
- Manage price gaps to value channels on key items

Identify your key competitors and understand leakage trends across channels by using IRI's Competitive Landscape analysis

The pandemic accelerated **growth of e-commerce**, which continued to increase YOY in 2022

YOY e-commerce sales increased 17% for the convenience channel and many retailers have announced investments in online ordering and delivery services

Customer preference for convenience and investments by leading retailers will further grow e-commerce sales in the channel

- Develop and improve digital ordering options to keep pace with the broader foodservice market

Leverage NPD/CREST® data to track e-commerce progress for your business and across the foodservice industry, identify opportunities in business segments and demographic targets

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