

Dispensed Beverages Driving Growth in Retail Foodservice Segments

By Tim Powell | VP Consulting

Lately, there has been a lot of discussion and content dedicated to c-store food, segment growth and perception. Considering dispensed beverages are the heart and soul of c-stores, accounting for half of all foodservice sales, this column reminds readers to maintain focus on the traffic – and particularly profit – potential of this always important category.

Gross margins for cold and hot dispensed beverages are the highest among all foodservice categories in convenience stores and in the foodservice industry overall. Gross margins are highest for dispensed iced tea and coffee, which can exceed 95%. Still, operators see generous margins for dispensed carbonated soft drinks, slushies/smoothies and juices. It is a well-known practice in the industry to “steal” margins from beverages to “make up” for the high cost of food.

Convenience Store Gross Margins

>70%	60-70%	40-60%
<ul style="list-style-type: none"> • Cold dispensed beverages • Hot dispensed beverages • Frozen dispensed beverages 	<ul style="list-style-type: none"> • MTO sandwiches • Hot dogs • Corn dogs • Pizza • Breakfast sandwiches 	<ul style="list-style-type: none"> • Prepared sandwiches • Chicken (non-sandwich) • Fresh fruit • Soup

For example, incrementally increasing the price of a beverage included in a combo meal means that the overall price of the sandwich and chips, for instance, can be lowered without compromising profits. In addition to the profitability story, dispensed beverages can attract a broad audience.

The Gas Pump as Billboard

While we are in a deep freeze, it seems no one in their right mind would go into a c-store after pumping gas. However, catchy pump advertising, such as a “super hot cup of coffee free with a muffin” is certainly enticing this time of year. In my own estimation, too few retailers use the gas pump as a promotional tool, or never remove the original signage.

Use Beverage Equipment as Novelty

The introduction of the Free-Style machine is an excellent example of customer interaction with a c-store. While not all beverage equipment has to meet the same innovation standards as the latter, retailers can increase in-store excitement with bright, interactive equipment, such as the f’real machine, that gets consumers talking.

Offer Varieties and LTOs

C-stores are well known for offering among the best variety of beverages in the industry. Motorists can typically stop at a roadside store and count on purchasing a favorite CSD brand. Like the food offerings in other segments, c-stores must continually keep the beverage offerings new and exciting. Offer a certain coffee, CSD or iced drink 4-5 times per year for a limited time and replace unsuccessful brands/offering to make way for the newest drink.

The Return of Iced Tea

With the attack on the calories of carbonated soft drinks and high expense of “healthy” bottled beverages, consumers are once again looking toward iced tea as a favorite complementary beverage with food. Iced tea is among the highest in gross margins and is also one of the most versatile items operators can offer in terms of additional flavors, functions and types. The equipment is typically provided by the supplier and relatively reliable with low maintenance. Ideas would include offering a “boost” from the CSD dispenser with the iced tea or simple providing similar flavor pumps to customize iced tea as consumers to with coffee. Obviously, the Arnold Palmer would be an easy addition.

Stick to the Basics: Dispensed Beverages Satisfy Regular Customers

Heavy users of c-store foodservice (those visiting more than three times per week) over-index on beverage purchases as well as on overall check averages. This group may in fact only purchase a beverage on certain occasions, and may actually return the same day for another beverage.

While the beverage category is undergoing an influx of new beverages (relaxation, functional, fusion, etc.) it is critical c-stores do not alienate their current base of heavy users to attract a lighter-user base with specialty lattes, for example. Following these rules suggested, c-stores will see that no specific consumer segment is ignored.

For further information on scenario planning or assistance with strategic planning, please contact tpowell@q1productions.com or visit <http://www.q1productions.com/consulting/>