Convenient for all

By Alon Hahn-Markowitz

Marketing strategy in the convenience store market abroad

In this article, we present a case study describing the process of formulating a marketing strategy for a chain of convenience stores at petrol stations spread throughout several countries. Implementation of the strategic planning has led to a significant improvement in profitability, market share, and share of wallet in stores where the strategy was adopted.

The chain has a sales turnover of over $100 million in non-petroleum products and is a major player in the markets in which it operates. The importance of convenience stores has risen in recent years; with rising energy prices and eroding fuel margins, energy firms have come to realize that convenience stores have the potential to provide greater profitability by attracting refueling traffic to their premises. Together with Tefen's strategy, the prevailing situation led the company in question to build a marketing strategy for the entire chain.

As a mature market, the convenience store segment has become highly competitive, with a battle to gain the market share and share of wallet of each and every consumer. As the market approaches saturation, each player needs to differentiate himself in order to win over the heart and pocket of individual consumers. During the diagnostics phase, we found that the chain had weak and vague brand values, and it did not offer customers a clearly-defined differentiated value proposition.

This case study shows how in-depth diagnostics of the chain, the competition, the customers, and the trends helped us to garner insights, which in turn supported selection of a marketing strategy suitable for the chain's goals. The insights we gained included the following examples:

Concept drivers: the concept driver for convenience stores may be derived from two key sources. The first is a defined customer segment, such as truck drivers or the third age. The second is a leading consumer trend, such as the growing importance of personal health, limited leisure time, obliging consumption of services and products on the go, etc. The findings in our case suggested that a concept driver based on one particular customer segment could keep other audiences away from the chain's stores, while a concept driver based on a consumer trend would appeal to a wider audience and demonstrate that the chain has its finger on the pulse of customer needs.

Variance in consumption characteristics between different geographic markets: in the case in question, geographic variance had a major impact on the market's characteristics. We found that the motive for entering a store varied significantly between consumers of the different countries studied: in one country more than half of those entering convenience stores did so to pay for fuel, while in another country, this was the case for only a quarter of the customers (almost half the customers went in to buy beverages, cigarettes or sweets).

The marketing strategy

The main purpose of formulating a marketing strategy was to maximize the business performance of the convenience store chain. The main goals were: to increase market share (the number of customers entering the stores), to increase share of wallet (the amount of money each customer spends in the store) and to change the product mix (selling more profitable products). The key element was to adapt the marketing strategy to salient market trends, and to their anticipated impact on the chain's development.

The first step in building a marketing strategy is to perform a diagnostics phase, which includes analysis and internal scrutiny of the chain's performance and capabilities, the business environment, existing and potential consumers, and global trends in the convenience store sector (benchmark analysis). These findings enabled us to identify possible alternatives for a differentiating marketing concept for the chain, and to then select the preferred alternative. The chosen alternative was developed into a marketing plan, which broke down the concept into defined activities (such as building a suitable brand) commensurate with the chain's capabilities and goals, including a detailed implementation and control plan.

Figure 1 illustrates the formulation of the marketing strategy, from diagnostics to implementation.

Building a Marketing Strategy

Diagnostics & Alternatives Analysis — Developing a Marketing Strategy — Implementation

Actions

Internal analysis
Market and competition analysis
Consumer analysis
Benchmark analysis

Alternatives identification
Analysis and prioritization of alternatives
Agreement upon alternative for implementation

Detailing chosen alternative
Business case development
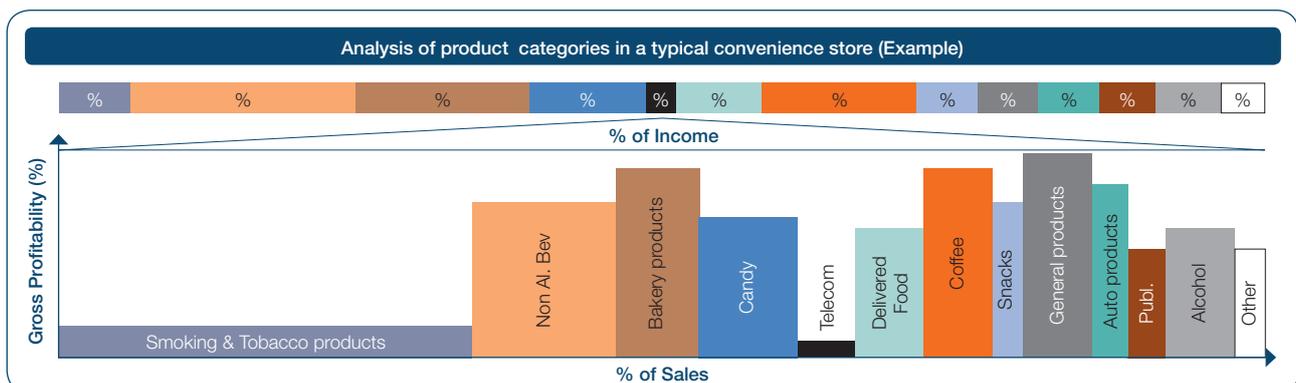Gap analysis and roadmap

Monitoring

Diagnostics

Phase 1: An internal analysis of the organization

Phase 1 involved a financial analysis of the chain. A distinction was drawn between performance in different markets (individual countries) and locations (freeway, urban road, and rural road), between petrol stations and the convenience stores and between stores managed by the company and those run by franchisees. The financial analysis focused on overall revenues and profitability, and also distinguished between different product categories (see Figure 2), in order to identify the most profitable ones.

The convenience stores were found to be a source of high growth, compared to the somewhat stagnant performance of petrol stations. However, a significant direct correlation was found between fuel sales and store sales. An analysis of product categories found tobacco products to be a leading sales category and a primary motive for entering the stores, although, not very profitable in itself. The most lucrative products were coffee and fresh pastry products. Better performance was found at stations managed by the company rather than stores run by franchisees.

Analysis of product categories in a typical convenience store (Example)

% of Income

Gross Profitability (%)

Non Al. Bev
Bakery products
Candy
Telecom
Delivered Food
Coffee
Snacks
General products
Auto products
Publ.
Alcohol
Other

Smoking & Tobacco products

% of Sales

Phase 2: Analysis of the business environment

The business environment was analyzed by a detailed examination of all key players in the industry (including the chain itself) in terms of size and spread, market share, USP (unique selling proposition), communication of the marketing messages, different chain formats plus the main strengths and weaknesses. In addition, we examined the main external influences on the market, the potential for growth, and the existing sub-formats in the industry. The analysis found that the global trend of food and beverages „on-the-go" is expected to remain a growth driver, while threats may arise from new formats entering the market (hypermarkets, unmanned stores). The chain itself is one of the leaders in the markets examined and is highly ranked, although it was found to be lacking in innovation and execution.

Phase 3: Analysis of the consumer

In this phase, we analyzed the consumption habits of the target audience in order to understand the value proposition that would meet its needs. We also assessed the key sociodemographic trends of this target group, to identify the factors which could affect consumer purchasing habits. More specifically, we conducted a range of surveys to look closely at the travel and refueling habits of consumers and to note the frequency and reasons for visits to the convenience stores. This analysis showed us which branding was likely to be relevant and effective for the target audience and which products and services customers would like to see in the stores. One trend, which has a huge impact on consumption, is the growing importance of physical and mental health throughout the world and the consequent focus on early prevention of disease.
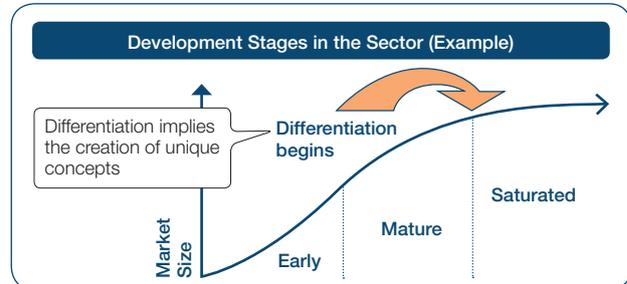
The analysis found that the stores on the freeways were the preferred destination for buying customers, although they were not the first choice for refueling. We also pinpointed several consumer trends relevant to the chain's value proposition for that audience.

Phase 4: Analysis of global trends (benchmark analysis)

In this phase, we analyzed sales, profitability, the products offered, and service range trends throughout the global industry. We investigated the main brand differentiation drivers and the key factors affecting selection of a differentiating marketing concept (concept drivers), plus the USP. We also looked at case studies of petrol station convenience stores, offering a unique value proposition based on different concept drivers.

The analysis found that convenience store sales across the globe have become a more significant component in fuel company revenues than the actual income from refueling. One key finding was that the markets in the countries examined were mature, and that this required distinctive marketing differentiation in order to expand the market share

before reaching saturation (for example, see **Figure 3**). We also ascertained that the differentiating marketing concept chosen needed to be based on a prominent consumer trend.

Figure: Development Stages in the Sector (Example) — Differentiation implies the creation of unique concepts; Differentiation begins; Market Size; Early; Mature; Saturated

Selection of the differentiating marketing concept

The diagnostic findings, along with internal brainstorming sessions at Tefen, and with the chain's representatives, observations, and analysis of special-purpose customer surveys, led us to formulate several preliminary alternatives for a differentiating marketing concept. The alternatives were then prioritized according to several criteria, and combinations of two concepts were examined as well. From these alternatives, the optimal marketing concept for the chain was ultimately selected.

To illustrate the point, we shall describe several alternatives for possible differentiating values, and how they could be implemented at the chain's stores.

- **Health and wellness** – positions the chain as one which cares about the physical and mental health of its customers, by focusing on healthy and fresh food and beverages. The marketing values incorporated in the concept include health, well-being, freshness and cleanliness. The main products that fit this alternative are health products, fresh food, health shakes, vitamins, etc.
- **Families** – positions the chain as one which is family oriented and warm, where the customer feels at home in the middle of a busy day. This alternative incorporates marketing values such as warmth, trust, security and sharing. The main products that fit this alternative are toys,children's gifts, home and garden accessories, home-made food, staples, etc.
- **Gourmet** – a focus on branding as a high-quality premium chain appealing to a sophisticated audience, communicating a message of prestige, and selling leisure and luxury products. The marketing values in this alternative are quality and prestige. The main products backing this concept are high-quality cheeses, wines, cigars, boutique products, imported products, etc.

Developing the concept into a marketing strategy

Once a decision on the differentiating marketing concept for the chain and the main marketing values had been made, it was time to define the core strategy. The next step was to break down the existing insights and the selected concept into an operative plan that addressed sub-formats and customized local adjustments. Developing a concept into a marketing strategy needs to address several key elements:

- **Branding** – it is essential to accurately define brand values, as secondary decisions such as name, logo and colors are based on these. You need to decide whether to create secondary brandings for sub-formats and, if so, how these will differ from the main branding.
- **Look & Feel** – the look and feel of the chain's stores must match the selected concept. This aspect includes a matching color scheme, store design, and possibly the addition of a fitting scent etc.
- **Products & Services** – the first question that arises is, which products and services need to be added to the chain's offering in order to fit the selected concept? The next question is, which products and services need to be removed from the offerings because they are not suitable, or negate the values incorporated in the concept? It is also vital to examine whether the changes can be implemented throughout all the sub formats and if not, what adjustments are possible and implementable?
- **The product spread and store operation** – product positioning guidelines need to be consistent with the main marketing values. Any variation between subformats must be defined. The positioning of other key functions in the store is also significant, including the cashier station, manager station, and accessibility, or even the location of, the restrooms. The store's operating hours must be in keeping with the marketing strategy.
- **Pricing** – a decision must be taken on a pricing strategy that fits the selected concept and whether different pricing should be adopted for the various sub-formats. You need to keep the competition in mind and gear the pricing strategy not only to the chain, but also to the competitive state of the industry.

These elements were addressed on the basis of the diagnostics findings, customer surveys, consultation with experts, and internal and external brainstorming sessions.

Defining objectives and monitoring

The last phase in the marketing strategy is implementation and monitoring of the marketing plan. This requires clear, qualitative and quantitative objectives in order to measure company performance, identify the reasons for any gaps, and select corrective action to close these gaps. Examples of quantitative objectives might be growth in revenues, profits, and market share.

Qualitative objectives could be based on the „funnel" theory, which maps the engagement phases of the customer with a given product or service. According to this theory, the most basic level is „awareness" - in this case, brand awareness (the chain of convenience stores). The next level is „sympathy"; the customer views the brand in a positive light and has thoughts about purchases. This is still a passive stage in which the customer is not required to take any action. However, in a world in which the emotional bond between the customer, the brand, and the brand experience is pivotal, it is vital to generate positive feelings and associations with the brand. The next and most important level is „preference". Here, the customer is required to take active steps and give preference to buying from the chain's stores rather than from other stores. The preference will be expressed at the time of the final „choice", when a purchase is effectively made at the chain's stores. Brand loyalty will be expressed when the customer „repeats the choice", and returns to purchase there again.

In addition, an appropriate management infrastructure is needed to manage the plan's implementation and communicate the changes (internally and externally). A detailed implementation schedule guides the players through the entire process.

Summary

A systematic and thorough diagnostic examination is the essential foundation for building a marketing strategy which has a meaningful impact, and is geared to the business environment and the organization itself.

A clear strategy helps us to compile a coherent and future-oriented plan which is ultimately implemented by the chain. In our example, the mission was to transform the convenience stores into a destination in their own right. As a result of the action taken, the number of customers entering the stores, the product portfolio purchased, and the product mix revenue all increased, leading directly to a significant rise in store profitability.

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