Food, Investor Trends Driving C-Store Momentum

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The pursuit of Casey's General Stores by larger rivals Alimentation Couche-Tard and 7-Eleven was ultimately doomed but the saga served to highlight relevant trends in the convenience store industry, observers told *SN*.

Among the investment community, it attracted attention to an arguably undervalued retail sector that weathered the economic downturn. It spotlighted a trend toward foodservice offerings at convenience stores and its potential to drive trips, profits and competition with restaurants and grocery stores. It also illustrated a hunger for scale in an industry that remains highly fragmented and likely to continue to consolidate, even if two of its largest players just swung and missed at Casey's.

The fight between these two big companies, Couche-Tard and 7-Eleven, really brought a lot of interest to the industry from people who might have overlooked it, like private investment vehicles and the financial community, Steven Montgomery, president of b2b Solutions, a Lake Forest, Ill.-based consultancy specializing in convenience retailers, told *SN* in a recent interview. They realized, maybe this is a place I should put some money.

That willingness to invest Casey's stock went up more than 40% since its takeover drama began in April is bringing some new momentum to the c-store industry, observers said. Operators are more willing to invest for growth and consolidators are busy. Recent activity includes small acquisitions by public companies like Casey's, Ankeny, Iowa, and The Pantry, a Cary, N.C., as well Mid-Atlantic Convenience Stores, a newly formed investment vehicle led by Richmond, Va.'s Uppy's chain and backed by Greenwich, Conn.-based investor Catterton Partners.

Casey's last week said it agreed to purchase 19 convenience stores in Illinois owned by Harper Oil, with plans to rebrand that company's On the Way stores to its Casey's General Store banner.

The well-regarded private company Wawa said last month that it planned to expand into central Florida by late 2012. The move would be a geographic leap for the Wawa, Pa.-based company, which currently operates in five Mid-Atlantic states.

The convenience store industry looks like it's following that inevitable path of the big getting bigger, Neil Stern, senior partner at McMillan Doolittle, Chicago, told *SN*.

In a presentation at the National Association of Convenience Stores show this month in Atlanta, Terrence Marks, president and chief executive officer of The Pantry, indicated that a fragmented industry presents continued consolidation opportunities. Citing NACS figures, Marks noted that 79% of the industry's 145,000 convenience stores are in the hands of single-store or small-chain operators.

Moreover, many of these small players are transitioning to second- or third-generation family owners who may not have the desire to continue, Montgomery added. “This is an entrepreneurial industry, where founders worked seven days a week to make a good living for themselves,” he said. “The younger generations are seeing that and thinking, ‘I might not want to have to get that involved.' That's a major opportunity for consolidation there.”

The stores themselves also appear to be in some recovery. The NPD Group recently said convenience store traffic improved by 8%, and sales increased by 11%, in the second quarter of 2010 vs. the same period in 2009. Store visits increased to 6.4 times in 30 days from 6.1 times in the same period, while gas visits held steady, an indication that convenient “grab-and-go” offerings are in demand as the economy recovers.

The leaders in foodservice programs in the convenience industry, including Wawa and its Altoona, Pa.-based rival Sheetz, have become formidable competitors to quick-service restaurants but can also wear away at supermarkets, noted Bob Gorland, vice president of Matthew P. Casey & Associates, a retail real estate firm in Clark, N.J.

According to Gorland, supermarkets take a “minimal” sales hit — he estimates less than 1% — when a Wawa or Sheetz opens against it. “But new, larger c-stores can impact a supermarket's future growth curve as they take away impulse items, dairy, HMR and deli purchases over time,” he said.