

Hudson Institute

Health & Wellness Trends and Strategies for the Convenience Store Sector

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KEY HIGHLIGHTS

- The “health tide” is rising across all segments of the American population and the convenience store sector is poised to capture an open opportunity among consumers seeking healthier and convenient products
 - C-store executives should place focus on two primary consumer segments – their traditional core consumer and the growing better-for-you segment characterized as “Fence Sitters”
 - By focusing on products and messaging that meet their needs for healthier products – on-the-go, breakfast and kid targeted convenience – c-stores can drive significant, new growth in the category
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INTRODUCTION

The consumer health and wellness push towards better-for-you foods has moved further into the mainstream – impacting retailers from restaurants, to grocery stores, and now increasingly, the convenience retail sector. Hudson Institute was commissioned by the National Association of Convenience Stores (NACS) to evaluate the impact of these trends for their membership and to provide direction on how the sector could capitalize on the growth opportunities presented.

The insights presented in this report are gathered from the proprietary Health & Wellness Trends Database® managed by the Natural Marketing Institute (NMI). Findings indicate a growing trend in the consumption of healthier, nutritious foods in convenience stores (c-stores), resulting in a significant change for the category that has largely relied on traditional snack offerings. NMI’s research insights, coupled with better-for-you (BFY) food analysis by the Hudson Institute, paint a picture of substantial growth opportunity – opening the door for quick acting retailers to take advantage of this shifting tide. This report will review key health and wellness consumer trends, discuss the ideal consumer segments to target for better-for-you products and discuss strategies for growth in the c-store sector.

METHODOLOGY

Since 1999, NMI has conducted a comprehensive, quantitative health and wellness consumer research study focused on key attitudes, behaviors and motivations across a representative U.S. general population sample. As part of the annual research, NMI has developed a unique consumer segmentation model, utilizing a k-means clustering method based on attitudinal and behavioral variables, and conducting both exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). Over 200 different variables (among 80,000+ consumer surveys analyzed since 2001) were explored and narrowed to approximately 20 variables and a five-cluster segment solution. The reproducibility (i.e., ability to consistently replicate the same segments through the use of a typing tool algorithm) of the segmentation is high at an (over) eighty percent confidence interval.

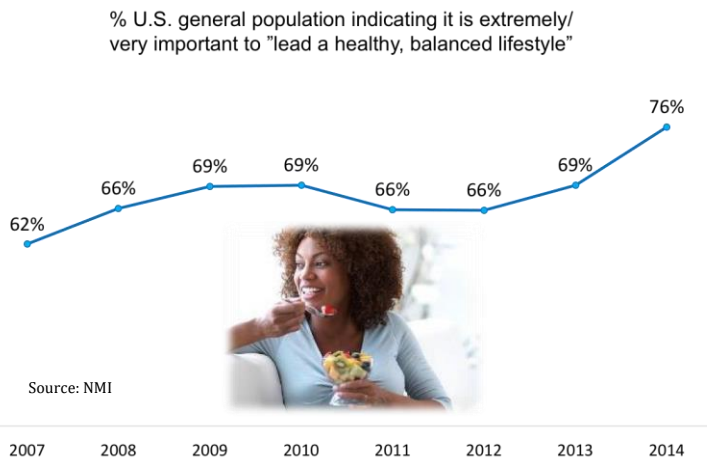
NMI provided data analysis and charts to the team from the Hudson Institute’s Obesity Solutions Initiative, who conducted insight analysis for this report utilizing the segmentation data set coupled with their experience and methodology in better-for-foods analysis. The team has developed several landmark reports focused on better-for-you and lower-calorie foods in the consumer packaged goods, restaurant and grocery sectors. Utilizing their expertise and broader market context, the team developed strategies and implementation insights for the convenience store sector.

KEY INSIGHTS

CONSUMERS ARE EMBRACING A HEALTHY LIFESTYLE

Consumer trends indicate that a large and growing number of the U.S. population believes it is extremely important to “lead a healthy, and balanced lifestyle.”

75% of consumers say that consuming a healthy, nutritious diet is important in how they achieve a healthy lifestyle



Yet, the definition of “healthy” to consumers can be a variety of things. Healthy eating means low carbs, high protein to serve as energy source, or even gluten-free for health or general dietary reasons. This variability transfers to labeling checking as well, as there are also a varied number of items that consumers “fact check” on labels. Their primary concerns are not surprisingly, calories (45%), sugar (47%), sodium (41%) and total fat (38%), but a growing number of secondary concerns include high fructose corn syrup (31%), trans-fats (31%), protein (27%), type of sweetener (27%) and carbohydrates (26%).

Numerous players in the food sector have responded to this healthy eating trend by adapting their offerings to attract a broader audience and capitalize on their needs. For example, the fast food sector has begun marketing healthier options such as McDonald’s premium salads or Firehouse subs “fuel under 500 calories” menu. And, numerous outlets are capitalizing on consumer’s growing desire for quick stop, healthy convenience – from convenient formats like protein bars, to portion-control packaging such as 100-calorie packs and convenient service via better-for-you food displays in c-stores.

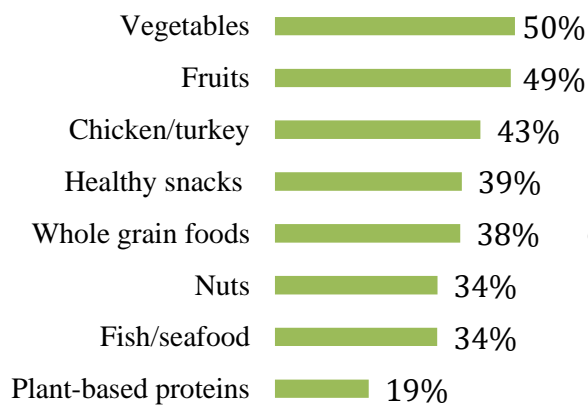
MORE C-STORE CONSUMERS ARE SEEKING HEALTHY PRODUCTS

The profile of the convenience store shopper is trending more affluent, to having more kids in the household and skewing to a younger demographic. This is supported by an increasing interest by c-store shoppers in seeking to maintain a nutritious and healthy lifestyle. In the past five years, the importance of natural foods and beverages to c-store shoppers has nearly doubled, with 62% stating natural foods are important to maintaining their health. And this belief is translating to behavior. Approximately 75% of c-store shoppers state they are “eating healthier than they used to” and are more likely to take any “means necessary to control their own health.”

Consumers desire for convenience is a growing trend and a notable c-store opportunity. The number of c-store shoppers interested in healthy foods that can be eaten ‘on-the-go’ has increased from 59% to 66% in the past seven years, and healthier snacking has become the norm, with 75% of shoppers “interested in snacks that are nutritionally healthy.”

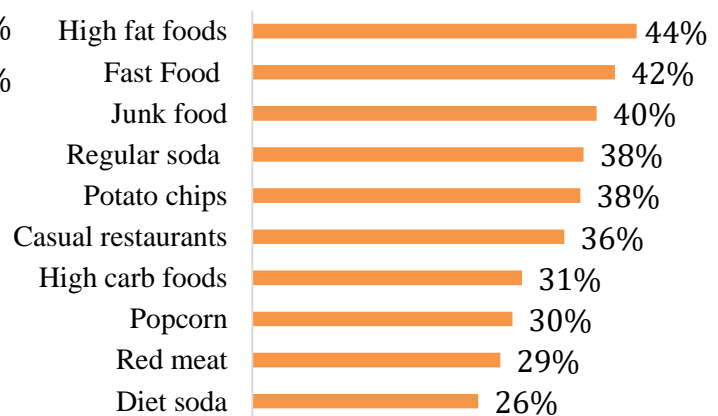
Increase in “healthier” product intake

% convenience store shoppers indicating they are consuming **more** of the following compared to a year ago



Decrease in “less healthy” product intake

% convenience store shoppers indicating they are consuming **less** of the following compared to a year ago



(Q.92 - % convenience store shoppers indicating they are consuming more of the following compared to a year ago [NMI's 2015 Healthy Aging Database])

Convenience store shoppers report consuming more healthy food items, such as vegetables, fruits and healthy snacks compared to a year ago. At the same time, they note a decrease in their consumption of less healthy products, such as high fat foods, fast food meals and regular (sugar-sweetened) soda.

TARGETING THE RIGHT CONSUMERS FOR BETTER-FOR-YOU GROWTH

There is a wide range of diversity among the population within the health and wellness landscape. NMI's Health & Wellness consumer segmentation provides a unique lens into the different groups in the U.S. population, and their defining attitudes, behaviors, motivations and purchase patterns. NMI has identified five distinct consumer groups, ranging from those who are very engaged in their health (Well Beings) to those who have little motivation or interest in maintaining a healthy lifestyle (Eat, Drink & Be Merrys).

NMI Health & Wellness Segmentation



WELL BEINGS*: 20%

- Most health pro-active
- Market leaders & Influencers
- Highest organic usage
- Food "purists"



FOOD ACTIVES*: 16%

- Mainstream healthy
- Basics, balance and control
- Desire inherently healthy foods
- Most price driven



MAGIC BULLETS*: 21%

- Lack commitment to healthy lifestyle
- Skew Boomer/Senior, lower income
- Belief in pills, not nutrition
- Least likely to exercise



FENCE SITTERS*: 25%

- 'Wannabe' healthy
- Most likely to have kids
- Convenience important
- Stressed out, want help and control



EAT, DRINK & BE MERRYS*: 18%

- Least health active
- Unconcerned about prevention
- Choose taste
- Younger

	Healthy eating priority	Self-directed health	Looking for quick fix	Health strivers	Not health motivated
C-store opportunity	✗	✗	✗	✓ Largest number of consumers (38%)	✓ Largest volume consumers

Based on the health orientations of the five segments and additional analysis on the highest concentration of c-store shoppers across segments, the Fence Sitter segment is the key target for better-for-you growth, while the traditional "core" offering most closely meets the profile of the Eat, Drink & Be Merry's (ED&BM). The ED&BM's are the heaviest users of indulgent products and make the most c-store trips, while Fence Sitters represent the largest cohort of c-store shoppers (38%) and are spending more per market basket (\$238 annual basket ring vs. \$206 for ED&BM's). Fence sitters are also increasing in size with the population (+7% percentage points from '09 to '14), while the ED&BM's are diminishing (-8% percentage points), highlighting the importance of this "better-for-you" segment to sustain long-term growth.

For these reasons, Fence Sitters present as the primary BFY target for c-stores as they are striving to be healthier and their lifestyle dictates a need for quick, convenient, on-the-go, tasty, kid-friendly options. And they are more likely to purchase a wide array of healthier food and beverage categories from fresh entrees to energy and nutrition bars, allowing for a variety of options to be offered.

Fence Sitter Product Usage vs. Other Segments

(Q.17 - % indicating they have purchased the following products in the past 3 months – items listed are the ones FENCE SITTERS index the highest)

	% GP	FENCE SITTERS INDEX
Energy drinks	20%	153
Fresh prepared non-meat entrees	14%	152
Fresh prepared soups	14%	146
Energy/Nutrition bars	25%	139
Meal replacement drinks/shakes	14%	136
Smoothies	14%	130
Granola (ready-to-eat)	20%	129
Reduced Calorie Bevs (e.g., Trop 50, Pepsi Next)	12%	125
Sports drinks	31%	125
Fresh prepared side dishes	19%	122
Light beer	20%	121
Granola bars/Cereal bars	41%	109
Yogurt cup/Drinkable yogurt	44%	107
Greek/Greek style yogurt	36%	102

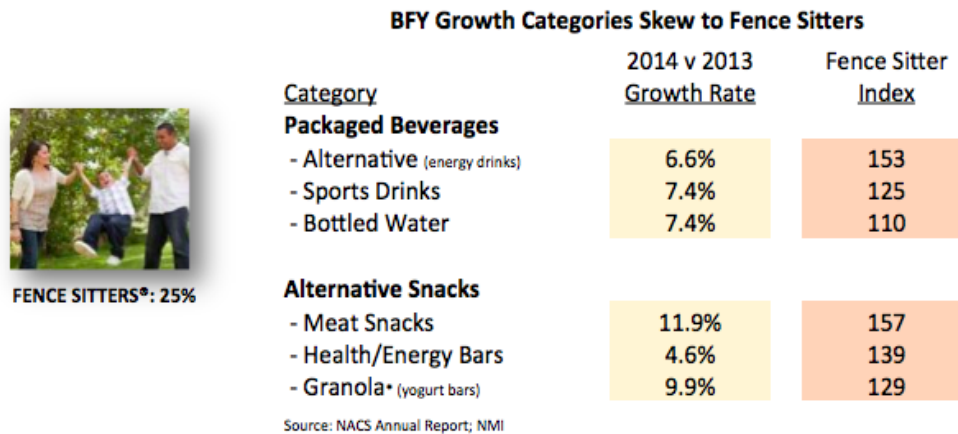
Pink shading denotes very high index vs. GP (≥ 150); Green shading denotes high index vs. GP (≥ 120)
Source: NMI

STRATEGIES TO TARGET FENCE SITTERS & GROW BFY

There is significant opportunity for c-store growth by applying the consumer insights for the broader population and key Fence Sitter segment.

➤ Capitalize on growing Fence Sitter segment without alienating Core Customer

C-stores need to think beyond their core Eat, Drink & Be Merrys customer and embrace the Fence Sitters for BFY growth. A key question for executives to consider is how to grow the BFY segment without alienating the “traditional” core customer (i.e., the Eat, Drink & Be Merrys). The top selling items in c-stores (e.g., cigarettes, beer, hot dogs, pizza, etc.) are less healthy and skew toward these core consumers. However, for products positioned for BFY growth, Fence Sitters lead consumption and their size is increasing. C-stores must understand that solely catering to their declining core audience is not a growth strategy. Rather, augmenting availability of BFY options for Fence Sitters will enable operators to capitalize on robust growth rates in important categories, such as packaged beverages and alternate snacks.



➤ Drive Fence Sitter demand with focus on convenience, foodservice and education

Convenience and availability are major barriers to buying healthier foods and beverages for Fence Sitters and this is a potential sweet spot for C-Stores. Research shows that 34% of fence sitters

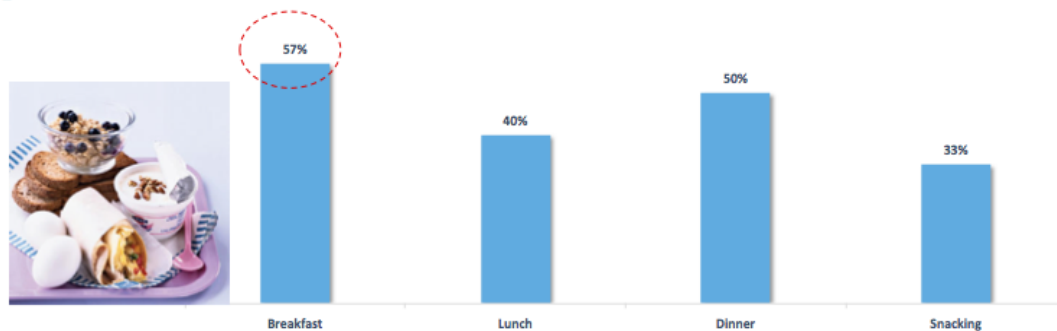


say there are “no convenient locations nearby” to purchase healthy foods, and 41% say “it is not convenient or easy to find.” They are seeking “on-the-go” healthy options, particularly among Fence Sitter families with kids in the household who are time-crunched, stressed and have their kids in tow. Easy to access foodservice options present an opportunity to capitalize on their desire to eat healthier more often and overcome their current barriers.

C-stores have an opportunity to bridge this gap and own convenient foodservice. Foodservice is of significant importance for c-stores, contributing 19% of sales and 33% of gross margins. In contrast, the grocery segment, which lacks the convenience factor, is currently under-delivering in BFY options and still selling a high percentage of products that contribute the most calories to children.

Within foodservice, breakfast appears to present the biggest opportunity. Compared to the other meal occasions, nutrition at breakfast is considered most important and Fence Sitters are currently eating healthier options during this meal occasion in particular. Given the high concentration of children in Fence Sitter households, this daypart can also serve to improve Fence Sitter sales by providing healthier “on-the-go” foods and snacks for their children.

Breakfast appears to be the meal occasion where C-Stores can offer healthier options to attract Fence Sitters



Source: NMI, % Fence Sitters indicating they currently eat extremely/very healthy during each meal occasion

Finally, there is an open opportunity to drive demand through targeted education. Fence Sitters tend to be somewhat confused about what is healthy. However, they also tend to be more interested in reading labels and selecting products based on the nutrition facts panel. Finding opportunities to highlight healthier options through both education and nutrition information will be an important strategy for this segment in-store.

➤ Implementing the Key Insights and Strategies In-store

There are numerous ways to apply these insights via in-store activities.

First, there is an opportunity to increase visibility of better-for-you / lower-calorie products in-store. Research from previous Hudson Institute studies found that products meeting a lower-calorie criteria were more responsive on promotion / display and stayed in distribution longer compared to higher-calorie items. Data on Fence Sitters highlights that there is a perceived lack of access to and availability of BFY items, and visually communicating that the c-store provides these products is an important first step.

There is also an opportunity to educate consumers about better-for-you options at the point of purchase by highlighting the healthy ingredients contained in products, focusing on information via labeling, and communicating how better-for-you tastes great and is quick to prepare or can be eaten on-the-go.

Next, it is important to focus on merchandising the right products to the right target with the right message. The core customer is generally uninterested in reading nutritional labels, hence it is unlikely that providing this information for the products they consume the most will be adhered to. However, for those foods and beverages that index high to the BFY user (i.e., Fence Sitters), providing education and informative facts at the point of sale is important. Messaging points of interest to Fence Sitters are highlighted under the Key Tipping Points chart.

Among meal occasions, healthier breakfast options are the most desired and also the biggest gap. There is an opportunity to go beyond baked sweet goods and indulgent breakfast items and offer BFY ready to heat and eat / on-the-go items to bolster foodservice sales.

Finally, there is an in-store opportunity to directly target busy Fence Sitter households by carving out a quick “to go” shelf, cooler or section focused specifically on better-for-you kid’s options. The Fence Sitter segment has a high percentage of households with children and other foodservice outlets, including quick service restaurants and supermarkets, are lagging in addressing this need and growing segment.

**FENCE SITTER MESSAGING –
Key Tipping Points**

- Quick, effortless preparation
- Fast food convenience (and taste)
- Benefits children/Child-friendly
- Good value over expense
- Highlight ingredient interests:
 - ❖ All-natural
 - ❖ Vitamin, nutrient rich (fortified/inherent)
 - ❖ No additives, preservatives
 - ❖ Pro-protein

SUMMARY OF RECOMMENDATIONS

Summary of Key Recommendations



Core + Fence Sitters for growth

Emphasis areas:

- **On-the-Go**
- **Breakfast**
- **Kids**



The convenience store sector is poised to capitalize on the growing trend of consumers seeking healthy, more convenient products. To grow sales, c-store operators must look beyond simply meeting the needs of their traditional customers and embrace the growing Fence Sitters who are demanding more and more better-for-you items. By focusing on products and messaging that meet their needs – on-the-go, breakfast and kid targeted convenience – c-store marketers can drive significant new growth in this emerging category.

AUTHORS AND ACKNOWLEDGEMENTS

Hank Cardello is a Senior Fellow and the Director of Hudson Institute’s Obesity Solutions Initiative. Hank is the author of *Stuffed: An Insider’s Look at Who’s (Really) Making America Fat* (www.stuffednation.com) published by HarperCollins/Ecco and the landmark reports “Better-for-you Foods: It’s Just Good Business” and “Lower-Calorie Foods: It’s Just Good Business.” He is a former food company executive with Coca-Cola, General Mills, Anheuser-Busch and Cadbury- Schweppes and has been a frequent contributor to *The Atlantic* and *Forbes* on food industry and obesity policy matters. His perspectives have been shared in numerous publications, including the *Wall Street Journal*, *The New York Times* and the *Washington Post*, as well as in major broadcast media, such as CNN, NPR, Good Morning America, CNBC, the BBC and the major television networks.

Steve French is Managing Partner and Co-Owner at NMI, a leading strategic consultancy and market research firm specializing in health, wellness and sustainability. He has over 30 years of strategic marketing expertise and has held executive-level positions with PepsiCo, Mars and Marriott. At NMI, he has pioneered a range of global consumer research databases and segmentation models, is a frequent speaker at many industry events and conferences, is regularly utilized by domestic and global media, and an accomplished author of over 100 published articles and research reports.

Hudson Institute, Obesity Solutions Initiative

The mission of Hudson Institute’s Obesity Solutions Initiative is to bring about practical, market-oriented solutions to food industry issues and the world’s obesity epidemic. The Initiative devises policies and offers market-based solutions by aligning the needs of all vested parties—corporations, the public health community, consumers and regulators. Emphasis is placed on sound quantitative analysis and incorporating pragmatic principles to enhance adoption. The undertaking is currently focused on building the business case for better-for-you foods and beverages by quantitatively demonstrating the sales, financial, shareholder and reputational benefits from selling better-for-you products. The Initiative is directed by Hudson Institute Senior Fellow Hank Cardello. For more information, visit www.obesity-solutions.org or to access the *Better-For-You Food* studies, visit the following links: [CPG](#), [Grocery](#), [Restaurants](#).

Natural Marketing Institute

Natural Marketing Institute (NMI) is an international strategic consulting firm that assists many clients with opportunity identification, trend predictions, innovation and building marketing strategies. As the leading business consulting and market research firm in health and wellness, NMI assists a range of Fortune 500 and start-up companies across many types of industries. By utilizing a diverse mix of proprietary custom and primary methodologies and comprehensive syndicated data, NMI provides its clients with insightful market analysis and strategic planning surrounding new product opportunities, branding, communications, consumer target identification, sales strategy and strategic planning. For more information, visit www.NMISolutions.com.

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