



ENHANCING THE FOODSERVICE OFFER

NACS

Research &
Technology

OVERVIEW

Foodservice growth has been essential for many convenience retailers over the last several years. NACS data confirms that retailers who embrace and commit to developing their foodservice offer outperform industry peers, yet there remains substantial opportunity for convenience store operators to develop and expand an even more compelling foodservice offer. As NACS State of the Industry 2021 benchmark data shows, top-quartile firms achieved foodservice sales that were 4.7 times greater than the bottom quartile on a per store, per month basis. Additionally, because foodservice purchases provide stores a higher gross margin than most merchandise categories, it is crucial that convenience retailers leverage a robust foodservice offering to maintain high levels of store profitability.

Given recent elevated fuel prices and high inflation, it is no surprise that convenience store shoppers are judicious in their discretionary spending. However, a robust, in-demand foodservice offering not only builds bigger baskets and trips to the store, it also is effective for driving conversion of total shopper dollars that are leaking to QSR and fast casual restaurants. Successful retailers are considering how the future of foodservice can expand their business, while keeping an eye on consumer trends and boosting foodservice operation efficiencies to remain competitive.



This research explores:



**Foodservice
expansion and
barriers to
innovation**



**Expanding
foodservice
offerings**



**Attracting
consumers
to convenience
store foodservice**



**Operational
efficiencies
and new
technologies**



KEY FINDINGS

- ➔ Most retailers plan to **significantly invest in foodservice expansion** in the next few years, but recognize limitations driven by staff turnover, inflation, supply constraints and the ability to match consumer preferences.
- ➔ Retailers are introducing **a variety of take-and-heat and better-for-you food options to capture evening daypart sales**, which are currently underdeveloped.
- ➔ **In-store sampling is an effective option for attracting more attention to foodservice offerings.** Retail leaders see limited potential for subscriptions and ghost kitchens. Loyalty points/rewards for foodservice offerings are consistent with points/rewards offered for other merchandise purchases.
- ➔ Convenience retailers **target technology developments that expand the reach of their foodservice offerings** and aim to enhance technologies that simplify food preparation tasks.

RECOMMENDATIONS

1 **Emphasize bundled options during the evening daypart** and incorporate offerings that require little to no preparation time for the customer. Ensure these options require limited preparation time for store staff.

2 **Leverage loyalty programs to drive foodservice purchases more effectively.** Convenience retailers can offer additional points for foodservice purchases during the evening daypart, provide exclusive food options for loyalty members, personalize special offers or create family moments around food purchases to increase foodservice appeal.

3 **Exercise caution when using subscriptions, ghost kitchens, influencer campaigns** and other strategies to increase attention for foodservice offerings. Many retailers expressed limited success with these options and the potential exists to increase complexity for store staff to execute these options.

4 Foodservice technology enhancements could help simplify operational efficiencies for store-level employees. **Staff turnover challenges should be the catalyst to seek out solutions that enable increased ease of implementation** and preparation of foodservice offerings.

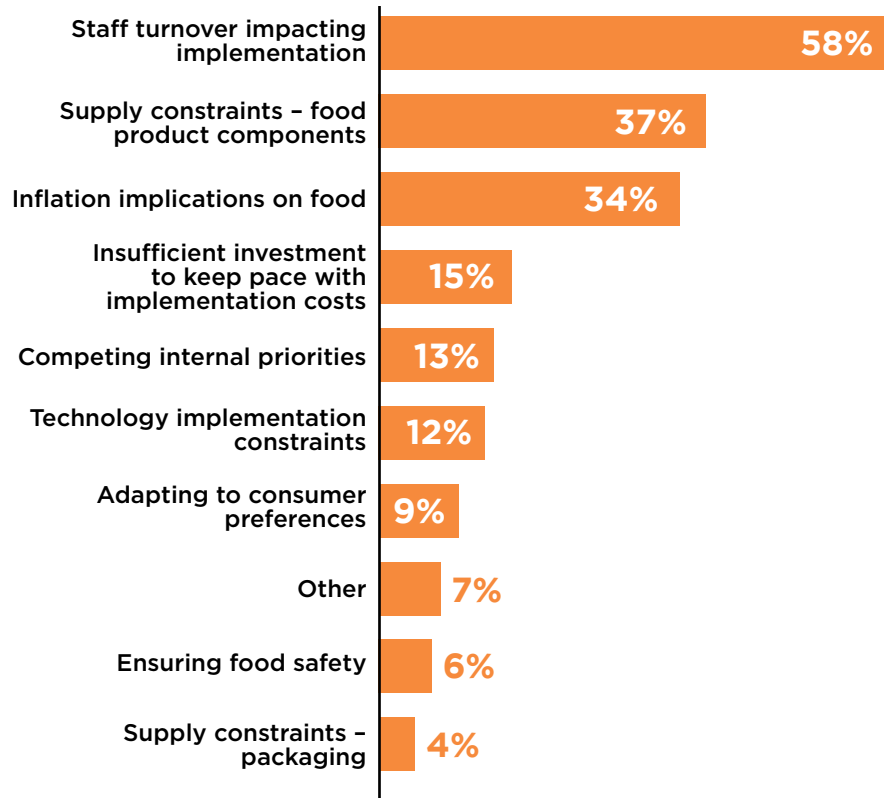
FOODSERVICE EXPANSION AND BARRIERS TO INNOVATION

Many leading convenience retailers understand the potential that foodservice offerings provide their business. In fact, 70% of responding retail leaders consider innovating their foodservice offering as one of the top priorities for growing their overall business. Recognition of foodservice as a primary growth driver and contributor to overall store profitability has resulted in a high level of investment in foodservice among convenience retailers.

- ➔ 87% of survey respondents report their business invested significantly (10% or more of the total investment in a new store) in foodservice expansion and/or innovation across the last few years
- ➔ 91% of survey respondents report their business plans to invest significantly (10% or more of the total investment in a new store) in foodservice expansion and/or innovation across the next two years

70% of respondents consider innovating their foodservice offering as one of the top priorities for growing their overall business.

FIGURE 1: **TOP 2 HURDLES TO FOODSERVICE EXPANSION/INNOVATION EFFORTS**



55% of respondents recognize their foodservice offer requires innovation and expansion to be more competitive.

Despite the expected level of investment, a lower percentage of retailers believe they are effectively transforming their offerings. Sixty-four percent report their business is constantly implementing new or evolving current foodservice offerings to match the latest consumer preferences.

Additionally, 69% of respondents believe their stores use data effectively for determining trends when implementing new or evolving current foodservice offers. Although investment in foodservice is ongoing, fewer retailers feel they are keeping up with the latest consumer food preferences or are using data effectively to determine which trends will stay.

More than half of responding retailers (55%) recognize their foodservice offer requires innovation and expansion to be more competitive. Retailers are facing several obstacles to developing and maintaining a competitive foodservice offer. Figure 1 displays the primary barriers retailers face when attempting to evolve their foodservice offering.



Over half of retailers feel staff turnover limits foodservice innovation & implementation.

Convenience retailers intend to invest in foodservice innovation and see the need to become more competitive. Unfortunately, more than half of retailers feel hamstrung by staff turnover, which is by far the biggest barrier to the implementation of new foodservice offerings. It is important for retailers to recognize the specialized skills and training required for foodservice labor. Operators must uniquely plan and manage both compensation models and training programs to address foodservice staffing challenges.

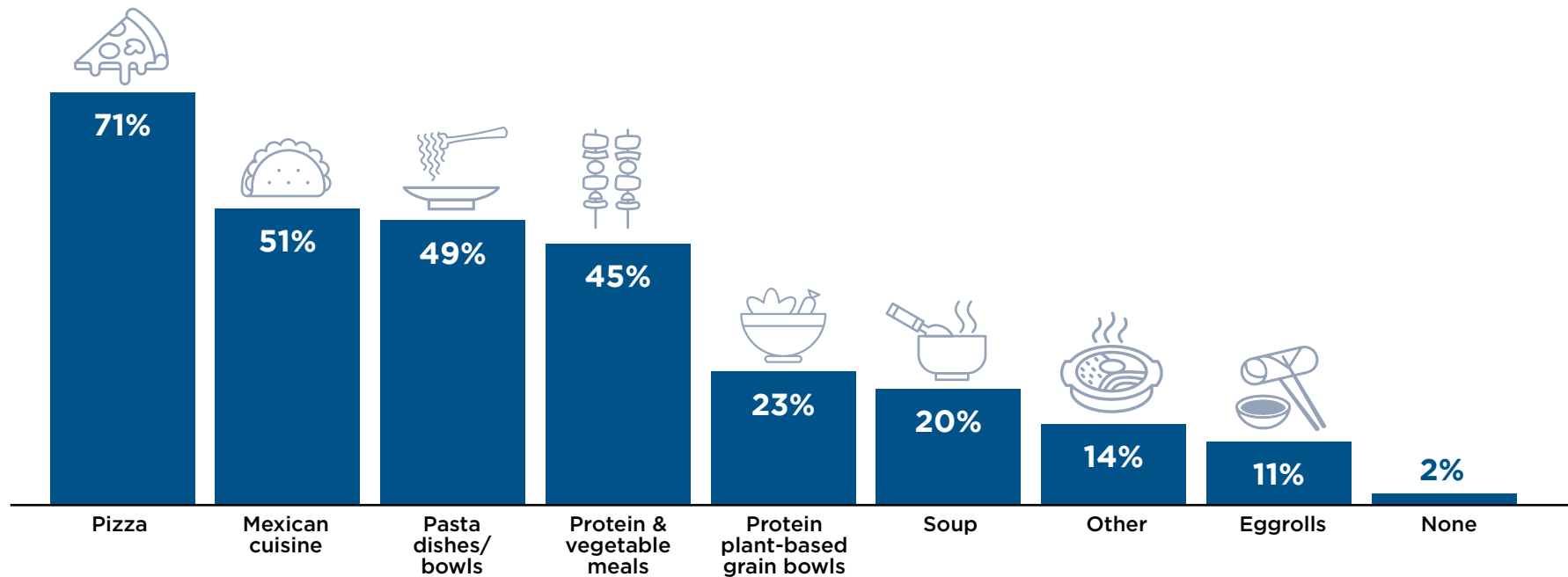
Like other store operations impediments, retail leaders feel constrained by staffing limitations when it comes to incorporating new foodservice offers. Supply issues and inflation are also impacting foodservice implementation and show few signs of abating. Despite indications that convenience retailers are planning to invest in foodservice expansion, staff turnover, supply constraints and inflationary pressures make the allocation of that spend on innovation funds a challenge.

EXPANDING FOODSERVICE OFFERINGS

As foodservice offerings grow, a few primary areas where convenience retailers can focus elevating their offerings above the competition include take-and-heat food options, regional- or international-influenced prepared food, better-for-you food offerings and improved evening foodservice sales.

Survey responses indicate that retailers believe the most effective way to attract customers is to offer time saving take-and-heat options that appeal to the whole family and are easily transported off-site. As figure 2 shows, pizza is considered the best-selling take-and-heat food option.

FIGURE 2: TAKE-AND-HEAT FOOD OPTIONS EXPECTED TO SELL BEST IN NEXT 1-2 YEARS



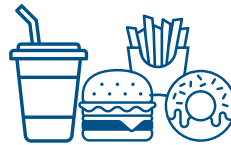


Retailers consider bundled offerings and easy-to-prepare meals as most appealing for shoppers.

Aside from pizza, top options for take-and-heat meals over the next couple of years are Mexican-themed cuisine, pasta dishes and protein and vegetable meals. Respondents also believe the following prepared food items/combo meals are most likely to appeal to shoppers:



Family bundles that can compete with QSR/fast casual offerings, options that appeal to all members of the household



Combo meals that cover meal/snack/drink/desert



Healthy, nutritious, and easy to prepare meals



Pizza, Mexican, and Italian-themed meals with side dishes or as a combo



Large piece count chicken meals

Take-and-heat options as well as combo meal options show that convenience retailers are focused on providing shoppers with familiar options that are easy to prepare. Additional comfort food options are high on the priority list for prepared food and take-and-heat implementation. Also, several regional and international-themed food options are planned over the next two years. In particular, retailers list the following as top options for regional or international-themed food releases:



Limited-time pizzas



Asian-inspired flavors



Special sauces for BBQ and chicken tenders



Crab cakes



Brisket sandwiches



Texas BBQ options



Central American offerings such as empanadas, pupusas, and tamales



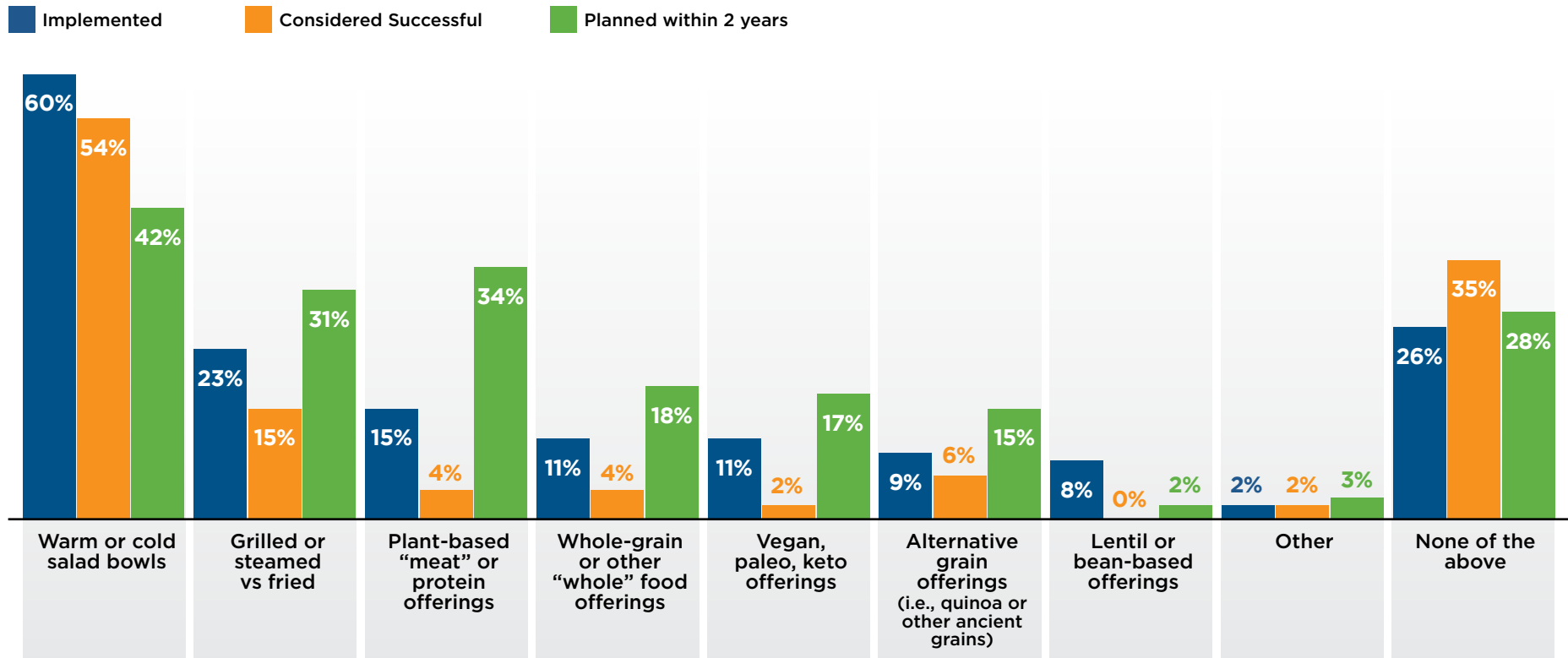
Colombian and Peruvian inspired dishes



Better-for-you food options are not new to convenience stores but have experienced limited uptake beyond salad bowls. As figure 3 shows, warm or cold salad bowls are commonly implemented better-for-you food options and are also considered the most successful.

Despite limited success with plant-based protein offerings, many retailers are planning to implement these offerings in the next two years.

FIGURE 3: **BETTER-FOR-YOU FOOD OPTIONS**

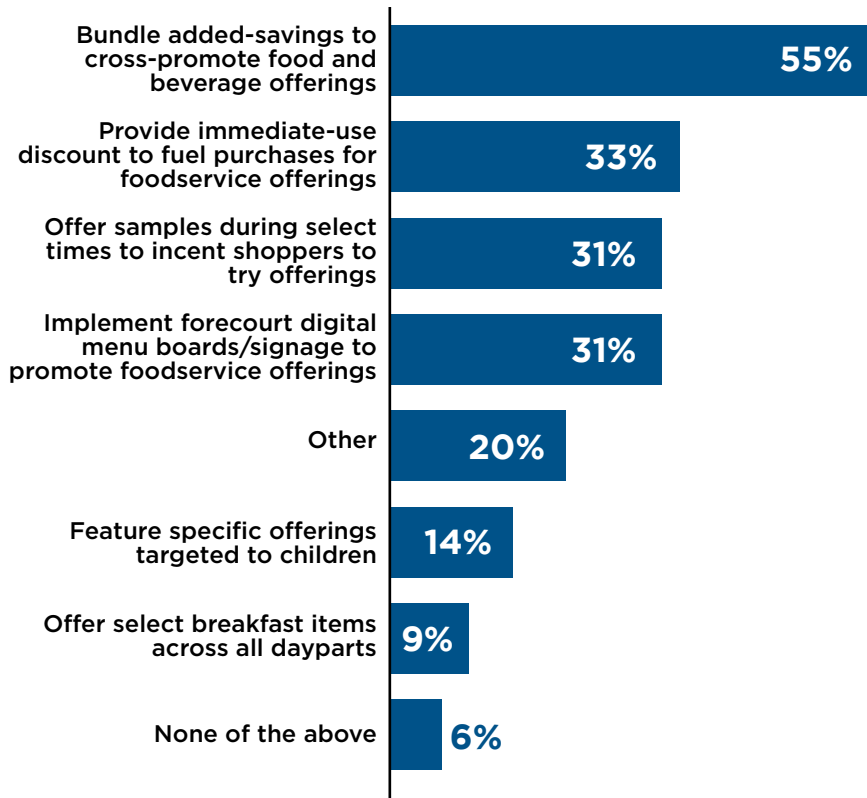


More than 20% of responding retailers have implemented some form of grilled or steamed food rather than fried options but a limited number of retailers found those options to be successful. Other better-for-you food options such as vegan and plant-based protein offerings have not been successful for convenience retailers so far. Still, approximately one-third of responding retailers report their business has plans to incorporate grilled or steamed options and plant-based protein offerings over the next two years. The large percentage of respondents who indicated none of the better-for-you food options have been implemented, successful or are planned for the short-term indicates many retailers doubt these types of offerings will appeal to their customers.

Evening and weekend foodservice sales have traditionally lagged earlier daypart and weekday sales for most convenience retailers, with 66% reporting evening foodservice sales are much lower than other dayparts. Similarly, 64% of convenience retail leaders state that weekend foodservice sales are much lower than weekdays. Given the potential for prepared and take-and-heat food purchases to help boost evening foodservice sales, retailers have employed many tactics to lift sales during this daypart. Figure 4 displays the percentage of retailers who believe each tactic is successful.

35% of respondents do not consider any type of better-for-you food options that have been implemented to be successful.

FIGURE 4: **TACTICS USED FOR IMPROVING EVENING DAYPART (5:00 PM-8:00 PM) SALES**



Bundling food and beverages for added savings is considered the most successful option for boosting evening daypart sales. All other tactics were selected by less than 50% of respondents, indicating most retailers view these options as having limited success. "Other" strategies include making efforts to leverage online orders and delivery, launching happy hour specials with bundled meal discounts, offering ready-to-bake meal options and having hot, whole pizzas available to increase evening daypart sales. Retail leaders list few successful tactics for attempting to boost evening daypart purchases with some citing a lack of consistent employees and managers to execute a program as a primary hurdle.

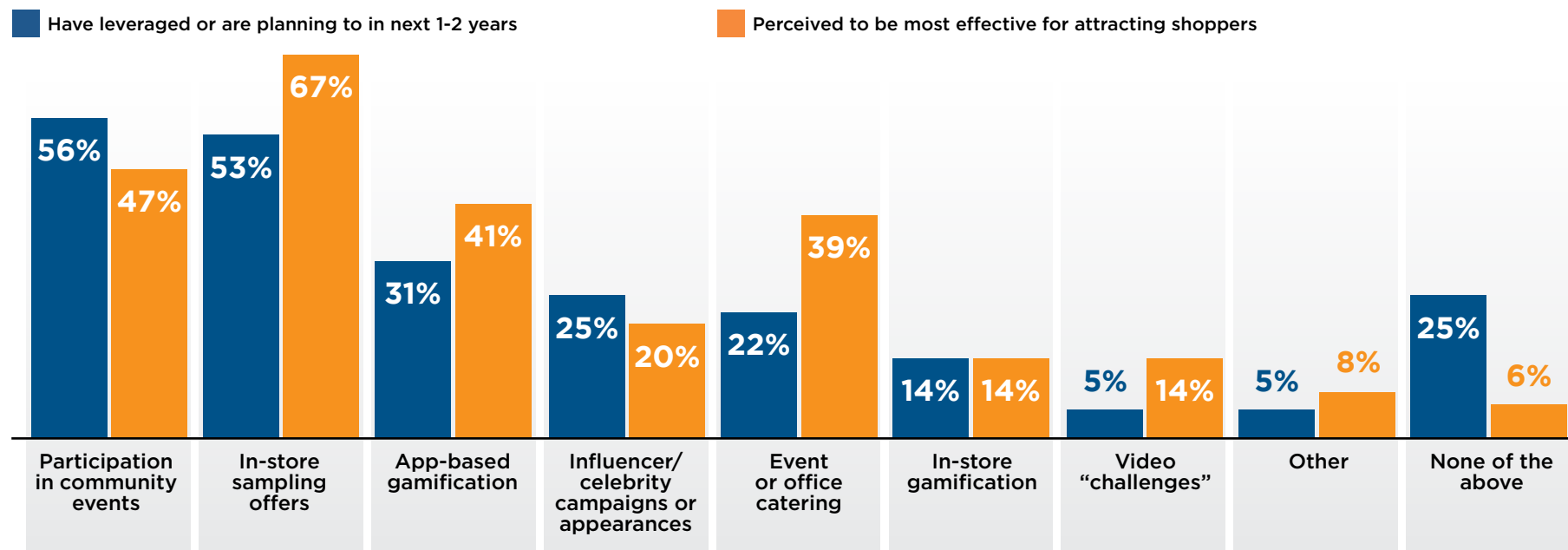
Implementing evening daypart tactics for boosting sales has been a challenge for many retailers due to store-level employee turnover.

ATTRACTING ATTENTION TO FOODSERVICE OFFERINGS

Ensuring consumers include convenience foodservice as part of their consideration for meals is a hurdle for many retailers. Experiential campaigns, loyalty programs, subscriptions and employing the use of ghost kitchens to extend the availability of prepared food and partner with brands that resonate with consumers are some of the ways retailers are attracting attention to their foodservice offerings.

Three-quarters of survey respondents have leveraged some form of experiential, interactive or discovery options specific to foodservice offerings. Figure 5 displays the experiential efforts convenience retailers are planning for the next two years along with ones perceived to be most effective.

FIGURE 5: **FOODSERVICE-RELATED EXPERIENTIAL OR INTERACTIVE PROGRAMS**



Participating in community events has been leveraged most often, but in-store sampling is believed to be more effective. App-based gamification and event or office catering are considered relatively effective and are potentially undervalued by convenience retailers. Currently, retail leaders see little upside from influencer campaigns, in-store gamification or video challenges.

Retailers view in-store sampling as the best way to prompt the addition of foodservice items to a shopper's basket. Most retailers (79%) are using store staff to offer samples, although nearly one-quarter of respondents that offer samples report their stores have used third-party vendors or supplier company representatives to offer in-store samples. Fried chicken tenders, bakery items, pizza and Mexican-themed food items are the most frequently sampled food options. Additionally, effective sampling programs provide an opportunity for consumers to explore products that are new or unfamiliar.

Most convenience retailers offer loyalty points/rewards for foodservice purchases, while only 25% of respondents state they do not. Among those who do provide loyalty points/rewards for foodservice purchases, 72% offer the same level of loyalty points for foodservice purchases relative to other in-store merchandise. Twenty-three percent of responding retailers offer more loyalty points/rewards for foodservice purchases compared with other in-store items.

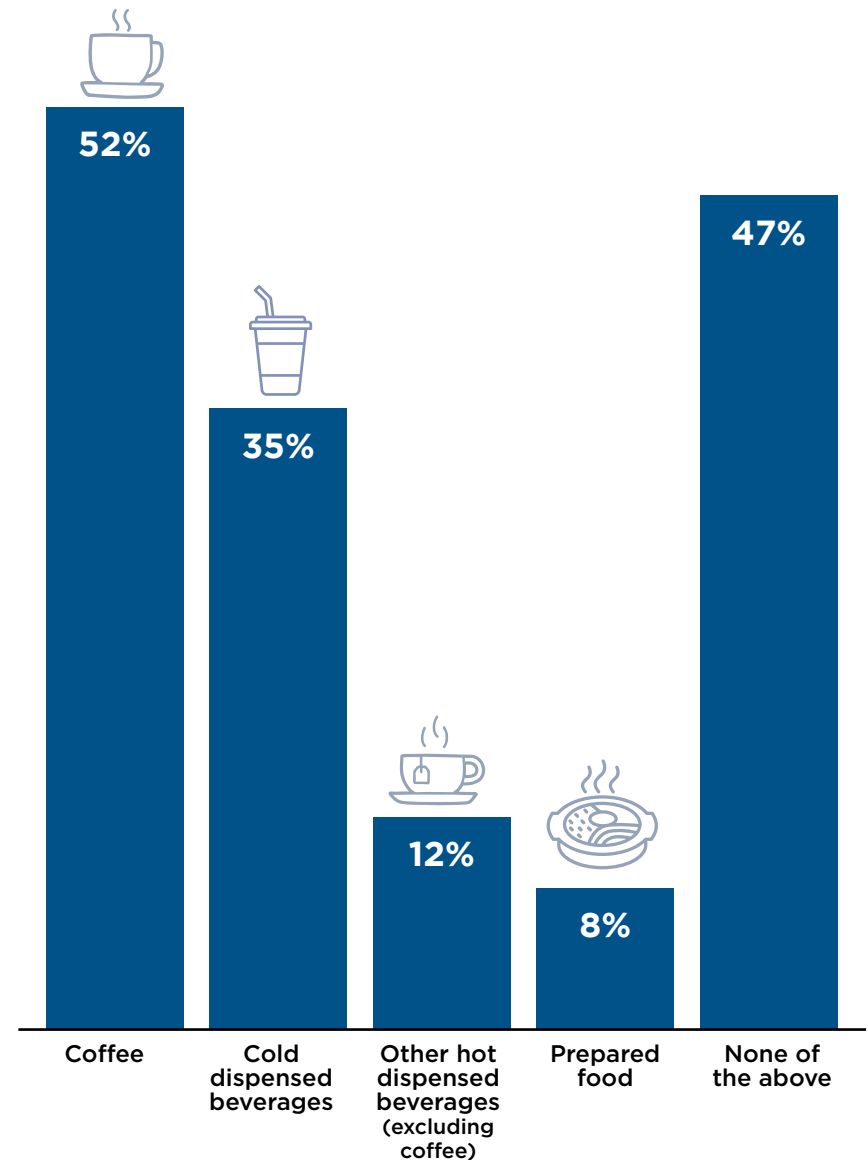
72% of retailers offer the same level of loyalty points for foodservice purchases relative to other in-store merchandise.

Nearly all retailers (98%) offer the same loyalty rewards/points for foodservice offerings regardless of the time of day. Retailers may be missing an opportunity to offer more loyalty points for foodservice purchases in the evening daypart, which could increase sales during those hours among loyalty members.

Subscriptions for foodservice items are not favored by many convenience retailers. Forty-seven percent of respondents have no plans to offer a subscription program for any foodservice offerings within the next two years. Still, coffee subscriptions are offered by 52% of responding retailers, as shown in figure 6.

40% of respondents believe foodservice subscriptions are difficult to track and manage.

FIGURE 6: **FOODSERVICE SUBSCRIPTION PROGRAMS OFFERED/PLANNED**



Although foodservice subscriptions are not particularly prevalent aside from coffee, retail leaders do express some optimism regarding the impact foodservice subscriptions can have on the business. More than half (57%) of respondents believe foodservice-related subscriptions would increase purchases of other in-store merchandise. However, hesitancy to implement foodservice subscriptions remains as 40% of respondents believe these subscriptions are difficult to track and manage at the store level, and 37% consider foodservice-related subscriptions to be susceptible to fraud and misuse. Despite the potential benefits convenience retail leaders see from subscription programs, challenges with implementation and accurately understanding the potential lift from additional store purchases prevents widespread adoption.

The use of ghost kitchens for providing prepared foods is leveraged by a small number of convenience retailers (14%). While ghost kitchens have not been extensively used by convenience retailers, there is more interest in employing offsite food preparation in the next few years. 25% of respondents report their stores plan to partner with a ghost kitchen in the next two years. Sandwiches, pizza, and Mexican-themed offerings are the most common prepared foods retailers are offering through ghost kitchens. Overall, more than half of retailers (56%) believe ghost kitchens have the potential to increase business profitability and 46% view ghost kitchens as an effective way to extend the reach of their stores' brand cost-effectively.

25% of respondents report their stores plan to partner with a ghost kitchen in the next two years.

FOODSERVICE EFFICIENCY AND TECHNOLOGIES

As staffing challenges and rising costs impact foodservice implementation, retailers focus on technologies for boosting efficiency and improving how foodservice offerings can be provided at scale. Convenience retail leaders most frequently cite two concerns that efficiency gains can address to improve the viability of foodservice offerings:

- ➔ Ensure food ingredients and equipment have multiple daypart uses, at least three uses across the day for most equipment and food components
- ➔ Simplification of tasks and preparation as a priority, boosting labor efficiency

Using technology effectively can help retailers overcome challenges posed by labor shortages and high turnover. Figure 7 highlights the technologies retailers consider most important for elevating foodservice profitability.

FIGURE 7: TECHNOLOGIES WITH THE MOST POTENTIAL TO IMPROVE FOODSERVICE PROFITABILITY

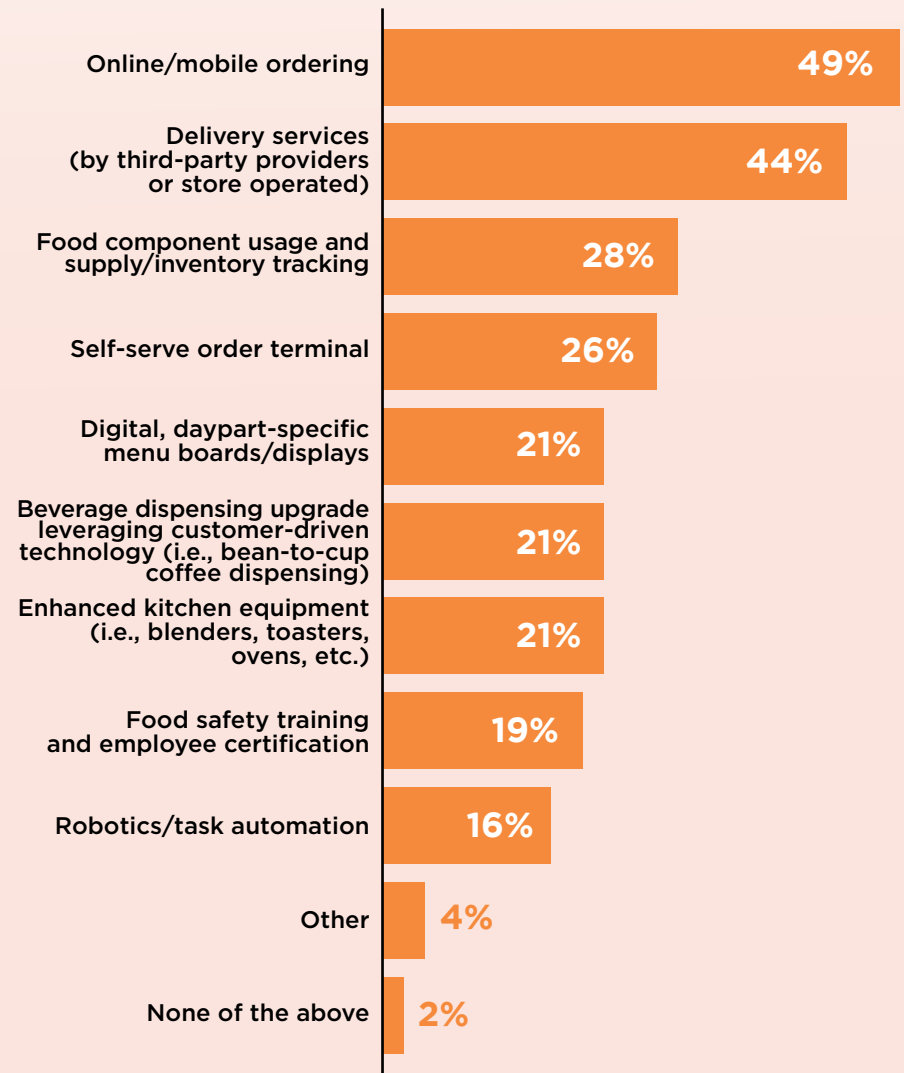
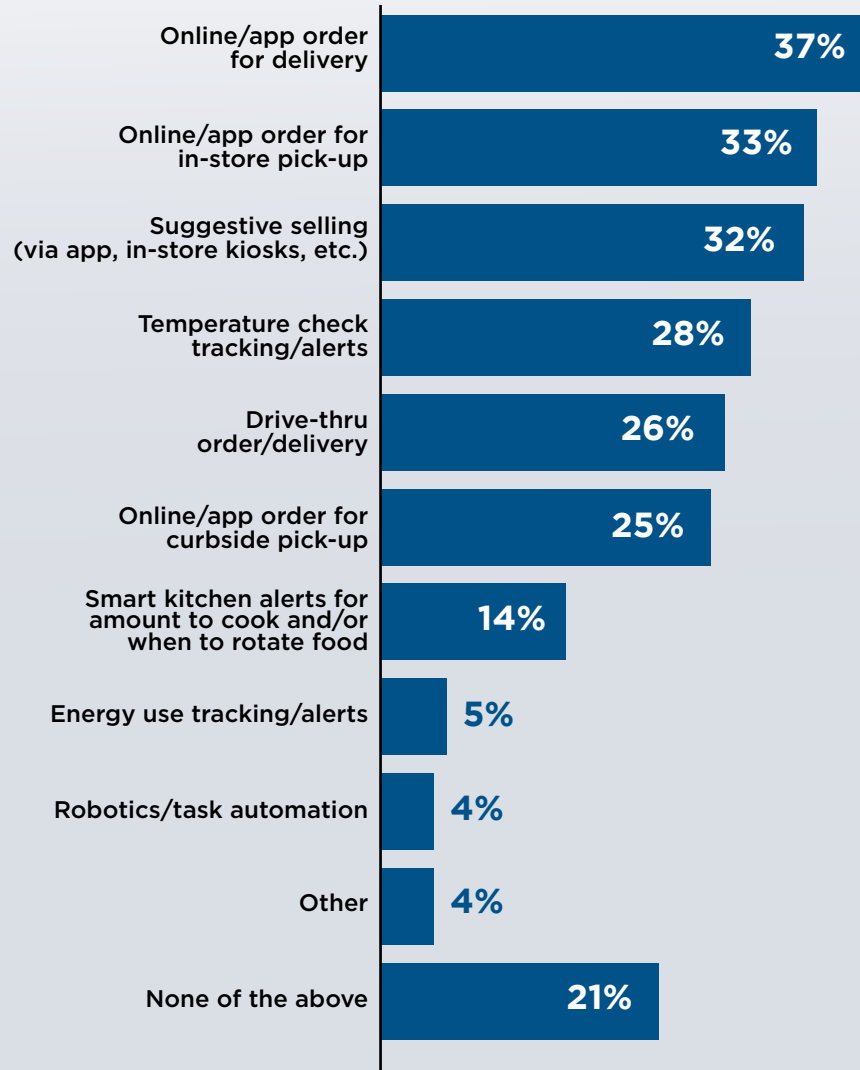


FIGURE 8: **FOODSERVICE TECHNOLOGIES USED CURRENTLY**



Convenience retailers view online ordering and delivery as the top technologies for improving foodservice profitability. Extending the reach of foodservice sales outside of the store is seen as the most effective way to boost foodservice potential. Other solutions such as robotics or task automation, food safety training and enhanced kitchen equipment were selected by less than one-quarter of respondents.

Prioritized foodservice-related technologies indicate a desire to extend the reach of offerings. Other technology options such as internal alerts related to temperature checks, energy usage and food component optimization are less of a priority. Figure 8 displays several non-mainstream foodservice technologies that are employed by some convenience retailers.

49% of respondents consider online or mobile ordering as the top technology for increasing foodservice profitability.



Online/app ordering for delivery and in-store pick-up are the two most common technologies leveraged in figure 8, although it is important to note that just over one in five responding retailers are not using any of the technologies listed currently. This signifies considerable opportunity for convenience retailers to leverage foodservice technologies to improve efficiency. However, implementation difficulties and the initial start-up or sunk costs associated with some of these technologies makes adoption challenging.

When ranking in-store foodservice equipment to prioritize for enhancements over the next few years, retail leaders lean more towards upgrading cooking and food preparation equipment relative to other options.

Many retailers have significant opportunity to leverage foodservice technologies to boost efficiency.

Rank order of foodservice equipment enhancement prioritization:

1. Foodservice cooking/preparation equipment
2. Foodservice management/safety software/technology
3. Menu boards/visual displays (customer and non-customer areas)
4. Refrigeration/food preservation equipment
5. Self-serve order terminals/ touch screen boards

Menu boards, refrigeration or food preservation equipment and self-serve terminals are less likely to be prioritized for upgrades or installation compared with foodservice preparation and cooking equipment. Overall, retailers show a desire to prioritize foodservice equipment enhancements that can improve labor efficiency rather than customer ordering and visual display enhancements.

Cooking & preparation instruments is the most prioritized foodservice equipment enhancement.





About this Study

This research is based on data from the NACS Foodservice Growth Drivers Survey conducted from July to October 2022. The analysis is based on 67 convenience retail leader responses representing more than 38,000 stores globally, with 86% of respondents representing stores in the United States and 14% of respondents based outside of the United States.

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