The C-Store Playbook for Mastering Volatility

Your Go-to Guide to Success in 2022

DemandTec
by acoustic

Here are three promising signs of a retail recovery:

1. The National Retail Federation's annual forecast anticipates 6% to 8% growth in retail spending this year, topping $4.86 trillion in 2022, up from $4.44 trillion last year. (1)

2. In 2021, physical store sales climbed 18% year-over-year, beating online shopping — up only 14%. (2)

3. Employment is trending up. Employment levels have returned to pre-pandemic levels. Despite the "great resignation," 60% of Americans are working. Unemployment is at 3.6%, and that's the lowest it's been since early 2020. (3)

Yet there will be winners and losers even in a healthy retail economy. Amid rampant inflation — particularly in oil and food prices (up 7.9% annually through February) — persistent supply chain issues, and uncertainty about COVID-19, it's easy to see why convenience stores may struggle to maintain margins and customer traffic. (4)

Many C-stores are ill-equipped to manage prolonged periods of volatility marked by rapid fluctuations in pricing and consumer sentiment, new forms of competition, and escalating labor costs. Volatility has become business as usual.

The five main drivers of change on the horizon for C-stores

Consumer demand is changing faster than C-stores are responding. Given numerous economic impacts on households, consumer shopping behaviors are changing rapidly. With growing inflation, consumer sentiment will impact demand. For convenience stores to be relevant, they must understand those changes and develop strategies to quickly respond. They need to present more attractive choices for changing consumer preferences and winning share of wallet.

Inflation is having a dramatic effect on the cost of goods. C-store operators face pressure to pass along cost hikes to consumers, but what worked in the past is not working so well now. Passing 100% of cost changes to consumers is not a winning strategy. C-stores need to change prices strategically, understanding consumer sensitivity to specific product prices and how that may differ from one zip code to another.

Competition is attacking C-store business models. C-store competitors have successfully introduced last-mile delivery or curbside pickup options. For example, pre-ordering groceries and snacks at grocery stores offer (a minority of) shoppers considerable convenience. Pharmacies, groceries, and big-box retailers have long appealed to impulse buyers with discounted snack prices, but now they're doing it with home delivery or curbside options.

Identify promotions that are consumer specific. Personalized promotions are more effective than mass promotions. C-stores can deploy geo-fencing technology to engage consumers with a beverage offer or gas-price discounts. Personalized promotions encourage transactions and loyalty in the form of repeat visits. They can delight customers in ways that coupons or mass promotions never could.

Omni-channel retail is on the horizon. C-stores are working to identify ways to participate in digital commerce. Convenience items such as pints of ice cream, beer, and sodas are available as "add-ons" to meal deliveries in many urban areas. As C-stores evaluate delivery tie-ups, they must also consider optimal product and pricing strategies to make this last-mile service a sustainable venture.

Compounding the challenges

As consumer sentiment skids to its lowest point since 2011, American households confront rising food and gas prices plus higher interest rates. (5) Not surprisingly, many C-store customers are looking for ways to stretch their meal money and discretionary dollars. Customers who weren't price-sensitive last year may now opt to downsize purchases or skip a favorite treat because of sky-high gas prices.

While inflation dramatically impacts purchases, it requires more innovative pricing approaches by merchandisers. What are the most price-sensitive products? If there's a price hike for tortilla chips, is there a promotion for an affinity product such as bean dip that can help drive revenue, profit, or basket size? Determining the right combination of pricing and promotions to

offset margin pressures requires a level of data modeling and analytical expertise that's not always readily available.

For C-stores, there's another factor to consider. What happens if shoppers check out fewer items just as supply chain constraints impact wholesale prices and store margins? Naturally, merchandisers hesitate to raise prices when many customers can least afford it. Does that create a perfect storm for declining revenue and profitability?

The complexity of managing these economic variables isn't easing the burden of C-store pricing specialists. The critical question is: can C-stores react quickly enough to engage and retain their most price-sensitive customers?

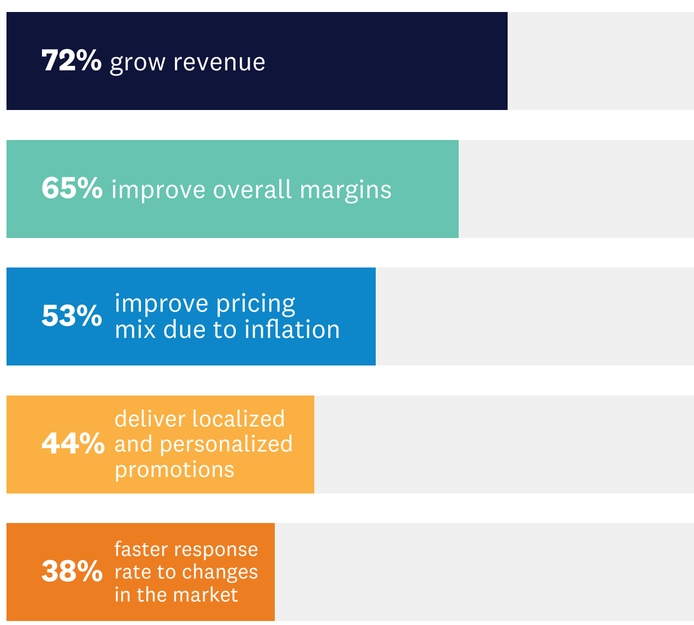
Competitive advantage is difficult to build or maintain in reactive mode. Yet, retailers with fast-moving assortments such as C-stores are "particularly time-challenged to maintain everyday 'base' pricing," says an RSR Research report from March 2022. More than ever, what may be needed now is a reduction in manual pricing tasks, replaced by a more nuanced and data-driven approach with localized and personalized promotions.

Building a sustainable approach to retail pricing

Winning in retail requires a fluid and current understanding of demand. But it also requires a localized knowledge of demand and the ability to quickly do something about it. Yet, few C-store chains have enough staff on hand to analyze each store's daily sales and make frequent price adjustments.

Technology can more than plug that resource gap. Tools such as AI, machine learning, and autonomous technology can accelerate and scale that process — turning new data into valuable consumer and pricing insights.

What opportunities do you hope to address with pricing optimization?



Source: RSR Research, March 2022

Overall, 44% of retailers use everyday price optimization tools, according to the RSR study. The same study delves into what's inhibiting retailers, including FMCG stores, from adopting pricing optimization tools. Retailers prioritized their top three "inhibitors":

Coordination — Our organizational structure makes it difficult to coordinate pricing strategies

Sensitivity — The possibility of negative customer reaction to changes in our pricing strategy

Cultural — Resistance to change from merchandising

But, like many obstacles, C-stores and other retailers believe they can overcome these objections. Three in five firms believe that better communication and education of merchandising, marketing, and channels can overcome pockets of resistance. Perhaps the more significant issue for many C-stores is seeing value in adopting a data-driven pricing approach that includes A/B testing, modeling, and predictive analytics.

Today, pricing optimization can occur at the individual store level, based on store-level shopping data. Pricing optimization tools generate AI-driven insights that provide pricing specialists with optimal prices to protect margins, engage customers, and create competitive advantages. Constantly assessing daily sales data, among other inputs, pricing optimization tools are always available and consistently accurate.

In a period of extensive volatility, rising inflation, and supply-chain uncertainty, establishing a data-driven pricing approach gives C-stores deeper customer insights, better forecasting, and more agile pricing capabilities than ever before.

Endnotes

(1) National Retail Foundation 2022 annual retail sales forecast, March 2022
https://nrf.com/state-retail-and-consumer-2022

(2) Quarterly Retail E-Commerce Sales, 4th Quarter 2021, U.S. Department of Commerce
https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

(3) U.S. Bureau of Labor Statistics, March 2022, Trading Economics
https://tradingeconomics.com/united-states/employment-rate

(4) U.S. Bureau of Labor Statistics, February 2022
https://www.bls.gov/news.release/pdf/cpi.pdf

(5) Michigan Consumer Sentiment Index, March 2022 (Investopedia)
https://www.investopedia.com/consumer-sentiment-down-marginally-in-late-march-2022-5223691

About DemandTec

A pioneering leader in retail pricing, promotion, and markdown technology for decades, DemandTec is ushering in the new era of unified autonomous commerce. With Unify by DemandTec™ — the industry’s first — retailers can unite their data, systems, internal teams, and collaborate with suppliers to generate profitable revenue growth with the power of AI.

Unify by DemandTec is available in individual applications – Autonomous Pricing, Autonomous Promotions, Autonomous Markdowns, Autonomous Collaboration - or as an entire platform. The cloud-native platform provides a holistic view of shopper demand. AI-powered autonomous decision-making increases eciency and eectiveness across categories, channels, and geographies.

From food to fashion, DemandTec partners with more than 700 customers around the globe.

Want to learn more about what DemandTec can do for your business today?

Let’s Talk