



## Convenience Stores Look to Boost Value for Investors

### Description

Convenience store chains are continually rethinking long-standing operating models. They want to go beyond offering milk, bread, and late hours — the industry's foundation from the beginning. Today, companies are looking to add value in other ways as well.

#### More locations through acquisition

Growth through acquisitions is an expedient way to build a network and market share. This past November, **Alimentation Couche-Tard** (TSX: ATD.B) acquired (from Albuquerque Convenience and Retail) 23 company-operated stores. The month prior, it acquired 11 company-operated stores from Publix Super Markets. Alimentation Couche-Tard operates Couche-Tard, Mac's, and Circle K convenience stores in Canada and the United States.

#### More gas/convenience outlets

**Empire Company** ([TSX: EMP-A](#)) is the parent of Sobeys. This wholly owned subsidiary operates Empire's food retailing division, including Sobeys supermarkets. It also operates 236 retail gas locations and related convenience store operations. The company acquired these outlets in fiscal 2012. Sobeys is working to exploit the convenience store paradigm by cross-promoting Sobeys in its gas and convenience centres, and vice-versa.

Sobeys is focusing on consumers' penchant for quick, one-stop shopping on the go. Get them to drive in for gas and lure them inside to buy chips, snacks, magazines, and more. Sobeys has its chain of "Needs Convenience" stores across Atlantic Canada. Needs has also started installing gas bars at a limited number of locations in recent years.

Alimentation Couche-Tard's network, as of February 2, 2014, consists of 6,221 convenience stores across North America. These include 4,724 stores with fuel dispensing operations.

A caveat? The industry is noting that more fuel efficient cars and trucks are making gas stops a bit less frequently. So, while gas bars are still a lure, there's more work convenience chains must do to get consumers to stop in often.

### **Continued focus on replacing lost tobacco sales**

Convenience store chains are doing this partly through offering unique and even healthier on-the-go-meals for time-crunched customers. Alimentation Couche-Tard announced a few years back that ultimately it aims for fresh food to comprise 25% of the company's in-store gross profits.

### **Convenience store drive-thrus**

Nielsen reported in its 2012 "Convenience Store Report" that, "C-store drive-thrus are also gaining in popularity with Americans, making most store items (including grocery staples such as bread, eggs, and cereal) available without leaving the car." This trend is not as vigorous in Canada and remains an avenue to be explored for further revenue generation in suitable locations.

### **Alliances with name-brand companies**

**Imperial Oil** ([TSX: IMO](#)) has its Esso "On the Run" and "Tiger Express" convenience/gas outlets. It has an association with **Tim Hortons** in many locations. It's a mutually beneficial relationship for two trusted brands with great name recognition in Canada. Need gas, a newspaper, a fresh-brewed coffee, and a chocolate croissant? These convenience/gas outlets have them ready with Tim Hortons facilities inside.

### **What more will convenience retailers need to do?**

Convenience stores must continue to engage customers in the mobile digital world. Targeted mobile marketing is key for convenience chains to retain and build market share. This will involve a continued commitment to geo-location marketing.

In January 2012, **iSIGN Media Solutions** (TSXV: ISD), announced that it and Mac's Convenience Stores signed a Virtual Private Advertising Network Services Agreement. Susan Krashinsky noted in a February 2012 *Globe and Mail* article, "iSign Media Solutions Inc. will light up a network of mobile antennas in Mac's convenience stores across the country, and Couche-Tard outlets in Quebec and Atlantic Canada. The antennas will push advertising messages to any cellphone equipped with Bluetooth technology within their signal reach. The company already owns a network of digital signs in those stores – those screens advertise lottery tickets or other products."

Imperial Oil introduced a smartphone application that provides drivers with real-time maps, driving directions, and information for all Esso-branded retail stations.

### **Foolish bottom line**

Convenience stores lost the competitive advantage of extended hours years ago. Now, practically everyone is "always open." With the above strategies, though, Canadian convenience store chains are worthy of investors' due diligence.

### **CATEGORY**

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