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Retail View: Convenience stores the new frontier for fresh produce sales

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If two trade associations, representing their respective industries, are right, the 152,000 convenience stores in the United States might soon help this nation increase its collective consumption of fresh produce and help stem the tide on the country's obesity issue.

The United Fresh Produce Association and the National Association of Convenience Stores recently collaborated on a primer designed to build the business case for produce sales at convenience stores.

At first glance, the effort appears to potentially be a win-win-win for convenience stores, the public and the fresh produce industry.

Jeff Lenard, vice president of strategic industry initiatives for NACS, and United Fresh Vice President Jeff Oberman in separate interviews both told *The Produce News* that this primer is just the first step in helping convenience stores sell more for fresh produce.

It was developed with the help of more than two dozen retailers, distributors and produce companies, who were charged with the idea of creating best practices for growing produce sales at the convenience store level.

Lenard said establishing the business case is the first step to generate interest by all necessary business partners: retailers, suppliers and the all-important distributors.

“It has to include distributors,” said Lenard. “It’s not going to get done without distributors.”

It is not an overstatement to call distributors the lifeline of the convenience store industry. In general, those stores take items in very small quantities and are not a logical target for extensive direct store delivery. Distributors connect these retailers with the suppliers.

Lenard said the idea of significantly increasing produce sales at convenience stores has great interest to this group because it basically allows convenience stores to shift from a problem-maker to a problem-solver.

“Over the last year the conversation about convenience stores has changed,” said Lenard. With regard to the obesity epidemic, he noted that “there is real interest in becoming part of the solution.”

The more than 150,000 convenience stores can largely be defined as gas stations with stores attached. That represents about 84 percent of them. They sell 80 percent of the gas utilized in the United States.

The other 16 percent would typically be standalone convenience stores, like 7-11 or other national chains, or even a corner store in an urban environment. More than 18,000 of these convenience stores are located in what are called food deserts, where residents have no access to conventional supermarkets.

Because convenience stores typically sell high-calorie, relatively unhealthy packaged goods, they have been targeted as a main contributor to the nation’s obesity epidemic. Lenard said convenience store operators would like to alter that image and they also see that declining gas sales puts them in need of finding new sales opportunities.

United Fresh agrees.

Oberman said as with the salad bar initiative, United Fresh’s interest in this concept is to increase the consumption of fruits and vegetables by developing alternatives for delivering fresh fruits and vegetables to consumers. Just as the salad bar effort is designed to get more fruits and vegetables in school cafeterias, this plan is designed get more fruits and vegetables where America spends a significant amount of its snack dollars.

“We continually look for opportunities in new channel development,” Oberman said.

Lenard said there are many challenges to overcome but there are convenience store operators that have done a great job of adding fresh produce to their mix, and so there are case studies on which best practices could be developed.

The biggest challenge is keeping fresh produce “fresh,” Lenard said, noting that most convenience stores get a single delivery each week.

“If you are going to carry fresh produce you need at least two to three deliveries per week, and maybe daily,” he opined.

For a distributor, making a delivery costs money and their efficiency standards demand that they send full trucks out the door, not ones loaded with a few produce items.

While this is a monumental challenge, Lenard said this effort was established because there are ways to succeed. Including distributors in all phases of this plan has been key, as he is confident solutions will be found.

Oberman said some convenience store operators have already done a great job adding fresh produce to the mix. He noted that Kwik Trip, a chain of convenience stores, is selling a tremendous amount of bananas in each store on a daily basis. He added that convenience stores typically sell dairy products, so they have some experience with limited shelf life products and multiple deliveries per week.

Oberman believes collaboration between produce suppliers and broad-line distributors could be the key to success.

Lenard said there is great incentive to make this work as fresh produce represents an opportunity for increased sales at a very good margin. He said that while gas sales typically account for about 70 percent of a convenience store's revenue, they account for less than 30 percent of profits.

Though a gallon of gasoline has sold from \$2-5 over the last few years, a convenience store operator typically only makes three to five cents per gallons. Other big revenue makers, such as cigarettes and lottery tickets, also have very small margins.

That has never been an issue with fresh produce. Conventional retailers typically operate on a margin of 30 percent or more on fresh produce. One need only look at a carton of lettuce that typically retails for about \$25 to see the numbers can make sense for any convenience store operator.

Lenard and Oberman believe that initially the addition of value-added items at the convenience store level make the most sense. And Oberman said the regional chain convenience stores, with multiple stores under one umbrella, might have the best opportunity in the short run to solve some of the supply chain management issues.

The new publication is the first deliverable from the partnership that NACS and United Fresh formed in June 2014 to identify best practices to grow produce sales in convenience stores.

"We have seen a dramatic increase for customer demand for fresh produce at convenience stores, and this resource was developed to communicate the huge opportunities for everyone in the distribution chain, from farm to store," NACS Chairman Steve Loehr, vice president of operations with La Crosse, WI-based Kwik Trip, said in a press release from the two organizations. "A recent NACS member survey reaffirms the importance of produce; 62 percent of members say that produce is important to their business plans in 2015."

In the same press release, United Fresh Chairman Ron Carkoski, president and chief executive officer of Four Seasons Family of Cos. in Ephrata, PA, said, "Through contributions from NACS and United Fresh member companies participating in this effort, we have identified solutions in the distribution and merchandising of fresh produce, which ultimately will lead to new opportunities for produce suppliers, distributors and convenience store retailers to grow sales."

Oberman said follow-up documents developed by the two organizations and their members will deal with supply chain issues and developing a blueprint for success.

He said it is important that convenience store operators manage their expectations surrounding this new opportunity and allow sales to grow naturally.

He noted that this is already a growth area for convenience stores and without doing anything, produce sales at convenience stores will double in the short term. In the next five years or so, Oberman said sales 10 times greater than they are now is not an unrealistic goal.

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