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COMMERCIAL FUEL SOLUTIONS

INDUSTRY REPORT

THE OUTLOOK FOR C-STORES AND TRAVEL CENTERS IN 2022

A snapshot of industry trends, profit centers, customer insights, and benchmarks.

EXECUTIVE SUMMARY

The past few years have been turbulent for c-stores and travel centers, with the pandemic, fluctuating oil prices, and increased adoption of alternative fuel vehicles creating a near perfect storm.

Still, in the face of these and other challenges, the industry continues to be vital to the U.S. transportation infrastructure.

C-stores account now for 80% of gasoline sold to drivers.[1] With 228 million drivers in the country, each purchasing roughly 522 gallons per year, the expected steep decline in gasoline sales has yet to really materialize.

This doesn't mean that owners of c-stores and travel centers can hit pause on evolving their locations. Demographics are shifting, and in order to be prepared for the drivers and customers of the future, the industry must continue to invest to remain competitive.

[1] National Association of Convenience Stores

STATE OF C-STORES AND TRAVEL CENTERS

The early stages of the pandemic in 2020 saw a reduction of nearly 2,500 c-stores and stations,[2] with owners of a single store making up the majority of closures.

Location losses were not the only challenge to the industry. Fuel sales across the U.S. fell to $289 billion in 2020, down from $413.5 billion the year before. Compounded with the need to adhere to the EMV Compliance Law — including new POS systems — and it's clear that recent years have been rough sailing for the industry.

In fact, a 2019 report from the U.S. Payments Forum found that 63% of c-store and gas station in-store payment terminals were EMV chip-enabled, with 68% of total transactions being conducted chip-to-chip.

Achieving these numbers requires c-store and gas stations to choose from a number of options in order to comply, including:

- Purchasing new pumps that support EMV
- Purchasing an EMV retrofit kit from a pump manufacturer
- Purchasing a new pump from a pump manufacturer that does not support EMV, then upgrading it with a retrofit kit from a third party
- Purchasing a used pump that does not support EMV and upgrading it with a retrofit kit from a third party
- Upgrading an existing pump with an EMV retrofit from a third party

Each of these options entail a considerable expense and when combined with the recent reduction in fuel sales, only adds to the pain many c-store and gas station owners are experiencing.

[2] "Ready to Rebound," *Convenience Store News*, 2021

2019		2020
152,720 locations	-2,446	150,274 locations
$648.8 billion in total sales	-$115.9B	$532.9 billion in total sales
$413.5 billion in fuel sales	-$123.7B	$289.8 billion in fuel sales
$354,271 wages per store	+$39,678	$393,949 wages per store
$88,566 in credit card fees per store	+$88,474	$91,666 in credit card fees per store
3,205 in-store transactions per week	-317	2,888 in-store transactions per week
2,199 motor fuel transactions per week	-371	1,828 motor fuel transaction per week
$10.6 billion total industry pretax profit	+$.2B	$10.8 billion total industry pretax profit

C-STORE NUMBERS: 2020 VS. 2019[3]

Despite challenges, c-stores are proving to be resilient. While fuel sales cratered, inside-the-store sales actually grew by 3.3% in 2020, reaching a record-high of $243.1 billion. Notably, this increase occurred even as food services sales fell by 10% due to COVID-19 safety concerns.

In 2021, the gross margin on gasoline was 30.9 cents per gallon. This was above the average of 27.2 cents during the previous five years.

Ownership of c-stores selling fuel continued to be dominated by the single store operator (54.6%) accounting for roughly 64,000 stores in the U.S.[4]

[3] "Ready to Rebound," *Convenience Store News*, 2021
[4] National Association of Convenience Stores.

BREAKDOWN OF PRODUCTS AND SERVICES

In 2020, c-store fuel and in-store sales broke down like so:

- 59% regular gasoline
- 12.2% midgrade and premium gasoline
- 5.6% diesel
- 10% groceries
- 13.2% other

Digital transformation to meet consumer demand is also forcing the industry to evolve.

Contactless payment, for example, will continue to grow in usage even as pandemic fears diminish. One study from Visa found that 56% of Millenials and 44% of Gen Xers stated they are more likely to avoid shopping at locations that required contact when paying.

Similarly, partnerships with delivery service companies are expected to keep expanding.

Then there is the increase in electric vehicle adoption. In 2021, President Biden set the goal of electric vehicles accounting for 50% of new car sales by 2030. At the same time the announcement was made, there were just 100,000 vehicle charging plugs available at a little more than 40,000 stations.

These two factors present a very real opportunity for c-stores and travel centers. Not only will there be an increase in demand for charging stations — demand the industry can help meet by installing the technology in forecourts — an average charging time of roughly 30 minutes per vehicle will create the need for expanded food and entertainment options as customers await a full charge on their vehicles.

[5] "Gas Station with Convenience Stores in the U.S.," IBIS World, 2021.
[6] "The Visa Back to Business Study," Visa, 2021.
[7] "President Biden sets a goal of 50 percent electric vehicle sales by 2030," New York Times, 2021.
[8] "Five Convenience & Fuel Trends to Watch in 2021," Convenience Store News, 2021.

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TURBULENT OIL INDUSTRY

In the first quarter of 2022, crude oil prices reached $100 per barrel for the first time in nearly eight years. This increase was driven in part by the Russian invasion of Ukraine and the resulting sanctions, with a number of nations announcing a ban on the import of Russian oil.

The war is just the latest disruptor to the industry in recent years. The global pandemic — and ensuing increase in remote work around the world — greatly reduced demand for oil and gas, compounding a decline in usage that had already started in 2017.

Despite the recent turmoil, oil and gas companies have not retreated from their ongoing investment in the transition to a more sustainable industry. In fact, 76% of industry executives reported[9] in 2020 that oil prices north of $60 per barrel would actually increase their energy transition investments.

This ongoing investment, which arguably goes against conventional wisdom, is likely due to two factors:

- Oil and gas companies are now much more disciplined and deliberate in their production
- Higher oil prices are making it easier for companies to fund their net-zero commitment

These two factors are already having a dramatic effect on the industry. Amazon, for example, has already ordered 100,000 electric vans for its operations. Shell, meanwhile, has plans to install 500,000 additional electric vehicle charging stations globally by 2025.

DROP IN FUEL SECTOR

In 2016, motor fuel sales reached 155 billion gallons. In both 2017 and 2018, that number was 154 billion, which fell to 153 billion gallons in 2019.

In 2020, the total number of gallons was just 123 billion, a 20% decrease.

While the easing of pandemic restrictions will no doubt cause the number of gallons sold to return to some semblance of normal, the influence of electric vehicles and non-petroleum fuel will only grow stronger moving forward.

[9] "2022 Oil and Gas Industry Outlook," Deloitte, 2021

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TRANSFORMING C-STORES AND TRAVEL CENTERS

Fuel retail value sectors can now be broken down into three categories:

1. Fuel, including biofuels, petroleum gas, hydrocarbon fuels, net carbon footprint offsetting, and e-mobility.
2. Non-fuel retail, including convenience retail, car washing, quick-service restaurants, hospitality, last-mile delivery, and drive-through services.
3. Other services, including fleet solutions, maintenance, parcel and postal services, ridesharing, and ATM and banking facilities.

Despite the increase in value sectors, a challenge remains in the form of changing demographics. In a survey conducted by Deloitte,[11] two-thirds of respondents stated that alternative fuel availability, non-fuel offerings like c-stores, pharmacies, and curbside pickups, and an overall frictionless customer experience were important factors.

This suggests that simply retrofitting existing c-stores and stations will not be enough for owners looking to remain competitive. Instead, developing partnerships with technology companies to leverage customer data is the key to increasing traffic and sales — not just for new locations but existing ones as well.

Working with commercial fleet operators can also help capture the attention of a changing demographic, providing owners with easier access to renewable fuels such as diesel and the aforementioned charging stations for electric vehicles.

[10] "Fuel retail in the age of new mobility," McKinsey & Company, 2021.
[11] "2022 Oil and Gas Industry Outlook," Deloitte, 2021.

TRANSACTION SPEED MATTERS

Increasingly, convenience store and travel center customers are demanding quick and easy transactions.

According to one survey,[12] 15% of customers stated they would abandon a purchase if the wait was longer than a minute. In addition:

28%

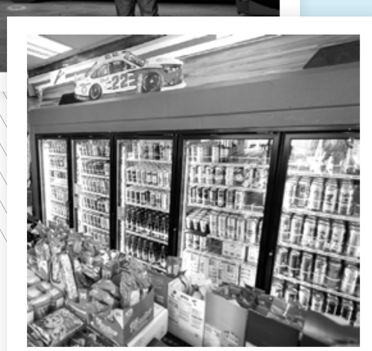
Stated they are less likely to enter a c-store while refueling their vehicle if the line inside appeared long

61%

Stated they would not abandon their in-store purchase due to long lines if self-checkout options were available

80%

Stated they would use card payments only if it meant faster transaction times



[12] "The new convenience store battlefront: The checkout line," Retail Customer Experience, 2020.

AREAS OF FOCUS GOING FORWARD

Navigating current and future challenges in the c-store and gas station industry is certainly possible. In general, there are four areas to focus on. These are:

1. **Follow your customers.** Changing demographics and emerging technologies require a better understanding of your customers and the tools they use. Self-service kiosks, smartphone applications, improved POS devices that accelerate transactions, and more will drive business going forward.

2. **Embrace the energy transition.** Electric and non-petroleum vehicles are only going to increase in adoption. C-stores and gas stations have a very real opportunity for growth from renovating or replacing existing infrastructure in order to meet changing fuel needs.

3. **Expand available services.** Increasingly, consumers want an enhanced retail experience from c-stores and gas stations. This will only increase as electric vehicle charging times drive a desire for more food and entertainment options while customers wait for their vehicles to be ready.

4. **Leverage data.** Smart POS solutions and in-store technologies, such as "grab and go" smartphone applications, produce extensive amounts of data. This data can be mined for insights — on everything from average checkout wait times to improving where products are displayed — that can lead to increased sales.

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