

Produce in C-Stores

February was a banner month for believers in the marriage of fresh produce and convenience stores. First, the United Kingdom's largest retailer, Tesco, announced its much-awaited entry to the U.S. market would be through a convenience store format. Days later, Chiquita announced it was introducing a specially packed single-serve banana as a test — its second in a decade — of the c-store channel.

Before these recent developments, there had been signs that a few c-store operators already understood the powerful combination produce provides in bottom-line returns and top-of-mind fresh image. Wawa and Sheetz spring to mind first from personal experience. Taken all together, could it be c-stores are finally following in the footsteps of conventional supermarkets, super centers, clubs and quick-serve restaurants in putting produce closer to center stage?

For the past three decades, fresh produce has played a critical role in the growth pattern of American retail and foodservice channels. Give consumers fresh fruits and vegetables that consistently deliver on taste, convenience and health, and they keep coming back for more. One part image, one part health, one part profit and all parts consumer demand, fruits and vegetables have moved into the spotlight in the evolving drama we call food marketing.

Colorful retail bulk displays of the 1980s rode what futurist John Naisbitt termed the High-Tech, High-Touch megatrend. Fresh-cut came along in the next decade and showed technology and smart packaging could play a key role in delivering labor-saving convenience to consumers and foodservice operators alike. And then along came super centers, driving supply chain efficiencies and the convenience of one-stop shopping.

Convenience, however, has many meanings. Our industry often associates convenience immediately with fresh-cut produce. That is unquestionably a big slice of the market. But convenience for consumers can mean a lot more than opening a bag of washed salad or not having to peel and cube a melon.

Convenience also means being able to find fresh produce whenever and wherever the next eating occasion arises.

Conventional wisdom is that most Americans seldom speak of convenience stores and fresh foods in the same sentence. C-stores sales here are primarily about gasoline, cigarettes and beverages (soda and beer). At 11 percent of inside sales, foodservice sales (sandwiches, pizza, hot dogs and other foods) are dwarfed by the volume of gasoline and cigarettes sold.

But Tesco and Chiquita may be riding a wave of changing perceptions. Better yet, their actions could speed that wave along. Deciding to dig deeper into what Americans are willing to buy at c-stores, PMA has conducted two surveys of c-store shoppers through Opinion Dynamics Corporation. The three most important reasons given by respondents for not buying produce in c-stores were: all produce was bought at a supermarket, cost in c-stores was higher and produce quality in c-stores was not up to expectations.

In April, among a sample of nearly 400 consumers who say they routinely purchase fresh produce at c-stores, bananas topped the list at 79 percent purchase frequency. Close behind were apples, with oranges third.

The news for fresh-cut marketers was also encouraging. Single-serving vegetable salads have been purchased by nearly 40 percent of the produce buyers, with 12 percent of this subset saying they buy them "a lot." For single-serving fruit salads, these numbers are 30 percent and 17 percent, respectively.

At Wawa, whose 550+ stores regularly carry nearly 50 produce SKUs, it is the fresh-cut fruit and vegetable salad bowls that reportedly sell best. Not surprisingly, the store-level people who work at Wawa or Sheetz typically demonstrate an understanding of fresh foods that makes some other c-store food purchases seem like adventures one could do without. After all, caring for fresh foods is an altogether different discipline than monitoring gasoline sales or dispensing cigarettes.

How convenient:
the *British* are
coming!

Indeed, the biggest barriers preventing more consumers buying fresh produce from c-stores today are not in product offerings, distribution constraints or building in convenience. Rather, they lie more in the states of mind both of industry and consumers. Because the most powerful convenience factors c-stores can offer to produce consumers and marketers alike are their reach of neighborhood locations and the speed of the shopping experience. That is what makes convenience stores convenient. And a fresher range of food products is the cornerstone in transforming the tired image so many Americans have of c-stores.

Which is precisely why it may take an English invasion to show most of the American c-store sector how to really put convenience into c-stores. Tesco plans to focus its U.S. rollout on its highly successful Express concept stores. More than 800 Express stores now operate in five countries and serve 8 million shoppers each week. And Tesco is a company whose insights into actual consumer buying behavior through its Dunhumby subsidiary are almost legendary and clearly relevant. It also has plenty of experience entering new markets overseas.

The type of convenience store Tesco has in mind for the United States will surely be very different from the picture most of us here have of c-stores. For a growing number of consumers and produce marketers, that could be a highly desirable and fresh start. Who said the English couldn't teach Americans something about food? **pb**



Hard Nut To Crack

The decision of Tesco to enter the U.S. market with a convenience store format may tell us more about the problematic position of conventional supermarkets and the difficulty of competing with Wal-Mart and its super center concept than it does about the merits of c-stores.

Certainly the City in London (the British version of Wall Street) is restrained in its enthusiasm. When Tesco announced that it would spend \$485 million dollars a year to open a U.S.-based chain modeled after its Express format stores, its stock price dipped. Despite a claim that the chain would break even in year two.

Perhaps the problem is that other brilliant British retailers, such as Marks & Spencer (which tried its hand with Kings) and Sainsbury's (which tried its hand with Shaw's) have found the U.S. market daunting.

Maybe Tesco won't have the many advantages in the United States it has in the United Kingdom. Tesco has no name recognition, no logistics network and, unlike home where it owns outright 85 percent of its U.K. stores, here Tesco will have to pay big bucks in rent for the prime urban locations necessary if this new format is to have a chance of success.

The truth is that Express is not really a convenience store. It is more like a small upscale grocery store in Manhattan or San Francisco, something like a D'Agostinos or an Andronico's. The focus is on high-margin prepared foods and big lunch traffic from local office workers. U.K. Expresses are located where foot traffic is heavy.

In a sense, it is a brilliant move. It is a niche pretty insulated from competition with Wal-Mart and higher-margin than traditional supermarkets. But one shouldn't get too excited. At the end of the 2004/2005 fiscal year, Tesco had 546 U.K. Tesco Express stores, an impressive number. However, at 2,000 square feet apiece, all 546 of them could fit into about six Wal-Mart super centers.

Tesco has been studying the U.S. market for decades and is a minority partner with Safeway in the GroceryWorks Internet shopping service. Still, management will confront

difficulties that will shock them.

The density of U.S. population is so much less than what Tesco Express stores experience at home that the stores will strain to move the volume necessary to keep all those prepared foods fresh and appealing. And foodservice offerings are what make the produce offerings possible. If you look at a chain such as Wawa, you realize the core of the produce rack is really the cooler for the sandwich program. It is the need to keep the sandwich program booming that led Wawa to an alliance with Missa Bay, transforming a small local wholesaler into a fresh foods distribution powerhouse.

The high density the Tesco Express stores require will necessitate urban locations, but our British friends will be shocked when they learn what operating in urban America is really like.

Wawa tried to open stores in New York but being advised to install bullet-proof glass and surveillance cameras offended management's sensibility. It was a noble experiment, but human nature didn't rise to the trust placed in it, and Wawa shuttered its stores when they were robbed blind.

And Tesco simply has no idea of how often it will get sued. There are three times as many lawyers per capita in the United States than in the United Kingdom.

Of course, they will learn all this, and if they are truly committed, they will succeed. If they have to change the format or juggle the branding, they will.

Research provides a lot of insight, but experience is research as well, a type that reveals things no study ever will. It is why school, for all its value, can never take the place of experience.

Convenience is an attribute not solely of the product but also of the distribution and services surrounding that product. This is why industry promotion efforts, so focused on marketing, are often so ineffective. You can't sell more produce in general unless specific places sell more produce.

In gas station mini-marts across America, vending machines, fast food outlets and drug

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stores that stock milk, eggs and butter, there is a paucity of fresh produce. In many cases where produce is carried, the quality is so poor consumers can get turned off just looking at the product.

The industry lacks a distribution system for getting fresh produce to small outlets each day. Too large packaging often leads to infrequent delivery of excessive amounts of fruit. Produce vendors are accustomed to working with produce departments and dedicated produce personnel, so vendors are flummoxed when the guy in the convenience store that finally added a fruit display doesn't know and doesn't care about proper care and handling.

Foodservice purveyors are probably more suited for the job than anyone. They are used to small deliveries, splitting cases and so forth — a very labor intensive solution — but retail margins can't usually handle the costs blended in at a white tablecloth restaurant.

Tesco Express will probably have a great produce section. Why? First because they will do a large foodservice business and prepare a lot of things in store. This will provide a base for frequent, cost-effective deliveries of fresh produce. Second, whereas the typical c-store customer is a blue-collar male, the Tesco Express concept will likely skew to white collar females who want salads and fresh produce, not 2-pound cheeseburgers.

Some of the produce business Tesco Express wins will be new for the trade — a lady who wants a snack and runs in rather than going to Starbucks. But a Tesco Express is less likely to steal business from a 7-Eleven than from a Safeway Lifestyles store.

The issue for the produce industry is how to appeal to the traditional c-store demographic and how to distribute produce in small quantities efficiently while making sure the quality of what is on display is always good. The British are welcome, but getting produce into c-stores is our problem to solve. **pb**