With sales and profits slipping, c-stores should look for ways to improve the performance of their hot beverage programs.

By Jamie Hartford - July 2013

There’s a reason convenience store operators call coffee “black gold.” With profit margins at 60%, hot dispensed beverages is one of the most profitable categories inside of convenience stores — second only to ice.

But selling them isn’t as easy as it used to be. More than 98% of convenience stores now offer coffee, hot tea, cappuccino, hot chocolate or other hot dispensed beverages, so competition in the category is stiff.

Recent NACS State of the Industry (SOI) data for the six months through March 2013 shows average sales at $15,306 per store per month with a gross margin percentage of 54.5%. As we move further into the summer months, coffee sales could take a hit as consumers switch out of the category and into chilled energy products.

The good news is that operators can execute a few easy things to help the hot dispensed beverages category heat up once again.

**Improve Sales**
Perhaps the best way to boost your store’s coffee sales is also one of the simplest strategies. “I think one of the biggest mistakes stores make is not making sure that coffee is always available,” said Deetricha Younger, U.S. marketing manager for Mother Parkers Tea & Coffee, a supplier of hot dispensed beverage products. “They get busy, and it’s so basic that it gets overlooked.”

To improve sales, ensure coffee pots are full, hot and fresh — simple! “Once you disappoint a customer with stale coffee, it’s going to be hard to get them to come back and try again,” Younger said.

It’s also important to offer a brew that’s in line with your customers’ tastes. At its old ampm stores, Atlas Oil served an unbranded coffee that Jacqueline Mancl, director of merchant dising, describes as “very generic and bland.” When the company launched its new Earth Market concept in the Chicago area this past April, it decided to take a different tack. After conducting extensive market research, Earth Market partnered with Birmingham, Alabama, roaster Royal Cup Coffee to offer a full-flavored European blend that it sells under its own Eco-Earth Coffee label.

“We wanted our own name on it so customers know it’s at our stores and they can get it only at our stores,” Mancl said. So far, sales have increased 30% over what they were under the old coffee program, and they’re up 10% since April, she added.

Earth Market keeps its coffee offerings simple, with just four varieties: signature blend, dark roast, medium roast and decaf. But that’s not to say that customers don’t have options. The stores also offer add-ins such as marshmallows, flavored syrups, different sweeteners and even whipped cream made fresh daily, so patrons have plenty of opportunities to customize.

Another way to add variety to a hot dispensed beverage program is with limited-time offers (LTOs). Younger suggested tying flavors to the seasons — pumpkin spice in fall, peppermint mocha during the wintertime — or
using LTOs to highlight different origins of coffee or tea. Coffees of Columbian origin have been a traditional favorite in convenience stores, but Brazilian and African blends are gaining popularity, she said.

As you add options, it’s important to use signage to educate consumers about what’s available. “If you have 10 different varieties, you need to clearly communicate to the consumer that you have these different varieties and what the differences are,” Younger said. “If the consumer doesn’t understand, they’re just going to go with their tried and proven choice.”

Grow Traffic
To encourage customers to make the leap from the gas pump to the hot dispensed beverage station, stores shouldn’t be afraid to repeat the message.

“When it comes to marketing, I always recommend redundancy,” Younger said. Retailers can place signage to promote the hot dispensed beverage program at the pump, on the windows, at the cash register, and even dangling from the ceiling to lead customers through the store to the coffee counter. “As they go from the pump into the store, it’s easy to get distracted,” she said.

Some stores are also tapping social media to increase traffic and build their hot beverage business. Sites like foursquare allow retailers to offer coupons to customers who “check in” to their stores. Stores can also offer a free cup of coffee to Facebook or Twitter followers who refer a friend, Younger said.

Sharon Porter, national sales director for Illinois-based drinks developer Insight Beverages, said she’s seen operators leverage social media to gain feedback about their hot beverage programs. They post surveys to gauge consumer attitudes about flavors, for example, then reward them with a free hot beverage for participating.

Once you have customers inside the store, making it comfortable for them to stay can result in refill purchases, which accounted for more than $5,300 in sales at the average store in 2012, according to NACS SOI data. Earth Market stores feature a designated coffee area with 10 leather chairs to encourage guests to stick around.

“We have people every day coming in and enjoying their coffee,” Mancl said. “People are starting to be more like, ‘Hey, I’ll meet you at Earth Market, and we’ll sit down and have a cup of coffee.’” Rewarding patrons with loyalty cards or coffee club mugs they can purchase and refill for a discounted price can encourage repeat visits.

Boost Profits
Starbucks was the first to popularize the $3 latte, but convenience stores have also caught on to the fact that customers are willing to pay more for specialty coffee drinks.
Texas-based United Supermarkets rolled out its Arriba-branded gourmet coffee program in the Lubbock location of its A Taste of Market Street concept last fall. The line includes made-to-order tea and coffee drinks, including lattes, smoothies, frappes, flavored coffees and a variety of syrup shots.

So far, says Tandy Arrant, the company’s convenience business manager, the program is exceeding expectations. A recently rolled out punch-card program executed through direct mail resulted in 300 redemptions in just two weeks. Tandy says the Arriba program will be available in four units, including three United Express stores by July 1.

While specialty coffee programs can attract customers with more disposable income and command a higher price per cup, they also require more labor. “You have to make an investment in training and staffing,” Younger said.

But there’s also a middle ground. “Both Bunn and Curtis have come out with barista-quality specialty coffee equipment that doesn’t require a manned situation,” Porter said. “It’s total push technology. It enables the customer to go up to the machine and pick what they want to include in the drink.” The equipment, she said, is more expensive than drip coffee systems but less than the cost of high-end barista-controlled machines, which can run from $10,000 to $20,000. “There’s a new segment of coffee equipment in the couple-of-thousand-dollars range that requires no extra labor and is relatively easy to clean,” she said. “There are a lot of benefits to that.”
Younger said another way to squeeze more profit out of a hot beverage program is to add ice. Iced drinks can expand the appeal of hot beverages beyond the morning day-part and even command a higher price. “You could potentially charge a dollar more and you’ve done nothing but add ice, which is inexpensive,” she said. Younger also encourages operators to up the price for LTO items. “It’s something special and unique, so why not charge more for it,” she said.

**Branch Out**

While coffee and specialty coffee account for the lion’s share of sales in the hot dispensed beverage category, it’s important not to overlook other options. Alternatives such as tea and hot chocolate add variety to a store’s offering and can help avoid a veto vote from customers who aren’t coffee drinkers.

“You want to leave no stone unturned when it comes to hot beverages,” Younger said.

Tea accounts for a small but growing portion of hot beverage sales in convenience stores. The subcategory’s sales ticked up nearly 2.2% from 2011 to 2012.

“Tea is becoming almost a category blurring situation,” Porter said. Options today include hot teas, cold teas and frozen teas. Some stores even offer tea lattes made with milk that are dispensed out of cappuccino machines. Options range from spicy chai to fruit-flavored tea lattes, such as blueberry. Another hot trend in tea is functional varieties that play up health benefits such as immunity and detoxification, she said.

When it comes to hot chocolate, Porter said customers are increasingly looking to indulge. “We’re seeing a lot of emphasis on premium and specialty types of hot chocolates,” she said. Stores can also feature LTOs tied to this subcategory, she added, suggesting a peppermint mocha hot chocolate around Christmas or a s’mores flavor for summer.

With a little effort and some imagination, operators should be able to get the hot beverage category sales and profitability back on track.

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