



IT'S OPEN SEASON ON CUSTOMERS

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There's good news and bad news. The good news is that your best customers come frequently and spend more per visit. The bad news is that your best customers are regularly visiting and spending some of their money at other c-stores as well as other channels. Once it was something special . . . the quick trip, the combination of fill-in groceries and gas, the fast in-and-out for cigarettes, the consume-before-you-get-there snack. Consumers liked it – and they bought it . . . then they wanted it...*all* the time.

In the past ten years, the customer's convenience has become a threshold condition for retailers. Retailers ranging from mass merchandisers to discount and dollar stores to banks and pharmacies have begun to incorporate aspects of the convenience offer into their retail environments. The short line, fast pay, single serving, always open offer that put c-stores on the map and boosted the convenience industry are now expected consumer entitlements.

The one ingredient in limited supply, however, is the *customer*. Customers are in such high demand that advertising and marketing expenditures were up 1.5% in 2003, with over \$153 billion spent in the US to attract and retain the consumerⁱⁱ. Furthermore, the increases in advertising expenditures are expected to outpace economic recovery in 2004. Across the convenience store industry in the US, suppliers allocate substantial portions of their marketing spend on convenience retail. They know market share can be lost quickly when another brand or product swoops in to pilfer customers. They know the only insurance for keeping customers is to constantly deliver and surpass what the customer wants. They know that loyalty can only come from the customer thinking of the product as "my shampoo" or "my beer" and ultimately "my store."

It's open season on customers when loyalty is weak. They're *your* customers when they let you serve them. They're *your loyal* customers when, in the context of competing offers and other options, they let you serve them repeatedly. When they shop at the store across the street, they are no longer your customers.

In an depth analysis of shopping patterns of over 6400 customers at over 120 American convenience storesⁱⁱⁱ, Clickin identified two different types of loyal customers – those that are loyal to the channel (channel loyalists) and those that are loyal to one c-store (store loyalists).

Channel Loyalists

In our sample we identified those customers who visited a c-store, or multiple c-stores, on a daily basis or more. This sample represents our "channel loyalists" segment. Channel loyalists more often visit c-stores in the early morning (34%) or mid-morning (25%) hours. They tend to be a few years younger than other c-store shoppers (38% are 29 years old or younger), and they are more often male (60%) than female (40%). Twenty-seven percent (27%) report spending \$11 or more per c-store visit. While their households do not differ in size from the other c-store shoppers, they do tend to have lower household incomes (52% report incomes of under \$30,000). Of the big five product categories (cigarettes, beer/alcohol, candy, snacks, and beverages), channel loyalists more often report purchasing these products at c-stores than do other c-store shoppers.

When rating the c-store where they received the invitation to participate in our survey on NACS's ten dimensions of customer satisfaction, channel loyalists gave higher ratings to their c-stores in all dimensions, except convenience.

Store Loyalists

Similarly to our channel enthusiasm analysis, we identified customers who made visit daily or more often to one particular c-store and rarely visited other c-stores. This sample represented our "store loyalists" segment. Store loyalists more often visit their c-stores in the early morning (31%) hours. This segment consists of customers who are younger (12% are under 20) than other segments, and they are more often female (53%) than male (47%). Thirty-four percent (34%) report spending \$11 or more per c-store visit. Neither their household sizes nor their household incomes differ from those of other c-store shoppers.

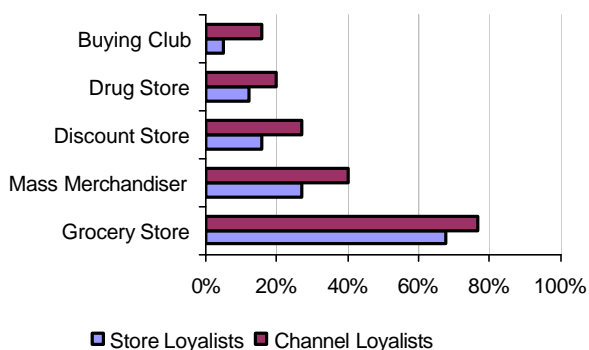
When rating the c-store where they received the invitation to participate in our survey on NACS's ten dimensions of customer satisfaction,^{iv} c-store loyalists gave the highest ratings of any other segment in our MCSO benchmark studies. Dimensions of satisfaction were measured on a 1 to 10 scale, with 10 being the most satisfied. The average rating given by store loyalists was a 9.1.

Other Retailers

Of the big five product categories (cigarettes, beer/alcohol, candy, snacks, and beverages), channel loyalists more often report

purchasing candy, snacks, beverages, and cigarettes at other non-c-store retailers, when compared to c-store shoppers who visit c-stores less than once a day. Interestingly, store loyalists report purchasing these same items at non-c-store locations, such as grocery or drug stores, to a lesser degree than other c-store shoppers who shop at more than one c-store.

Where else, in the past month, have you purchased these same products?



In other words, channel loyalists are shopping frequently at c-stores – once a day or more at one or more. But they are also shopping at other retailers. Store loyalists are shopping frequently at one c-store. But they, too, are shopping at other retailers.

Discussion

A c-store visit is a regular part of channel loyalists' routine. Convenience, measured by ease of access and location, is a threshold condition; it is expected. On any given shopping occasion, channel loyalists are likely to consider a c-store option and give it priority. But although they may visit one particular store once a day or more, channel loyalists are likely to be going frequently to other c-stores as well.

A c-store visit is a regular part of the store loyalist's routine also. These customers are more aware of the convenience of their visit. Although their c-store purchases are focused in one particular store, store loyalists also shop at other retailers.

In general, high frequency customers tend to give a c-store higher ratings than lower frequency customers on layout, service quality, cleanliness and prices – their satisfaction and loyalty are also stronger. Both channel loyalists and store loyalists fit this description. Yet, customers who focus their business on one store – store loyalists – tend to give higher ratings on

service quality, cleanliness, convenience and prices than customers who go frequently to several stores.

There are three important insights for the c-store industry from this analysis. The competition includes both other c-stores and other channels. The best customers are the most satisfied. Even the best customers are vulnerable when they shop at other retailers.

Service, cleanliness and the prices/value perception are relevant to consumers. These drivers influence not only how often customers come to your store but also how often they go to other c-stores. Strong performance on these drivers can differentiate the convenience your store offers – from other retail channels and from other c-stores. Satisfaction is strongly related to visit frequency.^v Studies by Clickin and others have shown that satisfaction is influential in reducing sensitivity to prices.

There are few exclusive customers. Convenience has become commoditized. But when customers – channel loyalists, store loyalists, or occasional shoppers – come into your store, your staff has the opportunity to give them an experience that will make them notice and care about your store. When people notice and care about the differences – the things that differentiate this c-store from others – the visit can become a repeated visit, then a preference, and ultimately a loyal relationship.

"Why spend so much energy catering to a customer?" the over-worked store manager asks. The answer is simple. Because if you're not doing it, another retailer is. The competition for customers is nothing less than fierce. A retailer's ability to move a casual and unexclusive relationship to an established and committed relationship is based on permission from the customer to continue to grow the relationship with them. If we want a commitment *from* them, we need to make a commitment *to* them.

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ⁱⁱ Robert Coen, "The Insider's Report," Universal McCann, June 2003.

ⁱⁱⁱ One hundred fourteen (114) stores were selected to represent the American convenience store industry. Clickin Research and NACS co-sponsored data collection using the MCSO tool (www.mycstores.com), in conjunction with the 2002 NACS Customers Satisfaction Benchmark.

^{iv} The 2002 NACS Customer Satisfaction Benchmark is available from NACS, 1600 Duke Street, Alexandria, VA 22314