



## State of the LOYALTY INDUSTRY™

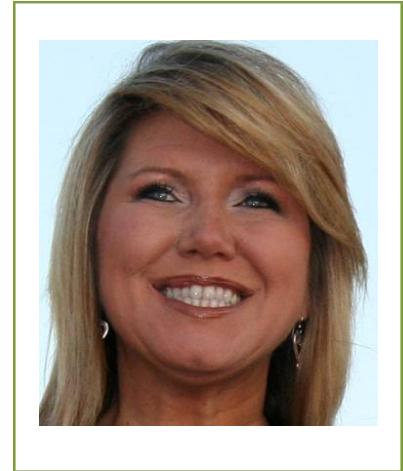
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### **Fuel as a Loyalty Currency: Shifting from Supermarket Channel to Convenience Store Channel**

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When grocery chains such as Kroger, Albertsons and Safeway began placing fuel pumps in their parking lots many fuel and convenience store retailers viewed this as yet another competitive blow to their gasoline profits. C-Store retailers bank on using their fuel offering and competitive gas prices as a way to attract customers and entice them to enter the store and purchase additional convenience items – many priced at a higher margin convenience price. But now consumers were being offered the new *convenience* of filling up on gasoline while grocery shopping and many times the fuel was discounted by the Grocery retailer as reward for in store purchases. Convenience store chains have long operated on two fundamental customer acquisition strategies: *location* and *competitive fuel price*. Now with this new marketing strategy emerging among the Grocery and Supermarket channel – the c-store retailer is forced to differentiate.



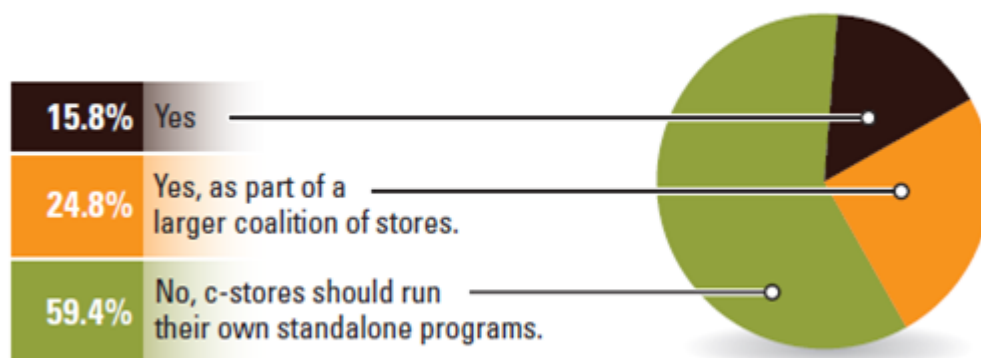
Grocers entering the gas business began approximately 1999 with the larger supermarket chains adding fuel bays to their massive parking lot real estate. Even Home Depot piloted the concept of offering fueling stations in their parking lots by adding fuel bays to eight of their locations in the Atlanta area. Supermarkets began to use their fuel on premise as incentive or reward for purchasing behavior inside their stores. Many offer cents-off-per gallon fuel rewards or cash-for-gas tokens to be redeemed at their fueling bays. Mega brands like Kroger and Safeway actually linked their chain's loyalty cards to fuel rewards as the incentive currency. This trend grew and spread throughout the eastern seaboard becoming the industry standard by 2005. Turning competitive erosion into a positive – we saw some c-store retailers actually capitalize on the momentum and offer their locations as redemption outlets for the Grocer's fuel reward program. By 2006 we saw partnerships forming between grocers and c-store operators, as a way for the former to leverage existing fueling sites and for the latter to bump up traffic counts. Examples of successful Grocery/C-Store partnerships are Foodland's and Little General Stations in West Virginia or even Uppy's a 40-location c-store chain that partnered with a local grocer's, Ukrop's Super Markets, loyalty program in Richmond, Va.

While the c-store chains who have partnered with Grocery Fuel Programs have seen benefits mostly in the form of gallonage the c-store channel was left to observe and learn from the Grocer perhaps an even more lucrative way to drive business to their locations. Redeeming a grocer-partners fuel reward drives more fuel sales to a convenience operators location but where a c-store proprietor really profits is from in-store sales. It is with this observation we see the beginnings of a market shift in late 2007. Some progressive c-store chains namely Sheetz and Speedway broke new ground by offering their own loyalty program sans a grocery partner. Observing the grocery channel these c-store retailers learned that by offering fuel discount incentives as the reward token for in-store purchases they could not only attract new customers but they could change the buying behavior of their existing customer base substantially. These c-store loyalty programs centered on “earning and burning” reward tokens within the brand’s chain became not only measures for customer acquisition and retention but also sales profit. With a sales growth model emerging in the c-store channel and many retailers with proven results in revenue now visible the market saw a complete shift or tipping point by late 2008. Beginning in fourth quarter 2008 throughout fiscal 2009 the market has seen almost all the larger C-store retail chains launch very robust loyalty programs centered on fuel rewards as the token or currency. Examples include: QuikTrip, Rutter’s, Kwik Fill, Red Apple, Circle K, Rebel Oil, Par Mar and the list goes on.

CSP Daily, a leading publication in the Convenience Store/Petro space recently conducted a survey of over 100 C-store executives regarding partnerships for loyalty programs. An overwhelming 59.4% responded that “c-stores should run their own standalone programs.” This response rate is further evidence that the market is shifting not only in action but also in perception and this trend will continue towards c-store loyalty programs.

## RETAILERS SKEPTICAL OF GROCERY TIE

Do you think grocery and c-store partnerships make the best loyalty programs?



Source: Kraft/CSP Daily News Poll. Based on 101 respondents.

Groceries and gas were always such a natural fit as a loyalty schema because they are two of the consumer’s most frequent spends – but one category that may easily surpass the consumer’s frequent need for groceries and gas is their “loyal” stop at the convenience store for “whatever” they may need that day and the desire to earn rewards.