It’s midday, and the coffee urge has Ted passing three c-stores en route to his local Starbucks, where he plunks down $6 and change, then returns to his car and goes back to his office.

This wasn’t a social trip with friends or a pause for chilling out. This was a sale each convenience store could have had—but didn’t.

Yet that might change. A recent operator survey by Chicago-based research firm Technomic reports 50% of convenience-store retailers said they would like to expand their hot-cocoa program. Another 28% are interested in introducing an espresso-based program, and 32% want to expand their hot-cocoa program.

In the decade since the industry began embracing fresh-brewed coffee as a breakfast builder, the c-store channel appears primed to expand into gourmet blends.

And there’s money to be made in hot beverages. At CSP’s recent FARE (Food-service at Retail Exchange) conference in Chicago, Tim Powell, principal and c-store practice lead for Technomic, pointed out that in 2012, hot dispensed beverages constituted more than 30% of all c-store foodservice sales, generating $3.5 billion in sales. And these hot-beverage consumers rarely buy only coffee.

“Beverage is often the impulse driver when it comes to coming into a convenience location,” says Sharon Porter, director of sales and marketing for Insight Beverages, a manufacturer of dispensed-beverage solutions based in Lake Zurich, Ill. “It’s often the impetus for other purchases, so it’s important to get that customer in.”

And hot beverages—coffee in particular—have wide appeal. According to the National Coffee Drinking Trends study released earlier this year by the National Coffee Association, 83% of American adults drink coffee—and it’s a daily habit for 63% of us.

Great Pumpkin: The industry is rapidly embracing specialty brews, such as Wawa and its pumpkin spice coffee.

Caffeine Rush

Hot-beverage programs excelling in coffee and moving beyond

By Amanda Baltazar
Go Gourmet

Convenience stores, says Powell, need to become a destination for coffee. One way is through gourmet coffee.

“Specialty beverages are becoming more mainstream,” says Mike Sherlock, vice president of fresh food and beverage for Wawa, Pa.-based Wawa. “Starbucks started the trend and changed consumer tastes.” Driving this category are cappuccinos, lattes and choices of flavorings and types of milk, he says.

Consumers believe they deserve these small treats through the day, Sherlock continues. And because the drinks are a pick-me-up and an indulgence and can be customized, they’re an easy way for convenience stores to appeal to many demographics at once.

The biggest drivers of hot drinks at Knoxville, Tenn.-based Pilot Flying J’s convenience stores are the premium blend house coffees and 100% Colombian coffee.

“Premium coffees in general are becoming an expectation,” says Whitman Harson, senior category manager for the 650-unit chain. “Customers are getting smarter every year. We are particularly sensitive to drivers, and we place a strong emphasis on ensuring that our coffee is of the highest quality.”

Pilot Flying J’s hot-beverage program “is a very important driver for us,” he says. The category is led by coffee and cappuccino, though tea and hot-chocolate sales are strong.

“Hot beverage is driving both new business and product interest,” Harson says. “We have experienced an influx of new customers that have heard about our premium coffee selections, as well as current customers coming back more frequently as a result of their satisfaction with our hot beverages.”

Landmark Industries, based in Houston, offers specialty coffees such as Dakota Roast, Colombian and French vanilla in each of its store, in addition to a seasonal LTO. Toasted cinnamon nut and hazelnut are also offered in some locations.

Stores that are offering five or six different coffee blends are mainly newer—built in the past three years, says Sonny Talje, Landmark’s category manager for foodservice. “Different blends in these spacious locations are showing strong sales since they appeal to all genders and ages,” he says. “Customers feel safe walking in well-lighted stores early in the morning to choose the flavor and condiments they crave with affordable prices rather than going to a fast-food drive-thru.”

The coffee is sold under Landmark’s Roasted Bean Coffee Company brand, which helps perceptions, says Talje: “It’s good to have your own name so customers associate it with you.”

David Morris, managing consultant for Packaged Facts, Rockville, Md., agrees.
All Drinks Need a Sidekick

Caffeine’s good, but sometimes it’s better with a snack. Breakfast sandwiches, granola bars and baked good are all popular, and at Pilot Flying J, fresh oatmeal is, too. Oatmeal sales are growing, says senior category manager Whitman Harson, “especially where we have started offering fresh-made oatmeal (in 145 stores) with toppings.”

It’s served straight out of the soup bar in those stores; in others it’s available in packets so customers can make it themselves with hot water. “It ties in really well for a breakfast,” he says. “It’s important to have things that go with coffee.”

Also popular are breakfast sandwich combos, which are available 24/7. These are particularly popular with holders of Pilot Flying J’s loyalty card, because they get a discount on a breakfast sandwich when purchasing a coffee.

Add-ons to coffee sales are “a natural progression,” says Tim Powell, principal and c-store practice lead for Chicago-based Technomic. “It’s a growth area.”

Combo meals provide very fast speed of service and a perception of value and variety, says Darren Tristano, executive vice president for Technomic. And the best ones, he explains, can be personalized, “giving customers the ability to pick and choose.”

Combos are a driver for Landmark Industries’ hot-beverage program. The chain combines coffee with its Jimmy Dean breakfast program for a slight discount.

“And every now and then we throw a manufacturer coupon in—buy a coffee and get an energy bar or breakfast bar for free,” says Sonny Talje, category manager for foodservice, “and we’re working on ‘Save 75 cents on any one Altoid tin when you buy any coffee, any size.’ Every now and then we do a coupon. It does help sales.”

“The image of private label has come a long way, to the point that it can compete head to head with brand names associated with higher quality,” Morris says. “Rolling out a high-quality, own-branded coffee product can help move a convenience store chain’s foodservice program to the forefront of its marketing strategy. It just better deliver on quality.”

Bean Counting

Specialty coffees may bring in more customers, but they don’t necessarily bring in more revenue.

“All cappuccino flavors are running lower margins due to us offering these expensive products at the same price as regular coffee,” Talje says. “Offering all hot beverages at the same price is attractive to our customers.”

Wawa declined to provide margins, as did Pilot Flying J, though the latter said prices can be double those of regular coffee on some beverages. And these drinks do cost more for the operator, Talje says.

“The costs on the specialty coffees, especially the 100% Colombian, are 40% higher than house blend,” he says. “The different equipment setups and the larger coffee cup size that we recently added have helped us reduce waste to minimal, which allowed us to afford serving this quality coffee.”

However, on a same-store basis, coffee sales are up 3.8% over last year at Landmark Industries, where the house blend coffee drives the self-serve coffee program.

Get Customized

York, Pa.-based Rutter’s Farm Stores is one chain having success with coffee bars. In August 2012, the chain tested its first two coffee bars and quickly opened nine the tagline “the best coffee on the interstate,” with typical offerings of Colombian and Sumatran. Every day eight varieties are available, and the chain runs LTOs such as Kenyan and Hawaiian coffees and pumpkin spice “to expand our customer base,” Harson says.

Landmark Industries serves its coffees in thermals, glass pots or air pots, depending on the size and volume of the store. It regularly introduces new flavors, usually offering them first as an LTO, then keeping them if they’re popular.

“We alternate between coffee and cappuccino LTOs every three months, Talje says. Last month the chain started a Brazilian LTO, which will be immediately followed by the omnipresent fall flavor: pumpkin spice.

LTOs bring vibrancy and surprise and may even expand patrons’ palates, says Sherlock. “You have a strong customer base that knows what it wants every day and doesn’t deviate, another customer base that is more experimental, and some customers who switch between brands,” he says, “so LTOs give them a reason to come in.”

As well as being able to draw customers in with good hot beverage programs and LTOs, convenience stores should be able to churn those customers out quickly, too.

“The typical convenience-store customer wants to get in and out in 4 minutes,” says Powell. “Coffee here is not an experience like going to Starbucks. Most of it has to be self-serve so you don’t alienate the customer, and usually the machines are one step.”
more, followed by another 22 early this year. (The chain continues to offer dispensed coffee, too.)

“We’ll put them anywhere we can fit them,” says Jerry Weiner, vice president of foodservice, “and into all new and remodeled stores.”

Customers order their coffee (and food) through the chain’s touch-screen ordering system and can personalize their drink, which is key, Weiner says.

“We offer lots of personalization, which is what everyone wants these days: the syrups and the toppings and the whipped creams,” he says. “So it’s taking on the same image as our food program, which is personalization and customization.”

“Customization is an increasing aspect of consumers’ food and beverage expectations,” says Melissa Abbott, senior director of culinary insights for The Hartman Group, Bellevue, Wash. “From Coke’s Freestyle machine with over 100 choices to the millennial desire to try a new beverage every week, we see no sign of this desire for personalization abating.”

Customization is also essential at Wawa, which has both coffee bars and self-serve coffee.

“Our whole brand is focused on customizing,” says Sherlock. “We have nine varieties of coffee in our self-serve program that customers fix themselves with creamers and sweeteners—and we have a large variety of those, too.” The full-service side is similar, with more than 20 specialty beverages available with different flavors, milks and so on, he says.

“I think we’re in a society where people want to feel special and want to be able to control the experience,” Sherlock says. “So it’s important to engage with the customers in the way they want to engage with your brand.”

At Rutter’s, the coffee bar is rapidly emerging as a destination that exceeds a traditional good-quality coffee program. Among the benefits beyond the menu is that it makes coffee a daylong attraction.

So while it’s no surprise Rutter’s coffee program is strongest in the morning, “a surprising percentage of our total cups go out after the morning business,” Weiner says. “That’s because the espresso bar is a little different, since people tend to use it as an afternoon treat.”

**Chocolate: No Longer for Kids**

Coffee’s not the only thing that’s a treat. Hot chocolate is, too, and that’s evident at Pilot Flying J locations.

“We see it as a potential opportunity because it’s getting a lot of exposure and we’re introducing an additional hot chocolate—a premium one—this fall,” says Harson. “It’s to gear it more to adults.”

Hot chocolate has been a growing part of Wawa’s business, “and where we’ve had good success is on the full-service side, where it’s more special, more gourmet,” Sherlock says. Wawa declined to provide profit margins or prices.

“It’s an afternoon treat, Sherlock says, and for good reason: It’s made using steamed milk from the espresso machine and real chocolate chips.

If you’re selling hot chocolate, make sure you have s’mores, caramel and peppermint mocha flavors; these pair well with coffee, too, says Beverage Insights’ Porter. “There’s a whole lot of mixing going on,” she says.

Tea is also catching on “more and more,” at Pilot Flying J, Harson says. Two years ago the chain introduced Revolution tea, with nine flavors, and the flavored teas are where the growth is, he says.

“Our tea program is very high-end [because of Revolution] and, like our coffee program, is designed to compete with Starbucks,” he says. “We see tea getting better every year, but it’s also a commitment to the customer.”

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**My Bean:** Landmark sells coffee under its own brand, Roasted Bean Coffee Company, which the retailer says improves the perception of the coffee quality.