Convenience Store of the Future

First Edition

The Dawning of the Digital Convenience Store

Rovertown's Convenience Store of the Future

First Edition

Introduction

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This report is an attempt to do something *different.*

Rather than attempting to pass off product marketing as research and insights, the Rovertown team thought it beneficial to prepare an honest assessment of the convenience retailing industry's challenges, opportunities, and future prospects.

Our goals are twofold. First, we take our role as an independent advisor seriously and trust that the straight-talk analyses in this report will be useful to retailers as they consider their strategic outlooks. Rovertown is not just another vendor looking to sell to a larger vendor. Like this industry's many family-owned chains, we are a founder-led company that takes pride in building meaningful relationships with our clients.

Second, we believe it's important to present a clear vision for why Rovertown exists. It's not enough to just market products and services; a company that strives to be an industry leader needs to understand present-day dynamics, near-future realities, and be able to explain where and why it fits into the overall ecosystem.

In this report, The Dawning of the Digital Convenience Store—the first edition of Rovertown's new Convenience Store of the Future series—readers will gain a deep understanding of many timely topics, such as:

- How the pandemic revealed a strategic blind spot in retailers' mobile app strategies
- Why the subject of loyalty marketing needs a dose of realism
- Why the narrative about convenience retailing's resilience is misleading and naive
- How tomorrow's retailers will move beyond physical points of sale
- Why white-label and custom apps fail to meet the needs of most convenience retailers
- How app platforms have become the "Shopify solution" for convenience retailers

As the leading mobile app provider for convenience retailers, the Rovertown team has a unique viewpoint into the dynamics of the fuel and convenience industry. To continue the conversation, follow us on LinkedIn—or visit our website at rovertown.com.

Thank you,
The Rovertown Team

Part One

Part One

The pandemic revealed a strategic blind spot in retailers' mobile app strategies

Despite widespread deployment of mobile apps in the decade prior to the COVID-19 pandemic, many retailers' apps were unable to serve customers who were suddenly fearful of visiting physical stores.

Rather than being viewed as a way to open the doors to mobile ordering, off-premise sales, and an overall extension of the business beyond the physical point of sale, many apps were narrowly tailored around specific functionalities such as loyalty programs or fuel payments. The result was a general inability to adjust to a rapid change in consumer behavior.

Outside of the convenience retailing industry, companies like Domino's were well-positioned for this shift. Domino's had spent nearly a decade building digitally-enabled, off-premise delivery infrastructure. Their efforts were successful enough that for many of today's customers, the digital experience is the default Domino's experience.

"We used to be a pizza company that sells online, and we needed to become an e-commerce company that sells pizza," said Dennis Maloney, Domino's SVP and Chief Digital Officer, in a 2018 interview.[1] "That was one of the big 'aha' moments that caused a lot of conversation within the company."

It was therefore no surprise when Domino's reported a 16% increase in U.S. comparable sales for the fiscal quarter ending June 14th, 2020—a sharp jump from the 3% gain reported for the same quarter only one year earlier.[2] As of April 2021, the company reported that 75% of sales come through digital channels.[3] This is compared to an already-impressive 70% pre-pandemic.

But the Domino's app is designed to be useful, functional, and convenient. It's easy to understand why someone might download it and keep it on their phone. In comparison, many convenience retailers continue to deploy mobile apps that do little more than send push notifications for deals and discounts.

Tomorrow's leading retailers will take a more thoughtful approach and view mobile apps as critical infrastructure with a wider range of useful capabilities. Before we examine what that might look like, it's important to understand how we arrived at the present dilemma.

Start quote

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End quote

Loyalty at the expense of functionality

The conversation on loyalty marketing needs a healthy dose of realism.

We want to begin by clearly stating that Rovertown believes loyalty programs can be a valuable component of a retailer's mobile app. That's why we integrate with more than ten leading loyalty providers and advise clients on how to decide which one is best for their brand. However, we believe there are fundamental shortcomings when loyalty is the only focus for a mobile app.

Although it's well-accepted that consumers will do nearly everything in their power to avoid viewing digital advertisements, there's a prevailing narrative in certain corners of the convenience store industry that consumers somehow crave loyalty marketing.

Proponents of this way of thinking often argue that loyalty marketing creates an emotional bond between brands and customers. This is certainly possible in some circumstances; after all, many readers likely know someone who eagerly redeems Sephora's points for samples of expensive beauty products. But there is a difference between being rewarded with the ability to "try before you buy" a $75 face cream and receiving a push notification for a two-for-one deal on a major brand of cola. A retailer can build a brand around the former—and use that lever to divert shopping trips from its competitors—while the latter is comparatively unremarkable no matter how "personalized" it may be.

Convenience retailers are of course in a difficult position compared to companies like Sephora. Many convenience store products have a lower-perceived value, and there's a big difference between a deal on a rarely-purchased beauty product and a brand of soda that you were already going to consume a few times each week. And yet, the success of programs like Starbucks Rewards shows that some of the most successful loyalty programs can indeed be built around high-frequency, lower-value products.

But Starbucks Rewards is more than just a push notification engine for personalized offers; it's a digital storefront full of capabilities that add convenience to the customer experience. Someone who wants to skip the line inside the store or quickly order a favorite beverage can easily do so using their mobile app.

Convenience retailers' mobile apps, in comparison, have traditionally been built around loyalty programs with few, if any, additional capabilities. The lack of higher-value functionality imposes limits on adoption rates because loyalty apps only appeal to loyalty members. When the Rovertown team meets with retailers, we often ask what their loyalty swipe rate is—meaning the percentage of customers who connect purchases with the brand's loyalty program. We rarely hear answers above 20% to 30%.

Start quote

But there is a difference between being rewarded with the ability to "try before you buy" a $75 face cream and receiving a push notification for a two-for-one deal on a major brand of cola.

End quote

To be fair, Starbucks Rewards also wins on the rewards front because they give customers more of what they want: Starbucks. They have the advantage of a strong offer that customers view as a worthy destination in-and-of itself. Convenience retailers, on the other hand, are in a more difficult position as they often promote many of the same products and brands that are found at their competitors' stores.

Convenience retailers do have an opportunity to leverage private-label products, proprietary foodservice, branded merchandise, and other unique strengths to create even more powerful offers within their loyalty programs. It's likely that we'll observe more instances of this in the coming years.

But that still doesn't solve the strategic gap observed during the events of 2020. In order to think bigger and see better results, however, retailers must first have the capability to do so. For many, that means moving away from a reliance on white-label apps.

Start quote *Many retailers believed these would be a quick and easy way to join the mobile app game... They immediately discovered, however, that they were an inflexible solution which limited their options.* End quote

Start quote *The reason why companies like Chick–fil–A thrived during the pandemic is because they have the money to employ their own development teams and the ability to recruit Silicon Valley talent.* End quote

The white-labeled elephant in the room

In the years preceding the pandemic, the convenience store industry witnessed a rollout of low-quality, white-labeled apps.

Many retailers believed these would be a quick and easy way to join the mobile app game and keep pace with new consumer behaviors. They immediately discovered, however, that they were an inflexible solution which limited their options.

Many white-label apps are offered by vendors that tend to focus on one aspect of the overall mobile app experience—such as payments, loyalty programs, or car wash services. Since many of the most popular white-label apps were created by loyalty companies, retailers ended up with solutions that were heavy on loyalty functionality but light on everything else.

Because the vendors who offer these apps do not typically specialize in app development, they don't make it a priority to integrate with a wide range of necessary technologies. They typically fail to keep pace with consumer demands for the app environment itself and present a subpar user experience and user interface. Sometimes users are even required to create an account before they can access the apps' features—unnecessary friction, similar to newspaper paywalls, that can negatively impact adoption rates.

White-label apps also make it difficult for the retailer to make changes. If they want something that isn't within the scope of what's offered, then the retailer either has to go without or pay expensive development costs from companies that specialize in modifying white-label apps. Time is another factor beyond development costs. Once the development work is complete, it's often outdated and then needs to be maintained.

Retailers work hard to create brands that are seen as unique and distinct from their competitors. White-label apps take the opposite approach, and within the convenience store industry at this very moment are competitors whose apps are nearly identical both in appearance and function.

Altogether, this put retailers in a difficult position when the pandemic arrived.

Apps that didn't help during a crisis

It's generally accepted that the COVID-19 pandemic forced many people around the world to use their phones for shopping. For some, this was their first real venture into eCommerce.

Once a consumer has tried apps from companies like Chick-fil-A, Target, or Jimmy John's, it becomes clear how simple and convenient mobile experiences can be—especially ordering and pickup. Many convenience retailers have experienced this for themselves and realized what might be possible for their own stores.

But when retailers go back to their white-label app providers and request these features, they often get half-baked solutions or no solutions at all. Adding new features might require exorbitant costs and delays of months or years for custom development.

The reason why companies like Chick-fil-A thrived during the pandemic is because they have the money to employ their own development teams and the ability to recruit Silicon Valley talent. They simply had to "spool up" during 2020 and write more code. Even though they weren't ready on Day 1, they quickly responded and got better with each passing day.

For the typical convenience retailer, a call to the provider of their white-labeled app often resulted in nothing happening. That's because those companies were trying to stay competitive in their core businesses.

Perhaps the situation would have been different if retailers had understood the need for a broader range of functionality long before the pandemic. Unfortunately, there has been a prevailing mindset for many years that retailers didn't need to think beyond the physical point of sale. Talk of convenience retail's "resilience" and "essential" nature—while well-intentioned and technically accurate—diverts attention from potential headwinds, distracts from the accumulation of tech debt, and muddles strategic thinking. This makes it difficult to view mobile apps as anything other than vessels through which deals and discounts can be passed along.

Let's take a closer look.

Part Two

Part Two

Challenges to the traditional convenience store model

It's often said that convenience stores got a free pass on the "retail apocalypse." Although well-intentioned and technically true, such sentiment is also misleading and potentially naive. It may be more accurate to say that the industry got a delayed pass. While convenience retail has two unique characteristics that insulated it from the disruptive forces steamrolling stagnant legacy brands in other retail verticals, challenging headwinds do lurk over the horizon and demand attention.

The first advantage is a moat around the business through the sale of motor fuels. Convenience retailers sell a highly-regulated commodity that few individuals can function without in modern society. Sears, Toys "R" Us, and our struggling local malls never had products like that.

What we speak of today as a "convenience store" is typically a model resulting from the intersection, and continued evolution, of two distinct businesses: the convenience store and the gas station. Although outlier brands have since pioneered new approaches—such as highly-developed foodservice programs capable of competing with quick-service restaurants (QSRs)—much of the industry continues to follow a familiar playbook that has worked well for decades. Their in-store offer lacks the pull of destination retailers and is most contextually relevant to the fuel customer standing fifty feet away at the canopy.

Inside sales for these more traditional retailers are highly dependent upon fuel volume. If the ability of the fuel canopy to drive traffic begins to decline, then they will presumably see the impact carry over into the store.

The second advantage enjoyed by convenience retailers is immediate proximity to customers. The nature of the small format and its presence on America's busiest roads and street corners allows it to penetrate retail's "last mile" in a way that few other verticals can.

Even if a convenience store is not viewed as a destination business, it can still generate significant inside sales from consumers within the immediate vicinity. Amazon may offer one-and-two day shipping in many areas, but it's hard to compete with a store two blocks away when you want your favorite snack or need something right now.

The challenge is that convenience retail's substantial inside sales—

$255.6 Billion

in 2020 — was always a honeypot that would attract competition.[4] If better or more convenient alternatives were to present themselves, then retailers could face erosion in a part of their business that's essential for profitability.

Unfortunately, challenges have arrived in both of these areas.

The changing nature of mobility

It appears likely that future consumers will rely less on motor fuels and the need to stand still and "fill up" at a fixed roadside location. This shift would have profound implications across many industries and be especially impactful within fuel and convenience retailing.

One factor is the internal combustion engine's diminishing appetite for fuel. Forecasts by the U.S. Energy Information Administration (EIA) suggest a 47% improvement in light-duty fleet economy by 2040 and a 30% improvement in diesel.[5] According to one analysis, gasoline demand was already decoupled from vehicle miles traveled (VMT) in the years leading up to the pandemic.[6] From 2007 to 2020, gasoline demand only increased by 0.1% annually despite a 3.9% annual increase in VMT. The challenge for retailers is that the stagnation in demand over the past decade may very well fall into secular decline over the next.

Of course, fuel economy is only relevant if consumers need motor fuels in the first place. Although adoption scenarios remain uncertain for electric vehicles (EVs), one thing is clear: retailers will see a dilution of their value proposition since the barrier to entry for charging is lower than it is for the sale of motor fuels. Any business that sees significant consumer dwell time can enter the changing business—including movie theaters, grocers, malls, hotels, and even restaurants. Add to this the fact that many consumers will charge at home and begin each day with a full battery, and it stands to reason that electric charging may fragment the fuel customer base.

Critics of this position often point to the needs of consumers who reside in multi-unit dwellings, but it's doubtful that retailers will be able to maintain current levels of foot traffic by appealing to the needs of those individuals' vehicles. Moreover, data from Norway, the world's most advanced EV market, suggests that many residents in multi-unit dwellings are in fact charging at home. According to one 2019 report, 65% of battery electric vehicle (BEV) owners living in apartments say they charge at home weekly or more often.[7]

It is also important to point out that the median range of EVs in 2020 was approximately seven times larger than the daily miles driven by the average American.[8,9] At the upper-end of EV range, this increases to a multiple of nearly 11. When vehicles get 250 miles or more per charge, hardly anyone who is not a professional driver or long-distance traveler needs to stop for a charge before reaching their destinations. As a 2017 report from Norway suggests, "normal charging" is an activity that happens when vehicles are parked for long periods of time at their destinations whereas fast charging is more of a safety net.[10]

We are of course still in the early stages of EV adoption, and it is uncertain how this shift will play out—or if other alternative energy sources will rise in popularity alongside electric vehicles. For example, today's fuel and convenience retailing model appears well-suited for selling hydrogen. But the important thing to understand is that nearly 100% of today's motorists rely on fuel and convenience retailers to power their vehicles. Even if electric vehicles only accounted for 10% or 20% of the fleet, that represents a significant shift in retailers' total addressable market.

Start quote

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End quote

Going forward, organic fuel growth will become more difficult if retailers find themselves competing for bigger slices of a shrinking pie. In a way, the events of 2020 were a dress rehearsal for this scenario. It gave retailers a taste of what a systemic drop in fuel demand would look like for their businesses.

The challenge is that retailers may have missed this message since they were thrown the lifeline of high fuel margins and pandemic-driven stock-up behavior. These were lucky breaks rather than the logical outcomes of their business models. If anything, it's possible that the situation may have resulted in confirmation bias about convenience retail being a resilient industry.

Taken together, these headwinds should impress upon retailers the necessity of creating a convenience retailing model that's capable of driving traffic to the store with or without fuel pumps. In other words, their businesses must provide consumers with clear and compelling reasons to visit or interact with them online.

Unfortunately, retailers also face growing competition on the latter front.

Competing with tech companies

Today's convenience stores compete with more than just other convenience stores. Not only do retailers face aggressive efforts from dollar stores, quick-service restaurants, grocers, and even Amazon, but many now compete directly with new, venture capital-backed technology companies—especially the "instant needs" delivery providers.

Perhaps the best example is Gopuff. Founded by two college roommates in 2013, the app-based delivery company is now valued—at the time of writing—at $40 billion and distributes products from more than 450 warehouses across the US and UK.[11,12] Gopuff users have access to more than 3,500 SKUs for delivery in 30 minutes or less for a flat fee of $1.95, but the company has also introduced a growing range of freshly-prepared pizzas, coffee, and more.[13] Their nationwide rollout of prepared foods is fueled by the addition of modular kitchens to their distribution centers.[14]

Convenience retailers were unfortunately late to the delivery game. When the dynamics of the pandemic forced many to pivot in that direction, retailers often turned to third-party aggregator platforms, such as DoorDash. While these platforms do present numerous opportunities, retailers in some markets have discovered that the platforms have also become their competitors. Appearing to take a page from the Gopuff playbook, DoorDash now lists the company's DashMart dark stores on their app alongside 7-Eleven and other convenience retailers.[15] Anecdotal observations have found that DashMart often receives substantially more ratings from DoorDash users than the convenience stores listed below it on the platform's "convenience" tab. This would suggest DashMart may be capturing more of the demand.

Coupled with headwinds at the forecourt, convenience retailers are nearing a precarious position where the advantages that previously insulated them from the "retail apocalypse" face meaningful erosion.

To quote a recent global report on the future of roadside retail, the question facing the industry is simple: why will the customer of 2030 visit a roadside outlet or interact with it online?[16]

If the fuel canopy's ability to generate traffic declines and instant needs are able to be quickly fulfilled through delivery services, retailers will have to think carefully about what their stores can offer that isn't easily replicated online. They will also have to consider how to reposition those stores as viable destinations and how to extend the offer beyond the physical point of sale.

In each of these situations, the mobile app is poised to play an important role.

GoPuff by the numbers:

450
Warehouses
Across the U.K. and US.

3.5K
SKUs
Available for delivery

30
Minutes
or less for delivery

$1.95
Flat-fee
for delivery

Part Three

Elements of tomorrow's convenience store

Despite our best attempts to procure a crystal ball at Rovertown, we find that there is in fact no way to definitively predict the future. The good news is that we don't have to. By tracing the direction of various "weak signals" and larger trends, we can make an educated guess about what might reasonably be expected over the next five to ten years.

Don't worry: we have no intention of dazzling readers with stories of flying cars or metaverse strategies. Nor do we think the next five to ten years will bring the sort of "mobility hubs" that seem better suited for science fiction or management consultancy reports. Rather, tomorrow's convenience stores will likely share many familiar elements with today's stores while innovating in a few key areas.

Allow us to take you on a tour of one such store.

It's important to point out that this retailer is an outlier and trendsetter. They're an iconic brand that continually raises the bar for the entire industry and compels others to move in their direction. Not all retailers will keep pace, but many will incorporate bits and pieces of their strategies.

The first thing guests encounter upon visiting this store is an appearance of cleanliness and safety. As the ability of the fuel canopy to drive visits begins to decline, the bill will come due for brands that fuel the "dirty gas station" stigma. This retailer makes it a priority to not only meet customer expectations in this area, but to exceed them.

It's immediately clear to visitors why the store is so well-maintained. The use of cash registers and traditional point-of-sale systems has been nearly eliminated through the addition of autonomous checkout technology, and store associates are now refocused on higher-value tasks such as cleaning, stocking shelves, and customer service.

Upon entering the store, the customers simply shop as they please. When they're ready to leave, they approach a bank of small "checkout stations" that immediately populate tablet screens with every item that's on their person. All they have to do is tap their phone—or smartwatch—and keep walking. Payments are quick and easy. Although enabling support for credit cards and other mobile wallets, the retailer incentivizes customers to pay through their mobile app in order to receive a wide range of benefits specific to their brand. For customers who opt to use cash, a few of the stations support cash transactions as well.

Customer service is at the heart of this retailer's expectations for their associates. Although they're busy with actively managing the store, they make it a priority to greet customers after they arrive—and take the time to chat with regular visitors.

On this particular day, one customer has already been engaged in a conversation with an associate for nearly five minutes by the time we arrive. She works from home only a few blocks away, and she visits for coffee three days a week. It helps her stay active and offsets the impact of sitting in a chair all day.

As other customers enter the store, we observe some of them using touchscreen menus to customize their made-to-order breakfast items. Others walk over to a small bank of lockers recessed into the wall to pick up orders that were placed ahead of time through the retailer's mobile app. One of the most popular features for regulars is the ability to not only send custom orders to the store ahead of time, but quickly reorder their favorites. Each option can be fulfilled either through curbside service or in-store pickup at the lockers. The same ceiling-mounted cameras used by the autonomous checkout system allow the lockers to open based on consumer proximity. The retailer previously used QR codes similar to the experience at package pickup lockers, but the new system eliminates that friction. The retailer even created a memorable marketing campaign around the new update.

Customers who prefer to grab-and-go already-prepared items can also utilize a traditional hot case. Through a subscription to a predictive analytics service, kitchen staff are instructed on which items to prepare at each hour of the day. Although the retailer prefers to have a full case for visual appearances, this allows them to at least minimize waste.

Indeed, one customer from a road crew has just grabbed a burrito and walked over to the bean-to-cup coffee machine. After quickly dispensing the house blend, he taps his phone at the checkout station and immediately returns to his truck. Some customers have even subscribed to this retailer's coffee subscription service through the mobile app. Although it doesn't appeal to everyone, a core group finds tremendous value in this program. The retailer also appreciates how simple it is to calculate a return on their investment.

As we continue observing this store, we see another customer dispense coffee from a different machine, grab a breakfast order from the pickup lockers, tap his phone, and sit down at the bar counter in front of a set of large windows. The retailer is currently trialing the option to eat before paying at another store, but they're uncertain which direction they'll go.

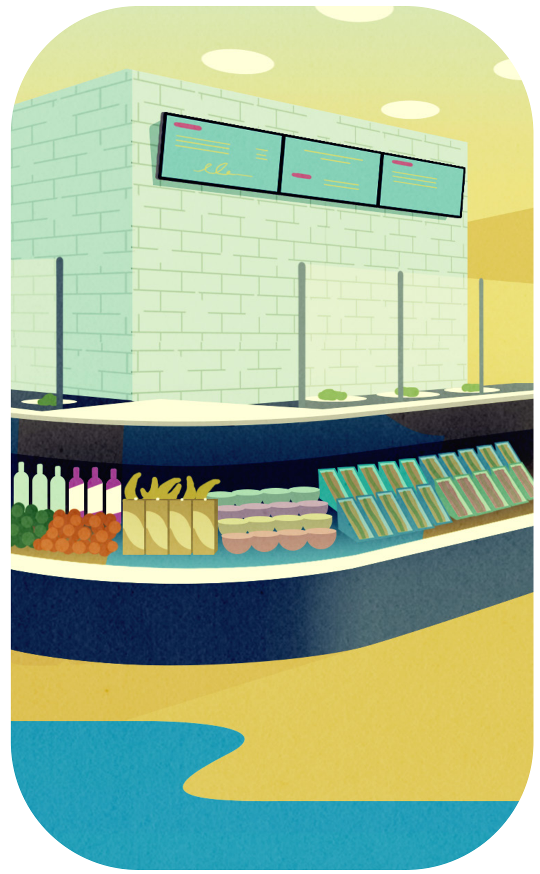
Although the indoor seating is fairly busy, this customer doesn't feel uncomfortable. The local coffee chains and quick-service restaurants have greatly deprioritized their indoor seating as part of a years-long effort to cut dining room costs and shift the business to drive-thrus and mobile order pickups. Although this convenience store offers each of those options, their larger footprint enables them to reach a segment of consumers who feel ignored by those brands and are looking for a "third place" away from home and work. They've made comfortable, spacious, indoor and outdoor seating a key component of their experience. Customers appreciate the large windows, natural light, and lively atmosphere—and of course the ample number of power outlets.

Staring out at the forecourt, the customer notices work commuters filing in to purchase gasoline. Although he and a few of his friends drive electric

vehicles, it's become obvious that a transition away from gasoline was never going to happen overnight. In fact, he and his partner still have a gas-powered truck that they like to drive on the weekends. They typically refuel it at this station or the brand's other locations around town. The gas price always seems fair, but he rarely looks at it closely. They come here primarily for the food, and his partner thinks the company's social media accounts are fun to follow. He even snagged one of the limited-run hoodies that was recently announced on Twitter.

Like many people, the customer and his partner prefer to charge their electric vehicle at home. They live at an apartment complex that offers chargers in each garage, and a few of the outdoor parking spaces also have options. A public safety net is important though, and this retailer has decided to provide a few chargers at most of their sites. Although revenue from charging is a small part of their overall business, they believe the presence of chargers contributes to their brand's image in an important way. They also have the opportunity to serve occasional motorists from busy interstates—although the extreme range on newer vehicles is creating internal company debate about how long that might continue. Through the mobile app, long-distance travelers can order meals, snacks, and other products directly to their vehicles. The retailer determined that this was especially necessary after a few quick-service restaurant chains were seen delivering to vehicles in other markets.

But this retailer doesn't just serve customers on-site. They've made it a priority to deliver their full range of products to off-premise customers, and their mobile app is the primary interface for those interactions. Integrations with a wide range of local and national delivery platforms enable the retailer to automatically select the best and most cost-efficient provider for each order—at least in situations where their own employees are unavailable to make deliveries or struggling with peak demand. Housing the entire mobile ordering experience within their app also enables customers to communicate directly with the retailer in the event of customer service issues.



This retailer's delivery strategy is anchored by its fully-customizable, made-to-order foodservice program. The ability to pair its menu with a full range of snacks, beverages, alcohol, and other products allows them to tap into the long-tail of customer preferences and provides an edge over the quick-service restaurants and casual dining chains that only offer a limited selection of top sellers from the major CPG companies. Although some delivery platforms do allow for a combination of orders from multiple stops, customers find in most situations that it's quicker, more convenient, and more reliable to order everything from one brand.

Inclusion on aggregator platforms also allows this retailer to test ghost kitchen brands in select markets. Careful analysis of customer data—and a willingness to experiment—has resulted in a portfolio of diverse brands that speak not only to the preferences of specific markets, but also the preferences within individual neighborhoods. The retailer is currently debating if they should incorporate a few successful brands into their core offer on a district basis, but they're concerned about a lack of consistency across the chain and the potential for competition with their own menu for in-store customers. However, they're willing to experiment and learn.

As we fast-forward away from breakfast—and leave the store—we see one of the customers who stopped for fuel that morning arriving at home after work. A dental assistant at a practice approximately fifteen minutes away, she commutes daily and picks up her children from elementary school on the way home. Sometimes she and her husband are mentally-fatigued and don't feel like cooking. His job is also particularly demanding, and he often feels like his time is better-spent in the home office rather than the kitchen—at least during the weekdays. That's why she decided to open the retailer's mobile app and place an order for delivery.

It's a simple process. She clicks to repeat a past order for her favorite salad combination, the kids debate what to order but ultimately settle on something reasonable—she informs them, once again, that pizza is for the weekends and not an everyday thing—and her husband decides to try a new limited-time offer that appeared on her screen based on their purchase data. He's also a fan of college sports, and this offer is marketed as a favorite of one of the star players from the state university's basketball team. He figures he might as well try it since it sounds fun.

The following morning, the customer's husband decides to commute into the city for a quick meeting with one of his team's clients. He quickly places an order on the retailer's mobile app and, along the way, pulls into the drive-thru to pick up a few disposable coffee carriers and a bag full of breakfast sandwiches. Instead of the normal cardboard-brown color, the coffee carriers are emblazoned with a design from a local street artist that the retailer hired last year.

The meeting went better than expected, and he decides it's a good idea to send a "thank you" gift to a former colleague who originally introduced him to this client. Nothing over the top or overly ostentatious, of course. Just a fun gift. Thankfully, this retailer offers curated boxes of unique CPG products that are sometimes found in their stores but are always available for order on their website and mobile app. While sitting in his car, he places an order on the app for a small collection of limited-run, ground coffee blends that the retailer produced in partnership with a popular roasterie in one of their communities.

It even includes an insulated cup wrapped in a retro graphic of their original logo. They may have come a long way since those early days, but a little nostalgia goes a long way.

Why this will be the model

The experience at this retailer of the future is obviously different from what might normally be associated with the "gas station," but we believe it's a reasonable assumption.

After all, "gas stations" and "convenience stores" are currently diverging into three different business models:

1. **Food-forward retailers**
2. **Consolidators**
3. **Merchant canopies**

Food-forward retailers prioritize quality, consolidators prioritize scale, and merchant-canopies park large fuel canopies in front of mega-retailers. Over the past few years, we've seen brands stuck in the undifferentiated middle either navigate to one of these three corners or get acquired by leaders in their respective category.

What we showed readers in the preceding section is a glimpse of what a leading food-forward retailer may look like in the near-future. It's a reasonable assumption that such a brand will invest even further in foodservice innovation, enable robust off-premise solutions, and prioritize an in-store customer experience that is low on friction and high on service.

It is also likely that more brands will see a food-forward approach as a necessary strategy. Brands that lack scale are typically investing in quality, and many food-forward brands are likely to enjoy negative break-evens on fuel due to the strength of their in-store offer. If tomorrow brings a systemic stagnation or decline in fuel demand, it is these retailers who will be capable of competing with consolidators and merchant-canopies for bigger slices of a shrinking pie.

An example of this can be seen with QuickChek. Revealed in a December 2020 supplemental presentation for their acquisition by Murphy USA, QuickChek's average per-store fuel volumes exceeded Murphy USA's by nearly 20% despite the fact that Murphy's stores often have the advantage of being positioned directly in the front of Walmart's parking lots.[17] Keep in mind that QuickChek is relatively new to fuel retailing and didn't begin offering gasoline until the year 2000.[18]

It's also worth noting that industry-leader Buc-ee's doesn't even display the price of fuel on their canopies or pole signs. It's likely that their customers don't care. Indeed, an argument can be made that food-forward retailers face less pressure to race to the bottom on fuel prices and sacrifice margins for volume. Low prices also risk attracting price-sensitive shoppers who are unwilling to spend on high-margin products inside the store, and the strength of the foodservice and retail offers at food-forward brands already drive significant volume to their stores. It's reasonable to assume many of their shoppers will fuel up at their sites as long as the price is viewed as fair.

Start quote

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End quote

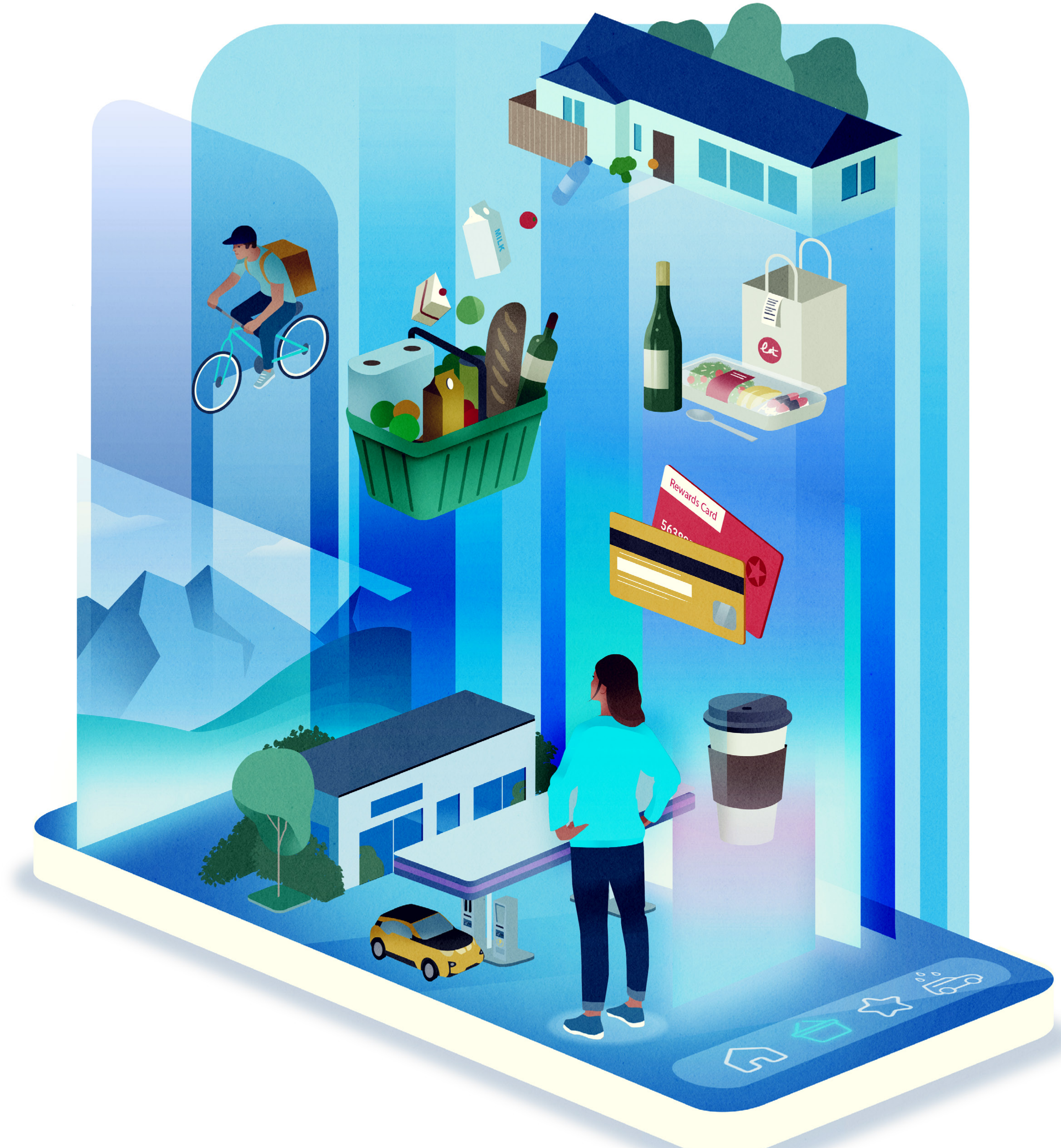
For food-forward retailers like the one we showed in the preceding section—and indeed, all retailers in the near-future—the mobile app will become a door to a broad range of functionalities that are essential to the customer experience.

That's why it's important for the convenience retailing industry to have access to mobile app solutions that meet the needs of its operators—many of which are regional, privately-owned companies who don't have access to in-house development teams.

Part Four

Part Four

Why app platforms will power tomorrow's convenience stores



Retailers need flexibility, speed, and the ability to integrate with a wide range of leading retail technologies. Consumers also need an array of useful functionalities anchored to a clear and compelling value proposition.

While this paper has detailed the reasons why white-label apps do not meet these challenges, the Rovertown team also believes that custom apps are rarely the right solution for convenience retailers. Rather, an app platform is the best play for retailers who want quality and flexibility without having to make sacrifices to meet high development costs.

Start quote *Rather, an app platform is the best play for retailers who want quality and flexibility without having to make sacrifices to meet high development costs.* End quote

Why custom apps aren't the answer

Shopify has proven that you don't have to be Amazon in order to compete with Amazon.

By utilizing the Shopify platform, merchants are able to leverage essential eCommerce infrastructure and thrive in a world where Amazon has raised consumer expectations. That's why the platform now has more than 1.7 million merchants in nearly 175 countries with total sales of around $400 billion.[19] Just before the pandemic in the third quarter of 2019, 81% of all traffic and 71% of Shopify orders came through mobile devices.[20]

Think about that. Merchants who specialize in niche products such as leather desk mats, handcrafted jewelry, letterpress cards, or even custom bicycle parts can play on a level field against a company with a market cap of nearly $2 trillion. Shopify is so successful that many large consumer brands also rely on it rather than creating their own infrastructure.

It's a helpful analogy for convenience retailers to keep in mind. Right now, many retailers are being told that custom apps are the only alternative to white-labeled apps—and that's simply not true. Moreover, custom apps come with serious tradeoffs.

The first issue is price. While the cost of custom apps may be an afterthought to the likes of the major quick-service restaurant corporations, the sticker shock is often severe for regional, family-owned chains of convenience stores. They're typically an inefficient allocation of resources that can divert funds from critical investments.

Custom development also takes time, and retailers who go down that route often wait up to a year before their app is completed and ready for deployment—at which point aspects may be outdated and require even further development.

There are certainly advantages to custom apps, but they're only practical for a few of the largest convenience retailers. For everyone else, they risk becoming vanity projects that are difficult to justify. If the industry as a whole is to keep pace with consumer expectations, integrate with new technologies, and meet the demands of tomorrow's customers, a more sensible approach is required.

That's why the Rovertown team created an app platform.

The benefit of app platforms

Wordpress forever changed the web development game. Although originally created for blogging, Wordpress evolved to power nearly 2-in-5 websites (39.5%) and make it easy for companies to quickly deploy and "plug in" whatever tools and capabilities they require.[21]

There is no need for many Wordpress users to code their own contact forms, spam filters, or email signup prompts. Nor is there a need to create custom code that detects repeated unauthorized login attempts. All of that—and much more—can be accomplished simply by installing the appropriate plugin.

The Rovertown app platform is designed to provide retailers with a similar level of convenience. We operate on a hub and spoke model. While Rovertown builds the underlying framework and focuses on optimizing the user experience, user interface, and options for customizability, we then integrate with the leading solutions in payments, loyalty, delivery, and more. This enables retailers to "plug and play" whatever they need.

But it's important to emphasize that Rovertown is first and foremost an app developer. We're not a loyalty company, nor are we a payments or delivery company. You might think of us as a project manager or general contractor.

When retailers build a new store, they hire the roofer, the flooring company, and even the plumber—but they wouldn't trust either of them to manage the entire project. If the plumber came to them and asked to manage the design and installation of a new coffee program, they would have good reason to suddenly be skeptical about their plumber.

Mobile apps are like building a store. If a loyalty or payments company approaches retailers and asks to manage their app, that's a mistake since they do not specialize in app development. Similarly, they may be offering a templated design that looks just like the one used by a competitor. No retailer would accept a templated store that looks like the one across the street, and they shouldn't have to settle for that dynamic for their digital storefront.

This approach allows Rovertown to deliver functionality, flexibility, and speed at a cost that is favorable to large segments of the fuel and convenience industry. It also allows us to focus our attention on what we do best—app development—while allowing the vendors we integrate with to focus on doing what they do best whether that's payments, delivery, or something else.

We firmly believe that the app platform is the ideal way for retailers to keep pace with consumers' growing demands for new technology.

Start quote

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End quote

Conclusion

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Building tomorrow's convenience store begins

today.

There's been something of an identity shift in the past few decades. Indeed, the very boundaries that define a "convenience store" are now rather unclear as retailers embrace new business models and take aim at companies in other retail and restaurant verticals. It's even become cliche to debate whether some brands are "gas stations that sell food" or "restaurants that sell gas."

Moving forward, this shift will continue as the industry faces new headwinds that carry disruptive potential. If the ability of the fuel canopy to drive traffic declines, retailers will be challenged to rethink their core value propositions, more effectively leverage their real estate, and determine how they can move beyond the physical point of sale to reach consumers wherever they are.

The Rovertown team's specialty is the digital arena. As the leading app platform for convenience retailers, we will continue to do our part to integrate with the best technology vendors and independently advise our clients about the best solutions for their businesses.

This paper is one contribution on our part—albeit an important one. We believe this near-future outlook will generate conversation and debate within your organizations and teams. Even if it's not always easy to hear, we believe straight-talk is the clearest path to results.

The undeniable fact is that retailers are not benefitting from white-labeled apps that push a narrow range of functionalities at the expense of everything else. The events of 2020 made this clear when many retailers' apps were found to be incapable of serving customers who were suddenly fearful of visiting a physical store. We see examples in our personal life of brands like Starbucks, Domino's, and Chick-fil-A that show what a mobile app experience can truly be. Convenience retailers deserve a similar level of quality and functionality rather than being forced to settle for subpar apps that look identical to what their competitors use.

Moreover, retailers deserve cost-effective solutions that don't sacrifice quality. The way to compete with Amazon isn't necessarily to be Amazon, and we don't believe expensive, time-consuming custom apps are a realistic solution for most retailers.

We are constantly listening and learning, and we value your input just as we hope you value ours. Please reach out to us on LinkedIn or our website if you would like to continue the conversation.

Contributors

Lead Author

Frank Beard, *Strategic Advisor*

Frank Beard is a Des Moines, Iowa-based retail analyst, speaker, and marketer who serves as a senior advisor to the Rovertown team. His analyses and commentary have been featured in the Wall Street Journal, NPR, Bloomberg, Grocery Dive, and more. Beard is passionate about retail technology and currently works in marketing and customer experience at Standard AI. Past affiliations include GasBuddy.

Co-Authors

Mike Philip, *Co-Founder & CEO*

Sitting in the back alley of a local 7-Eleven, drinking Slurpees, listening to Blink-182 on a half-broken Sony Walkman—convenience stores were a summertime staple of Mike's childhood. Today, Mike and his family order nearly everything for delivery or pick-up through a mobile app. With over 500 apps on his iPhone, Mike quickly realized that he didn't want to use apps that aren't "Starbucks quality." His efforts to push Rovertown to build exceptional, best-in-class apps have helped build a powerful culture of continuous improvement within the company.

Jeffry Harrison, *Co-Founder & President*

Growing up in a small Southern Illinois town, Jeffry has always had a special appreciation for convenience stores. His father was the local dentist in the town of Red Bud, so he learned entrepreneurship firsthand along with the importance of best-in-class customer service. To this day, Jeffry's efforts to help Rovertown's retailers succeed amidst a changing technological landscape are fueled by the passion and energy he developed at an early age.

Michael Rzeznik, *Co-Founder & CTO*

The future of consumer technology has always been one of Michael's passions. Learning to program the "wrong" way by trial-and-error taught him the rules of patience and confidence. These are now the core values of the Rovertown engineering team, and Michael strives to build the most orthogonal architecture while making the process fun.

Design and Illustration

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About Rovertown

For retailers looking to connect with their consumers in an always-on world, Rovertown's branded apps provide the flexibility needed to deliver personalized, meaningful experiences. Unlike our competitors, we integrate with any technology vendor and go the extra step to ensure our clients' success through best-in-class implementation and support.

Rovertown was originally founded in 2009 with the goal of helping cost-conscious college students across the United States to access the best discounts for local food and services. We eliminated the need to swipe an ID for discounts and instead brought the experience to their mobile devices in real-time with custom, localized deals.

Our business has since grown and evolved, but our humble beginnings taught us the power of personalized experiences delivered through high-quality, branded apps. The Rovertown app platform is now trusted to power the mobile experiences of leading convenience retailers.

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