

What

FEELS

Consumer Behavior?

The 2008 NACS *Consumer Fuels Report* discovers that today's consumer is more price sensitive than ever, but there may be strategies to pursue to capitalize on that behavior.

by Jeff Lenard

Reprint courtesy of *NACS Magazine*. For more information, please contact Erin Pressley at 703-518-4208, or epressley@nacsonline.com.

IN JANUARY 2008, AFTER FLIRTING with triple digits for months, oil prices finally topped \$100 a barrel. Housing prices also continued to plummet and the continuing fallout from the credit crunch sent stock markets into tailspins. Everywhere you looked, economic indicators looked bleak. And while economists debated whether we were already in a recession, consumers were in agreement: high gasoline prices affected their spending.

By a wide margin, gasoline prices were top of mind with consumers according to findings from our 2008 NACS *Consumer Fuels Report*. This shouldn't come as a surprise, given that the year began with gasoline prices at \$3.11, just a dime away from a record high at a time when gasoline prices are historically at a seasonal low.

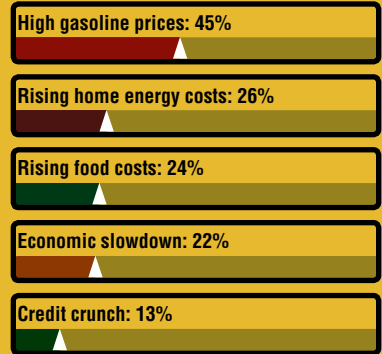
There is no question that gasoline consumers have gone from price sensitive to price *super* sensitive. Based on a national survey of 1,215 consumers, NACS found that nearly three-quarters believe price is the most important factor in determining where they buy gasoline, and that more than one-quarter would change their purchasing behavior to save a penny.

High gasoline prices are also clearly a concern for retailers. Consumer price sensitivity significantly impacts the loyalty model; loyalty is either lost or won on price every time a consumer fills up. Consumer price sensitivity also pounds away at margins, which continue to erode. Tom Kloza, founder and chief oil analyst for the Oil Price Information Service, said that the fuel segment of the retail business in 2007 saw the thinnest margins in the ten years that he has been tracking this metric.

To learn even more about the habits of gasoline consumers, the 2008 NACS *Consumer Fuels Report* was developed. It's one of many elements to NACS' acclaimed annual gasoline price kit, which presents a comprehensive view of the petroleum retailing industry and communicates the industry's voice to the media, the general public and elected officials. The entire kit can be found at NACS Online at www.nacsonline.com/gasprices.

But what about some of the "so what?" findings from the survey? To help retailers navigate all the data we gathered on consumer trends and behaviors at the pump, NACS identified five key insights from the report and asked industry leaders for their perspectives. Let's take a look at what we found...

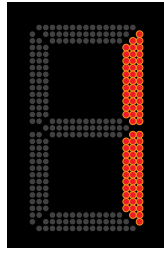
What has a very significant impact on your spending behavior?



Pump Stickers Available

WE HAVE HEARD YOU! To further help communicate the industry's voice about high gasoline prices, NACS has developed a pump sticker for use by NACS members. All NACS retailer members should have a sticker — "Where Does Your Fill-up Go?" — enclosed in this issue between pages 16 and 17.

Members can purchase more stickers — they are \$5 for 10. To order, contact Trisha Frazier at (703) 518-4291 or tfrazier@nacsonline.com, or call NACS toll-free at (800) 966-6227.



Consumers treat your price as your brand.

What is the most important factor in buying gasoline?

2007:



2006:



What savings would make you take a left-hand turn across a busy street?



What savings would make you drive 10 minutes out of your way?



After several years of steadily increasing gasoline prices, it's clear that price has become the number-one concern to consumers filling up. That is a huge shift since 2000 when price ranked behind convenient location as the most important factor for consumers when choosing where to buy fuel, according to the NACS future study "The Outlook for the Convenience Store Industry Through 2005, Beyond 2005."

But to what extent does price matter to gasoline consumers? Is what consumers say they will do different from what they actually do?

"Sometimes people respond to surveys a bit like questions about exercise. They say what they think the questioner wants to hear or what they think is the responsible answer," said Bill Douglass, CEO of Douglass Distributing Company (Sherman, Texas). Douglass said that the big box competition, which is fierce in northern Texas, typically is three to six cents less than his price, yet he has only seen a 20 percent reduction in fuel sales. "I believe that the convenience brand, value and store offering allows us to retain customers in spite of severe price competition," he noted.

Joseph Leto, cofounder and president of Westminster, Colorado-based EAI (Energy Analysts International) Inc. agreed that a strong brand can be a differentiator. "If you are matching your competition on price, brand can be the 'tipping' point for driving customer loyalty and trips," said Leto, whose company develops reports analyzing big-box competition.

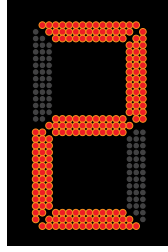
The fact remains, however, that price is central in consumers' minds. Across all demographics, consumers said that they would change their behavior to save at the pump. Not only will most consum-

ers shop based on price, nearly one in three will inconvenience themselves — at a convenience store — to save a mere penny a gallon. With the average fill-up in the 10- to nearly 12-gallon range, those seeking to save a penny a gallon will ultimately save roughly 10 cents on a \$30 fill-up.

Consumers most likely to seek out savings at the pump are the 18- to 34-year olds. A shocking 45 percent of this age group would take a left turn across a busy street to save one penny per gallon. In virtually every metric assessed, these consumers are more price sensitive than the population as a whole. This suggests that their income — or the lack thereof — plays a role in their desire to find the cheapest price. Equally significant, these younger consumers probably have not developed a long-standing affinity for a particular brand. Nurturing the loyalty of these younger consumers — all consumers, actually — presents a significant opportunity for retailers.

"Loyalty programs are even more important in a high fuel price environment to mitigate margin erosion and maintain or grow in-store traffic," said Leto. "Linking in-store purchases to fuel savings can help retailers maintain or increase overall margins — whether at their own stores or as part of an alliance with other retailers to increase the access to customers and grow the purchase basket size."

For smaller operators, the solution may be to form relationships with larger retailers who may not even sell gasoline. "Alliances with other retailers, such as grocers, can increase customer traffic and potentially subsidize lost fuel margins by sharing increases in store sales and profits," added Leto.



Certain customer groups prefer certain payment methods.

There's no getting around it — credit card usage and fees escalate as gasoline prices increase. Consumers will pay for their fill-ups with plastic because they don't have the cash, don't want to spend the cash or want to displace the pain of their fill-up until their next billing cycle.

"This is a huge problem," said Rick Levitan, owner of Potomac, Maryland-based Convenience Retailing LLC. "As the retail price increases, the credit card companies make out like bandits...and the retailer continues to lose ground."

Thankfully, all consumers don't purchase gasoline the same way. Those earning under \$50,000 are just as likely to pay for their fill-ups with cash.

For every other demographic, plastic rules at the pump — an opportunity for retailers to cultivate loyalty or convert consumers to another form of payment.

For example, PIN-based debit fees are considerably less than those for credit cards — and even less than signature debit transactions. Yet the payment process is essentially the same and offers no less convenience. With debit as the payment of choice for gasoline customers under the age of 50, retailers should be converting consumers from signature debit or credit card swipers to debit PIN punchers.

Several convenience retailers already offer incentives to consumers if they pay for fuel by debit card. Flash Foods of Waycross, Georgia, developed "GO Blue" to offer savings for customers who use their "Rewards in a Flash"

loyalty cards as an ACH payment card. Austin, Texas-based MTG Management offers customers a discount of up to 12 cents per gallon when they link their debit account to their driver's licenses, which can then be used for payment. Other convenience retailers offer their own branded debit cards, including WESCO Inc. of Muskegon, Michigan, and QuikTrip of Tulsa, Oklahoma. What's more, these programs also allow retailers to nurture customers and reward customer loyalty. (See "The Revolution Begins Now," *NACS Magazine*, August 2007.)

The Flash Foods discount program for customers paying by ACH debit, entices them with a discount. "Our savings on credit card fees would be phenomenal" if consumers would switch to debit card and save three cents a gallon, said the company's Chief Information Officer Jenny Bullard.

Unfortunately, consumers may already be using their debit cards — just not as PIN debit. Instead, it's used as signature debit, meaning that retailers may not see any savings. "Our debit percentage certainly isn't this high if we're talking about PIN debit, and if it is not PIN debit then the cost is higher than credit based upon our current contracts," said Sonja Hubbard, CEO of Texarkana, Texas-based E-Z Mart Stores.

Cash discounts can help. While consumers often step over a penny on the sidewalk, they will step inside your store to save a penny on a gallon of gasoline. Consumers — especially

Typical payment choices for consumers with incomes under \$50,000:

Cash: 49%

Credit card: 24%

Debit card: 25%

Debit rules for younger consumers:

Payment methods (ages 18 to 34):

Cash: 37%

Credit card: 26%

Debit card: 35%

Payment methods (ages 35 to 49):

Cash: 30%

Credit card: 30%

Debit card: 39%

(Unless otherwise noted, all statistics are from the 2008 NACS Consumer Fuels Report, which was completed January 4 on behalf of NACS by respected polling firm Penn Schoen and Berland Associates LLC. In some cases, totals don't add to 100 percent because of rounding or non-responses to questions.)

younger consumers — say that they are very interested in cash discounts.

Even those in the top earnings bracket (more than \$100,000 in annual income) are intrigued by cash discounts. While credit cards are king for this income bracket (51 percent pay by credit card, another 27 pay by debit card), presumably to earn rewards points, a surprising number say they could be convinced to pay by cash instead. In fact, 48 percent of those earning more than \$100,000 a year say they would pay by cash to save three cents per gallon.

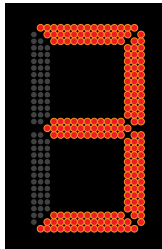
“No matter how affluent people are they always love a deal. Look at the millionaire movie stars and what they do for a free bag of goodies at the Oscars,” said Hubbard. “Everybody wants something for nothing — or at least for less.”

“With fixed credit card rates and high fuel prices, there is a lot of head room to give some margin away to cash customers,” said Leto. “Many of these cash customers are also very loyal convenience store shoppers. Most likely what you ‘give away’ at the pump will be returned in the store.”

What amount would make you seek a cash discount for gasoline?

Ages 18 to 34:





High gasoline prices present new opportunities to grow in-store sales.

Conventional wisdom has been that as consumers pay more for their gasoline, their discretionary spending declines. This change in purchasing behavior is particularly evident among two consumer segments: the young and the less affluent.

For the convenience and petroleum retailing industry, the big concern is that fuel customers will reduce their in-store purchases. More customers might pay at the pump by plastic and go on their way without entering the store, or cash customers will cut out in-store purchases to compensate for costlier fill-ups.

But the opposite may be happening, particularly with females and those with incomes less than \$50,000. Both groups are more likely to buy items to combine shopping trips than the overall population.

This change in consumer purchasing behavior is what some retailers are seeing. At Ricker's, based in Anderson, Indiana, gasoline sales in December 2007 were about 5.5 percent less than the previous year when gasoline prices were approximately 80 cents lower, but in-store sales actually increased 2 percent.

"While I believe consumers may cut back on big-ticket purchases due to the high cost of gasoline, I am not surprised that there is less of an impact on in-store purchases," said Ron Coppel, vice president of business development at Eby-Brown. "If someone is hungry or thirsty, they are not likely to skip going into the store to save money."

Another explanation could be that retailers have focused even more on their sales strategies to address concerns over falling fuel sales. Wallis Oil, based in Cuba, Missouri, has been more proactive in its promotions, "putting more emphasis on two-for-one deals, primarily with candy and beverages," noted Tracey Hughes, director of strategic planning at Wallis. With its "Wash N Rewards" program, the company also offers customers select free items with the purchases of their best carwash.

E-Z Mart's Hubbard believes that "[p]eople are willing to pay a bit more for a convenient purchase where they already are, rather than spend the time and gas to go to the grocery store for just a few items."

She stressed, "I think this is an opportunity for our industry and one that could fit with the trend of adding of fruits, vegetables and home-replacement items. Now, not only are we filling a possible void but also cutting trips and providing fuel and time savings."

Quality food and drink could further change the equation, added Coppel.

"The opportunity for convenience stores is to continue to develop their 'dashboard dining' offer to attract even more customers — fresh rather than frozen sandwiches and wholesome foods such as fruits and vegetables. Consumers are demanding quality coffee selections, iced coffees, 'new age' teas and so on. Convenience stores can and should be able to compete with the QSRs in this arena."

Those buying fewer in-store items when gasoline prices rise:

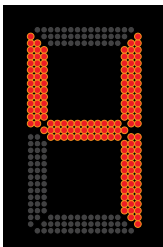
2007: 21%

2006: 27%

Those buying more in-store items when gasoline prices rise:

2007: 10%

2006: 6%



Consumers don't blame retailers... or do they?

The corner gas station, so often the outlet for consumer ire over high gasoline prices, is not perceived as the cause of consumers' pain. This may be the single-most shocking insight from this year's NACS *Consumer Fuels Report*. When given nine possible explanations for higher prices, consumers said that gas stations increasing their profits was the *least* important factor. (If only Congress thought that way!) And when asked to pick the main reason why gasoline prices increase, only one in 25 consumers blamed it on gas stations profiteering.

Right or wrong, consumers blame the major oil companies for rising gasoline prices, a sentiment that will likely continue for the foreseeable future. In January, ExxonMobil Corp. set new records for annual and quarterly profits, and the other major oil companies also announced strong profits. Even though these profits were generated from upstream operations, consumer groups and politicians called for the industry to be further taxed and stripped of subsidies because of the consumer pain inflicted by \$3 gasoline.

For retailers, this blame can often still be felt at the store level. Consumers may not find fault with the people at the local

gas station/convenience store for high gasoline prices, but they do think that the local store is owned by a major oil company, and they clearly don't like them.

In this type of climate it becomes even more important for retailers to emphasize their store brand, as opposed to just their fuel brand. "Branding the store and differentiating site ownership can help to minimize this consumer misperception about major oil," said Leto, who suggested stealing a page from the big boxes.

"Even at the same price, major oil company fuel is 'higher priced' than that of the big-box retailer in the customers mind," said Leto. Ironically, big-box competition from out of town can feel more local to consumers than the locally owned store that happens to sell a major oil company's brand, he noted.

To combat consumer misperceptions, Wallis Oil makes a concerted, year-round effort to position itself as a locally owned, neighborhood store. The company, which distributes and sells Mobil products, sees local community sponsorships as a huge opportunity to advance this message. Local store managers are front and center in community photo ops to stress the local angle, said Hughes.

Which are very important factors for rising gas prices?

Manipulation of prices by OPEC ...	55%
Lack of government oversight.....	54%
Oil companies increasing profits ..	53%
Global conflicts.....	45%
Oil speculators	34%
World is running out of oil	32%
Increased demand in Asia	32%
Environmental regulations	23%
Gas stations increasing profits.....	19%

What is the main reason?

Oil companies increasing profits ..	17%
Manipulation of prices by OPEC ...	14%
Lack of government oversight.....	14%
Global conflicts.....	10%
Increased demand in Asia	8%
Oil speculators	7%
Gas stations increasing profits.....	4%
World is running out of oil	3%
Environmental regulations	2%

65¢

The amount of profit consumers think retailers make on a gallon of gas.

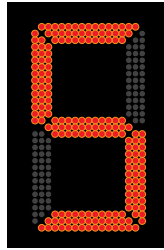
59¢

What consumers believe is a fair profit for retailers

A stunning 22 percent of respondents think that retailers make at least \$1 per gallon in profit. But an equally surprising 14 percent of respondents think that \$1 per gallon profit is "fair." And for those with incomes of more than \$100,000 a year, 30 percent of respondents think \$1 per gallon profit for retailers is "fair."

40%

Percentage of consumers who think that major oil companies operate at least three-quarters of the fueling stations.



There may be a tipping point for cutting back on consumption.

At a certain point, consumers will change their behavior over high energy costs. That has been the theory behind OPEC seeking, as recently as 2004, to keep its market basket below roughly \$30 per barrel. The theory states that if oil prices were to increase, consumers would conserve or seek out alternative energy sources.

But oil demand has not decreased even though OPEC's market basket has been significantly raised in the past few years, and the same may hold true with gasoline demand. "High fuel prices by themselves have never caused consumers to significantly reduce their driving or curtail fuel consumption," said AAA Fuel Price Analyst and Director of Public Relations Geoff Sundstrom.

In January 2008, at more than \$3 per gallon, U.S. gasoline prices were double the level of January 2004 and nearly triple the level of January 2002, yet consumption had not decreased — but we could be getting close to the tipping point.

Consumers now say they are more likely to cut back, and that percentage is growing.

In 2006, 42 percent of consumers said they would drive less when gasoline prices increased. In 2007, that figure rose to 57 percent.

Meanwhile, two groups indicate that they don't drive less when prices increase: consumers between the ages 18 to 34 (54 percent drive about the same) and those with incomes more than \$100,000 per year (71 percent drive about the same). For these groups, it could be a matter of not being able to cut back, and not wanting to cut back, respectively.

But as more consumers think about driving less, we may finally be reaching a limit as to how much they will spend.

Fifty percent of all consumers said that they would cut back on their fuel purchases if prices reached \$3.25 per gallon. And one in eight (13 percent) said they already had.

But what consumers might do to cut back is harder to determine. In many cases, they may literally feel that they are held over a barrel. Society has changed since carpooling was embraced in the late 1970s. Lifetime employment at one organization has given way to people having an average of seven jobs, not all of which are close to their homes, and commutes have lengthened. An extended period of prosperity has faded the memories of sacrifices made in the 1930s and 1940s. And today, cars are often the present of choice to graduates who cannot imagine not driving everywhere.

The "green" movement, however, could shift behavior. Younger consumers, who have been advocates for environmental stewardship, are more likely to seek out cost-cutting — and green — alternatives. Nearly one-third (30 percent) of consumers ages 18 to 34 say they would be more likely to ditch their vehicles and walk when prices increase.

Fifteen percent of consumers ages 35 to 49 say that they are much more likely to bike when prices increase. Could installing a bike rack at your store entice these customers to stop inside?

As some consumers ponder driving less, some also are examining how to improve fuel efficiency. While 61 percent of respondents said they have done nothing in the past year to acquire a more fuel-efficient vehicle, 19 percent said that they have bought one and another 19 percent said that they considered buying one.

When gas prices rise are you more likely to use:

Mass transit: 12%

Ride a bike: 9%

Walk: 18%

At what price per gallon would you cut back?

\$3.71

All respondents

\$3.50

Less than \$50,000 income

\$4.10

More than \$100,000 income

(mean responses)

Could Consumer Behavior Really Change?

So what's different about 2008? Those economic concerns that consumers ranked below high gasoline prices — rising energy and food costs, economic slowdown, the credit crunch — are more significant than consumers might say. In fact, they may actually accelerate consumer worries over high gasoline prices and could ultimately lead to a fundamental shift in consumer behavior.

“Only when high gasoline prices have been coupled with events that have created extreme anxiety about physical or economic security have consumers cut back on fuel purchases or adopted extreme energy-conserving lifestyle changes,” said AAA's Sundstrom. Widespread adoption of carpooling and mass transit, and a huge demand for more fuel-efficient automobiles occurred in the mid-1970s and again in the early 1980s, not just because of high gasoline prices, but also because of factors like high interest rates and a weak economy, Sundstrom noted.

“The most recent NACS data for 2008 feels different than what we have seen in recent years,” added Sundstrom. “If this is the case, its most likely cause would be pervasive economic anxiety on the part of consumers due to various factors

including — but not limited to — high gasoline prices. Falling home and stock market values, rising indebtedness and loan delinquencies, and higher non-transportation related expenses for other essential goods and services,

more conducive to conservation,” says Sundstrom.

Increased production of conventional fuels including natural gas, oil, coal and nuclear might soon be on the way as well. “If such a large-scale shift

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— GEOFF SUNDSTROM, FUEL PRICE ANALYST AND DIRECTOR OF PUBLIC RELATIONS, AAA

coupled with the rapidly approaching retirement of the largest segment of the population, could collectively be creating the kind of extreme economic circumstances that have brought about other significant changes in driving and fuel-consuming behavior,” he said.

No one can say for sure how high gasoline prices will rise in 2008, or how consumers will react, but a shift in consumer behavior may be exactly what the country needs.

“The most constructive result would be an accelerated shift toward the increased use of various energy-saving alternatives and living and work patterns

were to occur,” said Sundstrom, “it could potentially rival the late 1980s and 1990s when profound changes took place in American culture, technology and economic policy that set the stage for renewed economic growth.”

Even better, a reduction in demand might actually help, not hurt, your business, said EAI's Leto. With supply increasing and demand possibly decreasing, conditions will shift from a supplier-sellers market to one that favors the retailer-buyer. Retailers who are savvy on fuel purchasing and logistics and selecting the optimum brand portfolio for their sites will come out on top. ○

Save What?

SOME CONSUMERS' STRATEGIES to save pennies at the pump don't add up. Nearly one-third of consumers say they would drive 10 minutes out of their way to save 3 cents per gallon. Assuming that their vehicles get a robust 30 miles per gallon at 45 miles per hour, this 20-minute roundtrip would consume a half-gallon of gasoline, or \$1.50 of a \$3.00 gallon. Unless consumers have at least a 50-gallon fill-up, this search for a 3-cent savings is a money loser. (It should be noted that most vehicles equipped with 50-gallon fuel tanks do not get 30 miles per gallon.)