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Take-Out Food in Convenience Stores

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Convenience stores are already popular for their quick-service groceries, hot coffee, and cold beverages. Now they are slowly moving into the foodservice market to meet consumer demands for low-priced take-out foods, short checkout lines, and one-stop shopping.

These small grocery stores sell a limited number of basic foods, as well as high-volume, nonfood items. Some offer limited foodservice menus, often with customer seating as well as carryout. Walk into many convenience stores today and you may take advantage of many of the services offered by large grocery store chains, such as video rentals, check cashing, and automatic teller machines.

Convenience stores numbered over 47,000 in 1986 and had annual sales (excluding gasoline) of \$21.6 billion. Take-out food as a source of sales growth for these outlets is one of the most meaningful developments of the past few years. In 1968, take-out food was not even a product category in industry reports (see sidebar).

Rushed consumers have very little time to shop or wait in long lines. They want convenience. These stores offer just that. Many are in the neighborhood or right around the corner from the office, and many stay open 24-hours a day, long after most other grocery stores and fast-food places close.

In addition to groceries and hot and cold drinks, customers can pick up a variety of foods, from fresh entrees to just-baked sweet rolls, donuts, cakes, and pies in many stores. A 1988 survey con-

Take-Out Food Sales

In 1986, America's foodservice establishments sold \$177 billion worth of meals and snacks, excluding alcoholic beverages, up 5.4 percent from 1985. Grocery store services were the big gainers. Rapid growth in this sector reflects the increasing popularity of take-out products at supermarkets and the rise of foodservice in convenience stores.

According to the Food Marketing Institute's 1987 report on the take-out food market, about 8 out of 10 households bought take-out food at some time during a 4-week period. Consumers spent an es-

timated \$62.4 billion on take-out foods that year.

The report, based on interviews taken in January and February 1987, indicates that about 64 percent of consumers' take-out food dollars was spent in restaurants. Forty-one percent of that went to fast-food, ethnic, and other restaurants and 23 percent to pizza parlors. Foodstores accounted for the remaining 36 percent of the take-out food dollar. Supermarkets held 23 percent of that share, while other foodstores, independent delicatessens, convenience stores, small grocery stores, and gourmet stores took 13 percent.

ducted by *Convenience Store News* of convenience store retailers across the country found that most stores provided some type of foodservice.

For example, virtually all chain stores offered fresh beverages, while half of the independent stores served fountain soda, and two-thirds served fruit juices or fresh coffee. Convenience store gasoline chains tended to offer more packaged sandwiches, while traditional chains sold sandwiches made with fresh deli meats along with fresh salads, such as coleslaw and potato salad. Gasoline chains also served more hot dogs, while more traditional outlets, like 7-Eleven and Circle K, sold more chicken, hamburgers, pizza, and soups. Dispenser ice cream and popcorn were more prevalent among non-gasoline chains. Mexican food was served at less than half of all store locations.

Although many stores prepare some of their own foods individually, others

use products developed especially for them which require only a microwave oven to heat to serving temperature. In a 1987 survey published in *Restaurants and Institutions* magazine, 19 percent of the firms responding indicated they use a central commissary to prepare sandwiches, baked goods, and chicken for distribution to individual units. Eighty-seven percent of all respondents prepared some items on the premises.

Food preparation in the store may require additional equipment and labor, which in many instances may not be cost effective. According to *Convenience Store News*, equipment costs for a fried chicken program can run from \$10,000 to \$18,000 per store, depending on interior modifications. The \$10,000 buys the necessary ventilation system. The higher figure adds a sink, a vapor holding oven, and kitchen walls.

Some convenience stores in high-traffic areas provide salad bars. Some salad

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bars are stand-alone islands, while others are part of larger foodservice centers. Items range from a few salad ingredients supplementing a meal from the deli or grill to a full array. Salad is usually sold at \$1.99 to \$2.49 a pound, and the bar generally operates at a gross profit margin of 50 to 70 percent.

Market Share for Take-Out Foods

Many convenience stores are making take-out food their primary marketing thrust. Though other product categories hold a larger share of sales, take-out foods are the fastest growing (*table 1*). According to the National Association of Convenience Stores, take-out food increased its share of the convenience store market 62 percent between 1983 and 1986, while traditional foods decreased. In 1986, take-out foods equaled 14.4 percent of total (nongasoline) sales in the industry. Analysts project that take-out food will soon account for 25 percent of the industry's annual merchandise sales.

Although fountain drinks led the way in convenience take-out food sales in 1986, their gain was at the expense of packaged soft drinks. Fountain drinks accounted for 3.6 percent of food sales, up from 2.1 percent in 1983. Deli services, excluding sandwiches, were also in the lead in 1986, accounting for 3.3 percent of total sales. Hot beverages almost doubled from 1.4 percent in 1983 to 2.7 percent in 1986.

Convenience store prices generally tend to be higher than those in supermarkets. However, these outlets can offer some take-out foods at lower prices than their fast-food counterparts because they operate on a self-service principle. For example, at Stop-N-Go stores in California, Florida, Georgia, Nevada, Tennessee, and Texas, two hot dogs with toppings ranging from chopped onions to hot chili sell for \$1.49, while at Super America outlets, headquartered in

Bloomington, Minnesota, two hamburgers sell for \$1.19.

Take-out foods typically generate gross profits in the range of 45 to 55 percent, compared with averages of 30 to 40 percent for other items. For instance, the gross margin on a grilled hamburger is about 50 percent, versus 30 percent for one pack of cigarettes. This profitability

encourages many operators to invest in food merchandising equipment.

Take-Out Offerings

Southland Corporation, the largest convenience store operator in the country with more than 7,600 units, has pioneered the sale of take-out foods. Their menu includes hot and freshly

Table 1. Take-Out Food Sales Grew 62 Percent During 1983-86

Category	Percent of nongasoline sales			
	1983	1984	1985	1986
Traditional items	91.1	90.3	86.9	85.6
Beer	14.6	13.7	13.9	13.7
Soft drinks	11.8	11.3	10.2	10.3
Juices	0.9	0.8	1.0	1.4
Milk and milk products	6.9	6.9	6.6	5.9
Packaged deli items	1.1	1.3	1.2	0.8
Produce	0.3	0.4	0.4	0.6
Eggs	0.3	0.4	0.4	0.3
Frozen food	0.6	0.7	0.7	0.7
Ice cream	1.5	1.6	1.6	1.4
Ice	1.0	0.9	0.9	1.0
Bread and cakes	4.2	4.0	3.5	3.3
Cookies	0.8	0.8	0.8	0.9
Salty snacks	3.5	3.8	3.7	3.9
Candy and gum	4.9	4.9	4.9	4.9
Groceries	9.2	9.0	5.9	5.6
Health and beauty aids	3.4	3.3	3.4	3.0
Tobacco	17.6	18.1	17.8	19.8
Publications	4.0	4.0	5.4	3.7
Wine and liquor	1.1	1.3	1.3	1.4
Automotive/motor oil	1.0	0.8	0.7	0.9
General merchandise	2.4	2.3	2.6	2.1
Take-out foods	8.9	9.7	13.1	14.4
Fresh sandwiches	1.4	1.7	1.7	1.3
Frozen sandwiches	0.9	1.2	1.4	1.3
Deli services ¹	2.0	1.3	3.0	3.3
Food cooked on-site	0.3	0.2	0.3	0.4
Fountain drinks	2.1	2.4	2.6	3.6
Frozen beverages	0.2	0.5	0.9	0.9
Hot beverages	1.4	1.2	1.6	2.7
Other fast food	0.6	1.2	1.6	0.9
Total nongasoline sales	100.0	100.0	100.0	100.0

¹Excludes sandwiches.

Source: *National Association of Convenience Stores Annual Report, 1987.*

baked goods, including cheese-steak sandwiches, french fries, potato sticks, and macaroni and potato salads. The company's outlets, primarily 7-Elevens, also offer a variety of breakfast items, such as sausage and egg sandwiches on biscuits and fresh-baked pastries. Prices range from \$3.19 for a freshly made sandwich to 39 cents for a fresh-baked donut.

Southland has recently introduced several new concepts in its convenience stores. In Richmond, Virginia, a 7-Eleven fast-food grill called "The Works" offers consumers burgers and hot dogs with a choice of 15 condiments, including mayonnaise, lettuce, and grated cheese. The 7-Eleven Express store is a smaller, high-volume, gasoline outlet that also emphasizes take-out foods—fresh-made deli sandwiches, salads, and hot dogs, as well as self-service beverages.

Circle K Corporation, the second largest convenience store operator in the country, offers its customers a core menu of 15 fresh sandwiches, including breakfast sandwiches featuring eggs, sausage or ham, and cheese on a sesame seed bun. In addition, individual outlets in each State may provide a variety of "elective" menu items.

Convenience stores also gear the food they offer to the tastes of the region, area, or neighborhood where they are located. West Coast 7-Elevens serve hot sandwiches, while Southeastern stores offer fried okra, and stores in Illinois offer polish sausages. Circle K units offer 10 types of burritos in the Southwest, a Cuban sandwich in Florida, and a beef barbecue sandwich in Texas.

Another new feature is in-store seating. According to a Cahners Bureau of Foodservice Research survey, at least some convenience stores offer patrons a place to sit while they eat. Small chains



Convenience stores are moving into foodservice to meet consumer demand for low-priced take-out food.

(operating 26-500 stores) are more likely than larger chains to include a sit-down dining area. One-fourth of all convenience stores lacking in-store seating say they plan to add some.

Teaming Up With Fast-Food Restaurants

Some convenience store firms have formed joint ventures with well-known, fast-food companies to gain expertise in food preparation, sanitation, and other aspects of running this type of operation. The arrangements also allow convenience stores to benefit from the reputation of the fast-food chains. The fast-food companies gain by expanding without substantial capital investment.

Southland Corporation has formed an agreement with Hardee's Food Systems, the fourth largest burger chain, to sell hamburgers and breakfast products at a number of 7-Elevens. Southland also entered into a similar venture with Church's Fried Chicken, Inc., and teamed up with Winchell's Donut Houses, Dunkin Donut, and Mr. Donut.

In 1987, The Pizza Chain agreed to open scaled-down (250 sq ft) operations called "Pizza Inn Express" in Circle K stores to sell take-out and home-delivered pizzas. Circle K has another test going with Hooker Enterprises, an operator of small, drive-thru hamburger stands. Two fixed units featuring burgers, fries, soft drinks, and shakes have opened at Circle K locations in Phoenix, Arizona. The fast-food stands lease space in the convenience store's parking lot. Mobile units offering similar service also operate in the area.

White Castle System, Inc., has come up with a slightly different twist in joint ventures. They freeze and package their hamburgers for distribution to convenience stores and supermarkets. According to results of the Cahners survey published in *Restaurants and Institutions*, 13.1 percent of the convenience store chains without fast-food joint ventures in 1987 planned to have them in the future.

Not All Roses

Although convenience stores are doing well with sales compared with alternative fast-food sources, their share of the market remains quite small. According to a Gallup Poll of consumer attitudes, "Most consumers still view convenience stores as a good source for snacks and breakfast and do not perceive the total fast-food concept." In addition, the Food Marketing Institute's 1987 sur-

vey on the take-out food market reported that when people were asked to name places that come to mind when they think of take-out food, only 7 percent mentioned convenience stores. This suggests that many consumers do not associate take-out foodservice with these outlets.

Some stores are aiming to change that awareness problem. Southland Corporation, for example, is using 30-second television commercials to promote 7-Eleven as the place "Where Good Things Come Easy." The commercials air in 41 States. Wawa, Inc., a convenience store chain based in Wawa, Pennsylvania, and Atlantic Richfield's AM/PM mini markets also use television to promote their take-out foods.

Attracting upscale customers has been a problem for convenience stores. Many outlets are experimenting with various services like automated bank teller machines, post office boxes, video games, and video rentals. At some stores, customers can also pick up airline tickets, drop off laundry, and purchase freshly cut flowers, in addition to selecting from an expanded line of grocery products and gasoline services. Many outlets are being remodeled and cleaned to make them more attractive to affluent customers and grocery shoppers in general.

The industry faces other problems as well. For example, will customers accept the taste and texture of more and more microwave-heated products? Adding foodservice equipment can be expensive, and in many cases could place these firms under "restaurant" codes, which would require the addition of public restrooms. Limited space and storage, particularly for frozen foods, is another hindrance.

Future Trends

Even with these concerns, the future looks bright. As convenience stores continue to grow in number, take-out foods as a percentage of their overall product mix will expand. *Convenience Store News* predicts that foodservice will become the biggest single source of sales and profits, accounting for about 25 percent of nongasoline sales. Although a few outlets already offer pizza, hot deli sandwiches, and turnovers, many others are planning to sell them in the future. More bakery products will be offered, and as more food manufacturers come up with better products requiring limited labor and equipment, more prepared and microwave foods will be offered. Fresh deli departments may be in 75 percent of all convenience stores by the year 2000.

Beyond the prepared foods categories, other innovations might include improved and more flexible product packaging. Additional services might include expanded video sections, car washes, pay phones, laundry, and dry cleaning. Non-food items, like greeting cards and paperback books, may be offered.

Foodservice distributors and wholesalers are already tailoring their products and services to help convenience store operators capture more of the foodservice dollar. These firms assess individual store needs and opportunities and make recommendations on items that are likely to be profitable. Many wholesalers set up accounts to provide equipment and training to make the new endeavors successful. These foodservice specialists also train employees in food handling and preparation, salad bar maintenance, meat case setup, and inventory rotation.

Joint ventures are likely to increase as more oil companies get into the marketplace. A 1987 survey of con-

venience store executives published in *Convenience Store News* indicated that convenience stores and fast-food chains may share land with other service-oriented businesses, resulting in "convenience centers" that comprise a variety of businesses, such as convenience stores, fast-food restaurants, dry cleaners, and car washes. ■

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