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FEATURE

Cold Vault Reset

Sorting through not-so-typical packaged beverage numbers to understand what will have lasting impact in the cold vault.

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Time for a cold vault reset, both physically in terms of facings and metaphorically by resetting sales expectations following the spikes and dips seen within the packaged beverages category as COVID-19 caused marketplace shifts one year ago.

Cold vault resets are a bit of a time-honored tradition for c-store merchandising departments. Handing off that final planogram to reset teams, who in turn head out to implement that set in the field, marks a key part of summer selling season prep. As that process hits its stride this year, we tapped NACS data analysts, industry experts and retailers alike to sort through the not-so-normal packaged beverage numbers from last summer and deconstruct the patterns to understand what might have a lasting impact in the cold vault.

The cold vault end goal remains the same year after year: Create the ultimate assortment to maximize sales. That generally involves a deep dive of data, both internal and industry at-large comparisons. The 2020 data, however, are skewed across the board as a result of pandemic-induced shopping patterns. That makes it a bit more difficult to paint a true picture of category growth trends. However, much like an abstract painting, sometimes if you simply stare at it a while, you can decipher great meaning.

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All those cold vault doors need to be refreshed regularly, certainly once a year.

Take beer sales data, for example, which depict a clear-cut story of increased sales in the full-lockdown period of the pandemic. Overall, beer generated a total of \$23.3 billion in sales industrywide, according to NielsenIQ Total U.S. Convenience as of the week ended December 26, 2020. That makes for a whopping 14.3% change in dollar sales from a year ago.

Unit sales rose as well, increasing 5.4% industrywide in 2020 according to NielsenIQ. Units, along with sales, were still ahead of 2019 numbers toward the end of 2020, although both were starting a descent toward pre-pandemic levels as the year came to a close. A monthly view shows units dipped back to 2019 levels early in the pandemic, then reversed course and eventually followed along the prior year's trendline in the tail end of 2020.

Beer purchasers did contribute to larger basket sizes in 2020, according to NACS Convenience Voices, which captured shopper intercept insights from +7,000 on-site mobile interviews conducted across the U.S. in late summer last year. While larger beer package sizes played a role in 2020, 16% of beer purchasers also said they pick up “multiple items to consume throughout my day.”

COVID-19 will forever color 2020 sales figures. Leroy Kelsey, director of research at NACS, succinctly validates what is largely intuitive in terms of 2020 beer sales: “On-premises consumption was limited for a period of time in 2020 with closure mandates for bars and restaurants. Convenience store beer sales picked up a lot of beer occasions with dinner, social settings or new product trial that would typically take place on-premises.” He also

decodes the data to paint a picture of what he sees as long-term potential: “Now comes the time where the industry can look at retaining that purchasing habit and keep c-stores in the consideration set for non-traditional shoppers, like busy parents or essential workers that opted to shop a smaller, closer box for household beer during the pandemic.”

Key Cold Vault Stats

NielsenIQ year-end total U.S. convenience data show beer fared extremely well for c-store retailers in 2020. That holds true with historical data that show during tough economic times beer, cigarette and lottery sales remain the most dependable categories.

Beer sales reached \$23.26 billion, and units rose 5.4% to nearly \$4 billion. Packaged beverage sales increased, almost hitting \$30 billion, although units declined 0.9%.

CATEGORY	2020 Performance (year ended December 26, 2020)			
	\$	\$ % Chg YA	Units	Units % Chg YA
Beer	\$23,263,802,559	14.3%	3,939,077,345	5.4%
Packaged Beverages	\$29,435,841,885	3.7%	14,063,435,344	-0.9

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Source: NielsenIQ Total U.S. Convenience, 52 weeks ended December 26, 2020

Historically, beer has proved to be a placeholder in the trifecta of products that win out during tough economic times, right along with lottery and cigarettes.

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Another metric shows consumers stayed closer to home last summer for quick trips overall. Typically, 19% of consumers characterize their convenience store visit as a quick trip to pick something up, according to NACS Convenience Voices; that percentage more than doubled to 47% in 2020. And beer was an important reason for that visit. More than one in four shoppers, or 26%, who indicated that beer was the single most important reason for visiting a convenience store also wanted to grab something to eat or a snack item.

“The increase in quick trips may be attributed to short, local occasions for essentials and staples,” Kelsey said. “Shoppers are mixing traditional immediate consumption trips with future consumption trips and buying larger package sizes. They are stocking up to consolidate trips and avoid [COVID-19] exposure and buying extra in case of shortages.”

Larger package sizes were a definite plus for some retailers. “We now have a consumer used to getting those larger package sizes at convenience stores,” said Robert Perkins, vice president of marketing at Rutter’s, based in York, Pennsylvania. “We saw some incredible numbers from pantry buying.” One of the sales winners in Rutter’s cold vault set was take-home sizes of the chain’s proprietary iced tea line, specifically half gallons and gallons.

Despite the uptick in sales of larger iced tea package sizes, Perkins does not intend to move too deeply to alter store sets in reaction to last summer’s bump in take-home sizes. He is cautious not to overreact to last summer’s numbers. Instead, he finds himself approaching the 2021 summer selling season with a bit of an “I’m not sure” take on sales. At the same time, he anticipates maintaining the increases the 78-store chain realized last summer.

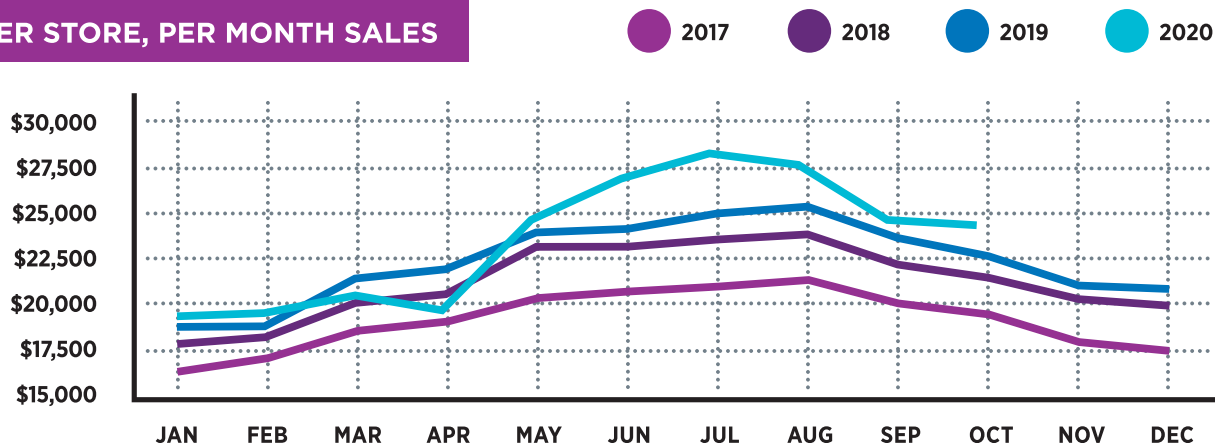
While Rutter’s, along with other retailers, had some specific wins in 2020 with packaged beverages, overall, category performance was underwhelming. Package beverage units were down 0.9%, and industry sales ended the week of December 26, 2020, up just slightly at 3.7% over 2019, according to NielsenIQ. The numbers show that the overall packaged beverage category dipped following initial stay-at-home orders but regained sales once consumers started leaving their homes again.

“Convenience stores are considered a refreshment destination by consumers,” said Jayme Gough, research manager, at NACS. She pointed to data from NACS Convenience Voices indicating that 47.2% of shoppers view c-stores as their destination for cold beverages, saying they “want something to drink now; I’m just thirsty.”

C-Store Packaged Beverage Sales by Month

Packaged beverage sales took a hit in April 2020, dropping back to 2017 sales levels after starting 2020 just above 2019 sales, according to NACS CSX data. While the segment struggled in the beginning of the pandemic period, it did recover during the summer season, outperforming 2019 levels and settling in at just under \$25,000 in monthly sales as of the end of October 2020.

PER STORE, PER MONTH SALES



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Source: CSX Monthly Over Time Report, January through October 2020; csxllc.com (<https://www.convenience.org/Solutions/Business-Intelligence-Data-Analytics/CSX>)

SUMMER CORE WORKOUT

Heading into the peak beverage season this year, Perkins noted that Rutter's intends to focus on staying in stock and replenishing frequently at the store level. Those are two keys to cold vault success, he believes.

Those kinds of fundamentals were likewise a discussion point during a NACS supplier board session in February. "It was a get-back-to-the-basics conversation about zeroing in on core items," said Joseph Vonder Haar, CEO and partner of iSEE Stores Innovation and member of the NACS Supplier Board. "Bringing that idea to the cold vault, it means staying in stock and having deep stock on single-serve items."

Retailers have become increasingly savvy over the years with collecting and applying sales data as the industry has become more data rich, Vonder Haar said. "Most c-store retailers, from single store owners to large chains, today pay close attention to knowing which items are not moving on a shelf and adjusting the set based on that information," he said. "They pay attention to both the macro and micro data."



The shift to online shows up in packaged beverage purchases, where 6% of convenience shoppers reported purchasing packaged beverages through e-commerce.

Vonder Haar advises retailers to remember that consumers vote with their dollars. “Follow that money trail,” he said. He hopes single-serve items get their turn in the sun this summer after lackluster sales last year. “We think it will be closer to normal,” he said.

Retailers need to keep pace with new brands on the market—some miss this opportunity, said Bill Nolan, a partner with Business Accelerator Team, a consulting firm based in Phoenix, Arizona. “Know what the top sellers are, and evolve with the category segment. For instance, Bang, in the energy drink segment, is a brand I still see on the bottom shelf in some c-stores, and it has performed very well on reports from data-tracking firms. That should be in a visible spot in a cooler set. You have to reassess the mix every year. All those cold vault doors need to be refreshed regularly, certainly once a year.”

The formality of cold vault resets prompts assessment. “Vendors have merchandising teams that will support the resets in the field. Don’t leave it for the store to manage alone,” Nolan said. The main role at the store level, he noted, will be to keep the cold vault stocked every day once the planogram is set.

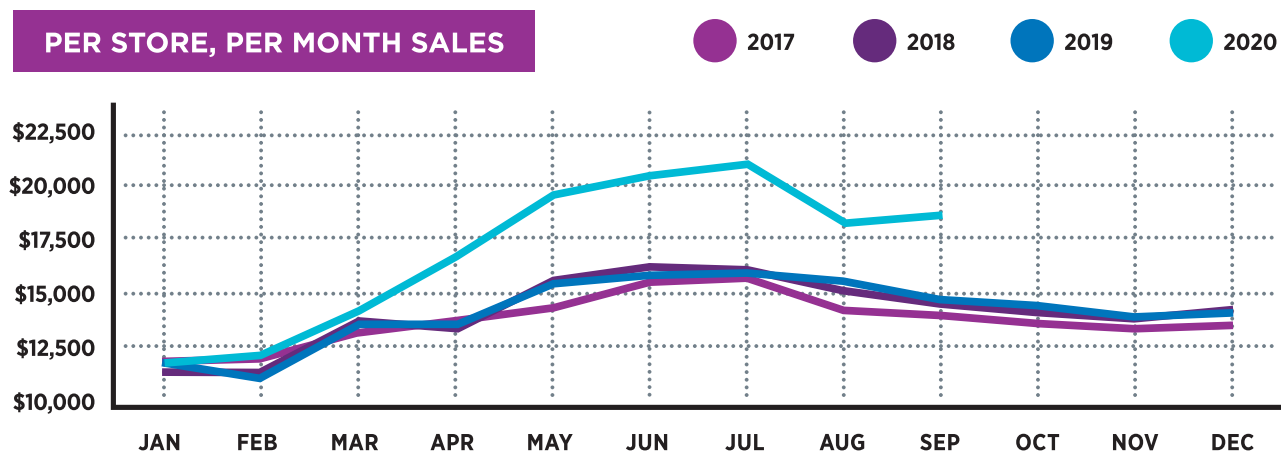
Staying in stock on top-selling items, both in single-serve and take-home sizes, will help c-stores retain customers, Nolan said. It’s a delicate balance. “Evaluate inventory levels and assortment to have what’s needed but not be overstocked, which drains profits and drives up costs. Look to eliminate unnecessary SKUs, which add cost and deplete profits.”

Pricing right is another key piece to managing a profitable cooler set. “Work closely with suppliers to know what discounts exist, and then pass those savings on to customers,” Nolan said. “Take advantage of buy-in discounts on key packages.”

Shoppers are looking for value and are becoming more aware of promotions. The percentage of shoppers who noticed promotions increased from 21% in 2019 to 31% in 2020, according to NACS Convenience Voices. Shoppers also were more open to unintended purchases in 2020, possibly a result of consolidated shopping trips. One out of four shoppers, 24%, purchased something they didn't originally intend to buy when they entered the c-store, according to NACS.

C-Store Beer Sales by Month

After three years of flat sales trends, beer sales began to rise in March of 2020 and continued to skyrocket throughout the summer. Beer category sales climbed 14.3% in 2020, according to NielsenIQ, compared with 2019's nearly flat increase of just 1%. Beer sales started to pull away from past sales trends in April, hit a high in June, then started to dip downward in the fall.



(https://nacsmagazine.com/sites/default/files/APR21_NACS_FT-01_03.svg)

Source: CSX Monthly Over Time Report, January through October 2020; csxllc.com (<https://www.convenience.org/Solutions/Business-Intelligence-Data-Analytics/CSX>)

E-COMMERCE PLAYBOOK

Another consumer shift early on in the pandemic was to purchase via e-commerce platforms wherever possible as they hunkered down during stay-at-home orders. “We’ve heard anecdotally and seen reports from companies like Drizly showing an increased demand for delivery in the beer and alcohol segments” said Gough.

According to NACS Convenience Voices, 40% of beer purchasers indicated they had tried purchasing beer through e-commerce at least once, with the majority of purchases likely taking place in April, during the most restrictive lockdown period of the pandemic. A Google

Trends search on people that Googled “beer delivery” reflects peak interest between April 5 and 11 of 2020. Only 4% reported purchasing beer through e-commerce in 2018 and 5% in 2019.

A lot of people—40%—tried buying beer online or through mobile, “but it didn’t necessarily stick once sheltering in place restrictions eased,” said Kelsey. Only 5% of shoppers actually continued to buy beer through e-commerce, according to NACS.

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COVID-19 will forever color 2020 sales figures.

As an age-restricted item, selling beer online brings its own set of challenges, but consumers prove willing to use e-commerce platforms to purchase beer, particularly in the Midwest. Seven percent of c-store shoppers in the Midwest indicated they had purchased beer through e-commerce platforms, according to NACS Convenience Voices for 2020. The Southeast has the lowest percentage of beer e-commerce shoppers in c-stores, at a mere 3%.

A broader look at beer e-commerce trends in c-stores shows a tenfold increase in consumer e-buying trial. The shift to online also shows up in packaged beverage purchases. Six percent of convenience shoppers reported purchasing packaged beverages through e-commerce within the past two weeks, according to the NACS Convenience Voices shopper intercepts conducted last summer.

“The data show shoppers are shifting online to avoid friction and utilizing their newly acquired digital skills,” said Kelsey. “Given the dramatic shifts in lifestyle, mobility and shopping behavior, this was the perfect time to utilize technology to better understand customer needs. It would not be surprising to see the demands for fast and frictionless continue.”

DOUBLE DOWN FOR 2021

“There will be some normalization this summer,” said Nolan. The shift back to some kind of business as usual will be slow, he believes, noting that unemployment remains an issue and people will continue to work from home, potentially causing a decrease in customer counts.

Nolan suspects retail pricing in the cold vault may become ultracompetitive in the coming months as retailers seek to attract customers. “Keep a close eye on how competitively priced the major c-store players become,” he said. “Can you compete? Work with your supplier on how best to compete, what cost discounts are available and worth participating in.”

Matching the trendline of 2020 for beer sales may prove nearly impossible, Nolan believes. “I think c-stores are going to have to settle in for beer sales going from double-digit highs to maybe single-digit highs this year,” he said. “I would consider that a home run. If beer can maintain an acceptable increase in a period where the industry is seeing moderate decreases in customer counts, that’s a win.”

One indicator of some return to normal on ready-to-drink beverages: Beverage companies are planning new item launches after scaling them back last year. “It shows optimism,” said Vonder Haar. “We’re seeing a reversal on product launches as we look to summer, and retailers are willing to make room for them.”

Another future win may come when travel restrictions subside, a tipping point Nolan will watch as a signal that c-store customer counts may soon be on the rise. “When will people start booking cruises? Take a trip to Jamaica? I have a feeling that when schools and travel open up completely, it will send a message to everyone to get going. It will have a huge impact on people’s behaviors, and ultimately, the convenience industry.”