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Managing Convenience

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This article looks at convenience store management in queuing and membership programs. While many traditional offline stores have failed under the threat of e-Commerce and most recently the Covid-19 pandemic, convenience stores managed to buck the trend with quick expansion and strong same-store sales growth in Asia.

Convenience stores represents 35% of the brick-and-mortar retail universe tracked by Nielsen in the United States. To our great surprise, previous marketing and management studies almost all focused on consumer behavior in supermarket settings. No academic research paid attention to customer experience in convenience stores. And such work is crucial to US retailers today.

US retailers shut down as many as 12,000 stores by end of 2019, and the number is expected to jump to 15,000 in 2020. Bleak retail sector reports from the US Bureau of Labor Statistics showed that 2.1 million jobs were lost in retail in April.

Part of the explanation for traditional retail chains' difficulties is the continuing rise of e-Commerce and inevitable fall of suburban malls. Even with price matching policy offered by traditional retailers (e.g., BestBuy), consumers still enjoy the convenience of shopping on their computer or smartphone and avoiding physical trips.

Convenience stores seem to be the survivor at this "retail apocalypse", with its two defining characteristics: *Convenience*, which refers to quick purchase of daily necessities that save consumers time and effort, arising from stores' advantageous locational proximity and time flexibility that even online delivery services cannot match; and *Loyalty* management, which builds on frequent transactions of low ticket value products to retain customers. Two things combined, convenience stores often can play up margins with less price-sensitive members, and survive battle with online players like Amazon.

Therefore, effective management of queuing (as a major source of inconvenience) is more important in convenience stores than in any other retail or service formats previously studied. Even a 30 second longer wait may lead to a customer churn. Furthermore, membership programs are the key to capturing and leveraging customer data, as a 2018 C-store Shopper Profile report indicates that 73 percent of shoppers will shop more frequently (51 percent) or even exclusively (22 percent) at the convenience store where they are a loyal member.

Traditional bricks-and-mortar retailers looking to resuscitate their flagging fortunes could look to Asia for ideas. In Japan, Mainland China and Taiwan, leading convenience store chains have achieved strong growth over years, despite an overall recent decline in retail sector amid Covid-19 outbreak. Supermarket chains such as Carrefour have been experimenting opening small convenience store-like mini-mart. Jumping on the bandwagon, online retail giants like Alibaba and JD.com also open their own offline mini-stores.

Retailing experts suggested that the trend of convenience stores is to fit the lifestyle of Gen-Z families to save time and effort, and may also fit the growing need for avoiding crowdedness or long queues under the recent social distancing guideline.

As struggling traditional supermarket format versus rising convenience store format playing out today, we believe it is important to look into convenience store shopping behavior. Consumer insights may offer clues as how to prevent the same grooming fate faced by their supermarket and mall peers, and shed light on future retail management to build convenience and loyalty for this generation of consumers.

We filled the void by analyzing a unique large-sample data gathered from leading convenience store chain, FamilyMart (China). We proposed a framework for queuing and membership management.

We examined the impact of queuing on customer behavior, specifically 1) whether customers from different membership groups (namely nonmembers, regular members and paid premium members) react differently to queuing; and 2) how loyalty-based marketing activities and digital tools affect purchase behavior when customers are in queue.

We found that members, especially premium members, are more likely to avoid queuing. When they are in queue, they spent less buying fewer quantities and more-expensive items as compared to non-members, after controlling for potential queuing factors such as time-of-the-day and weather effects.

However, a strong presence of private label, an effective membership point scheme, and a well-managed product category portfolio (not heavy reliance on tobacco and gasoline in most US convenience stores) would help mitigate the impact of queuing.

As a follow-up to the study, FamilyMart achieved 27% annual growth in same-store sales (#1 among convenience store chains) with the initiative on improving its loyalty program for 50 million members and 7 million paid premium numbers, as well as reducing queuing though more efficient customer touch points including self-service machines, app systems and digital payment.

We believe our work is pioneering and useful for the retail sector to reinvent its customer experience in the wake of the sea change in shopping habits. Besides building its own Omni-channel presence, traditional retailers could leverage their physical assets by creating unique value along the dimension of convenience and loyalty.

Chen Lin is Assistant Professor of Marketing at China Europe International Business School (CEIBS). This article builds on knowledge from her global award-winning case “FamilyMart: 'Internet Plus Strategy”
(HBP-CEIBS case center collection, #1 most downloaded case on ChinaCases.org).

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Appendix:

R square = 0.8424

Based on regression results, we conclude that in general, if there are waiting lines, sales will be reduced for all members. (ifqueue= -0.026*). Moreover, queuing has more significant impacts on prime members(ifqueue*prime members = -0.0214*). In addition, we notice that private labels could mitigate negative impacts of queuing on customers. (if queue * private: Yes = 0.01108*). Moreover, for general and prime members, sales are negatively related to paying in cash (if cash * prime member = -0.0291358*, if cash* general member = -0.0176002*), while positively related to paying in points (if points * general member = 0.01279). Also, paying in membership points could mitigate negative impacts of queue although it is not very significant (if queue * if points = 0.0160473, p value = 0.1).

Meanwhile, we found out that customers are less likely to be affected by queue when there is bad weather outside such as hot temperature and rain(if queue * if hot = 0.01497*, ifqueue * rainy = 0.00027). In addition, negative impacts of queueing on prime members and general members are mitigated by rush hour since they know they have to wait. (If queue * prime member * if rush = 0.023012*, If queue * general member * if rush = 0.00103).

Moreover, the promotion format such as membership points has the most significant impact on sales (0.2166*). Meanwhile, unlike all other promotion formats such as cross sales, gits and discounts, points mitigates the negative impact of queuing(if queue * points = 0.0077041*).

Moreover, putting products near the counter and being labor-intensive are positively related to sales (labor-intensive = 0.0978, near_the_counter = 0.12277). Moreover, buying labor-intensive products when there are waiting lines could amplify the negative impact of queuing on sales. (if queue* labor-intensive = -0.00635*).