Canadian Service Stations - More Than Just Gas

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Sales of impulse food and drink products have become central to Canadian service station operations, according to new research from Euromonitor International.
Since the rationalisation of Canadian service stations in the 1990s, and subsequent sharp decline in gasoline margins and greater competition for motorist dollars, gasoline retailers have been forced to find other ways to supplement their operations. The answer for many has been to aggressively and strategically move into packaged food and drinks, as a way to remain competitive and boost margins.

As a result, sales of food and drinks through service stations have grown substantially. Euromonitor Internationalâ€™s new report "Impulse Food and Drink Channels in Canada" shows that between 1999-2004, value sales of packaged food and drinks through service stations grew by an average annual rate (CAGR) of 7% and 4.6%, respectively. Confectionery was the most dynamic performer throughout, with a CAGR of 13.8%.

Focus on food and drinks drives image overhaul

By strategically focussing on their food and drink operations, Canadian service stations have been transformed. Instead of the traditional pump and pay station, service stations have become modern, bright and clean operations, with clearly defined petrol and retail sides to the business. In order to boost food and drink sales, they have allocated more floor space to selling higher margin products and have drastically improved the range and quality of products on offer.

Although there has been a general shift towards expanding their food and drink operations, not all service stations have followed the same approach. Petro-Canada, for example, has stayed with its station design, but has increased the size of its food and drink retail operations by building and managing Java Stop - its own foodservice portion of the business. Esso and Shell, however, have made marked changes in the colour and design of their stations and, at the same time, have entered into agreements with leading fast food operators for leased kiosk space. For example, Imperial Oilâ€™s Esso chain has leveraged a partnership with Tim Hortonâ€™s - a highly popular and successful coffee and doughnut shop - to provide in-store service to customers. The convenience store and gasoline retailer with the most extensive in-store food service network is Couche-Tard. The company has agreements with some of Canadaâ€™s leading beverage and fast food retailers, including Van Houtte, Subway, Dunkinâ€™ Donuts, M&M Meat Shops, Second Cup and A&W.

Competition increases as retailers enter the gas business

The entry of non-traditional operators such as variety stores, grocery stores and convenience stores to the gasoline retailing business, have also encouraged service stations to focus on their food and drink operations. Since many non-traditional operators, such as Wal-Mart and 7-Eleven, generate large gasoline throughputs, they are able to sell gasoline at very low margins. And, since gasoline represents only a small part of their overall revenues, they can afford to keep their prices low.

Euromonitor International expects non-traditional operations to grow in the next five years, which means that prices will continue to decline, leaving traditional service stations to manage waning gasoline margins. This means that service stations must continue to focus on their food and drink operations in order to remain competitive. Those service stations that are diversified with a well-stocked convenience store or foodservice outlet will be in the best position to respond to new competitors and boost their overall sales.

Outlook for the future

In the next five years, Euromonitor International expects sales of packaged food and drinks through Canadian service stations to grow in value by a CAGR of 3.9% and 4.1%, respectively. Growth will be driven by more cars on the roads and by the expansion of service station chains. As outlets multiply, becoming virtually ubiquitous, they will continue to capture a growing share of impulse food and drinks sales. However, to be successful in this increasingly competitive industry, service stations will need to step up their marketing efforts and continuously improve the variety and extent of their offering.

Euromonitor Internationalâ€™s new report "Impulse Food and Drink Channels in Canada" analyses food and drink sales through foodservice outlets, kiosks, service stations, duty free outlets and vending machines. The number of outlets, key companies and the factors influencing food and drink sales including, economic context, consumer lifestyles, tourism and seasonal consumption are analysed. Forecasts to 2009 illustrate how the market is set to develop.

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