Local Presence, NATIONAL Strength

Convenience Stores in Canada

Industry Overview – Summary
February 2009

Canadian Convenience Stores Association

In collaboration with:
Desjardins PricewaterhouseCoopers HEC Montréal

Nearly every Canadian stops at a convenience store – their convenience store. They pop in on the way from home to work or school. They walk over or go by bike. The 23,500 convenience stores in Canada (11% of all retail points of sale or more than 75% of points of sale for food) have 10.4 million such visits every day of the year. An extraordinary showcase for makers of consumer products.

Over the years, the simple "corner store" has evolved into a modern convenience store, reflecting the changes that have occurred in our society. It is open for more hours and its range of products is broader. But it is always close to its neighbourhood and its community.

The little corner store is now big. Some have become part of a large chain, while others now offers snacks, gasoline, an ATM or even film and video game rentals. But their focus is always on offering personalized and friendly service. Each convenience store serves an average of 1,400 customers, about half the size of the customer pool for a supermarket or pharmacy. Often it is the last neighbourhood business left in a community.

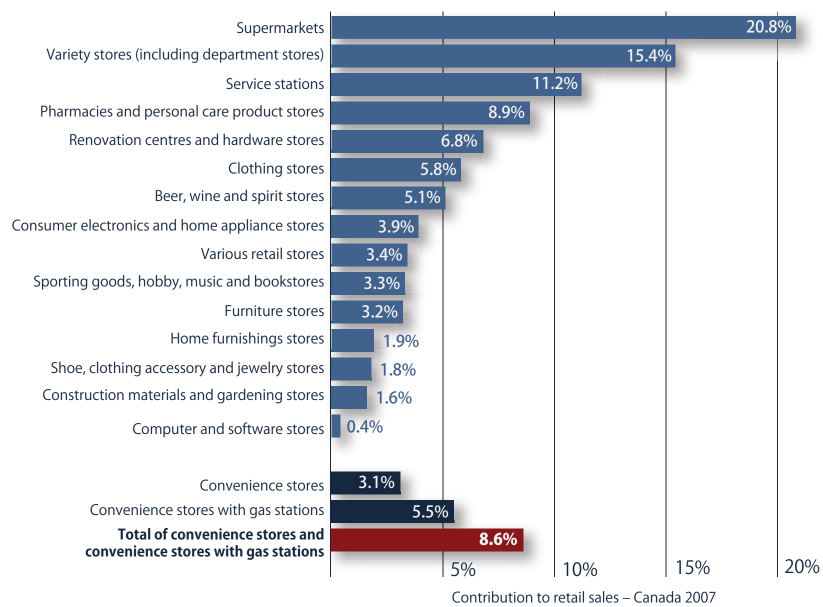
However, whether located in the heart of its community or near a busy highway, part of a major chain or independent, also selling gasoline or operating a snack bar, the convenience store provides access to an economic activity that is essential to the Canadian economy. The convenience store industry plays a vital role in the distribution chain, between the manufacturers and distributors of various products and services and their consumers. They have a major impact on government revenues, from the taxes paid on purchases made in the stores to income taxes and the sale of controlled products such as beer, tobacco and lottery tickets. In addition, the industry provides jobs to a large number of people, often young people and immigrants. Likewise, for many Canadians, it is the first business they buy or create and which is then often handed down from one generation to the next. For many immigrants, it is an ideal way to become integrated into their new society.

In terms of Canada's retail trade (excluding the sale of new cars and recreational vehicles), the convenience store industry ranks fifth, ahead of renovation centres, clothing stores, consumer electronics and appliance stores, among others. If sales of gasoline by convenience stores with gas stations are excluded, the industry is in eighth place.

Contribution of convenience stores – 2008

$32.1B	Annual sales
$26.8B	Value of purchases
165,000	Jobs
$2.0B	Salaries
$11.3B	Taxes collected (tobacco, gasoline, alcoholic beverages
$4.5B	Sales of controlled products (lotteries and wine)

Convenience stores in retail trade in 2007

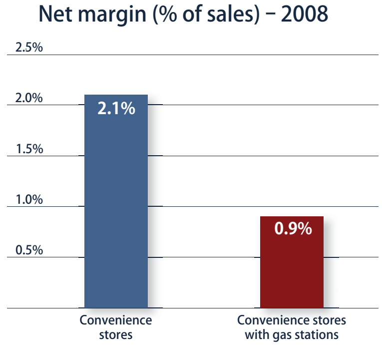


Convenience stores also account for 9.3% of food distribution sales.

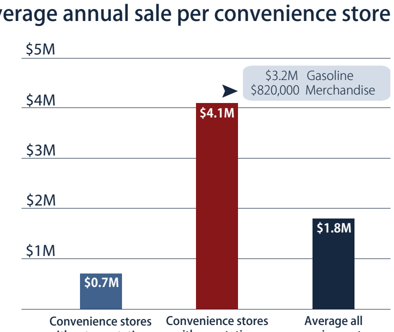
Average annual sales per convenience store and net profitability margins vary widely, depending on whether they sell gasoline or not:

Net margins and average annual sales

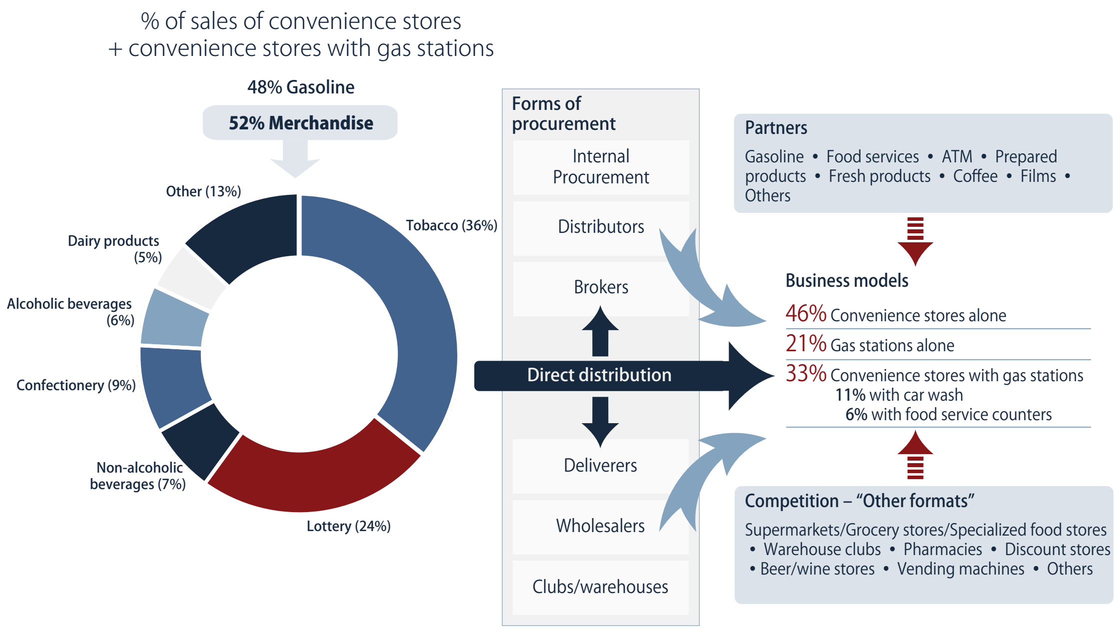
Net margin (% of sales) – 2008



Average annual sale per convenience store – 2008



Several stakeholders in convenience store value chain



New concepts or arrangements are constantly emerging to better satisfy consumer needs and expectations.

In an international context, Canadian convenience stores are just as productive and efficient as those found in other western countries, except with respect to the sale of "ready-to-eat" products, where some Canadian laws restrict the offering of certain products. The business model of our convenience store satisfies the expectations of consumers and the companies wanting to serve them so well that it has been copied in several other countries.

Several models and multiple ramifications

The world of convenience stores is just as complex and includes as many ramifications as retail trade in general. There are the organizations involved upstream, which supply convenience stores directly or through distributors of products. In recent years, a number of partnerships have also made it possible to expand the range of products offered to consumers.

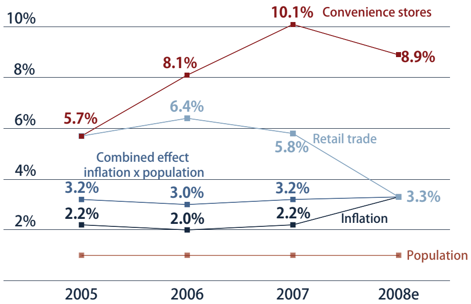
New concepts or arrangements are constantly emerging to better satisfy consumer needs and expectations.

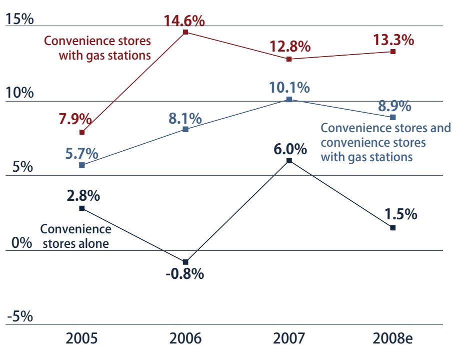
A performance that reflects its community

Deeply anchored in their communities, convenience stores are undergoing an evolution that closely tracks the growth of the population, changes in the prices of the products they distribute (inflation) and of course, economic growth in general. Accordingly, the growth of sales in convenience stores can be seen to slightly exceed the cross-price and population effects. Growing categories such as food services, seasonal products, dairy products and ice cream, frozen products and snacks are gradually replacing tobacco, lotteries and alcoholic beverages as drivers of convenience store growth and profitability. The growth of sales in convenience stores is greater than the growth of retail sales in general. This performance is due to the sale of gasoline, especially the price of gasoline, since quantities sold are actually declining sharply.

But **tobacco smuggling** is having a severe effect on the growth potential of our convenience stores. In fact, direct revenue losses for convenience store owners are in the order of $2 billion ($260 million in profits), while governments are deprived of $1.3 billion in various taxes. For indirect sales, i.e. the other products purchased by smokers when they visit convenience stores, the losses can reach as high as $600 million annually. The consequences are enormous for all owners of convenience stores but also for governments and, by extension, for society in general.

Comparative growth of sales of convenience stores





The Western provinces show stronger economic and demographic growth than in the centre of the country and much more than in the Atlantic Provinces. Average sales per convenience store are consequently higher, reflecting this stronger growth, but also the fact that each serves a larger pool of customers than in the eastern part of the country (from 1,400 to 1,700 people per point of sale in Western Canada, compared to 1,000 in the Maritimes).

Annual sales and regional coverage

	Convenience store sales		Retail sales	Number of establishments		Convenience store sales
	2008e (in thousands of $)	% of Canada	% of Canada	2008e	% of Canada	Sales by establishment $
British Columbia	4,052,375	12.6	13.4	2,613	11.1	1,985,126
Alberta	3,300,799	10.3	14.4	2,048	8.7	2,063,037
Saskatchewan	1,266,089	3.9	3.4	697	3.0	2,325,141
Manitoba	1,122,094	3.5	3.5	731	3.1	1,964,851
Yukon, Nunavut, NWT	100,943	0.3	0.4	151	0.6	855,692
Ontario	12,027,999	37.4	35.6	8,925	38.1	1,725,056
Quebec	7,226,102	22.5	22.1	5,897	25.2	1,568,523
Newfoundland & Labrador	688,603	2.1	1.6	658	2.8	1,339,557
Prince Edward Island	153,296	0.5	0.4	127	0.5	1,545,063
Nova Scotia	880,026	2.7	2.8	856	3.7	1,315,951
New Brunswick	1,331,433	4.1	2.3	732	3.1	2,328,232
TOTAL CANADA	**$32,149,740**	**100.0%**	**100.0%**	**23,435**	**100.0%**	**$1,756,024**

Conclusion: challenges worthy of its role

The challenges faced by the convenience store industry reflect the scale of its 23,500 points of sale, 165,000 employees, 10.4 million daily visits, $32.1 billion in annual sales and $15.8 billion in annual revenues for governments.

Every year, tobacco smuggling has a $2.0 billion impact on sales and a $260 million impact on the profits of convenience stores, and $1.3 billion impact on various taxes paid to governments. Tobacco smuggling is a real plague, undermining growth, profitability and even the survival of many Canadian convenience stores. Already, one Canadian convenience store a day has to close its doors.

Hyper-regulation, nationally but also in each of the thirteen provinces and territories, affects all products offered and activities conducted in convenience stores: business hours, number of employees, types of products sold, interior layout of the points of sale, and on and on. Naturally, operating expenses rise each time a law or regulation changes the rules of the game.

Convenience store profit margins, already low and hard to sustain, are also affected by fluctuations in gas prices, investments in technology/security/environment and thefts of gasoline and merchandise, among other problems. Nor can we overlook the extremely serious consequences of credit and debit card transaction costs on the capacity of convenience stores to profit from their operations.

The challenges faced by convenience stores will determine their future, in particular the economic variations to which customers and suppliers are subjected, the illegal tobacco smuggling and the regulations of all their operations. So far, these enterprises, whether chains or independents, have been able to apply innovation, careful operations management and great familiarity with their clientele to meet the challenges that face them. Still, convenience stores will have to demonstrate even greater creativity and competence if they are to improve the position of their industry.

But whatever the challenges may be, Canadian consumers can always count on their neighbourhood convenience store!