

How Conoco broke the convenience store mold

Building brand equity through many “moments of truth”

By Kathryn H. Feakins
and Michael Zea



Brands are enhanced or eroded during countless interactions between customer and company. The challenge is to design a customer experience in harmony with the brand, then allocate investment to the areas of greatest potential return.

As the oil industry consolidated in the mid-1990s, Houston-based Conoco faced a major brand challenge. One of the world's leading energy companies and a prominent petroleum retailer in U.S. markets, Conoco saw an opportunity to accelerate profit growth through the convenience store format. But in order to build a powerful convenience store brand, the company knew that it would have to break away from the generic “mart” approaches adopted by other major petroleum retailers. It also would need to differentiate itself from new offerings, such as upscale coffee bars, that were encroaching on the edges of the convenience store market.

In this competitive field, creating a new convenience store brand from scratch was a risky proposition. It would involve a mixture of creative insight and a deep knowledge of customers. And it would require a broader definition of brand than was typically used in the industry. Given these challenges, how would Conoco go about building a new brand that would enhance its bottom line?

Experience required

For commodity products such as gasoline, brand building traditionally has focused on advertising and promotion. In today's service-intensive economy, however, a company's ongoing relationship with its customers can be more important. This total customer experience, which often extends beyond the purchase of a product or service, is composed of multiple “moments of truth.” Each of these interactions to varying degrees helps build or destroy a brand's “equity”—that is, the sum of positive and negative elements that drive actual customer behavior, such as paying more for a service, remaining loyal to a product, or trying a related product with the same brand.

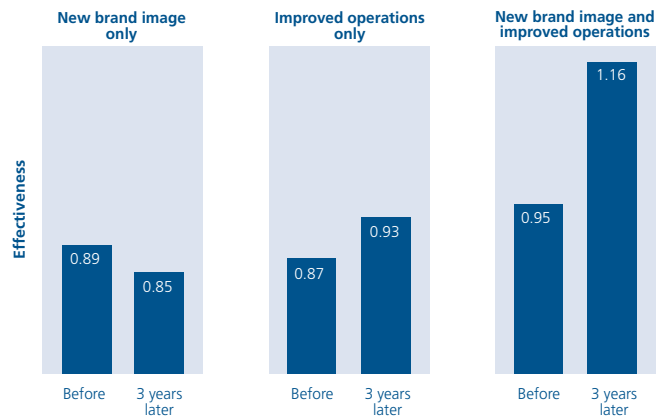
Brand-defining moments for customers may cluster at critical points in a company's evolution. Mergers can create confusion among employees and customers about the new brand promise, as well as a deterioration of the customer experience (see article, page 54). And in a world where the half-lives of business designs are growing ever shorter, managers must regularly reassess which customers to target and what to offer them. This analysis, too, may lead to changes in a customer's experience and, hence, his or her perception of the brand.

Because each customer moment of truth is so important in the building or destruction of a brand, advertising becomes only one brand-building tool and may, in fact, not be used at all. Indeed, launching a new image campaign without synchronizing the customer experience to the new brand promise risks eroding the value of the brand (see Exhibit 1).

Conoco's bold move

In deciding to create a branded convenience store experience, Conoco had recognized that there was an opportunity to drive gasoline pump sales by other means than competing on gasoline quality or price. Drawing on its European retailing background with the Jet gasoline brand and its insight into emerging consumer trends, the company saw that this might be accomplished through the creation of a new kind of convenience store. Conoco understood, however, that for a new brand to flourish, the company would need to design a complete customer experience that supported the brand. This process begins by anticipating the evolving requirements of customers.

Exhibit 1 In gasoline and convenience retailing, launching a new brand image campaign, in tandem with changing the site operations to support the brand, is far more effective than doing either one in isolation.



Note: Profit margin effectiveness for an average retail site, with 1.0 being the industry average
Source: Mercer Management Consulting benchmarking of over forty competitors and markets.

Identify target customers. The first step is identifying the most valuable customer segments, which often are three to four times more profitable than the average customer. In many cases, customers in this segment will be dissatisfied with current offerings and will be open to trying a new (or repositioned) brand that better suits their needs.

Conoco identified the key customer segment as convenience store “connoisseurs,” who are demanding but loyal.

Conoco’s research identified eight possible customer segments for a new offering, with the key segment being convenience store “connoisseurs.” While this group represented just 18 percent of all convenience store customers, it represented 24 percent of gasoline sales and 33 percent of convenience store purchases. Market research showed that these customers viewed the convenience store as a destination in its own right, and stopped in an average of 14 times a month. Eleven of those visits did not include a gasoline purchase, but rather entailed stopping for a drink or to pick up something the customer had forgotten at the supermarket. And while these customers were not necessarily affluent, they liked to be recognized as regular customers and thus were loyal to certain stores and willing to pay a premium.

Understand their priorities. Once the target customers have been identified, the brand builder must develop a deep understanding of their priorities as well as their underlying economics. The greatest opportunity for a new brand lies where those priorities intersect with the company’s highest-value products and services.

Of all the customer segments that Conoco identified, the connoisseurs were the most demanding. But Conoco’s research indicated there was nothing that would satisfy their needs that would displease another segment. Their priorities included safe and efficient shopping, a familiar feeling from one store to another, an inviting environment, and respectful, friendly service. Further cementing Conoco’s decision to create a new brand, connoisseurs didn’t think oil companies have much credibility in the market, or that regular convenience stores necessarily sell good gas. Clearly, the opportunity existed for Conoco to create a premium brand if it could create an experience that satisfied these priorities.

Determine which interactions matter. Along with understanding the priorities of the target customer, it’s important to learn which of their interactions with the company will have the greatest effect on buying behavior and brand enhancement. A rigorous analysis of what drives customer behavior will help winnow the

right investments from the wrong ones in order to funnel capital to achieve the highest possible returns.

For example, consider the different ways in which customers experience a bank. They may write checks through a Web site, seek mortgage counseling at a branch, or try to get problems resolved on the phone. But all experiences may not be equally important to the customer—well-trained telephone representatives may matter far more to customers than a jazzy Web site does—and the firm's investments should be directed accordingly. Several quantitative tools can be employed to determine which moments of truth matter most to customers; one particularly effective tool is the structural equation model (see box below).

In focus groups and consumer panels, Conoco heard customers articulate certain product and service characteristics that would drive their buying behavior in a new convenience store. Many of those characteristics focused on neo-traditional values; for instance, customers wanted modern amenities such as an ATM, but service delivered “the way it used to be,” with a courteous and helpful demeanor. The challenge was to translate these research results into a compelling design, which, because of profit targets, could cost only 10 percent more than the existing Conoco convenience stores.

Assessing brand investments

Which elements of the customer's experience have the greatest effect on brand strength? How does the return on an investment in one customer interaction stack up against other investments?

These questions can be answered with the help of structural equation models, or SEMs, quantitative research tools that allow a company to understand the potential investment returns of different initiatives aimed at improving the customer experience. Conventional regression analysis measures the effect of multiple factors on a single dependent variable. SEMs, by contrast, capture the relative impact of the multiple factors that simultaneously affect the numerous interrelated elements of the customer experience. SEMs are run using simple, user-friendly PC software that allows users to conduct “what if” analyses. For example, they can provide detailed informa-

tion about the relative return of investing in shortening a customer's wait time on the phone versus improving some other part of the complaint resolution process.

One computer company, for instance, had been devoting substantial resources to ensuring that the computer arrived on the customer's doorstep on the day promised, even if that meant that one component, such as the printer, might have to arrive later. Using SEMs, the company learned that customers would tolerate receiving the computer a day or two late, but they most wanted the package delivered complete and with every piece functioning. The brand was being tarnished before customers even used the product, and SEMs provided the evidence with which to reconfigure the delivery process in a way that would enhance the brand.

Design from the ground up. Armed with a deep understanding of customer priorities and which moments of truth are most important in affecting buying behavior, the brand builder is ready to design the various elements of the customer experience so that it reinforces the brand promise and generates a healthy return on investment. Conoco devoted significant resources to creating an experience that would delight its target audience, convenience store connoisseurs. Instead of advertising, it concentrated its marketing on local distribution of coupons, with the objective of convincing consumers to try its new store once and see firsthand how unusual and appealing the experience is. The design elements all reinforce the brand.

- *Drive by.* The name of the store on the sign out front is perhaps the most conspicuous branded element to the passerby, an element that plays an important role in getting a customer to stop in for the first time—and the 101st. Conoco had determined that the new concept it was pioneering should be branded with neither a typical petroleum company name (including its own) nor a generic convenience store-sounding name. It sought a name that broke with industry convention, yet was functional and not limiting. In tests, one name fragment customers liked was “break,” which struck a positive chord and made them think of good coffee. The

To help drive gasoline sales, Conoco chose to create a separate brand, *breakplace*, rather than a generic convenience store “mart.”

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The risks in “getting the deal done”

By Suzanne Hogan and Ken Hodge

The handling of brand-related issues can make or break a deal. Why? Because brand moves send messages, intended and unintended, to the companies’ stakeholders. Wrong or inconsistent moves—or, more typically, no moves at all—can confuse customers, discourage employees, and signal a lack of will and forethought to investors. Furthermore, the failure to sort out the combined company’s brand portfolio can saddle the firm with an unnecessarily high marketing cost structure that delivers no demonstrable benefit.

Unless a company is acquiring or merging solely to increase capacity or to gain access to a new technology, management will have to deal with brand issues. For example, if a company is making an acquisition to:

- *Fill out the product line*, should the new offerings carry the existing brand or a different one?
- *Expand its geographic footprint*, what are the relative merits of the marketing economies achieved through brand consolidation vs. the strength of each brand’s local franchise?
- *Augment its value proposition with new capabilities*, do the strengths of either of the predecessor brands support the new positioning or is a new brand required?
- *Cut costs through consolidation*, should one of the existing company names prevail or should a neutral name be chosen?

Mercer research has found that mergers and acquisitions in general have been getting smarter, driven increasingly by strategic reasons—such as the diversification of products, geography, and capabilities—rather than simple consolidation and cost-cutting. But even with the shift in focus, nearly half of all mergers are unsuccessful in shareholder value terms (see exhibit).

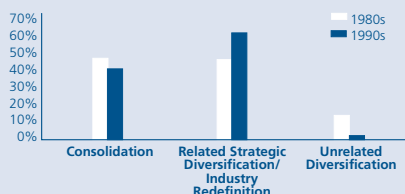
One of the reasons for this failure, the research found, is the lack of pre-deal planning about post-deal management. This includes issues involving brand, which creates one of the first post-merger impressions that customers, employ-

ees, and investors have of the combined company.

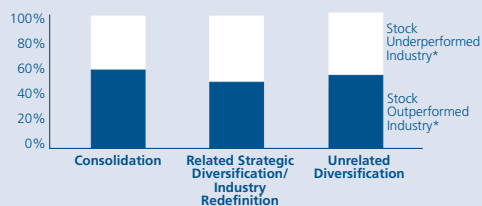
Brand issues arise at three critical stages of the M&A process: screening, pre-announcement, and integration. In our experience, addressing the right issues at the appropriate time increases the chances for a successful transaction.

Screening. Brand issues can play important roles in the screening of potential acquisition candidates or merger partners. For each candidate under consideration, managers must compare their brand(s) with those of their target, assessing such things as each brand’s equity elements and its relevance to “future-defining” customers (see pages 26-27). Then, looking across all potential targets, managers can ask: Which combinations would best achieve the company’s strategic objectives? Of these, which offer the post-combination brand moves with the greatest potential? To realize that potential, should one or the other brand predominate? Should a new brand be created?

In the 1990s, deals were likelier than in the past to be driven by strategy . . .



. . . but strategic intent does not correlate with success



* Acquirer’s 36-month post-deal return relative to industry average
Source: S&P’s Computstat, *Mergers and Acquisitions* magazine, and public data

DESIGNING
the Branded
Experience

Thinking through these issues, particularly when supported with quantitative analysis, is invaluable in ranking candidates. Furthermore, it provides a dispassionate, fact-based framework for the potentially emotional discussion of brand in exploratory meetings with merger partners.

Pre-announcement. Stakeholders' first impressions of a potential merger or acquisition are hard to change. Within moments of an announcement, investors will bid the share prices up or down, the most talented employees may dust off their resumes, and competitors will start calling on both companies' best customers. It is therefore imperative to think through the brand implications of the merger and develop a convincing brand strategy.

In this phase, management must definitively answer several crucial questions. The most conspicuous one involves the name of the combined entity. Different approaches offer different potential benefits. Creating a new name—such as Cendant, which arose from the merger of HFS and CUC International—can signal both a clear break from the past and the seamless integration of the two companies. Using a combined name—such as DaimlerChrysler or ExxonMobil—can leverage two brands that are powerful in different industries, geographic areas, or customer segments. Retaining the name of one of the companies—for example Honeywell, after its merger with Allied Signal—can extend the strong equity of that brand to the other company and signal a direction for the new entity. Retaining both names—for example, IBM and Lotus, after the Lotus acquisition—can allow two strong brands representing very different cultures to flourish independently.

Apart from the corporate name, management must decide which product and division brands it will retire, which it will retain, and what investments it will make in each one. Retaining existing brands, while often having some initial appeal, particularly to the executives of a company being acquired, can be surprisingly costly. A large healthcare company acquired some 25 regional firms and retained each of the acquired brands in its local market. Although the company estimated that the total marketing costs for those divisions was several million dollars, on close analysis it learned that the amount was actually more than \$100 million. The marketing efficiencies that can be realized through a single, nationwide brand are why United Healthcare and Humana, for

example, have adopted a single-brand strategy after acquiring several regional healthcare companies.

Many times, tough decisions on naming or on brand consolidation are deferred or avoided in favor of “getting the deal done.” This can result in cumbersome compound corporate names such as those that have proliferated in professional services. Worse, it can send mixed signals to the marketplace. Brand decisions, along with facility closings and layoffs, are the most visible decisions in the early stages of a business combination. Just as cost-cutting decisions are clear statements of economic intent, brand decisions offer a window on strategic intent. When that window is cloudy, stakeholders typically react quickly and negatively.

Integration. After the transaction is announced, management must quickly and flawlessly communicate to each stakeholder group the rationale for the brand strategy that has been developed during the pre-announcement period. This is particularly important where one or more brands may be eliminated, which will cause concern among employees and customers whose emotional tie to a company was based in part on the now-absent brand.

But an explanation is not enough, particularly for employees. Programs and processes must be implemented to ensure that employees from both companies become effective “brand ambassadors” for the new brand promise. For example, incentives must be reviewed and revised in light of the new business and brand strategies.

And the brand strategy of the new business must be constantly monitored, with clear metrics established to assess the progress against brand objectives: Are equity elements changing as intended? Are brand investments bearing fruit?

Given the need for companies to constantly reinvent themselves in a world of rapidly changing customer priorities, the accelerating pace of mergers and acquisitions across the industrial world is likely to continue. The ability to identify merger or acquisition targets, negotiate agreements, and integrate combining companies will become an even more important management skill. A fundamental aspect of this skill will be understanding the key role brand plays at each of these stages.



The green, oval logo and the vaulted entryway suggest a friendly designation.

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word “place” also rated high, because consumers liked to think of having a regular destination. Putting the two together created “*breakplace*,”[®] a name that resonated with the connoisseurs and stood out in a category dominated by “mart,” “quick,” “speedy,” and “stop.”

- *Pull up.* The external store looks nothing like the ubiquitous box style associated with other convenience stores. A green, oval logo suggests a friendly restaurant, as does the store’s brick, vaulted entryway, and green awnings—appropriate for signaling what’s intended to be a destination.
- *Over the threshold.* Upon walking in, customers are immediately engaged with pleasant sights, smells, and textures, such as the coffee grinder at the front door, “retro” pictures on the walls, warm wood fixtures, and corrugated metal drink coolers. To promote a feeling of safety, an expanse of glass windows lets customers see in and out of the store. A related innovation is the development of a retractable curved, bullet-proof glass partition around the checkout counter, which provides security for cashiers during the night shift and slides into the wall during the day, allowing more personal customer contact.

- *Navigation.* Sub-brands in the same oval format signal the stores' specialty areas—"coffeebreak" (a coffee bar with 14 selections), "thirstbreak" (drink coolers), and "freshbreak" (displays of baked goods, fresh fruit and salads, and a deli counter). An adjacent but separate grocery area has a vaulted ceiling, bright lighting, and even warehouse-style bulk merchandise.

At a total of 3,300 square feet, *breakplace* is twice the size of the typical Conoco convenience store. But there are limits to what *breakplace* offers. "We initially thought we'd give them lots of products and choices," said Bill Gover, Conoco's general manager of branded marketing in North America. "But we found that customers didn't want it to be overloaded with extra things, such as a dry cleaner."

- *Service.* The *breakplace* brand position demands very high execution standards. Restrooms and floors are kept meticulously clean. Bread is baked fresh on the premises at many *breakplace* stores; sandwiches are made to order, a departure from the prepackaged food in most convenience stores. Old coffee is thrown out and new coffee brewed every thirty minutes, to guarantee a fresh cup. From an operational standpoint, these procedures cost more money, but doing

The mix of textures, from wood to corrugated metal, give a warm, retro feel to the stores. Sub-brands such as "freshbreak" signal specialty areas.



them meets the priorities of the convenience store connoisseur.

Intensive training ensures that employees deliver on the brand promise in every interaction with customers. Conoco set up a training facility, the Center for Excellence in Marketing, at its home office in Houston. Conoco's *breakplace* managers must complete training at this facility, which includes an actual *breakplace* store for role-playing. Conoco also requires that each manager in the branded marketing organization spend time in the field, working behind the counter of a *breakplace* store to understand how store employees do their jobs.

Test, execute, and assess. Conoco minimized its investment risks by learning from a prototype store in Chattanooga, Tennessee, which opened in January 1997. The company has since rolled out 45 more stores. Dubbed in the press “Starbucks meets warehouse shopping,” *breakplace* has set a new standard in the convenience store industry.

Financial results have been impressive. While the *breakplace* initiative still contributes only a fraction of Conoco's total revenue, both convenience store and gasoline sales have grown rapidly at *breakplace* stores. In Denver, where *breakplace* has built a critical mass of stores, the independent rating firm MPSI in 1998 ranked *breakplace* as number one in effectiveness compared to other gasoline convenience store brands.

Service, please

Designing a customer experience in harmony with the brand is critical in a world where intangible services constitute a growing share of economic value, and where firms are rewarded for making the right brand investment decisions—those that have the greatest influence on customer behavior and thus drive return on assets and net income. Many manufacturing firms, for example, are finding new profitable positions beyond the factory gate—mastering the “downstream” environment of after-sales, value-added activities and services. Exploiting these emerging downstream opportunities requires that a manufacturer understand the customer's priorities across those activities and then design a service experience that enhances the manufacturer's brand.

Repositioning or extending an existing brand may be somewhat trickier than a situation such as Conoco's, where one starts from

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service-intensive economy.

scratch. But the principles and the basic process remain the same. Powerful tools exist to understand and help shape the customer's many moments of truth. Rigorous analysis can allocate investment to the areas of greatest potential return. And whether repositioning a brand or starting from scratch, employee interactions with customers can make or break the quality of the customer's experience. In a crowded marketplace, designing and delivering a compelling experience to the right customers is the surest method of differentiating the brand in a way that generates high returns and can't easily be imitated by competitors.

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