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U.S. Nicotine Market to Reach Roughly \$67B in Revenues by 2035

"Smoke-free products to become key driver of industry profit growth," says Bonnie Herzog of Goldman Sachs.

By CSPDailyNews.com

The nicotine market is attractive and growing, said New York-based Goldman Sachs Managing Director Bonnie Herzog.

The total U.S. nicotine market is expected to reach roughly \$67 billion in revenues by 2035, said Herzog, adding that she expects cigarettes to make up a smaller portion of revenues (47%) while smoke-free revenues expand. Herzog spoke Thursday at a virtual session at CSP's Convenience Retailing University in Austin, Texas.

"Given attractive unit economics, we expect smoke-free products to become the key driver of industry profit growth," Herzog said. "While cigarettes comprise 70% of the operating profit pool today, we expect its share to fall to roughly 50% of profits by 2035."

With smoke-free products expected to be the dominant driver of volumes, Herzog said downtrading and cross-category movement will likely drive this growth.

"Smoke-free products make up roughly 48% of U.S. nicotine volumes today," she said.

Herzog said she expects that number to jump to roughly 75% by 2035.

Illicit Headwinds

Turning to the e-vapor category, Herzog said that illicit e-vapor penetration is roughly 70% today, but expects this to fall through 2035.

"The continued prevalence of illicit e-vapor will continue to weigh on growth of the formal/tracked channel within vapor," she said. "We expect that British American Tobacco will remain the largest branded player in e-vapor, but the category will deliver softer growth relative to other reduced-risk categories until there's greater enforcement on illicit e-vapor products."

Federal officials have noted that illicit products have flooded the legal market, prompting stepped-up enforcements. In

September, the Department of Health and Human Services (HHS) and Customs and Border Protection (CBP), seized 4.7 million units of unauthorized e-cigarette products valued at an estimated retail value of \$86.5 million.

"The illicit market for e-vapor products is a widespread problem, with a broad majority of retailers feeling the impact," Herzog said.

Citing Goldman Sachs' fourth-quarter 2025 Nicotine Nuggets survey, Herzog said retailers remain pessimistic as the industry lacks meaningful enforcement from the government.

Nicotine Pouches

Turning to the nicotine pouch segment, Herzog said to expect nicotine pouches to grow to nearly \$11 billion of revenues by 2035.

"Expect nicotine pouches to be the second largest category by volume in 2035—behind e-vapor," she said.

Smokeless nicotine offerings remain strong, led by modern oral nicotine brands Zyn, from Stamford, Connecticut-based Philip Morris International (PMI).

According to the survey, Herzog said Zyn continues to see strong gains fueled further by stepped up promotions.

"Zyn continues to perform well," she said.

Herzog said that 67% of retailers in the survey indicated that they bought more Zyn in fourth-quarter 2025 than in third-quarter 2025. She said gains were helped by elevated promotions, including a free can offering in September and a discount on multiple cans in October through November.

Herzog said that modern oral nicotine brand Velo Plus, from Winston-Salem, North Carolina-based Reynolds American Inc., a subsidiary of BAT, has been a "fierce" competitor in the space, according to survey results. ■



The Beverage Boom Is Transforming the Soda Fountain

As restaurants look to meet growing demand for specialty beverages, they are tapping equipment suppliers for new products.

By CSPDailyNews.com

Phil McKee is a self-proclaimed oven guy. Back in the early 1990s, he invented the TurboChef, a high-speed ventless oven that would revolutionize foodservice for cafes and convenience stores. He would go on to develop other cooking equipment over the years, such as Ovention conveyor-belt ovens.

But more recently, the oven guy felt himself being pulled in a new direction: beverages.

Emphasis on pulled.

“Everything we did for 30 years was what I call ‘technology push,’” McKee said, meaning he would come up with an idea, develop it and bring it to market. “That is completely the opposite of what’s going on in beverages. We got sucked into beverages by customers [saying], ‘I want stuff that equipment manufacturers are not enabling operators to provide.’”

Beverages are the hottest menu segment in the restaurant industry right now, driven by demand for creative drinks such as dirty sodas, refreshers, blended coffees and more.

The evidence is everywhere. Beverage chains like Dutch Bros, 7 Brew and Swig are booming. Large brands such as Chick-fil-A and Taco Bell are spinning off their own drink-focused concepts. And trendy sips are showing up in unexpected places: Perkins, the old-school breakfast chain, now serves boba.

But this new generation of beverages comes with new

operational challenges for restaurants. The drinks tend to be more complex to make than standard coffee or dispensed soft drinks. They’re customizable and often require multiple ingredients and steps.

“It’s a very manual process,” said James Pool, chief technology and operations officer for Middleby Corp., on the production of craft beverages. “They have gallon containers of juice that they’re filling cups with and adding various flavors into to basically concoct this very special beverage.

“It’s a very imprecise way to dispense beverages, and you would not settle for that with any other aspect of your kitchen operation.”

For brands that want a piece of the beverage action, the old-fashioned soda fountain probably isn’t going to cut it. And some are turning to their equipment suppliers for help.

For McKee, one of those operators was QuikTrip (QT), the Tulsa-based convenience-store chain. QT is known for its robust tea program, with six brewing machines and 12 urns offering sweetened and unsweetened tea, hot or cold, in each store.

But QT had a problem: Tea goes bad quickly. After tea is brewed and sitting in an urn, it begins to cool. At a certain temperature, microbes proliferate, which makes the tea taste stale. That meant QT had to throw out a lot of tea in order to keep the product fresh. It was wasteful and created more work for employees.

So McKee and his team at Appliance Innovation spent the past several years developing a new way to brew and serve tea that would keep it fresher for longer. The final product, a brewing machine called SimpliciTea, can keep tea fresh for days, rather than hours, using a patented system that rapidly cools brewed concentrate so that microbes don't have a chance to grow. The concentrate is then stored at 40 degrees and dispensed to order.

The machine automatically monitors tea supply and brews more when necessary; it also cleans itself once a week, easing the workload for staff.

And it allows customers to easily customize their beverages. Using a touchscreen ordering display, they can choose different flavors and sweeteners for their tea.

"The options for the consumer are kind of limitless now to make their own custom beverage, versus before, they were fixed to whatever was in that urn," McKee said.

QT is halfway through rolling out SimpliciTea at its 1,200 stores, he said, and Appliance Innovation is now marketing the machine to other operators, including a smaller version with fewer tea options.

QT wasn't the only c-store giant looking to upgrade its beverage equipment. Around the same time QT came to McKee about tea, 7-Eleven also approached with a separate beverage-focused request.

"They said, 'We've fallen behind in coffee. We used to be where America went for coffee on their way to work. But Starbucks has taken away a lot of our business,'" McKee recalled. He said the chain had tried specialty coffee equipment, but it was too much work for its busy operators to maintain.

So 7-Eleven asked McKee: "Can you guys figure it out?"

The result is COFU, short for Coffee of the Future. The machine is designed to produce barista-quality coffee drinks in a small footprint, including hot and iced coffee, lattes and cold brews. Like SimpliciTea, everything is customizable; the machine even has a barcode printer that allows it to charge for extra shots and other add-ons. 7-Eleven is testing COFU now in about 13 units in Dallas.

QuikTrip is No. 9 on CSP's 2025 Top 202 ranking of U.S. c-store chains by store count. 7-Eleven is No. 1.

"Young people have said, 'I want what I want, the way I want it, at the time I want it, in the location I want it,'" McKee said. "'You guys in the foodservice equipment industry, get your act together, because we are in force.' That's what's going on right now."

A similar story has been unfolding at Dallas-based Middleby. The company, which today owns TurboChef and many other

equipment brands, worked with Taco Bell parent Yum Brands to develop a high-tech new drink dispenser called FizzBot.

The FizzBot features a proprietary valve that allows restaurants to quickly swap different products in and out of the machine. Traditional valves, on the other hand, need to be calibrated for different beverages and maintained over time.

With the FizzBot, "We have the ability to serve Coke out of a valve one day, or a juice the next day, alcohol the day after that," Pool said. "These valves are incredibly flexible, and they're all menu driven."

That means brands like Taco Bell and Yum-owned KFC can quickly add new limited-time offers or other beverages systemwide.

"Today, for a major restaurant chain to add a new flavor, it can take up to six to nine months to add because they physically have to go touch every dispensing machine in the market," Pool said.

The FizzBot is fully automated and connects to the restaurant's POS system so it can begin producing drinks as soon as they're ordered, dropping the cup and filling the ice and beverage. It also has the ability to seal cups, which is a key issue for delivery orders.

"Customers are excited about cup-sealing because they want to start selling beverages again to their online customers," Pool said. "Traditionally with soda cups, they've been reluctant to do that."

Though FizzBot was developed in partnership with Yum, it will be available to other brands, Pool said.

Through its Newton brand, Middleby is offering a similar machine called Gravity that features the same valve technology as FizzBot but without the POS connection. Gravity allows operators to offer up to 48 different beverages, syrups and flavors—"anything that is viscous," Pool said—so customers or operators can concoct dirty sodas and other specialty drinks. It's designed to replace the traditional self-service soda fountain.

A third new Middleby product marketed by Marco Beverage Systems is aimed at serving the market for refreshers—non-carbonated, juice-based drinks that may contain fresh fruit or other mix-ins, almost like a cocktail without the alcohol.

This machine, called Sypp, can be stocked with eight different syrups or other ingredients and can produce pre-programmed drinks at the press of a button.

"I like to think of these platforms as the first truly future-proof beverage machine that's been introduced to the market," Pool said, given their ability to dispense just about any liquid. "It could literally be the last soda machine or beverage dispenser that you buy until it wears out." ■

Price, Speed of Service, Store Location Boost C-Store Foodservice Sales



"Remind customers that convenience stores are the affordable option," says Robert Byrne of Technomic.

By Chuck Ulie

Two-thirds of Americans feel shaky about their finances—and this means serious implications for convenience-store traffic.

This insight comes from Robert Byrne, senior director, consumer research, at CSP sister research arm Technomic, Chicago. He spoke about consumer realities impacting dispensed-beverage programs at CSP's Convenience Retailing University on Feb. 26 in Austin, Texas.

"This is something that leadership needs to see and needs to hear every single day when they're testing you with finding where that traffic goes," Byrne said. "It evaporates in this environment."

Looking at c-store foodservice frequency over the past year does reveal "a bit of a discouraging development," Byrne said, adding that the number of foodservice consumers entering convenience retailers on a daily basis dropped from 12% to 10%.

"We also have an increase in the number who are coming in for foodservice less than once per month, a subtle but very perceptible shift," he said. "These are changes that are statistically significant, and it signals the need to address that frequency."

Some might think this requires a new strategy, but this is not necessarily true, "depending on what we can find here, because there are consumers who have upped their c-store foodservice frequency, and they tell us that good prices really are that main driver," Byrne said.

Good Prices Placed First in Survey

Good prices, at 42%, is the top reason selected by those surveyed for increased convenience-store foodservice purchases, Byrne said. Placing second, at 41%, is being able to get food and beverages quickly, while stores are located near where one works/lives is third, at 40%.

The remaining reasons—which include good food/beverage variety, food tastes good, food looks/tastes fresh, favorite beverages are offered, good value and high-quality food—had similar results, ranging from 42% to 31% in being selected.

"This tells us that c-stores have many positives beyond price that appeal to foodservice consumers," Byrne said.

Conversely, the top reason for decreased c-store foodservice purchases is prices that are too high, at 52%. Placing second is preparing food and beverages at home to save money, 45%. There is a big drop from there, with poor food quality placing third, at 14%. Other reasons are food does not look/taste fresh, not enough healthy options and poor overall value.

Retailers Should Promote Affordability

While consumers might have good reasons to be sourcing food and beverages from home, "Do they know that the average price for a c-store fountain beverage is 37% lower than that of a quick-service restaurant?" Byrne said.

Because of this, "It's time for you to remind them that you are the affordable option," Byrne said. "Now is better than never."

Byrne said data from Technomic's Ignite Consumer program offers more good news for customers engaged with a c-store's dispensed categories.

When choosing a c-store for foodservice, the c-store customer average was 86% for saying a good value through low prices was important or very important—but 87% for a hot-dispensed consumer, 88% for a cold-dispensed consumer and 83% for a frozen-dispensed consumer.

When asked about beverage quality as a decision driver, the c-store customer average was 85% in terms of saying it was important or very important. All three groups of dispensed consumers said beverage quality was more important than low prices: 89% for both hot-dispensed and cold-dispensed consumers and 86% for frozen-dispensed consumers.

"They're more invested in the quality of the beverages that you're offering than they are in the value that you provide through those low prices," Byrne said. "They're invested in the products more so than they are the value. This is great news. You need to take advantage of this."

Value perceptions and satisfaction are higher among dispensed buyers, Byrne said.

"You need to continue to reinforce the value that these guests are already extracting from their occasions that include dispensed beverage purchases," he said. "They're right there. They just need to be reminded."

In addition, c-stores should lean hard into their beverage value proposition, he said. The average c-store price for a fountain drink is \$1.83 compared with \$2.91 across quick-service restaurants; the average c-store price for regular hot coffee is \$2.11 compared with \$3.14 across QSRs.

"Don't be afraid to throw some shade at QSR prices," Byrne said. "This has worked well for others." ■

