Reinventing Dairy in Convenience Stores
Based on Retail and Shopper Insights
Convenience Store Types

The Neighborhood Store
Used for everything from fill-in needs to specific category purchases, shoppers of this store live close by and consider it to be an essential component of the community.

The Commuter Store
Generally located on heavily trafficked thoroughfares and shopped primarily by blue- and white-collar workers on their daily commute, these stores tend to be fuel stops that are also shopped for snacks, drinks, and tobacco. Beyond safety and cleanliness, shoppers look for ease of access and fuel prices.

The Interstate Store
These stores live on major highway exits and are frequented by long-distance travelers, professional drivers, and locals. They are shopped primarily for fuel, meals, snacks, beverages, and rest rooms.

Convenience Store Shopper Types

1. Drop-In-Daily:
   Jesus is the head mechanic at his shop, and his mom's house is only blocks away. He drops into convenience stores during the drive to and from his girlfriend's house for drinks and chips, but his main use for convenience stores is as a daily break from work.

2. Local Loyalist:
   Mary uses two local convenience stores; one is within walking distance and the other is a 2-minute ride away. She remembers that the nearest store used to be the "center of the neighborhood" and she would walk there most afternoons for a Lotto ticket and a pack of cigarettes.

3. Overstretched Mom:
   Jessica uses convenience stores to fill the gaps in the weekly shopping trips, often for something to help complete that evening's family dinner. She often visits on the way home from work "just to buy the one thing." Sometimes Jessica even uses a drive-thru store for basic items and thinks that these are "really cool — I don't need to take the kids out of the car."

4. Mobile Professional:
   Jeff is a 43-year-old married pharmaceutical rep based in a local hospital. He and his wife have two sons aged 14 and 11 years. The family house is in an upscale suburb of San Antonio. Jeff commutes about 20 miles to work every day.

   Jeff visits a convenience store during his drive every weekday morning to pick up a cup of coffee. He likes this store because the gas prices are competitive and the coffee is always fresh.

   On the way home in the evening, he sometimes stops at another convenience store to buy a snack or a banana or an apple pie (which he says has to be "really, really fresh").

5. Highly Hesitant:
   Brenda has not been impressed when she has visited convenience stores ("mostly when I get a Snickers attack"). She felt the stores looked outdated and were "full of stuff that was bought 10 years ago... like silk roses! And those machines in the bathroom?"

   Beyond snacks there is very little in convenience stores that Brenda wants to buy.

6. Long-Distance Driver:
   Brad relies on gas stations that are on the side of the road, which are well lit and sell familiar brands of gas. These things reassure him. If he's hungry, he always chooses to purchase food from national fast-food chains, as the risk of making a poor choice is too high. And newer gas stations often have cleaner bathrooms, he feels.

Single-Serve Dairy Products Address Convenience Shopper and Retailer Needs and Desires

**SHOPPER NEEDS & DESIRES**

- Availability of healthy, fresh products
- Products for immediate consumption
- Relevant product mix for intended consumer (i.e. kids, moms, commuter)

**RETAILER NEEDS & DESIRES**

- Increased store sales and profit opportunities
- In-store traffic
- Aligns to fresh and healthy strategic approach
Why is DMI Excited About Dairy Opportunities in Convenience Stores?

Single-serve opportunity tested in convenience stores proves that merchandising drives sales

Pct. Pt. Gain in Dollar Sales vs. Current Sales Trends*
+29.6

Incremental Dollar Sales ANNUALLY PER STORE**
+$1,266- $2,210

Incremental Dollar Sales ANNUALLY INDUSTRY-WIDE***
+$242M

* Based on Fluid Milk Single Serve <32 oz and Cheese String/Stick segments (Source: In-Store Merchandising Pilot, NACS/Coca-Cola Retailing Research Council, 2010)
** Low- and high-end projections
*** Projected based on store selling
Our Goal: To Share Shopper and Retail Insights
Revealing and Demonstrating How…

#1  Dairy can play a larger role in building sales and relevancy with today’s convenience shopper

#2  Dairy can help drive stronger performance in other, strategically important categories at the same time

#3  Effective merchandising of single-serve dairy products can generate impressive incremental sales gains

#4  Dairy offers an excellent platform to build shopper engagement via messaging and visual graphics
Point #1
Dairy can play a larger role in building sales and relevancy with today’s convenience shopper
Milk is the Second Most Regularly Consumed Beverage*

Percent of Consumers Drinking on a Weekly Basis (U.S.)

Source: eSip, year-ending 6/10 (data represents average weekly consumption)

*Based on non-alcoholic, packaged beverages only
Milk has the Third Highest per Capita Consumption*

Average Ounces Consumed per Week per Capita (U.S.)

<table>
<thead>
<tr>
<th>Beverage</th>
<th>Average Ounces Consumed per Week per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbonated Soft Drinks</td>
<td>69.3</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>48.8</td>
</tr>
<tr>
<td>Fluid Milk</td>
<td>35.6</td>
</tr>
<tr>
<td>Fruit Juice</td>
<td>20.1</td>
</tr>
<tr>
<td>Fruit Drinks</td>
<td>8.3</td>
</tr>
<tr>
<td>Sports Drinks</td>
<td>5.4</td>
</tr>
<tr>
<td>Iced Tea (RTD)</td>
<td>4.8</td>
</tr>
<tr>
<td>Energy Drinks</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: eSip, year-ending 6/10 (data represents average weekly consumption)

*Based on non-alcoholic, packaged beverages only
Milk is the Third Largest Non-Alcoholic Beverage Category in Convenience Stores

**Annual Dollar Sales – Non-Alcoholic Packaged Beverages**
(Average per Store)

- **Carbonated Soft Drinks**
  - $96,427
- **Energy Drinks**
  - $41,274
- **Fluid Milk**
  - $31,862
- **Bottled Water**
  - $29,159
- **Juice/Juice Drinks**
  - $20,158
- **Sports Drinks**
  - $20,001
- **Ice Tea (RTD)**
  - $12,287
- **Other Packaged Beverages***
  - $8,556

**Did you know?**

Fluid Milk represents over 12% of the dollar sales for non-alcoholic packaged beverages.

*Include: chocolate drinks, coffee drinks, diet supplements

**Source:** 2010 State of the Industry Report, based on 2009 data, NACS.
Dairy Can Address Convenience Shoppers’ Desires For Healthier and More Nutritious Beverages

Beverage Purchase Decision Tree
(Convenience Shopper)


*Based on non-alcoholic, packaged beverages only
Leveraging Single-Serve Milk Creates Many Other Cross-Promotional and Merchandising Opportunities

**Purchase Affinity – Milk Pints**  
(Percent of Transactions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Affinity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comm. &amp; Pkgd Sandwiches</td>
<td>31.4%</td>
</tr>
<tr>
<td>Food Prepared On-Site</td>
<td>28.4%</td>
</tr>
<tr>
<td>Pkgd Beverages (na)*</td>
<td>25.3%</td>
</tr>
<tr>
<td>Pkgd Sweet Snacks</td>
<td>21.2%</td>
</tr>
<tr>
<td>Dispensed Beverages</td>
<td>18.4%</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>14.2%</td>
</tr>
<tr>
<td>Candy</td>
<td>12.3%</td>
</tr>
<tr>
<td>Salty Snacks</td>
<td>12.2%</td>
</tr>
<tr>
<td>Grocery</td>
<td>9.5%</td>
</tr>
<tr>
<td>Publications</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

*Source: Transactional analysis based on 40,526 customer transactions involving Milk Pints between 3/1/10 and 3/31/10 in Convenience Stores, Balvor LLC.*

*na = non-alcoholic*
Convenience Drives More Business from Quick Trips and Immediate Consumption Pack Sizes

**Quick Trip Share - Milk**
(% of Total Category Trips)

- Convenience: 96.7%
- Drug: 82.9%
- Grocery: 28.2%

**Single-Serve (<32oz) Milk**
(Share of Total Milk Dollar Sales)

- Convenience: 25.6%
- Drug: 5.0%
- Grocery: 1.7%

*Source: IRI Trip Typology: Trip Mission, IRI, Total US, Grocery, 52 w/e 5/25/08.*

*Source: C-Store Monthly Report, 52 weeks-ending 6/27/10, SymphonyIRI; IRI InfoScan®, Total U.S., Drug & Grocery, 52 weeks-ending 6/27/10.*
Convenience Drives More Business from Quick Trips and Immediate Consumption Than Grocery

Quick Trip Share - Yogurt
(\% of Total Category Trips)

Drinkable Yogurt
(Share of Total Yogurt Dollar Sales)

Source: IRI Trip Typology: Trip Mission, IRI, Total US, Grocery, 52 w/e 5/25/08.

Convenience Drives More Business from Quick Trips and Immediate Consumption Product Types

Quick Trip Share – Cheese
(% of Total Category Trips)

<table>
<thead>
<tr>
<th>Category</th>
<th>Natural</th>
<th>Processed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience</td>
<td>74.0%</td>
<td>69.2%</td>
</tr>
<tr>
<td>Drug</td>
<td>58.5%</td>
<td>45.5%</td>
</tr>
<tr>
<td>Grocery</td>
<td>14.7%</td>
<td>12.9%</td>
</tr>
</tbody>
</table>

String/Stick Cheese
(Share of Total Cheese Dollar Sales)

<table>
<thead>
<tr>
<th>Category</th>
<th>Drug</th>
<th>Grocery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience</td>
<td>41.6%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Drug</td>
<td>19.7%</td>
<td></td>
</tr>
</tbody>
</table>

Source: IRI Trip Typology: Trip Mission, IRI, Total US, Grocery, 52 w/e 5/25/08.
String/Stick Cheese Aligns with Convenience Shopper and is a Growing Product Segment

Sales Trends - String/Stick Cheese
(Convenience Stores)

- Volume Sales (lbs.): 7.5%
- Dollar Sales: 14.7%

Source: C-Store Monthly Report, 52 weeks-ending 5/30/10, SymphonyIRI.
Point #2
Dairy can help drive stronger performance in other, strategically important categories at the same time.
Milk Shoppers Visit Convenience Stores More Often and Spend More per Trip vs. Average Convenience Shopper

Store Visit Frequency (Past 30 Days)

Dollars per Transaction* (Last Visit)

Average Shopper  Fluid Milk Shopper

Average Shopper  Fluid Milk Shopper


* Includes all products purchased except fuel sales
Convenience Stores Sell More Single-Serve than Any Other Size Improving Profitability

Source: Composite based on unpublished data from various convenience store retailers, Balvor LLC.
Driving Single-Serve Milk Sales Helps to Build the Number of Items Purchased per Trip

Number of Total Units Purchased per Transaction
(When ___ size is purchased)

- Gallon: 3.6
- Half Gallon: 4.2
- Quarts: 4.6
- Pints: 5.5

Source: Transactional analysis based on 263,863 customer transactions involving Milk between 3/1/10 and 3/31/10 in Convenience Stores, Balvor LLC.

*Excludes fuel sales
**na = non-alcoholic
Increasing the Visibility of Single-Serve Milk Can Generate More Demand for Fresh Foods Offering

Purchase Affinity – by Milk Package Size
(Percent of Transactions)

Source: Transactional analysis based on 263,863 customer transactions involving Milk between 3/1/10 and 3/31/10 in Convenience Stores, Balvor LLC.
Point #3
Effective merchandising of single-serve dairy products can generate impressive incremental sales gains
The NACS/Coca-Cola Retail Research Council (CCRRC), Ricker Oil and a number of supplier partners came together to develop ideas to enhance the experience and engage the convenience shopper. As such, the test included four distinct merchandising fixtures:

- **Recharge Garage** – A one-stop snack solution designed to solve impulse hunger cravings.
- **Refuel and Refresh** – A refrigerated cooler designed to appeal to more health conscious on-the-go individuals.
- **Express Café** – An open refrigerated unit designed to appeal to combo meal purchasers with day-part selections.
- **Survival Station** – A counter fixture designed to solve immediate needs for necessity products or brands.

DMI participated in the **Refuel and Refresh** cooler concept.

*Source: Finding the Way: A Practical Roadmap for Capturing Emerging Opportunities in Convenience Retail, NACS/Coca-Cola Retailing Research Council, 2010.*
NACS/CCRRC Refuel & Refresh Test Stores

Store #1
Store Type: Interstate

Primary Shopper: Long Distance Driver

Secondary Placement: Along windows to right of entry; across from checkout

Store #2
Store Type: Neighborhood

Primary Shopper: Local Loyalist

Secondary Placement: To the right of the entrance, a few feet back; near checkout

Store #3
Store Type: Neighborhood

Primary Shopper: Local Loyalist

Secondary Placement: To the left of the entrance; across from checkout

Store #4
Store Type: Neighborhood

Primary Shopper: Drop-In Daily

Secondary Placement: Center of the store, across from checkout

The Cooler Offered a Secondary Placement for Single-Serve Products that Satisfy the On-the-Go Shopper

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelf 3</td>
<td>Brand A: Yogurt Strawberry Cup*</td>
<td>Brand A: Yogurt Strawberry Cup*</td>
<td>Brand A: Yogurt Peach Cup*</td>
<td>Brand D: Drinkable Yogurt* Banana Berry</td>
<td>Brand D: Drinkable Yogurt* Strawberry</td>
</tr>
<tr>
<td>Shelf 4</td>
<td>Brand E: Enhanced, Bottled Water SKU #1*</td>
<td>Brand E: Enhanced, Bottled Water SKU #2*</td>
<td>Brand E: Enhanced, Bottled Water SKU #3*</td>
<td>Brand E: Enhanced, Bottled Water SKU #4*</td>
<td>Brand E: Enhanced, Bottled Water SKU #6*</td>
</tr>
</tbody>
</table>

*New item - not previously in distribution in test or control stores.

**While DMI made recommendations, final assortment and creative decisions were determined by the test retailer.


Did you know?
If you’re concerned about out-of-codes and rotation practice, extended shelf life milk products are available that minimize those operational issues.
Test Built More Interest and Sales as Shoppers Engaged with the Cooler

Key Shopper Metrics

- **Browsed**
  - Percent of Shoppers that Noticed and...: 31.0%
  - Percent of Shoppers that Browsed and ...: 34.0%

- **Purchased**
  - Percent of Shoppers that Browsed and ...: 19.5%
  - Percent of Shoppers that Browsed and ...: 38.6%

Sales Evaluation Methodology

Test Panel

<table>
<thead>
<tr>
<th>Pre-Implementation PCYA</th>
<th>Post-Implementation PCYA</th>
</tr>
</thead>
<tbody>
<tr>
<td>+1.5%</td>
<td>+5.5%</td>
</tr>
</tbody>
</table>

Pre-Implementation PCYA = 1.5%

Post-Implementation PCYA = 5.5%

Change in Performance = +4.0 Pct. Pt.

Control Panel

<table>
<thead>
<tr>
<th>Pre-Implementation PCYA</th>
<th>Post-Implementation PCYA</th>
</tr>
</thead>
<tbody>
<tr>
<td>+0.9%</td>
<td>+1.0%</td>
</tr>
</tbody>
</table>

Pre-Implementation PCYA = 0.9%

Post-Implementation PCYA = 1.0%

Change in Performance = +0.1 Pct. Pt.

Impact of Reinvention = +3.9 Pct. Pt.

Figures in Green are Simply Example Results

Accounts for growth rate trends occurring before implementation of test elements
Secondary Placement Drove Strong Results for the Single-Serve Milk Segment

Incremental Lift in Sales* – Single-Serve Milk (<32 oz)
(Percentage Point Improvement)


*Test versus Control Stores
Single-Serve **White Milk** Generated 14.6 Pct. Pt. Increase in Incremental Unit Sales Due to the Cooler

Units Sold – Fluid Milk – **White Single-Serve <32oz**
(Percent Change Versus Year Ago)

**Incremental Sales +14.6 pct. pts.**
(Difference between Test and Control)

**-9.8%**

**-4.4%**

**22.9%**

**2.9%**

Secondary Coolers Helped Drive Incremental Sales for Skim and Whole Single-Serve White Milk

Units Sold – Fluid Milk – **White Single-Serve <32oz**
(Percent Change Versus Year Ago)

- **-11.4 pct. pts. in incremental sales.**
  - 1.3%
  - 11.4%
  - 2.5%
  - -1.1%

- **+135.1 pct. pts. in incremental sales.**
  - Pre-Install
  - Post-Install
  - 110.4%

- **+13.8 pct. pts. in incremental sales.**
  - 6.9%
  - 17.3%
  - 48.0%


*Incremental sales = percentage point change in test stores – percentage point change in control stores*
Single-Serve Flavored Milk Generated 27.6 Pct. Pt. Increase in Incremental Unit Sales Due to the Cooler

Units Sold – Fluid Milk – Flavored, Single-Serve <32oz
(Percent Change Versus Year Ago)

Incremental Sales +27.6 pct. pts.
(Difference between Test and Control)

-8.8% 4.2% 30.4%
Control Test

+13.1 Pct. Pts. Improvement (Post vs. Pre)
+40.6 Pct. Pts. Improvement (Post vs. Pre)

Incremental Sales +27.6 pct. pts.
(Difference between Test and Control)

-10.2%

Single-Serve Flavors All Experienced Positive Incremental Lifts in Unit Sales Because of the Cooler

Units Sold – Fluid Milk –
Chocolate Single-Serve <32oz
(Percent Change Versus Year Ago)

Control  Test
-11.0%  +26.8%

Incremental Lifts

Units Sold – Fluid Milk –
Strawberry Single-Serve <32oz
(Percent Change Versus Year Ago)

Control  Test
-30.9%  +64.2%

Incremental Lifts

*Incremental sales = percentage point change in test stores – percentage point change in control stores

String/Stick Cheese in the Cooler Increased Over 44 Pct. Pts. in Units Sold

Units Sold – Cheese String/Stick – Test SKUs
(Percent Change Versus Year Ago)

Incremental Sales +44.6 pct. pts.
(Difference between Test and Control)

-6.4 Pct. Pts. Improvement
(Post vs. Pre)

+38.3 Pct. Pts. Improvement
(Post vs. Pre)

Control
-10.4%
-16.7%

Test
-22.3%

Leveraging Underutilized Space Near Checkout Positively Impacted Sales in Test Stores

Units Sold – Fluid Milk - Single-Serve <32oz – Test SKUs (Percent Change Versus Year Ago)

Incremental Sales +33.5 pct. pts.*
Incremental Sales +21.4 pct. pts.*
Incremental Sales +19.8 pct. pts.*
Incremental Sales +14.2 pct. pts.*
Incremental Sales 21.5%

-12.4% -6.6% 5.8% -4.3%

*Incremental sales = percentage point change in test stores – percentage point change in control stores  
Note: Control stores reported an average sales improvement of +11.6 pct. pts.

Top Line Results from NACS/CCRRC Refuel & Refresh Test

• Using a secondary cooler drove incremental gains for single-serve milk:
  ➢ Unit Sales: nearly 24 percentage point gain
  ➢ Dollar Sales: 28 percentage point gain

• Flavored, single-serve milk generated 27.6 percentage points increase in incremental unit sales

• White, single-serve milk generated 14.6 percentage point increase in Incremental Unit Sales

• Cheese SKUs merchandised in the cooler had a 44.6 percentage point lift in unit sales.

• Yogurt’s test performance was difficult to evaluate due to wholesale distribution issues

Point #4
Dairy offers an excellent platform to build shopper engagement via messaging and visual graphics
In-Store Communication Needs to Engage Shopper as They Tend to Have Routine Shopping Patterns

Noticed Secondary Cooler
(Percent of Total Shoppers)

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1 Week After Installation</td>
<td>7.4%</td>
</tr>
<tr>
<td>~4 Weeks After Installation</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Recommendations for Further Consideration

• Leverage merchandising opportunities with single-serve dairy products
  ➢ Secondary coolers, cold vault, cross-merchandising opportunities

• Assortment -
  ➢ Fluid milk – Provide proper mix of flavored and white, single-serve SKUs
  ➢ Cheese – Offer “on-the-go” string and stick flavor and size varieties
  ➢ Yogurt – Showcase both cup and drinkable SKUs

• Distribution – Ensure constant availability of a variety of fresh products in a well-maintained cooler

• Cooler Location – Test proved that coolers located near the checkout in a high-visibility location will increase milk and cheese sales

• Signage –
  ➢ Graphics: Utilize high-impact, color imagery depicting core products and/or target shopper segments
    ➢ Incorporate elements throughout entire “path to purchase” including outdoor (pump, pole toppers, window/door clings), cross merchandising opportunities (bakery, packaged desserts, sandwiches) and the cold vault (clings, shelf strips, wobblers)
  ➢ Messaging: generate awareness for product(s) availability, convenience, health benefits, etc to motivate purchase
    ➢ Convey dairy’s healthy, fresh offerings

Dairy Creative Can Develop Themes Related to Kids, On-the-Go, and Health and Wellness

Examples of Dairy Cooler Creative
Graphics and Messaging Can Support a range of Need States and Usage Occasions

Examples of Dairy Cooler Creative
Graphics and Messaging Can Reinforce the Need to Refuel or Care for Self and/or Family

Examples of Dairy Cooler Creative
Dairy Graphics and Messaging Should Be Utilized Throughout Entire Store Generating Awareness

- Shelf Wobbler
- Shelf Strip
- Door Cling
Graphics and Messaging Can Reinforce the Need to Refuel or Care for Self and/or Family

Examples of Other Dairy Creative

Mom & Kids

Wall Graphics

Ceiling Mobile or Cooler Door Cling

Secondary Cooler

On-the-Go

Side Panel for Secondary Cooler
Recap: Shopper Insights and Retail Testing
Illustrate and Validate That…

#1 Dairy can play a larger role in building sales and relevancy with today’s convenience shopper

#2 Dairy can help drive stronger performance in other, strategically important categories at the same time

#3 Effective merchandising of single-serve dairy products can generate impressive incremental sales gains

#4 Dairy offers an excellent platform to build shopper engagement, via messaging and visual graphics
DMI CONTACT INFORMATION

Mark Blake, Director Retail National Accounts - East
• Email: Mark.Blake@rosedmi.com
• Office: 615-595-5725
• Cell: 224-422-8690

Adriana Kuropas, Manager—Strategic Insights
• Email: Adriana.Kuropas@rosedmi.com
• Office: 847-627-3736
• Cell: 847-321-5402
Milk It
For All It’s Worth

Strong margins make single-serve a cool opportunity

BY LINDA ABU-SHABEAT
linda@csprenew.com

The milk data revealed at this year’s NACS State of the Industry (SOI) Summit was a stunner for some. According to preliminary numbers from NACS, milk dollar sales fell 28% in 2009 vs. four years ago, making it one of the top 10 sales trends outlined by the association.

“A lot of folks probably came out of there wondering, ‘What do we do with fluid milk?’” says David Bishop, managing partner with Barrington, Ill.-based Balvor LLC, a sales and marketing consultancy that has been involved in milk research for retailers.

There’s more to the numbers than meets the eye, Bishop contends, and milk actually represents an opportunity.

“‘It’s important to put it in perspective that fluid milk sales are very closely linked to commodity costs,” Bishop says. “And what we happened to have was a market where commodity prices were extremely low levels vs. previous years.”

So, as dollar sales for milk were down 15% in 2009 vs. the previous year, according to the numbers ($2,802 vs. $3,314), the Consumer Price Index shows that retail prices for milk fell 13%, accounting for the majority of that number. With decreases in commodity costs the previous year causing farmers to reduce their herds, prices dropped.

**MILKING OPPORTUNITY**

- A secondary cooler can help milk maintain a store’s milk offering
- Think of milk as a way to draw in fresh dairy introduce
- In-store-related events can help promote milk as a healthy alternative
- Use navigational cues and margin during cool milk visible

**SINGING OUT MILK**

Some retailers say milk sales haven’t actually dried up: they’re just in transition.

Indeed, if one scans the channel’s cold walls, the strength lies in single-serves. Take water, CSDs and other beverage segments. Muscle is found not in the sales of gallons and liters but in immediately consumed singles.

Perhaps that is the way of milk. And perhaps that is why some retailers are rethinking their milk planograms and wondering whether to scale back on gallon and half-gallon promotions.

Scuff’s Inc., a 47-store chain based in Lake City, Fla., that does business as S&S Food Store and Scuff’s Market, is among this growing movement. Keith Brown, Scuff’s senior vice president of marketing, says the company expanded its single-serve offering to two shelves earlier this year to accommodate popular flavored milks.

“We still have a nice mark-up on single serve, and gallon have little or no margin,” he says.

A Natural Affinity

Another opportunity for retailers could be in placing single-serve milk near products that lend themselves to the milk. Research from Burlington, VT-based Baker’s LLC has outlined nine areas of occasion where milk pairs perfectly with retail categories.

**Commercial and packaged sandwich**

<table>
<thead>
<tr>
<th>Source: Balvor LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food prepared on site</td>
</tr>
<tr>
<td>Package beer ages</td>
</tr>
<tr>
<td>Package mixed drinks</td>
</tr>
<tr>
<td>Bagged beer ages</td>
</tr>
<tr>
<td>Cigars</td>
</tr>
<tr>
<td>Candy</td>
</tr>
<tr>
<td>Salty snacks</td>
</tr>
<tr>
<td>Grocery</td>
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To that end, Balvor research found that gross profit margin as a percent of dollar sales actually increases as the package size decreases at 27.4% for gallons all the way up to 41.9% for single-serve (less than 32 ounces).

While early evidence suggests this trend will continue, retailers are now forced to consider several options, including whether to swap out gallon for single-serve and reduce the gross profit margin, which observers boast is not just a morning day-part item, but also a meal replacement or late-night/daytime snack.

A recent pilot program from the NACS/Coca-Cola Retail Research Council, Balvor, Dairy Management Inc. and supply partners, called Redel and Refresh, created a secondary refrigerated cooler to appeal to more health-conscious on-the-go individuals.

The cooler, offering single-serve milk, was placed across from or near the checkout at interstate and neighborhood-Baker’s sites. Released in June, the report shows the following sales jumps in a year:

- Stores using a secondary cooler drove an incremental 28% increase in dollar sales
- Those stores also yielded a nearly 24% gain in unit sales
- Flavored, single-serve milk generated an increase of 27.6% in incremental unit sales, with chocolate unit sales growing 17.6% and strawberry soaring 81.5%

“I know that dairy is a category with which we always seem to be competing with other channels,” says Keith Brown, marketing director for Anderson, Ind.-based Balvor’s. “We think that there is some definite visibility to a secondary display with single-serve products, and being able to include milk in it really made us think that’s also a viable option for us.”
Reinventing Dairy

Best Practices

Although milk sales have fallen across the channel, it would be a slight to suggest that all retailers are struggling.

Ken Strong, general manager of Gordmans, a Cali-based United Oil Co., operator of 120 Food Mart and United Mart locations, says his company does “nothing unusual for merchandising.” Single-serve nets half a full shelf, depending on the set, and Nesquik flavors do well. “They are priced for our channel, but dairy pricing does not vary too much.”

The biggest challenge for single-serve milk, he says, is competing with the plethora of other single-serve beverages. Still, milk is a steady category for the company, growing 3% to 4% this year, mostly attributable to single-serve. The company sells gallons at about 10 neighborhood locations.

Along with assortment, other steps are essential to a serious milk strategy, experts say:

- Keep It Fresh. Ensure milk is properly fresh-coded. Bishop says, “If you can’t manage your fluid milk backorder to keep fresh products in stock and offer value on those, how can a consumer expect you to do that in other fresh-foods areas that are even more perishable?”
- Flip Side of the Hero. Good fresh-food codes can mean enhancing a store’s reputation as a fresh-food destination. According to Balvoor, fresh foods are often purchased with single-serve milk. (See sidebar on p. 108.)
- Have the Right Mix. Timothy Mody, USDA sales manager of Lafayette, N.Y.-based Byrne Dairy, points out, “You only have so much space that you can reserve for single-serve, so you need to be very selective with what products you place in the retail outlets and where.”
- For Suits, Bishop of Balvoor says neighborhood stores, which likely serve as a fill-in destination on the way home.

“Retailers face challenges — and opportunities — in the dairy category, and it is important to understand the consumer, their needs, and what makes them buy dairy,” Mody says. “We aim to provide a balanced assortment of products that met the needs of our customers.”

From work, would be more conducive to gallons and larger sizes, intermediate commuter stores mean shoppers who are heading to or from work may want to pick up smaller package sizes. Some retailers, he says, are selling smaller 6-ounce single-serves to fill the need for consumers seeking lower price points.

As for branding, obviously national brands can mean consumer recognition while private or local brands appeal to the value shopper, as well as the burgeoning concept of supporting local companies. Bishop says the price point on comparable stores is about 25% less than national brands.

“I think the primary role and value in having a two-tiered branding approach in milk is that it appeals to both the brand- and value-conscious shopper, and that’s especially important if a retailer is trying to build their fluid milk business,” he says.

Seek Innovation. Strong says, “Innovation and branding will help dairy.” And Mody of Byrne Dairy, which also operates 50 c-stores, couldn’t agree more. “The challenges today come from so many different types of single-serve offerings, and the space that each company is trying to get inside the c-stores. Don’t be afraid to try different things!”

To expand the company’s distribution, Byrne in January introduced expanded-shelf-life milk, which lasts about 90 days and comes in nine flavors. “The trends are that single-serve is growing in a category that we are seeing and feel will continue throughout the year,” Mody says.

Communicate Health Benefits. Rebecca MacKay, vice president of sales and marketing for Rosemont, Ill-based Dairy Management Inc. (which also staffs the innovation center for U.S. Dairy), says it’s important to engage customers because dairy can be a routine purchase, causing a disconnect or lack of emotional engagement.

“There are two huge opportunities to communicate consumer benefits at the shelf either through signage or messaging,” she says. “And it’s especially important to leverage the health-and-wellness equity of dairy—becoming a trusted source for the consumer for health-and-wellness information. . . . What we’ve seen is shoppers reward retailers who’ve taken the opportunity to communicate personal consumer benefits with their loyalty.”

Merchandise Single-Serve Differently. When merchandising gallons, retailers often use price promotion. But Bishop says aggressive pricing might not be as much with single-serve, because the customer might not give c-store...
"If you can’t manage your fluid-milk business to keep fresh products in stock and offer value on those, how can a consumer expect you to do that in other fresh-foods areas that are even more perishable?"

Retailers “credit” for the reduced price. “The consumer may not recognize a really good price on single-serve, whereas they would be more likely to recognize a good price on a gallon of milk. Simply because a gallon of milk is … a package size they would purchase generally much more frequently and purchase elsewhere,” he says.

For single-serve, Bishop says loyalty programs are more common (e.g., purchase six and get the seventh free) to drive frequency. Suppliers also might take a role, with companies such as Nesquik offering door-coupon tear strips for 40 cents off on a single-serve, for example.

Work with Suppliers. As in the Nesquik cents-off example, suppliers can help retailers optimize growth potential. Molly of Byrne Dairy says, “We have seen in successful retail outlets that space allocated for single-serve will increase sales. We have seen those retailers use two facings of each flavor, multiple deep in not just the dairy section of stores, but included in the beverage areas (and) areas that have a food-service line.”

Create a Dairy Drive. Align with c-store shopper needs including convenience, health and wellness, on-the-go, meal replacement, seasonal needs, healthy snacking or items that can be put together to form meals, MacKay says. She also suggests that a special-interest section in a c-store could include single-serve milks, as well as snacking-related dairy items, such as string cheese, drinkable yogurt, etc. “Aligning with those kinds of needs will drive store loyalty,” she says.

Finally, navigational cues and meal bundling can add to the product’s appeal and increase shopper engagement, according to MacKay. “So they spend more time shopping and less time searching, and they have a more enjoyable shopping experience along the way.”
KEEP IT SIMPLE — AND EASY

Indianapolis-based Ricker Oil took a national study to heart, testing solution-oriented displays to increase shopper engagement and sales.

BY JAY RICKER

Many retailers believe they know what their customers want, but more often than not, we are currently offer- ing them too much. In the NACS/Coca-Cola Retailing Research Council’s 2009 study, Fast Forward: Emerging Opportunities in Convenience Retail (available at ccrcc.org), provides one answer: a strong focus on convenience store shopper needs, including the fundamentals of a clean, safe and hospitable environment.

In the NACS/CCRC research, these fundamentals are expressed in a pyramid, which emphasizes improving performance from the bottom up. The first three levels (safety, cleanliness and hospitality) are the foundation for new value. If these basics are not met, new initiatives will have less impact.

The top two levels (simplicity and ease, time enrichment) are areas where convenience retailers can encourage shoppers to spend more time and money in their stores. This is where stores can really stand out.

At Ricker Oil, these fundamentals have been a priority since we purchased our first store in 1989. And the shopper needs of simplicity and ease — identified by the study — were the areas that recently intrigued and inspired us the most. Equally as important, these needs suggested a significantly different way to expand our customer base and deliver value.

The Test

Historically, a traditional “product and category” approach to merchandise displays has been followed by most convenience stores, including Ricker. But what happens when we turned that thinking on its head and created displays that helped shoppers satisfy their needs and cravings, effectively solving their problems?

These solution-oriented displays could better engage shoppers and drive incremental purchases. To test the theory, we undertook a year-long pilot project in collaboration with The Integer Group (a retail marketing agency), the NACS/CCRC Council and seven key suppliers.

“This Ricker pilot set out to validate some of the new ideas presented in the Fast Forward study, as well as in the ensuing report, Finding the Way Forward: A Practical Roadmap for Capturing Emerging Opportunities in Convenience Retail,” said Bill Bishop, chairman of Willard Bishop LLC and NACS/CCRC research director. “The pilot reflected great discipline and tight controls, plus significant interaction between Council members, the research group, retailers and suppliers...”[The resulting data revealed not only what consumers said they would do, but how they actually behaved."

Convenience store operators can benefit from exploring these kinds of new ideas — or ignoring them at their own peril. The real risk is competition intensifying from grocers, pharmacies and other retailers that are also appealing to the convenience shopper.

Frank Gibson, retail director of Top Gurus and NACS/CCRC chairman, concurs. "With consumer sentiment at an all-time low, [consumers] are unwilling to give retailers any latitude for not delivering on their core offer. Therefore, simplicity and ease are the qualifiers for a c-store nowadays. Shoppers tell us, ‘Give me what I need, get me in and out quickly, and do it consistently.’"

But how do you go about doing that?

A Methodical Approach

Our initiative involved designing innovative display fixtures, placing them strategically within stores, measuring their effect on sales and conducting qualitative interviews with shoppers. Seven suppliers collaborated well together: Rutt’s Bros., The Coca-Cola Company, Dairy Management Inc., The Hershey Company, Jack Link’s, Krafft and Procter & Gamble.

With help from Integer, we compared eight test stores against eight control stores over a period of four months. Four unique merchandising displays were created and tested — based on input from the seven suppliers and produced by Jerry Price at Mobile Merchandisers — in each of the eight test stores.

To understand the effects of the displays influencing unit and dollar sales, Integer analyzed data reflecting prior nine-week sales averages of all SKUs, subcategories or categories tested on the merchandising displays, as well as actual 13-week sales data during the test period.

We conducted shopper intercepts in two phases: immediately after and within a month of display introduction. We asked respondents who noticed or made a purchase from the displays to complete a brief interview-administered survey. In addition, a separate associate in each store tracked awareness and usage of the displays.

“We designed the pilot to generate quantitative and qualitative results,” said Paul Bellou, Integer’s vice president of strategy and insight. “Beyond the transac- tional data, this project enabled us to speak to shoppers and understand frequency of shopping, planning versus impulse buying, store selection and the displays’ impact.”

Hierarchy of Shopper Needs

![Hierarchy of Shopper Needs](image)

1. **Adding Value**
2. **Basic Needs**

Source: Fast Forward: Emerging Opportunities in Convenience Retail

September 2010 NACS Magazine
Solution-oriented displays appeal to shoppers who are less familiar with the store and effectively sell products to those who stop and browse the fixtures.

“Theme-ing” the displays and stocking them with products that address specific consumer needs and different shopper segments was key, according to Keith Brovzik, Ricker’s director of marketing. “Our goal was to determine how to best position these products and fixtures to draw in consumers.” Specific themes and taglines included “Refuel & Refresh,” “Express Café” and “Recharge Garage,” to help shoppers quickly and easily find products based on the solution being offered.

The Display Difference

The research yielded expected results – and a few surprises. As assumed, display fixtures promoting a specific consumer need do increase sales. However, while almost 60 percent of shoppers interviewed had planned to purchase from a category when they came into a Ricker’s store, less than 40 percent planned on buying the brand they purchased. The display clearly influenced what they bought.

The research reinforced that product placement and display can influence purchase patterns. A significant increase in sales can result when the proper mix of categories and cross-merchandising combine. For example, our single-serve milk products in the Refuel & Refresh display experienced nearly a 40 percent improvement in unit sales versus control stores.

Another key learning: Solution-oriented displays appeal to shoppers who are less familiar with the store and effectively sell products to those who stop and browse the fixtures. Regular shoppers often already have a shopping routine so the displays aren’t quite as effective.

The research also yielded an unexpected result: Some of the fixtures attracted certain shopper segments. For example, Refuel & Refresh attracted a disproportionate share of our female shoppers with children in tow.

A final learning: A craving or seeing a favorite brand triggered most unplanned purchases. Shoppers found the new solution-oriented display fixtures easy to shop, and impulse purchases were encouraged by the availability of favorite brands.

The Ricker pilot offers motivation to develop and test more and different solution-oriented displays, concluded Bishop. “The takeaway is that if you build a display targeting specific shoppers, you can use it to enhance your relationships and make your patrons more comfortable.”

Glessen summed it up: “Too often, c-store retailers don’t take the time to evaluate their business. Using the principles and ideas in the NACS/CCIBP study can really add value and help operators ensure that they have a sustainable model. My advice is to start now.”

Tips for Creating Solution-Oriented Displays

- Use themes or tailor messages that draw attention to the solution you’re offering.
- Target the segments of shoppers who visit your stores infrequently. They may be more willing to try new offerings, and they present your biggest opportunity for incremental sales.
- Test one of the display concepts outlined in the Ricker Oil project in a better serve a shopping segment you may be underserving.
- Routinely talk with shoppers and staff to understand your shoppers’ needs. Respond accordingly and stay flexible.

HEAR MORE AT THE NACS SHOW!

Join Bill Bishop and Paul Ballew, along with representatives from Ricker Oil, Kraft and Hershey, as they present “Driving Impulse Sales with Innovatively Themed Displays” on Tuesday, October 5 at 4:00 pm. Hear firsthand what you need to do to create more effective, “solution-oriented” displays and see solid evidence for why it is worth the effort.

2009-2010 NACS Chairman Jay Ricker is the chairman of Anderson, Indiana-based Ricker Oil. Established in 1979, Ricker Oil owns and operates 50 convenience stores, a petroleum dealership and other enterprises.