

# AACS

State of the Industry  
Report - 2011.

# Welcome to the 2011 AACCS State of the Industry Report.



I would like to begin by thanking those Retailers who took the time to provide data to enable us to compile this year's report. In addition, I thank Paul Bull and the Team at Real World Marketing for the work in compiling the report, as well as our major contributors this year being Nielsen, him! Australia, Aztec and the ACRS at Monash University.

The trend of aggressive competition has continued which has kept the pressure on our Retailers. Aside from this, we have seen increased regulation on the Tobacco category, still a major sales and profit generator for our industry, and in 2012 we will see the proposed plain packaging Tobacco regulations come into force. In addition, the carbon tax is planned to start mid 2012 which is potentially another factor which will place additional cost burdens on our stores. Despite all of these factors, Convenience Retailers are resilient as well as confident in the role we play in our Customer's lives and we see a very positive future for our channel.

The challenge will be to adapt to changing circumstances and not to forget the three key areas for action that were identified at the AACCS Convenience Leaders Summit in November:

- » **COLLABORATION** between Retailers and Suppliers, particularly in relation to supply chain as we see further structural changes taking place even now
- » **INNOVATION** in terms of store and the consumer offer, and
- » **DIFFERENTIATION** to set each brand apart.

AACCS has continued to play a role in keeping the issues confronting our Members front and centre with all policy makers.

---

The past year has seen the following examples of achievements for the benefit of our Members and the industry:

- » A new weekly newsletter containing articles of interest to our industry from around the world as well as specially written pieces on topical issues
- » 'Convenience 2020' research project results launched
- » A refreshed AACS website
- » Representation to state and federal governments on the issue of Tobacco displays in store as well as plain packaging of Tobacco (note our reference on [page 20](#) of the report)
- » Representation to state and federal governments on the issue of alcohol sales through Convenience stores
- » Representation to state and federal governments on the issue of kilojoule labelling exemptions for our stores
- » A very successful annual Gala and Awards dinner which recognised excellence in our industry, as well as presented the Peter Jowett Scholarship awards to two worthy winners
- » A very successful overseas study tour to Chicago and Vancouver
- » A very successful Convenience Leaders Summit held in Adelaide
- » Provision of requested industry information to Retailers, Suppliers and the media
- » Convenience Simulation training programs conducted in Melbourne and Sydney
- » A new on line training facility launched
- » Hosted a major delegation of Convenience store operators from China
- » A strong Board comprising industry representatives vitally interested in the future and welfare of the industry

It is important to note that not all Convenience Retailers or Suppliers to our stores choose to be members of AACS, however they do also indirectly benefit from our actions and representations despite making no contribution to our collective efforts.

We do look forward to more Retailers and Suppliers joining with us in future to strengthen our voice on behalf of all members.

The AACS State of the Industry Report takes on a different slant this year with more insights than just numbers, and we will build on this in future years.

I welcome your feedback at any time, and we will strive for ongoing improvements which will benefit our members.

I would also take the opportunity to thank the major sponsor for this year's 'AACS State of the Industry Report', Coca-Cola Amatil.

**Jeff Rogut** FAIM

**Executive Director**

Australasian Association of Convenience Stores

---

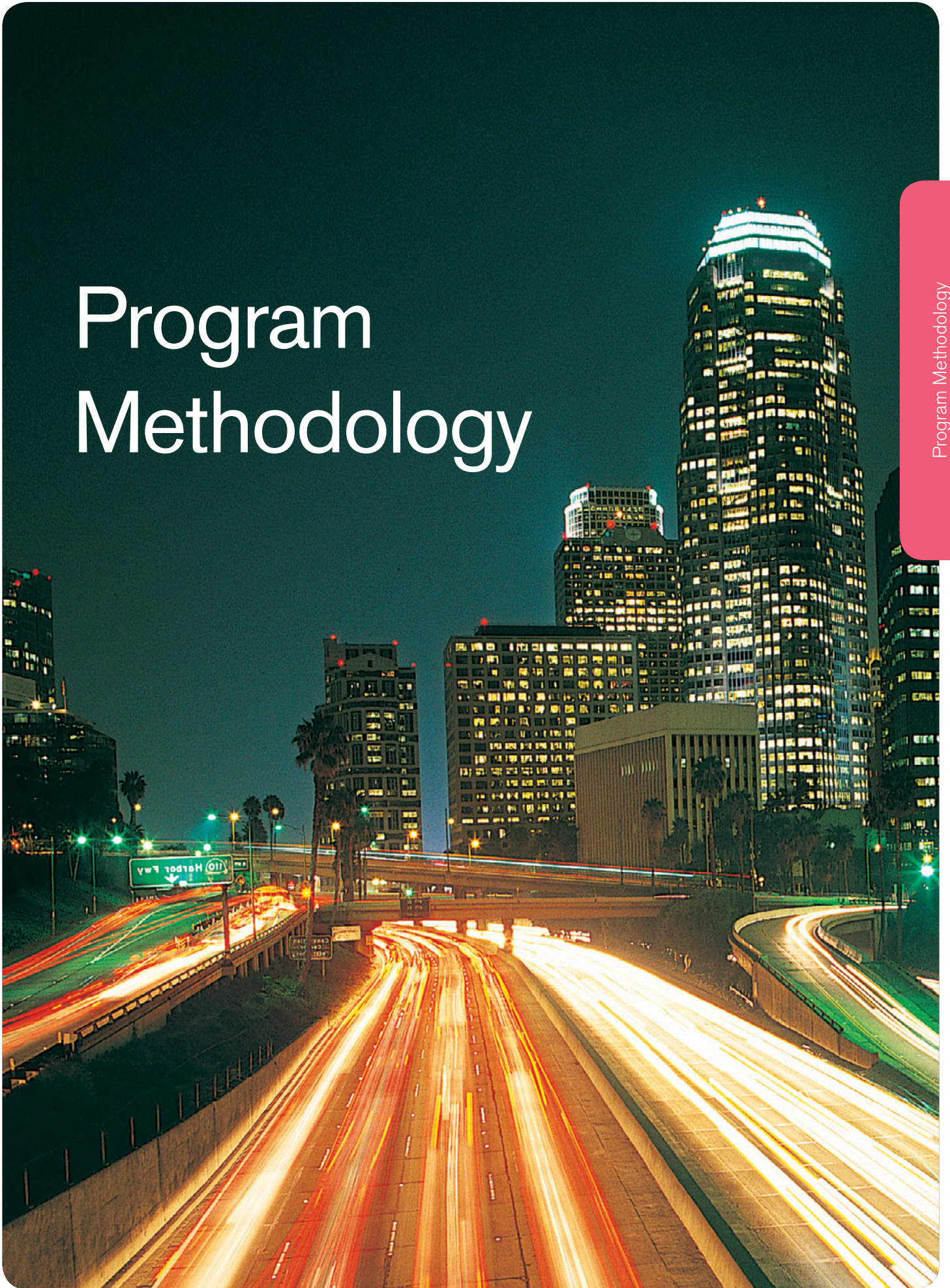
Mobile:	0467 873 789	Mail:	PO Box 2309,
Office:	03 9807 5552		Mt Waverley,
email:	jeff@AACS.org.au		Vic. 3149
Website:	www.AACS.org.au		Australia

**CCA**  
COCA-COLA AMATIL

AACS thanks its major sponsor for this year's 'State of the Industry Report' Coca-Cola Amatil

# Program Methodology

Program Methodology



# Program Methodology

The 2011 State of Industry Report for the Australian Association of Convenience Stores (AACS), was compiled by Real World Marketing (part of the Advantage Group). This is the first time AACS have looked at producing The State of the Industry in a report format, and also including data from a range of service providers on broader industry and market conditions, rather than principally relying on submissions from individual Retailers.

Industry data including merchandise and fuel statistics was provided by the following Retailers. Scan Sales were provided by Aztec.

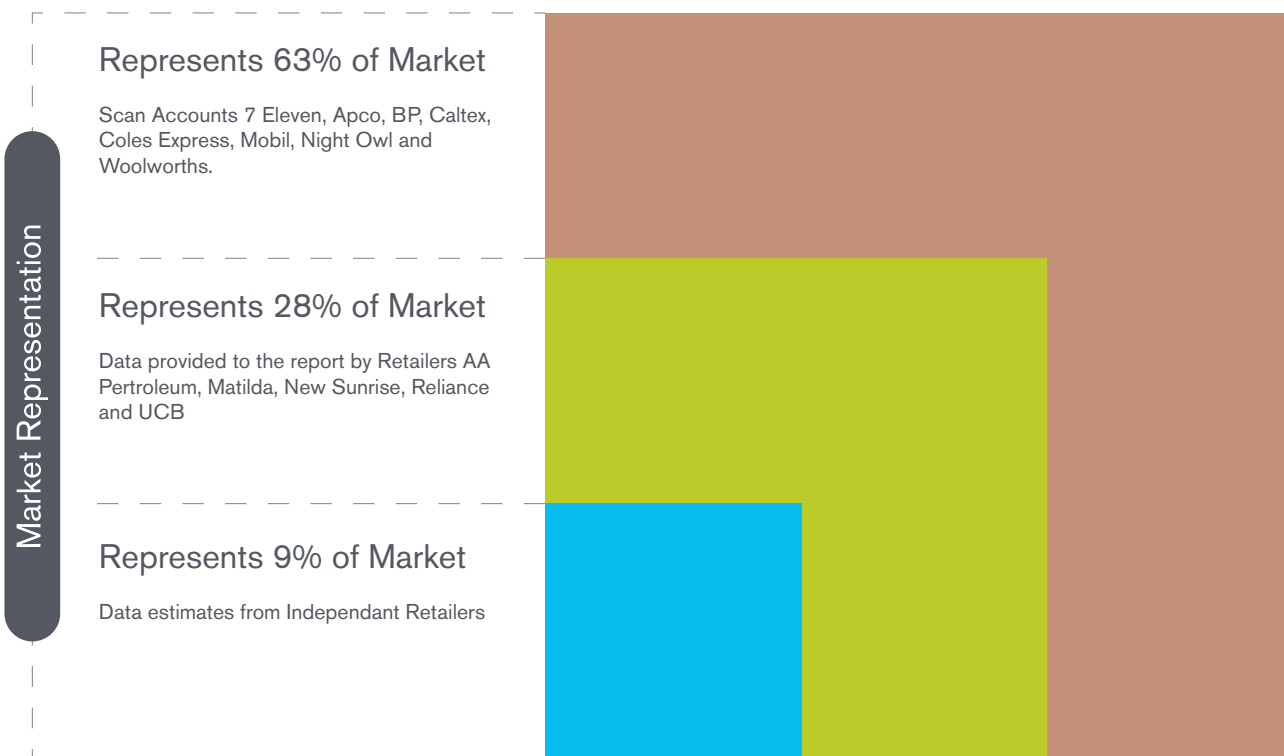
Retailer	Fuel Metrics	Merchandise Statistics	Employee Statistics	Store Statistics	Aztec Scan Sales
7 Eleven	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
AA Petroleum	<b>X</b>	<b>X</b>		<b>X</b>	
Apco	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
BP	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Caltex	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Coles Express	Not a member of AACS				<b>X</b>
Matilda		<b>X</b>		<b>X</b>	
Mobil	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Night Owl					<b>X</b>
Reliance	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
UCB	<b>X</b>	<b>X</b>		<b>X</b>	
Woolworths	Not a member of AACS				<b>X</b>

This year AACS, have also engaged a number of service providers who have provided data from their business. Advantage Group provided the Retailer – Supplier benchmarking insights from their Advantage Report service, Aztec have provided scan data for the Convenience channel, and snapshots of performance from other retail channels. Aztec has also given snapshots of the current retail, economic and population trends. him! provided shopper data and included data on their “Future Of Convenience” Report. Monash University’s Australian Centre for Retail Studies (ACRS) provided retail trends, shopper data and overseas trends as well as the report commissioned by AACS last year - “Convenience 2020”. And finally Nielsen provided top line scan data, retail trends and market insights.

This report is a combination of data from the above mentioned companies and certain Retailers to provide a comprehensive understanding of the Convenience channel as it is today, and how it may look in the future. Not all Convenience Retailers are members of AACS, therefore not all have provided data for this report.

# Program Methodology (cont.)

The following chart gives an understanding of how the report has been compiled, and the data that has needed to be extrapolated so everyone has a clear understanding of the reports dynamics.



Program Methodology

# Contents

Program Methodology	IV
Program Methodology (cont.)	V
<hr/>	
General Market Overview	1
Convenience Channel Summary	2
Shopping Trends	3
Economic Trends	4
Retail Market Overview	7
Fuel Metrics	8
Site Statistics and Store Numbers	9
Store Statistics	12
Convenience Merchandise Performance	13
Channel Performance	15
Category Performance	17
Promotions	24
Shoppers	29
Retailer – Supplier Partnerships	33
Looking to the future	38
Overseas Market Trends	43
Summary	46

---

# 2011

## General Market Overview

General Market Overview





# 2011 General Market Overview

The current retail environment, is putting increasing pressure on Retailers and manufacturers with frugal consumers, increased costs of doing business and a competitive retail landscape all impacting business. This is squeezing profits and impeding growth and more so than ever Retailers are trying to drive a “value” approach to entice shoppers into store.

## Convenience Channel Summary

With Fuel still being the major draw card to the Convenience channel, we saw total fuel sales increase by 0.4% (adjusted to exclude closed Mobil sites)\* for the calendar year 2011. This excludes Woolworths Petrol and Coles Express data who were very aggressive in their discounting of fuel through their loyalty programmes in both Supermarkets and Liquor. The average price of fuel in 2011 was \$1.40 per litre, which was up by 10c per litre on 2010. Average fuel sales per store increased by 1.6%, and the average litres per transaction were 36 litres up 4% on 2010. What was most concerning was the increase in the cost of drive offs, which averaged \$116.83 per

When we look at the performance of Merchandise in 2011, according to Aztec scan sales, the channel grew at 2.6%, with Food categories growing at 4.8% and Non Food categories growing at 0.9%. Unit sales according to Aztec scan data increased by 2.1%, although this does not take into consideration the move of sales in the beverage category from single units into multi packs especially in the Energy category.

The Beverage category was the fastest growing category growing at 10.1% with growth coming from Flavoured Milk, Energy, Frozen Carbonated Beverage and Hot Coffee. The category has continued to grow over the last 5 years and is now the largest contributor to total store margin.

Tobacco with all the regulations that have been imposed over the last couple of years remains the largest sales category and represents 34.2% of total store turnover, growing in value by 7.2%. The worrying trend though for the category is that while unit sales have stabilised from the decline in 2010 it was still 3.6% down in 2011.

The Communications category continues to be the one hardest hit and declined by 15% in value and almost 17% in units in 2011. The decline can be attributed to the way consumers are going back onto contracts for the sake of upgrading to smart phones and the incentives on offer for going to capped plans. Alternative ways of recharging mobiles are also a contributing factor. Alternative ways of recharging mobiles are also a contributing factor.

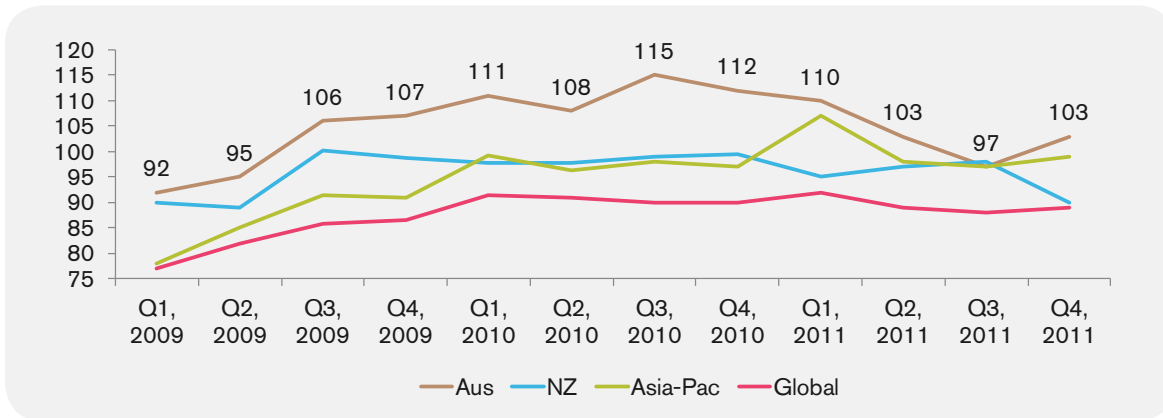
Confectionery also had a tough year with a 0.4% drop in value and 1.5% decline in unit sales. This was due to it being an impulsive category and discretionary spend being down due to increased savings, as well as the sub \$1 price points in the grocery retailers all year, creating a difficult retail environment.

The front counter is the prime piece of real estate in a Convenience Store and the three categories that hold the most real estate being Tobacco, Communications and Confectionery all suffered a decline in volume. This shows there is still a lot of hard work to do to reengage the consumer in the Convenience channel. There is also the opportunity to consider how this space may be used to better effect going forward.

\*Disposal for Mobil sites. The fuel sales data provided did not include submissions from retail groups who have picked up many of the Mobil sites sold by or who are no longer a part of 7 Eleven. Therefore these sites have been excluded from the total fuel sales increase to show a comparable, like for like performance.

# Consumer Confidence

According to Nielsen's latest consumer confidence index' confidence has recovered slightly however it is still below Q4'10 levels due to rising cost of living & uncertain global Economic Climate. Australia continues to track above the Asia Pacific region and is well ahead globally.



Source: Nielsen

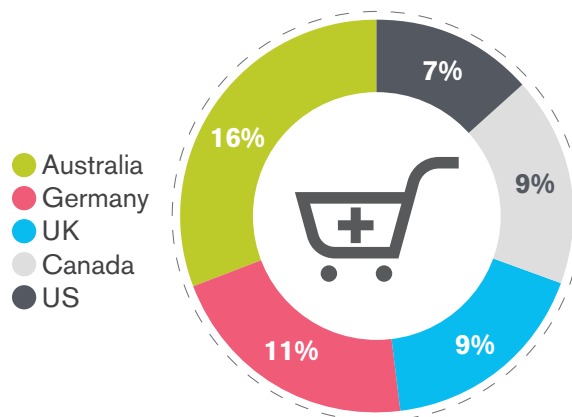
# Spending Trends

Since 2008 discretionary spend has become harder for Retailers to attract as shoppers habits changed after the Global Financial Crisis. Nielsen have tracked shoppers spending behaviours over the last 10 years and found that over that period the amount spent on groceries has remained flat at \$7,200 per year. In that period compound Inflation has increased by 23%, showing how both Retailers and Suppliers have been challenged. In addition to this, mortgage payments have continued to eat more and more of the household income and over the same period has actually increased by 124%. Of the other measured categories Household Expenditure has increased by 39% and everything else by 16%.

What is also interesting is that while spending on food has remained flat, In Australia food spend as a share of household expenditure is fairly high by comparison to other developed nations. The chart below provided by Nielsen and sourced from USDA, shows that Australians spend 16% of household income on food, more than double that of the United States.

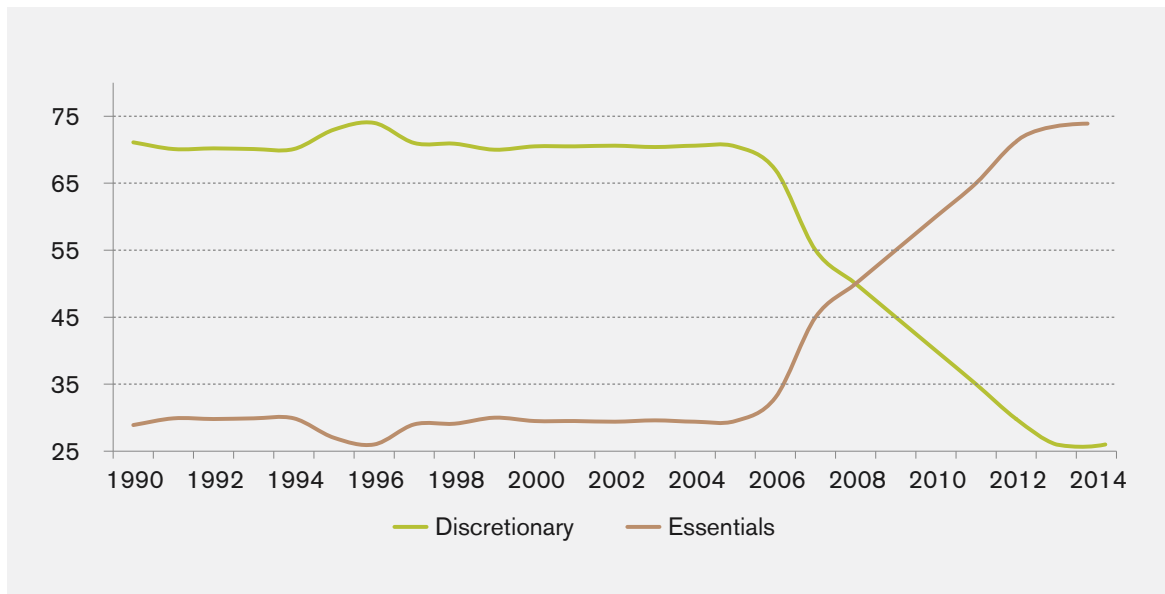
# Global Food Spend Comparison

The Australian Bureau of Statistics have also tracked the monumental shift of household spending since 1990 which shows the increases in essential costs, especially since 2004 and the impact that it is having on discretionary spending.



Source: Nielsen

## Household Spending



Essentials = Utilities, Rent & Dwelling Costs, Education, Health, Food, Insurance, Transport, Communications, Car  
 Discretionary = Cafes, Restaurants, Hotels, Retail, Culture, Recreation

Source: Nielsen

## Tracking Household Spending Habits

There is no doubt that with the introduction of the Carbon Tax on July 1st 2012, this is going to increase household income pressure with expected increases in essential costs, so the channel must prepare for this and continue to develop offers that meet the needs of consumers in the future.

## Economic Trends

What are the existing Economic Conditions?

Aztec suggests the key impacts are:



**Perceived Increase in Cost Of Living** – Electricity Prices, Tobacco Excise, Water Rates, Insurance Premiums, Education, Private Health Cover, Fuel Prices, Queensland Flood Levy, CPI increases, Interest Rates



**Global Political/Financial Instability** – Developed World Slow-Down, US Debt Crisis, PIGS, Recent European Credit Rating Downgrades, Middle East Democratic Uprising



**Wealth** - House Prices Declining/Flat, Share Market Down, Full Time Employment Decline, Part Time Employment Increases



**Domestic Political/Financial Instability** – Mining Tax, Carbon Tax, Labour Popularity, Mining Boom, Retail and Manufacturing Stress

## CPI Index



Aztec report that CPI rose +3.6% for the year 2011



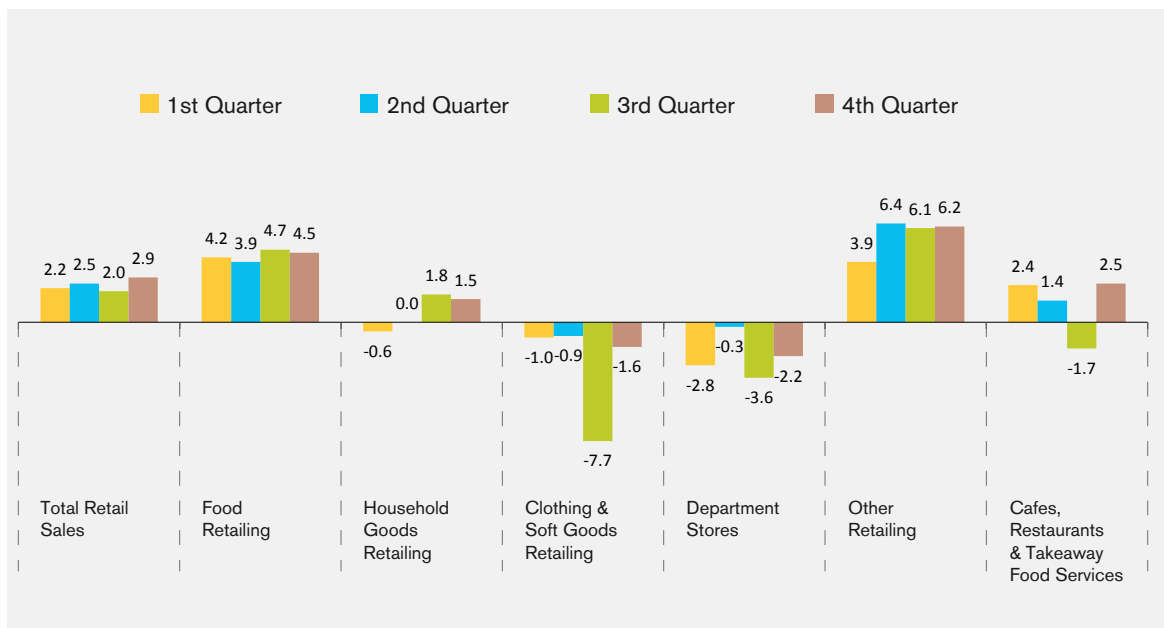
The most significant price rises were seen in Domestic Holiday Travel +7.3%, Beer +1.2%, Telecommunications +1.1%, Rent +1.0%.



Food records the biggest drop driven by fruit -13.4% and vegetables -5.0%. With Pharmaceuticals also showing declines -5.6%

## Total Retail Sales by Industry National Growth by quarter in 2011

Food Retailing CPI index has increased by 4.3% which was up on the total growth for total retail which was 2.6%.



Source: Aztec

## Population growth by state

- » Australia's population was 22,620,600 – in June 2011, an increase of 320,800 vs LY
- » Western Australia continued to record the fastest population growth rate at 2.4%, followed by ACT +1.9%, Queensland +1.7% Victoria +1.5% New South Wales +1.1% and the Northern Territory, South Australia and Tasmania under +1%

## Summary

With the current economic trends, there is no doubt some negative sentiment exists in the market place. The rise in the perceived cost of living is causing some concerns for shoppers and limiting spending on non-essential items, while they look at increasing their savings in this time of uncertainty. The Convenience channel has itself been affected by the increases in wages, electricity and in some state government policies on fuel recovery and upgrade costs.

“ After a 10–15 year period during which households increased their gearing and reduced their rate of saving, they have returned to a more conservative, and traditional, pattern of financial behaviour. Household credit growth has slowed to a rate in keeping with, or slightly below, the growth in household incomes; the saving rate has increased to a level that is more normal based on history and household spending growth has slowed from a rate that substantially exceeded household income growth, to one that, over the past year, has been broadly in line with income growth. Within total consumer spending, there appears to have been a shift away from spending on goods in stores to spending on services, particularly services such as overseas travel, eating out and entertainment. As a result, retail sales have been particularly weak. ”

Source: Michael Pascoe: The Age, October 28 2011

Incomes are growing nicely and thus so is consumption, just sensibly within the bounds of the income growth unlike in the years of unsustainable credit growth before the GFC. For a variety of reasons, the offer in some Retailers isn't competing as well as it used to with our many other temptations. Continued focus on evolving the offer and the execution in the channel will continue to ensure the Channel is competitive and remains a viable and leading choice for careful, busy and choice-full shoppers.



# Retail Market Overview

Retail Market Overview

# Fuel Financial Metrics

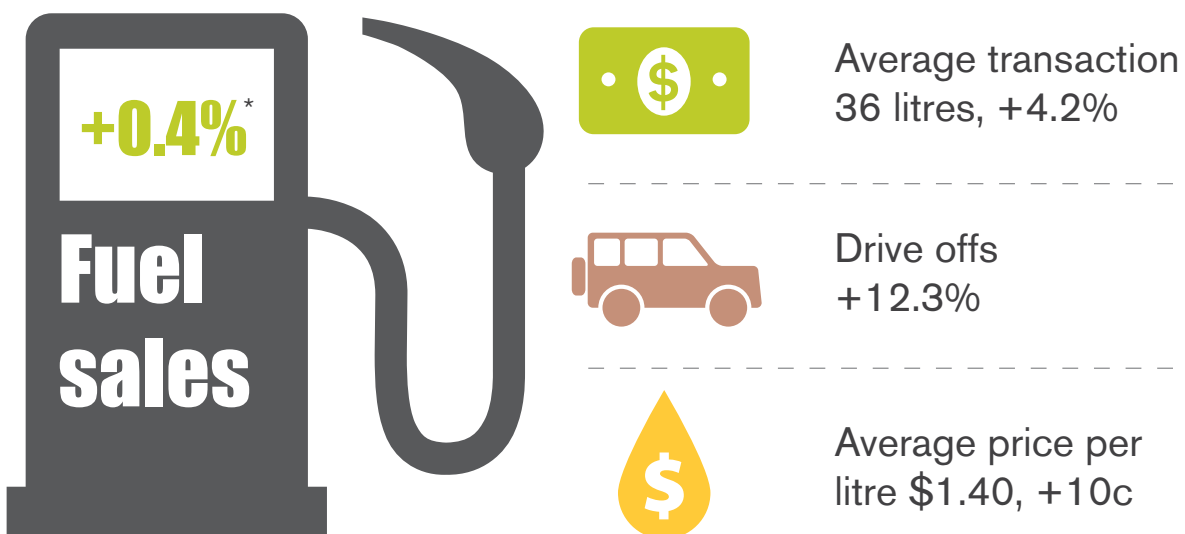
Fuel Financial Metrics (000's)	2011	% Change v L/Y
Total Fuel Sales	10,190,988	-3.9%
Total Fuel Sales Adjusted*	n/a	+0.4%
Average Fuel Sales Per Store per year	6,956	+1.6%
Average Fuel Transaction in Litres	36	+4.2%
Cost of Drive Offs	\$116.83	+12.3%

\*Adjusted fuel sales show a comparable, year on year trend. This figure excludes Mobil sites now no longer part of the 7 Eleven / Mobil numbers but who are not represented by other retailers provided data for this report

Source: Retailer Contribution

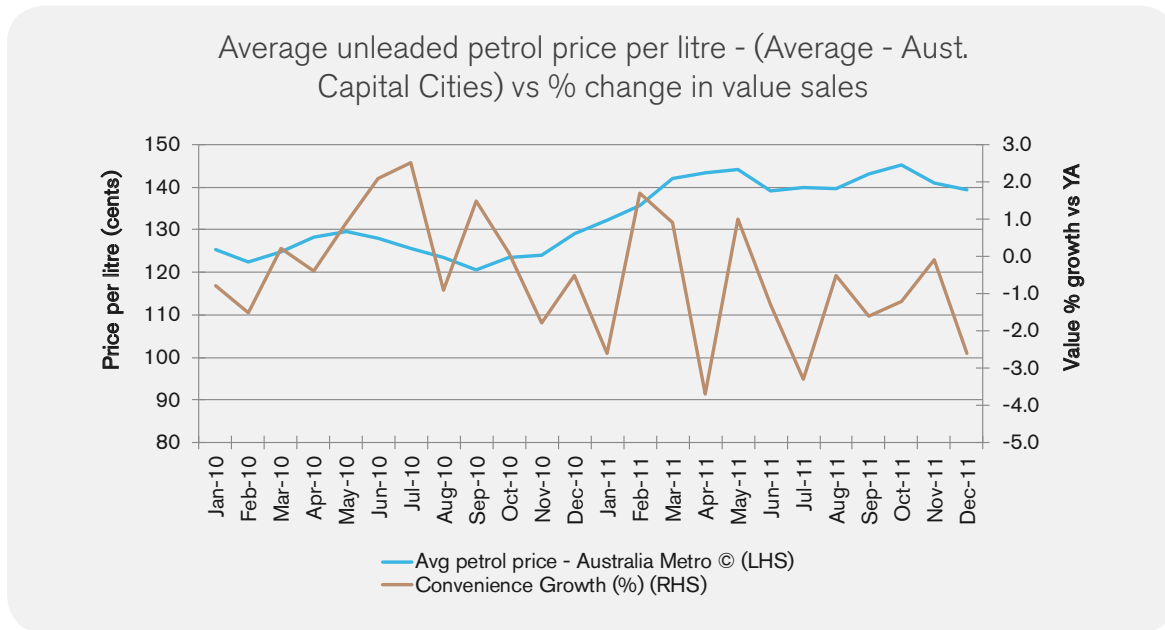
Fuel volume shows a decline of 3.9% however this does include Mobil sites that 7 Eleven have sold off that are not captured in the number reported by the Retailers. When you exclude these Mobil sites the fuel volume is up \*0.4%. These numbers do not include fuel volume sold through Woolworths and Coles or Peregrine in South Australia. Average fuel sales per store have increased by 1.6% on 2010 and the litres purchased per transaction have increased by 4.2% to 36 litres per transaction.

As has been highly published in the media, due to the higher petrol costs drive offs have increased by almost 12.3% to \$116.83 per store per week. This is something that the industry has to work hard on and various governments and police associations are looking at tackling the issue in support of the industry.



# Fuel Financial Metrics (cont.)

The average price of a litre of fuel in 2011 was \$1.40 per litre average which was 10 cents per litre higher than 2010. As you can see by the attached chart provided by Neilson, as fuel pricing increases, shop sales are affected. Fuel pricing was fairly consistent throughout the year, and with the higher Australian dollar Australian shoppers weren't hit as hard as other countries, when it came to fuel pricing for the year.



Source: Neilson

# Site Statistics

The Convenience channel is represented by 5618 stores; this was an increase of 195 stores or 3.0%. The numbers with an asterisk are estimated numbers based on information from scan data collected from Retailers or websites. 7-Eleven has significantly increased its presence in the market place with its purchase and transition of Mobil stores to the 7 Eleven banner. This has occurred rapidly and very professionally.





## Store Numbers

Retailer	2011	2010	Difference	% Difference
7 Eleven	579	415	164	39.5%
AA Holdings	48	47	1	+2.1%
Apco	21	21	0	0%
BP	207	210	-3	-1.4%
Caltex(excluding WW co-branded sites)	476	481	-5	-1.0%
Coles Express*	628	628	0	0
Independents*	700	750	-50	-6.6%
Matilda	11	12	-1	-8.3%
Mobil	15	116	-101	-87.0%
New Sunrise	750	660	90	+13.6%
Night Owl*	63	60	3	5.0%
Reliance	191	206	-15	-7.2%
UCB	1126	1112	14	+2.7%
United (Including Distributors)*	373	325	48	+14.7%
Woolworths Petrol*	459	439	20	+4.5%
TOTAL	5647	5482	165	+3.0%

\*Estimated

Source: Retailer Contribution

7-Eleven have continued their franchise operation with all stores and currently still only operate store in Ashwood Victoria as a corporate store. New Sunrise added Metro Fuel to their numbers in the buying group and United have added around 50 stores through both their franchise and distributor model.

The channel has quite a diverse mix of store ownership models. Retailers like Coles Express, Woolworths Petrol, BP and some Caltex stores run a company owned operation, and then Retailers like 7-Eleven, Caltex and United have a franchised operation. There is also a mix of Dealer owned and operated sites represented in the New Sunrise and UCB buying groups.

# Merchandise Transactions

The average transactions of merchandise sales per store per day have declined by 3.6% from 517 down to 498 on the reported stores. The graph below shows the range of transactions per day.



**Average merchandise transactions 498, down 3.6%**

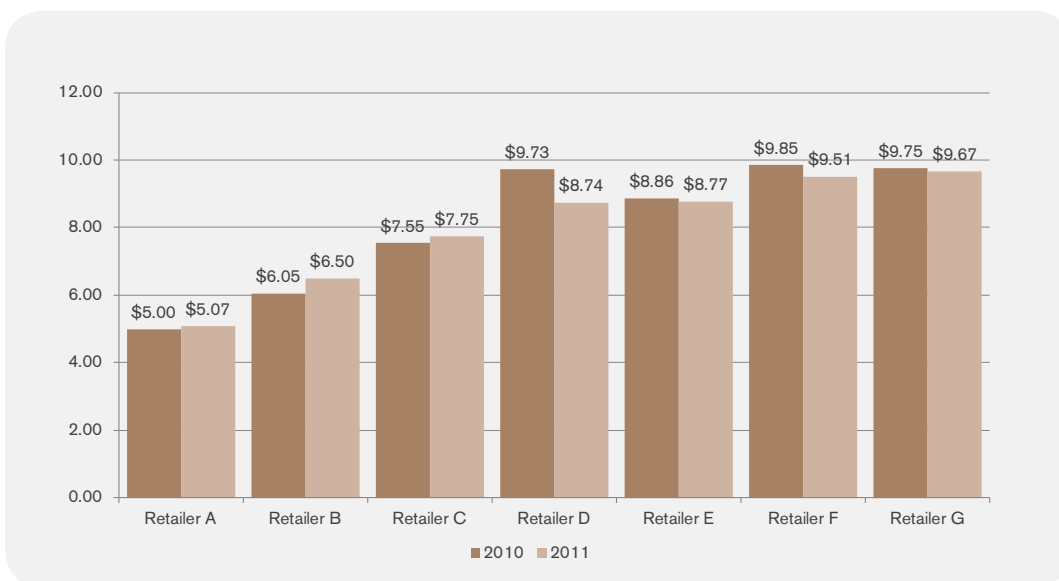


19 people less per day visiting a Convenience store for merchandise.

Transaction size down 1.3%

The amount spent per transaction has also declined slightly by 1.3% from \$8.11 to \$8.00. If you take the loss of transactions and the slight decline in spend, the channel is getting around 5% less per store per day or around \$200. The below chart shows the range reported by Retailers

## Range of Merchandise spend per transaction



---

## Store Statistics

	2011	% Change	2010	2009
Site labour costs as a % of site sales (total fuel & merchandise sales)	4.1%	+13.8%	3.6%	3.7%
Staff turnover % at site level	44.3%	+14.7%	38.6%	38.0%
Total store costs of running your outlets as a % of turnover	6.8%	+6.2%	6.4%	5.1%

As has been the case over the last couple of years, staff turnover continued to be a major challenge and cost of business for the industry, with staff turnover increasing by 14.7% in 2011. This continues to add to the cost of doing business, with added recruitment and training costs and increased time pressure on existing employees. With the Fair Work Australia laws implemented in 2011 the costs of employees working on weekends and shift work have also added to the costs of doing business. In some cases Retailers have seen an increase of around 25% thus putting further pressure on store margins. With an increased pressure on Retailer's margins, around 10% of sites are now passing on a credit card surcharge.

---

# Convenience Merchandise Performance

Convenience Merchandise Performance



# Convenience Market Performance

The Convenience channel grew in value by 2.6% in 2011 based on the measured accounts provided by Aztec. These Retailers being Caltex, Coles Express, 7 Eleven, BP, Night Owl, Freedom, Gull, Apco, Mobil and Woolworth's Petrol. The Total Food category grew at 4.8% and increased its overall share increasing to 43.6% of all sales. This was driven by both Ready to Drink and Take Home Beverages and to a lesser extent Snackfoods and Take Home Food. Take Home Milk and Bread were affected by the heavily reduced everyday price in the Supermarkets with both categories declining in value, Milk by 6% and Bread by almost 11%. These categories had enjoyed growth due to the "2 for" offer that most Convenience Retailers have implemented over the last 3 years. Confectionery also experienced a decline due to the aggressive medium bar promotional strategy employed by the Supermarket chains, with most weeks a sub \$1 price point in the chain accounts.

The Non Food category which represents 56.4% of sales only grew at 0.9% with Communication and Transport tickets the large contributors to the soft performance, declining by 15.1%. Tobacco maintained value growth after the ad hoc excise tax increase in 2010, however it has seen significant changes in the make up of the category with value and sub value brands driving growth within the channel.



# Convenience Channel Performance

Category	Value	Share	Growth
<b>Total Convenience</b>	<b>\$3,939m</b>	<b>100.00%</b>	<b>2.60%</b>
● Total Food	\$1,716m	43.60%	4.80%
● Total Non Food	\$2,222m	56.40%	0.90%

---

<b>1</b>	● Take Home Beverage	\$142m	3.60%	11.10%
	● Ready To Drink	\$760m	19.30%	8.80%
	● Tobacco	\$1.347m	34.20%	7.20%
	● Take Home Food	\$31m	0.80%	6.40%
	● Medicinal	\$13m	0.30%	6.10%
	● Car Accessories	\$108m	2.80%	5.30%

---

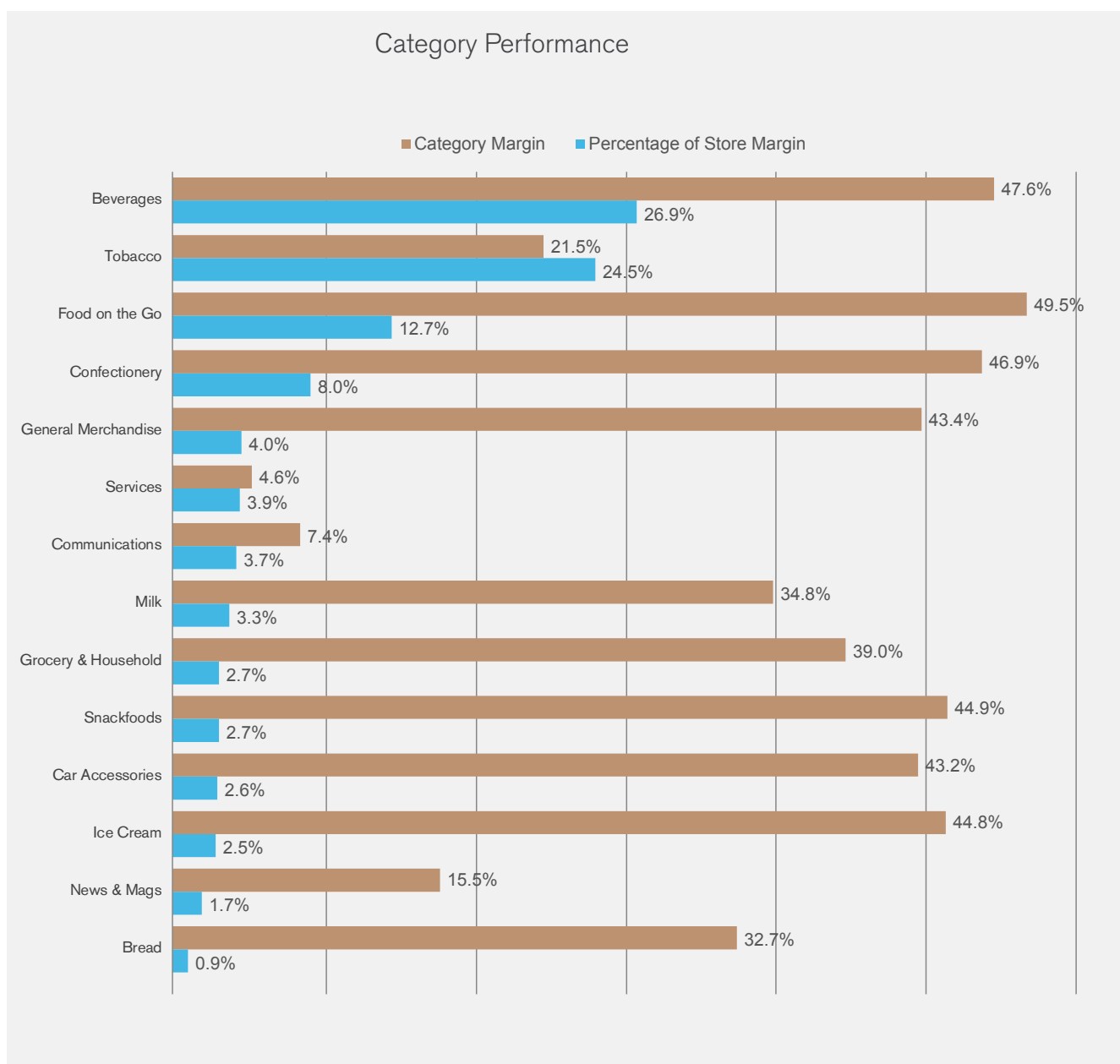
<b>2</b>	● Snackfoods	\$85m	2.20%	5.10%
	● Food on the Go	\$171m	4.30%	3.70%
	● General Merchandise	\$168m	4.30%	3.70%
	● Personal Care	\$23m	0.60%	2.50%
	● Ice Cream	\$84m	2.10%	0.80%
	● Grocery	\$48m	1.20%	0.40%

---

<b>3</b>	● Confectionery	\$274m	7.00%	-0.40%
	● Household	\$9m	0.20%	-2.00%
	● Printed Materials	\$127m	3.20%	-5.10%
	● Take Home Milk	\$88m	2.20%	-6.00%
	● Bread	\$30m	0.80%	-10.90%
	● Comm/Transport	\$420m	10.70%	-15.10%

Total category margin was slightly down in 2011 at 32% versus 32.3% in 2010. This was driven by a slight drop in Tobacco margin due to the increase in sales in lower value and margin cigarettes. The category margin was 21.5% (22% in 2010) while total margin contribution was 24.5%. The Beverage category with its increase in sales value, now represents 26.9% of total margin while category margin remained flat. These two categories represent 53.5% of sales and 51.4% of total margin contribution in the Convenience channel.

## Category Performance



# Overview of Top 5 Performing Categories

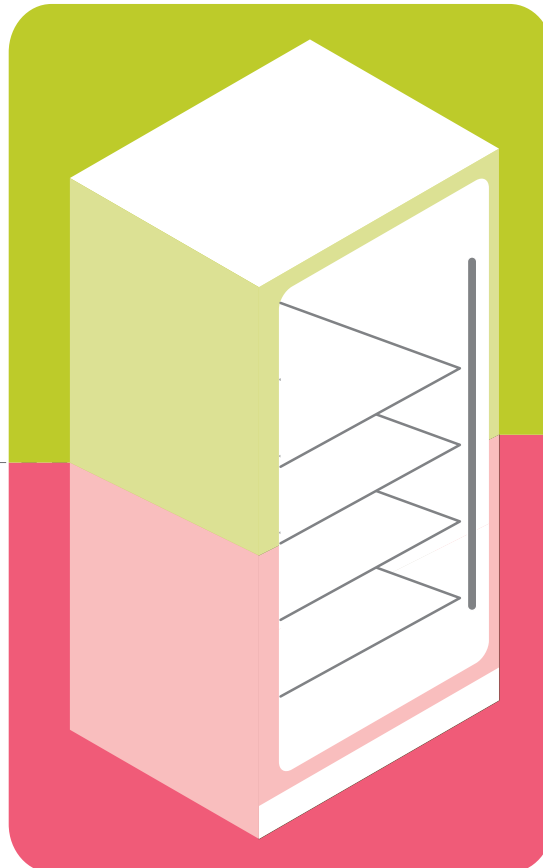
## 1. Beverages

The Beverage category continues to grow within the Convenience channel. Beverage as a mission is now as big as fuel within a Convenience store when you combine cold and hot Beverages @ 29%. According to the him! Convenience Tracking Programme, 37% of shoppers visit the beverage fridge on first entering the store, which is more than anywhere else in store. him! also reports that 52% of all baskets now contain a beverage. The performance of the category has shown continual growth, with 2011 showing an increase of 10% in sales value and 8% in unit sales.

Convenience stores have become very reliant on this category to drive growth and as Aztec report that the growth the sub categories that have been the growth performers within Beverages are Iced Coffee, Energy Drinks Frozen Carbonated Beverage and Hot Drinks. At the other end of the scale Enhanced Water, Cola, Flavoured Milk and Energy Shots have declined the most in category performance. It shows the need for Retailers to continue to quickly react to changing consumer needs, and ensure that fridge space which is at a premium, reflects turnover of product as well as opportunity areas.

### Beverage Category Growth and Value

	Value (000's)	Value (000's) Growth Actual
Iced Coffee	86,681	16,586
Energy Drinks	189,622	14,165
Frozen Ice/FCB	na	7,881
Hot Drink	na	4,733
Sports	57,920	2,647
Fruit/Tea	14,683	937
S/Drink Mixers	1,725	149
Water	50,673	141
Mineral Water	4,815	34
<hr/>		
Soy Milk	2	-3
Milk	343	-29
Milk Milkshake	350	-165
Juice Spkl	419	-195
Water Flav	222	-207
Juice	25,283	-437
Soft Drinks	26,648	-1,114
UHT Milk	19,357	-1,333
Energy Shots	2,910	-1,459
Milk Flav	63,738	-1,637
Cola	109,490	-2,349
Water Enhancer	22,501	-4,181





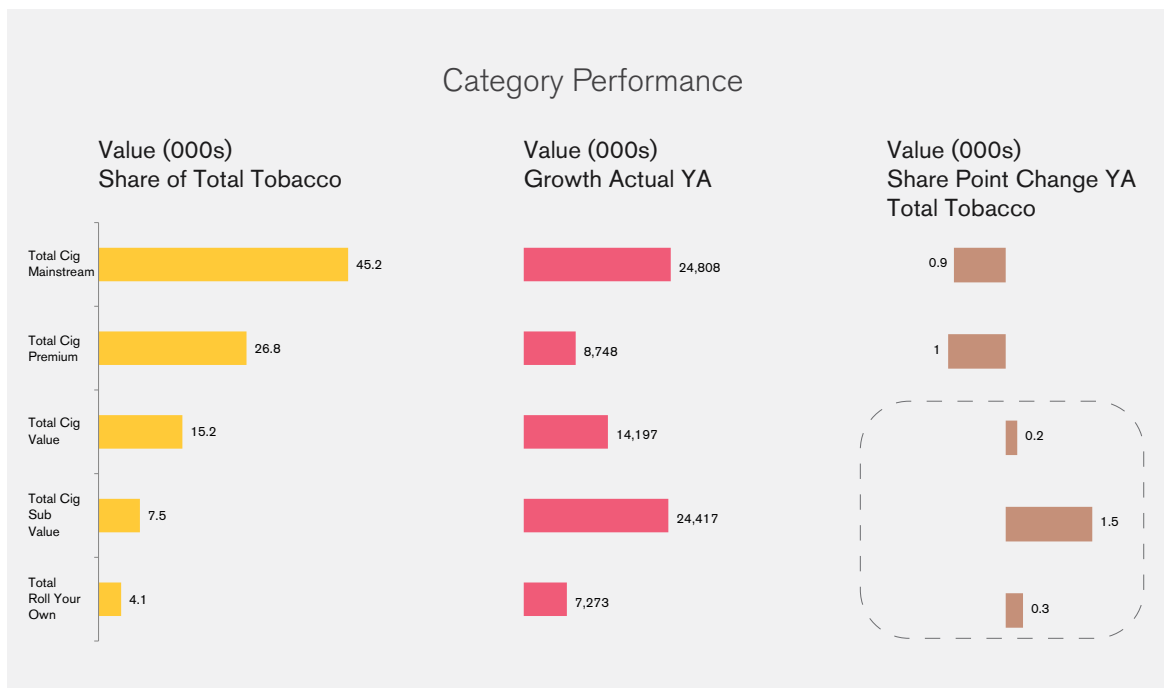
---

What is also evident for the Beverage category according to the him! CTP programme is the high cross category purchases with other categories. For shoppers that purchase in the 'Food on the go' category 59% of those shoppers also purchase a beverage, showing the importance of not only promoting the offer but also displaying it. The Confectionery category has seen an increased presence of combo activity over the last couple of years and even though this remains the most impulsive category, 43% of all purchases are with a beverage. Beverages are also bought by 1 in every 3 cigarette purchasers, highlighting the value of chilled displays near the front counter.



## 2. Tobacco

The Tobacco category continues to be the largest value category within the Convenience channel despite being the most regulated by government over the past 3 years. With Display bans now implemented in most states and the effects of the 25% “ad hoc” excise tax in 2011 now cycled over, the channel has seen some major changes in category performance. With the average pack of 25’s continuing to get closer to the \$20.00 price point, some shoppers have continued to engage in the category by buying into the value and sub value category. These brands are up to \$4.00 cheaper per pack in some instances, and so the emergence of those categories has come about simply by affordability.



One worrying trend which emerged from the Convenience Tracking Programme has been the decline in the cigarette mission which has dropped from 11% in 2009 to 7% in 2011. With the introduction of display bans almost 3 years ago and with the introduction of plain packaging on December 1st 2012, it is becoming increasingly harder to be able to demonstrate the sale of cigarettes and keep them at top of mind when shoppers enter the store.

The Convenience channel is not alone in the challenge of declining cigarette unit sales, according to a Price Waterhouse report completed in March 2012 the total Tobacco industry was down 1.8% in 2011 after declining by 5.8% in 2010 versus 2009. Each state was experiencing different results with South Australia experiencing the largest decline at -4.8% followed by Victoria at -2.8% and New South Wales at -2.6%. On the other hand both Queensland and Tasmania are flat and Western Australia is up 2.6%.

From a government perspective this may be good news, however from a commercial aspect, this is a product category able to be legally sold subject to certain restrictions, and its decline in the convenience channel does place additional burdens on the growth of both sales and profitability of our stores. AACS has been proactive in keeping these issues top of mind with policy makers and will continue to do so.

## Tobacco (cont.)

### Tobacco Legislation in 2012

On the 1st December 2012 the Australian Government's plain packaging passed by the Federal Parliament will come into effect. This means that from 1 December 2012 all Tobacco products sold at retail outlets, including cigarettes, cigars, cigarillos, and roll your own Tobacco, must be in plain packaging.

### How will the plain packaging laws impact Retailers:

Plain packaged Tobacco products will look almost identical, which will present a number of challenges:

- » Inventory management, already made difficult by point of sale display bans, will become more difficult;
- » Increased stock delivery time;
- » An increase in transaction times;
- » The potential for wrong product being dispensed; and
- » Customer complaints.

It is critical that retailers commence discussions with key Suppliers immediately to ensure a smooth transition during this challenging period.

### Plan ahead now by:

- » Having an effective inventory management system;
  - Minimize out of stocks
  - Minimize over stocking of slower selling variants
- » Ensuring console operators can identify differences in brands and variants
- » Giving consideration to planogram adjustments sooner rather than later

All Retailers must ensure that Tobacco products are sold in plain packaging from 1 December 2012, or risk fines of up to \$220,000.

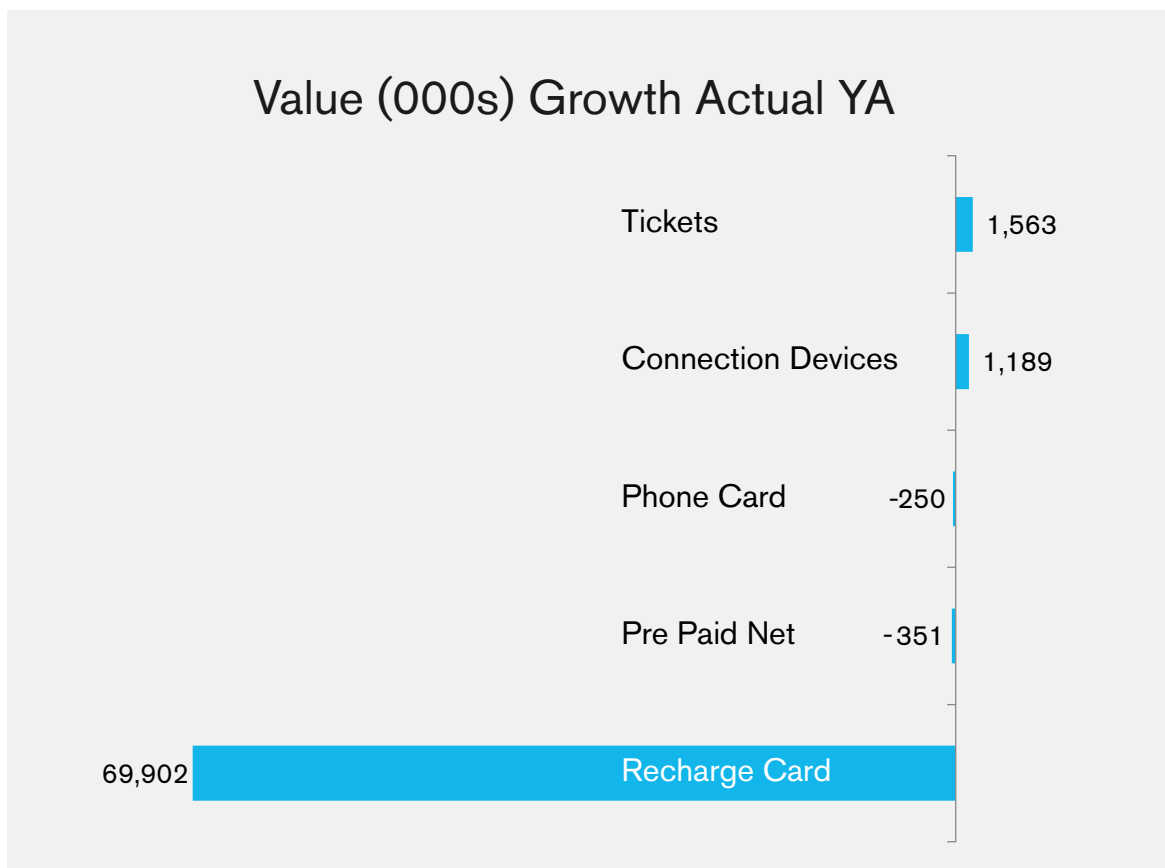


### 3. Communication and Transport

While there have been Category developments with the introduction of transport tickets and lottery, the loss of mobile phone recharge has effected this category significantly. With each of the phone companies driving “recharge on the go” through smart phone technology and loyalty through cheap phones and long term contracts, it has become harder to attract shoppers for these purposes through Convenience Stores.

Over the years margin has continued to decline and now Retailers are looking at other alternatives to try and maintain value in the third largest category. A number of Retailers have tried lottery and transport tickets in a number of states and the global trend is more services being introduced consistently. This is a category that while it takes up minimal space in store, can drive foot traffic and give shoppers a reason for coming into the store, and potentially buying another product as an impulse purchase.

Category Performance

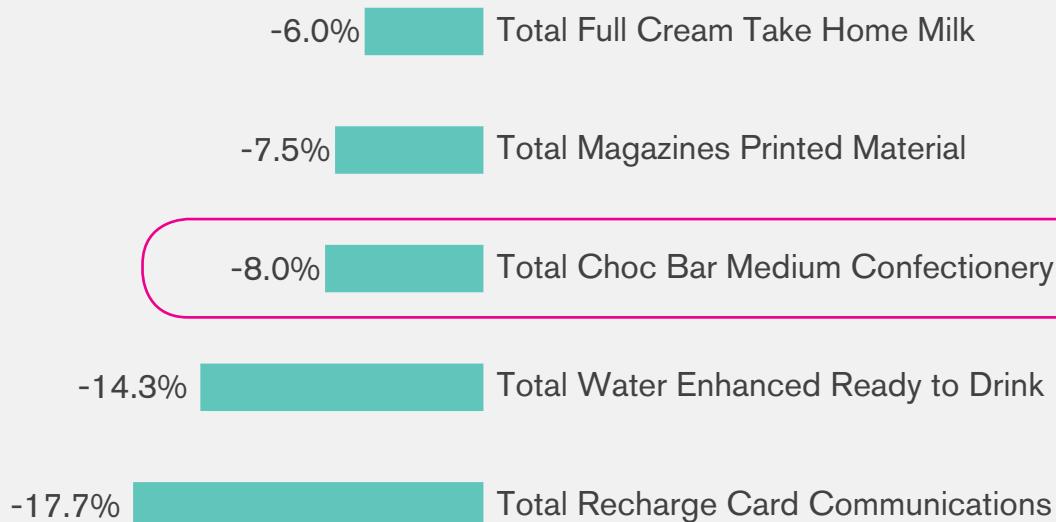


Source: Aztec

## 4. Confectionery

The Confectionery category remains the most impulsive with almost 25% of all sales coming from an unplanned purchase. We have, however seen a more aggressive approach on pricing within the medium bars category in the major Supermarket chains where promotional pricing has consistently been sub the \$1.00 mark. This has affected the category which declined by 0.4% overall, however medium bars declined by 8%. Category penetration has also declined by 14% from 21% of baskets down to 18% of baskets, although Impulsiveness of the category has remained flat compared with 2010.

### Category Performance: Categories Down



Source: Aztec

Confectionery remains the third highest category for promotional penetration up slightly on 2010 to 28.5%, although through him! CTP 2011 study it was identified that promotions had become less impulsive and more a planned purchase. This has meant that Retailers have had to look at different strategies in promotional mechanics so they can continue to drive the impulse side of the category.

## 5. Food on the Go

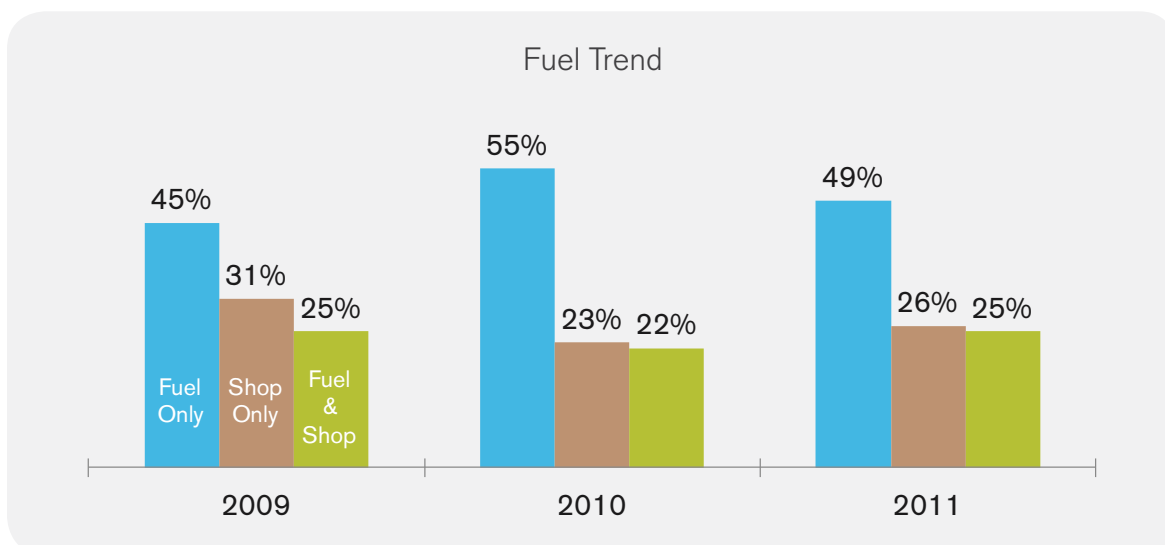
The Food on the go category has become a focus of the Convenience channel over recent years, with diversity of range and value being the key drivers. One of the biggest challenges for this category is the ability to provide sufficient fresh range due to supply chain limitations. It has been difficult for most operators to try and provide a fresher and healthier option on top of the standard hot food offer.



According to him! CTP 2011 nearly 75% of all Food to go shoppers within the Convenience channel are male, with trade workers and unskilled workers the main group that purchase within the category. Coffee has been a focus of Retailers to drive associated sales within the Food to go category and we now see almost 60% of all Food to go purchases containing a beverage. This has been a focus of the Retailers to drive value propositions such as combo activity, and 7 Eleven's half price drinks with a sandwich offer.

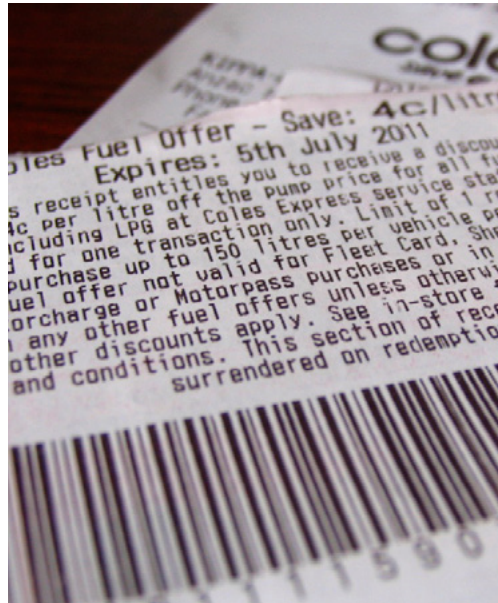
## Fuel

him!'s Spring 2011 CTP results show almost 50% of all shoppers that come to a Convenience store do so for Fuel only, with another 25% purchasing fuel and shop items together. So with almost 75% of all shoppers coming for fuel, it is evident why fuel remains the major part of the channel. While Retailers have moved to better the offer in store, fuel remains for most the foot traffic driver and still the greatest opportunity to convert shoppers coming into the store to pay, to buy merchandise.



Source CTP

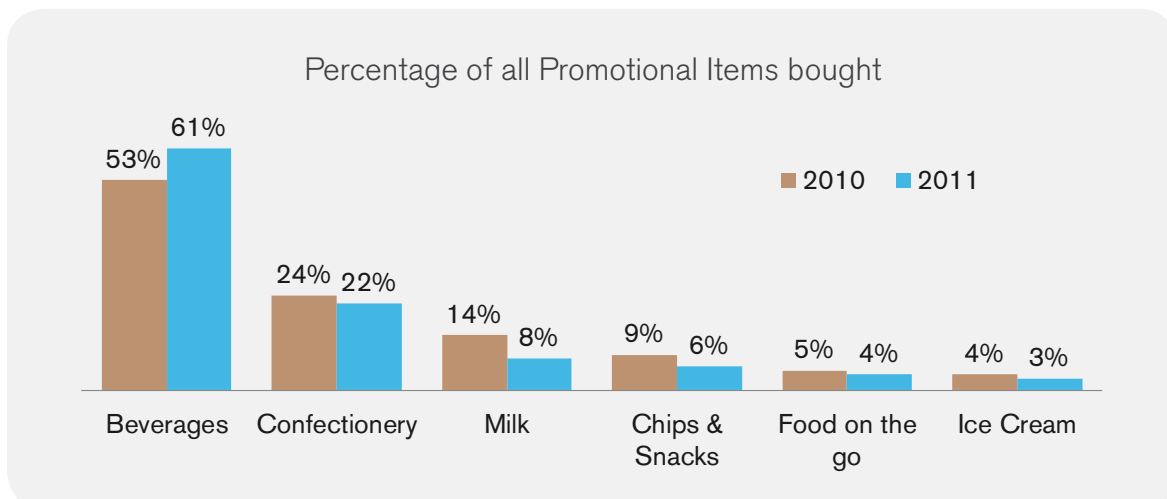
The competitive offer on fuel has never been more evident since Woolworths and Coles introduced fuel discounting through the discount docketts. There have been offers up to 20 cents a litre on purchases of \$150 in Supermarkets, as well as using the Liquor part of the business to drive heavy discounting of up to 35c/litre on fuel purchases. In the lead up to the peak Christmas period Coles and Woolworths each increased the level of discount for a \$30 purchase within the supermarket from 4c per litre to 8c per litre for a period of 3 months.



## Promotions

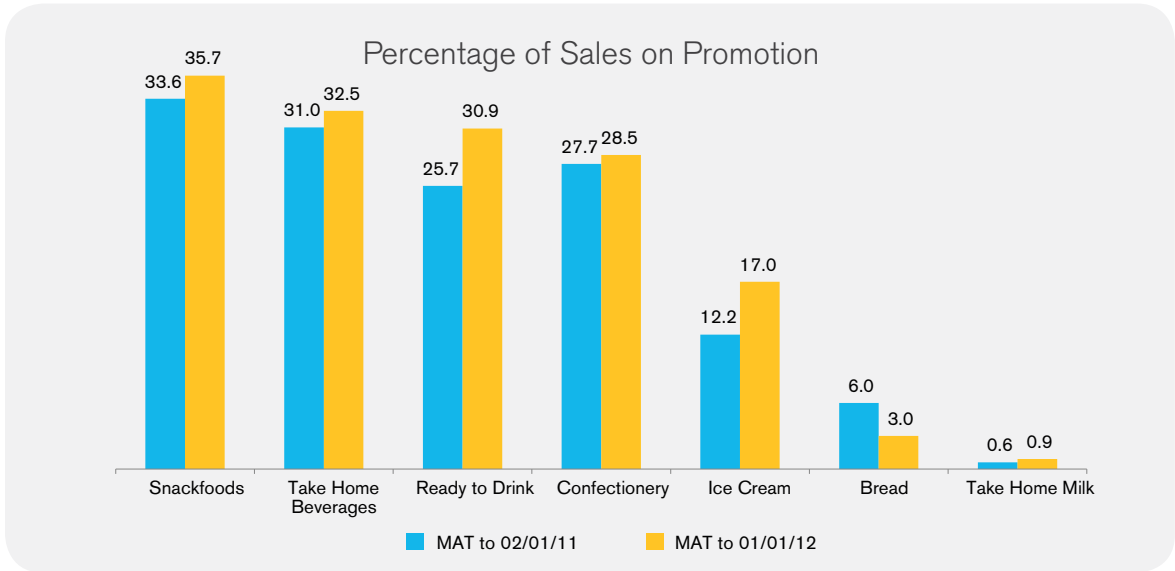
Promotional penetration has remained flat on 2010 levels, with promotional shopping seeming to be more of a planned purchase rather than impulse. 83% of shoppers who intended to buy on promotion knew the exact product that they were going to buy, begging the question have we become too predictable therefore less impulse purchases are happening? Promotions however do remain effective in increasing items purchased by almost 50%, although spend only increases by 9%, which appears to be driven by the aggressive price points on promotion versus the everyday price.

This has driven value into the Convenience channel, however one would suggest we may be discounting too heavily or have the everyday price too high. Beverages continues to increase its share of promotional penetration now representing over 60% of all promotional items bought up almost 10% on 2010.



Source CTP

Also within each category the penetration of total sales has continued to increase with the top 5 categories all increasing their percentage of sales on promotion. According to Aztec scan data, Snack foods have the highest penetration of promotional sales followed by Beverages and Confectionery. Ice Cream increased its share throughout the year by almost 40% driven by the increased frequency of the “2 for” offer. Bread and Milk have been affected over the past twelve months and particularly since the introduction of the grocery everyday low price strategy in those categories



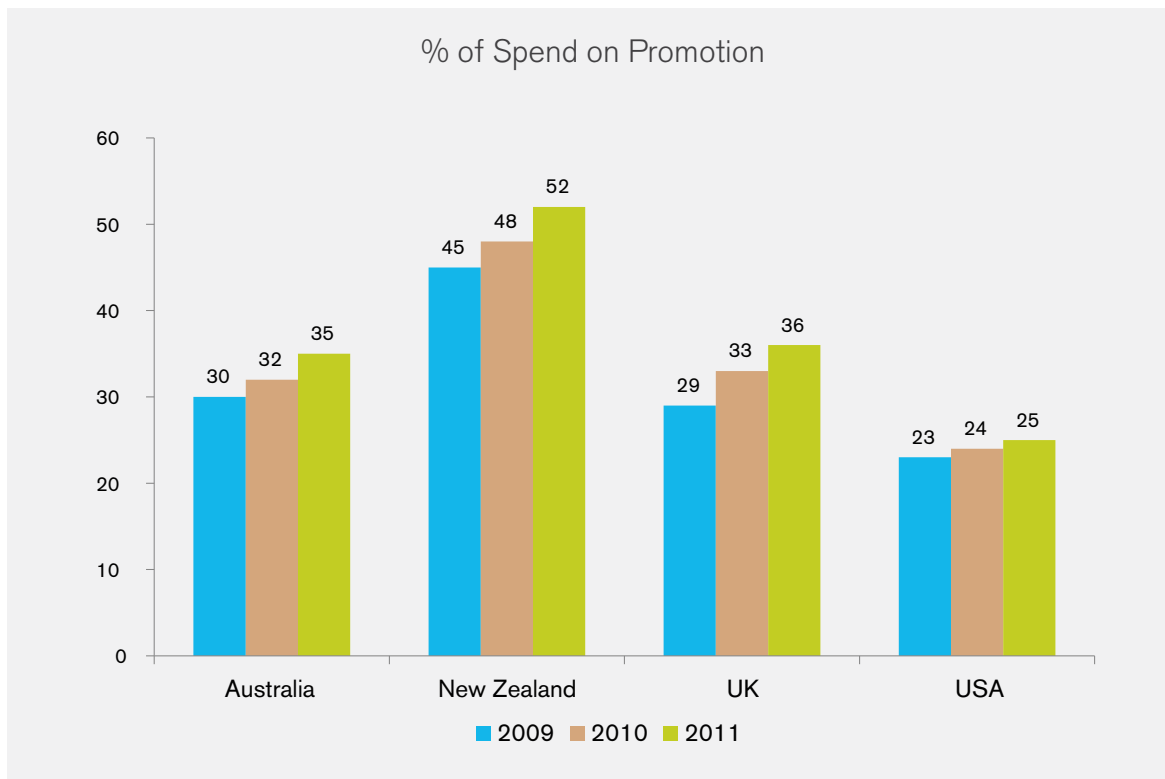
Source: Aztec





## Promotions (cont.)

According to Nielsen's latest report into promotions, promotional activity in the retail grocery market have continued to increase as well. This is not only happening in Australia but globally as well, with the USA, UK and New Zealand all increasing over the same time period. Australia has grown from 30% of all spend on promotion in 2009 to 35%. New Zealand increased by almost 16% over the same period although their percentage spends on promotion is now at 52%. With promotional spending now becoming more prominent as shoppers look for value and the trend being more planned rather than impulse purchasing on promotion, Convenience Retailers and Suppliers will need to continue to look for new ways in which to engage shoppers while in store.



Source: Nielsen

Shoppers are most likely choosing their purchases, driven by the expectation of promotions. Promotions have tended to be the major way that Convenience Retailers have communicated 'value' to shoppers, yet with Supermarkets discounting on the same items, this battle is slowly being lost. 60% of Convenience store shoppers don't believe that Convenience stores can compete with supermarkets on price at all, and nearly half say they will be shopping around for deals even more in the next 12 months.

Because promotions are the traditional way in which we currently communicate 'value' to Convenience store shoppers, this is something they all want more of in store.

Value is a critical issue for our stores. For many years, the value equation according to many Retailers has been: value = price. These words have somehow become interchangeable and this misinterpretation has resulted in the escalation of price-led offers in the market.

---

To a shopper, value is not purely price. “From the customer’s perspective, value has two components: the benefit received and the price paid,” says The Cambridge Group in Chicago. “Value increases as benefits are added at the same price point or as price is reduced for the same benefits.” The benefits received can be a range of attributes, such as Convenience, quality, scarcity, service, durability and so on.

Due to increased financial pressure, consumers are spending their money more carefully, and in many cases, choosing not to spend at all. Consumers are exercising greater caution and, as a result, shopping has become a more mindful process, with consumers taking into consideration what they need, rather than what they want. Consequently, consumers are spending ‘smarter’, presenting brands and Retailers with the challenge of understanding the changing value equation for their customers.

Jeff Lenard, vice president of industry advocacy for The National Association of Convenience Stores (NACS), recently presented research on how consumers view Convenience stores and gas Retailers in particular. Consumers were asked what one word would describe the “perfect” Convenience store, the results showed that the words most often said were: easy, cheap or convenient. But when asked to describe the “reality” of Convenience stores, the words most often used were: convenient, Convenience and expensive. This disconnect grew even wider when consumers were asked to describe their impression of food at Convenience stores, as they said: expensive, junk, unhealthy and convenient. Then, when asked their thoughts about “gas Retailers,” the words that came up most often were greedy, expensive and rip-off.

With aggressive pricing by competitors, fuel discount docketts and later supermarket trading hours the value equation is changing. The question is raised as to what premium if any can Convenience stores still command. Certainly convenient locations, 7 day / 24 hour trade in modern, clean and bright locations has a value, however value add services that can further justify a premium price beyond the Convenience factor as well as a pleasant and efficient shopping experience should be considered and can help to change the current value perceptions in some consumers’ minds.



# Grocery Promotions

Grocery promotions have continued to remain aggressive and have compounded some of the issues that the Convenience channel faces today. What has been evident according to Nielsen is that while Suppliers and Retailers have managed to pass on price increases, the level of depth of the promotion has increased. Also shoppers are continuing to shop more on deals with 30% of the top categories now selling more than 50% on promotion.

## Shoppers bought more of their basket on deal

(average increase of +2%)

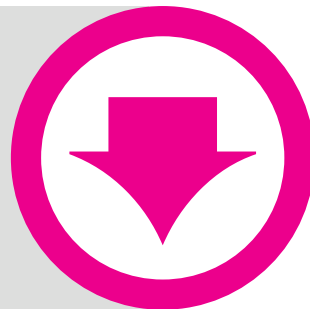
30% of the top categories now sell more than 50% on deal.



## The average discount for a promotional sale got deeper

(average increase of +3%)

Average promotional discount was 20% in 2010.



## Shelf prices increased in 60 of the top categories

Categories who took the biggest increases also increased promotions the most.

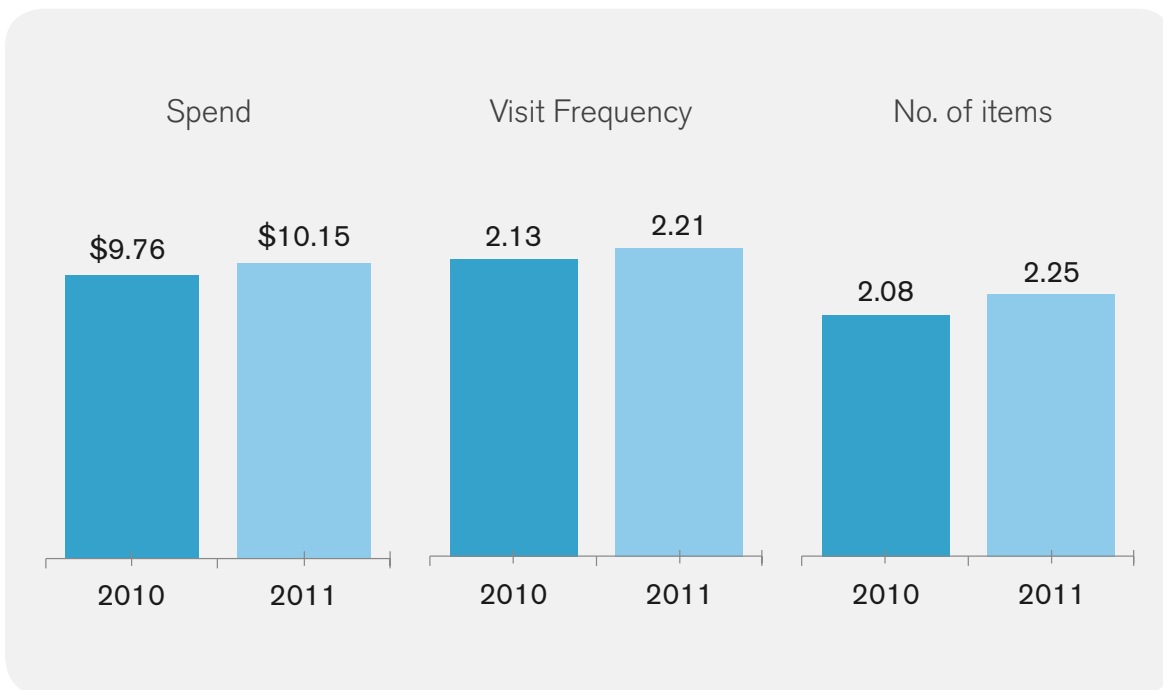


# Shoppers

The shopper visiting this channel remains relatively unchanged to previous years with a continued strong bias towards Males. The main age group to engage in this channel continues to be predominantly in the 25y-44y age group. Nearly 1 in 3 of all shoppers are 'Busy Providers', with the 'Tradies' remaining one of main groups that continue to visit.

Still half of all shoppers come for Fuel Only. As per the ACRS report suggests this is geared towards over 45yo's and they tend to spend less than \$5 in store when they do buy. The average non Fuel shopper spends significantly more on each visit.

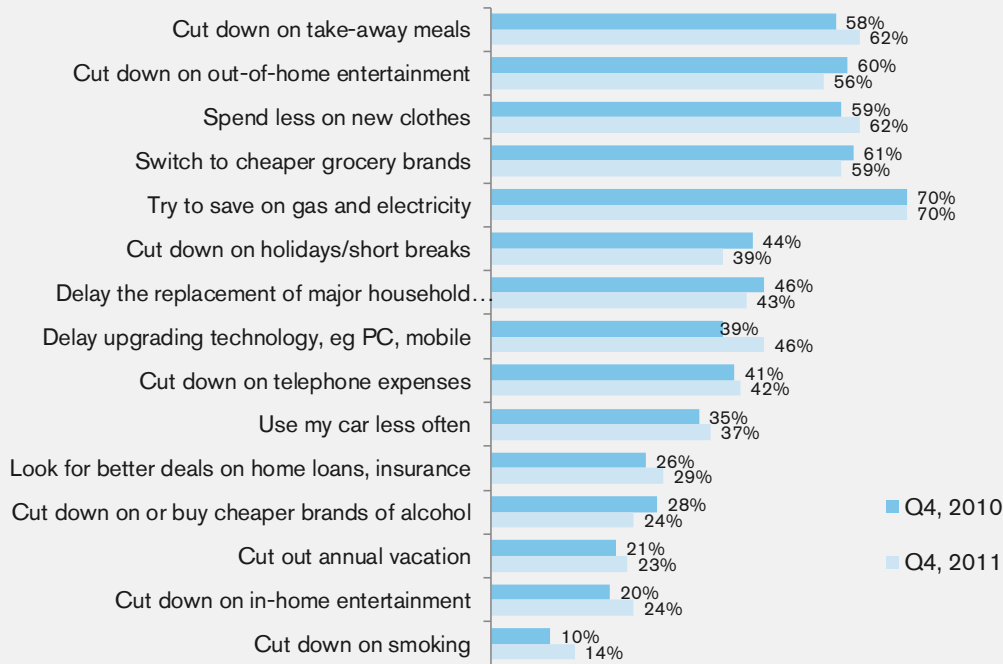
Visit frequency and average spend have increased against the previous year. This higher spend in 2011 relates directly to a higher number of items also being purchased, as opposed to an increase in excise tax as per the previous year.



Source CTP 2011

Shoppers have faced some serious battles in the last 12 months with the increase of utilities and child care costs as well as increases in interest rates in 2011 having an impact on consumer confidence. Whilst consumer confidence recovered slightly in Q4 2011, it is still not at 2010 levels. Nielsen's Global Online Survey of shoppers indicates that they have cut back their spending on unnecessary items such as 'buying take away meals' and 'shopping for clothes', and will continue to do this in the coming months if the situation does not change.

# Shoppers (cont.)

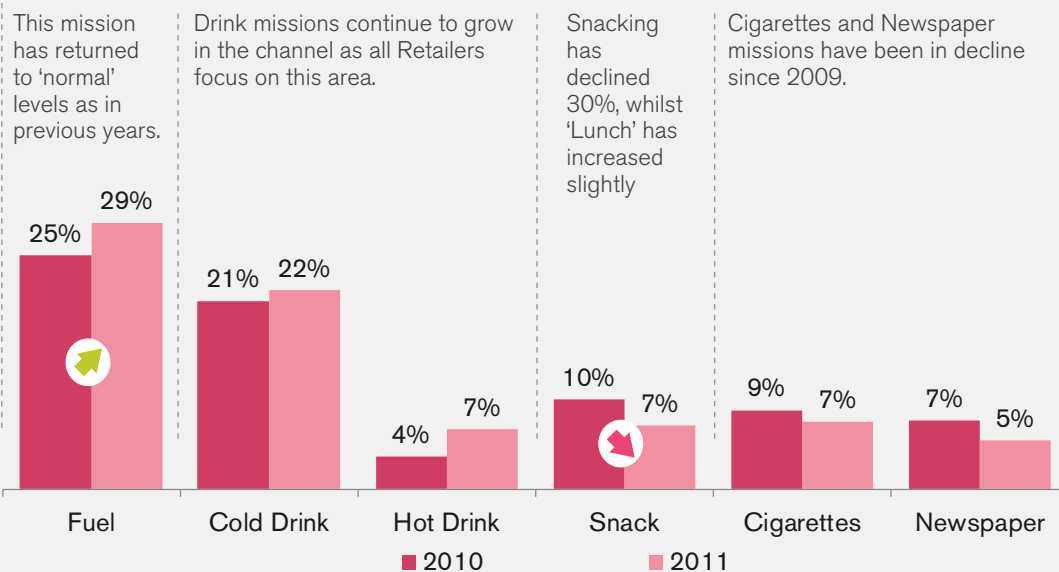


Source: Nielsen

Convenience Merchandise Performance

Convenience Stores are becoming even more of a destination for Beverages, both hot and cold. This mission or main purpose for coming to the stores has increased vs. the previous year. Significant missions such as Cigarettes, Snacking and Top Up are in decline. Convenience is experiencing the commencement of decline of these missions as competitors such as Grocery encroach on these 'traditional' convenience store purchases..

## Primary Shopper Missions



Source CTP 2011

## Shoppers (cont.)

Research shows that regular small basket shopping is becoming more evident in Australia, with the culture moving away from large weekly shops. This is a result of increasing two income households with little time, but also as the availability of shopping and product outside of normal hours. The additional 'Top Ups' however are not being done at Convenience Stores and are pushing people more into Supermarkets. The Convenience that Supermarkets offer with self-serve tills, long operating hours and merchandising stores to make the 'top up' shop quick and convenient is proving successful. In addition to this, all Supermarkets also sell traditional impulse items at the front counters, often at a much better price than can be obtained in Convenience Stores.

As QSR's (Quick Service Restaurant's) are quick to respond to consumer needs for Health and for Value quicker than Convenience Stores are, they are providing new options and directly targeting the Convenience Store snacks and food on the go shopper. KFC tellingly advertised the 'servo pie' as the staple of our offer. It is also the fact that most major chains offer 'Healthy choices' and 'Combo Deals' at far better prices than any Convenience Store can currently compete with. Their supply chain is also a distinct advantage in this area, and is a challenge that our industry must respond to. The McDonalds lunch time offers is a direct attack on what Convenience Stores can offer with Convenience and value.

As shoppers are becoming more aware of offers and more frugal, this has directly impacted some of the traditional reasons for attending a Convenience Store to make a purchase. ACRS refers to the various Shopper types that have emerged recently as a result – Value Shopper, Busy shopper, Local Shopper, Bored Shopper and Digital shopper. They cite that the trend toward increases in the 'Value shopper' will grow in the coming years. This is the shopper that is purposefully spending less and conscious of price and offers in various channels. This shopper is more focused on shopping for what they 'need' rather than what they 'want'. For those who are prepared to shop, the focus is on 'value' rather than price with Shopper Trackers Benchmark Study revealing that 29% of shoppers in the channel are 'looking for a bargain'.

The different shopper types that are emerging are changing the landscape in how shoppers buy, but also how they perceive things. There are more options now, and comparing offers across different channels is common.

The Bored Shopper is one looking to be inspired', and are wanting something new and interesting to entice them when in the store. It is here where the Convenience channel can win by offering new products and promotions to entice the 57% of shoppers who are not just there to 'grab and go'.



# Retailer – Supplier Partnerships

Retailer – Supplier Partnerships

# Retailer – Supplier Partnerships

Advantage International run an annual benchmarking program that measures the importance of priority areas from both Retailer and Suppliers perspectives, as well as benchmarking the perceptions of capability across the industry.

At an overall level, according to the 2011 Advantage Convenience Report, both Retailers and Suppliers seem to be slightly less satisfied with the capability demonstrated by their trade partners in the past year, probably reflecting the tough trading conditions noted in this report. The overall All Supplier Average score (the aggregate score for all Suppliers averaged together), has dropped from 25 to 20 to 17 across the last 3 years, a drop of 4%. Meanwhile the corresponding All Retailer Average score has dropped a similar amount over the same period.

Of note in the report, was the stand out performance of many of the Beverage companies with the top 3 rated Suppliers all being Beverage companies, where the benchmark / top rated company for 6 of the Retailers top 10 priorities was a Beverage Supplier.

Some of the commentary collected talks to the challenges facing the industry:

“

The biggest thing at the moment is everyone is very aware of the insights that are driving consumers away from the P&C channel and how competitive grocery is, but we do not get a sense that there is anyone acting all that urgently from the customer side in terms of how they are going to take it head on... That is probably a criticism of the industry... They are quite different business models but no one has really cracked it, as Retailers do not have a foot traffic problem they have a conversion problem or a perception problem. Supplier Comment

P&C as an industry needs to look at the challenges of how they can convert without insulting customers, because customers are very aware of what the grocery stores are doing... one of things we need to do is to be creative and come up with new ideas. Our offer has to be more exciting. Supplier Comment

”

Interestingly, some in the channel see the need for better understanding to inform the debate:

“

There is a gap in analytics [in the channel]. Retailers get lost in the debate surrounding the margins that they are making [whilst] shop profit is not actually increasing. They are stuck in the middle of the fact they know it is not working and they are not making the profit but they are too scared to change ... they know it is not sustainable but they are not prepared to sell less and make more money... they are being reactionary. Supplier Comment

”



The 3rd year of the Advantage Report program unearthed some interesting insights, many of which correlated with the three key areas for action that were identified at the AACS Convenience Leaders' Summit in November:

- » **COLLABORATION** between Retailers and Suppliers, particularly in relation to supply chain as we see further structural changes taking place even now
- » **INNOVATION** in terms of store and the consumer offer, and
- » **DIFFERENTIATION** to set each brand apart.



## Collaboration

The most important factor as identified by Retailers (of Suppliers) this year was that 'The Relationship can be described as one of understanding credibility & trust'. Encouragingly the All Supplier Average Score (ASA) improved from a +19 to +25 (a 3% increase).

One factor that directly measures Retailer view of collaboration is 'Has an effective collaborative process for joint business planning' which increased in importance from a rank of 27th (of 35 factors) in 2010 to 15th in 2011, where the All Supplier Average improved from +14 to +22

A third area of significant importance to Retailers is that their Supplier's 'Understands & responds to our unique strategies and goals as a company' – the second highest priority overall. However the All Supplier Average has declined from +24 to +16, driven by large declines in the scores achieved by the majority of Confectionery companies.

In terms of Supply Chain collaboration, the factor 'Understand and aligns with our supply chain metrics', has increased its importance to Retailers, up from 16th importance to 8th, although the Average All Suppliers score decreased from +28 to +22.

“

We would like Suppliers to look at opportunities to work with us to improve the supply chain. We would like them to be a bit more proactive in looking to improve out of stocks, forecasting for promotions. If we are expecting uplifts we would like them to make sure they have the correct stock on hand to meet those needs.  
Retailer Comment

We have challenges in the P&C channel and we need to work with key Retailers not just with promotional programming and branding, it could also be in supply chain or other initiatives that can deliver the right price. There is no question that supply chain is a huge opportunity.

Supplier Comment

”



## Innovation

This area is somewhat more unclear in its significance to Retailers and Suppliers. Suppliers are clear that NPD execution and speed to market is of crucial importance to them (7th in importance overall), whereas Retailers reveal that innovation is relatively less important to them – 33rd in importance to them (of 35 factors measured, similar to the 2010 score). The reality seems to be that Retailers want & focus on profitable growth and differentiated strategies, of which NPD is a somewhat successful lever to pull, but many times NPD fails to deliver any true, total business growth, despite significant focus and effort. Suppliers meanwhile are heavily focussed on NPD as a driver of growth within their businesses, so their appears a disconnect.

Interestingly Retailers state that is it noticeably more important to them that Suppliers get the NPD launch and execution process right (13th in importance) than it is that they launch innovation. Perhaps a review of the role of innovation and its net contribution is needed to align requirements & expectations.

Meanwhile, Retailers comment that driving demand and growth includes social media in the mix of levers to pull and that efforts should focus on total category, overall growth.

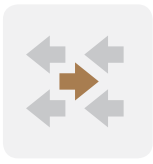


Suppliers are starting to realise that digital media and the social media is something that really needs to be leveraged a lot more. Although some are still a little bit cautious about it. Retailer Comment

We appreciate those Suppliers who are very much focussed on building the overall category. It is good when they are aligned with research data coming out of different companies in relation to the customer. We appreciate it when they talk about insights and what is going to build the category.

Retailer Comment





## Differentiation

Differentiated offers are of course important to Retailers, although the data in the 2011 Convenience Report suggests that it is not the crucial area that it is sometimes thought to be. Whilst 'Tailors it's initiatives to help us differentiate ourselves as a company with our customers' has increased in importance for Retailers, (to 22nd overall with a 65% importance score), the feedback provided suggests that Suppliers and Retailers should ensure that the business essentials are delivered flawlessly before they add additional the complexity and cost of differentiated solutions to their mutual business. Of crucial importance to Retailers remains the on time delivery of stock and the overall delivery of financial KPI's and goals, plus the need for responsiveness and the ability to deal with an empowered account team. Of central importance to Suppliers is that Retailers execute marketing and promotional plans and deliver a strong in store representation of their agreed plans and brands.

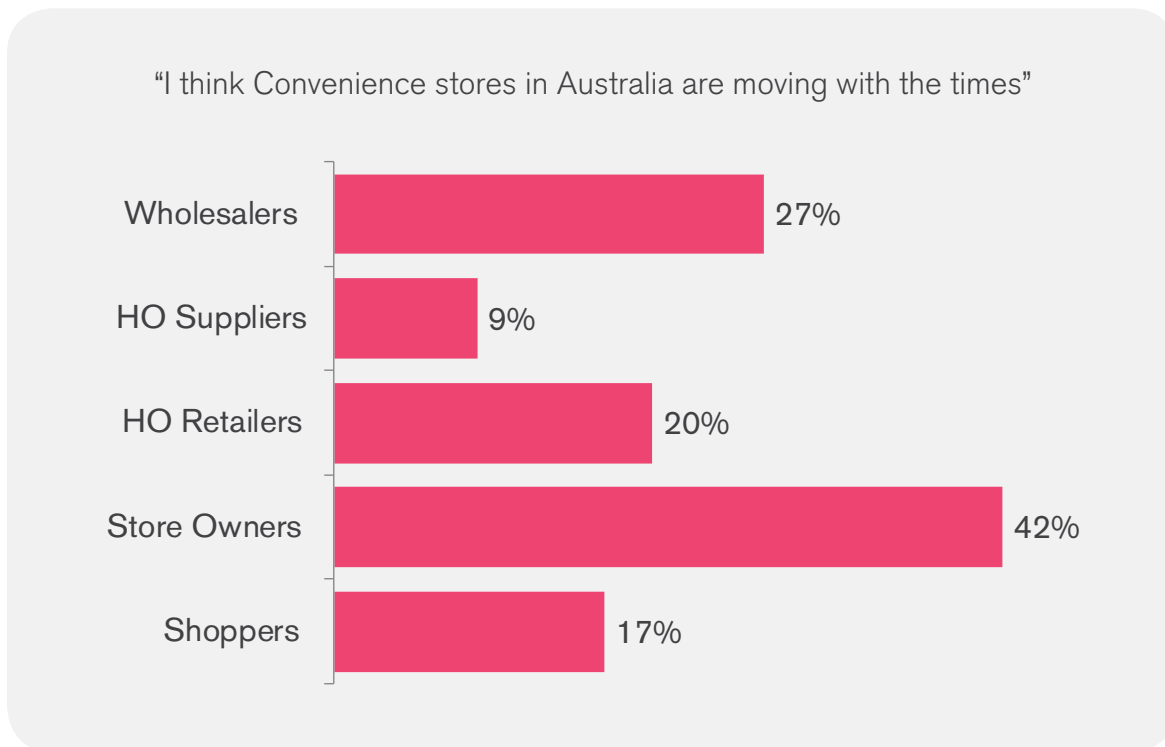
Finally, of interest is the fact that when asked, Retailers do not see the importance of 'creative and impactful shopper programs for this channel, (34th importance, 42% score), despite the channel's focus on promotional and event activation to drive sales. Perhaps Supplier's need to ensure the benefits of Shopper plans and events are understood & demonstrated to their customers.

# Looking to the Future

## Looking to the future

In 2011 two studies were conducted to look at the future of the channel, the him! Future of Convenience report which focused on the next 2-3 years and The Australia Centre for Retail Studies which was commissioned by AACS to look at Convenience in 2020.

The him! Future of Convenience Report focused on feedback from Retailers, Supplier, Store Owners, Wholesalers and most importantly shoppers. What was initially evident is when all were asked store owners 42% believe that they are moving with the times to meet the needs of Convenience shopping in the future, yet only 1 in 5 shoppers believe this to be the case. Also most Suppliers disagreed with this statement with only 9% believing that the channel is meeting the shopping needs of the future.

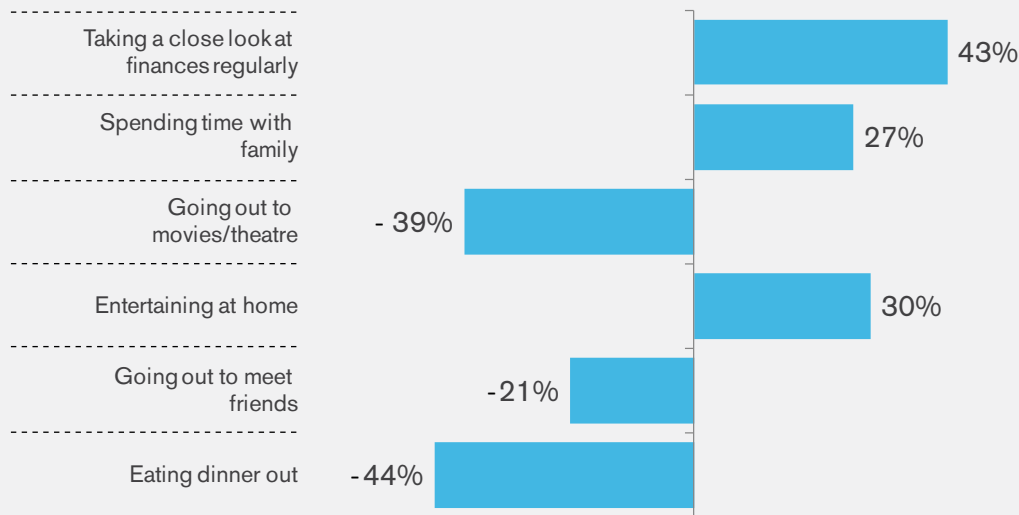


Source: him! Future of Convenience

In the him! Future of Convenience report, consumers say they are 43% more likely to 'look at their finances more closely' than in previous years. Also 30% will do more with the family and entertain at home more regularly. This means the occasion to visit a Convenience Store in the future will be reduced. If you are doing more staying at home, you are less likely to be out and about for Fuel and for 'Snacking' and Drinks etc. Also it means that the incidence of Fuel Only shoppers will increase.

## Looking to the future (cont.)

Changing consumer behaviours means new occasions and missions...



Source: him! Future of Convenience

One of the biggest issues that the channel needs to focus on is promotions and pricing. One of the challenges that the Convenience channel faces is the right mix of promotions and the return on investment to both Retailers and Suppliers. 56% of Shoppers indicated through the him! Report that there was not enough promotions while 65% of Retailers believed they had the mix right, and 55% of Suppliers felt that too many promotions were being run. Pricing remains an issue for shoppers with 49% of them saying that it is the number 1 area for improvement.

Service levels are something that should be a focus for Retailers as only half of all shoppers believe that Convenience stores are better at customer service versus Supermarkets and the speed in which they are serviced. Supermarkets in particular Coles have made this area a priority and the channel needs to make it a focus, especially those with Fuel.

Healthy foods is also something that Convenience Stores have yet to tap into. 85% of shoppers say that 'Health & wellbeing' is important to them when grocery shopping, yet only 1 in 5 feel it is done at all in Convenience Stores. 85% of shoppers say they want to see more healthy products offered in store in the future.

---

# Convenience 2020

The Australian Centre for Retail Studies conducted their “Convenience 2020” study and came up with 4 major outcomes

1. ...is faced with major threats: The major grocery chains (and QSR to a lesser degree) are increasingly developing their store designs and product offerings to target the Convenience shopper.
2. ...is hindered by several weaknesses: The major threats to Convenience retailing are compounded by premium prices, low margins, inefficient distribution, and an over-reliance on cigarettes and other unhealthy products.
3. ...has key advantages: Key advantages for Convenience retailing lie in the demand for fuel and the vast store footprint across many retail brands, resulting in a large amount of store traffic; an element which can be leveraged for future growth.
4. ...requires change: The current Convenience retailing proposition is not sustainable for future growth, with a number of changes identified as necessary so as to compete successfully and achieve sustained growth in the lead up to 2020.

They then identified

## The keys to success...

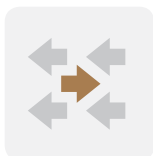
---



1. ...collaboration: Both Suppliers and Retailers need greater horizontal and vertical collaboration across the Convenience retailing industry to compete with the economies of scale and supply chain power of the major grocery chains.



2. ...innovation: A number of Convenience retailing innovations can be seen globally in a number of areas, such as new product offers, store design, as well as leveraging available technology.



3. ...differentiation: Differentiation within and outside Convenience retailing is key and can be applied to the overall proposition, product offering, store design, and technologies utilised. Convenience Retailers, essentially need to develop and market a clear reason why shoppers should visit their stores rather than increasingly convenient grocery and QSR outlets.

---

---

## Convenience 2020 (cont.)

When looking at the shopper types that ACRS identified, although the current trend is toward the Value consumer, the other shopper types represent future opportunities also that Convenience Store Retailer should not overlook. The 'Bored' shopper that is desensitised to existing promotions and in store activation yet is looking for something exciting and different in store to entice them. Or the 'Digital' Consumer that interacts with iPads and Mobile phones regularly is expecting Retailers to engage with them through these mediums.

These themes are also evident from the Future of Convenience research which highlighted that more than ¾ shoppers wanted the shopping experience to be 'fun' and 60% wanted in store demonstrations, while at least half expected Retailers to have their own mobile phone app and 60% expected Retailers to have their own websites.

The Convenience retailing product offer has changed considerably over the past 10 years. Whilst cigarettes represented the largest share of sales, this has declined in recent times, due to changes in Tobacco display regulations, excise taxes and public venue smoking bans. Looking to growth opportunities, Convenience Retailers are expanding into non-traditional product categories, embracing the coffee culture and communications product categories.

This trend was discussed as developing faster in the UK and the US, for instance, with expansion into fresh food, financial services, and entertainment products (i.e. CDs, DVDs). Many Convenience stores in Australia are focusing on their food offerings, adding gourmet coffees, an expanded line of nutritional Beverages and in some cases fresh foods.

Technology will be the biggest change for the Convenience channel by 2020. With the next generation coming through their interaction is almost solely through mobile technology. We have seen implementation of Wi-Fi in outlets, scanning technology of promotional deals, interaction through social media (social retailing) and the introduction of contactless payments.

Healthy foods is also something that Convenience Stores have yet to tap into. 85% of shoppers say that 'Health & wellbeing' is important to them when grocery shopping, yet only 1 in 5 feel it is done at all in Convenience Stores. 85% of shoppers say they want to see more healthy products offered in store in the future.

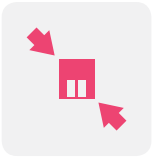


# Overseas Market Trends

Overseas Market Trends

---

## Overseas Trends



### Smaller format stores

Recent years have seen the smaller format stores become more prevalent, with many benefits over larger stores including:

- » Consumer experience in large retail establishments is becoming increasingly unattractive
- » The amount of time it takes to negotiate the seemingly endless aisles in a larger store is a drawback to time poor shoppers
- » Bigger stores usually means longer lines
- » The larger size of the store takes away from personalised service and does not allow for a product assortment tailored to a particular demographic niche
- » Travel time to a large store can be considerably more than just visiting a local store

The growth in online retail is also a key driver in smaller store footprints (Booz & Co, 2011). A study conducted at the University of Southampton found that if consumers can access the same quality of fresh food and product ranges locally as they do in larger Supermarkets, they will divert their top-up shopping closer to home.



### Hybrid Convenience stores

Hybrid Convenience stores provide both convenient shopping and comfortable dining services, with chains in Taiwan, such as 7-Eleven and Family-Mart, providing tables and chairs of bar style seating within their premises for customers.

Hybrid Convenience stores can be categorised into three types:

- » Traditional stores with outdoor café styled patio dining tables and chairs/benches
- » Those equipped with wireless network service and an indoor, bar-shaped table with bar stools next to the deli section, and
- » Those with an internal dining area/section whose layout and atmosphere resemble that of a modern fast food restaurant.

A hybrid Convenience store will appeal to a modern urban market with consumers who prioritise speed, efficiency and Convenience. However, it must be seen as a fast and hygienic alternative to a traditional restaurant.

These hybrid stores are seen as 'hang outs' by teens who find the products affordable and prefer to socialise at the 24 hour stores. Some stores also have power outlets so customers can charge their mobile phones or laptops and access free Wi-Fi.



## Mobile Technology

### Mobile Applications

There is a growing consumer attachment to mobile devices, used increasingly as a valuable tool for research, comparison shopping and Retailer interaction. Smartphone adoption is increasing exponentially and by 2015, smartphone penetration in Australia is tipped to reach nearly 62% of all mobile phones. It has been suggested that by 2012 usage of Internet enabled mobile devices will overtake online PC browsing. Consumers are increasingly using their smartphones for m-commerce, mobile geo-locator applications, mobile loyalty cards, mobile gift cards, and mobile coupons.

Murphy USA, is a Convenience Retailer with more than 1,100 Convenience stores nationally. The Retailer offers an app that features up-to-the-minute fuel prices at its store, as well as surrounding competitors. The text-messaging service warns subscribers a few hours before prices go up and also offers mobile coupons.

### Mobile Payments

Australians have a strong appetite for contactless mobile phone payments, particularly for small transactions such as coffee and newspapers. Recent research into using mobiles as wallets found mobile payments to be a convenient and easy replacement for cash, with the trial meeting or exceeding expectation for nearly 90% of participants. To be able to use the technology customers must download an application and install a microchip into their phone cover. The application must then be activated when paying, in order to eliminate the fear of an accidental payment. Currently the payment option can be used on purchases under \$100.00.

The benefits of mobile payments fall into two broad categories:

- » **Convenience:** Consumers find mobile payments offer a quick and simple method of paying for small purchases.
- » **Integration:** A mobile interface integrates additional features including loyalty programs, push notifications, coupons and social media integration such as Facebook check-in's to receive promotions.

### Quick Response (QR) Codes

The QR code is increasingly being utilised by Retailers, acting as a key element in bridging the gap between online and offline content. Mobile barcode scanning traffic increased over 800% from April 2010 to April 2011 and 2D barcodes such as QR codes saw more scans than 1D (UPC codes) for the first time since 2010. By embedding a mobile barcode on a billboard, companies are able to activate the advertisement and engage the consumer on the go. QR codes can contain information in both vertical and horizontal directions and can hold more content in a smaller area compared to traditional barcodes.

Research group Mintel reports that in Europe several grocery stores are putting QR codes on fruit instead of a sticker, allowing customers to scan a piece of fruit to find out how long ago it was picked, where it is from and how far it travelled. In Convenience stores, where customers have expressed concerns over foodservice freshness, this technology can offer instant peace of mind by providing the exact time a food item was prepared.

# Summary

## Summary

There is no doubt that 2011 was a difficult year for Retailers and Suppliers. The year saw an aggressive play by the supermarkets in terms of pricing and continuing to target “top up” shoppers through their milk and bread strategy as well as deep discounting in categories like chocolate medium bars. Coles and Woolworths both did a permanent price on 600ml Coke which undercut the Convenience pricing by some 25%. All these factors as well as government legislation on tobacco with display bans, excise tax increase and in 2012 plain packaging are not going to make it any easier going forward either.

Market place conditions also become tougher due to the increases in the cost of living through, Electricity Prices, Insurance Premiums, Education, Private Health Cover, Fuel Prices, and Interest Rates. Global instability is creating uncertainty in share markets and consumer confidence is lower than previous years. This is causing households to increase saving levels and meaning that discretionary spending is not at the same levels prior to the GFC in 2008. On top of this, government instability and the introduction and concessions around the mining tax and the introduction of the carbon tax on July 1st 2012 are contributing to consumers being frugal, while Retailers are working harder to get the same levels of spending from consumers.

The major Supermarket Retailers are doing it tough also with Coles Express reporting sales of \$1.8bn for the first quarter of 2012, up 7.9 per cent thanks to higher fuel prices. Excluding fuel sales, which grew by 2.9 per cent in volume terms on a comparable-store basis, Merchandise sales were down 2.4 per cent. Mr Richard Goyder from Coles attributed the decline to customers shifting their purchases to Supermarkets, which was the same factor cited by grocery wholesaler Metcash in April 2012 when it announced plans to close 15 Campbell's Cash and Carry outlets, which supply stock to independent Convenience Stores.

Coles and Woolworths were very aggressive in the last quarter of 2011 with heavy discounting on fuel with up to 35 cents of a litre savings in some instances. This has no doubt made it tough, however fuel volume in the accounts was still up +0.4% (when you exclude the non-reported Mobil sites). The price of fuel was also 10 cents a litre higher in 2011 versus the prior year putting even further pressure on merchandise sales.

The front counter in store or the “hot spot” as it is often called is under increasing pressure with Tobacco, Communications and Confectionery all down in unit sales. There have been a number of initiatives around food at the counter by some retailers to drive growth and selection within the store.

With all of this going on, the channel has managed to maintain margin and record a value growth of 2.6% for the year. Challenges still remain however, as this is the second consecutive year that foot traffic has declined, in particular the main shopper group the 'Busy Providers' coming through the doors to buy merchandise .

The ACRS Convenience 2020 report commissioned by AACS highlighted some weaknesses for the channel with the threat of Convenience type offerings by the Supermarkets, and to a lesser extent QSR, being significant. Coles launched 'Coles Local' in 2011, a smaller format Supermarket with strong offerings around Fresh and Grocery, which highlighted what is already a global trend of Supermarket Retailers to open smaller format stores. It also highlighted the need to resolve the issues around supply chain and the future challenges around premium pricing especially if shoppers continue to save more and have less discretionary spend.

The Convenience Leaders' Summit held in November 2011 highlighted three key areas for this channel to focus on. Collaboration between Retailers and Suppliers in all facets of the business, Innovation to drive customer trial and engagement and differentiation by the Retailers to set all the brands apart.

Global trends show that if we embrace change and deliver on the above, success can be achieved. A recent NACS report on the US Convenience Store market found consumers' increasing appetite for convenient shopping and soaring sales of low-priced non-traditional products have had a positive impact on the U.S. c-stores market, which is anticipated to expand at a compound annual growth rate of around 11% during 2011-2014 to reach around \$856.5 billion.

So while times are tough in many facets of retail, the Convenience channel still remains strong and resilient. If the Retailers and Suppliers continue to work together, and focus on delivering the best possible outcomes for the channel it should not only survive these tough times, but thrive when things get back on track.

Thanks.