AACS
AUSTRALASIAN ASSOCIATION OF CONVENIENCE STORES
25 years
1990-2015

AACS State of the Industry Report

2015

Welcome to the AACS State of the Industry Report 2015

We are pleased to bring the annual AACS State of the Industry report for 2015 to you.

This report continues to be a sought after publication by retailers, suppliers, regulators and analysts and the media as it is the most credible insight into the Australian convenience industry.

I thank the Retailers who took the time to provide data to enable us to publish this year's report. In addition, I thank Hugh Edwards-Neil and Daniel Bone and the team at IRI for their insights and excellent work in again compiling this year's report.

I also thank this year's contributors being Nielsen, Imperial Tobacco and the ACRS at Monash University and the Advantage Group.

Importantly I thank the major sponsors of this year's AACS State of the Industry Report, Coca-Cola Amatil and Imperial Tobacco Australia.

As the drive to innovate across all businesses continues to gather momentum, and this has been recognised by the federal government as well, the need to focus on the customer and optimise performance of key categories has never been greater.

There is also an ongoing need to further develop a 'culture of compliance' within our industry for our store owners, franchisees, staff and customers.

As you will read further in this report, 2015 saw convenience in store sales grow by 3.7% and fuel volume by 1.8% - a credible performance in tough retail conditions.

We should continue to have 'confidence in convenience'.

AACS remains committed to our pillars of **Representation, Innovation, Communication and Education**.

We will continue to advocate for our industry in areas affecting the things that matter to our members and could affect them both positively or negatively e.g. continued tobacco regulation, 'health' taxes, food regulations, penalty rates, alcohol sales regulations, container deposit legislation and importantly petrol theft.

welcome

AACS Board

At the **AACS AGM** held in November 2015 the following Members were elected to serve as the **AACS Board**:

Rob Anderson	APCO Chair
Peri Hunter	BP Vice Chair
Julie Laycock	7-Eleven Treasurer
Karim Sumar	Caltex
Chris Andrianopoulos	AA Holdings
Darren Park	UCB
Steve Cardinale	New Sunrise Group

were elected Retail Member Directors of AACS.

Brett Barclay	Advantage Group
James Lane	Coca-Cola Amatil
Caroline Waite	Frucor

were elected Supplier Member Directors of AACS.

In 2015 these AACS activities took place:

- AACS Annual State of the Industry Report Launch
- AACS Supplier round table meetings
- AACS Convenience Leaders Summit
- AACS Gala and Awards dinner
- AACS Collaboration and Innovation workshop
- AACS Overseas Study Tour to the East Coast of the USA and then to the NACS Show in Las Vegas
- AACS PJ Convenience Industry Award
- AACS Women in Convenience events
- AACS Weekly eNewsletter publication

We do look forward to continuing to bring new and innovative initiatives to you, and to work with our Members for the benefit of our industry.

Jeff Rogut FAIM MAICD
Chief Executive Officer
Australasian Association of Convenience Stores Limited
ACN: 156 638 023

Report Methodology

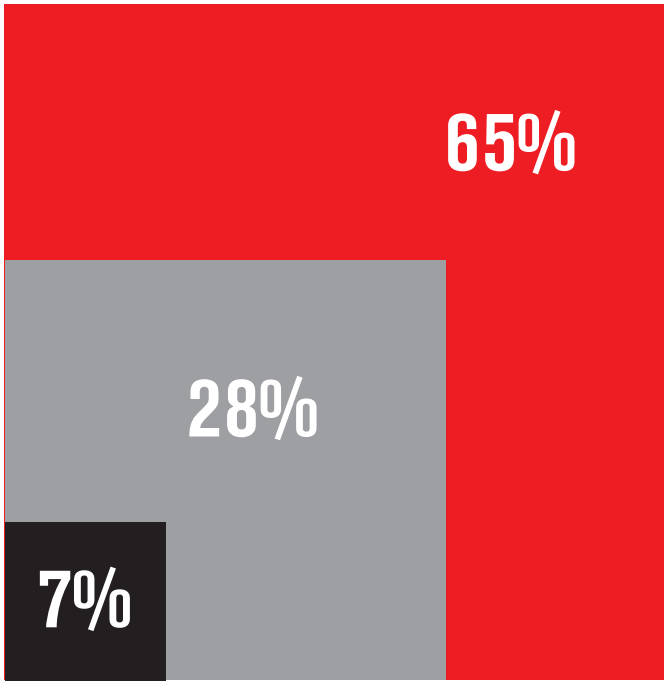
Building on from 2014, IRI were again appointed by the AACS board to compile the AACS State of the Industry (SOI) Report to provide the most robust and granular market performance overview for the local Petrol and Convenience (P&C) industry. A number of different data sources have been used in pulling together the 2015 AACS SOI report.

- **IRI's MarketEdge service provides an overview of Total P&C channel performance.** Overall channel and department/category performance data is derived from IRI's MarketEdge service, which uses a combination of retail sales data, and top line retailer sales performance collected from AACS retailer members for the purpose of the SOI report. Not all P&C retailers are members of AACS, or able to provide data across all areas of their business, as such, not all have provided data for this report. In instances where retailers are not able to provide data through either of these methods a projection is included to represent their contribution to the P&C retail market.
- **IRI's MarketEdge service is used to explore category and brand performance.** IRI's MarketEdge service incorporates actual scan sales data coverage for most major P&C retailers, enabling a more granular view of what brands and dynamics are driving performance within departments. Department performance trends allow us to gauge the leading destinations for c-store shoppers. Throughout this report, references are made to the market size and growth dynamics in 2013, 2014 and 2015. The years in question reflect the following 52-week Moving Annual Total (MAT) periods: 2015: MAT To 03/01/16; 2014: MAT To 04/01/15; MAT To 05/01/14.
- **This SOI report also includes contributions from across the P&C Industry.** A number of leading P&C retailers and suppliers have contributed levels of insight into the Industry in order to provide a comprehensive understanding of the P&C channel. Further, contributions from Nielsen, Imperial Tobacco, Monash University and the Advantage Group, enable this year's SOI report to capture the key strategic themes shaping past and future performance P&C retailing in 2015.

Market Coverage: 65%
Scan Data
7-Eleven, APCO, BP, Caltex, Coles Express, Night Owl, Freedom Fuels, Woolworths Petrol and Puma Energy

Market Coverage: 28%
Data provided to the report by Retailers
AA Petroleum, New Sunrise Group, Peregrine and UCB

Market Coverage: 7%
Data estimates from Independent Retailers



Retailer	Fuel Metrics	Merchandise Metrics	Employee Statistics	Store Statistics	IRI Scan Retail Sales
7 Eleven	■	■		■	■
AA Petroleum	■	■		■	
APCO	■	■	■	■	■
BP	■	■	■	■	■
Caltex	■	■	■	■	■
Coles Express	Not a member of AACS				■
Freedom Fuels	■	■	■	■	■
Night Owl					■
New Sunrise		■		■	
Peregrine	■	■	■	■	
Puma Energy	■	■		■	■
UCB	■	■		■	
Woolworths	Not a member of AACS				■

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P&C Channel Overview

GROWTH IN 2015
3.7%

Overview

The near $8 billion Petrol & Convenience (P&C) channel (excluding fuel), alongside the growth of discounters and online shopping, stands out as a comparatively high performing sector of FMCG retail. P&C value growth of +3.7% in 2015 once again outpaced inflation and the Grocery channel (+1.1%), proving that P&C stores continue to satisfy shopping missions driven by a need for an accessible (close location), compact (easy to navigate), efficient (fast in-and-out) and simple (minimal thinking required) shopping experience.

The channel's inherent strengths and expansion opportunities (which are outlined in detail below) bode well for sustainable growth going forward. Nevertheless, there are challenges and broader threats to address in order for P&C retailing to remain a valued entity for anyone in need of convenience. Slower YOY value growth in 2015 versus 2014 (when it was +4.5%) is a telling reminder of why continued innovation is needed to propel the channel forward. P&C retail must deliver products which satisfy a wide array of lifestyle inconveniences in a unique and enticing way.

STRENGTHS

- Channel heritage, growth and progression reflects a business model that is well suited to modern lifestyles and trends. Fuel provides a unique footfall driver
- The demise of the weekly shop as Australians top-up more frequently, and across more retailers, in conveniently located stores. They are in pursuit of streamlined choice and superior freshness, and wish to reduce waste
- High margin business: time-pressed consumers are willing to pay a premium for immediate/ impulse purchases

WEAKNESSES

- High price perception barrier deters store visits at a time when value-driven shopping is entrenched
- Many consumers perceive a limited and unhealthy/indulgent product range that lacks relevance with their personal values and lifestyle
- Sales are highly concentrated around Tobacco and Beverages, which are under intensifying regulatory pressures and seeing softer demand of some formats

OPPORTUNITIES

- Evolving the merchandising mix in order to address key barriers to purchase (value, range, health)
- Enhancing range and in-store atmospherics to create a "destination shop/service" rather than "desperation shop" (i.e. drive footfall via new "shopper missions")
- Expansive ancillary services that make visiting a store more useful, convenient and enticing

THREATS

- Fluctuating consumer confidence intertwined with record levels of household debt and below average economic and income growth
- Intense competition from within the channel, Grocery retail, and foodservice operators
- With many stores selling fuel, store traffic and subsequent sales are somewhat tied to fluctuating fuel prices
- Increasing government regulation – state and federal. Relatedly, being compliant to pre-empt unnecessary scrutiny

Capitalising on channel strengths

- **Continued growth and progression reflects a business model that is well suited to contemporary lifestyles and socio-demographic trends.** Since the 1990s,the P&C channel has come a long way. The average merchandise transaction in 2015 was $9.80 versus $4.63 in 1994 – evidence that consumers of all ages, income, and lifestyles recognize the value of P&C retail. Since 1994, there has been a tenfold increase in the number of stores (6,042 stores in 2015). P&C sites typically have high traffic counts and easy physical access. Strong store numbers help create an inherent situational strength of being in the right place at the right time (e.g. providing an option for trades people and early morning commuters between the hours of 4:00am and 6:00am). Perceived time scarcity in daily life is an important convenience (product and store) driver; more than half of Australians (53%) agree with the statement, "I often feel like I don't have enough time in the day to cram in all the things I would like to do" according to Canadean research. P&C stores can provide solutions and immediate gratification that resolve this pain point in Australians' lives in a manner that cannot be matched by other retailers. Convenient locations, extended hours of operation, one-stop shopping, grab-and-go foodservice, improving variety of merchandise and rapid transactions are all strengths. Another virtue of smaller format stores is enabling discovery shoppers to try new things. Convenience stores make it easier to find desired products and easier to discover new products. The latter is important to the 57% of Australian shoppers who told IRI in early 2016 that they "like to try new products/brands." In other words, the channel has an important role to play in exposing consumers to NPD.

SITE STATISTICS				
Retailer	2015	2014	Difference	% Difference
7-Eleven	626	611	15	2%
AA Holdings	52	51	1	2%
APCO	24	22	2	9%
BP COCO	200	185	15	8%
BP Regional	121	130	-9	-7%
Caltex All Star	630	595	35	6%
Coles Express	680	646	34	5%
Freedom Fuels	41	41	0	0%
Independents	771	667	104	16%
New Sunrise	658	764	-106	-14%
Night Owl	67	62	5	8%
On The Run (Peregrine)	132	126	6	5%
Puma Energy	199	206	-7	-3%
UCB	1021	1058	-37	-3%
United (including Distributors)	302	398	-96	-24%
Woolworths Petrol	518	508	10	2%
TOTAL	**6042**	**6070**	**-28**	**0%**

- **Urbanisation, smaller households, an aging population, and more women in the workforce drive a need for convenience.** Like most developed countries, low fertility and increasing life expectancy have propelled an ageing population. Over the 20 years between 1994 and 2014, the proportion of the Australian population aged 65 years and over increased from 11.8% to nearly 15%. Growth of this cohort is expected to accelerate in the next 10 years. Meanwhile, Australia's average household size has been trending downwards from 4.5 in the early 1900s and is projected to be between 2.5 and 2.6 people for some time. Pulling down the average household size is single person household growth, which the ABS projects will increase from 2.1 million households in 2011 to around 3.4 million in 2036. It will lead to greater numbers of high-density accommodation to house singles, which smaller store formats are well placed to serve (e.g. single-serve meal offerings). More Australians want to live close to the big cities; as the national population passes 24 million, approaching 90% of Australians now live in urban areas. Urban consolidation is anticipated to propel Sydney and Melbourne's population by around 3 million respectively over the next 50 years. To meet such demographic change, there is likely to be a shift away from larger store formats because time-pressed, older, waste-and-cost-conscious urban shoppers will value the flexibility to buy what they need, when they need it in a location that is convenient to them. From a product perspective, it should present more opportunity for smaller (higher margin generating) pack sizes both in fresh and ambient products.

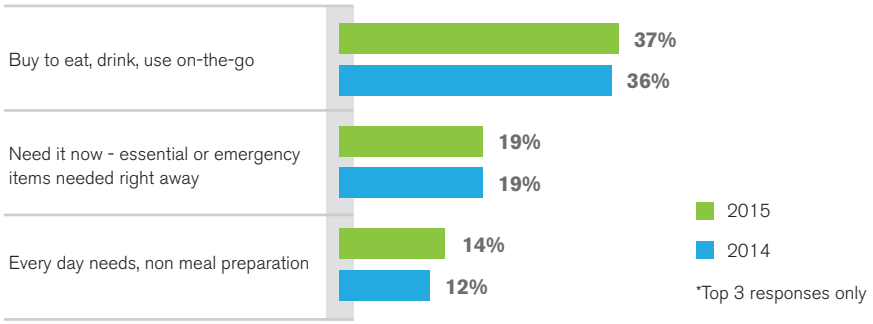
2.5-2.6
PER HOUSEHOLD
Average size trending downwards

3.4m
BY 2036
Estimated single person households (2.1m in 2011)

- **Time-pressed consumers pay a premium for instant gratification.** For many consumers, especially infrequent convenience store shoppers, shopping mission and choice depends on their specific needs at that moment (e.g. time of day, who's in the car, number of items needed etc.). Regardless, P&C retail is well placed to fulfil immediate food and beverage cravings and "distress purchase" shopping missions. This is borne out by IRI's ShopperView research uncovering that Fuel is the main driver of a P&C store visits. IRI research also shows that in instances when people do buy on impulse in the channel, they are most likely to buy snacks and drinks. Separate Nielsen research shows that buying to "eat, drink, or use on the go" (i.e. immediate cravings) is by some distance the most commonly stated shopper mission in the channel, followed by "essential or emergency items needed right away" (i.e. desperation). Stated trip missions have also been broadly consistent for the past two years. Importantly, the need for instant gratification via P&C retailing equates to a channel with strong margins – especially when compared to that of Grocery. The average P&C channel margin reached 33.3% in 2015, which amounts to a very slight year-on-year gain since 2013 (32.6%). By comparison, 2015 data compiled by the Australian Food and Grocery Council (AFGC) in conjunction with UBS Global Research revealed that margins for Australian supermarkets are around 5.7%. Grocery margins, while well above global norm (3.7%), are clearly inferior to Australian P&C retail. The growing role of private label brands, as reflected by the performance data presented in this report, also supports P&C stores in growing their margins (as we are seeing in Grocery too).

33.3%
AUSTRALIAN P&C
5.7%
AUSTRALIAN GROCERY
2015 Margin

On your latest trip, which of the following best describes the type of shopping trip it was?*



Base: All CVS shoppers, 2014 (n=994), 2015 (n=939) Source: Nielsen

Addressing channel challenges

2015 WAS ABOUT PRICE AND PROMO

- **P&C retailers are challenged in meeting the expectations of price attuned Australians.** The channel's comparative margin strength is a virtue. Nevertheless, P&C stores are generally perceived as being higher priced versus competing channels. IRI research in 2015 revealed that expense is by far the largest barrier to purchasing in a P&C store: 78% of buyers perceive it as being more expensive than other stores. More generally, the intense price competition and promotional activity characterising Australia's Grocery retailing landscape is having an impact on shoppers' expectations of price in general. More than three-quarters (76%) of shoppers told IRI in early 2016 that they "always compare prices between brands before choosing," and 68% said that they "actively look for product promotions/discounts in store." Such sentiment means that shoppers will more fervently question whether the convenience store offering is worth the premium. Indeed, him! international research shows that just 12% of Australians think convenience stores are offering better value for money overall compared to 3 years ago (versus 18% of global respondents). Clearly, price increases are also going to be more challenging to implement for channel players.

What drives convenience store choice for shoppers?


Provide really good deals and promos


Convenient to get to


Food and groceries are good value for money


Always have what I want in stock


Low prices for most items

- **Expectations of getting a good deal within P&C grew in 2015.** Nielsen data reveals that an expectation of "really good deals and promotions" was the number one driver of P&C store choice in 2015; 3 of the top 5 store drivers had a value-for-money dimension. Such shopper sentiment seemingly reflects the growing impact of Coles and (to a lesser extent) Woolworths as their petrol stores continue to resemble mini-supermarkets in range, pricing and deal/promotion prevalence. The strong emphasis placed on good deals and promotions is also likely driven by growing exposure to everyday low-cost coffee, which played a more prominent role as a store footfall driver in 2015. Such 'hero categories,' and the strong performance of private label (especially 7-Eleven), showcase that well executed P&C retail can hit the 'value sweetspot': good quality at low/affordable prices. It also diminishes the tendency of consumers to form a generic (and mostly negative) view of the channel (i.e. "the convenience store" or "the petrol station") based on a perception is that most P&C stores carry the same (limited) merchandise in the same basic format.

- **P&C retailing still needs to address shoppers' perception of a limited and stodgy range.** Demands for convenience now coexist with other consumer expectations and needs: namely "time-poor foodies" who want quality food to go options and those wanting "healthy convenience." After all, IRI attitudinal research shows that a majority (68%) of Australians agree with the statement that, "my diet is very important to me" and 66% agree that "nutritional information displayed on products affects what I purchase." Herein exists the challenge; aside from a perception of inferior value, shoppers have also told IRI that the two other most significant barriers to visiting a P&C store are "limited product range" and a "lack of healthy options." Meanwhile, him! international research found that just a fifth of Australians think that convenience stores have enough healthy food options available for purchase. Even if consumers are interested in buying more, stores present basic barriers to doing so; without carts or baskets, shoppers can only carry so many items. But the fundamental crux of the issue is that the leading barriers for NOT visiting a P&C store are issues that are of high importance to the modern consumer. This makes the channel even more susceptible to shoppers switching to other stores offering lower prices.

- **P&C sales tend to be concentrated in a relatively small number of categories.** Tobacco and Ready To Drink (RTD) Beverages account for well over half (56%) of the value of Australian P&C retail (excluding fuel). While Tobacco is a key driver of trips and sales approached $3 billion in 2015, volume is showing a downward trend. Unquestionably, the most significant

factor facing Tobacco is the fact that the prevalence of 'Regular' smokers has declined from 35% of the population in 1980 (41% males, 30% females) to 15% in 2013 (17% males and 13% females) according to ABS data. A confluence of factors is driving the decline: increasing taxes, pervasive health concerns and the innovation of new smoking alternatives. Both Tobacco and Beverages are under significant pressures from regulation and changing consumer lifestyles that are beyond the control of P&C stores. Meanwhile, challenges exist around sustaining high sales volume of other low margin products.

- **Staff turnover, and broader stakeholder scrutiny of staff remuneration, is an escalating issue.** Media scrutiny about the underpayment of worker wages has cast a negative spotlight on the channel in 2015 and served as a telling reminder that the community expects more from established and profitable retailers and brands. From an operational perspective, staff turnover reached nearly 54% in 2015 – up from the 44% recorded for the previous 2 years. This is potentially more important for those retailers focusing on enhancing the on the go proposition. After all, credibly delivering more premium food somewhat relies on retaining quality staff to deliver and enhance the overall shopper experience. Also of note is that labour costs and store running costs were down according to retailer contributions to this report.

	Calendar Year 2015	Year on Year % Change	Calendar Year 2014
Site labour costs as a % of site sales (total fuel & merchandise sales)	3.3%	-9.1%	3.6%
Staff turnover % at site level	53.9%	+22.5%	43.9%
Total store costs of running your outlets as a % of turnover	**6.0%**	**-13.5%**	**6.7%**

Source: Retailer Contribution

- **Low expectations and low enjoyment still characterize the channel.** Limited selection, stores not always being clean, merchandise not being fresh and service being matter-of-fact represent just some of the negative associations with shopping in the P&C channel. And, as discussed, the prices are high – especially compared to the deep discounts and everyday low prices in Grocery. Such a confluence of factors underlines why just 1-in-5 Australian shoppers agree that "convenience store are enjoyable places to shop," according to him! international So, while P&C stores are firmly ingrained in Australian retail culture, opportunities exist to ensure that the channel's virtues are better appreciated by more people.

Accounting for channel threats

- **Australia's macro-economic climate presents a mixed picture for retailers.** Ongoing concern surrounding the economy's vulnerability to subdued global economic growth, and external risk more generally, is weighing on business and consumer confidence. The challenges of igniting a revival in non-mining industries have prompted pessimism, especially with the economy experiencing a sustained period of below-average economic growth. Nevertheless, Australia has enjoyed over two decades of uninterrupted growth and economic growth remains favorable compared with that of other advanced economies. Relatively sound fundamentals, and Australia's proximity to emerging Asian economies, mean that Australia is expected to remain among the strongest in the (OECD) over the medium term.

SUMMARISING THE MACRO-ECONOMIC LANDSCAPE

Soft and fluctuating consumer confidence against a backdrop of external vulnerability and comparatively economic slower growth

CONCERN ABOUT THE ECONOMY'S VULNERABILITY

- Global/China weakness
- Share-market volatility
- Rapid $ depreciation
- High debt, income recession

RESPECTABLE GROWTH, BUT BELOW LONG-TERM AVERAGE

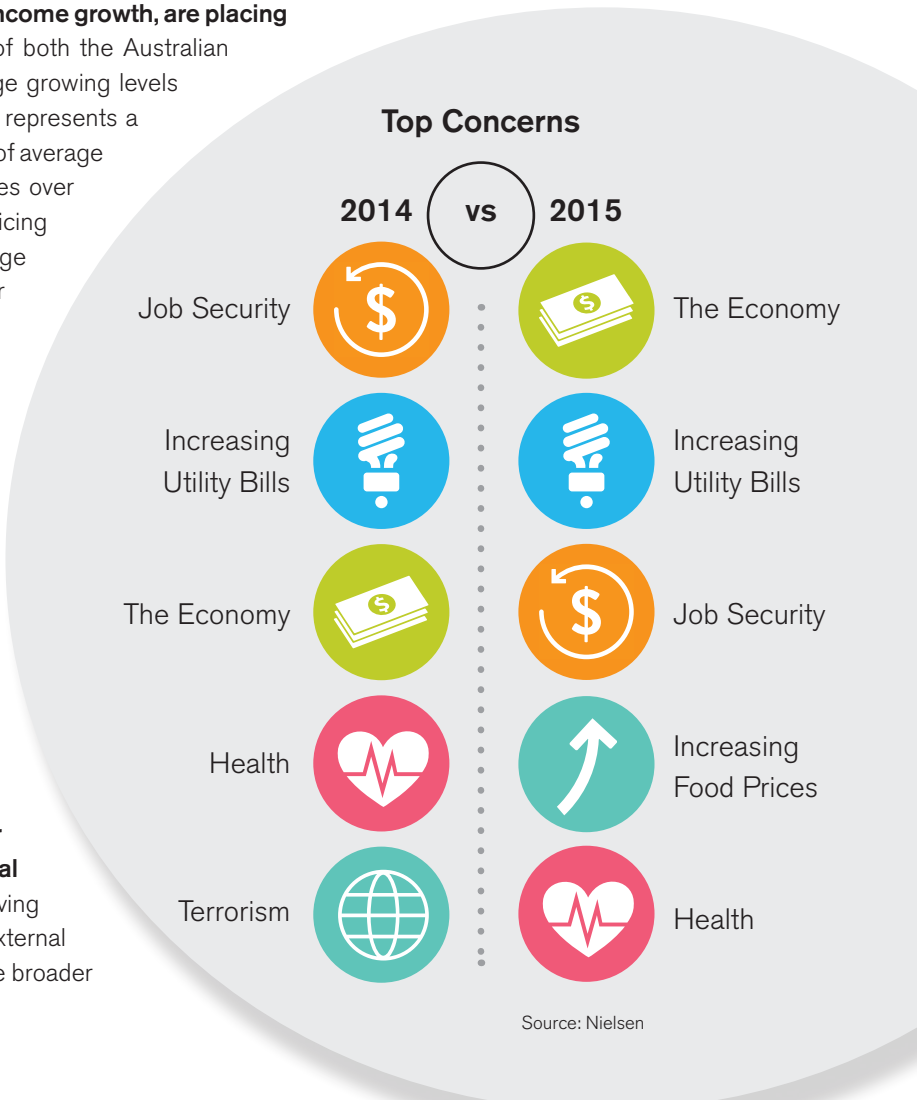
- Rebalancing economy
- Still in growth
- Comparative strength
- Soft but positive consumer confidence

STEADY LABOUR MARKET, WEAK INFLATION

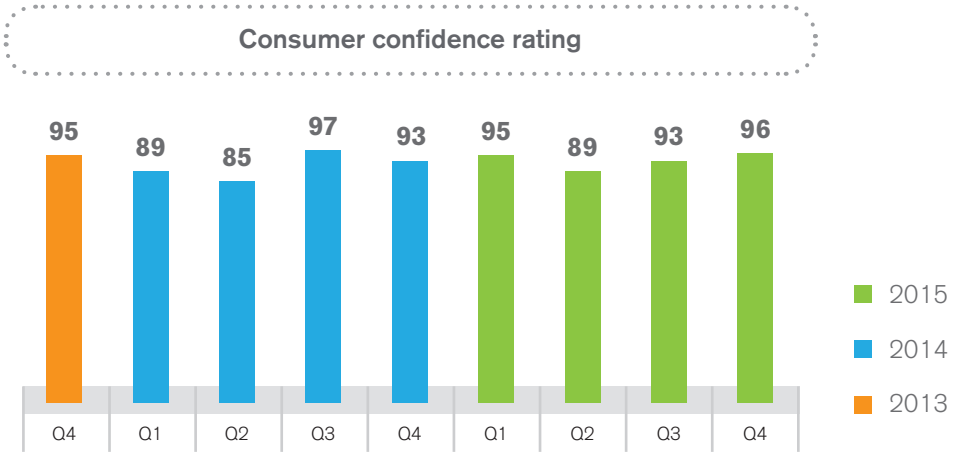
- Low inflation
- Low interest rates
- Steadying labour market
- High wellbeing

- **Record levels of personal debt, and subdued income growth, are placing pressure on discretionary spend.** The ability of both the Australian government and Australian households to manage growing levels of debt, especially amid subdued income growth, represents a pertinent macro-economic issue. The near tripling of average mortgage debt as a percentage of property values over the past 25 years also reflects higher cost of servicing the debt. Lack of wage growth adds to the challenge of high household debt. Indeed, the Committee for Economic Development of Australia (CEDA) noted in its 2016 annual Economic Political Overview report that "income weakness is the one real source of recession risk" for Australia. Annual wages growth retracted to 2.2% in 2015, the slowest growth since the ABS's Wage Price Index was introduced in 1997. Weakness in income growth exacerbates concerns about unmanageable cost of living. It also means that many households are even more reliant on debt and low interest rates to support continued spending. Shoppers need and expect price stability all the more when wage gains are minimal.

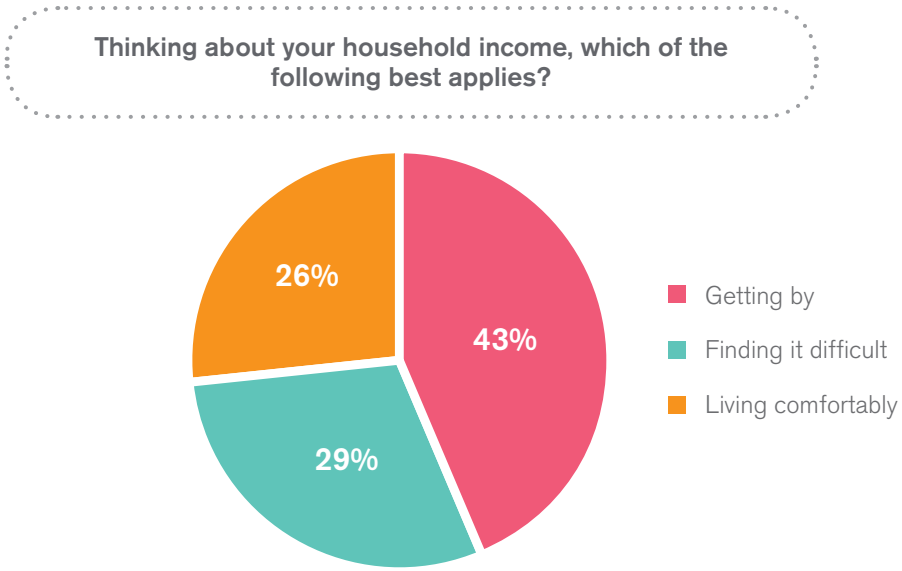
- **Australia's soft and fluctuating consumer confidence reflects national and personal vulnerability.** With 2015 and early 2016 having shown that Australia's economy is vulnerable to external shocks, consumers have become more wary of the broader



economic situation and the impact it will have on their personal financial situation. Highlighting this, Nielsen's Consumer Confidence Index research saw "The Economy" emerge as the top concern among Australians in 2015 (up from number 3 in 2014). Similarly, the CHOICE national Consumer Pulse Report in October 2015 revealed a surge in Australians ranking the economy as 'poor' and more Australians reporting that they are "finding it difficult" (29%) than "living comfortably" (26%). Economic uncertainty, a volatile share-market, a rapid deprecation of the local currency, and ongoing headlines about an unsustainable housing boom, added to a sense of vulnerability. Reflecting this, Nielsen's consumer confidence rating dipped in Q2 2015 to 89, but subsequently recovered to 96 in Q4 2015. Other leading confidence measures in 2015 revealed that more Australians were optimists than pessimists, albeit with soft confidence is proving to be susceptible to month-to-month fluctuations. All measures throughout the year generally reflected a sustained period of low inflation, low interest rates and an improving labour market. Indeed, CEDA's 2016 Economic Political Overview report noted that "monetary conditions overall are very stimulatory and consistent with a sizeable lift in economic growth momentum." Going forward, inflationary pressures should remain contained by the RBA's inflation targeting monetary policy and slower than average economic growth.



Source: Nielsen



Source: CHOICE, June 2015June 2015 n=1372, Base: all people.

- **P&C retail is in deeper competition with Australia's vibrant foodservice operators and convenience orientated grocery stores.** As P&C retailers elevate the quantity and quality of grab-and-go food and drink offerings, it will further intensify competition with the fast food/quick service restaurants, and other more specialty cafés and eateries. Highlighting this, 7-Eleven's current "Be Coffee Clever" marketing campaign directly calls upon Australians to comparatively consider how much they could be saving by avoiding higher priced cafés and instead switching to the chain's $1 Coffee. As quick service restaurants (QSR) target c-store customers, more aggressive channel comparisons in marketing messaging (from both sides) are likely. Meanwhile, P&C stores are being challenged as the primary source of convenience shopping by the Grocery channel too. The proliferation of convenient grab-and-go front-of-store sections, and immediately accessible in-store cafes, are now commonplace in modern Grocery retailing (as evident in the pictures to the right). And within P&C, Coles and Woolworths continued to enhance their convenience offerings through their retail fuel chains. Doing so heightens competition, but also helps in driving the overall size and relevance of the channel.

- **Technology developments may erode the role of P&C in the desperation mission.** While the mainstreaming of such technological advancement is still some years away, the adoption of Internet of Things (IoT) technology will see more households utilising smart appliances and devices to help automatically replenish key items that households most commonly consume. Even developments in online shopping services are likely to ensure that households can better pre-empt running out of key staples. And further into the future, drone delivery is what some futurists are predicting as another major disruptor to conventional retail. In these circumstances, the idea of popping down to the local convenience may seem unnecessary, unappealing and dated by comparison.

Winning from channel opportunities

- **Keep the core, appeal to more.** The challenge for the industry is to continue attracting and satisfying the channel's traditional customer base (younger, working men who smoke and purchase fuel), while enticing/encouraging infrequent shoppers to buy more. P&C loyalists have arguably had low expectations, and the channel has perhaps been too reliant on its locational advantage. But a convenient location and a traditional merchandise mix are not sufficient in today's dynamic retail environment. Highlighting this, only 25% of Australians believe that convenience stores change their offering enough to keep stores interesting, according to him! international The industry is therefore further incentivised to enhance range and atmospherics to create more of a "destination shop/service" rather than "desperation shop" (i.e. building new shopper missions).

25% of Australians believe that convenience stores change their offering enough to keep stores interesting

- **Invest in range assortment expansion and menu innovation.** The product mix offered by convenience stores is dependent on the size and location of the business. Nevertheless, modernising and enhancing range breadth holds the key in meeting latent demand (especially among infrequent shoppers) for fresh, hot, and healthier convenience foods of high quality. If executed well, time-poor and cash-rich consumers will pay a premium for quick dinner options. Recognising this, many US petrol stores are now run like foodservice outlets first, and sell fuel almost as a secondary focus. Brand partnerships have emerged as a commercial platform to give P&C food offerings additional credibility in being purveyors of good quality On The Go items. Co-branding and alliances also alleviate some of the staffing and training issues. In Australia, the virtues of the approach are evidenced by the strong performance of Krispy Crème via 7-Eleven. In the UK, over 220 M&S Simply Food

220+

M&S Simply Food locations exist at BP Connect stores in the UK.

In Australia, the virtues of the approach are evidenced by the strong performance of Krispy Crème via 7-Eleven.

locations exist at BP Connect stores. M&S is synonymous with a high-quality and innovative convenience food offering, which has helped enhance British consumers' readiness to embrace petrol station retail for a wider assortment of products. Another option, which also supports the idea of ranging locally, is to range selections provided by local and/or well-known restaurants. In Denmark, 7-Eleven's sandwich range (Cofoco) does this, while the UK has seen Tesco Express (city stores) and Spar (petrol) partner with popular fast-food and QSR brands. Innovation should also include ethnic inspired specialities, which IRI data shows to be the fastest growing categories in Grocery retail. It reflects Australia's changing population but also that exposure to other foods and cultures has prompted a cross-fertilisation of tastes and preferences.

- **More expansive ancillary services can make visiting an already convenient store location more useful/convenient.** P&C retailers have the outlets, in the right locations, and which are typically open when shoppers need round-the-clock convenience. The addition of further ancillary services may not be direct revenue drivers, but can make visiting a high street store or a petrol station more useful and more enticing. Anything that succeeds in attracting more customers into stores can entice more purchases given the impulsive nature of shopper behaviour within the channel. Such services can also play a role in providing a better shopping experience, which is a powerful differentiator in an industry where each location sells similar items. Recognising this, Caltex is actively assessing how it can implement a broader range of convenience services in order to be a more preeminent force in convenience retailing (rather than just fuel destination). Services such as haircuts, dry-cleaning and delivery of online purchases are among some of the ancillary factors that reflect the Caltex catchphrase, "freedom of convenience." Aspects of the "new convenience concept" will be unveiled in 2016. And, on the subject of services, 52% of Australians think that convenience stores have friendly and welcoming staff according to him! international. While in the positive majority, there is scope to enhance sentiment here.

52% of Australians think that convenience stores have friendly and welcoming staff

- **Improved pricing loyalty schemes, as well as design and diplays, can enhance store traffic.** P&C retailers, like foodservice operators, are vulnerable to traffic fluctuations. But this challenge can be turned into an opportunity by incentivising repeat visits in the same day – especially with a more compelling morning food offer. For example, Starbucks stores in the US gave customers discounts for the 2-5pm daypart if they showed a receipt from the morning. Meanwhile, enhanced store design and display is crucial is important in establishing a more favourable view the P&C store environment. In-store execution can range from using LED screens to provide customers with information on promotions and offers through to contemporary and engaging looking Fun Walls for treats like Frozen Beverages and Ice-Cream (e.g. NightOwl's Store of the Future layout). In-store bakery is another sensually appealing feature with the potential for high impact when located enticingly in a front-of-store zone.

P&C Merchandise Performance

OVERALL VALUE
$7.92m

3.7%
Value Growth

33.3%
Average Margin

Performance Overview

- **Channel value growth softened to levels recorded in 2013, but still outperformed Grocery.** P&C retailing increased by 3.7% in value in 2015, which is equal to 2013 but down from the 4.5% growth in 2014. The consistency of the 3.5-4.5% growth, and the manner in which channel growth is outperforming Grocery (which grew by 1.2% in 2015), provides reason to be cautiously optimistic by the industry's near- and long-term outlook. Growth opportunities are apparent for best-in-class operators who keep appealing to the core channel shopper, but also succeed in attracting new shoppers to the channel.

- **Total Category margin was slightly up (+0.4%) in 2015.** P&C margins, based on retailer contributions, grew from 32.9% in 2014 to 33.3% in 2015. The comparative margin strength of the channel versus Grocery is evident across the spectrum of merchandise offered; 9 areas of merchandise exceeded the channel average. Strong margin growth in both Snacks (+7.0%) and Confectionery (+7.4%) is a positive outcome that augments the value growth seen in both. Tobacco margins declined slightly in 2015 at the same rate as RTD Beverages (-0.4%). Services provide the lowest margin, but recorded the largest margin growth. Ice Cream also saw some margin erosion (-1.8%), but the category's 51.4% margin is still the channel standout.

	% Category Margin	% Change Year On Year	% of Total Store $ Margin
Ice Cream	51.4%	-1.8%	3.4%
Snackfoods	50.0%	7.0%	3.5%
Confectionery	49.5%	7.4%	8.9%
Ready To Drink Beverages	48.3%	-0.4%	31.7%
General Merchandise	48.1%	4.2%	5.4%
Car Accessories	44.7%	3.6%	2.8%
On The Go Food	41.4%	3.1%	9.2%
Grocery & Household	40.9%	7.9%	1.5%
Take Home Milk	37.3%	-0.1%	1.8%
Bread	32.1%	7.8%	0.5%
Tobacco	23.9%	-0.4%	27.4%
News & Mags	17.0%	0.2%	1.0%
Communications	12.5%	4.1%	2.2%
Services	5.4%	16.8%	0.8%

- **Non Food accounts for a majority share of P&C value sales.** Non Food still accounts for a majority value share (56%) of the $7.92 billion merchandise sales generated in 2015. In 2013 and 2014, Non Food outperformed Food. However, a shift in momentum was evident in 2015 following accelerated double-digit growth in On The Go Food (+13.0%). In fact, Total Food's value gains (3.9%) reflect all food and drink categories being in growth apart from Ready To Drink (RTD) Beverages. Reinvigorating RTD is highly important to the channel's ongoing growth prospects because the category's margin is high and these drinks account for 43% of Total Food and 19% of all P&C sales. More generally, the growth dynamic in On The Go and Take Home signals how a more progressive food offering represents the future for the industry.

- **Tobacco's key role in driving channel performance is again apparent, despite slowing growth.** Tobacco accounted for well over a third (37.6%) of overall value sales in 2015. Excluding Tobacco from the overall picture lowers total channel growth to 2.8%. Tobacco's mid-single-digit value growth of 5.2% in P&C retail exceeded the category's growth in Grocery (+4.6%), but was lower than 2014 (+8.9%). Across all merchandise, Tobacco remained by far the largest contributor to value growth. In fact, the $154 million growth that Tobacco generated was $19 million higher than growth contributed by Total Food. As seen in 2014, price increases from excise tax was the main driver, despite shoppers continuing to trade down to value offers.

- **Household merchandise recorded the strongest value growth.** With value growth of 76.7%, Household was the fastest growing P&C category in 2015. The performance gains can be isolated to one retailer (Coles Express) and one high performing SKU: Quilton 3 Ply White Toilet Paper 20-pack. The appeal of this one high performing SKU reflects the relative efficiency by which shoppers can select and transport (to a nearly located vehicle) a good-value and bulkier item that is not easily carried in most Grocery shopping bags. The same underlying appeal accounts for the strong growth of other bulkier items not typically associated with a c-store basket (e.g. larger multipacks that are driving the near double-digit value gains recorded in Take Home Beverages).

- **Communications was the worst performing area of merchandise, followed by Printed Materials.** Communications merchandise recorded a double-digit decline in 2015 (-10.1%), having been in growth in 2014 (+1.8%). Accelerated declines in Recharge Cards, which account for more than 80% of the category, drove this. The high single-digit decline of Printed Materials (-8.5%) follows on from notable sales declines in 2014 (-6.8%). The older demographic is the key shopper group for newspapers and magazines, and this is a group that the channel tends to not actively pursue. Another challenging category is Car Accessories, which has now seen two consecutive years of value declines.

- **Confectionery and Snackfoods recorded stronger growth in 2015.** Categories and brands within these two areas of P&C retail are quintessential impulse items that reflect shoppers' tendency to use the channel by efficiently grabbing one or two items. It is therefore encouraging to see accelerated value growth, especially in the context of the margin strength both categories offer. Snackfoods growth of 5.7% in 2015 is up from 3.7% in 2014. Confectionery has recorded a continued turnaround since 2013; growth of 3.1% in 2015 is up from 1.0% in 2014 and negative growth in 2013. Four of the top 5 Confectionery brands by value share were in growth in 2015, with Wrigley Extra once again driving growth and proving to be the bright spot in Chewing Gum. Ice-Cream, another impulse driven category aligned with treating, continues to see decelerated growth from a high of 8.8% in 2013 to 1.9% in 2015.

Convenience Channel Performance

	Category	Value ($000,000s)	Share	2015 Growth	2014 Growth
	Total Convenience	**$7,916**	**100%**	**3.7%**	**4.5%**
	Total Non Food	4,465	56.4%	3.5%	5.5%
	Total Food	3,451	43.6%	3.9%	3.2%
1	Household	53	0.7%	76.7%	1.1%
1	Grocery	101	1.3%	19.7%	2.3%
1	Take Home Food	56	0.7%	17.9%	3.8%
1	On The Go Food	393	5.0%	13.0%	3.0%
1	Medicinal	37	0.5%	10.1%	13.0%
1	General Merchandise	377	4.8%	9.8%	-0.8%
1	Take Home Beverage	368	4.6%	9.7%	8.7%
2	Travel Tickets	181	2.3%	6.6%	
2	Snackfoods	174	2.2%	5.7%	3.7%
2	Tobacco	2,979	37.6%	5.2%	8.9%
2	Milk	167	2.1%	4.1%	3.8%
2	Personal Care	39	0.5%	3.9%	0.5%
2	Confectionery	504	6.4%	3.1%	1.0%
3	Ice Cream	168	2.1%	1.9%	4.7%
3	Bread	46	0.6%	0.4%	4.2%
3	Ready To Drink	1474	18.6%	-0.5%	2.5%
3	Car Accessories	199	2.5%	-2.8%	-3.2%
3	Printed Materials	170	2.2%	-8.5%	-6.8%
3	Communications	428	5.4%	-10.1%	1.8%

Grocery Performance

	Category	Value ($000,000s)	Share	2015 Growth
	Total Grocery	**57,825**	**100%**	**1.2%**
	Total Food	37,111	64.2%	1.2%
	Total Non Food	20,714	35.8%	1.1%
1	Frozen Meals & Savouries	1,179	2.0%	8.2%
1	Confectionery	2,162	3.7%	6.5%
1	Pet	2,701	4.7%	5.3%
1	Snacking	4,243	7.3%	4.7%
1	Tobacco	8,590	14.9%	4.6%
1	Household Products	3,709	6.4%	2.0%
2	Ambient Beverages	5,318	9.2%	1.3%
2	Health	1,722	3.0%	1.2%
2	Frozen Meat & Vegetables	2,023	3.5%	0.9%
2	Beauty	1,759	3.0%	0.9%
2	Dairy Products	7,471	12.9%	0.8%
2	Ice Cream & Desserts	1,464	2.5%	0.6%
3	Chilled Meals & Snacks	1,461	2.5%	-0.1%
3	Dry Grocery	9,279	16.0%	-0.2%
3	Chilled Beverages	263	0.5%	-2.6%
3	Front of Store	383	0.7%	-6.4%
3	Baby	781	1.4%	-4.1%
3	Bakery	2,248	3.9%	-3.6%
3	General Merchandise	1,069	1.8%	-23.9%

Fuel

OVERALL VOLUME GROWTH
+1.8%

+7.9%
Average litres per transaction

Performance Overview

- **Fuel sales volumes grew in 2015 against a backdrop of fluctuating prices.** Based on comparable retailer contributions, fuel sales volumes grew +1.8% in 2015 as the channel continues to be the primary destination for fuel purchases. More significant growth was apparent in the average litres per transaction (+7.9%) following a decline of 12.5% in the average price per litre in 2015.
- **Fuel theft declined, but remains a major concern for the industry.** Fuel theft, while in decline in 2015 reporting (-29.7%), is still a major concern for the industry. The estimated cost of the issue is approximately $55 million annually. It may be that the lower price points for fuel have prompted the decline, as well as increased vigilance by retailers. Regardless, the issue remains an area of focus for the industry.

36 2014
43 2015
Average litres per fuel transaction

STRENGTHS

- Fuel is a leading sales generator and provides a frequent footfall driver that is unique to the channel
- Australians are clocking up more kilometres, driven mostly by vehicle growth
- Gross retail margins are at historically high levels, with potential for investment into infrastructure upgrades
- Lower fuel prices free up disposable income for other channel merchandise such as snacks and drinks

WEAKNESSES

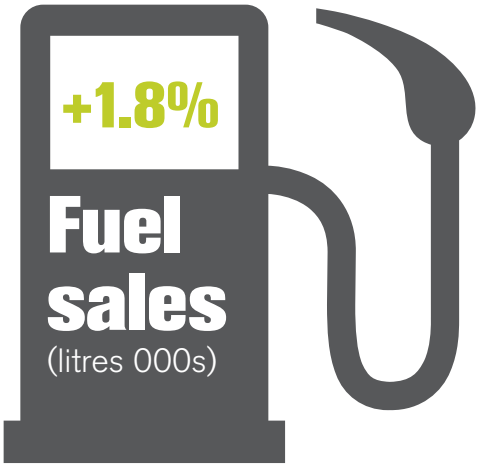
- Fuel is a high volume, low margin business hindered by theft that costs the industry more than $55 million
- Lack of understanding about the determinants of fuel prices, and varying petrol station ownership models, makes fuel retail a common target for criticism
- Costly fuel delivery errors (or product crossover incidents) spiked by as much as 50% in 2015

OPPORTUNITIES

- Treating fuel as the 'basket catalyst' to drive average weight of purchase (AWOP). Enticing shoppers into the store via more compelling and varied outdoor messaging
- Allowing price attuned consumers to feel a sense of control and savviness about obtaining the best value price (e.g. the 7-Eleven branded app)
- Embracing new solutions that protect the customer's convenience and ensure that theft is reduced

THREATS

- Fulfilling state quotas/mandates designed to promote sales of ethanol and biofuel blends, when it is not necessarily consumer-driven
- Volatility of fuel prices, with so much dictated by international markets. If the price of fuel increases, purchases of non-fuel goods typically decrease
- Reputational damage/loss of trust from customers impacted by fuel delivery errors. And today, the pervasiveness of social media can amplify any incidents



+7.9%
Average litres per transaction

Petrol theft -29.7%
$ cost per site per week, all fuels: $186.38

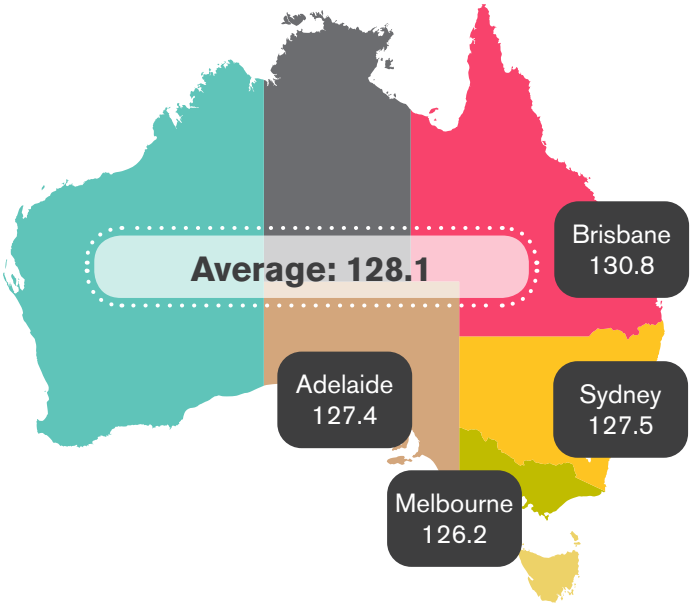
Average price per litre
128.1 cpl
(-12.5% versus 2014)

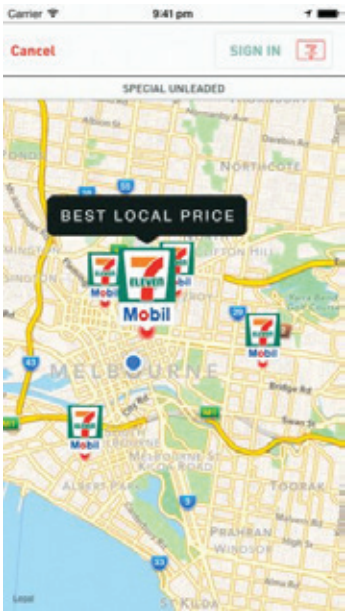
Fuel prices

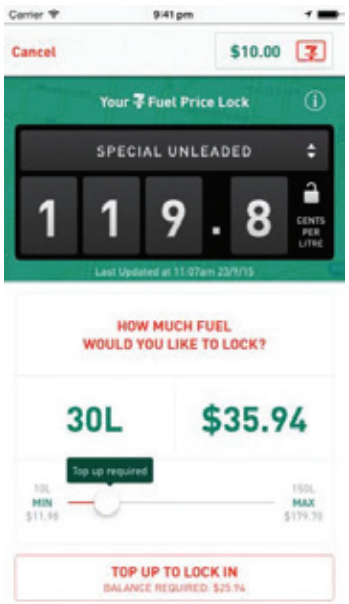
- **2015 was a tale of two halves as petrol prices rose in H1 and fell through to December.** Data presented by the ACCC in its December report on the Australian petroleum market revealed that retail fuel prices incrementally increased during the first half of the year, albeit up from a low of around 103 cpl in early February. A seven-day rolling average retail petrol price in Australia's the five largest cities recorded a peak of circa 144 cpl in early July 2015, but was followed by a drop off to around 118 cpl by the end of December 2015. The annual average retail price in 2015 was 128.1 cpl – a decline of -12.5% compared to 2014. City level data reveals that that Brisbane had the highest retail prices among Australia's largest, which has been a consistent trend in recent years.

- **Declining fuel prices underpin the growth in litres per transaction.** When fuel prices are low, consumers are incentivsed to capitalise on potential savings by fully replenishing fuel tanks. This was apparent in the retailer data submitted to, and collated by IRI. A -12.5% decline in average petrol prices in 2015 directionally dovetails with the uplift in growth in average litres per transaction (+7.9% in 2015 versus +2.6% in 2014).

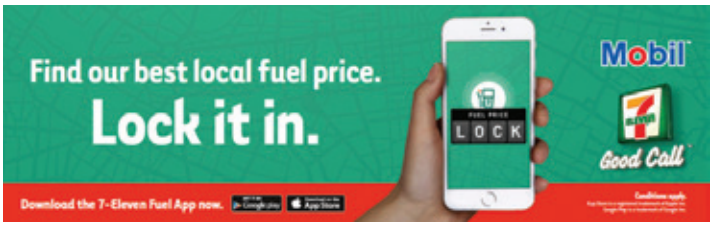
- **Australians are attentive to fuel price fluctuations because it represents a key cost of living concern.** Consumers are highly sensitive to changes in the retail fuel price. Highlighting this, ongoing consumer research for the CHOICE Consumer Pulse project revealed that fuel is a leading cost of living concern for Australians in 2015 – second only to Electricity and thus more concerning than Food/Groceries. Further illustrating how fuel is a top-of-mind consideration, Canstar Blue research (which polled more than 2,600







Australian drivers) found that 66% of Australians are taking measures to limit their fuel consumption. This included 42% who reported using their car less to save money on fuel. Three-in-five drivers report that they closely follow fuel pricing and only fill up on days when petrol is the cheapest. And one in five said they would drive more than 10 kilometres in their search for cheap fuel. Canstar found the average monthly fuel spend to be $132, with motorists in their 40s spending the most ($152) and those aged 70 or over the least ($95). Seemingly recognising the engagement that Australians' have with fuel prices, 7-Eleven has launched a first-of-its-kind branded fuel app allowing consumers to search local stores to ascertain the best price in their area. Customers can then lock in that price and then fill up their car within seven days – at that price – at a 7-Eleven store of choice.



Fuel theft

$186 of petrol theft per store per week still cost P&C retailers approximately $55 million

- **The decline in fuel theft in 2015, while providing some relief, does not detract from the ongoing social and economic ramifications.** Petrol theft is a crime which significantly affects service station employers and employees and has significant safety implications to the general public. Despite retailer fuel margins in 2015 being cited as the highest ever observed by the ACCC, petrol remains a low margin product and its theft comes straight off the bottom line for retailers. Although fuel theft costs fell in 2015 (because theft is typically linked to higher prices), the average $186 dollars of petrol theft per store per week still cost P&C retailers approximately $55 million.

- **Service station owners have been forced to take preventive measures.** Costs of preventing fuel theft are another consideration as sub-optimal legislation puts a disproportionately high emphasis on the retailers to tackle the issue. In 2015, some petrol stations implemented newly developed number-plate recognition technology in order to deter drive-offs (because of the role it can play in enabling convictions). Perth-based Scancam uses high-definition cameras to automatically scan license plates, the details of which are added to an online database. As well as being a deterrent to theft it is hoped that the technology will enable loyalty schemes for stations where it is installed. In late 2015, Scancam generated $500,000 in seed funding in order to roll out its technology across Australia. Overseas in Canada, Mac's Convenience Stores have partnered with Toronto Crime Stoppers to develop a proactive campaign to bring awareness to the issue of gas theft. There has been a reduction in theft following the launch of a campaign, which is part of Mac's focus on making Crime Prevention an integral part of the company's corporate responsibility. It demonstrates that simply bringing awareness to this issue can generate positive results (or help alleviate the negative implications) for the industry. Ideally, a national solution is required to crack down on this crime and to best support retailers.

Fuel needs and type

- **Australians are accumulating more kilometres, which is fuelled by more vehicles rather than longer trips.** At the time of the 2015 Motor Vehicle Census (MVC), there were 18.0 million motor vehicles, including motor cycles, registered in Australia. Australian registered motor vehicles travelled an estimated 244,369 million kilometres in the 12 months ended 31 October 2014 – up from 209,405 in 2006 and 226,632 in 2010. The 23% gain in kilometres travelled between 2006 and 2014 compares to a near 17% gain in the number of registered vehicles in the same timeframe (i.e. vehicle growth underpinning travel distance growth). The average distance per vehicle has been trending downwards since 2006 from 14,600 kilometers per vehicle to 13,800 kilometres in 2014.

NUMBER OF VEHICLES BY TYPE, 2010 AND 2015			
	2010	2015	Change 10/15
Passenger vehicles	12 269 305	13 549 449	10.4%
Campervans	48 504	58 288	20.2%
Light commercial vehicles	2 460 568	2 907 006	18.1%
Light rigid trucks	115 845	140 625	21.4%
Heavy rigid trucks	315 433	331 699	5.2%
Articulated trucks	82 436	94 975	15.2%
Non-freight carrying vehicles	22 533	23 361	3.7%
Buses	86 367	95 149	10.2%
Motor cycles	660 107	807 215	22.3%
Total motor vehicles	**16 061 098**	**18 007 767**	**12.1%**

Source: ABS

LITRES OF FUEL CONSUMED, BY VEHICLE TYPE, 2006, 2010, 2016			
	2006	2010	2014
Passenger vehicles	61.7%	59.1%	58.3%
Motor cycles	0.4%	0.5%	0.4%
Light commercial vehicles	15.8%	17.8%	17.1%
Rigid trucks	8.2%	8.1%	8.2%
Articulated trucks	11.8%	12.5%	13.7%
Non-freight carrying trucks	0.2%	0.2%	0.2%
Buses	1.8%	1.9%	2.0%

Source: IRI analysis of ABS data

- **Petrol accounts for the majority of all motor vehicle fuel use, with clear variances depending on vehicle type.** ABS data highlights that in the 12 months ended 31 October 2014, registered motor vehicles in Australia consumed an estimated 32,402 million litres of fuel. Of the total fuel consumed by motor vehicles in 2014, 54.0% was petrol and 40.5% was diesel. For passenger vehicles 80.6% of 18,893 million litres consumed was petrol. Diesel accounted for 55.7% of the 5,525 million litres of fuel consumed by Light Commercial Vehicles, while petrol accounted for 37.7%. Diesel was the overwhelmingly leading fuel type (99.5%) for trucks. Over the five year period from 2010-15, the number of Passenger vehicles and Light Commercial vehicles registered with diesel fuel increased by 96.4% and 62.9% respectively.

- **Ethanol blended petrol (EBP) sales by volume, and as a proportion of total petrol sales, fell to a six year low in 2015.** Ethanol is added to petrol to produce various grades of ethanol blended petrol (EBP), with E10 being the most common type. The fuel format has generated considerable debate in recent years because of legislative changes that require fuel operators in NSW (and Queensland in 2017) to meet sales quotas of ethanol blends despite ongoing consumer resistance. Questionable consumer demand is evident from trended data presented in the ACCC's Quarterly report on the Australian petroleum industry in February 2016. EPP sales volumes peaked in 2010—11 at 16% of total petrol sales. Since then EBP sales volumes have steadily declined to 10% in the first five months of 2015–16.

Tobacco

OVERALL VALUE
$2.98m

5.2%
Value Growth

Performance Overview

- **Tobacco is a key P&C footfall driver.** On 53% of occasions, Tobacco is the main or equal reason Tobacco consumers visit a P&C store according to ITA research. Supporting this, Advantage Shopper Tracker research also established that Tobacco is the number one ranking category for planned purchases. Occasions often dictate the type of Tobacco purchase, representing a broader target group (all Shopper segments). The Tobacco category has continued to increase foot traffic and thrive in the channel by responsively reviewing pricing strategies and innovative ranging.
- **Tobacco is also a major contributor to P&C retail growth.** In 2015, the additional sales value generated from Tobacco's growth in P&C outlets amounted to nearly 100% of Total Non Food growth (although was influenced by other merchandise like Communications being in decline). Price increases from excise tax have driven value growth, which has been most pronounced in Sub Value and Roll Your Own (RYO) Cigarettes. The impact of excise on performance is somewhat apparent when comparing value and volume shifts in 2015. In all key segments included in IRI's P&C taxonomy for Tobacco, value growth exceeded volume (units and sticks) growth. And for the segments in decline, volume losses were more pronounced than value declines.

STRENGTHS

- Australia continues to be a strong performer globally, ranking 15th based on dollar sales value
- Profits remain high and Tobacco continues to be a catalyst for store foot traffic (represents 22% of Tobacco shoppers according to ITA), especially males aged 35+
- Tobacco is the industry's largest product segment, comprising approximately 37.6% of all P&C sales in 2015. It is also the main contributor to channel growth. Tobacco is also not reliant on promo triggers like other categories according to Advantage Shopper Tracker

WEAKNESSES

- Sustaining value growth when consumers are trading down and moderating/abstaining from smoking. Excise increases (March and September 2015) have further strengthened the Sub Value segment as consumers more intensely seek lower prices
- Price boards are currently underutilised by P&C shoppers and retailers. When a shopper does not see their preferred brand on the board it can create confusion and a loss of sale

OPPORTUNITIES

- Ongoing reviews of pricing strategies and innovative product ranging. Improving inventory management, especially to avoid out-of-stocks (130% safety stock is recommended by BATA)
- Proactively targeting and addressing both the supply of, and demand for, illicit tobacco products by working closely with all of the relevant authorities
- Capitalize on P&C's role as a "choice curator" and consumers' willingness to pay a premium in the channel – i.e. gain incremental sales from new/niche/premium products

THREATS

- Ongoing risk of declining volumes as smokers moderate and abstain and/or switch to more widely available illicit products
- Excise pressures and further regulatory burdens on retailers, often in the form of license restrictions
- Limitations around branding management: brand is the primary driver for tobacco purchase, but legislative changes undermine the industry's ability to compete
- Price-competitiveness and pervasiveness of Grocery

- **Some leading brands and segments are experiencing growth challenges.** Significant growth of RYO and Sub Value Cigarettes masks some mixed performance elsewhere. Four of the 10 leading Tobacco brands by value share of P&C retail recorded negative growth in 2015 (Winfield, Peter Jackson, B&H Regular and Longbeach Regular). Mainstream Cigarettes is the leading segment within Total Tobacco with 42.0% value share, but has seen share erosion of 8.4 percentage points in just 2 years. Double-digit declines for the Winfield Regular brand have marked this period, although Winfield Optimum has been a leading performer in the same timeframe.

- **The share of Sub Value Cigarettes is growing rapidly as price conscious consumers trade down.** As in all channels, the share of Sub Value Cigarettes is showing strong growth in P&C retail due to affordability drivers and the way plain packaging has made choice more price driven. The segment's share of Tobacco has grown by 145% in 2 years (from 11.6% in 2013 to 28.4% in 2015). In 2015, Sub Value Cigarettes accounted for more than 60% of actual sales value gains among the Tobacco formats in growth within P&C. From a brand perspective, Rothmans is the major performance driver; Rothmans Blue 25s was the leading growth contributing SKU across all Tobacco. In fact, Rothmans Blue accounted for 3 of Tobacco's top 6 growth SKUs, and 3 of the top 4 SKUs in Sub Value Cigarettes specifically. Rothmans value share of Tobacco has grown to nearly 10% in the last 2 years.

- **A significant shift from Value to Sub Value has occurred.** Further evidence of consumers trading down is the manner which the Value Cigarettes segment declined in 2015. The segment was the most significant growth drainer across Total Tobacco, with the share of Value Cigarettes nearly halving over the course of 2014-15. And with consumers trading down, Premium Cigarettes are also losing share (down from 23.2% in 2013 to 16.6% in 2015). Only Marlboro (albeit by just 1%) and B&H Demi (with triple-digit gains) grew in 2015 within the Premium Cigarettes segment.

- **Roll Your Own (RYO) is showing strong sales growth.** RYO continues to entice smokers as another affordable option. RYO now accounts for 7.5% of all Tobacco sales value within P&C – up from 5.4% in 2015. Double-digit value growth of RYO is supported by strong (related) growth in Filters (+16.7%) and Paper (+9.9%). Broadly speaking, it represents a continuation of the YOY growth trajectory for these products seen in 2014. From a brand perspective, Champion, Winfield and Choice are the main value growth drivers for (or beneficiaries of) the renewed popularisation of RYO. The top 5 SKUs by value contribution (Jps Regular Tobacco Endless Blue 25g, Champion Tobacco Ruby 25g, Winfield Regular Tobacco Blue 25g, Winfield Regular Tobacco Gold 25g, and Jps Regular Tobacco Abundant Gold 25g) accounted for 52% of all RYO value growth in 2015.

TOBACCO		
Top 10 Brands Ranked By Share of Department in 2015	Top 10 Brands Ranked By Contribution to Value Growth in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Winfield Regular	Rothmans	Rothmans Blue 25s
Jps Regular	Jps Regular	Winfield Optimum Night 25s
Rothmans	Winfield Optimum	Rothmans Blue 20s
Peter Jackson	Winfield Jets	Winfield Reg Blue 30s
B&H Regular	Bond Street	Jps Reg Blue 26s
Winfield Optimum	Champion	Rothmans Blue 40s
Longbeach Regular	Peter Jackson Hybrid	Jps Reg Gold 26s
Bond Street	Jps Players	Bond Street Blue 25s
Marlboro	Easy	Rothmans Gold 25s
Champion	Rothmans Superkings	Rothmans Red 25s
Top 10 = 82% Value Share	**Top 10 = 97% Value Growth**	**Top 10 = 47% Value Growth**

The green and red font reflects brands in growth and decline respectively.

- **Illicit trade and the prospect of further regulatory burden persist as key threats.** Government regulations such as smoking bans and restrictions at public venues, the introduction of plain packaging, numerous excise tax increases, and bans on retail display of Tobacco are now all issues that the industry has recently confronted. But another economic and social issue rising to prominence is that P&C retailers are missing out on more than $416 million dollars (including GST) in retail revenue due to lost sales because of illicit tobacco. Ultimately, illicit trade is a "silent competitor" – competing for business alongside legitimate and honest retailers. Meanwhile, display restrictions and other regulatory restrictions being advocated continue to create an anti-competitive backdrop in which Tobacco operates.

TOP 3 TOBACCO VALUE GROWTH DRIVERS AND DRAINERS, 2015		
	2015 % Value Growth	2015 % Units Growth
Cigarettes Sub Value	58.4%	34.2%
Roll Your Own	18.9%	11.6%
Filters	16.7%	13.0%
Cigarettes Mainstream	-3.1%	-12.1%
Cigarettes Premium	-11.6%	-22.9%
Cigarettes Value	-39.2%	-49.1%

NB: Ranking based on actual growth. The green and red font reflects brands in growth and decline respectively.

VALUE SHARE OF TOTAL TOBACCO			
	2015 %	2013 %	Change
Cigarettes Mainstream	42.0	50.4	**-17%**
Cigarettes Premium	16.6	23.2	**-28%**
Cigarettes Sub Value	28.4	11.6	**145%**
Cigarettes Value	4.5	8.4	**-46%**
Roll Your Own	7.5	5.4	**39%**
Other	1.0	1.0	**0%**

The green and red font reflects brands in growth and decline respectively.

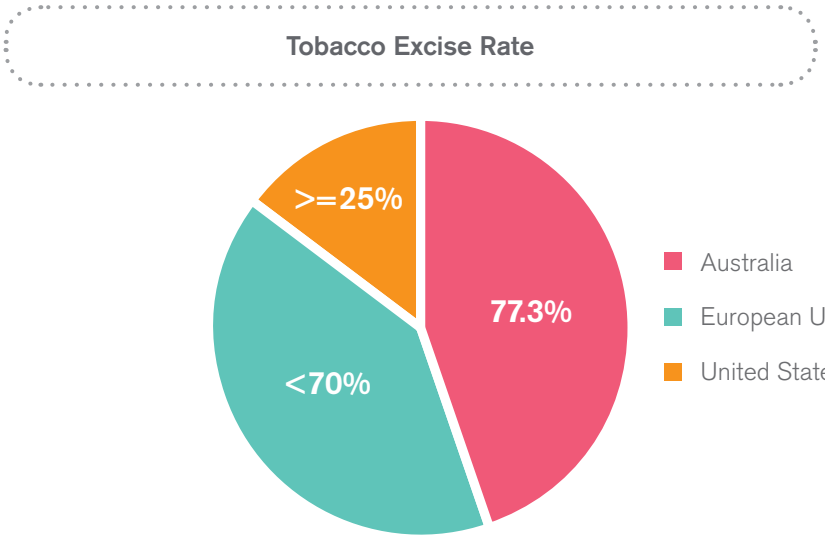
Countering the challenge of growing illicit trade

- **Illicit tobacco in Australia now represents 14.3% of total consumption.** The most recent KPMG Report indicates that roughly one in every 7 cigarettes consumed is illegal. If this 14.3% was consumed in the legitimate market it would represent an estimated $1.42 billion in additional excise revenue for the government. Fundamentally, it means that P&C retailers are missing out on more than $416 million dollars (including GST) in retail revenue due to lost sales because of illicit tobacco. In October 2015, Australian Border Force made the biggest seizure of tobacco in Australian history, seizing 71 tonnes with a street value of at least $90 million. This seizure alone represents potentially foregone government excise of $27 million. In response, Minister for Immigration & Border Protection, Peter Dutton, announced a dedicated strike force to target and disrupt the supply of illicit tobacco in Australia.

- **Excise is a key driver of the illicit tobacco market.** Australia is a high tax environment for Tobacco products, made even more so by the four times 12.5% excise increases (due to end this year). Excise increases result in higher prices, driving down trading and, ultimately, movement of consumers to the illicit market. These large excise increases also fuel the black market by making it even more lucrative for organised criminals to smuggle illegal Tobacco into Australia. A pack of 20 cigarettes is up to 8 times more expensive in Australia than South Korea, for example. These high profit margins can provide an attractive and valuable source of income for organised crime. Indeed, illicit Tobacco is directly linked to organised crime. This is a significant issue which requires a long term integrated and joined up strategy to tackle it, including a return to Average Weekly Ordinary Time Earnings (AWOTE) only excise increases.

> *We are seeing an increase in organised crime entities involved in this. I put it down partially to the fact that the excise in duty payable on Tobacco is increasing.*
>
> Roman Quaedvleig, the Chief Executive of Australian Customs & Border Protection, February 2015

> *Illicit tobacco is a real priority for the Australian Border Force, simply because of the involvement of organised crime groups and transnational crime groups. The sheer size of the profits that are available to those groups, and the fact that those groups don't discriminate between commodities. They'll trade in tobacco; they'll trade in drugs; they'll trade in human beings.*
>
> Australian Border Force Deputy Commissioner for Operations, Mr Michael Outram APM, November 2015



Source: Euromonitor 2014/2015. Manufacturer market share updated 2014, KPMG Illicit Tobacco in Australia 2014 Full Year Report

Optimising price boards

- **Price boards play a key role in product selection, but only for a minority of shoppers.** Based on the 25% of P&C shoppers who say that they use the price board, Tobacco choices appear to be slightly more brand-led than price-led. More P&C shoppers claim to use the price board to check preferred brand availability (42%) than compare prices across brands and stores (both 38%). In spite of plain packaging, the channel specific data confirms that brand symbolism and heritage still reassures shoppers by signalling the quality of the product.

- **Price boards can play a more integral role.** P&C retailers can better optimise the use of price boards in order to ensure they are catering to those consumers wanting to compare brands and prices. ITA research has revealed that shoppers in the P&C channel favour the price board arranged alphabetically by brand. More generally, price boards should be viewed as an enabler of stronger partnerships between manufacturers and P&C retailers. The reality is that the layout, design and visibility of the board collectively exist as obstacles to enhancing the retail experience and improving efficiencies across all shopper segments.

Source: ITA Shopper Study March 2015 N = 720 (n=2934 occasions)

Reflecting on proposed regulations

- **Further regulatory burdens, often in the form of license restrictions, have been promoted by anti-tobacco advocates.** Options range from increasing licensing fees to limiting the number of licenses available in a given area to restricting the hours during which tobacco products can be sold. Options for restricting access to Tobacco are anti-competitive, will cause negative consequences (such as a shift to purchases of illicit tobacco), are unjustified on public health grounds, and will unfairly hit smaller retailers the hardest.

- **Licensing restrictions is an approach that is based more heavily on regulation than on education.** Rather than educate people about the health risks associated with smoking, there is a fundamental assumption that more intensive regulation will drive behavioural change. There is also an assumption that people can be driven to quit smoking, through increasing regulation, to force behavioural change. As long as tobacco products remain legal, ordinary principles of free market competition should apply to businesses who sell tobacco products to adults.

- **In 2015, several states announced consultations which included licensing aspects.** Retailers are able to have a significant impact on these proposed regulatory changes. Suppliers such as Imperial Tobacco are able to assist in understanding the proposed regulations and what can be done to prevent them from restricting business and damaging the bottom line.

Queensland Inquiry into Tobacco licensing arrangements	In October 2015, the Queensland Health Minister, the Hon Cameron Dick MP, announced an inquiry into Tobacco licensing arrangements in Queensland. The Health & Ambulance Services Committee will consider current state licensing arrangements and licensing conditions in other states. In announcing the inquiry, Mr Dick said, "Other states and territories license the supply of tobacco and we want to see if a Queensland scheme could help reduce the prevalence of smoking." At the time of writing, the consultation is due to close on 21 January 2016, with a public hearing on 24 February 2016. The Committee will detail its findings in a report to Parliament by 29 April 2016.
ACT Alcohol, Tobacco and Other Drug Strategy 2016 – 2020	In November 2015, the ACT Government released the Draft ACT Alcohol, Tobacco and Other Drug Strategy 2016 – 2020. The Strategy outlines measures it anticipates will reduce the proportion of smokers, and considers "supply reduction strategies designed to prevent, stop and disrupt the production and supply of illegal drugs and regulate and manage the availability of legal drugs". The Consultation closed on 17 December 2015. We expect to hear more in 2016.
Tasmania TAS – Tobacco Free Generation	In December 2015, the Tasmanian Government announced that it is considering raising the legal smoking age in Tasmania to either 21 or 25 years of age. Health Minister Michael Ferguson believes that 18 – 24 year old Tasmanian's are sufficiently responsible to vote, consume alcohol, feed video gaming machines, gamble in its various forms, drive a motor vehicle, marry a person of their choosing and be bound by the rule of law. At the same time, he does not believe that they are sufficiently responsible to consume a legal product. Illicit tobacco is as readily available in Tasmania as it is in the rest of the country. It can be purchased in Hobart, Launceston, Devonport, Burnie and everywhere in between. Those providing it aren't driven by our legal system; they're breaching excise laws, plain packaging laws, display laws and a host of others. It stands to simple reason and logic that those same providers aren't interested in abiding by legal smoking age requirements. With illicit tobacco already a major problem, Minister Ferguson's proposal will simply see adult consumers move in greater numbers to the black market. It already exists – and competes with the Tasmanian small businesses that currently retail a legal product and employ Tasmanian's in so doing. It's those small businesses who will feel the impact of Minister Ferguson's attempt to bend the will of adults to his view of the world.
Tasmania Proposal to raise the legal smoking age to either 21 or 25	In December 2015, the Tasmanian Government announced that it is considering raising the legal smoking age in Tasmania to either 21 or 25 years of age. Health Minister Michael Ferguson believes that 18 – 24 year old Tasmanian's are sufficiently responsible to vote, consume alcohol, feed video gaming machines, gamble in its various forms, drive a motor vehicle, marry a person of their choosing and be bound by the rule of law. At the same time, he does not believe that they are sufficiently responsible to consume a legal product. Illicit tobacco is as readily available in Tasmania as it is in the rest of the country. It can be purchased in Hobart, Launceston, Devonport, Burnie and everywhere in between. Those providing it aren't driven by our legal system; they're breaching excise laws, plain packaging laws, display laws and a host of others. It stands to simple reason and logic that those same providers aren't interested in abiding by legal smoking age requirements. With illicit tobacco already a major problem, Minister Ferguson's proposal will simply see adult consumers move in greater numbers to the black market. It already exists – and competes with the Tasmanian small businesses that currently retail a legal product and employ Tasmanian's in so doing.

> *"AACS will continue to fight for our retailers right to sell legal tobacco products and the freedom of our customers who may choose to buy legal tobacco."*
>
> Jeff Rogut, ACCS CEO, April 2016

Confectionery

OVERALL VALUE
$504m

3.1%
Value Growth

Performance Overview

- **Solid value growth is coming from most leading Confectionery brands.** Confectionery sales grew 3.1% in 2015. The top 10 Confectionery brands accounted for 37% of merchandise sales. Among the 8 top 10 brands that were in growth in 2015, 7 recorded double-digit YOY growth (and even the anomaly, Natural Confectionery, grew by 8.7%). Robust growth among the category leading brands reflects an ongoing desire for everyday snacking treats in spite of growing consumer concerns (and ongoing negative media coverage) about sugar intake. It also reflects a product offering suited to P&C retailing. Highlighting this, the Advantage Convenience Shopper Tracker program established that Chocolate Bars continue to be the most impulsive category in the channel in 2015.

STRENGTHS

- Ongoing demand for a pick-me-up sweet treat
- A continuing resurgence in value growth: +3.1% in 2015
- The quintessential impulse category and an established mainstay of both P&C retailing and snacking culture
- Category innovation stimulates excitement and growth, making c-stores an important aspect of NPD launches
- Broad appeal/relevance across dayparts and consumer groups (i.e. tradies, kids, professionals)
- Australians' high propensity to snack across dayparts

CHALLENGES

- Sustaining growth in key segments like Gum and Chocolate Bars
- Consists of indulgent products (or "guilty pleasures") conflicting with consumers' focus on health
- Lacks the "real food" quality cues increasingly sought after in snacking (e.g. snack bars)
- In search of novelty, consumers are less loyal to snack brands and constantly seeking "new news"
- Diverse preferences: some consumers like the big bags, many others are keen on portion control

OPPORTUNITIES

- Interest in non-traditional flavour and texture sensations creates potential to challenge norms and heighten shopper intrigue
- Prospect of Confectionery-free checkouts in Grocery could further enhance the role of c-stores
- Drive AWOP with cross-category promotions and meal deals that include a suitable Confectionery item
- Cross-merchandising of Confectionery within sleek and contemporary drinks fridges
- A 'Night In' display zone in convenience stores featuring a combination of snacks (led by Confectionery)
- Ramping up better-for-you confectionery innovation and dedicated in-store zones

THREATS

- DSM Global Insights research showing that 61% of Australians think sugar is a danger to their long-term health and 71% are concerned about the impact of excess sugar consumption on their weight
- Ubiquity of supermarket discounting elevates expectations of discounting in P&C retail
- Pressure on shelf space and merchandising as channel players evolve the overall food offering
- Coles and Woolworths removing Confectionery from the c-store checkout (like Tesco Express in the UK)

- **The standout performance of Extra Reg masks ongoing challenges in Gum.** Wrigley's Extra Regular is the largest Confectionery brand by value share. Extra Regular consolidated its category leadership in 2015 by being the biggest value contributor to growth. The brand is benefitting from new extensions that bring new benefits to chewers, as well as effective Pack Price Architecture management (i.e. developing different packs suited for different occasions and pricing tiers).
- **Innovation is driving value growth.** Proving that Confectionery is responsive to innovation, Maltesers Teasers 35g, Kit Kat Mint Whirl Bar 45g, and Mars Bar Brownie 70g all feature among the leading SKUs ranked by value contribution to growth. The success of the Maltesers Teasers bar is indicative of a master-brand that is performing well across a range of Confectionery segments. For example, Chocolate Hang Sell value growth has been predominately led by Maltesers and its YOY above 25% for the last two years.

CONFECTIONERY		
Top 10 Brands Ranked By Share of Department in 2015	Top 10 Brands Ranked By Contribution to Value Growth in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Extra Regular	Extra Regular	Kit Kat Chunky Choc S/Pk 70g
Mars	Kit Kat Chunky	Cadbury Dairy Milk Block 200g
Snickers	Maltesers	Twirl Bar 58g
Twirl	Mentos Nowmints	Cadbury Hazelnut Block 200g
Kit Kat Regular	Kit Kat Mint	Snickers Bar 50g
Natural Confectionery	Kinder Surprise	Cadbury Favourite Assorted 320g
Eclipse Mints	Twirl	Maltesers Teasers 35g
Cherry Ripe	Extra White	Extra Regular Spearmint Bottles 46s 1pk 64g
Maltesers	Snickers	Kit Kat Mint Whirl Bar 45g
Cadbury Dairy Milk	Cherry Ripe	Mars Bar Brownie 70g
37% value share of Total Confectionery	**46% of actual value growth generated by brands in positive growth**	**21% of actual value growth generated by SKUs in positive growth**

The green and red font reflects brands in growth and decline respectively.

18.7%
Category Share

0.1%
Value Growth

-4.3%
Units Growth

King Size Chocolate

- **King Size is the largest segment by value, but is in decline.** Accounting for 18.7% value share, King Size Chocolate is the largest segment of the Confectionery fixture. However, King Size Chocolate's share declined by 0.7 percentage points in 2015 following subdued growth of 0.1%. Nevertheless, marginal growth in 2015 was an improvement on the segment's marginal decline in 2014.

Top 5 Growth SKUs (Value Contribution to Growth)
Twirl Bar 58g
Mars Bar Brownie 70g
Kit Kat Regular Bar King Size 65g
Cherry Ripe Bar 80g
Snickers Xtreme Bar 72g
40% value share of Total King Size Chocolate
74% of actual value growth generated by SKUs in positive growth

- **The leading King Size SKU is performing well.** The 58g Twirl Bar is the leading segment offering ranked by value share. It was also the leading contributor to value growth in 2015. Looking more widely, six of the top 10 leading SKUs (ranked by value share) recorded double-digit YOY growth. Only the Mars 2 pack and Bounty 3 pack offerings declined.
- **Mars and Snickers brand extensions made a strong impact in 2015.** Mars Brownie, a limited edition introduction in September 2015, puts a Brownie flavoured twist on the classic Mars bar. It was the standout NPD in being the second most significant contributor to King Size growth in 2015. Its launch was supported by a limited-time 7-Eleven promotion allowing shoppers to buy a '2-Pak' and Get another '2-Pak' for $1. Snickers Xtreme is another US influenced NPD making a positive impact.

Chewing Gum

13.9%
Category Share

-0.3%
Value Growth

-3.4%
Units Growth

- **Gum's performance stalled in 2015.** Consistently adding value to Chewing Gum has been a challenge for manufacturers and retailers globally. Within Australian P&C retail, Gum declined in 2013, but returned to growth in 2014. The segment has been unable to sustain the upward momentum following growth in 2015 having again slipped into marginal decline. Volume (units) declines accelerated last year, although might be partially accounted for by value orientated SKUs of bottles containing 46 pellets being in growth. Invigorating Gum's growth is important because it accounts for sizeable 13.9% of Total Confectionery.

Top 5 Growth SKUs (Value Contribution to Growth)
Extra Regular Spearmint Bottle 46s 1pk 64g
Extra White Bubblemint Pellet 10s 1pk 14g
Extra White Bubblemint Bottle 46s 1pk 64g
Extra Regular S/Mint Pellet 10s 1pk 14g
Extra Regular P/Mint Pellet 10s 1pk 14g
23% value share of Gum
58% of actual value growth generated by SKUs in positive growth

- **Gum's positive momentum is driven by 3 master-brands bringing added-value benefits to consumers.** In growth are Wrigley Extra Regular, Wrigley Extra White and Mentos Pure White. The two Wrigley brands hold a monopoly on the top 5 value generating growth SKUs of 2015; in fact, Wrigley accounted for 9 of the top 10 Gum SKUs in growth within the P&C channel. Wrigley Extra White and Mentos Pure White are capitalising on the positive association between chewing and improved oral health, as well as the positive momentum of Whitening products in the Oral Care sector. Extra White Bubblemint is somewhat uniquely (and effectively) targeting those in their teens and early twenties who Wrigley identified as being most likely to follow 'unsatisfactory' Oral Care routines.
- **Broader declines are evident elsewhere.** High double-digit value declines of Total Eclipse, 5, Pure Fresh and Extra Active (as well as a few other brands) offset the above-mentioned growth brands. These 3 segment drainers alone account for nearly a quarter of Gum share in P&C retail.

Medium Chocolate Bars

11.4%
Category Share

-10.1%
Value Growth

-8.5%
Units Growth

- **Medium Chocolate Bars are in decline despite some positively impactful NPD in 2015.** Medium Chocolate Bars is an important segment, accounting for 11.4% value share of Total Confectionery. However, it is not currently a growth driver having lost 2.8 percentage points in share from 2013-15. Accelerated value declines have occurred in that timeframe. Meanwhile, Maltesers Teasers 35g is the fastest growing SKU in the segment (and the 7th largest growth generating SKU across all Confectionery). It appears to be attracting new block buyers to the brand and/

Top 5 Growth SKUs (Value Contribution to Growth)
Maltesers Teasers 35g
Kit Kat Mint Whirl Bar 45g
Mars Darkside 72g
Snickers Rockin' Nut Road 2s 66g
Kit Kat Mint Whirl Bar 65g
14% value share of Medium Chocolate Bars
46% of actual value growth generated by SKUs in positive growth

or offering a new experience for those existing Maltesers fans accustomed to bagged and boxed varieties. Its success in the Australian market follows rapid gains in the UK where IRI data shows that Teasers became the number one chocolate single just 12 weeks after launch. Further indication of how the segment has been responsive to innovation is that all top 5 value growth contributing SKUS are new launches. Kit Kat Mint Whirl stands out as a success with two separate SKUs (of differing size) featuring in the top 5 ranking.

Hang Sell Sugar Confectionery

12.7%
Category Share

8.9%
Value Growth

10.8%
Units Growth

- **Hang Sell Sugar Confectionery has been a standout performer.** Hang Sell Sugar Confectionery accounts for 12.7% of Total Confectionery sales – up from 12.0% in 2013. Share gains reflect the high single-digit value growth in 2015 (+8.9%), as well as double-digit volume gains (+10.8%). Accounting for 3 of the 5 top growth generating SKUs, Starburst is the main driver. The SKU ranking highlights that Starburst, Natural Confectionery and Skittles all performed well in 2015. Importantly, all 3 brands saw significant value gains versus 2014.

Top 5 Growth SKUs (Value Contribution to Growth)
Starburst Rattlesnake Bag 180g
Starburst Party Mix Bag 180g
Skittles Fruit Bag 110g
Starburst Babies Bag 180g
Natural Confectionery Party Mix 180g
25% value share of Hang Sell Sugar Confectionery
55% of actual value growth generated by SKUs in positive growth

Boxed Chocolate

- **Two SKUs are driving the growth momentum of Boxed Chocolate.** The Advantage Convenience Shopper Tracker program has identified that Boxed Chocolate presents a great gifting opportunity especially between December and May where Christmas, Valentine's Day, Easter and Mother's Day all fall. While not isolated by key events for the purpose of this report, IRI scan data reveals that Celebrations Assorted 300g and Maltesers Milk Box 360g were, by some distance, the main drivers of Boxed Chocolate's 33.1% value growth in 2015. In fact, the two SKUs alone accounted for 98% of the small (1% of Total Confectionery) and rapidly growing segment.

Top 5 Growth SKUs (Value Contribution to Growth)
Celebrations Assorted 300g
Maltesers Milk Box 360g
Ferrero Raffaello Box T24 240g
Darrell Lea Caramel Snows 280g
Lindt Creation Desserts Box 170g
67% value share of Boxed Chocolate
100% of actual value growth generated by SKUs in positive growth

Hang Sell Chocolate

- **Maltesers has been the main growth story of Hang Sell Chocolate in 2015.** Maltesers Milk accounted for the two Hang Sell SKUs (155g and 280g) contributing most value growth in a segment that has recorded consecutive years of mid-single digit growth. The two Maltesers SKUs generated more dollar growth than the 3rd-7th leading SKUs combined.

Top 5 Growth SKUs (Value Contribution to Growth)
Maltesers Milk 155g
Maltesers Milk 280g
M&M's Peanut Bag 380g
Allens Fantales Bag 160g
Cadbury Marvellous Creations Rainbow Rockin Bears 150g
28% value share of Hang Sell Chocolate Confectionery
40% of actual value growth generated by SKUs in positive growth

Ready To Drink and Take Home Beverages

OVERALL VALUE
$1.84bn

-0.5%
Ready To Drink Growth

9.7%
Take Home Beverages Growth

Performance Overview

- **Overall Ready To Drink (RTD) performance is bolstered by two high growth formats: Dedicated Iced Coffee and Hot Drinks.** Five of the top 8 RTD beverage categories (ranked by value share) declined in value in 2015. However, high mid-single digit growth for Dedicated Iced Coffee (+7.9%) and double-digit growth for Hot Drinks (+26.0%) offset declines in Energy Drinks, Cola, Sports, Water and Frozen Carbonated Beverages (FCBs). Volume and value growth for Hot Drinks in excess of 25% highlights that the channel is becoming a more credible option for affordable Coffee in a broader Australian Coffee market that is expanding but fiercely competitive.

- **Take Home Beverages (THB) out-performed RTD, mostly due to the growth of multipacks.** THBs account for a comparatively small share (20%) of the combined THB/RTD market, which is consistent with the channel's typical emphasis on 'impulse/immediate' and 'loose change' consumption. However, a difference in growth momentum is apparent; THBs value growth in 2015 (+9.7%) contrasts the marginal decline in RTD (-0.5%). The dynamic challenges the assumption that the channel is merely a destination for impulse purchases. Instead, price-conscious consumers are buying more in bulk to optimize perceived value and/or using the channel to stock-up for at-home consumption. Four categories (Cola, Energy Drinks, Sports Drinks and Water) collectively account for 80% the THB P&C market by value. High growth in Energy Drinks, Sports Drinks and Water multipacks predominately drove THB growth in 2015. THB multipacks of Sports and Energy Drinks rank among two of the four largest contributors to value growth in all RTD in 2015. The burgeoning appeal of multipacks could also present an incremental growth opportunity for retailers as "gateway items" to other impulse purchases.

- **Actual value growth is far more concentrated in THB than for RTD.** The top 10 value growth generating RTD SKUs accounted for 28% of dollar gains in 2015. In comparison, the Top 10 THB SKUs accounted for 73% of value growth. The difference reflects a more fragmented RTD segment and a more pronounced private label (or retailer specific) influence in THB coming from Coles especially.

RTD		
Top 10 Brands Ranked By Share of Department in 2015	Top 10 Brands Ranked By Contribution to Value Growth in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Red Bull	7-Eleven	7-Eleven Coffee Freshly Ground 500ml
Dare	Dare	V Green Energy Can 355ml
Coca-Cola	Barista Bros	7-Eleven Coffee Reg 285ml
V Green	Cool Ridge	7-Eleven Coffee Large 400ml
7-Eleven	Coles Express	Cool Ridge Spring Water 750ml
Ice Break	Oak	Dare Iced Coffee Mocha 750ml
Powerade Isotonic	Coca-Cola Life	Coles Spring Water 600ml
Slurpee	V Reactor	Barista Bros Chocolate 500ml
Mount Franklin	Coles	Coles Express Coffee Reg 1pk
Gatorade	V Blue	Coca-Cola Life Cola 600ml
Top 10 = 54% value share of Total RTD	**Top 10 = 56% of actual value growth generated by brands in positive growth**	**Top 10 = 28% of actual value growth generated by SKUs in positive growth**

The green and red font reflects brands in growth and decline respectively.

THB		
Top 10 Brands Ranked By Share of Department in 2015	Top 10 Brands Ranked By Contribution to Value Growth in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Coca-Cola	Red Bull	V Green Energy Can 300ml X 4
V Green	Maximus	Red Bull Energy Drink Can 250ml X 4
Mount Franklin	Coles	Coles Spring Water 600ml X 24
Maximus	V Green	Mother Original Energy Drink Blk 500ml X 4
Red Bull	Woolworths Select	Maximus No Surrender Orange 1l
Cool Ridge	Mother Original	Woolworths Select Natural Spring Water 600ml X 24
Coca-Cola Zero	Gatorade	Maximus Bring It On Blue 1l
Sprite	Coca-Cola Life	Maximus Suck It Up Rasp 1l
Thankyou	Nu Pure	V Green Energy Can 500ml X 4
Mother	Pop Tops	Coca-Cola Life Cola 1.25l
Top 10 = 72% value share of Total THB	**Top 10 = 85% of actual value growth generated by brands in positive growth**	**Top 10 = 73% of actual value growth generated by SKUs in positive growth**

The green and red font reflects brands in growth and decline respectively.

Energy and Sports Drinks

22.4%
Share of RTD

ENERGY DRINKS

23.1%
Share of THB

- **Energy Drinks, the largest RTD format by value share, is in decline.** Energy Drinks growth has subsided in recent years – both in Grocery and Convenience. Within Convenience, the category declined in value (-1.9%) and volume (-2.7%) in 2015 amid continued focus on the purported side-effects of excessive consumption – particularly from a sugar and caffeine intake perspective. Formulation scrutiny aside, performance challenges also reflect the category's relative maturity; Energy Drinks accounted for nearly a quarter (22.4%) of RTD sales, which is nearly twice as much as Cola (11.4%). In other words, it is a mainstay of contemporary P&C retailing.

- **RTD Sports Drinks are also in decline.** RTD Sports Drinks marginally grew in volume (+0.8%), but saw value declines of -3.6% in 2015. This contrasts with 2014 when value grew by 3.5%. Overall, the performance reflects the slow growth and declines of the two segment leaders: Gatorade (+0.3%) and Powerade (Isotonic -5.6%; Zero -16.3%). Gatorade W/Melon Chill 600ml and Gatorade Fierce Green Apple 600ml accounted for the majority of the value growth from the SKUs that did grow. The declines in both RTD Energy Drinks and Sports Drinks should be interpreted in the context of the strong growth being seen in the formats within the Take-Home segment (see below). Meanwhile, the Energy Shots category is almost non-existent despite having shown considerable promise around 5 years ago.

6.6%
Share of RTD

SPORTS DRINKS

10.8%
Share of THB

- **Take-Home Energy and Sports Drinks are showing strong double-digit growth.** Collectively, Take-Home Energy and Sports Drinks now account for 34% of the Total THB market - a 5.1 percentage point gain versus 2014. Share gains derive from the 22% and 40% YOY growth of Energy Drinks and Sports Drinks respectively in 2015. Within Energy Drinks, Red Bull, Mother, V and Maximus are all benefitting from the popularisation of multipacks in P&C outlets. From a SKU perspective, V Green Energy 300ml X 4 clearly stands out having accounted for more than 2.2 times the value growth generated in 2015 than the number two SKU (Red Bull Energy Drink Can 250ml X 4). However, the smaller sized V Green Energy 250ml X 4 was notably the segment's biggest drainer. Growth of multipacks is predominately driven by the comparative value appeal such formats hold for shoppers; single cans of Energy Drinks are on average $3 more expensive (on a price/litre measure) compared to multipacks. More generally, the trend arguably points to more people seeing Energy Drinks as a pantry staple for when they need a boost.

- **The growth of THBs is arguably a 'win-win' for retailers.** THB growth is an opportunity for suppliers to enhance penetration of Energy Drinks in the P&C channel, but could see retailers slightly scaling back on higher margin single serves in favour of lower-margin multipacks. For retailers, it is seemingly a 'win-win' situation because shoppers' propensity to embrace multipacks elevates spend per unit and delivers superior value to elevate likelihood to repeat purchase. Interestingly, this trend is the reversal of what is evident in Grocery where single cans are driving growth and multipacks are in decline.

Hot Drinks

12.2%
RTD Share

HOT DRINKS

+26.0%
Value Growth

- **Hot Drinks is currently the hero segment within the Beverages fixture.** Having amassed 4.5 percentage points of share growth in two years, more than 12% of RTD sales derive from Hot Drinks. In fact, Hot Drinks accounted for more than half (56%) of all actual RTD value growth in 2015 (among those formats in positive growth). Growth reflects Coffee in particular commonly being used as a footfall driver in the channel. Growing availability and well backed promotion of low-cost, good quality Coffee was the main factor in Hot Drinks' YOY Growth of +26.0%.

- **Key chains are driving Hot Drinks performance.** Hot Drinks growth mostly reflects the strong performance of 7-Eleven (+34.4%) and Coles Express (+103.4%), which have established a leading position in the emerging "Self–Serve Coffee Bar" sector. The latter promises roasted Arabica coffee beans (Rainforest Alliance certified) "expertly blended by a World Barista judge." Meanwhile, 7-Eleven's Chairman recently described the chain's Coffee offering as "a phenomenal success" at a time when its stores are under pressure on many grocery lines as the

major supermarket brands match their grocery offerings. Commanding well over half the Hot Drinks segment, 7-Eleven now operates in a competitive Coffee market where artisan shops are jostling for share of wallet alongside established retail brands. 7-Eleven's segment leadership and growth in Australia follows international success; in Japan, the chain's SEVEN CAFÉ received the "Most Excellent Award" at the Nikkei Superior Product and Service Awards, drawing praise for establishing a new trend of buying coffee at convenience stores. In the US, 7-Eleven has used Coffee as a footfall driver by launching a week-long Coffee giveaway in October 2015 via the 7-Eleven app's "Scan and Save" section.

- **Brand partnerships have helped to establish self-serve coffee within the channel in overseas markets.** Of particular note is Costa Express, which has an established an international presence in the "self–serve" coffee bar market by successfully transforming customer perception about the quality of on-the-go coffee available in petrol stations. Costa Express started as a coming together of an established high street coffee brand (Costa) partnering with a leader in self-serve dispensing (Coffee Nation). The alliance was developed to tap into the burgeoning demand for Coffee-On-The-Go in key locations (Transport Stations, Airports, Hospitals, Universities, Supermarkets and Offices). The proposition has expanded from 877 machines in 2011 to over 5,000 today across the UK and nine international markets. For example, a new partnership between Costa Coffee and Shell in Canada announced in early-2016 will see approximately 150 Costa Express self-serve Coffee bars rolled out in Shell gas stations. The success of the concept suggests there may be an opportunity for Costa to enter another Commonwealth market, or an established high street Coffee brand to embark on a similar concept. Regardless, it serves as another example of a brand partnership adding credibility to P&C's ability to deliver trusted quality, served quickly.

Dedicated Ice Coffee

+7.9%
Value Growth

DEDICATED ICE COFFEE

14.6%
RTD share

- **Dedicated Iced Coffee is the largest RTD segment, and the second largest contributor to value growth.** Dedicated Iced Coffee continues to perform well in P&C, adding nearly 2 percentage points to its share of RTD beverages in 2014-15. High single-digit value growth (+8.5%) reflects a category that resonates with Australians because of its refreshing 'pick-me-up' attributes. The format has helped lure drinkers away from Energy Drinks. Highlighting the format's growing uptake, nearly five percent (4.9%) of the Australian population consumed a dedicated coffee brand in the 12 months to June 2014 - up from 3.5% in June 2009 according to Roy Morgan. These penetration rates nevertheless suggest there are further opportunities to unlock growth.

- **Dare continues to be a key growth driver.** Dare has evolved into a blockbuster brand for LION. In 2015, the brand accounted for 5 of the Top 8 Dedicated Iced Coffee SKUs contributing to value growth. The proportion of Dare drinkers grew from 0.7% of the Australian population in 2009 to 1.8% in 2014 according to Roy Morgan. Ongoing brand value and penetration growth reflects a "lifestyle brand" that resonates well with tradies and white collar workers (especially) who want to be "mentally switched on." This differs from the more stereotypical emphasis on strength, masculinity and all-out-action that tends to accompany food and drinks targeting the 'tradie/blokey' market.

Frozen Carbonated Beverages and Cola

- **Frozen Carbonates Beverages (FCBs) and Cola remain growth challenges.** The proportion of Australians consuming FCBs in an average seven days grew from 2.2% to 3.3% between January 2013 and December 2015 according to Roy Morgan. Despite this reported upturn in penetration, FCBs lost over 2 percentage share points in overall RTD beverages in the last 2 years (the segment currently accounts for 4.5% of total RTD value). Declines have been broadly consistent in value (-18.6%), volume (-17.3%) and unit (-17.0%) measures and predominately reflect the double-digit decline of 7-Eleven's iconic and destination driving Slurpee brand. Almost three-quarters (72.9%) of Australians who consume FCBs are under 35 years old and sales of the seasonally skewed Slurpee tend to peak after school hours and on Fridays and into the weekend. However, Quick Serve Restaurants aggressive promoting of $1 dollar offers, and combination deals, has compromised Slurpee's inherent appeal with the all-important youth market – even if the brand itself is on-trend in the manner it encourages its self-expressive drinkers to personalise the way they consume it.

- **Cola declines accelerated in 2015, both in RTD and THB (multipacks being the exception).** The challenges in growing CSDs, particularly Cola, are still apparent. RTD Cola declined in value by -2.7%, despite unit gains of +7.8%. THB Cola also lost more than 9 percentage points in share in the last 2 years, with the Coca-Cola 1.25 litre and 2 litre offering seeing the most pronounced falls. In contrast, a bright-spot for Cola and brand Coca-Cola has been growth in Cola multi-packs – a sub-segment that grew 7.9% in 2015, but still only accounts for 2% of all THB sold in P&C.

- **Coca-Cola Life made a positive impact in 2015, but the Coke brand is also focusing on pack formats.** Arguably the biggest news in 2015 in the Cola category was the launch of Coca-Cola Life, which is naturally sweetened from a mixture of sugar and stevia leaf extract, to give it a lower calorie count. While Coca-Cola Life features among the Top 10 value growth contributing brands in both RTD and THB, it is still too early to determine whether the launch is a proxy for the longer-term desirability of mid-calorie Colas. Indeed, it is questionable if Australians fully understand the benefits of each brand; after all, more Australians say they are not familiar with stevia (35%) than those saying the ingredient was a positive or negative impact on their health (Source: Canadean). Coca-Cola's answer to potential brand confusion is its new "one brand" strategy where new pack designs emphasise the distinct characteristics of each Coca-Cola product. The aim: making choice easier and simpler for consumers. Coca-Cola also appears to be placing just as much emphasis on packaging innovation (both size and limited edition novelty designs) to drive sales (and enhance purchase permissibility) across the portfolio of Coca-Cola offerings. The 490ml pack format in particular is positioned as a mid-sized 'grab and go' option.

TAKE-HOME WATER MULTIPACKS

+266%
Value Growth

Water

- **Water multipacks are a niche and rapidly growing offering in P&C.** Water multipacks are having a disproportionate impact relative to the format's share of Beverages. They now account for more than 4% of the THBs segment, up from less than 1% in 2014. Driven by triple-digit YOY growth in 2015 (+266%), Take-Home Water multipacks of were the fourth most significant contributor to overall P&C beverage value growth in 2015. Well over half (59%) of actual growth came from one SKU: Coles Spring Water 600ml X 24. Again this is symptomatic of how P&C retailing has the potential to be influenced by stores akin to mini-supermarkets as retailers like Coles embellish the service station proposition.

- **RTD Water is in marginal decline, with Coles driving limited growth.** RTD Water declined -0.1% in 2015, despite double-digit unit growth of 14.7%. Cool Ridge generated the most value growth in 2015 with its 750ml SKU, which is positioned at those who are "active or on-the-go," and comes with a sipper cap. As with THBs, Coles branded Water was also at the forefront of the format's (limited) positive performance. The brand's emphasis on value is likely reflected by volume growth being 1.7 times higher than value growth in 2015. Elsewhere, Thankyou is socially responsible and differentiated start-up brand having gathered significant momentum across channels. Thankyou's RTD Water brand also posted strong double-digit growth, proving that the P&C channel can propel brands underpinned by more virtuous benefits such as social responsibility (as also evident in Snackfoods merchandise).

Other standouts

- **Ovi Hydration has been a bright spot in the beverage market.** Ovi Hydration is not a Sports or Energy Drink, but the emphasis on hydration means that it aligns with a competing consumer need state. The brand, which is jointly developed by Frucor and Suntory, recorded triple-digit YOY growth in 2015 (across all 3 SKUs). The performance is an encouraging sign that the brand proposition (an infusion of water, fruit juice, honey and natural minerals with antioxidants from green tea) is resonating with health conscious Australians. After all, with shoppers showing keen interest in healthy drinks in other channels, they'll expect to see them in P&C stores too. Likewise, it is arguably the kind of contemporary beverage that can attract more customers into the channel.

- **Sparkling OH has also made a notable impact on the Beverages fixture.** The Soft Drinks segment features among the Top 5 RTD/THB formats contributing to value growth in 2015. Sparkling OH had the most significant growth contributing impact on Soft Drinks performance in 2015 – accounting for 3 of the Top 5 growth SKUs in the sub-segment. The initial impact of the naturally sweetened and low calorie sparkling water offering suggests that Australians are looking for sparkling alternatives to traditional carbonated soft drinks. Consumers still get the effect of (gentler) carbonation, but it is delivered with a stronger emphasis on natural flavour refreshment. The overall proposition mirrors a hugely successful growth brand in the US market: Sparkling Ice. It also reflects an ongoing supply-side push to lessen calorie consumption derived from soft drinks.

Overseas inspiration

- **US c-stores have become more compelling retail destinations by tapping into Craft Beer.** Just as local retailers in Australia are using coffee offerings to tap into value seeking coffee enthusiasts, the US market is effectively catering for Craft Beer enthusiasts to drive margin and footfall. US IRI data shows that Craft's volume share in convenience retail in 2015 was 2.5% but volume sales were growing by 26.2%. There is also anecdotal evidence in North America to suggest that Craft Beer in a c-store complements other items. These insights from overseas suggest local P&C retailers are hampered by the inability to sell beer and wine like many international operators.

- **Craft Beer Growler Stations are an emerging concept in North America.** Such stations offer anything from six, eight or 10 taps and generally prove to be disruptors by piquing shopper intrigue in-store. It provides an opportunity to be more connected locally since US c-stores commonly rotate local/seasonal beer varietals, as well as products from the fast growing Cider category. Growlers create a destination for Craft Beer drinkers – especially when changing the products on a frequent basis so people have something different to explore the next time around. Whole Foods Market, which has long partnered with local Craft Beer brewers at stores throughout the US, recently began brewing its own beer at a store in Houston.

- **Craft Soda is on the horizon.** Widespread concern and aversion towards traditional CSDs, as well as a growing interest in locally made products, innovative flavors and more natural/higher quality ingredients, is propelling growth of so-called Craft soda in the US. The Craft Soda movement is riding the coattails of Craft Beer and accelerated when Pepsi launched Kaleb – a product that aims to attract those consumers who increasingly view soft drinks as an enjoyable but occasional treat. The rise of Craft Soda is also indicative of how the proliferation of fast-growing entrepreneurial/boutique brands has forced the bigger players to reengineer product portfolios in order to offer more speciality options that fuse fruits, herbs and spices in way not normally seen in soda.

Snackfoods

OVERALL VALUE
$174m

5.7%
Value Growth

Performance Overview

- **An evolving Snackfoods fixture is helping the P&C channel capitalise on Australia's grazing culture.** Snackfoods – consisting of Chips, Nuts, Popcorn, Nutritional Bars, Dried Fruit, and Pretzels – outperformed the channel average following value gains of 5.7% in 2015. Growth was up from 3.7% in 2014, and each of the above formats recorded value and volume growth. The composition of Snackfoods merchandise, and an accelerating growth rate in recent years, signals a trend towards better quality and better-for-you snacks sold through P&C stores.
- **Chips continue to drive growth, but Nuts, Popcorn and Nutritional Bars are seeing higher YOY growth.** Chips account for more than 70% of the Snackfoods aisle, and grew 3.6% in value in 2015. Elsewhere, both Nuts (+22.9%), Popcorn (+156.9%, albeit from a low base) and Nutritional Bars (+9.5%) are all performing well. The positive growth momentum for these categories reflects how many of today's fast-growing snacks have health as a key component as Australians slowly gravitate towards healthier snacking alternatives in the P&C channel (as well as in Grocery).

SNACKFOODS		
Top 10 Brands Ranked By Share of Department in 2015	Top 10 Brands Ranked By Contribution to Value Growth in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Smith's Crinkle Chips	Coles Chips	Doritos Regular Cheese Supreme 170g
Red Rock Deli Regular Chips	Pringles Chips	Smith's Crinkle S&V 170g
Doritos Regular Chips	Cobs Popcorn	Smith's Crinkle Original 170g
Twisties Regular Chips	Twisties Regular Chips	Coles Pot Chips Sour Cream&Onion 160g
Pringles Chips	Doritos Regular Chips	Smith's Crinkle Cheese&Onion 170g
Kettle Chips	7-Eleven Nuts	Doritos Regular Nacho Chs 170g
Go Natural Nutritional Bars	Kettle Chips	Pringles Sour Cream&Onion 61g
Aussie Bodies NutritionalBars	Thankyou Nutritional Bars	Kettle Chip Sea Salt 185g
Cobs Popcorn	The Bar Counter Nutritional Bars	Red Rock Deli Regular Pot Honey Soy Chkn 165g
Jack Links Nuts	Local Legends Nuts	Coles Pot Chips Original 160g
66% value share of Total Snackfoods	**72% of actual value growth generated by brands in positive growth**	**37% of actual value growth generated by SKUs in positive growth**

The green and red font reflects brands in growth and decline respectively.

- **Current market trends, and consumers' focus on nutritional specifics, point to an evolving Snackfoods fixture.** While most leading growth brands and SKUs in 2015 were traditionally indulgent salty snacks, Snackfoods will likely be defined by greater diversity going forward. More specifically Baked Snacks, Vegetable Chips, Popcorn, and Nuts look set to capture share from Traditional Chips. Such formats should resonate with the majority of Australians (66%) who told IRI in 2016 that nutritional information displayed on products affects what they purchase and the 68% who report actively managing the types of foods they consume.

Chips and Popcorn

CHIPS IN 2015

70.6%
Share of Snackfoods

3.6%
Value Growth

3.8%
Units Growth

- **Private label, and Coles in particular, underpinned more than a third of Chips value growth in 2015.** Coles Chips was the largest contributor to value growth, both in the overall Snackfoods department and within Chips specifically. It accounted for 27% of Chips value growth. The pack format used for the leading Coles branded SKUs is a cardboard cylinder pot more synonymous with the number two growth generating brand in 2015: Pringles. But the price differential between the two leading growth brands is pronounced: Coles is more than 50% cheaper (based on a price/unit measure). Indeed, Coles is considerably cheaper than all the 10 leading growth brands across the Snackfoods department.

- **A majority of growth SKUs are sharing packs.** 16 of the top 20 value contributing growth SKUs in 2015 were sized 140g or over (most being 170g). Once again, it signals a more value orientated P&C shopper and/or who is not necessarily buying for immediate consumption.

- **Staple flavours and established brands are driving growth, but more culinary-inspired premium offerings are likely.** While the novel and experiential launch of Doritos Roulette (featuring the hottest chip ever created by Doritos) attracted plentiful media attention, the segment's top performers continue to be established varietals such as Doritos Cheese Supreme, Smith's Crinkle, Pringles and Kettle. Nevertheless, as well as being a buzz generator, Roulette was among the top 20 SKUs ranked by value contribution to Chips growth. Beyond novelty innovations, it is likely that producers will continue to pursue premiumisation strategies to drive value growth in Snackfoods – especially more established segments like Chips. For example, Red Rock Deli Special Reserve has just been launched as an indulgent range of premium crisps by incorporating more sophisticated, culinary-inspired ingredients

POPCORN IN 2015

3%
Share of Snackfoods

157%
Value Growth

210%
Units Growth

- **Popcorn's triple-digit growth makes it the fastest growing Snackfoods format.** The revitalisation of Popcorn as a permissible and fashionable bagged snack is now an established trend in the US and UK markets as health-mindful consumers (and the direction of NPD) gravitate towards popped snacks. In the Australian P&C market, Cobs has emerged as a virtuous and indulgent offering reflecting Popcorn's popularity. The premium positioned brand, which grew over 200% in 2015 and accounted for the six largest growth generating Popcorn SKUs in P&C retail, promises to use "the very best organic and natural ingredients" in a small batch production process that delivers a GM-free, Gluten-Free and additive-free snack. Cob's has therefore been able to position its line-up as a healthy lunchbox alternative to chips and biscuits. Additionally, Cob's wide array of flavours symbolise Popcorn's newfound versatility. It has evolved from a traditional (typecast) association of being a simple sweet and salty movie-watching accompaniment and into something that is light, tasty and conducive to foodie-inspired flavours. Elsewhere, 7-Eleven has also embraced Popcorn under its private label banner; 7-Eleven and Cobs collectively accounted for the 20 leading SKUs driving value growth within the channel in 2015.

- **Potential opportunities exist to better tap into seasonal/occasion-led demand.** Key events such as Christmas, Easter and the Footy Finals provide an opportunity to tap into a spike in demand, particularly with a focus on sharing formats. However, only Easter 2015 generated a noticeable spike in Chip sales through P&C retail. Only Popcorn saw consistent event-led sales spikes in 2015. Overall, it suggests that the channel needs to consider how it can more effectively compete with Grocery in leveraging these key demand trigger-points.

NUTS AND JERKY IN 2015

10.9%
Share of Snackfoods

22.9%
Value Growth

25.5%
Units Growth

Nuts and Jerky

- **Jerky brands are beginning to make an impact in the channel.** Due to the dominance of Chips, and the limited prevalence of Jerky to-date, IRI has historically grouped Jerky and Nuts. However, it is becoming apparent that Jerky brands are forming a more established presence in the P&C channel by accounting for 3 of the top 6 value growth contributing SKUs in 2015. It reflects the rise of protein-driven snacking and the manner in which culinary-inspired, premium meat snacks (with descriptors like all-natural, gluten free, grass fed, local) are trending. Differentiation-driven meat snacks with culinary twists are commonly found in upscale natural foods and gourmet specialty stores, as well as in c-stores (especially overseas). Internationally, some producers are mixing different types of meats with fruits, nuts, seeds and vegetables, and putting them into bar format in what represents an interesting blurring of snack format boundaries.

- **7-Eleven is driving Nuts growth.** 7-Eleven branded Nuts accounted for more value growth than the number two, three, four and five growth brands combined in the jerky/nuts sub-segment. 7-Eleven is price competitive versus the national brands, which helps to establish the chain as a true destination for impulse occasions (the leading SKUs being various flavours and mixes of 45g). The presence of an enticing Nuts fixture can help cement the role of P&C retail as a 'go-to' destination for better-for-you snacks; Canadean research shows that over 50% of Australians believe that various nut types have a positive impact on their health (Almonds: 74%; Hazelnuts: 65%; Peanuts: 52%).

Nutritional Bars

NUTRITIONAL BARS IN 2015

14.8%
Share of Snackfoods

9.5%
Value Growth

7.1%
Units Growth

- **The Top 20 value growth generating Nutritional Bar brands all recorded triple-digit growth in 2015.** While many of these brands are growing from a low base, the strong growth of Nutritional Bars also reflects a category that neatly intersects the convenience and health trends. Bars are generally regarded as being a bite-sized healthier snacking alternative to offerings like Biscuits, Cakes and Confectionery. Popular brands tend to be supported by a flurry of "positive health" claims such as high-in-vitamins, antioxidant-rich, and high-fiber, but delivered via brands occupying an everyday lifestyle positioning (rather than more specific sports performance).

- **Growth is being driven by emerging brands emphasising a range of healthy and ethical virtues.** 3 of the top 5 Nutritional Bar brands sold through P&C are currently experiencing value declines (Aussie Bodies Protein Fx, Go Natural and Sunibrite). Of the top 5 bar brands (ranked by value share), only Bounce and Thankyou feature among the top 5 value growth contributors in 2015. The second largest growth generator in 2015, The Bar Counter, features a range of 'on-trend' SKUs containing raw ingredients, superfoods, ancient grains and high protein claims. Elsewhere, Naturally Nood, Sanitarium's wholefood fruit and nut snack bars brand, amassed just over 2 percentage points in share since its mid-2015 launch. Naturally Nood was the format's fourth largest growth contributor in 2015, which suggests it is delivering on intent to enliven "wholefood snacking." In contrast, Be Natural and Go Natural saw value declines on a par the top growth brands.

On The Go Food

OVERALL VALUE
$393m

13.0%
Value Growth

Performance Overview

- **On The Go's accelerating double-digit growth is led by 3 core categories.** On The Go Food grew 13.0% in 2015 – up from 3.0% value growth in 2014. Fresh Cakes (28.0%), Hot Pastry (39.8%), and Sandwiches (21.5%) comprise the majority share of a rapidly growing department. And importantly, all grew sales strongly in 2015. Beyond these, strong growth is also apparent from (private label led) foodservice offerings (9.9% share), which are also tapping into the needs of the 52% of Australians who told IRI that they look for foods that are convenient and easy to prepare. The continued growth of On The Go Food suggests that as c-stores evolve their own foodservice offerings, shoppers become even more comfortable buying food in c-stores (a 'win-win' outcome).

- **7-Eleven continues to be the core growth driver, led by Krispy Crème.** On The Go Food is an ever more established part of the 7-Eleven convenience offering, especially since the proprietary range launched under the "Munch" label in 2006. 7-Eleven accounts for the two largest brands by share in light of its partnership with Krispy Crème and, more recently, strong sales growth of its other private label hot food items (e.g. Sausage Roll and Beef Pie). Focusing on high performing SKUs, it is all the more apparent how significant 7-Eleven is in driving the category's overall performance in P&C; the chain accounted for all of the Top 10, and 17 of the 20 top value growth generating On The Go Food SKUS in 2015. Such performance is consistent with a strategic focus on "remaining Australia's number one convenience retailer through…providing innovative and value for money products such as $1 coffee, fresh sandwiches and pastries, our partnership with Krispy Kreme as well as basic food staples."

ON THE GO		
Top 10 Brands Ranked By Share of Department in 2015	Top 10 Brands Ranked By Contribution to Value Growth in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Krispy Kreme	7-Eleven	7-Eleven Sausage Roll Trad 180g
7-Eleven	Krispy Kreme	7-Eleven Pie Bf 100% Aussie 175g
Mrs Macs Traditional	Australian Convenience Foods (ACF)	7-Eleven S/Wich Chickn Schnitzel 1pk
Four 'N Twenty	The Sandwich Group	7-Eleven Pie Bf Bacon Cheese 190g
BP Reliance	Ivan's	7-Eleven Sausage Roll Snack 120g
Caltex	Star Mart	7-Eleven Pie Steak Chunky Pepper 1's
BP	Four 'N Twenty Real Chunky	Krispy Kreme Donut Mixed 4pk
Tradies	Rangiora Bakery	7-Eleven Bread Banana 90g
The Sandwich Group	Delialfresco	7-Eleven Pie Bf Travel 190g
Star Mart	Four 'N Twenty Legendary	7-Eleven Toastie Ham Cheese 120g
75% value share of Total On The Go Food	**91% of actual value growth generated by brands in positive growth**	**34% of actual value growth generated by SKUs in positive growth**

The green and red font reflects brands in growth and decline respectively.

IRi
Growth delivered.

Hot Pastry

39.8%
Share of
On The Go Food

HOT PASTRY IN 2015

7.7%
Value Growth

- **The iconic and market leading Mrs Macs brand is currently in decline.** 2014's segment leading brand, Mrs Macs, saw double-digit value growth in 2014 followed by double-digit value declines in 2015. Declining sales last year coincided with a near 4 percentage point share loss amid the rapid gains made by 7-Eleven's own label offering. In fact, a number of leading Hot Pastry brands declined in 2015 as the segment's growth became a story of growing retail brand influence.

- **Unorthodox pastries currently evident in specialty outlets could be a future growth driver.** The P&C channel will always be a destination for Hot Food To Go in the form pies and sausage rolls that enable shoppers to quickly 'fuel up'/'grab-a-feed'. Both formats continue to sell well, as evident from the leading growth SKUs propelling 7-Eleven's growth. Nevertheless, in order for the channel to attract new types of premium consumers, and take existing consumers on a "premiumisation journey," it is worthwhile scanning the wider culinary landscape in order to stay attuned to the proliferation of unusual savory pastries that are designed to excite the taste buds in new ways. With Grocery in-store baking options becoming more established and accessible, such progression is arguably all the more important.

HOT PASTRY	
Top 10 Brands Ranked By Share of Segment in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
7-Eleven	7-Eleven Sausage Roll Trad 180g
Mrs Macs Traditional	7-Eleven Pie Beef 100% Aussie 175g
Four 'N Twenty Traditional	7-Eleven Pie Beef Bacon Cheese 190g
Tradies	7-Eleven Sausage Roll Snack 120g
BP	7-Eleven Pie Steak Chunky Pepper 1's
Four 'N Twenty Legendary	7-Eleven Pie Beef Travel 190g
Total Ivan's Brand On The Go Food Hot Pastry	7-Eleven Roll Beef Bacon Cheese Jumbo 1's
Four 'N Twenty Hungry Man	Tradies Pie Stk Chunky Chs Bcn 1's
Four 'N Twenty Real Chunky	7-Eleven Roll Spinach Ricotta 180g
Herbert Adams	7-Eleven Pie Chunky Chicken Mushroom 1's
91% value share of Hot Pastry	**65% of actual value growth generated by SKUs in positive growth**

The green and red font reflects brands in growth and decline respectively.

Fresh Cakes

- **Fresh Cakes were once again the engine room of On The Go Food growth.** Following YOY value growth of 25.6% and 29.2% in 2015 and 2014 respectively, Fresh Cakes now account for more than a quarter (28%) of Total On The Food Go. Ongoing double-digit growth has coincided with a 7 percentage point gain in the last two years. The value growth contribution of Fresh Cakes in 2015 was marginally higher than Hot Pastry and Sandwiches in combination. 7 of the Top 10 brands (ranked by share) grew in 2015.

- **Krispy Kreme commands nearly 60% value share.** 7-Eleven's agreement with Krispy Kreme in late 2011 to supply of fresh daily Krispy Kreme doughnuts to each of its stores has proven to do exactly as intended: ranging an iconic destination product/brand that shoppers actively seek out. Krispy Crème has recorded double digit value growth for the past 2 years of between 20 and 30%. The brand accounts for the 4 largest SKUs by value share of Fresh Cakes which amounted to 42% of segment sales in 2015.

25.0%
Share of
On The Go Food

FRESH CAKES 2015

25.6%
Value Growth

- **The broad appeal, and marketing backing of Krispy Kreme, has helped to endear the brand locally.** Both Krispy Kreme and 7-Eleven originated from the USA, but have emerged as popular brands within Australia. Product campaigns orientated around public holidays/civic celebrations have helped; for example, Krispy Kreme launched Australia Day themed doughnuts range in January 2016. Cross-category promotions also allow 7-Eleven to capitalise on the allure of two high growth products simultaneously; Australians are being enticed by the promise of a free coffee on Tuesdays with the purchase of other On The Go offerings in the fast-growing 7-Eleven portfolio.

FRESH CAKES	
Top 10 Brands Ranked By Share of Segment in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Krispy Kreme	Krispy Kreme Donut Mixed 4pk
7-Eleven	7-Eleven Bread Banana 90g
Coles Express	7-Eleven Bread Banana Walnut 90g
Balfours Regular	Krispy Kreme Donut Mixed 12pk
Rangiora Bakery	Krispy Kreme Donut Orig Glazed 4pk
Mr. Donut	Krispy Kreme Donut Orig Glazed 1pk
Aryzta	7-Eleven Muffin Chocolicious 1pk
Country Chef	7-Eleven Muffin Berrylicious 1pk
Sara Lee Regular	7-Eleven Muffin Zesty Orange Poppy Seed 1pk
Cafe	Krispy Kreme Donut Choc Iced 1pk
Top 10 = 95% value share of Fresh Cakes	**64% of actual value growth generated by SKUs in positive growth**

The green and red font reflects brands in growth and decline respectively.

Sandwiches

21.5%
Share of
On The Go Food

SANDWICHES 2015

9.2%
Value Growth

- **Sandwich growth suggests the format is establishing its rightful place in P&C.** Sandwich sales grew 9.2% in 2015, up from just marginal gains of 0.1% a year prior. By investing in a more enticing fresh sandwich offering, P&C retailers can ensure that grabbing a sandwich extends beyond restaurants, cafes, and fast food outlets. Together with 7-Eleven, Australian Convenience Foods (ACF), which has manufacturing operations in each major Australian capital city and makes and sells over 14 million sandwiches annually, contributed to most value growth in 2015. Other top contributors include The Sandwich Group, Star Mart, and Delialfresco. The leading SKU, 7-Eleven's Chicken Schnitzel 1pk generated 3 times more growth than any other SKU, and accounted for around 15% of all Sandwich value growth in 2015. With over 350 SKUs in growth (in what reflects a fragmented product segment), the top 10 SKUs accounted for less than half (37%) of all Sandwich growth.

- **A competitive and sophisticated sandwich landscape exists.** Foodservice operators, even large scale providers, are capitalising on the sandwich's customisable versatility, especially in attracting a younger millennial shopper. For example, McDonalds is evolving its business across countries by responding to heightening demand for variety and instantly customised choices. Platforms such as Taste Crafted (in the US) and Create Your Taste (which has rolled out in Australia) have empowered consumers to build a creation using over 35 gourmet ingredients. Meanwhile, other foodservice operators, especially those located around inner city areas, are modernising the sandwich offering by featuring authentic multi-cultural ingredients, contemporary bread and protein options (e.g. more supply and demand of pulled meat and plant-proteins), and unique sensory combinations. So, if convenience purveyors are to keep capitalising on the sandwich segment, it will necessitate being more creative in culinary concept. And there is some evidence to suggest that there is some readiness among shoppers to pay for better quality; Sandwiches/Wraps is second only to Boxed Chocolate in terms of expressed willingness to pay a premium according to Advantage Group research. Simple stickers that say "made fresh today" can go a long way in assuring consumers about quality; moreover, it is the kind of quality cue they will begin to actively seek.

SANDWICHES	
Top 10 Brands Ranked By Share of Segment in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Munch	7-Eleven Fnf S/Wich Chickn Schnitzel 1pk
Star Mart	Munch S/Wich Chkn Avocado 1each
Fds Ready Go Eat	Munch S/Wich Egg Lettuce Mayo 1each
Acf	Acf S/Wich Chckn Schnitzel White 174g
7-Eleven	Munch S/Wich Chkn Lettuce Mayo 1each
The Sandwich Group	Acf Wrap Chckn Caesar 247g
BP Reliance	Acf S/Wich Blt 1ea
Everyday Cafe	Acf Wrap Sweet Chilli Chckn 218g
Caltex	Ready Go Eat S/Wich Egg Mayo Cos Lett On White 1ea
Delialfresco	The Sandwich Group Chunky Egg Lettuce 1pk
Top 10 = 91% value share of Sandwiches	**37% of actual value growth generated by SKUs in positive growth**

The green and red font reflects brands in growth and decline respectively.

Communications & Travel

OVERALL VALUE
$428m

-10.1%
Value Growth

Performance Overview

- **Communications is currently the most significant P&C value drainer.** After being in growth in 2013 (+5.8%) and 2014 (+1.8%), 2015's performance (-6.9%) is more of a throwback to the years of multiple double-digit declines pre-2013.
- **P&C continues to be an important means of travel enablement.** YOY growth in 2015 of +6.1% has meant that Travel continues to outperform the overall P&C channel, but growth has nonetheless softened from the double-git gains of 2014 (+11.8%).

Communications

RECHARGE CARDS
>80%
Communications & Travel Category

- **Recharge Cards experienced high mid-single digit declines in 2015.** Accelerated declines in Recharge Cards, which account for more than 80% of the category, as well as declines in Phone Cards, underpin the recent value losses seen in Communications overall. Only Mobile and Connection Development Accessories grew in 2015, but these two sub-segments represent less than 10% of all Communications.
- **The Top 5 and 7 of the Top 10 brands by value share declined.** The leading Communication brands (Optus Direct, Telstra Epay, Telstra Direct, Optus Epay, and Vodafone Direct) all fell into decline in 2015. The 3 top 10 Communications brands that did grow in 2015 (Walk N Talk, Boost Direct, and Amaysim Epay) collectively accounted for over-two thirds of all growth.

COMMUNICATIONS	
Top 10 Brands Ranked By Share of Department in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Optus Direct	Amaysim Epay Recharge $44.90
Telstra Epay	Optus Epay E-voucher Recharge Card TOP Up $10
Telstra Direct	Walk N Talk Car Charger Dual Usb Sync Cable Lightning 1pk
Optus Epay	Boost Direct E-voucher Unlimited $40
Vodafone Direct	Walk N Talk Car Charger Lightning Fixed Cord 1pk
Walk N Talk	Vodafone Direct Prepaid E-voucher $40
Vodafone Epay	Optus Direct Data TOP Up $5
Lycamobile	Optus Direct Recharge Card $45
Amaysim Epay	Walk N Talk Car Charger Dual Usb Sync Cable Micro Usb Pwt 1pk
Boost Direct	Vodafone Epay E-voucher All Time $50
Top 10 = 89% Value Share	**Top 10 = 49% Value Growth**

The green and red font reflects brands in growth and decline respectively.

Travel

- **State-based differences are shaping performance within travel.** Opal Card Adult Top Ups at the $20 and $50 price points have been the two main contributors of growth. In contrast, Myki in VIC saw double-digit declines in 2015.

TRAVEL	
Top 10 SKUs Ranked By Share of Department in 2015	Top 10 SKUs Ranked By Contribution to Value Growth in 2015
Myki Add Value Card 1pk	Travel Pass Opal Adult TOP Up $20
Travel Pass Opal Adult TOP Up $20	Travel Pass Opal Adult TOP Up $50
Travel Pass Opal Adult TOP Up $40	Travel Pass Opal Adult TOP Up $40
Myki Fare Product Card 1pk	Travel Pass Opal Adult TOP Up $10
Travel Pass Opal Adult TOP Up $50	Travel Pass Opal Adult TOP Up $100
Go Qld TOP Up $20	Travel Pass Opal Adult TOP Up $60
Travel Pass Opal Adult TOP Up $10	Travel Pass Opal Adult TOP Up $80
Go Qld TOP Up $50	Travel Pass Opal Pensioner TOP Up $20
Go Qld TOP Up $10	Travel Pass Opal Child TOP Up $10
Myki Non Full Fare Card 1pk	Citylink Car 24hr/Wkend Pass 1pk
Top 10 = 79% Value Share	**Top 10 = 90% Value Growth**

The green and red font reflects brands in growth and decline respectively.

Conclusions

- **Both retailers and suppliers should continue to have 'confidence in convenience'.** 2015 saw convenience in-store sales grow by 3.7% and fuel volume by 1.8% – a credible performance in tough retail conditions. The convenience industry has shown that we are adaptable and being nimble and recognising opportunities as well as reacting early to them will be to our advantage. The challenge for the industry is to continue attracting and satisfying the channel's traditional customer base (younger, working men who smoke and purchase fuel), while enticing/encouraging infrequent shoppers to buy more. AACS and IRI have produced the following in order to provide some 'thought-starters' when ideating strategies for growth – and which align with the SWOT issues previously identified.

Assortment & Product Mix	Location & Service	Pricing & Messaging	Design & Display
• Address a growing interest in fresh, hot, and healthier food, especially for infrequent shoppers • Take inspiration from the natural food store by fast-tracking 'on-trend' and entrepreneurial health brands into the store mix • Co-branded/alliance led prepared and made-to-order offerings (e.g. meals and fresh juices) with more established vendors that build credibility • Strengthen local food products tailored to local tastes and nurture margin-driving and differentiating private label brands	• Strengthen store openings in urban areas to capitalise on changing demographics • Investing to make the sector a more attractive and appealing place to work. Ensure friendly, clean and safe sites • Adding services: ATMs, Wi-Fi, ticket sales, bookings, payments, postal box service, video consultations with experts (e.g. pharmacists dieticians) • Digital/out-of-store ordering akin to takeaway industry that allows consumers to expedite store visits	• Leverage all messaging opportunities to drive incremental sales • Implement consistently supported loyalty/reward programs to drive repeat sales/traffic • Daypart specific specials when they need them most, or when store traffic tends to be lighter • Pick-your own offers and implementing loyalty programs with attractive discounts • Digital in-store merchandising and displays	• Self-service delivery systems/vending machines to ensure clean, fresh, single-serve food and drink • Pair specific foods with drinks to drive basket sizes and capitalise on Australia's snacking/grazing culture • A high quality food to go offering that is clearly visible as a high impact front-of-store zone (e.g. in-store bakery). • Multi-brand promotions combining private label and national brands

Conclusions

STRENGTHS

- Channel heritage, growth and progression reflects a business model that is well suited to modern lifestyles and trends. Fuel provides a unique footfall driver
- The demise of the weekly shop as Australians top-up more frequently, and across more retailers, in conveniently located stores. They are in pursuit of streamlined choice and superior freshness, and wish to reduce waste
- High margin business: time-pressed consumers are willing to pay a premium for immediate/ impulse purchases

WEAKNESSES

- High price perception barrier deters store visits at a time when value-driven shopping is entrenched
- Many consumers perceive a limited and unhealthy/indulgent product range that lacks relevance with their personal values and lifestyle
- Sales are highly concentrated around Tobacco and Beverages, which are under intensifying regulatory pressures and seeing softer demand of some formats

OPPORTUNITIES

- Evolving the merchandising mix in order to address key barriers to purchase (value, range, health)
- Enhancing range and in-store atmospherics to create a "destination shop/service" rather than "desperation shop" (i.e. drive footfall via new "shopper missions")
- Expansive ancillary services that make visiting a store more useful, convenient and enticing

THREATS

- Fluctuating consumer confidence intertwined with record levels of household debt and below average economic and income growth
- Intense competition from within the channel, Grocery retail, and foodservice operators
- With many stores selling fuel, store traffic and subsequent sales are somewhat tied to fluctuating fuel prices
- Increasing government regulation – state and federal. Relatedly, being compliant to pre-empt unnecessary scrutiny

- **AACS remains committed to our pillars of Representation, Innovation, Communication and Education.** AACS will continue to advocate for our industry in areas affecting the things that matter to our members and could affect them positively or negatively; e.g. continued tobacco regulation, 'health' taxes, food regulations, penalty rates, alcohol sales regulations, container deposit legislation and importantly petrol theft. Finally, all businesses must strive to further develop and enhance cultures of compliance in their operations so that the convenience industry becomes one that others look to for excellence in performance.

- **Food is the future for the convenience industry which includes 'on the go' food, take home meal options and beverages of all types.** There have been terrific improvements in selection, quality and pricing in recent years and this is a trend that must continue if we are to offset potential changes forced on the industry by government regulations as well as changing consumer needs. On The Go Food growth in 2015 (+13.0%) signals the direction of where the industry should head in order to sustain its relevance in changing consumer culture. It is not just the strong growth momentum of On The Go Food that highlights this; the 2015 the Advantage Convenience Shopper Tracker program in recent years has consistently identified Hot Coffee, Pies, Sandwiches and Bakery Snacks are highly planned and conducive to premium pricing. Importantly, genuine retailer-led differentiation in these categories can also drive loyalty. Outside of Australia, further clues exist about the way in which a more expansive food offering elevates the role P&C stores can play in supporting consumer lifestyles today. In Japan, where P&C stores numbers are still high by global standards, foodservice items and daily delivered food account for the majority share of sales. Leading retailers in Japan, the US and the UK prosper by viewing their stores as existing in a broader convenient services market that includes all foodservice, online services and anything (including novel online initiatives) offering convenient take-home solutions that save shoppers time and physical effort.

- **Strategies that protect the channel's comparative margin advantage are crucial for sustainable growth.** The Channel Overview section again pinpointed that P&C retailers are challenged in meeting the expectations of price attuned Australians and that expectations of getting a good deal within P&C grew in 2015. Nevertheless, the challenges evident in Australian Grocery highlight the dangers of getting locked into a price war (or 'race to the bottom' as it has been referred). Long-term IRI data shows Grocery growth has slowed to lowest in over a decade as retailers have persistently engaged in a battle of price one-upmanship. Preoccupied by jostling for share gains, the leading Supermarkets appear to be inhibiting overall value growth. We as an industry talk a lot about offering good value, and often it is addressed by discounting and promotions. While some shoppers will primarily engage in the store through promotions, IRI ShopperView research reveals that "good value" is not just about saving money, but about getting the best quality and getting more (quantity) for the same cost. As we strive to deliver 'better quality convenience', the expressed shopper sentiment is encouraging for a channel/store format that has a comparative margin advantage across categories.

Please rank each of the statements below in order of which best represent 'good value' to you.

1st	Getting the **best quality** I can for my budget
2nd	Feeling that what I'm buying is **worth the price paid**
3rd	Getting **extra amount of product** for the price you planned paying
4th	Getting a well-known brand at an **everyday low price**
5th	Getting a well-known brand **on promotion**
6th	The **lowest price** for that basket of products

Source: IRI Australia ShopperView, October 2015; N: 2,819