CONVENIENCE RETAILING CONFERENCE 2006

Candy/Snack Innovation Forum

February 21, 2006

EXECUTION

Welcome To The Candy/Snack Forum

Facilitators

Debbie Wildrick – Product Director- Packaged Goods – 7-Eleven, Inc.

Bill Dusek – Managing Director – Dechert-Hampe & Company

Primary Objective

Group discussion on common issues/problems relating to the Candy/Snack business in Convenience Stores with a goal of identifying possible industry wide solutions to these issues/problems.

Source: MVI, Retail Forward;DHC.

Agenda

- Presentation of recent C-Store Snack Study – Bill Dusek
- Identification of breakout teams, Table Captains, and discussion topics – Debbie Wildrick
- Group Discussion – Table Captain
- Presentation of “Executive Summaries” to – Team Secretary or Table Captain

Source: MVI, Retail Forward;DHC.

Key Issues Facing Convenience Retailers

- NACS State of the Industry Report identified that pre-tax profits had rebounded in 2003, after 3 years of declines and for the first time in many years actual store counts were down
- Pay at the pump and shrinking gasoline margins are a sizeable industry threat
- Traditional high volume tobacco sales continue to decline
- Labor costs on the rise
- Household penetration is flat as is shopping frequency
- Drug stores targeting the Convenience trip

Source: MVI, Retail Forward;DHC.

Opportunities For Channel Growth

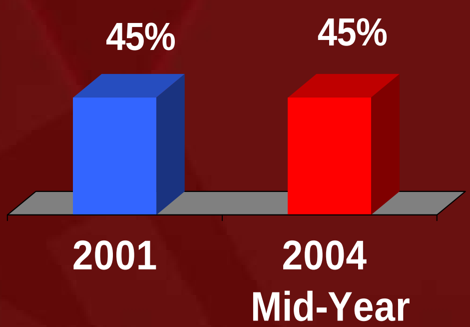
- Expansion of Food Service offerings
- Understanding the impact of changing consumer demographics
- Driving more gas purchasers into the store
- Drive up the size of the market basket
- Focusing on product mix to maximize your most profitable categories
- Sharing merchandising best practices

Source: MVI, Retail Forward; DHC.

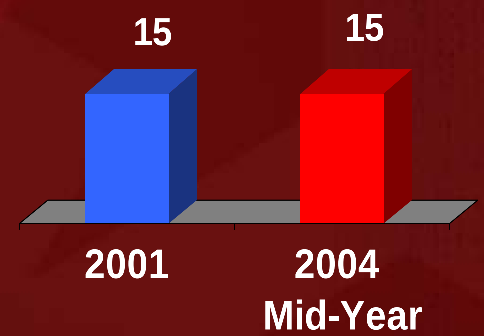
With Penetration And Frequency Flat, Expanding Market Basket Is A Key To Success

Convenience Stores

% Household Shopper Penetration



Shopping Frequency # Of Trips Per Year

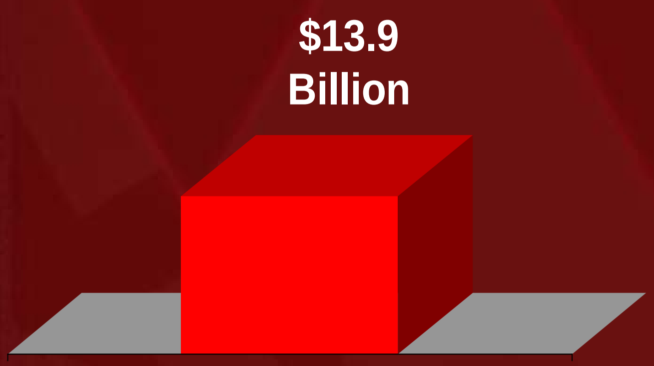


- **Helping Convenience store operators expand the average basket size is the primary goal of the Convenience Store Study**

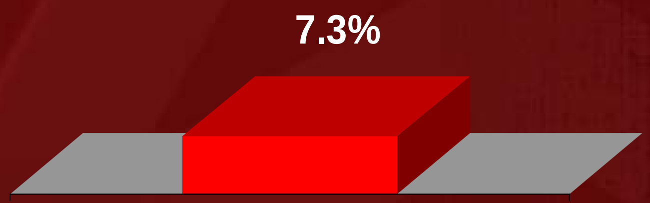
Source: Nielsen Household Panel – Mid-Year 2004.

Single Serve Snacks Generate $13.9 Billion In The Convenience Store Class Of Trade

<u>Projected C-Store Single Serve Snacks* Dollar Sales</u>



<u>Single Serve Snacks % Of Total In-Store Sales</u>



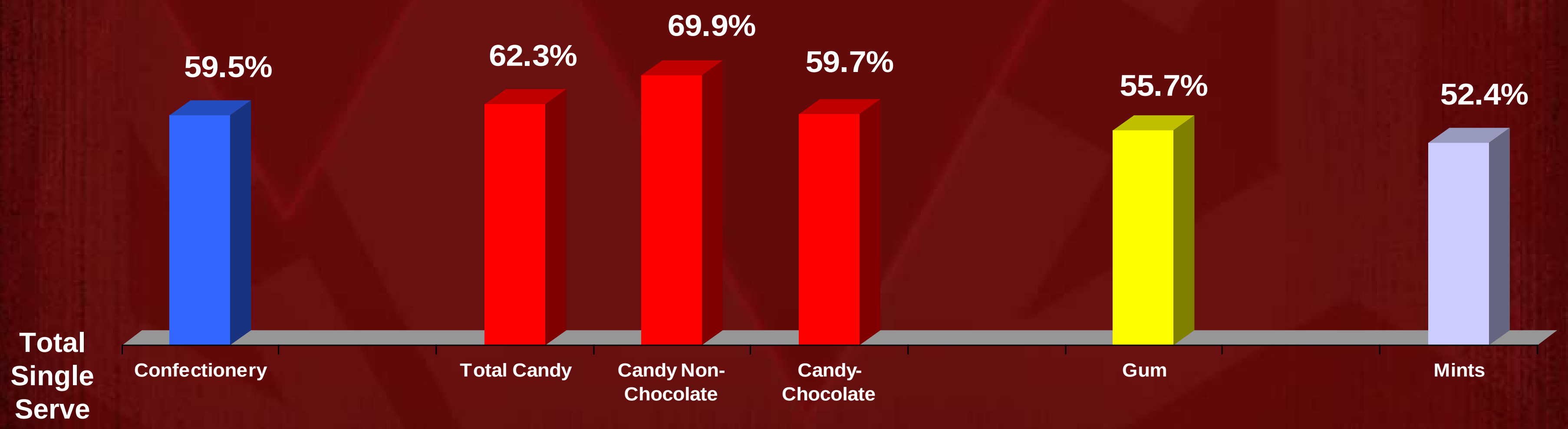
- Annualized Single Serve $ Sales per Store = $105,299 x 131,584 C-Stores = $13.9 Billion

* Snacks include: Confectionery, Salty Snacks, Baked Goods, Meat Snacks, Nut/Seeds, Nutrition/Energy Bars, Cookies, and Crackers.

Source: C-Store Study 6 months ending September 2004.

Convenience Stores Dominate Single Serve Confection Sales

Convenience Stores Share Of F/D/M/C* Single Serve Confection $ Sales



- Convenience stores want to maintain/grow their share of Confectionary sales

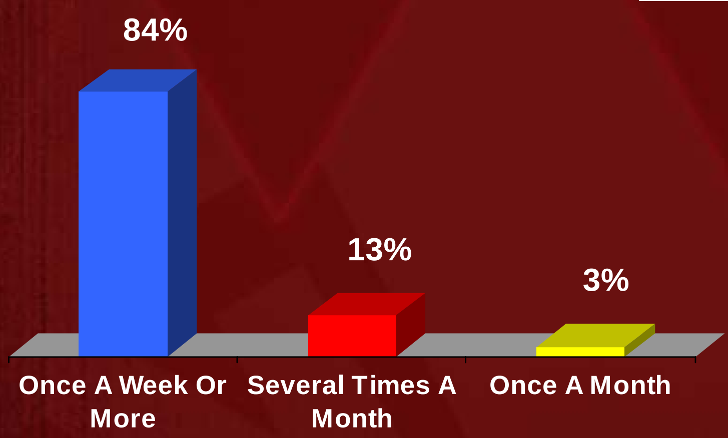
* F/D/M/C = Food/Drug/Mass Merchandisers (minus Wal-Mart), and Convenience
Source: IRI 2004 YTD thru November 28, 2004.

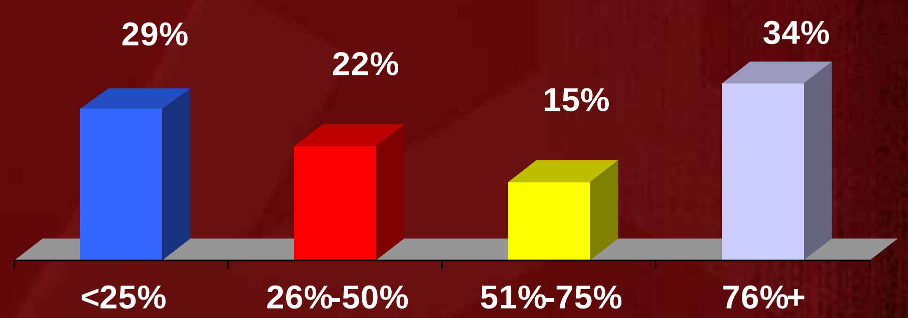
C-Store Consumers Will Shop Frequently, But At Multiple Stores

How Often Do You Shop At This Store?

What Percent Of Your C-Store Trips Are At This Store?

% Of Respondents





- Retailers must focus on getting the most out of each shopping trip

Source: C-Store Study, September 2004.

The Checkout Counter And Beverage Cooler Are Primary Shopping Locations

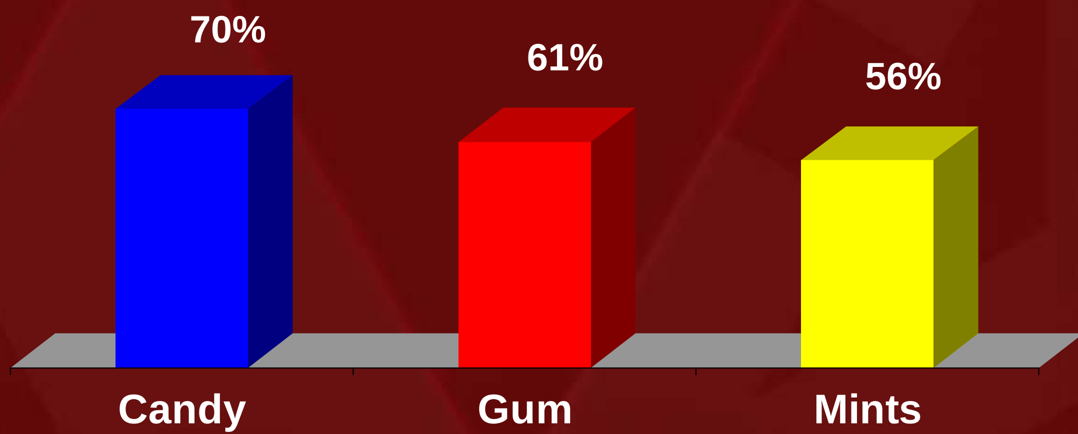
What Sections Of The Store Did Consumers Shop?
(Consumer Observations)

	1st Stop	2nd Stop	3rd Stop
Checkout Counter	35%	61%	69%
Beverage Cooler	26%	11%	4%
Food Service	16%	6%	4%
Restrooms	5%	0%	2%
Confectionery Aisle	4%	6%	4%
Salty Snack Aisle	4%	4%	6%
Sweet Goods	2%	4%	6%

Source: C-Store Study, September 2004.

The Checkout Counter Is The Major Destination Area In The Store And Many Stores Do Not Carry Confectionery At The Checkout

% Of Stores Carrying At Checkout Counter



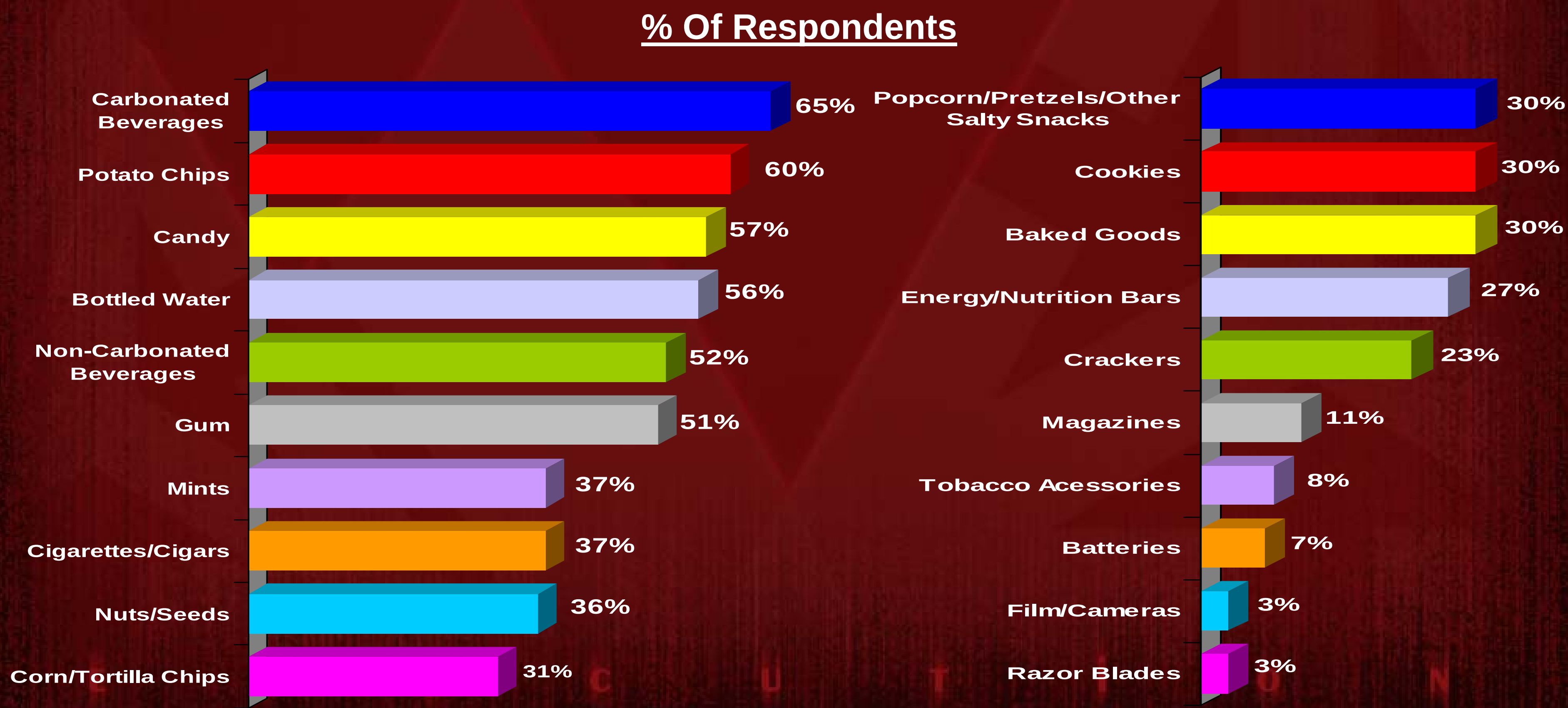
C-Store Study Retailers	97%	88%	86%

- 40% of C-Stores do not carry Gum and 30% of stores do not carry Candy at Checkout Counter

Source: C-Store Audit – May 2004.

Beverages, Potato Chips, And Candy Were The Categories Most Often Purchased

What Snack Categories Have You Purchased Over The Last 6 Months?

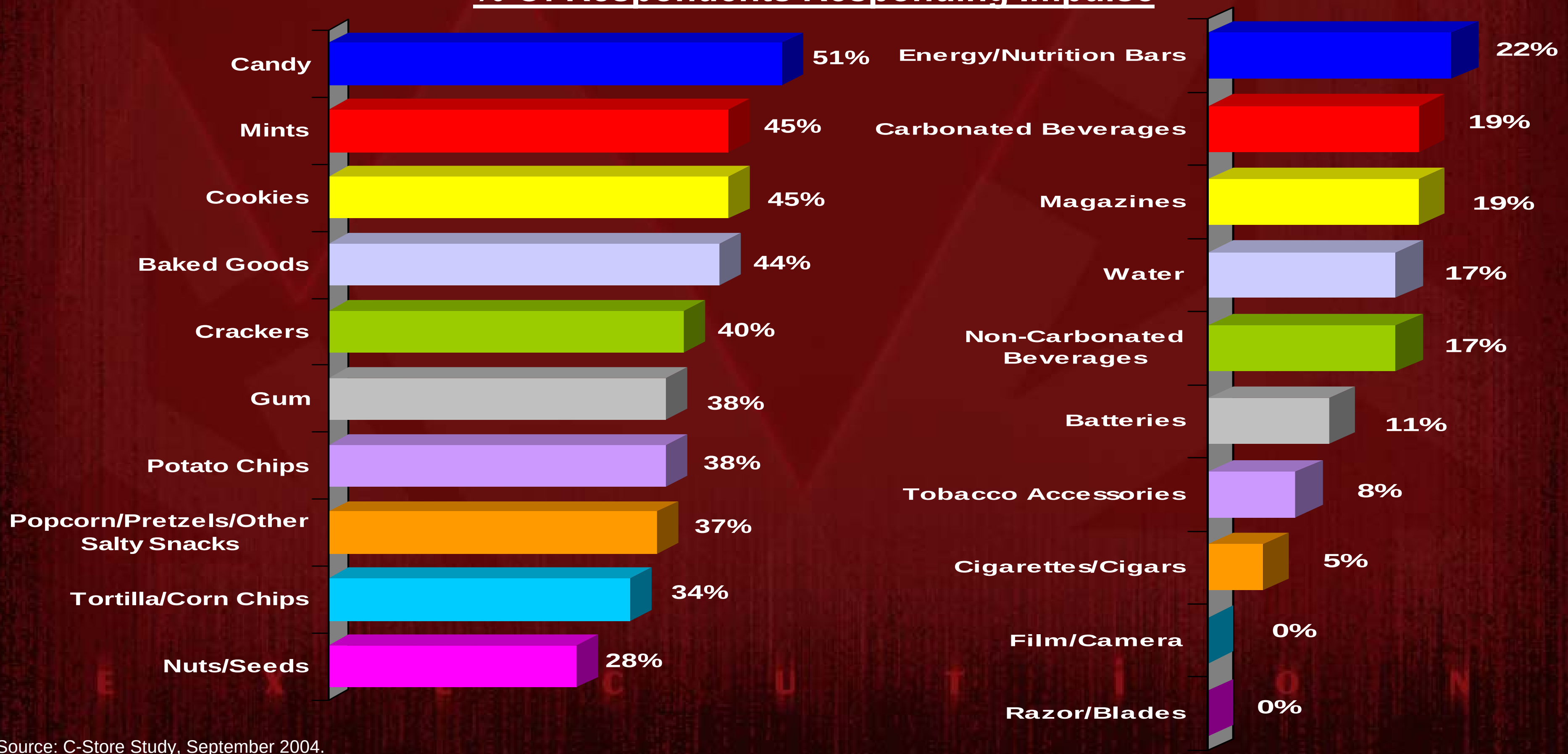


Source: C-Store Study, September 2004.

Candy Is The Number 1 Snack Bought On Impulse

Do You Generally Plan To Buy These Products Or Are They Impulse?

% Of Respondents Responding Impulse



Source: C-Store Study, September 2004.

Merchandise Snacking Categories That Have Higher Penetration, Purchase Frequency, And Provide Impulse Purchases In Multiple Locations

Carbonated, Non-Carbonated Beverages, and Water are “Destination” categories that have High Penetration, High Frequency, but Low Impulse

Lower Penetration/ Frequency/Impulse

Corn/Tortilla Chips
Popcorn/Pretzels/Other Snacks
Crackers
Energy/Nutrition Bars

Mixed Scores

Baked Goods
Mints
Cookies
Nuts/Seeds

Higher Penetration/ Frequency/Impulse

Candy
Potato Chips
Gum

- Make sure that Candy, Potato Chips, and Gum are stocked in multiple locations throughout the store

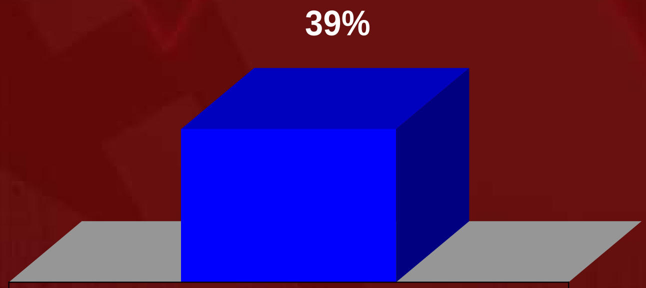
Source: C-Store Study, September 2004.

Carbonated Beverage Purchasers Also Purchased Candy/Gum And Potato Chips

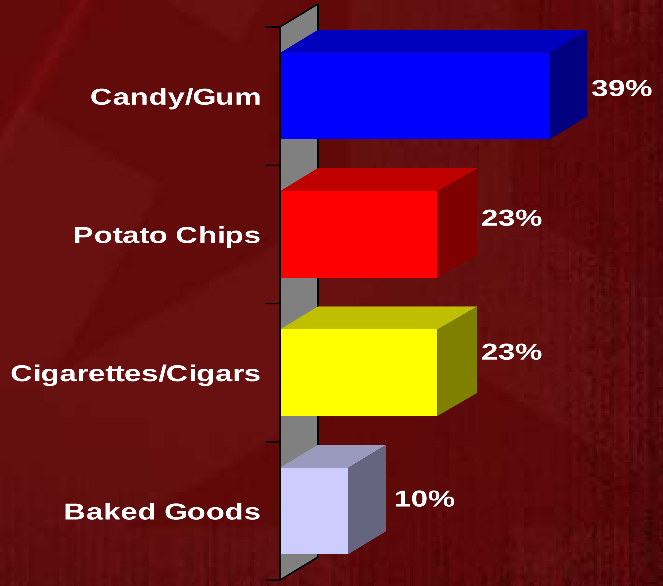
Purchased Carbonated Beverages Today

% Of Respondents

Purchased Only Carbonated Beverages



Purchased Carbonated Beverages And:



- **Retailers should look for opportunities to merchandise Candy and Gum with Carbonated Beverages**

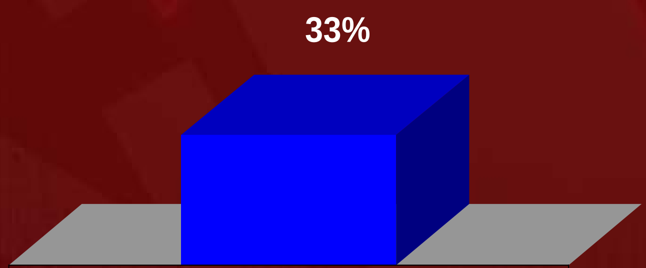
Source: C-Store Study, September 2004.

Food Service Purchasers Also Purchase Drinks, Candy/Gum, and Potato Chips

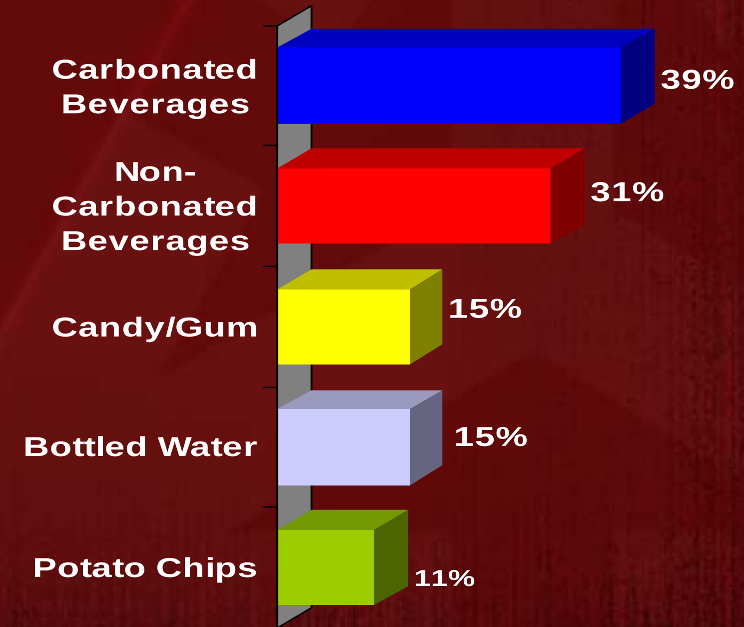
Purchased Food Service Today

% Of Respondents

Purchased Only From Food Service



Purchased Food Service And:

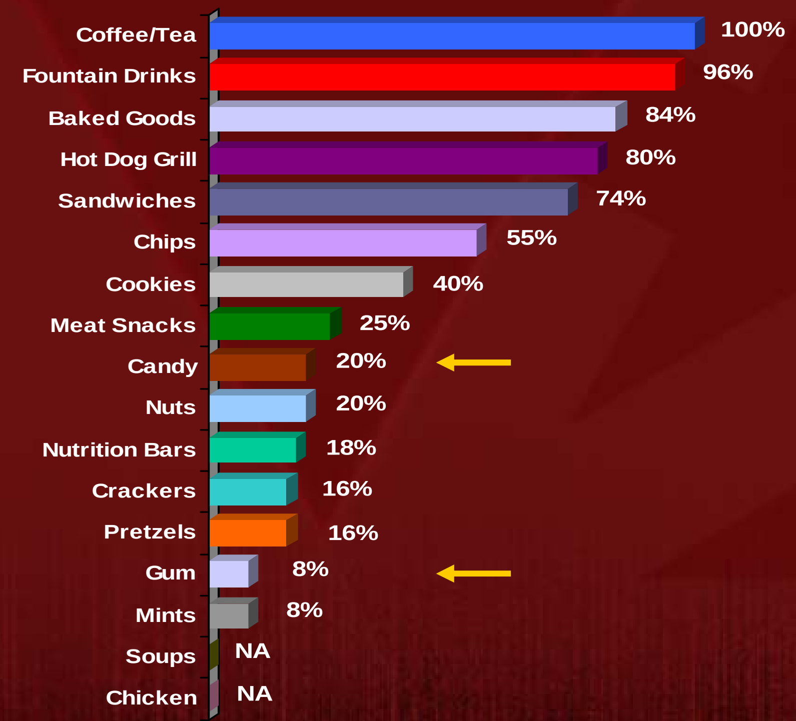


- **Retailers should look for opportunities to merchandise Candy, Gum, and Potato Chips in or around Food Service**

Source: C-Store Study, September 2004.

Only 20% Of C-Stores Have Candy At Food Service And Only 8% Have Gum

What Is Stocked In The Food Service Area?
% Of Stores Stocking
Broadscale Audits



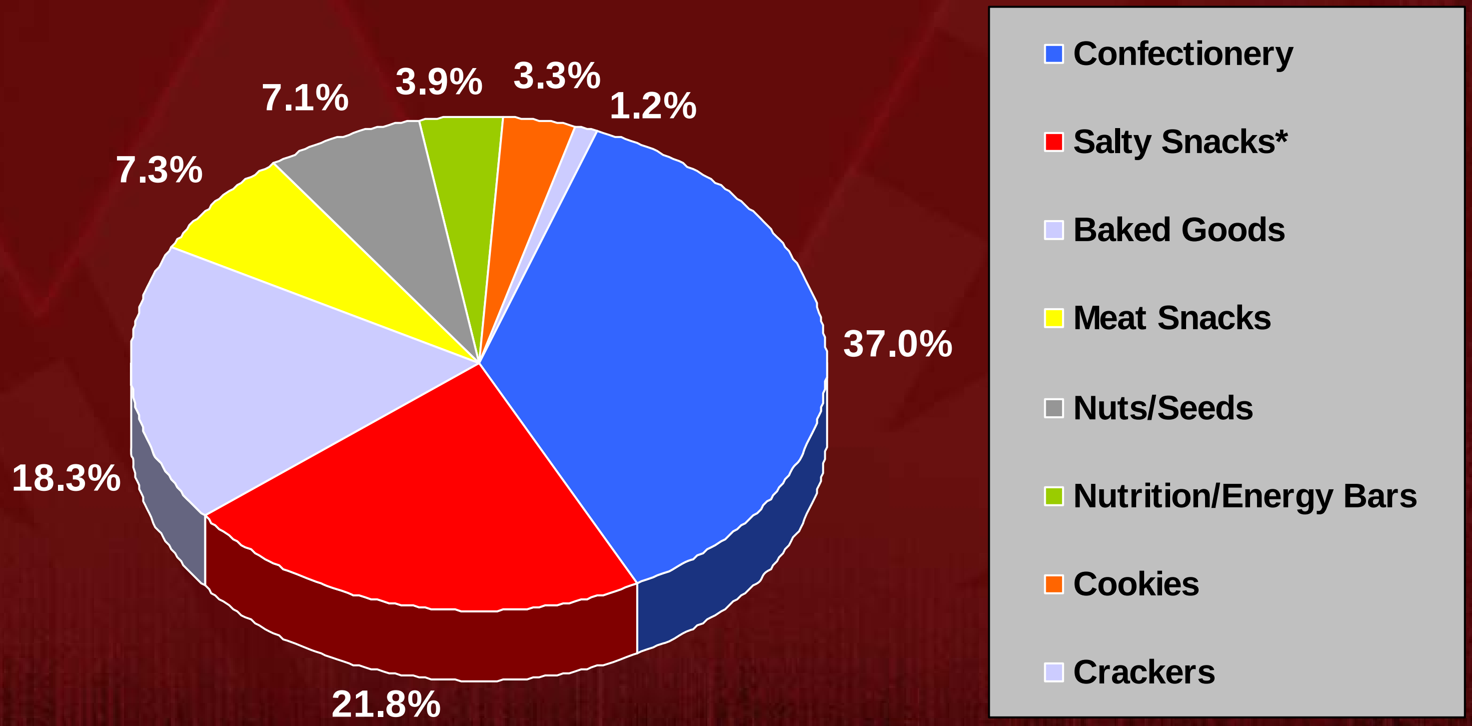
- Only 8% have Gum at Food Service

Source: Broadscale Audits, May 2004.

( ) Data from C-Store Study, September, 2004.

Confectionery, Salty Snacks, And Baked Goods Generate 75% Of Convenience Store Snacking Sales

Division of Single Serve Snacking $ Sales

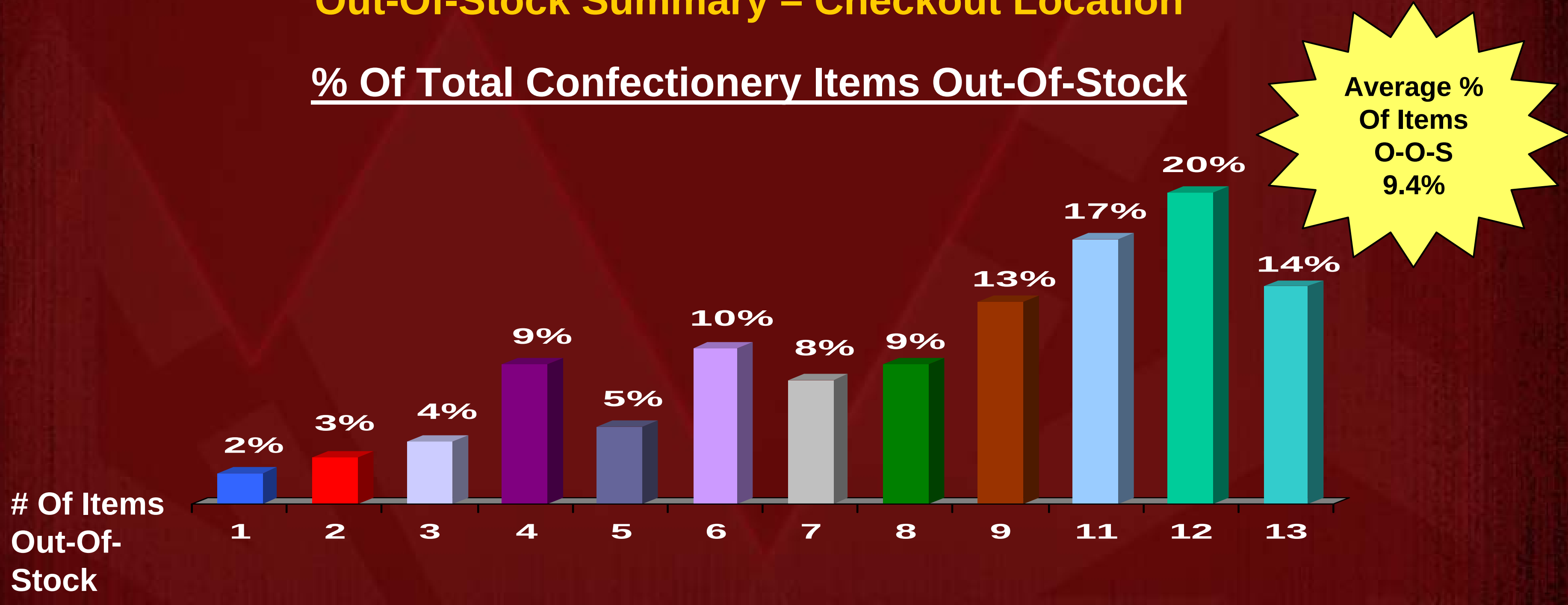


*Includes other snacks.

Source: C-Store Study 6 months ending September 2004; DHC Analysis.

On Average 9.4% of The Confectionery Items Stocked At The Checkout Are Out-Of-Stock

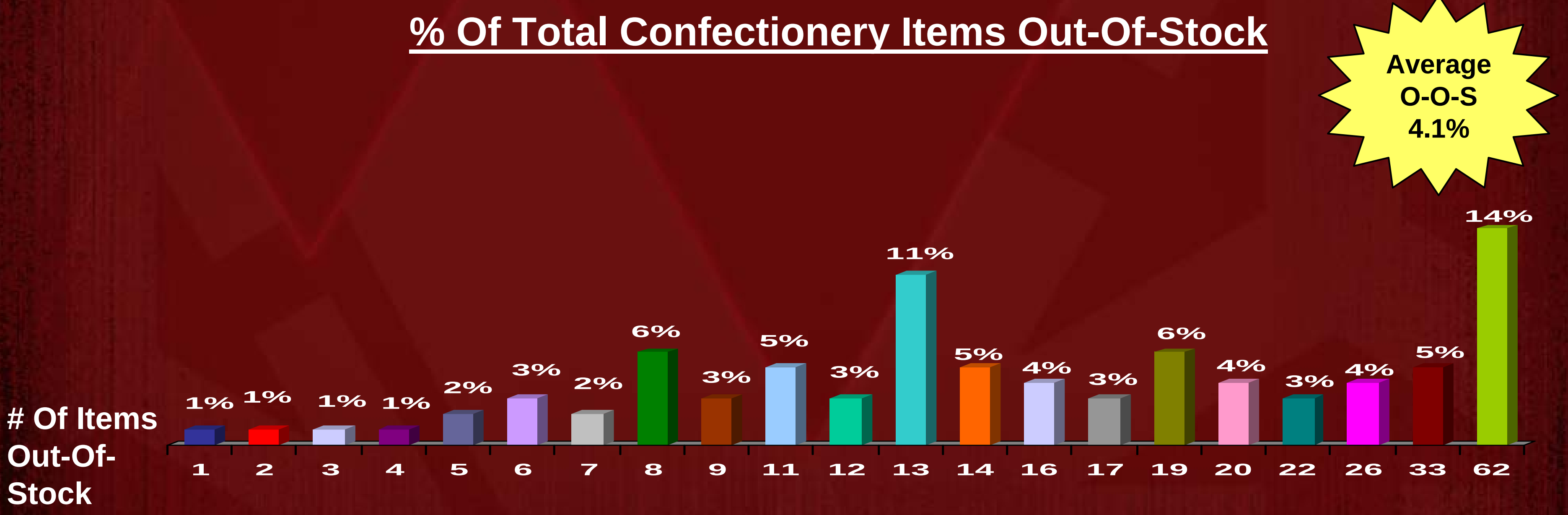
Out-Of-Stock Summary – Checkout Location



Source: C-Store Study, September 2004.

On Average 4.1% of The Confectionery Items Stocked At The In-Aisle Are Out-Of-Stock

Out-Of-Stock Summary – In-Aisle Location



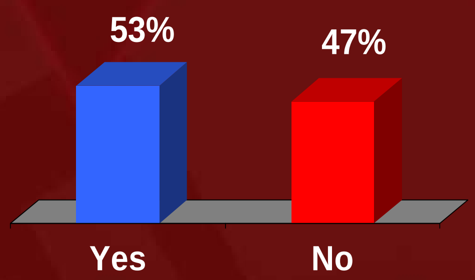
Source: C-Store Study, September 2004.

Lack Of Permanent Confectionery Shelf-Tags Can Result In Higher Out-Of-Stocks

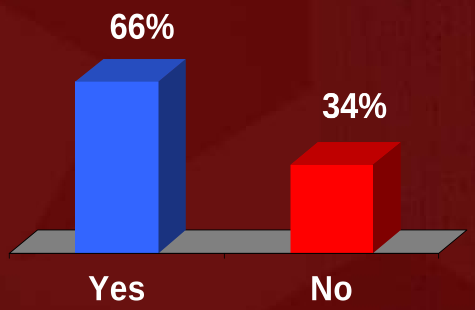
Does This Store Have Permanent Confectionery Shelf-Tags?

% Of Stores In National Audits

At Checkout



At Confectionery Aisle

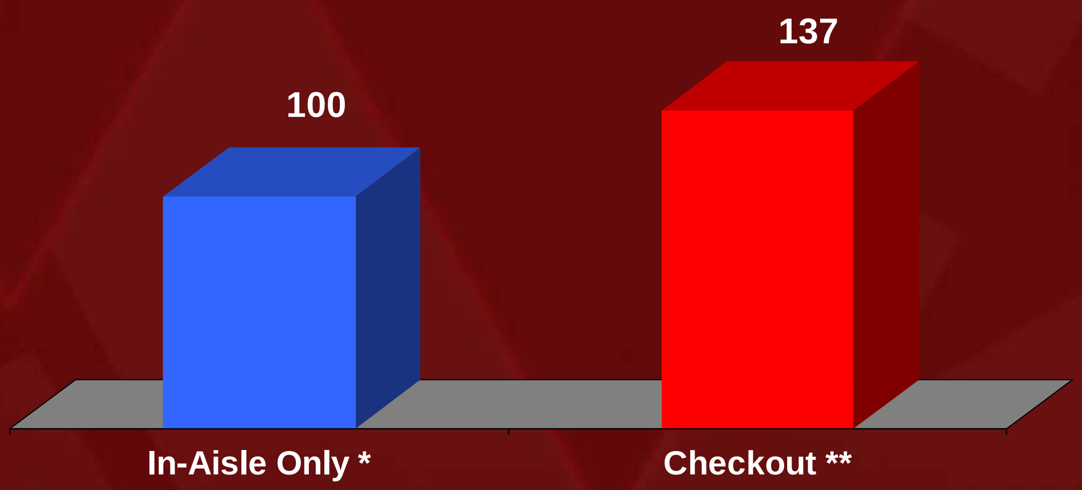


	At Checkout: Yes	At Checkout: No	At Confectionery Aisle: Yes	At Confectionery Aisle: No
C-Store Study	74%	26%	87%	13%

Source: National Audits, May 2004; C-Store Study, September 2004.

Best Practice: Merchandise Confectionery At Checkout Counter

Index Of Dollar Sales Per Store – Checkout Vs. In-Aisle Only



- **Retailers that stocked Confectionery at the Checkout Counter and In-Aisle enjoyed a 37% increase in Confectionery Dollar sales**

*Limited sample. ** Includes Checkout only and Checkout & In-Aisle.

Source: C-Store Study, September 2004.

Best Practice: Make Candy And Gum Available In Food Service

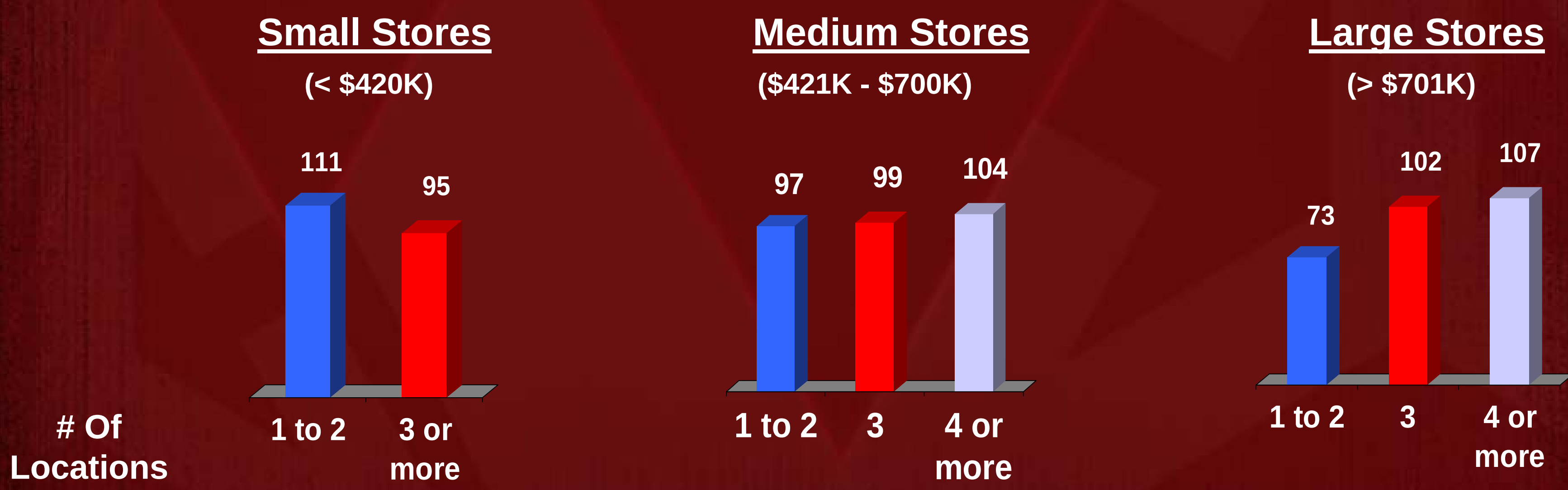
* Large stores.

Source: C-Store Study 6 months ending September 2004.

Best Practice: Merchandise Single Serve Snacks In The Food Service Area To Generate Additional Snack Purchases

Best Practice: Candy Sales Expand With Multiple Merchandising Locations

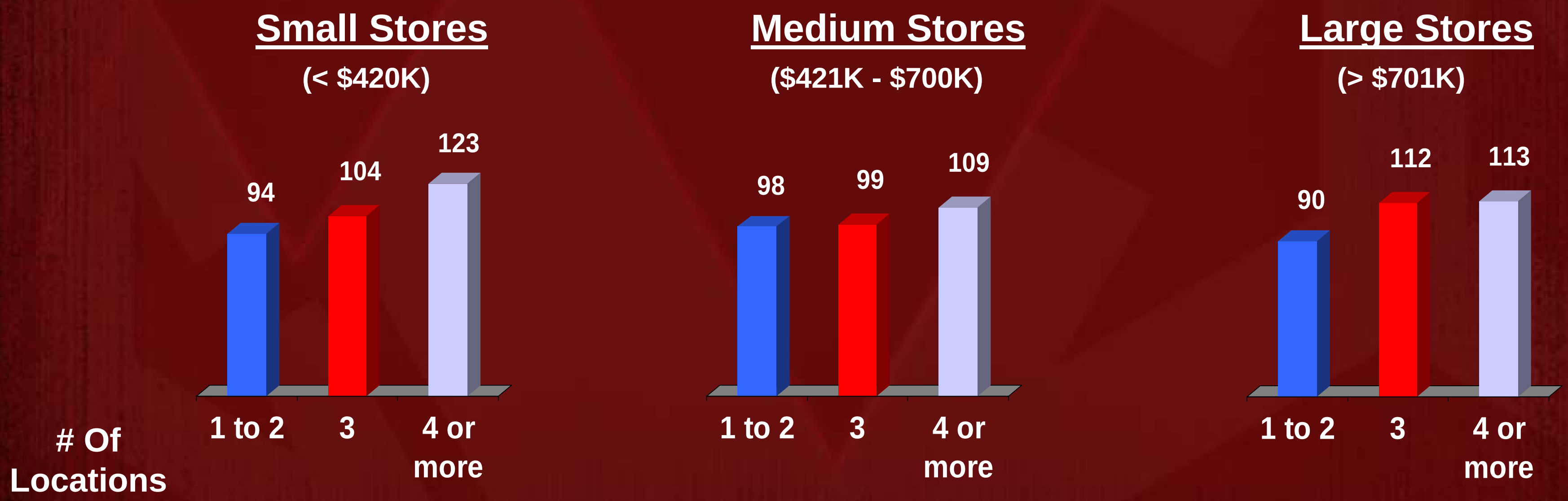
Candy Index Of $ Sales Per Store
By Number Of Locations



Source: C-Store Study, September 2004; DHC Analysis.

Best Practice: Gum Sales Also Expand With Multiple Merchandising Locations

Gum Index Of $ Sales Per Store By Number Of Locations

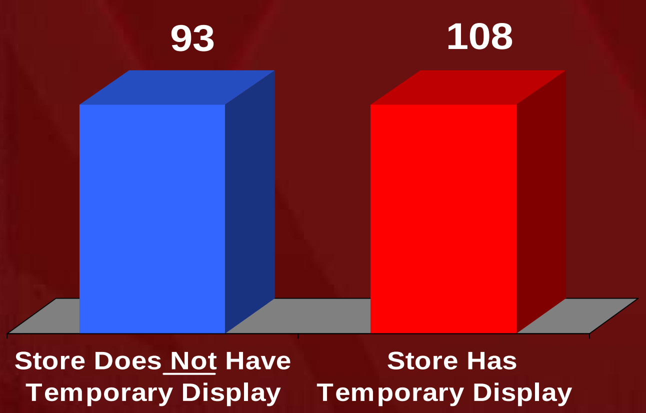


Source: C-Store Study, September 2004; DHC Analysis.

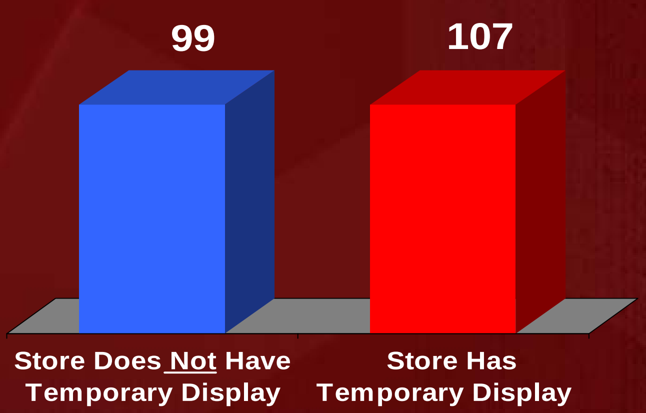
Best Practice: Temporary Displays Will Drive Incremental Sales Of Candy And Gum

Index Of $ Sales Per Store

Candy



Gum

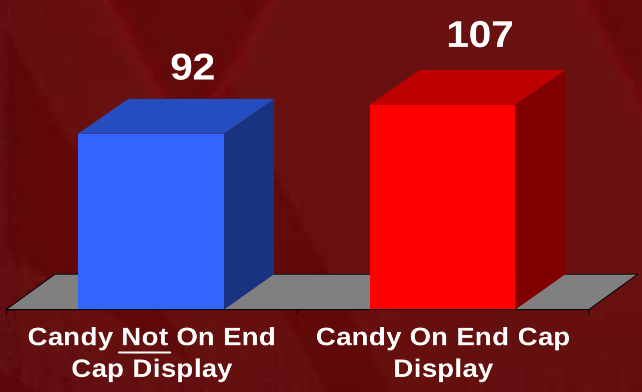


Source: C-Store Study 6 months ending September 2004; DHC Analysis.

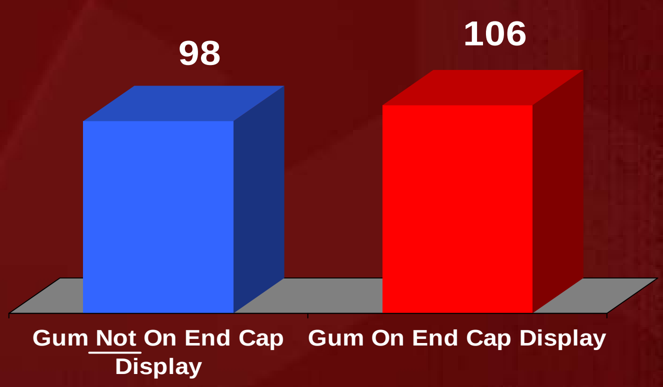
Best Practice: End Cap Displays Will Drive Candy And Gum Sales

Index Of $ Sales Per Store

Candy



Gum

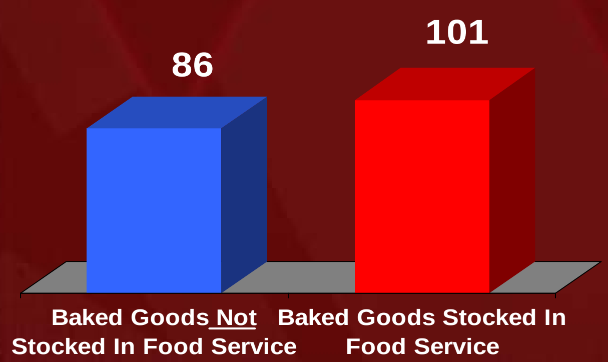


Source: C-Store Study 6 months ending September 2004; DHC Analysis.

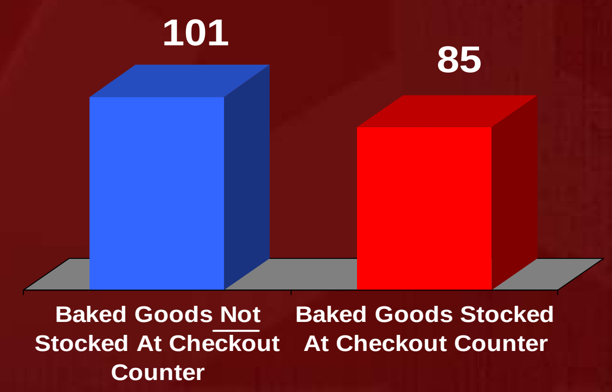
Best Practice: Baked Goods Perform Well When Stocked At Food Service

Index Of $ Baked Goods Sales Per Store When Stocked At:

Food Service



Checkout Counter



- Baked Goods do not perform well at the checkout counter

Source: C-Store Study 6 months ending September 2004; DHC Analysis.

Summary Of Participant Feedback

Table 1
Merchandising

- How do we optimize space?
- Do multiple placements make sense?
- Vendor racks or owner racks?
- Secondary locations?
- Snacks value on end caps?
- How to execute solutions?

Table 2
Item Assortment

- What is the right assortment?
- Impact of new items on assortment?
- Frequency of planogram revisions?
- Value of limited additions?
- Balance between DSD & warehouse?
- Importance of King Size selection?
- How to execute solutions?

Table 3
Out-of-Stocks

- Root causes?
- DSD vs. warehouse variations?
- Value of shelf tags?
- Barriers to complete in-stock positioning?
- How to execute solutions?

Table 4
Promotion

- Is signage effective? How do we maximize?
- Top sellers or entire category?
- King Size vs. Regular Size?
- Tie-ins with food service?
- How to expand market basket?
- What promotions works? Which don’t?
- How to execute solutions?