Convenience Store Impulse Merchandising Study
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**
  - 2001: 45%
  - 2004: 45%

- **Shopping Frequency # Of Trips Per Year**
  - 2001 Mid-Year: 15
  - 2004 Mid-Year: 15

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

Candy, Salty Snacks, And Sweet Snacks Are Important Categories To C-Stores

Percent Of In-Store Sales – Excluding Food Service & Gas

- Cigarettes, Packaged Beverages, and Beer represent 67% of C-Store sales (excludes Food Service)

Source: 2004 NACS Fact Book; DHC Analysis.
Single Serve Snacks Generate $13.9 Billion In The Convenience Store Class Of Trade

Projected C-Store Single Serve Snacks* Dollar Sales

$13.9 Billion

Single Serve Snacks % Of Total In-Store Sales

7.3%

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
Key Elements Of Leadership

- Retailer/manufacturer partnerships can improve results for all stakeholders
- Leadership is based on an understanding of consumer shopping behavior
- Leadership means turning learning and ideas into executable in-store solutions
Leadership Starts With Partnership

Formation of a leadership council including the following manufacturers:

- Masterfoods USA, a Division of Mars, Incorporated
- The Wm. Wrigley Jr. Company

In partnership with Dechert-Hampe & Company, an independent research and consulting firm
Mission Of The Group

To work in partnership with retail customers and other stakeholders to improve store performance and enhance consumer satisfaction through:

- New learning and consumer knowledge
- Developing benchmarks and Best Practices
- Innovative solutions to optimize in-store merchandising
Consumer Based In-Store Solutions

- Consumer as Purchaser
  - Understand consumer attitudes and purchase behavior

- Retailer as Business Partner
  - Understand retailers’ marketing strategy and business issues
  - Design format specific selling strategies

Implement In-Store Solutions
Convenience Store Merchandising Study

Objectives

- Gain new insights on consumer attitudes and buying behavior in Convenience Stores, especially regarding Single Serve Snacking items, to expand consumer purchase rates
- Develop channel performance benchmarks
- Identify merchandising “Best Practices” of Single Serve Snacking to expand size of basket to maximize sales and profits
Convenience Store Merchandising Study

Study Scope

- National Audits of 1,100 Convenience Stores to profile current merchandising practices
- Worked with five Convenience Store Retail Groups
- Consumer interviews to gain insight on attitudes and buying behavior in C-Stores (900 consumer interviews)
- Consumer observations to track movement throughout the store and outside the store (1,300 observations in store, 2,600 observations outside the store)
- Store audits (200 stores) to reflect merchandising activities and space allocation
- Collect retail sales data from 200 stores for all Single Serve Snacking UPC’s

Source: MVI, Retail Forward.
The Study Included Information On 14 Single Serve Snacking Categories

**Single Serve Snacks** (items with UPC's)

- Candy
- Gum
- Mints
- Salty Snacks
- Nuts/Seeds
- Baked Goods
- Cookies
- Crackers
- Nutrition/Energy Bars
- Meat Snacks

Consumer information was also available for:

- Cigarettes
- Tobacco Accessories
- Carbonated Beverages
- Non-Carbonated Beverages
- Bottled Water
- Magazines
- Batteries
- Film/Cameras
- Razor Blades

Source: MVI, Retail Forward.
Convenience Stores Consumer Findings Summary

- Consumers shop C-Stores frequently but are not necessarily loyal to anyone store
- Primary reason for visiting store was to purchase Beverages and Gas
- Some customers that pay at the pump enter the store
- Primary reasons for buying a snack were: as a treat (40%), for energy (25%), to satisfy hunger (24%)
- Beverages are a destination category
- Many stores do not carry Confections at the checkout counter
- Candy & Gum are the items most frequently purchased with Beverages
- Candy, Potato Chips, and Gum are the snacking categories that have the highest penetration, frequency of purchase
C-Store Consumers Will Shop Frequently, But At Multiple Stores

**How Often Do You Shop At This Store?**

- Once A Week Or More: 84%
- Several Times A Month: 13%
- Once A Month: 3%

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

- <25%: 29%
- 26%-50%: 22%
- 51%-75%: 15%
- 76%+: 34%

Source: C-Store Study, September 2004.

- Retailers must focus on getting the most out of each shopping trip.
Beverages, Gas, Cigarettes, and Confectionery/ Snacks Were the Primary Reasons For C-Store Visit

What Was Your Primary Reason For Shopping This Store?*

<table>
<thead>
<tr>
<th>% of Respondents</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>Beverages</td>
</tr>
<tr>
<td>43%</td>
<td>Gas</td>
</tr>
<tr>
<td>27%</td>
<td>Cigarettes</td>
</tr>
<tr>
<td>23%</td>
<td>Candy/Gum/Snacks</td>
</tr>
<tr>
<td>9%</td>
<td>Lottery</td>
</tr>
<tr>
<td>9%</td>
<td>Food Service</td>
</tr>
<tr>
<td>7%</td>
<td>Other</td>
</tr>
<tr>
<td>6%</td>
<td>Groceries</td>
</tr>
<tr>
<td>6%</td>
<td>Restroom</td>
</tr>
</tbody>
</table>

* Respondents could give multiple answers.
Source: C-Store Study, September 2004.

Influencing complementary purchasing is a key to expanding transaction sizes.
In 2/3 Of The Gas Transactions, Consumers Entered The Store

- Store operators should use signage to attract additional consumers into the store

Source: C-Store Study, September 2004.
The Checkout Counter and Beverage Cooler Are Primary Shopping Locations

What Areas of the Store Did You Shop Today?
(Consumer Interviews – % of Respondents)

- Food Service: 43%
- Beverage Coolers: 40%
- Drinks: 22%
- Nuts: 20%
- Snacks: 14%
- Restrooms: 13%

Areas Shopped:
- Carbonated/Non Carbonated Drinks
- Waters
- Juices
- Milk/Dairy
- Frozen Foods
- Grocery Products
- Household Products
- Sweet Goods
- Pet Food
- Non-Grocery
- Confectionery
- Chips
- Baked Goods
- Meat Snacks
- Donuts Display
- Frozen Novelties
- Single Serve Frozen Novelties
- Hot Dog Grill
- Coffee Bar
- Microwave/Supply Station
- HBC
- Cigarettes
- Batteries/Film
- Magazines/Newspapers
- Potato Chip Rack
- 2 Liter Carbonated Beverages

Outdoor Display
Entrance
Outdoor Display
The Checkout Counter And Beverage Cooler Are Primary Shopping Locations

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

<table>
<thead>
<tr>
<th>Section</th>
<th>1st Stop</th>
<th>2nd Stop</th>
<th>3rd Stop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checkout Counter</td>
<td>35%</td>
<td>61%</td>
<td>69%</td>
</tr>
<tr>
<td>Beverage Cooler</td>
<td>26%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>Food Service</td>
<td>16%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Restrooms</td>
<td>5%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Confectionery Aisle</td>
<td>4%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Salty Snack Aisle</td>
<td>4%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Sweet Goods</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>

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 Counter.

- 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.
Recommendation: Merchandise Top Selling Snacks At Checkout To Expand Impulse Sales
Beverages, Potato Chips, And Candy Were The Categories Most Often Purchased

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

% Of Respondents

- Carbonated Beverages: 65%
- Potato Chips: 60%
- Candy: 57%
- Bottled Water: 56%
- Non-Carbonated Beverages: 52%
- Gum: 51%
- Mints: 37%
- Cigarettes/Cigars: 37%
- Nuts/Seeds: 36%
- Corn/Tortilla Chips: 31%
- Popcorn/Pretzels/Other Salty Snacks: 30%
- Cookies: 30%
- Baked Goods: 30%
- Energy/Nutrition Bars: 27%
- Crackers: 23%
- Magazines: 11%
- Tobacco Acessories: 8%
- Batteries: 7%
- Film/Cameras: 3%
- Razor Blades: 3%

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

- Candy: 51%
- Mints: 45%
- Cookies: 45%
- Baked Goods: 44%
- Crackers: 40%
- Gum: 38%
- Potato Chips: 38%
- Popcorn/Pretzels/Other Salty Snacks: 37%
- Tortilla/Corn Chips: 34%
- Nuts/Seeds: 28%
- Energy/Nutrition Bars: 22%
- Carbonated Beverages: 19%
- Magazines: 19%
- Water: 17%
- Non-Carbonated Beverages: 17%
- Batteries: 11%
- Tobacco Accessories: 8%
- Cigarettes/Cigars: 5%
- Film/Camera: 0%
- Razor/Blades: 0%

Source: C-Store Study, September 2004.
Candy, Gum, and Potato Chips are categories where 40% of the consumers shopping those categories will purchase 2 to 3 times a week.

How Often Do You Purchase This Category?

% of respondents purchasing category – answering 2 to 3 times a week or more

- Cigarettes (37) - 60%
- Carbonated Beverages (65) - 59%
- Non-Carbonated Beverages (52) - 59%
- Bottled Water (56) - 55%
- Potato Chips (60) - 39%
- Nuts/Seeds (36) - 38%
- Candy (57) - 37%
- Gum (51) - 37%
- Baked Goods (30) - 37%
- Energy/Nutrition Bars (27) - 37%

- Cigarettes and beverages are purchased multiple times per week.

Source: C-Store Study, September 2004. (Percent of respondents purchasing over last 6 months.)
Batteries, Razors, And Film Are Categories That Are Not Purchased Frequently

How Often Do You Purchase This Category?

% Of Respondents Purchasing Category Answering 2 To 3 Times A Week Or More

- Popcorn/Pretzels/Other Snacks (30): 33%
- Corn/Tortilla Chips (31): 32%
- Cookies (30): 28%
- Magazines (11): 24%
- Tobacco Accessories (8): 22%
- Mints (37): 22%
- Crackers (23): 22%
- Film/Cameras (3): 3%
- Razors/Blades (3): 2%
- Batteries (7): 1%

Source: C-Store Study, September 2004. (Percent Of Respondents Purchasing Over Last 6 Months.)
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

<table>
<thead>
<tr>
<th>Lower Penetration/ Frequency/Impulse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn/Tortilla Chips</td>
</tr>
<tr>
<td>Popcorn/Pretzels/Other Snacks</td>
</tr>
<tr>
<td>Crackers</td>
</tr>
<tr>
<td>Energy/Nutrition Bars</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mixed Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baked Goods</td>
</tr>
<tr>
<td>Mints</td>
</tr>
<tr>
<td>Cookies</td>
</tr>
<tr>
<td>Nuts/Seeds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Higher Penetration/ Frequency/Impulse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candy</td>
</tr>
<tr>
<td>Potato Chips</td>
</tr>
<tr>
<td>Gum</td>
</tr>
</tbody>
</table>

- 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: 39%
- Purchased Carbonated Beverages And:
  - Candy/Gum: 39%
  - Potato Chips: 23%
  - Cigarettes/Cigars: 23%
  - Baked Goods: 10%

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

Source: C-Store Study, September 2004.

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C-Store Study, September 2004.
Recommendation: Merchandise Candy In The Refrigerated Coolers To Generate Additional Sales

Source: C-Store Study, September 2004.
40% Of Consumers Bought A Snack For A Treat

What Was Your Primary Reason For Buying A Snack Today?

<table>
<thead>
<tr>
<th>Reason</th>
<th>% Of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treat</td>
<td>40%</td>
</tr>
<tr>
<td>Energy</td>
<td>25%</td>
</tr>
<tr>
<td>Satisfy Hunger</td>
<td>24%</td>
</tr>
<tr>
<td>Accompany A Meal</td>
<td>7%</td>
</tr>
<tr>
<td>Replace A Meal</td>
<td>4%</td>
</tr>
</tbody>
</table>

- Stocking snacks at the Food Service counter will influence consumers to buy their “treat” at the same time

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:

- Carbonated Beverages: 39%
- Non-Carbonated Beverages: 31%
- Candy/Gum: 15%
- Bottled Water: 15%
- Potato Chips: 11%

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

Source: C-Store Study, September 2004.
Recommendation: Merchandise Single Serve Snacks In The Food Service Area To Generate Additional Snack Purchases
Recommendations Based On Consumer Findings

- Use merchandising vehicles at the gas pumps to attract pay-at-the-pump customers into the store
- Expand market basket size by focusing on complementary merchandising of single serve snacks
- Focus secondary merchandising locations on the categories that have high penetration, frequency, and impulse (Candy, Potato Chips, Gum)
- Merchandise Confectionery and Potato Chips in Food Service
- Merchandise Confectionery at checkout locations
- Merchandise Chocolate Candy in refrigerated Beverage Coolers
C-Store
Single Serve Snacks
Sales/Audit Insights
Convenience Stores Sales/Audits Key Findings

- Confectionery, Salty Snacks, and Baked Goods represent 75% of Convenience Store Single Serve Snacking Dollar Sales
- Confectionery alone generates almost 43% of profits
- Store wide, Crackers, Nutrition/Energy Bars, and Nuts/Seeds are overspaced, while Baked Goods are underspaced
- Optimization of all Single Serve Snacking categories is an opportunity – the 80/20 rule does apply
- Store wide, Gum is underspaced
- King Size Bars are important to the Chocolate Candy segment
- On average, 9.4% of items carried at the checkout counter are out-of-stock
Confectionery, Salty Snacks And Baked Goods Generate 75% Of Convenience Store Snacking Sales

Division of Single Serve Snacking $ Sales

- Confectionery: 37.0%
- Salty Snacks*: 18.3%
- Baked Goods: 21.8%
- Meat Snacks: 7.3%
- Nuts/Seeds: 3.9%
- Nutrition/Energy Bars: 3.3%
- Cookies: 7.1%
- Crackers: 1.2%

*Includes other snacks.
Source: C-Store Study 6 months ending September 2004; DHC Analysis.
Confectionery And Salty Snacks Are Responsible For 60% Of Single Serve Snacking Profits

Share of Single Serve Snacking Profit $

- Confectionery: 42.8%
- Salty Snacks*: 18.1%
- Baked Goods: 16.1%
- Meat Snacks: 7.3%
- Nuts/Seeds: 7.1%
- Nutrition/Energy Bars: 4.4%
- Cookies: 2.9%
- Crackers: 1.2%

* Includes other snacks.

Source: C-Store Study 6 months ending September 2004; DHC Analysis.
Confectionery And Salty Snacks Occupy 61% Of Single Serve Snacking Space

Share of Space* - Single Serve Snacking

- Confectionery: 40.4%
- Baked Goods: 9.8%
- Nuts/Seeds: 8.9%
- Nutrition/Energy Bars: 6.9%
- Meat Snacks: 6.5%
- Cookies: 6.5%
- Crackers: 4.1%
- Salty Snacks*: 2.1%

*Linear inches of all stocking locations.
**Includes other snacks.

Source: C-Store Study 6 months ending September 2004, DHC Analysis.
Crackers, Nutrition/Energy Bars, Cookies, And Nuts/Seeds Are Overspaced

<table>
<thead>
<tr>
<th></th>
<th>Share of Profit $</th>
<th>Share of Space</th>
<th>Index of Space to Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confectionery</td>
<td>42.7%</td>
<td>40.4%</td>
<td>95</td>
</tr>
<tr>
<td>Salty Snacks</td>
<td>18.1%</td>
<td>21.2%</td>
<td>117</td>
</tr>
<tr>
<td>Baked Goods*</td>
<td>16.1%</td>
<td>9.8%</td>
<td>61</td>
</tr>
<tr>
<td>Meat Snacks</td>
<td>7.3%</td>
<td>6.5%</td>
<td>89</td>
</tr>
<tr>
<td>Nuts/Seeds</td>
<td>7.1%</td>
<td>8.9%</td>
<td>125</td>
</tr>
<tr>
<td>Nutrition/Energy Bars</td>
<td>4.4%</td>
<td>6.9%</td>
<td>157</td>
</tr>
<tr>
<td>Cookies</td>
<td>2.9%</td>
<td>4.1%</td>
<td>141</td>
</tr>
<tr>
<td>Crackers</td>
<td>1.2%</td>
<td>2.1%</td>
<td>175</td>
</tr>
</tbody>
</table>

- Baked Goods is underspaced

* Does not include Fresh Doughnut displays.

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