Nielsen Convenience and Impulse Report 2010

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2010 Nielsen Convenience Report

The outlook for convenience

By Kosta Conomos, Executive Director, Nielsen Retailer Services

What a difference a year makes! The latest information on Australian economic, business and consumer trends all suggest that we have well and truly left the uncertainty and austerity of the global financial crisis behind us, and the future indeed appears much brighter.

According to the IMF, Australia has been remarkably resilient to the global turmoil overall, and our economy is forecasted to grow by 2.5 percent in 2010 and three percent in 2011. Whilst we were hit by the global crisis, we bounced back quicker than any other advanced economy, resulting from strong demand for commodities, a flexible exchange rate, and a healthy banking sector. Cuts in interest rates and a sizable fiscal stimulus were also key factors.

The latest results from Nielsen's Global Online Consumer Survey for Quarter 1, 2010 shows that Australians continue to have a positive outlook, with our Confidence Index at 111 – an increase of 19 index points compared to a year ago (the highest we've seen in two years), and 20 points above the global benchmark of 91 (refer to Chart 1). Among the 55 markets included in the global survey, Australia was the fourth most confident (tied with the Philippines) and just behind India, Indonesia and Norway.

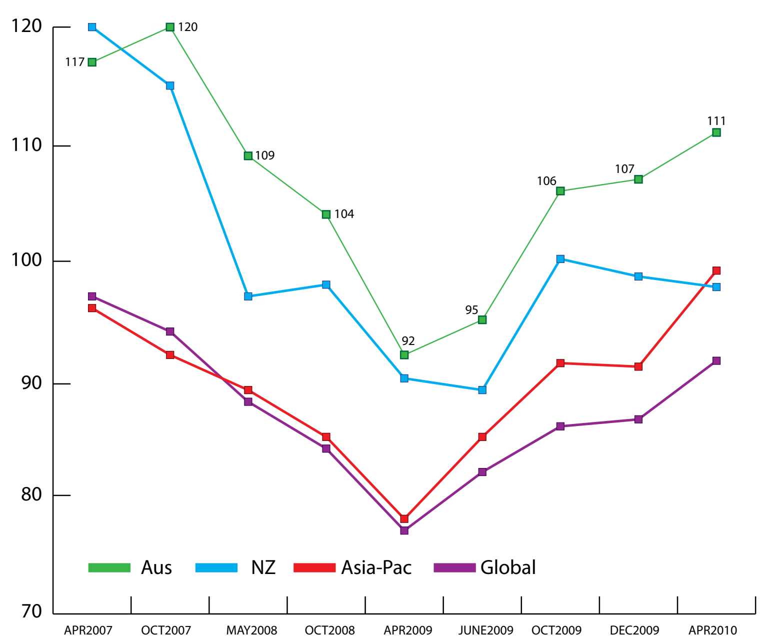
Our view of the local labour market over the next 12 months is also among the most optimistic globally, with 70 percent of Aussies saying they believed local job prospects were good/excellent – up an extraordinary 43 percentage points from a dire 27 percent 12 months ago (refer to Chart 2); and 27 points higher than the global average of 43 percent. Concerns around job security also decreased dramatically with only 13 percent of respondents citing it as a major concern – a decrease of 15 percentage points from a year ago.

This paramount shift in the perception of the local job market is consistent with RBA trends which show that employment is estimated to have grown by 190,000 in the five months to January 2010, and unemployment is expected to continue to fall steadily over the course of the year.

ANZ also recently released figures which showed that the number of jobs advertised in major newspapers and online rose by six percent in December 2009, the strongest monthly growth in years.

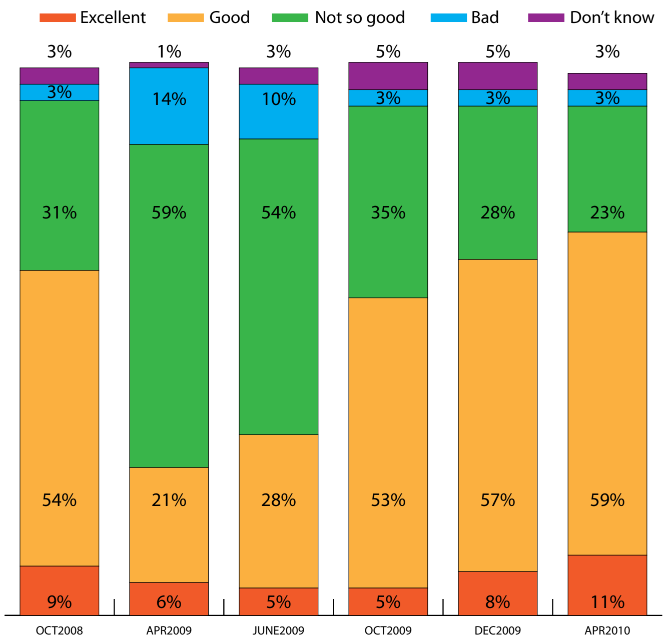
However, while confidence levels are buoyant, the Nielsen Online Consumer Survey showed that Australian consumers remain vigilant, with 44 percent putting any spare cash into savings and a further 40 percent of consumers channelling any surplus cash into paying off debts, credit cards and loans. Interestingly, the number of consumers allocating their spare cash in this

Chart 1: Trended Consumer Confidence Index



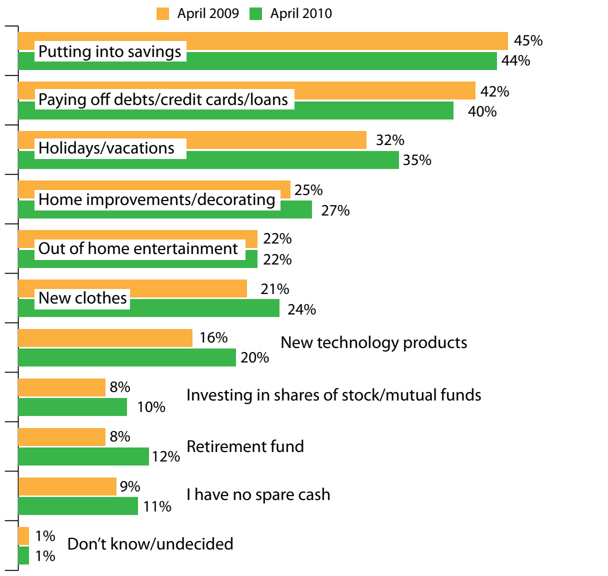
Source: Nielsen Global Online Consumer Survey, April 2010

Chart 2: Perceptions of local job prospects over the next 12 months - Australia



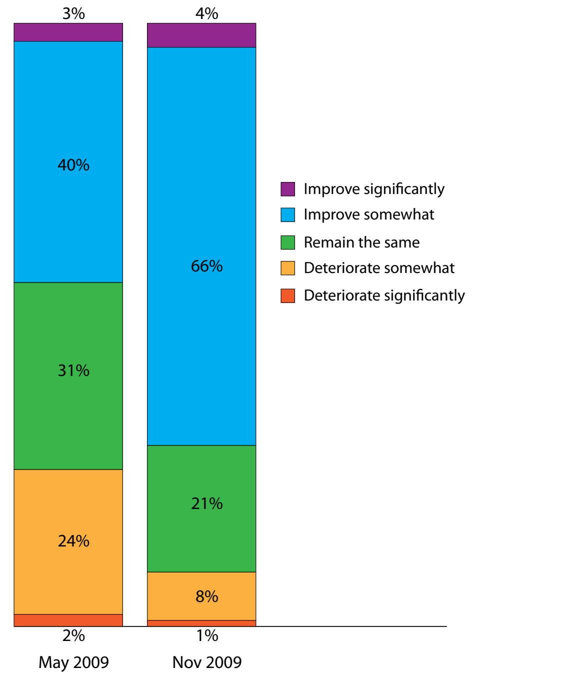
Source: Nielsen Global Online Consumer Survey, April 2010

Chart 3: How do you ultilise your spare cash after covering essential living expenses – Australian Average



Source: Nielsen Global Online Consumer Survey, April 2010

Chart 4: Over the next 1-2 years, do you believe that business conditions in your industry are more likely to improve or deteriorate?



Base: All manufacturers: May 2009 (n=105), Nov 2009 (n=90)
Source: Nielsen Retail Barometer Report December 2009

> "Retailers in countries such as Japan, the US and Canada have employed '**time-of-day**' merchandising in an effort to maximise sales based on varying shopper needs."

way dropped back slightly over the past year, and discretionary spending on holidays, home improvements, new clothes and new technology increased versus the same time in 2009 (refer to Chart 3).

Looking at the business environment, the results of Nielsen's latest Retail Barometer Report, which surveys around 100 of Australia's leading FMCG manufacturers on business conditions and major concerns, revealed that business conditions also look fairly healthy, with more than half of respondents (57%) experiencing an improvement in business conditions in the second half of 2009, and well over two thirds (70%) were anticipating business conditions to continue to progress over the next 1-2 years (refer to Chart 4).

All in all, the past few years have been tough for many constituents within the retailing sector thanks to the effects of the global economic crisis, rising costs and the resulting pressure on margins. However, while it's encouraging to see this optimism from the perspective of the consumer, manufacturer and retailer alike; rises in interest rates, fuel prices and utility costs, as well as negative political sentiment, could all impact our outlook over the course of the year.

Convenience overview

Overall, the convenience trade in Australia did manage to hold up relatively well in the midst of the global financial crisis, but sales growth has softened over the past few months. In the year to 14/03/2010, Total Nielsen Defined Convenience sales grew by a modest 3.3 percent, and in the quarter to the same period – sales have actually slipped into decline by -0.5 percent compared to a year ago.

While the usual suspects including carbonated beverages, ice cream, snack foods, cigarettes, cereals and nutritious snacks continued to perform well, the growth for these categories were off-set by major declines in communications, magazines/newspapers and fruit juices and drinks (refer to Chart 5).

Of the categories that showed sales growth on the previous year, some key themes behind drivers of performance emerged:

- Health: Nutritious snacks, portable cereal, flavoured iced tea
- Portability/on-the-go: Up & Go liquid breakfast, energy drinks
- New Product Development: Bar confectionery (Cadbury Bubbly), chewing gum (Wrigley 5), energy drink shots
- Improved ranging and line extensions: Lipton Iced Tea, larger 500ml energy drink packs
- CPI: Tobacco, confectionery, ice cream, snack foods

Growth opportunities: While we may have survived the worst of the global financial crisis, the convenience sector still faces many challenges including rising credit card fees, competition from small format groceries, a desire for healthier foods and competition from retailer chains selling fuel. In order to move forward and identify potential areas for growth, manufacturers and retailers in the convenience trade will need to implement strategies that incorporate changes in consumer behaviour.

So where are the key opportunities for growth in convenience? Let's look at what other markets around the world have done in this area.

Time of day merchandising: Retailers in countries such as Japan, the US and Canada have employed 'time-of-day' merchandising in an effort to maximise sales based on varying shopper needs. This includes both the location of stock throughout the day and the nature of promotions offered. Convenience retailers maximise the sales of coffee, newspapers and breakfast bars by having appropriate displays for these items in the morning, while confectionery and other snacks are high sellers mid-afternoon. These items are displayed prominently during these times and are highly visible to enable time-poor shoppers to quickly spot them and therefore translate them into a sale. Demand for items based on

Chart 5: Convenience growth performance by category

MAT to 14/03/2010	Val % growth vs YA
TOTAL DEFINED CONVENIENCE	3.3
CIGARETTES	3.9
CARB BEVERAGES	9.6
COMMUNICATIONS	-4.2
MILKS	2.5
CONFECTIONERY	4.4
MAGAZINES/NEWSPAPERS	-6.9
ICECREAM	5.5
SNACK FOODS	5.8
TOBACCO	8.7
HEALTH/BEAUTY	2.1
BREAD	-0.5
FRUIT JUICE/DRINKS	-6.9
CEREAL	17.5
BISCUITS	1.8
NUTRITIOUS SNACKS	8
CORDIALS	2.4

Source: Nielsen ScanTrack Convenience

time-of-day also points to a need for more targeted cross- promotions. The coffee and newspaper combo in the morning, chocolate bar and soft drink in the afternoon and bread and milk for the after work drive home are good examples.

Getting the execution right: What makes one store more successful than another really boils down to execution. Consumers want convenience, obviously, but they also want a clean, organized store and the ability to check-out quickly. Stores that offer prepared food that looks fresh and smells good and cross merchandise those with other items are likely to hit a homerun. The key to success is continual innovation in the overall store offer. Convenience retailers need to constantly fine-tune their offerings in the face of increased competition from other channels while never taking their eyes off the basics of cleanliness and efficiency.

Overcoming the quality misconception: Convenience stores over the past couple of years have taken steps in improving the quality of their food service range. A Nielsen survey in the US found that customers want their stores to offer fuel, snacks and prepared food – a category that has shown growth as the quality of food service items has improved. Donuts and muffins were the top prepared food category, followed by sandwiches and hot dogs. In Australia, we have seen the product offerings within coffee, pastries, donuts and sandwiches make inroads in the mind of customers in terms of perceived quality.

Capitalise on the customer's time in-store: In order to maximise the amount consumers are spending in-store, there are a number of approaches convenience outlets can employ including: rotational in-store displays for items on sale/promotion, complementary product promotions (e.g. buy 2 litre milk and receive 30% discount on loaf of bread), and strong seasonal line offers (e.g. Easter, Christmas, Valentine's Day). Loyalty card programs and promotions (e.g. special buys with bonus points) can also increase the amount consumers spend in-store as well as driving the number of repeat visits to the store. 7-Eleven recently introduced "Munch Money", a loyalty card program designed to reward customer loyalty and promote consideration, trial and loyalty. Customers have the card scanned each time they purchase a sandwich, hot pastry or wrap and the fifth purchase is free.

Understanding what is happening at store level: Retailers in Australia are learning that a diverse population and demographic base calls for store clustering when determining promotion and assortment strategies. Store level data allows retailers and suppliers to identify store execution issues. Too often a promotion fails to reach its sales potential due to inefficient stock allocation at the store resulting in out of stocks, lost profit and sales and unhappy customers. Visibility on individual store performance allows the retailer and supplier to allocate appropriate stock levels based on store demand – helping maximise the promotion's success.

Spotlight on beverages

Sales for energy drinks overtakes the cola segment

With an injection of an additional $33million in sales over the past year, it's no surprise that the energy drinks segment is one of the fastest growing in the convenience sector; it is increasing at twice the pace of the carbonated beverage category (energy drink value sales up a significant 19.9 percent compared with total carbonated beverage sales increasing at 9.6 percent versus the previous year – MAT 14/03/2010); and with the exception of RTD iced tea, sales growth for energy drinks is blazing ahead of its other beverage counterparts (refer to Chart 6).

According to the latest Nielsen media media data, estimated advertising spend on the energy drinks category was around $14.5 million in the year to February 2010 – up by 14 percent on 12 months ago.

Interestingly, as the performance of energy drinks continues to accelerate driven by New Product Development and additional advertising support – its annual sales have now overtaken cola to be the number one segment within the carbonated beverages market (refer to Chart 7). In the latest MAT to 14/03/2010, cola grew by 6.2 percent and was valued at $167.5 million – outdone by energy drinks now worth $182.7 million. And this exponential sales trend for energy drinks looks set to continue with value growth for the Quarter to 14/03/2010 up 16 percent, compared with cola flat-lining at 0.7 percent driven by pricing activity (volume still up by four percent).

Using Nielsen's Value De-composition Tool to breakdown the growth performance of energy drinks and determine the key drivers of incremental sales, we were able to see that of the $33million in incremental sales generated by energy drinks over the past year – $23.9 million was generated from NPD – mostly due to the impact of key brands' range extensions in larger 500ml packs and the launch of energy drink shots – both of which took place in the second half of 2009.

The performance of energy drinks in the convenience sector highlights the critical pathway New Product Development can have on improving returns and driving real category growth. The perception among consumers that energy drinks are innovative/trendy warrants a price premium, and the offer of a larger pack gives consumers the option to trade up and receive a better value proposition, without manufacturers and retailers having to offer a price discount. ■

About Nielsen ScanTrack Convenience

Nielsen's ScanTrack Convenience service is a continuous census-based scan measure of Defined Convenience representing over 1,900 outlets across seven retailers including: Caltex, Coles Express, 7-Eleven, BP, Mobil, Night Owl and Gull. Data for Merchandise sales based on 15 defined categories which include: Tobacco (cigarettes, tobacco and accessories); Beverages (carbonated beverages and fruit juice); confectionery; salty snacks (snack foods and nutritious snacks); ice cream; grocery (biscuits, cereal, bread, milk, cordial); communications; and publications .

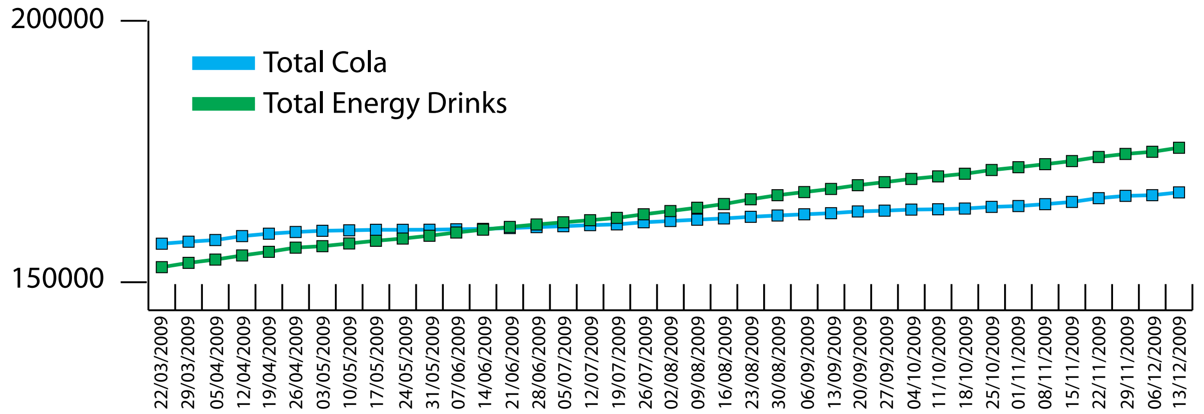
For more information on Nielsen's ScanTrack Convenience service, please contact Leandra Wiid on 02 8873 7310.

Chart 6: Carbonated beverages performance by segment

Beverage segment – MAT 14/03/2010	Value growth vs YA
Total Carbonated Beverages	9.60%
Energy Drinks	19.90%
Cola	6.20%
Water	4.80%
Sports Drinks	2%
Flavoured Beverages	5%
RTD Tea	17.30%

Source: Nielsen ScanTrack Convenience

Chart 7: Energy drinks versus Cola - rolling MAT $ sales trend



Source: Nielsen ScanTrack Convenience

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With 25 years' experience in the convenience channel across the globe, Nielsen knows convenience like no-one else. We can tell you where, when and why your consumers shop convenience, and who to target to optimise your sales performance. We can assess every aspect of your promotions, from sales effectiveness to consumer engagement, and track your advertising spend and effectiveness across all main media, including the Internet. So if you're serious about supercharging your convenience sales, just ask Nielsen.

Any questions?
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Just ask
nielsen