

# The Cooler Conundrum

Retailers, suppliers take on the challenges of managing the cold vault

2005

BEVERAGE

REPORT

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Fifty-one percent of the respondents to this year's Convenience Insights Cold Vault Survey listed space management as a challenge in their stores. While the space issue has not changed much, the products in that space are evolving.

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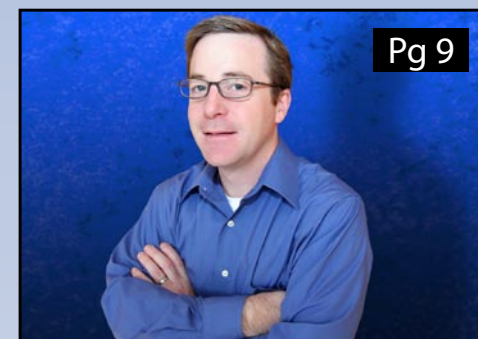
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While the low-carb fad may have been just that—a fad—the sudden concern over obesity in the U.S. has resulted in a sustained interest in “better-for-you” beverages.

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Shell's well-documented move out of direct-operated retail sites to its multi-site operator (MSO) program has also changed the way the company handles communications between suppliers and its branded sites.



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# the Cooler Door to Profit By Steve Holtz

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### RETAILERS CONTINUE TO FACE SPACE, SPEED-TO-SHELF, PROMOTION ISSUES

**Two** thousand and four was a tough year for several convenience store stronghold beverage categories—carbonated soft drinks (CSDs) and domestic beer among them. But as these stalwart categories struggle to regain their footing, younger and fresher categories, such as bottled water and energy drinks, are showing promise that could warm the heart of any cold-vault veteran.

So concludes the third annual Convenience Insights Convenience Store & Petroleum Marketer Cold Vault Survey, a joint venture of CSP and Columbia, Mo.-based [Gerke & Associates](#). The study reflects the opinions of 125 retailers representing more than 56,000 locations and served as the springboard for discussion at CSP's Beverage Benchmarking Forum in January.

Speed-to-shelf, category management and promotional programs all drew attention from the retailers responding to the survey and those attending the forum. The need for true innovation—more than just line extensions—was also a repeated call.

Of course, having conducted the survey for three years now, some trends have emerged, according to Gene Gerke, president of Gerke & Associates.

1. Concern about space limitations in the cold vault decreased slightly from 2004 but remained the top issue.
2. Alternative beverages are gaining on bottled water in sales growth potential.
3. Flavored malt beverages continue to lose momentum.
4. Television advertising has become much preferred to radio and print advertising, especially for beer merchandising.
5. Retailers see more need for in-store signage at the cold vault to move new items. ▲



▲ **Video: Miller Brewing / Survey Overview**



# Category Breakdown



## KEY FINDINGS FOR EACH PRODUCT CATEGORY:

**Soft drinks:** The mature soft-drink category was divided into single-serve and take-home products for the 2005 survey. Retailers ranked single-serve soft drinks ahead of the take-home products in projected sales growth, new space allocation and new-product introductions. A bright spot is that retailers ranked single-serve soft drinks fourth of the 13 categories surveyed for effectiveness of new products over the past two years.

**Iced tea:** Iced tea suffers from lack of growth potential, perceived supplier support and retailer enthusiasm. Tea suppliers ranked near the bottom of cold-vault categories in terms of new products, category-management support and growth opportunities.

**Alternative beverages** (e.g., energy, nutraceuticals): Retailers felt this segment would continue to be a strong sales-growth category and projected increased shelf space for the products. Retailers ranked this category No. 1 in space allocation growth and new-product introductions.

**“Fifty-one percent of retailers listed space limitations in the cold vault as an issue. This was their No. 1 concern.”**

**—Gene Gerke, Gerke & Associates—**

**Juice/Juice drinks:** Retailers projected relatively low sales growth potential for juice/juice drinks. Suppliers of this category were ranked 10th of 14 categories surveyed for their category management and new-product rollouts. Juices also ranked 10th for new shelf-space allocation. This downward trend began in the 2004 report and continued in 2005.

**Bottled water:** Retailers ranked this category No. 1 in terms of sales growth potential and a close second in more space allocation. Category-management support was ranked first by the retailers, slightly ahead of domestic beer.

**Beer:** Domestic-beer suppliers received high marks for category management among all cold-vault categories. Beer sales growth projections were about average compared to all cold-vault categories. Among all beer categories,

retailers ranked sales growth potential and space growth potential highest for imported beer.

**Flavored malt beverages:** The suppliers of malt alternatives received average marks for product introductions (ranked seventh). This is in contrast to the second-place ranking received in 2003 and sixth ranking in 2004. Retailers projected the lowest potential for sales growth in the future, relative to other cold-vault categories. With the projected low growth, retailers do not plan much cooler-space growth for flavored malt beverages.

**Fluid milk:** This category may see an improved performance in the cold vault. Single-serve milk ranked fourth in sales growth and space growth. Surprisingly, take-home-size milk, which ranked only 10th in sales growth potential, received a No. 6 ranking in projected space growth.

For a detailed breakdown of the study's results, see the March issue of CSP Magazine. ▀





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# Hidden Healthy



**Food Items**  
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## Manufacturers hit on the “better-for-you” trend

It was in June 1998 that the National Institutes of Health issued its first federal guidelines on identifying and treating obesity. Since then, the media have deemed obesity to be an “epidemic,” covering the subject with greater frequency, and consumers have reacted by cutting their intake of fat, sugar and carbohydrates.

The results have been positive. According to a recent report from the [NPD Group](#) in Houston, Americans are heavier on average today than they were 10 years ago. However, they are not heavier than they were three years ago.

“We knew at some point this trend toward obesity would end; we just didn’t know when,” said Harry Balzer, vice president of the NPD Group. “But remember, we haven’t seen people begin to lose weight just yet. However, this is a good sign.”

### *A new bandwagon*

Perhaps it was the low-carbohydrate diet trend that truly got beverage-makers on board with “better-for-you” products, but as that craze dies down, a new, less-specific one is taking its place.

“I think the low-carb craze has given way to a more sustained interest in products that are simply ‘better-for-you,’” said Mark Herron of Dallas-based [7-Eleven](#) during CSP’s Beverage Benchmarking Forum

in Dallas earlier this year. And as category manager in charge of alcohol beverages, Herron, who has monitored the ups and downs of low-carb beer, knows of what he speaks. “We’re not seeing the growth [in low-carb beer] that we have [in the past],” he said. “Low-carb is going to shake out, but I don’t know where it will end up.”



**“I think low-carb has given way to ‘better-for-you.’”**  
**Mark Herron**  
**7-Eleven**

Such trends can be seen in the results of the Convenience Insights Convenience Store & Petroleum Marketer Cold Vault Survey. Alternative beverages (nutriceuticals and energy drinks) and sports drinks filled two of the top three spots in projected sales growth and projected cold-vault space allocation.

Both also carry the mantle of being “good for you,” a factor that retailers are taking a closer look at, according to Gene Gerke, president of [Gerke & Associates](#),

Columbia, Mo., citing the past three years’ Convenience Insights Cold Vault Survey results.

Where retailers once had to react to the increase in bottled water demand versus tried-and-true carbonated beverages, today they find themselves having to revisit their cooler door sets to accommodate a new trend. “Looking at the survey results over the past three years, you can clearly see that alternative beverages are gaining on bottled water,” he said.

**"If you want repeat sales of a product, it has to work,"**  
**Debbie Wildrick**  
**7-Eleven**



But while the trend is evident, the sustainability of the trend is reliant on the quality of the products themselves. As with any product touting a health benefit, consumers will

quickly turn their backs on what they perceive to be undelivered promises.

### ***Do the right thing***

What many retailers and manufacturers are finding out—some the hard way—is as healthy trends come and go, consumers continue to increase their understanding of the health benefits of particular ingredients. In other words, consumers have become more intelligent about the products they consume and, as a result, they have become more selective. For manufacturers, this means not only developing products with the right ingredients, taste and packaging, but also making certain not to over-promise and under-deliver when it comes to health benefits.

"If you want repeat sales of a product, it has to work," said Debbie Wildrick, category manager for non-alcohol beverages for 7-Eleven, Inc.

According to Wildrick, consumers are beginning to realize that, for example, 1,000 milligrams of vitamin C in a fortified beverage offers a real effect while 200 milligrams of vitamin B doesn't.

"Juice drinks used to be the ones that provided the growth [in that area], and now we're seeing 100% juice coming back," she said.

Rebecca Nilsson, field category planner for [Kraft Foods](#) in Northfield, Ill., said retailers can expect to see more efficacy in new products to appeal to the needs of today's convenience customer.

"There's been a big push for food manufacturers and restaurants to help consumers," she said.

### ***Making sense***

Nilsson noted Kraft's recent initiatives, which include the introduction of a Sensible Solution label that will appear on the packaging of products that meet better-for-you nutrition criteria that Kraft has established based on the 2005 U.S. Dietary Guidelines.

"We're trying to help consumers strike more of a balance between eating right, controlling portions and doing the right things they need to do [to stay healthy]," she said.

In the end, changing consumer tastes results in increased competition among manufacturers, which

is a win for retailers, said Bob Littlefield, vice president of sales for Milwaukee-based [Miller Brewing Co.](#)

"When there's energy and competition among the manufacturers in any of the categories, that subsequently results in good things for the retailers' business," he said.

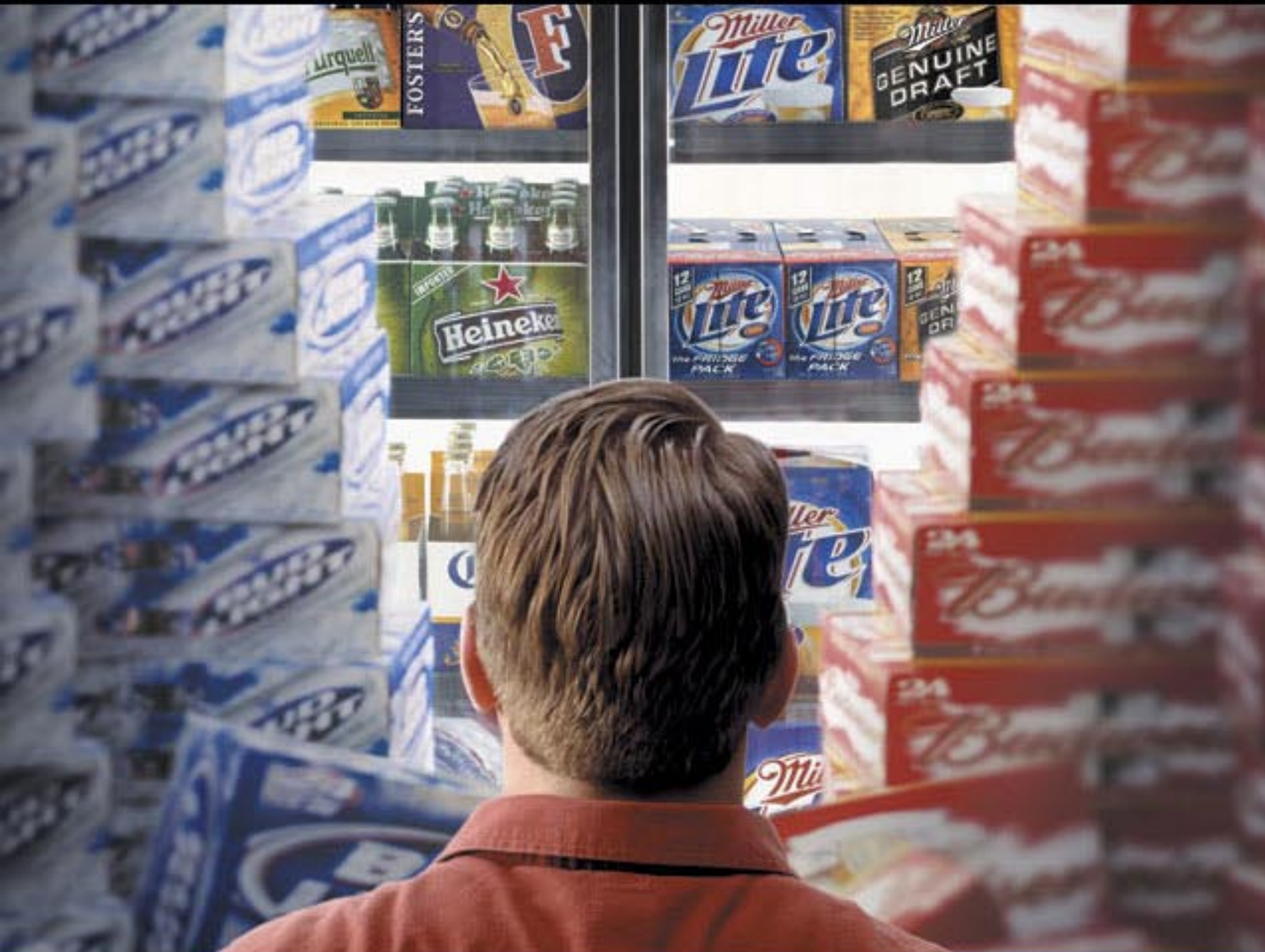
While competition and the sustained interest in products with a common component—in this case, health benefits—have enabled retailers to focus their efforts in space allocation to some extent, the challenge is, as always, identifying a hot new product, quickly creating space for it in the cold vault, and hoping it delivers on expectations. Sustained trends tend to make this easier to manage than short-lived fads. ▴



**▲ Video: Kraft Foods / Debbie Wildrick**



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# GOING TO MARKET



Shell program reaches for the **STARZ**

**"What my job is is to really filter programs and highlight the ones that I think have the most value."**

**Andrew Steele**  
**Shell Oil Products US**



It's been a little more than a year since Houston-based [Shell Oil Products US](#) established its Shell Trading and Retail Zone (STARZ) program. The program offers now-decentralized Shell retailers and wholesalers the ability to connect with vendors and service providers while leveraging their combined size to negotiate better deals.

It's a different way of doing business for a major oil company that owned and operated as many as 1,750 retail sites as recently as January 2003.

## **Reorganization**

"In 2003, we transitioned out of our corporate-operated sites into a new model called MSO, which stands for Multiple-Site Operator, and really what it's done is taken, not ownership of those sites, but the operations of those sites on the convenience end of the business into entrepreneurial hands," said Andrew Steele, convenience store product coordinator for STARZ.

"An operator can run 15-20 sites on their own and really have total autonomy in what they do in their convenience stores. What we're trying to do is assist that entrepreneurial spirit with a program

that allows them access to vendors and some strong programs that provide value to them."

That's meant a change of strategy for Steele, too, as the director of the beverage category for STARZ. Previously, he had maintained strong oversight of cooler plan-o-grams and stock. Now, with 3,400 operators running the 16,000 Shell-branded c-stores across the country, Steele acts as more of an advisor, making proposals rather than giving orders.

## **New and notable**

"It's more of a consultant-type of a program," he said. "There's no fees involved or anything like that, but my job is to really filter programs and highlight the ones that I think have the most value. We act somewhat as an advertiser for vendors so that they're aware of our operators. It works sort of like a dating service so that you've got some attractive offers and you've got operators that should be interested in looking at those offers. We're really just trying to match those two sides together."

One struggle Steele has run into is the loss of scan data. Previously, he says, almost all branded stores provided scan data to Shell headquarters in a single

format, allowing Steele and others to truly get a glimpse of what products were selling where. Now that the stores are operated by many different retailers, each can format scanning the way they choose or not use it at all.

"It can be a little frustrating," he said. ▴



▴ **Video: Andrew Steele**



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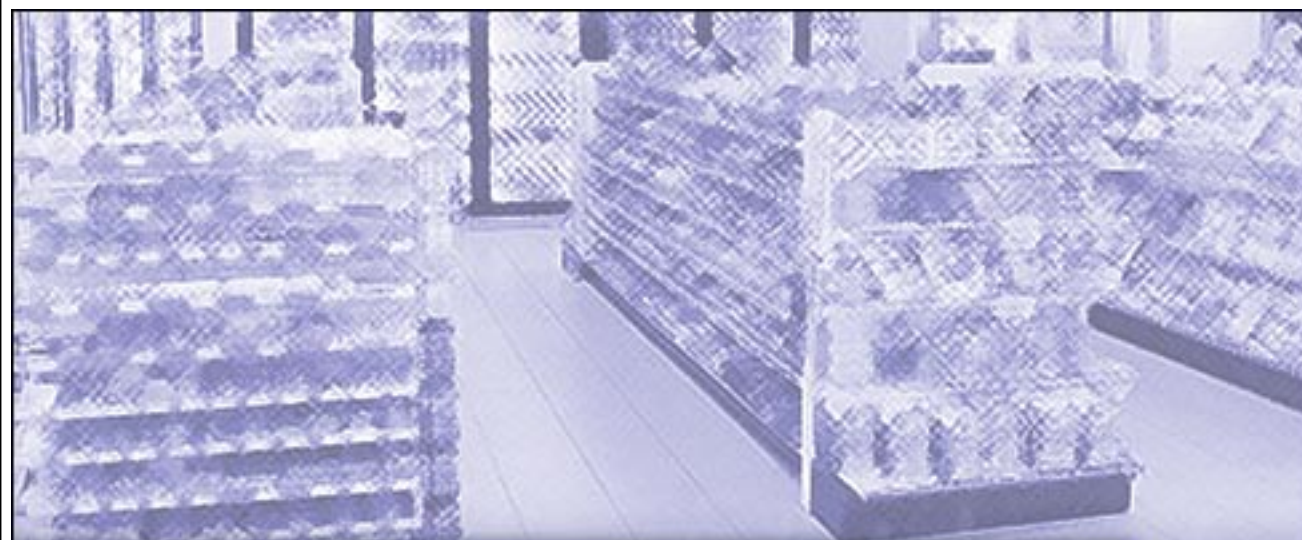


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