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In This Issue:

Limited Editions

Creating excitement with
impulse products

Bar Brawl

Health bars duke it out
for shelf survival

Direct Current

When does DSD make
sense? When does it not?

Walking the Talk

Every supplier wants to be
best-in-class. Don't they?

**Exclusive coverage of the
CI/CSP 2005 Candy/Snacks Benchmarking Forum**

LIMITED EDITIONS

- Page 3

Limited-time products are a sound strategy for incremental sales, but also a merchandising challenge. How do retailers know when to hold 'em and when to fold 'em? Where do suppliers come to the rescue?

BAR BRAWL

- Page 6

The battle of the bulge found its way into the healthy snack category in 2004 – where the rapid expansion—and sudden contraction—in the low-carb arena made life tricky for convenience retailers.

DIRECT CURRENT

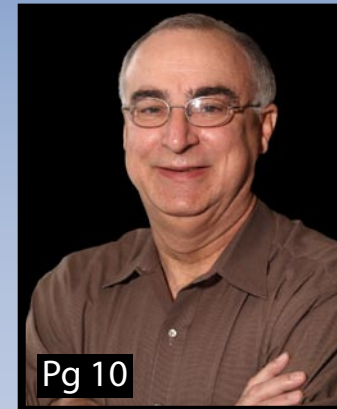
- Page 9

Before you can merchandise that new product, you've got to get it to the store. When asked "Which is better, DSD or warehouse delivery?" Candy and Snack Roundtable attendees answered a definitive, "It depends."

WALKING THE TALK

- Page 10

Service and support come in a number of forms, and c-store category managers would be happy to get it from manufacturers, although not always in the form manufacturers think.



Pg 10



Pg 9



Pg 3



Pg 6

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Page 5

Link Snacks, Inc.

Page 8

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Un-Limiting Limited Editions



Limited-time products are sound strategy for incremental sales, but also a merchandising challenge

By Paul Rogers

While respondents to the CSP/CI 2005 Candy/Snacks Survey cited meat snacks, nuts and seeds, and granola and fruit snacks as the snack items with the best growth potential in their stores, attendees at the CSP/CI Candy/Snacks Forum focused instead on that king of impulse buying: new chocolate bars.

"Take 5 in January—that was a monster for us," said James Sturley, senior category manager for Auburn, Wash.-based [Tesoro Corp.](#) "Butterfinger Crisp—that was another monster for us."

[Circle K](#) Region 1400 in Tampa, Fla., had similar success with Take 5. Hershey's new cookie line (Reese's, York, Hershey's and Almond Joy in cookie form) was big for [Irving Oil Co.](#) in Portsmouth, N.H. And the whole limited-edition concept played well at most forum attendees' outlets.

"Limited editions is a brilliant strategy for confections," said Jim

Sterbenz, vice president convenience for [Kraft Foods Inc.](#) "If you look at the chocolate category year after year, it's the same top sellers. It's been the same for many, many years. So if you introduce a limited edition, it makes all the sense in the world that it will drive incremental sales."

"That's the whole nature of the impulse buy—it's excitement," added Sturley. "If you put any kind of media behind [a limited edition], people almost have to buy it, even if they think it looks pretty bad."

The challenge with limited editions—and with all new products, for that matter—is getting them on the floor. Irving Oil brought in 35-40 new confectionery SKUs in the first quarter of 2005. Sheetz brought in 100 new snack and candy SKUs in the first quarter.

"Last year as a company, we brought in 1,600 new items and that is a load more than we really want," said Tim Grossi, category

manager for LaPlata, Md.-based [Dash In Food Stores](#). "If you bring 1,600 new items in and out, that's a lot of work on the floor. We might have to redo a whole three-foot section just to put one product in."

[Sheetz Inc.](#) created its own specialized waterfall rack to fit in front of the register, a permanent fixture dedicated to running product in and out. "It allows us the opportunity to put all those new items and seasonal items at the register," said Sales Manager Sharon Vaughn. "Those impulse items are driving category growth."

One reason why they are driving growth is the stores' eagerness to give them primary red zone positioning. Tesoro gives major confectionery roll-outs incremental placement rather than inline and a position on the counter. "We don't think anything else deserves space in the red zone," said Sturley.

Irving Oil Category Manager Tim Howell echoed the thought: "The red zone is saved for new innovations, limited editions, quick in-and-outs. Being in the red zone draws a lot of excitement to a product and to the category."

**"I WANT TO BE
FIRST IN THE MARKET.
I WANT TO HAVE THAT
PRODUCT IN THE
STORE BEFORE THE
ADVERTISING HITS."**

**TIM HOWELL
IRVING OIL**



Shippers many times are not a viable option because of the floor space they occupy. Tesoro's store layouts differ widely by location and shippers would need to vary. "I'd want a counter shipper for one and I'd like the biggest shipper you make for another," said Sturley.

"The only fear I have with limited editions and incremental placement stems from a huge three-year project we did to find out what exactly customers want when they walk into the store," said Circle K Category Manager Mike Ames. "And one of the things they told us was, 'We don't want to fight our way through the store. We want to come in, orient ourselves, go unimpeded to the cooler and make our impulse purchase decisions on the way back from those driver categories like packaged beverages and coffee.' It's difficult to do all the things we want to do and load up the floor full of stuff. For us, the center of the store is shrinking, not growing."

The timeliness of new product introductions can heighten interest and demand. Rather than being

just a strong impulse buy, that chocolate bar or cookie itself can become the draw that brings the buyer into the store in the first place.

"I want to be first in the market. I want to have that product in the store before the advertising hits," said Howell. "There's a sales curve with every new item, and by the time you wait and see, it's already going down the backside of that curve."

"When we look at new products, we want it yesterday," said Vaughn. "My philosophy is, I want to have it before Wal-Mart. If someone comes to us and says, I couldn't find this at Wal-Mart, then I've achieved my goal." ▲



▲ **Video: James Sturley of Tesoro Corp. and Mike Ames of Circle K on limited editions**



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Bar Brawl



The battle of the bulge found its way into the healthy snack category in 2004, where the rapid expansion—and sudden contraction—in the low-carb arena made life tricky for convenience retailers.

This time last year, judging by media reports, you would have thought the low-carb trend was going to takeover the world. This year, judging by media reports, you'd think most low-carb products were rotting in a warehouse due to lack of interest. The truth, as usually is the case, is somewhere in between.

"There is a frustration level of having a category like low-carb grow triple digits," said Lisa Austin, director of sales-convenience for Phoenix-based [EAS](#). "A lot of people invested a lot of time and energy building low-carb sets, just about the time it started to falter."

growth potential of snacks and candy, "healthy bars," granola and fruit snacks, and protein bars ranked Nos. 1, 2 and 3, respectively. In the 2005 survey, granola and fruit snacks dropped to 3, healthy bars to 6 and protein bars all the way to 11.

Bohemia, N.Y., bar maker [U.S. Nutrition](#) believes the category has been unfairly maligned. "All the hype and [new products] . . . that's where the dissatisfaction is coming from," said Jim Powers, vice president of sales. "There were so many low-carb entries and so many new products that it kind of messed up the normal base business in nutrition."

"A narrowing is happening, no question about that, but don't throw the baby out with the bathwater."

 **Jim Powers**
U.S. Nutrition 

"We put a lot of effort behind nutrition in the last year and a half, and we look at it as pretty dismal—granola bars, breakfast bars, energy bars, all its segments," said James Sturley, senior category manager for Tesoro Corp. in Auburn, Wash.

In the 2003 CSP/CI Candy/Snacks survey, when asked to rank sales

A category seemingly in decline, shelf space at a premium and other products waiting in the wings has triggered a knee-jerk reaction from some convenience retailers. But Powers believes a fresh start is in order. Clean out the multitude of SKUs from 2004, he advised, and go back to the basic four bar types: energy, high-protein, low-carb and "healthy snack."

"A narrowing is happening, no question about that, but don't throw the baby out with the bathwater," he said.



Altoona, Pa.-based Sheetz Inc.'s low-carb sets "died," said Sharon Vaughn, sales manager. But its

health/energy/nutrition set remains very profitable and posted better sales than the nut category. Sheetz is even keeping some strong-performing low-carb bars and expanding the health/energy/nutrition section to include other "healthy" products.

Nutrition bar household penetration numbers (they're only in 15% of households) suggest there still is quite a bit of upside potential; the challenge remains how to appeal to the masses.

According to EAS' Austin, manufacturers are succeeding in an area that had previously been a hurdle to gaining mass consumer appeal. Gone are the days when a healthy snack bar or meal-replacement bar had to be difficult to enjoy in order for it to provide nutritional benefits. Today's healthy snack bars

are more akin to traditional sweet snacks than the taste-challenged products of the early days.

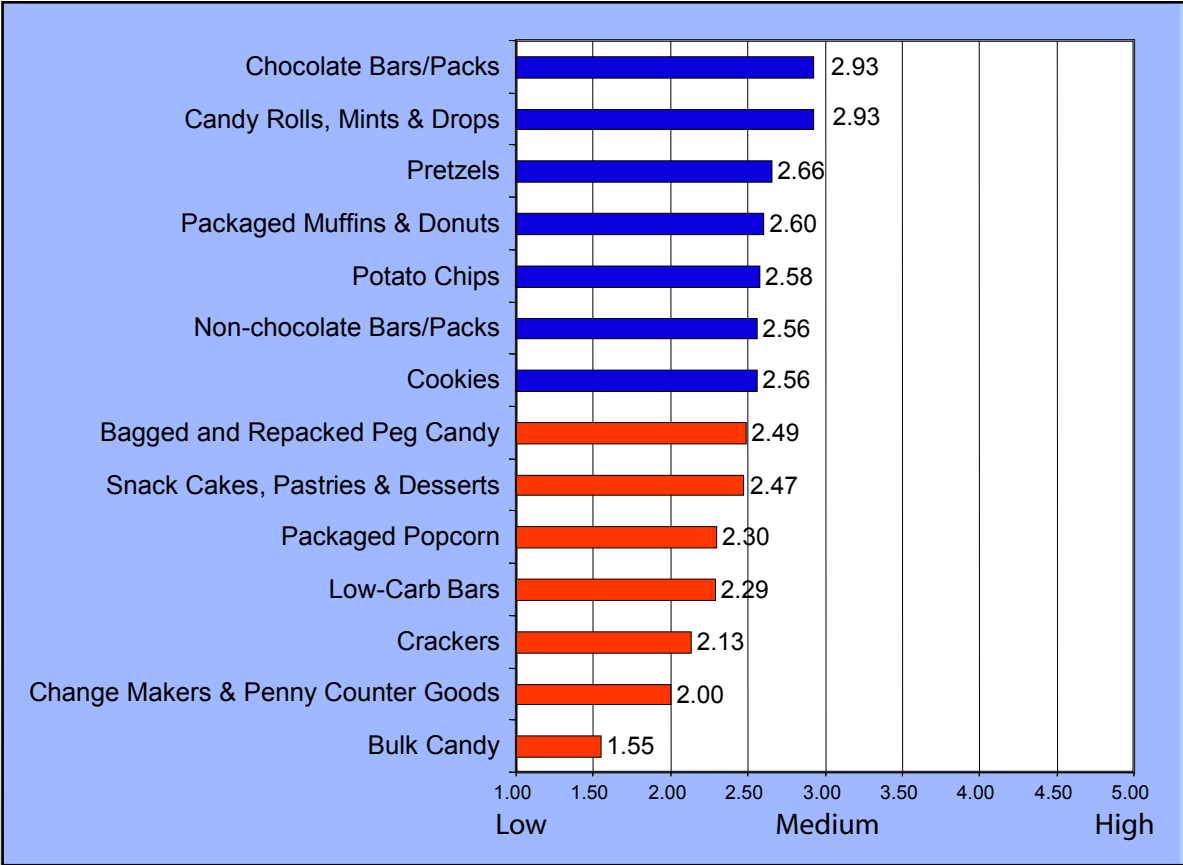
"Nutrition bar companies have all come a long way," Austin said. "In just three years, the difference between how they tasted then and now, they've made incredible strides. When it comes down to it, people will try it, but if it tastes like dust and glue, they're not going to buy it again."

That's why the two top-selling bars at Dash In Food Stores in LaPlatta, Md., are two varieties of Snickers Marathon.

"Nutrition remains a very healthy category," said Powers. "The turns are not like Coke or Pepsi, but the business deserves a home in the store." ▲

Ranking of Candy/Snack Sales Growth Potential

Source:
CI/CSP 2005 Candy/Snacks
Benchmarking Report



▲ Video: Jim Powers of U.S. Nutrition on the nutrition category's performance

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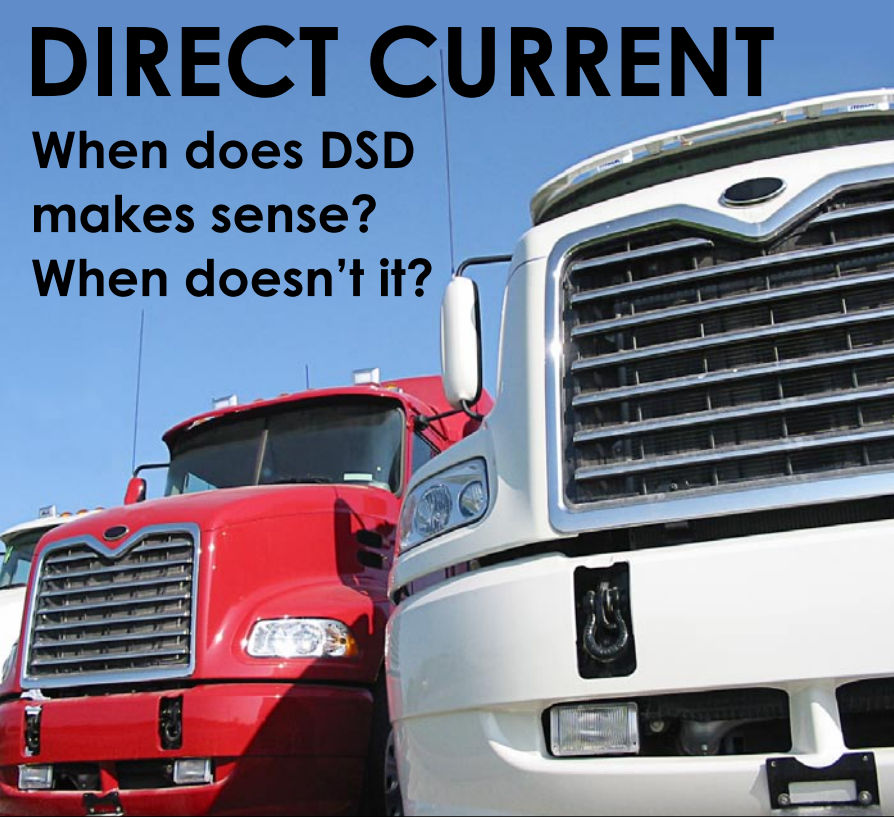
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DIRECT CURRENT

**When does DSD
makes sense?
When doesn't it?**

Before you can merchandise that new product, you've got to get it to the store. When asked the customary question: "Which is better, DSD or warehouse delivery?" forum attendees answered a definitive, "It depends."

On the one hand, warehouse delivery means better margins, fewer out-of-stocks and more control over sets. Companies can gain efficiencies by working their store model to handle a single drop. Warehouses offer a much wider selection than before.

Both Sheetz, Inc. and Dash In Food Stores are looking to drive as much product as possible through warehouses to

maximize profits. Tim Grossi, category manager for LaPlata, Md.-based Dash In, is working on moving as much pastry and packaged cookies to the warehouse now "to replace a lot of the products that are not producing the margin at DSD."

The blurring of snack sectors and snack manufacturers isn't making DSD any easier. Major snack and confection players are making moves beyond their traditional spheres of influence. Frito-Lay, for example, said earlier this year, having captured a two-thirds share of the \$15 billion salted snack industry, it is targeting the broader \$90 million "macrosnacks" sector.

The expansion creates a dilemma for DSD drivers, who are asked to carry and integrate all the new items while trying to expand their reach, make their stops more profitable and increase their space on store shelves.

Products inevitably fall through the cracks, usually the ones with which the driver is unfamiliar. The problem is exacerbated when category lines blur, such as when a traditional beverage company launches a snack product or when a snack maker enters into the cookie or cake business. According to forum attendees, the problem often lies with the DSD personnel servicing the store.

"We've had an inconsistency of product delivery to the stores," said Ron Motley, director of marketing and merchandis-

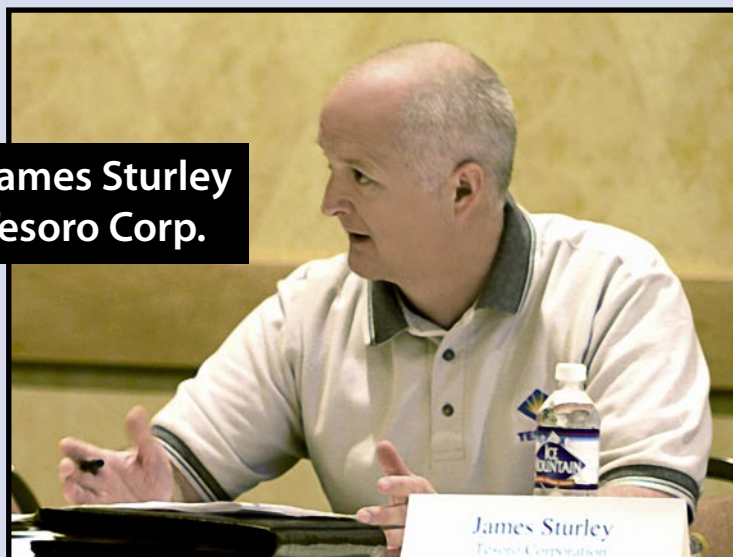
ing for [Daily's Convenience Stores](#) in Nashville, Tenn. "Some drivers couldn't care less. Or they stock items not authorized by the store. That's something you can't control. That's a constant issue for DSD."

Warehouse programs are not immune to criticism either. It takes a higher level of sophistication to manage a warehouse program, and warehouse programs don't take back items that don't sell.

For Tesoro and its 220 units, dispersed over a broad geographic territory, DSD makes life easier.

"DSD offers a level of service that we need," said Sturley. "We are trying to take some workload off of [our store managers] by using DSD. Staffing is such a challenge these days, and DSD provides a lot of support." ▲

**James Sturley
Tesoro Corp.**



▲ Video: Tim Grossi of Dash In and Sharon Vaughn of Sheetz on DSD versus warehouse

Walk the Talk

Honesty tops the charts in retailer-supplier relationships

Service and support come in a number of forms, and c-store category managers would be happy to get it from manufacturers, although not always in the form manufacturers think.

"What's important is the manufacturer helping us—determining how many SKUs, how many turns," said Sheetz, Inc. Sales Manager Sharon Vaughn. "We want to work with a manufacturer that is looking out for the category and not its own interests. Not someone who's saying, 'Here's what I think you should do: Get rid of the other guy.' How can we trust them?"

All category managers at some point face a little bit of arm twisting from suppliers—something that's also low on the list of desired types of aid.

"We all talk about being best in class. To have a manufacturer come in and present his 2005 program and handcuff you into carrying 50 SKUs per set is wrong," said Irving Oil Category Manager Tim

Howell. "They know we are a progressive company and we don't appreciate being put in that position."

"We're all faced with manufacturers coming in with programs. And I think we've all gotten a little smarter in saying we can't do it," Vaughn added.

Manufacturers want to do national programs and invest heavily in shippers and header cards, when retailers' desire for such support is not automatic. LaPlata, Md.-based Dash In Food Stores avoids shippers. Portsmouth, N.H.-based Irving Oil runs its own sweepstakes offers, and if a manufacturer is doing the same, it confuses the customer, Howell said.

Retailers want to see a plan around a new product. They want to know what the manufacturer is going to do to support it. What is going on with merchandising and store signage? How will the manufacturer help the retailer exit that particular SKU if it's not successful? What existing product should be removed to make room for the new one?

"I love manufacturers' coupons," said Dash In Category Manager Tim Grossi. "It's an easy way for the manufacturer to get their name out and for us it serves as additional promotion."

Some of the best help suppliers can give is an early notification of products in the pipeline. "We usually have a shipping program outlined six months in advance," said Ron Motley, director of marketing and merchandising for Daily's Convenience Stores in Nashville, Tenn. "If we're not aware of the new product when we're building the schedule, we may not be able to get it out. We need more lead time."

Ron Motley
Daily's Convenience
Stores



"It goes back to having a proactive plan to get the new product in," said Circle K Category Manager Mike Ames. "Some suppliers have done a better job than others." ▀



▲ **Video: Tim Howell of Irving Oil on the value of speed to market in candy/snacks**

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