



Nielsen
Convenience
and Impulse
Report
2012

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Nielsen 2012

Convenience

outlook



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Macro-economic overview

Changing tides

Australia's resilience in the midst of global economic uncertainty is envied by many of the world's developed nations. Nonetheless, today's retail landscape continues to provide unprecedented challenges for manufacturers and retailers alike, and Australian consumers are increasingly apprehensive about the impact of the world financial situation on their own economy and personal finances. Tough macro-economic conditions are dampening consumer sentiment, leading Aussies to tighten their already taught belts and opt for cheaper grocery options through private label, which now accounts for a 25% value share of packaged grocery—a gain of one per cent versus same period last year.

With consumer confidence sliding in the most recent quarter to its lowest level since the global financial crisis of 2009 to an interim index of 97 in August (see chart 1), shoppers are changing the way they spend their money, what they spend it on and where they make their purchases. The legacy of the global financial crisis has provided many lessons for Australian consumers, and the change in consumer shopping behaviour is shaping a rapidly evolving retail landscape.

Australia is one of the few countries that emerged from the 2008-2009 recession relatively unscathed. With a booming resources sector we might expect Australians to be confident in comparison to other nations. But there are a number of factors darkening Australians' outlook: some analysts expect unemployment to continue to rise,

Supplier/retailer innovation and brand differentiation will be key to growth

and it has done so—the latest unemployment figures for October has Australia’s jobless rate sitting at 5.3%, an increase of 0.4% since June.

In July, inflation went up 0.3% to 3.6%, causing the prices of basic necessities to increase. Likewise, utility rates are higher, petrol prices continue to escalate—pushing convenience growth to a five-year low in April—there is uncertainty about the carbon tax and its likely effects on the average household budget, and massive market fluctuations caused by economic jitters in the U.S. and Europe have made investors nervous. Finally, natural disasters in Australia, and neighbouring New Zealand and Japan, have taken their toll. These factors have Australian consumers acting with an almost recessionary mindset, exhibited by a renewed desire to save for the long-term and to cut household budgets.

From a business environment perspective, the results of Nielsen’s latest Retail Barometer Report, which surveys over 100 of Australia’s leading FMCG manufacturers and retailers on business conditions and major concerns, reveal that business confidence is mixed—manufacturers are becoming increasingly pessimistic about business conditions over the next 1-2 years, whereas retailers remain slightly more optimistic (see chart 2).

Despite a constantly shifting retail landscape, one thing is certain: retailers and suppliers must adapt to the changing habits of Australian shoppers who are becoming increasingly skittish about their country’s economy. According to Nielsen’s latest quarterly global consumer confidence survey, Aussies have indicated that even when economic conditions do improve

they will continue to be frugal. This means that getting the right value proposition is of paramount importance – those retailers and suppliers that understand how consumers are feeling and adjust their strategies accordingly should be well positioned to capitalise on these trends.

An Australian consumer is an increasingly diversified one. Australia’s population is increasing by approximately one person every one minute and 37 seconds – that’s 328,055* new consumers each year! Generations are being born that have no allegiance to the brands of today. And the advent of social media has changed the way we market, making it vital to communicate in a targeted way to this new breed of switched-on consumer. High savings rates are creating a more discerning consumer, and shopper missions are

evolving rapidly, meaning that innovation in product development, placement and marketing is critical in responding to the consumer of tomorrow’s divergent needs.

A tale of two channels

In an effort to drive footfall and achieve higher basket sales, the major retailers have embarked on a two-tier pricing strategy – Everyday Low Pricing (EDLP) and Hi-Lo promotions. This hard-hitting strategy has resulted in deflation across the grocery sector to the benefit of the shopper, with the average spend on packaged goods (excluding fresh product) down versus a year ago. The effect of the aggressive price campaigns, combined with high fuel prices and the increase in above-the-line advertising spend by the major retailers has, in part, driven the retailer’s share of wallet away from the convenience, speciality and independent channels to that of the major supermarkets. This, in part, is also driven by supermarkets becoming more targeted in their speciality propositions (e.g. personal care), which is directly impacting the dedicated specialist channels. This is further fuelled by the advent of social media and new technology, enabling shoppers to target retailers, as opposed to being targeted by the retailers themselves. Elsewhere in convenience, efficient checkouts, a wider range of snack foods, cleaner stores, better parking and longer opening hours have significantly increased in importance for shoppers.

As shoppers continue to save their discretionary income (savings levels currently match those of the 1980s), supplier/retailer innovation and brand differentiation will be key to growth. Continuing with the value pricing (EDLP) and promotions might be very smart play as long as the supermarket retailers (and suppliers) can maintain an appropriate mix of profitable lines to balance-out any upfront losses. What’s apparent is that retailers are gearing their strategies towards an infrastructure that enables profit growth; they’re deploying marketing campaigns targeted at the shopper; and they’re delighting the customer and driving store loyalty through solution-based formats and advances in technology that when combined, enhance the overall shopping experience. ▶

Chart 1 Nielsen Global Online Consumer Survey. Q2-2011

20 May-7 June 2011

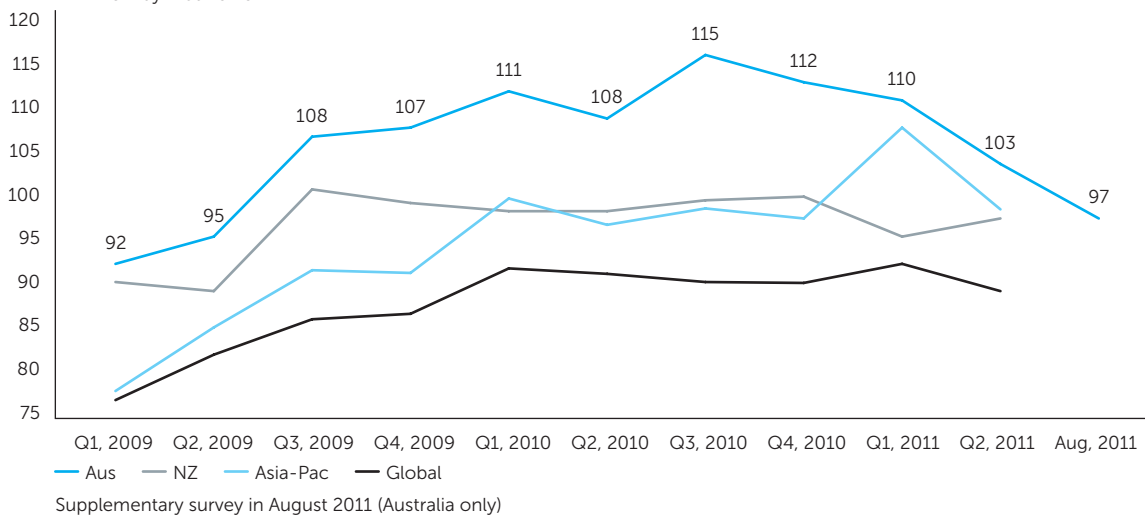
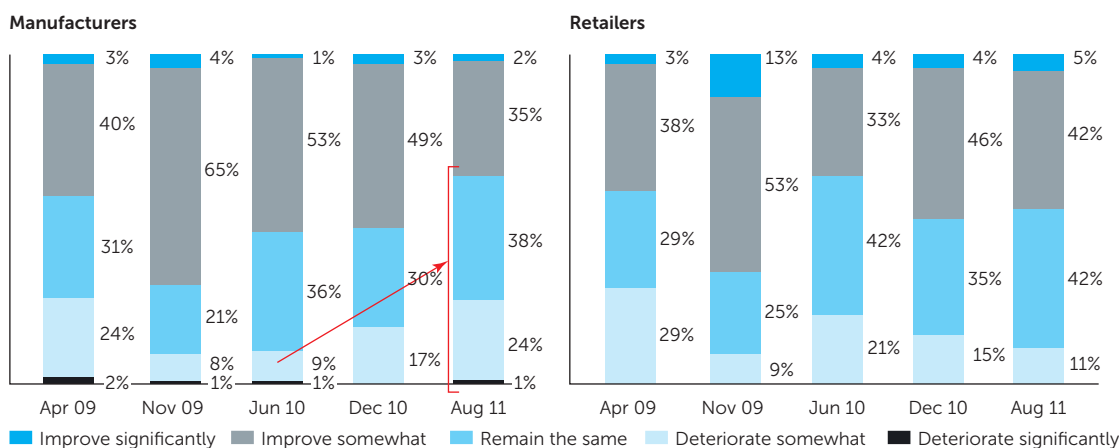


Chart 2 Over the next 1-2 years do you believe that business conditions in your industry are more likely to improve or deteriorate?



Source: Nielsen Retail Barometer, August 2011

The outlook for Australian convenience retailing

What do these current trends mean for the future of Australian convenience retailing? Traditional petrol and convenience (P&C) retailing is in danger of being overtaken in consideration due to the proliferation of smaller format grocery stores and channel blurring/competition in traditional convenience categories, which is coming from major retailers and, in part, from changing consumer expectations, as they search for greater value during a time of great economic uncertainty.

Whilst there is a reported move by many consumers to 'stock up' as a way to save money globally (especially in the US), there is also a growing trend in many markets across Asia Pacific for other groups to more prominently 'top up' shop when they only need a few items. To meet this need, the essential

requirement for convenience stores has always been and will always be location, location, location! (See chart 3).

After awareness and consideration; the single biggest factor in achieving strong store equity is 'location', which means that stores must be 'convenient to get to'.

Location is everything

The latest 2011 Nielsen ShopperTrends Report: A Decade of Change utilises the 'Winning Brands' store equity index, and has identified that out of the traditional P&C retailers, 7-Eleven strongly grew its store equity—on the back of a number of factors—to 1.9, the primary one being increasing its number of locations. This was achieved through the purchase and rebranding of Mobil stores and the opening of new stores in inner city/urban locations. 7-Eleven's performance in the market highlights the absolute need to be available and 'convenient' to consumers.

Overseas in highly saturated markets such as the UK, traditional grocery retailers are moving to the high street in ever increasing numbers. Convenience (defined as stores <300sqm) is one of the fastest growing sectors of the UK market, and developing an offer in this sector is a key part of traditional retailers' strategies. Morrisons (the UK's fourth biggest retailer) has recently entered this space promising a strong focus on fresh food and competitive pricing through its M-local brand. Prices on 75% of the range will be the same as in their larger format stores, a move designed to set it apart from other c-store competitors. Distribution will be facilitated by preparation and transfer from nearby full format stores.

The opportunity to meet greater consumer need while delivering on value has already led retailers such as Tesco, Sainsbury's and Marks & Spencer to open smaller format grocery stores with a stronger focus on higher quality ready-to-go food/meal offers. Operating under the

banners of 'Tesco Express,' 'Sainsbury's Local,' and 'M&S Simply Food', these initiatives are delivering strong results and driving consumer spend away from traditional convenience. Of interest is M&S Simply Food, which partners with BP stores and sits alongside its Wild Bean Café offer. This association started over five years ago and is leading the way in 'Food-2-Go' for now and 'Ready Meals' for later.

(The M&S 'lunchtogo' offering is very well regarded as part of the foodhall section of M&S's business. In addition to providing walk-up lunches, M&S also provides in-home fine dining catering options for time poor shoppers.)

Pressure at the pump

Ongoing pressure in the UK market due to high fuel prices will likely see intensified competition between forecourt retailers with petrol as they fight for fuel volume and expectations that store sales will suffer. Despite this IGD (UK) forecasts sales for convenience stores will grow at a compound annual rate of 5.5% over the next five years to £42.3billion, outpacing projected growth of 3.7% for the wider grocery market. The country's top food retailers are rushing to build-up their positions in a still fragmented part of the market. Sainsbury's is opening one-to-two convenience stores a week, while Waitrose recently said it expected to beat its target of 300 convenience stores to have opened this decade.

In Australia, P&C retailers are similarly at the mercy of external factors such as petrol prices. The link between petrol prices and c-store sales is evident, especially in recent times (see chart 4).

Petrol discounting through participating retail brands is being increasingly used by the two major retailers and by independent supermarkets to provide relief at the pump, and to drive loyalty to the master brand. Discounting is also being used to drive in-store purchasing through greater fuel savings, although the extent to which this is sustainable is uncertain.

Dynamic demographics

Another factor concerning the future of convenience retailing is the ongoing shift in population and demographics in Australia. The population is aging at an increasing rate due to the drop in fertility rates both in Australia and overseas. The reasons for this are two-fold: rising education levels (especially for

Chart 3 Drivers of Brand Equity

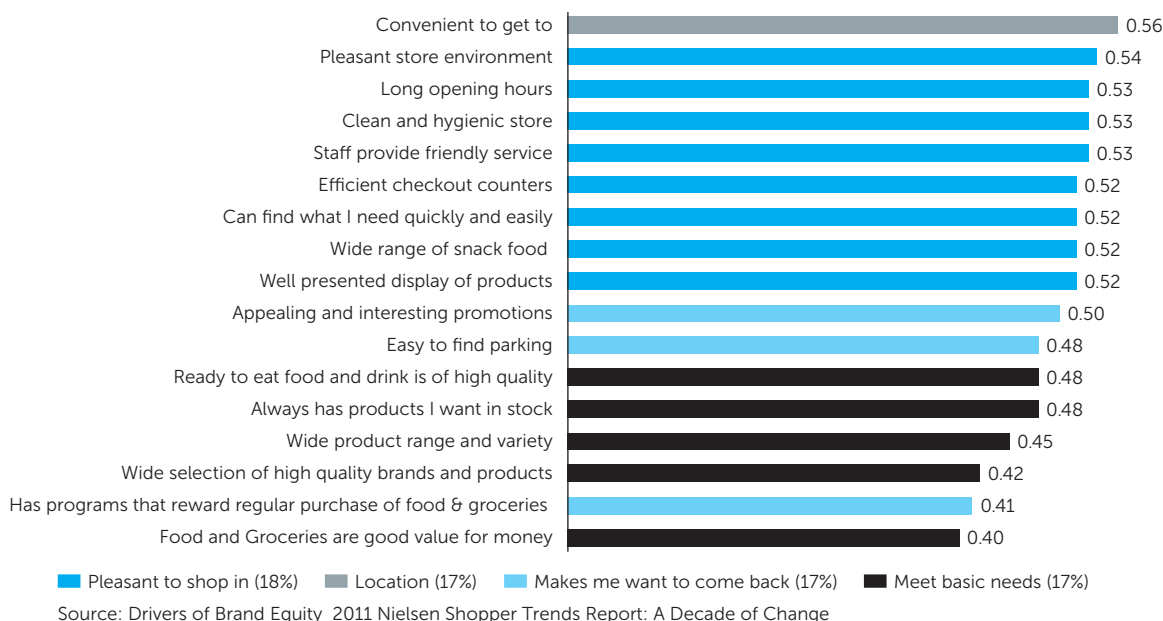


Chart 4 Average unleaded petrol price litre

(average Australian capital cities) vs. % change in value sales

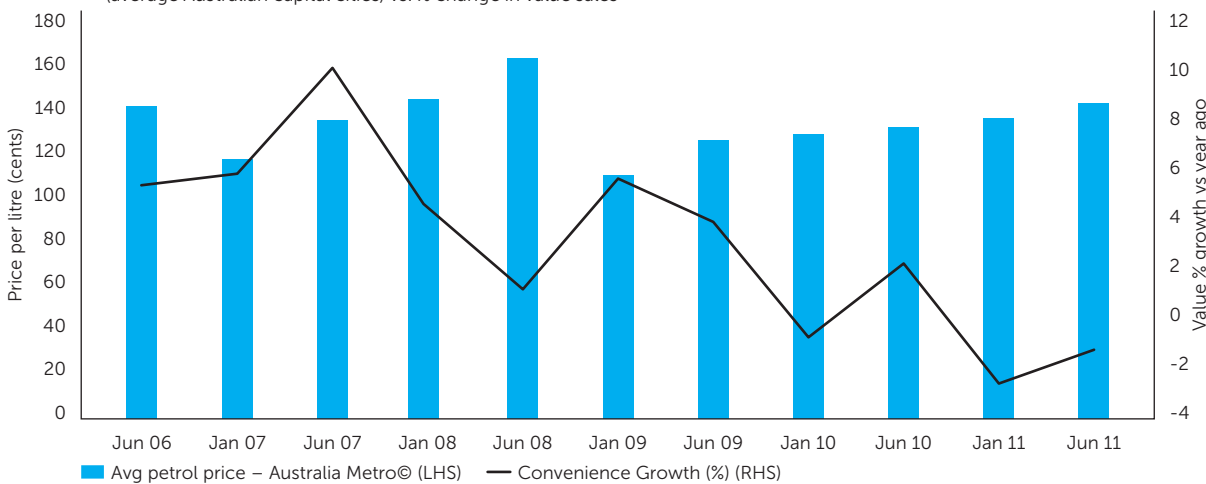
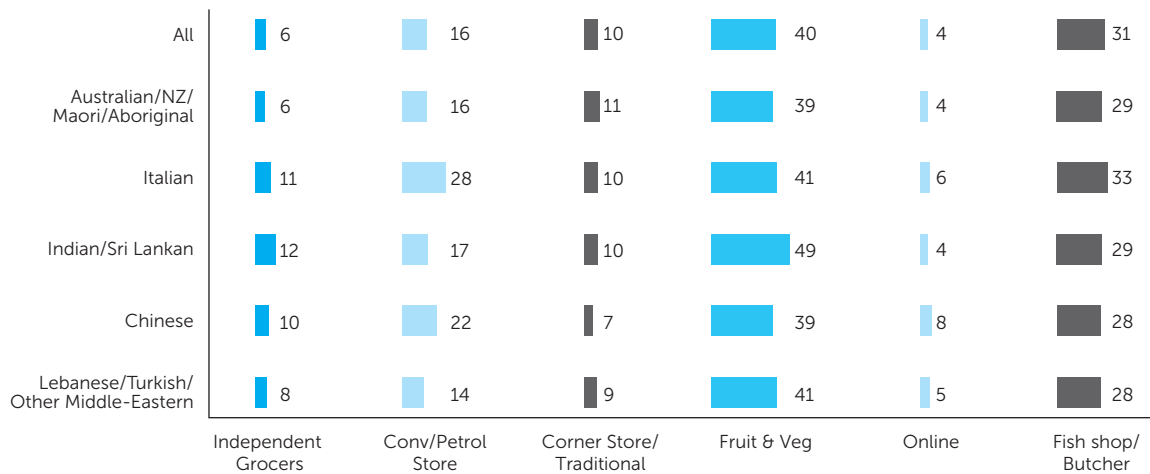


Chart 5 Percentage of Household Shopping



Source: Nielsen 2010 Shopper Trends Report

So what do these changes mean for the future of convenience retailing in Australia and overseas?

There is already a move to consumer-led demand as shoppers' needs change to meet the requirements of modern life. The result can be seen in the growing importance of value in the market, the growth of online retailing and the move to technology-enabled browsing. Without significant impetus from convenience retailers to redefine and expand their formats, there is a danger that these stores will be rendered less relevant to consumers. Whether this is through true reinvention or through partnerships and branding

women), and greater affluence on the back of increased workforce participation and urbanisation is leading to a modern world which is less conducive to larger families. Within the next 15 years it is expected that those aged between 64 and 85 years-of-age will increase from approximately 3.1 million to over five million people. By 2033, it is predicted that Australia's population will rise to nearly 26 million people, and that one –in-four Australians will be aged 65 years and over.

With improvements in health together with the expected continuing wealth levels of the new, older population, this older demographic is a group that marketers and retailers have historically overlooked, but they will need to provide a greater response in the years to come if they are to achieve growth. At present, consumers aged 50+ under index in convenience channel participation. Understanding the barriers to engagement with this key opportunity group will be critical to selecting the right strategies for future growth.

In Canada, it has been identified that services such as Tattslotto, Car Wash, Hot Coffee, Newspapers and the availability of a broader grocery range attract shoppers over the age of 65 to convenience stores in addition to the fuel mission.

In a recent Nielsen global online study, The Global Impact of an Aging World Report (February 2011), the most popular plan for those in retirement is to travel. For traditional P&C retailers with a national presence, and for those located in holiday area locations, this will mean being increasingly aware of the needs and preferences of these consumers and be able to target activity/communication accordingly.

At the opposite end of the scale, young adults are remaining child-

free for longer resulting in the ability to earn money at a greater rate for an extended period of time before committing to family life. ABS records for women having their first birth by age group highlight significant increases for those aged 30-34 and 35-39 years respectively (and even for those aged 40+ years).

What this means for retailers is an extended period in which consumers can use a higher disposable income to spend at their discretion. Convenience retailers typically have a higher level of engagement from younger demographics that are more prone to impulse purchasing. Delighting these groups through new and existing offers is one sure way to drive growth, and convenience retailers have a distinct advantage in meeting the needs of time poor shoppers. Areas where overseas retailers have driven this growth are through emerging categories and services, such as event ticketing, public transport ticketing, and through further improving the 'fresh-to-go' food and drink offers available.

Australia's population is also undergoing fundamental change on the basis of changing ethnicity. In Nielsen's 2010 ShopperTrends Report, we identified the emerging trends in our changing population based on the country of origin and increased immigration. In 2006, seven% of the Australian population was of Asian descent. It is projected that within the next 40 years this group could make up over 20% of the population. How engaged are Asian consumers with the P&C channel? Based on the results of the Nielsen 2010 ShopperTrends Report, Chinese shoppers had the second highest level of households' visitation followed by Indian/Sri Lankan. Of all groups, it was those with a Middle-Eastern background that visited

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convenience stores more often than any other ethnic group (see chart 5).

What does convenience mean to the key ethnic groups that will emerge over the next few decades, and what are their expectations of convenience retailing?

Further to these factors, the increase in Australia's population means that higher density living will become more entrenched, willingness to travel will be impacted by greater numbers of motorists, shopping closer to home will increase in popularity.

Convenience retailers have always had to fight the perception around noncompetitive pricing. The increased reliance on straight promotions and greater multiples for multi-buys suggests a channel that is striving for growth without the other necessary levers available to pull. This combined with seasonal effects such as poor weather, restrictions on trade in the channel's most important category, cigarettes, and with economic impacts such as higher fuel prices mean that retailers are at the mercy of constantly shifting external forces. The further issue of channel blurring means that on the back of increased expectations around value, convenience retailers who do not manage the price gap between themselves and traditional grocery run the risk of losing shoppers not willing to pay a premium.

associations, P&C stores and c-stores need to be aware of the changing demographics in Australia's population, and be bold in meeting these challenges, for today and for the future.



* Source: ABS population counter—includes international migration, new births and deaths.

About Nielsen

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