



Milk It For All It's Worth

Strong margins make single-serve a cool opportunity

BY LINDA ABU-SHALBACK ZID || lzid@cspnet.com

The milk data revealed at this year's NACS State of the Industry (SOI) Summit was a stunner for some. According to preliminary numbers from NACS, milk dollar sales fell 28% in 2009 vs. four years ago, making it one of the top 10 sales trends outlined by the association.

"A lot of folks probably came out of there wondering, 'What do we do with fluid milk?'" says David Bishop, managing partner with Barrington, Ill.-based Balvor LLC, a sales and marketing consultancy that has been involved in milk research for c-stores.

There's more to the numbers than meets the eye, Bishop cautions, and milk can actually represent an opportunity.

"It's important to put in perspective that fluid-milk sales are very closely linked to commodity costs," Bishop says. "And what we happened to have was a market where commodity prices were at extremely low levels vs. previous years."

So, as dollar sales for milk were down 15% in 2009 vs. the previous year, according to the numbers (\$2,802 vs.

\$3,314), the Consumer Price Index shows that retail prices for milk fell 13%, accounting for the majority of that number. With decreases in commodity costs the previous year causing farmers to reduce their herds, prices dropped.



Milking Opportunity

- ▶ A secondary cooler can help call attention to a store's milk offering.
- ▶ Think of milk as a way to draw in fresh-food aficionados.
- ▶ Dairy-related literature can help promote stores as a healthy destination.
- ▶ Use navigational cues and merchandising to keep milk visible.

Bishop also points out that while 95% of all households buy fluid milk across all trade channels, only 8% to 9% of the households report purchasing fluid milk of any size in the convenience channel.

"The point is this is a category that has a lot of headroom in terms of upside potential," he says.

SINGLING OUT MILK

Some retailers say milk sales haven't actually dried up; they're just in transition. Indeed, if one scans the channel's cold vault, strength lies in single-serves. Take water, CSDs and other beverage segments: Muscle is found not in the sale of gallons and liters but in immediately consumed singles.

Perhaps that is the way of milk. And perhaps that is why some retailers are revisiting their milk plan-o-grams and wondering whether it's time to alter the heavy emphasis on gallon and half-gallon apportionment.

Scaff's Inc., a 47-store chain based in Lake City, Fla., that does business as S&S Food Store and Scaff's Market, is among this growing movement. Keith Brown, Scaff's senior vice president of marketing, says the company expanded its single-serve offering to two shelves earlier this year to accommodate popular flavored milks.

"We still have a nice mark-up on single serve, and gallons have little or no margin," he says.

A Natural Affinity

Another opportunity for c-stores could be in placing single-serve milk near products that tend to be sold with it. Research from Barrington, Ill.-based Balvor LLC has outlined items often purchased with milk pints (by percentage of transactions).



Commercial and packaged sandwiches	31.4%
Food prepared on site	28.4%
Packaged beverages	25.3%
Packaged sweet snacks	21.2%
Dispensed beverages	18.4%
Cigarettes	14.2%
Candy	12.3%
Salty snacks	12.2%
Grocery	9.5%
Publications	9.0%
Fluid milk (excluding pints)	4.8%
General merchandise	4.3%
Other dairy and deli products	3.5%
Perishable grocery	3.2%
Packaged ice cream/novelty	2.2%

Source: Balvor LLC

FLAVOR FAVE: According to Byrne Dairy's Timothy Mody, flavored milks are doing well in the company's stores (especially chocolate). Low-fat flavors such as this mocha cappuccino have seen sales increases this year.



To that end, Balvor research found that gross profit margin as a percent of dollar sales actually increases as the package size decreases, at 27.4% for gallons all the way up to 41.9% for single-serve (fewer than 32 ounces).

While early evidence suggests this trend will continue, retailers are now forced to consider several options, including whether to swap out gallons for pints. Another option is to adopt additional destinations for the increasingly popular single-serve, which observers boast is not just a morning day-part item, but also a meal replacement or late-morning/midday snack.

A recent pilot program from the NACS/Coca-Cola Retail Research Council, Ricker Oil, Dairy Management Inc. and supply partners, called Refuel and Refresh, created a secondary refrigerated cooler to appeal to more health-conscious on-the-go individuals.

The coolers, offering single-serve milk, were placed across from or near the checkout at interstate and neighborhood Ricker's sites. Released in June, the report shows the following sales jump vs. a year ago:

- ▶ Stores using a secondary cooler drove an incremental 28% increase in dollar sales.
- ▶ Those stores also yielded a nearly 24% gain in unit sales.
- ▶ Flavored, single-serve milk generated an increase of 27.6% in incremental unit sales, with chocolate unit sales growing 17.9% and strawberry soaring 98.5%.

"I know that dairy is a category [with which] we always seem to be competing with other channels," says Keith Broviak, marketing director for Anderson, Ind.-based Ricker's. "We think that there is some definite viability to a secondary display with single-serve products, and being able to include milk in it really made us think that's [also] a viable option for us."

Balvor research found that **gross profit margin** as a percent of dollar sales actually increases as the package size decreases.

Reinventing Dairy

Research from Dairy Management Inc. (DMI), Kraft Foods and The Dannon Co. in 2006 found that the average grocery shopper increased his time in a store from 19 minutes to 26 minutes when he was purchasing milk, and basket size increased from \$25 to \$45.20.

Earlier this year, DMI launched a Dairy Department Reinvention Activation Guide to help retailers capture those increases. While much of the information is geared toward grocery, the guide also outlines how shoppers define the best practices of a reinvented dairy department.

Shop, not search:

- ▶ Establish a dairy department, not just another aisle (or door in the case of c-stores).
- ▶ Make the department easier to shop.

My store, not your shelves:

- ▶ Personalize the engagement.
- ▶ Build stronger connections to health and wellness.

Delight, not dread:

- ▶ Merchandise using more meaningful cues.
- ▶ Convey stronger freshness cues.

Active, not passive:

- ▶ Foster interaction and engagement.
- ▶ Inspire shoppers.

Source: DMI

BEST PRACTICES

Although milk sales have faltered across the channel, it would be a slight to suggest that all retailers are struggling.

Ken Strong, general manager of Gardena, Calif.-based United Oil Co., operator of 120 Food Mart and United Mart locations, says his company does “nothing unusual for merchandising.” Single-serve nets half to a full shelf, depending

on the set, and Nesquik flavors do well. “They are priced for our channel, but dairy pricing does not vary too much.”

The biggest challenge for single-serve milk, he says, is competing with the plethora of other single-serve beverages. Still, milk is a steady category for the company, growing 2% to 3% this year, mostly attributable to single-serve. (The company sells gallons at only about 30 neighborhood locations.)

Along with assortment, other steps are essential to a serious milk strategy, experts say:

Keep It Fresh. Ensure milk is properly fresh-coded. Bishop says, “If you can’t manage your fluid-milk business to keep fresh products in stock and offer value on those, how can a consumer expect you to do that in other fresh-foods areas that are even more perishable?” The flip side of that is that good fresh-code dates can mean enhancing a store’s reputation as a fresh-food destination. According to Balvor, fresh foods are often purchased with single-serve milk. (See sidebar on p. 108.)

Have the Right Mix. Timothy Mody, DSD sales manager of Lafayette, N.Y.-based Byrne Dairy, points out: “You only have so much space that you can reserve for single-serve, so you need to be very selective with what products you place in the retail outlets and where.”

For sizes, Bishop of Balvor says neighborhood stores, which likely serve as a fill-in destination on the way home

“What we’ve seen is **shoppers reward** retailers who’ve taken the opportunity to communicate personal consumer benefits with their loyalty.”



TWICE AS NICE: A secondary cooler dedicated to milk, such as this one at a Ricker's location, has been shown to increase milk sales.

from work, would be more conducive to gallons and larger sizes. Interstate commuter stores mean shoppers who are headed to or from work may want to pick up smaller package sizes. Some retailers, he says, are selling smaller, 8-ounce single-serves to fill the need for consumers seeking lower price points.

As for branding, obviously national brands can mean consumer recognition while private or local brands appeal to the value shopper, as well as to the burgeoning concept of supporting local companies. (Bishop says the price point on comparable sizes is about 25% less than national brands.)

"I think the primary role and value in having a two-tiered branding approach in milk is that it appeals to both the brand- and value-conscious shopper, and that's especially important if a retailer is trying to build their fluid milk business," he says.

Seek Innovation. Strong says, "Innovation and branding will help dairy." And Mody of Byrne Dairy, which also operates 50 c-stores, couldn't agree more: "The challenges today come from so many different types of single-serve offerings, and the space that each company is trying to get inside the c-stores. . . . Don't be afraid to try different things."

To expand the company's distribution, Byrne in January introduced an extended-shelf-life milk, which lasts about 90 days and comes in nine flavors. "The trends are that single-serve is a growing category that we are seeing and feel will continue throughout the year," Mody says.

Communicate Health Benefits. Rebecca MacKay, vice president of sales and marketing for Rosemont, Ill.-based Dairy Management Inc. (which also staffs the innovation center for U.S. Dairy), says it's important to engage customers because dairy can be a routine purchase, causing a disconnect or lack of emotional engagement.

"There are two huge opportunities to communicate consumer benefits at the shelf: either through signage or messaging," she says. "And it's especially important to leverage the health-and-wellness equity of dairy—becoming a trusted source for the consumer for health-and-wellness information. . . . What we've seen is shoppers reward retailers who've taken the opportunity to communicate personal consumer benefits with their loyalty."

Merchandise Single-Serve Differently. When merchandising gallons, retailers often use price promotion. But Bishop says that aggressive pricing might not be seen as much with single-serve, because the consumer might not give c-store

“If you can’t manage your fluid-milk business to keep **fresh products in stock** and offer value on those, how can a consumer expect you to do that in other fresh-foods areas that are even more perishable?”

retailers “credit” for the reduced price. “The consumer may not recognize a really good price on single-serve, whereas they would be more likely to recognize a good price on a gallon of milk, simply because a gallon of milk is . . . a package size they would purchase generally much more frequently and purchase elsewhere,” he says.

For single-serve, Bishop says loyalty programs are more common (e.g., purchase six and get the seventh free) to drive frequency. Suppliers also might take a role, with companies such as Nesquik offering door coupon tear strips for 40 cents off on a single-serve, for example.

Work with Suppliers. As in the Nesquik cents-off example, suppliers can help retailers optimize growth potential. Mody of Byrne Dairy says, “We have seen in successful retail outlets that space allocated for single-serve will increase sales. We have seen those retailers use two facings of each flavor, multiple deep in not just the dairy section of stores, but included in the beverage areas [and] areas that have a food-service line.”

Create a Dairy Driver. Align with c-store shopper needs including convenience, health and wellness, on the go, meal replacement, seasonal needs, healthy snacking or items that



HIGHER PROFILE: This digital rendering shows how reinventing the dairy department provides additional visibility and improves shopper perceptions, according to Dairy Management Inc.

can be put together to form meals, MacKay says. She also suggests that a special-interest section in a c-store could include single-serve milk, as well as snacking-related dairy items, such as string cheese, drinkable yogurt, etc. “Aligning with those kinds of needs will drive store loyalty,” she says.

Finally, navigational cues and meal bundling can add to the product’s appeal and increase shopper engagement, according to MacKay: “So they spend more time shopping and less time searching, and they have a more enjoyable shopping experience along the way.” ■