STAKING A CLAIM ON ALTERNATIVE CHANNELS

GMA Conference
November 2001

CORIOLISRESEARCH

Coriolis Research Ltd. is a strategic market research firm founded in 1997 and based in Auckland, New Zealand. Coriolis primarily works with clients in the food and fast moving consumer goods supply chain, from primary producers to retailers. In addition to working with clients, Coriolis regularly produces reports on current industry topics. Recent reports have included an analysis of the impact of the arrival of the German supermarket chain Aldi in Australia, answering the question: "Will selling groceries over the internet ever work?," and this analysis of Alternative Channels in New Zealand.

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The lead researcher on this report was Tim Morris, one of the founding partners of Coriolis Research. Tim graduated from Cornell University in New York with a degree in Agricultural Economics, with a specialisation in Food Industry Management. Tim has worked for a number of international retailers and manufacturers, including Nestlé, Dreyer's Ice Cream, Kraft/General Foods, Safeway and Woolworths New Zealand. Before helping to found Coriolis Research, Tim was a consultant for Swander Pace (now part of Kurt Salmon) in San Francisco, where he worked on management consulting and acquisition projects for clients including Danone, Heinz, Bestfoods and ConAgra.

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The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. It is the result of a centripetal force on a mass moving with a velocity radially outward in a rotating plane. *In market research it means understanding the big picture before you get into the details.*

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This presentation examines alternative channels in the New Zealand market

PRESENTATION OVERVIEW

Overview of Alternative Channels → Profiles of Four Key Alternative Channels → Targeting Alternative Channels

The first part of this presentation provides an overview of alternative channels

PRESENTATION OVERVIEW

Overview of Alternative Channels

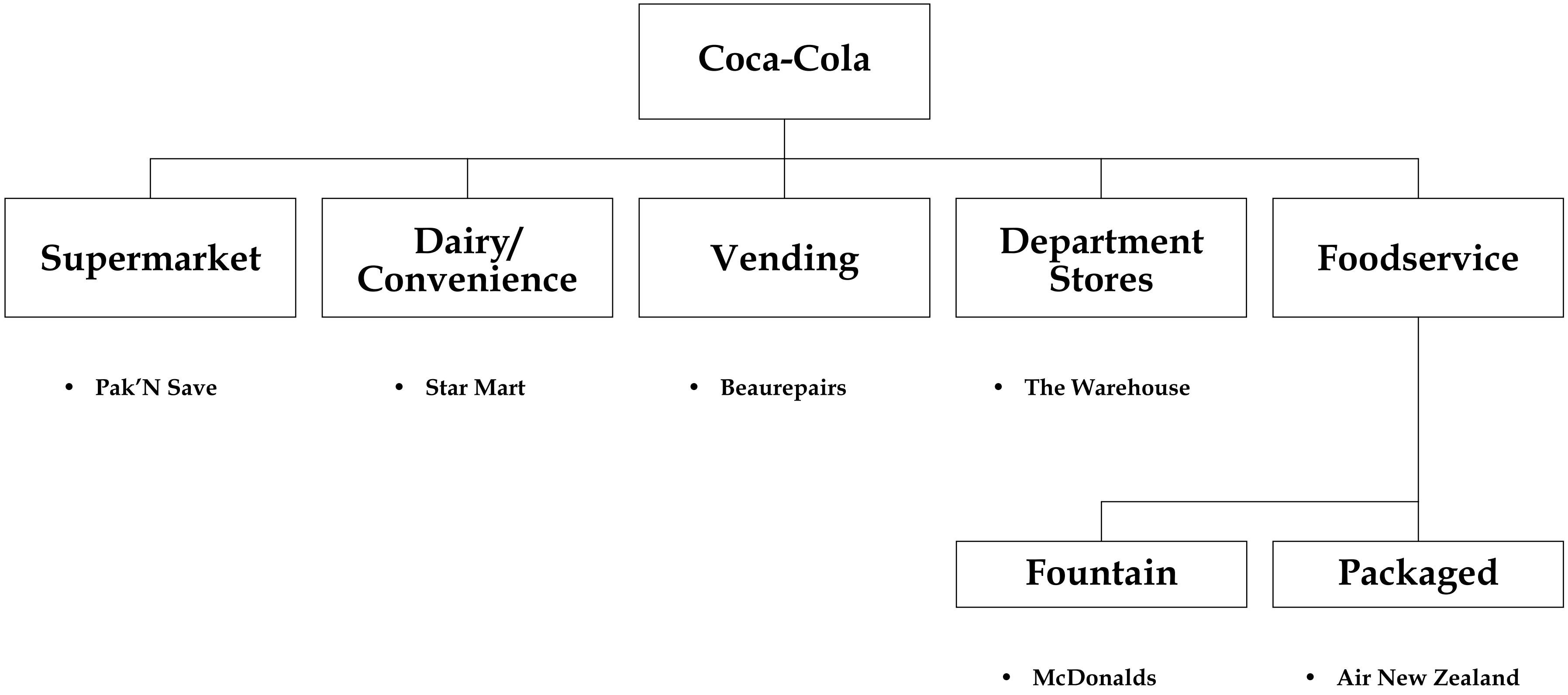
An alternative channel is here defined as "an outlet other than a supermarket that sells food and fast moving consumer goods"

WHAT IS AN ALTERNATIVE CHANNEL?

Definition
Outlet other than a supermarket that sells food and fast moving consumer goods

Coca-Cola is an excellent example of a manufacturer serving a large number of alternative channels

EXAMPLE OF ALTERNATIVE CHANNELS: COCA-COLA



Alternative channels to the supermarket are a spectrum, with no clear definition of where they end

HOW BIG ARE ALTERNATIVE CHANNELS?

FOOD

NON-FOOD

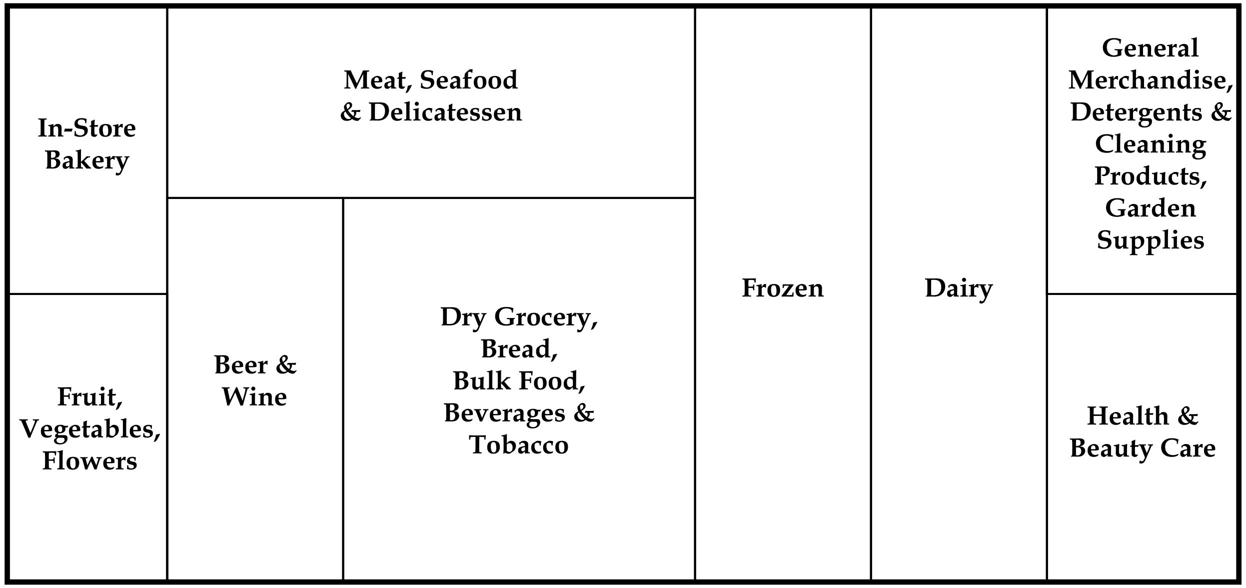
Manufacturers choose to develop alternative channels for a number of reasons, both negative and positive

WHY DEVELOP ALTERNATIVE CHANNELS?

Negative	Positive
– Supermarkets are consolidating, dictating terms and driving down profitability – Gaining market share from entrenched supermarket competitors is difficult – Private label is growing in my category in supermarkets – Our main competitor is there already	– There is a possibility to increase consumption through wider distribution – Our product offers a real value-added solution to a problem – We want to extend our market leadership by growing the category

The modern supermarket is only a convenient collection of separate stores or ‘departments’…

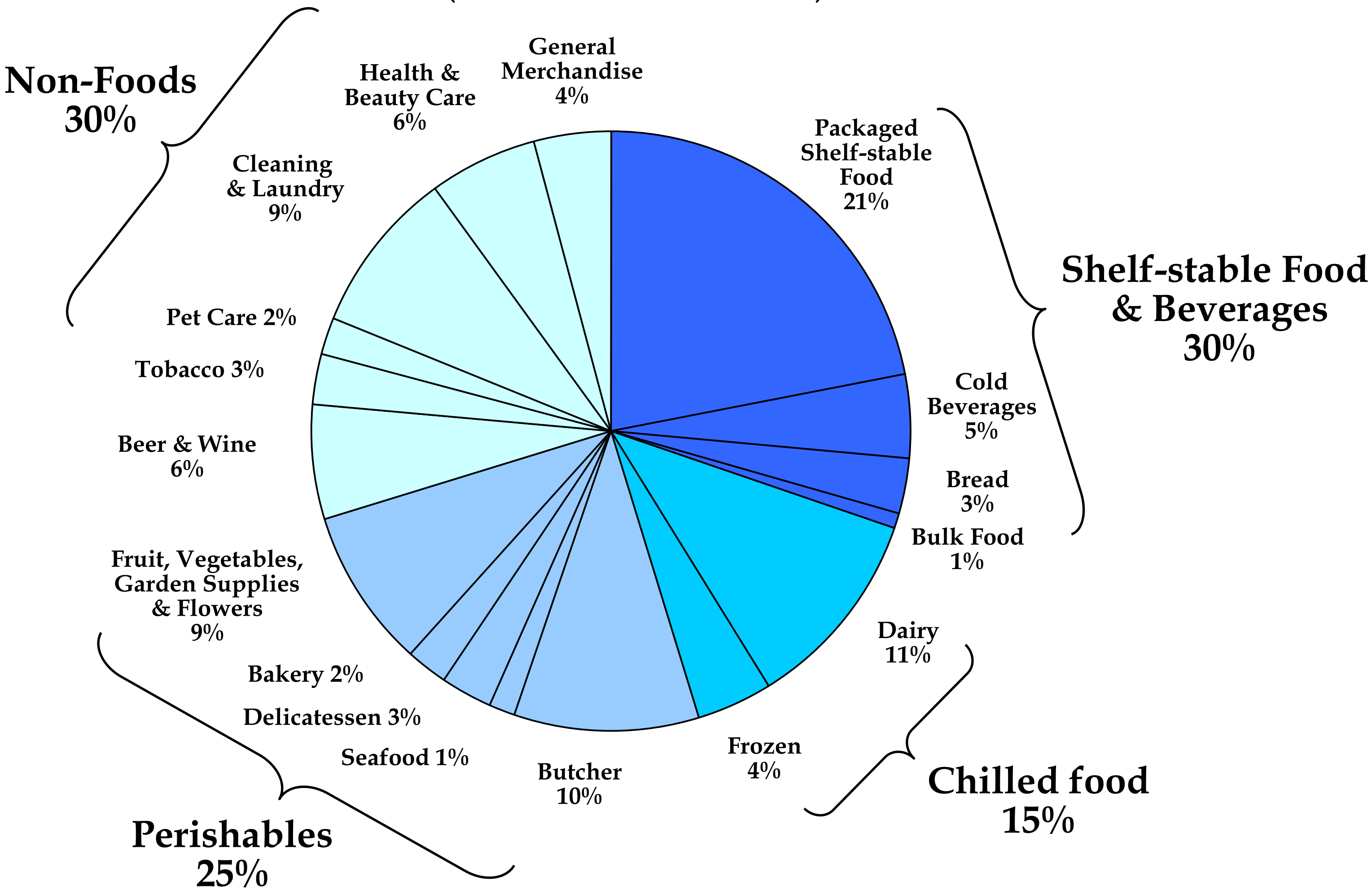
WHAT IS A SUPERMARKET?



Total = 403 Supermarkets

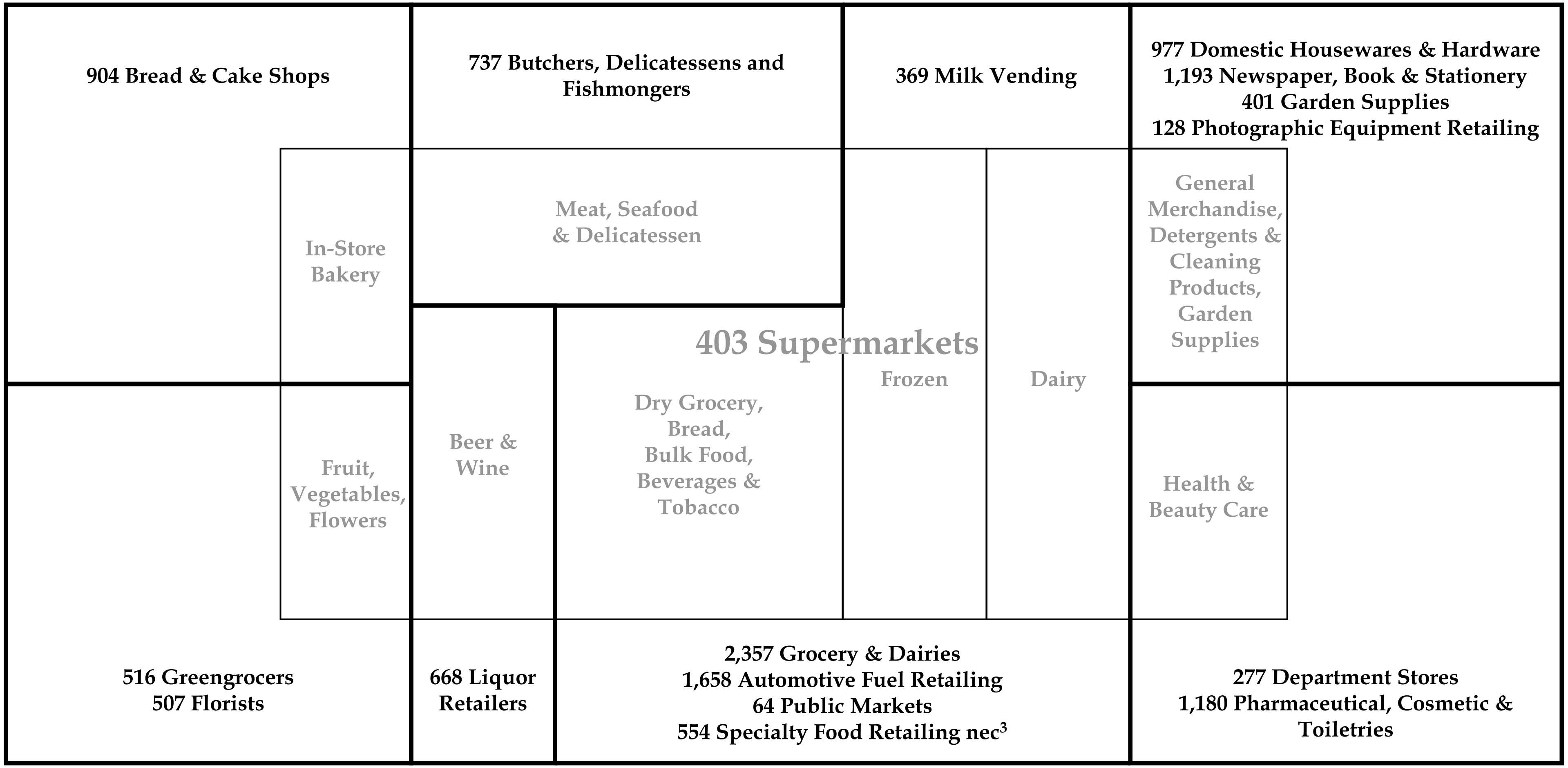
… that sell a wide range of products, both food and non-food

AVERAGE SUPERMARKET SALES BY DEPARTMENT
(Percent of total sales)



These departments collectively have a total of 12,490 external retail competitors

WHO COMPETES WITH SUPERMARKETS?



1. GM = General Merchandise or Non-foods (e.g. dog food, laundry detergent); 2. HBC = Health & Beauty Care (e.g. toothpaste);
3. Nec: not elsewhere classified; Source: Statistics New Zealand (Business Demography Survey, 2000)

Supermarkets are currently challenged by a further 10,288 foodservice establishments

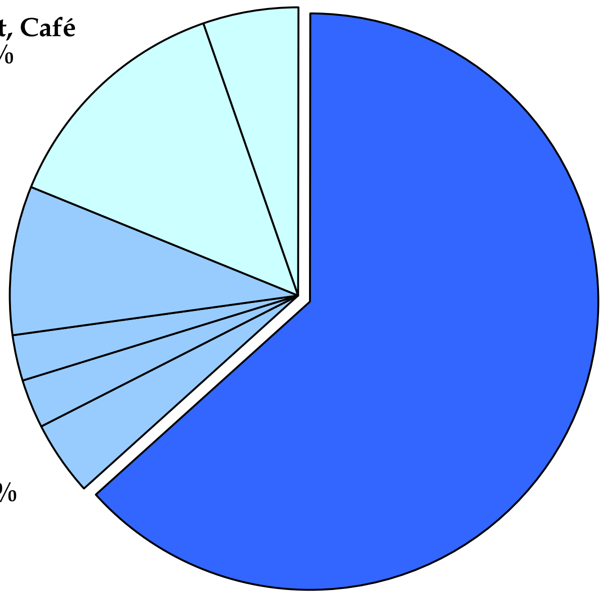
THE GROWTH OF FOODSERVICE

5,455 Cafés and Restaurants
3,195 Takeaway
1,237 Pubs, Taverns & Bars
401 Hospitality Clubs

 Source: Statistics New Zealand (Business Demography Survey, 2000)

While Supermarkets and Grocery chains are strong in food retailing…

AVERAGE HOUSEHOLD FOOD FMCG EXPENDITURE BY STORE TYPE
(Percent of average weekly expenditure; dollars; 1998)

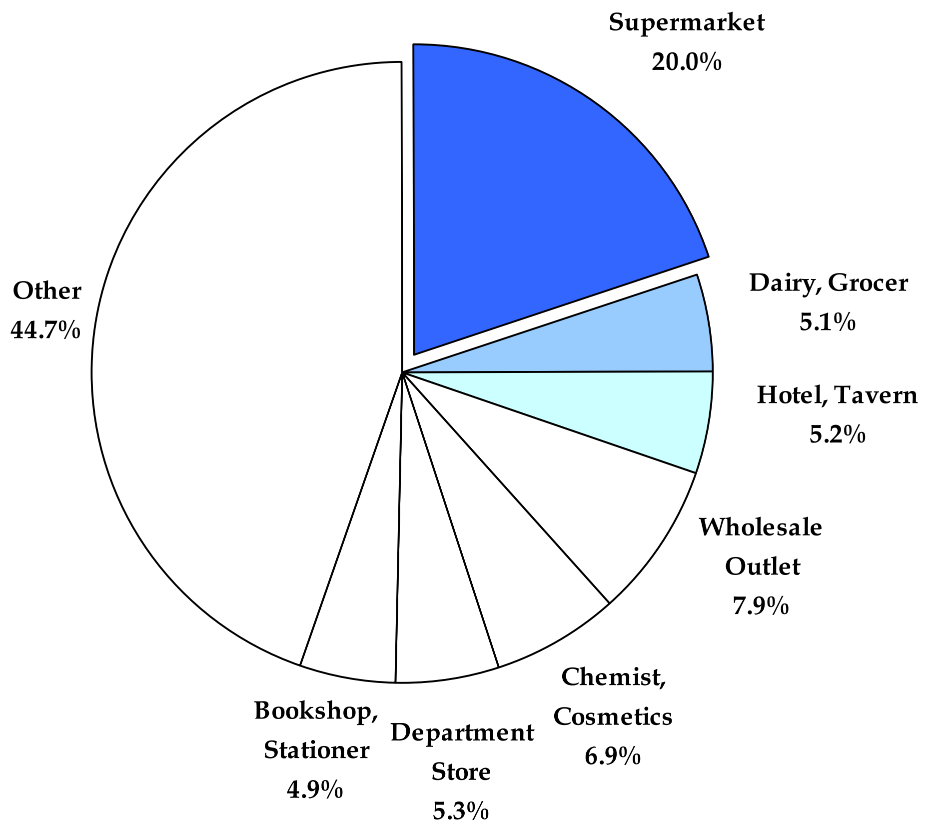


Total = $113.50

 Source: Statistics New Zealand, (Household Expenditure Survey); Coriolis analysis

… they are weak in non-food retailing

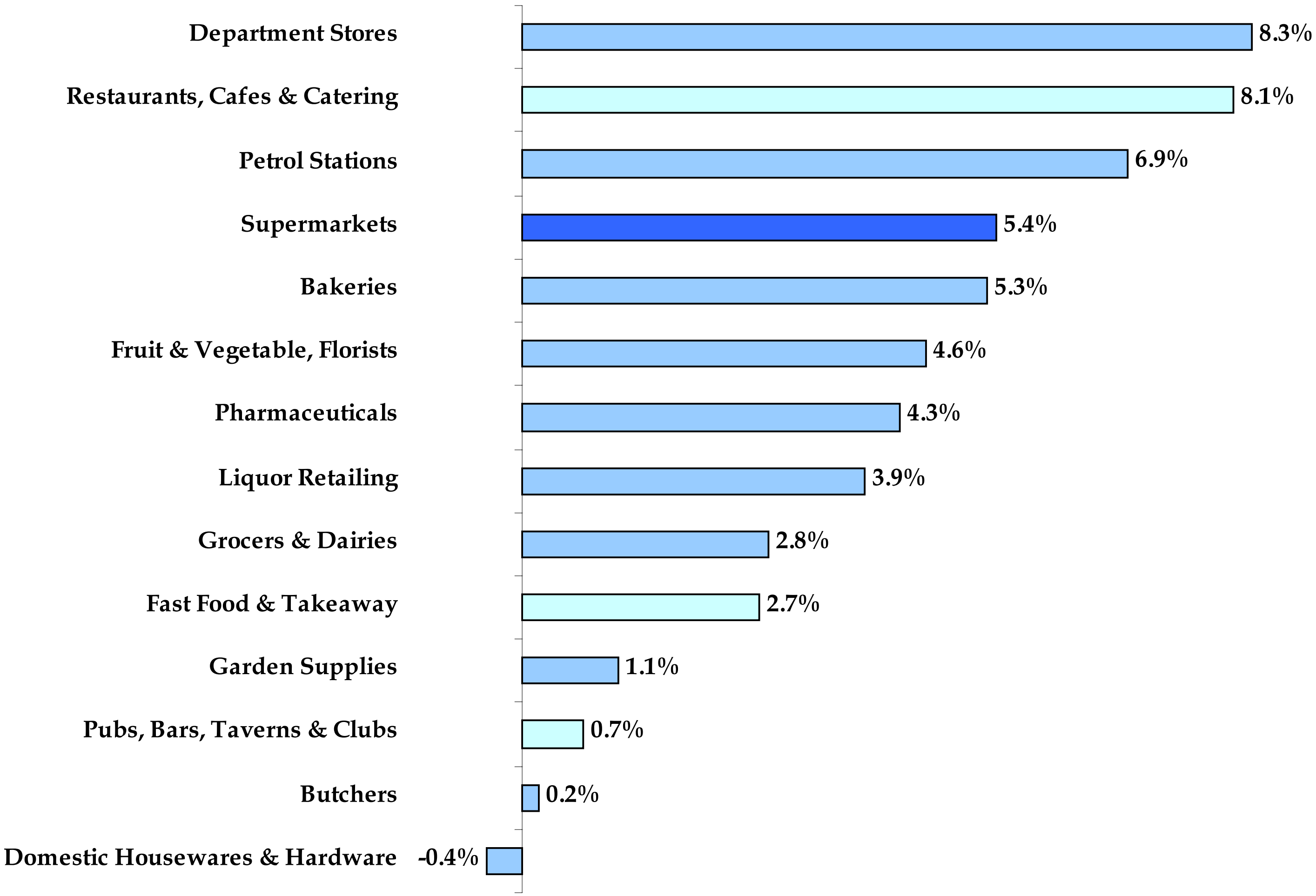
AVERAGE HOUSEHOLD NON-FOOD FMCG EXPENDITURE BY STORE TYPE
(Percent of average weekly expenditure; dollars; 1998)



Total = $57.70

Different store types have grown at different rates over the past four years

AVERAGE ANNUAL SALES GROWTH RATE BY STORE TYPE
(% CAGR of sales; 1996-2000)



Source: Statistics New Zealand (Retail Trade Survey)

This presentation now profiles the four key alternative channels

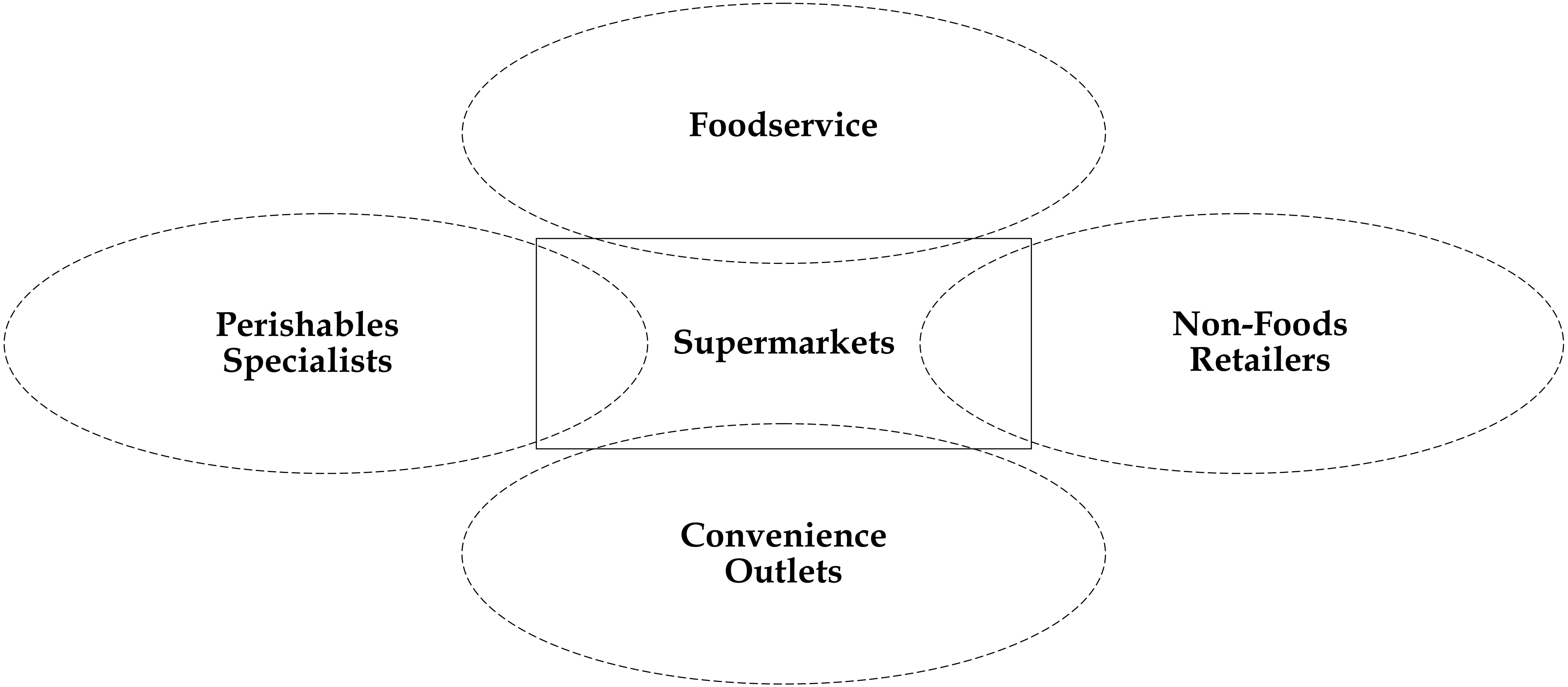
PRESENTATION OVERVIEW

Overview of Alternative Channels

Profiles of Four Key Alternative Channels

Four different broad types of alternative channel exist in the New Zealand market

ALTERNATIVES TO THE SUPERMARKET

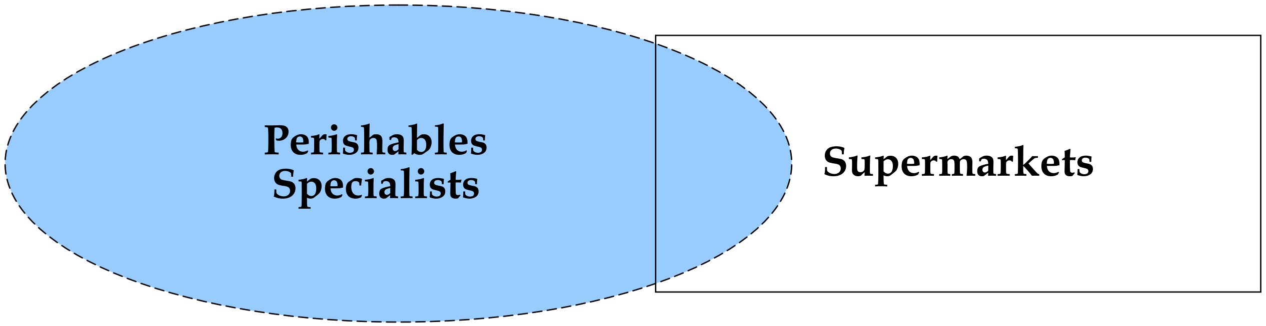


However, before we address alternative channels, remember that, according to the Department of Statistics, fifty-four non-Key Account supermarkets exist in New Zealand

<u>NON-KEY ACCOUNT SUPERMARKET</u>

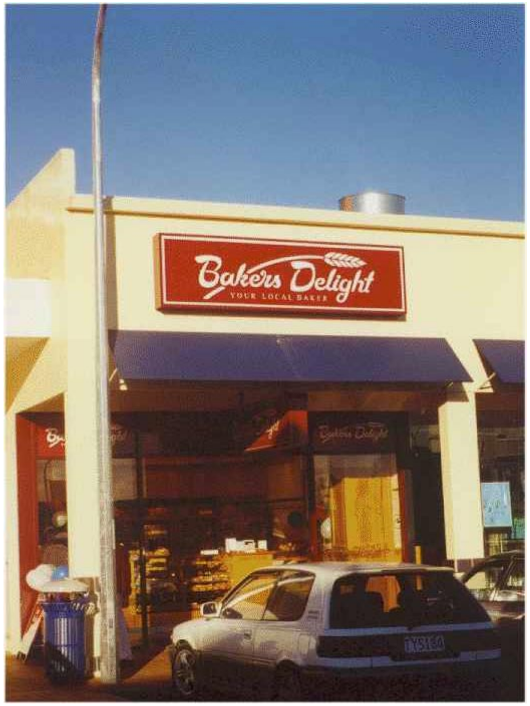
Perishables Specialists focus on one specific type of perishable category

ALTERNATIVES TO THE SUPERMARKET



Perishables specialists come in a large variety of sizes and shapes

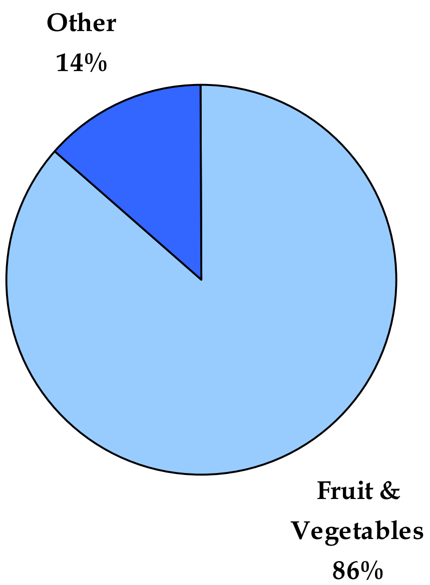
PERISHABLE SPECIALISTS



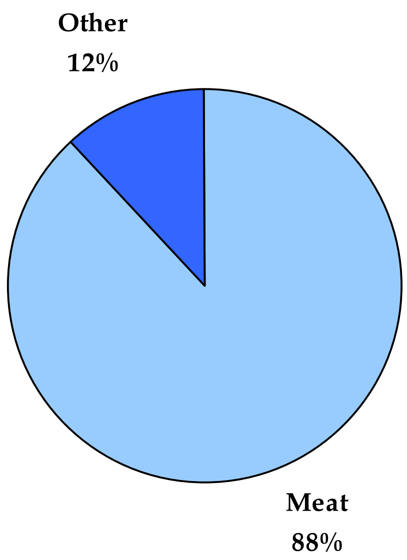
About 12-14% of perishables specialists sales are outside their primary focus

SELECT FOOD SPECIALISTS SALES OUTSIDE PRIMARY FOCUS
(% of sales; 1998)

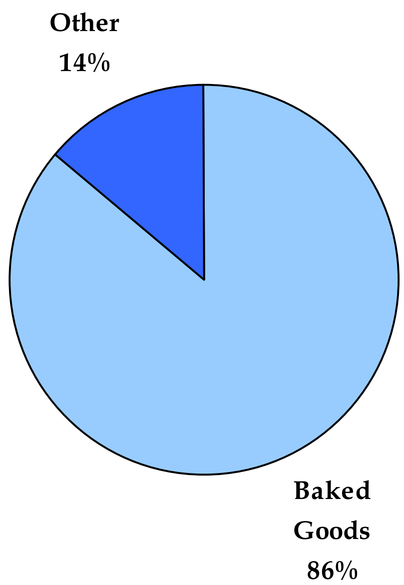
Greengrocer



Butcher

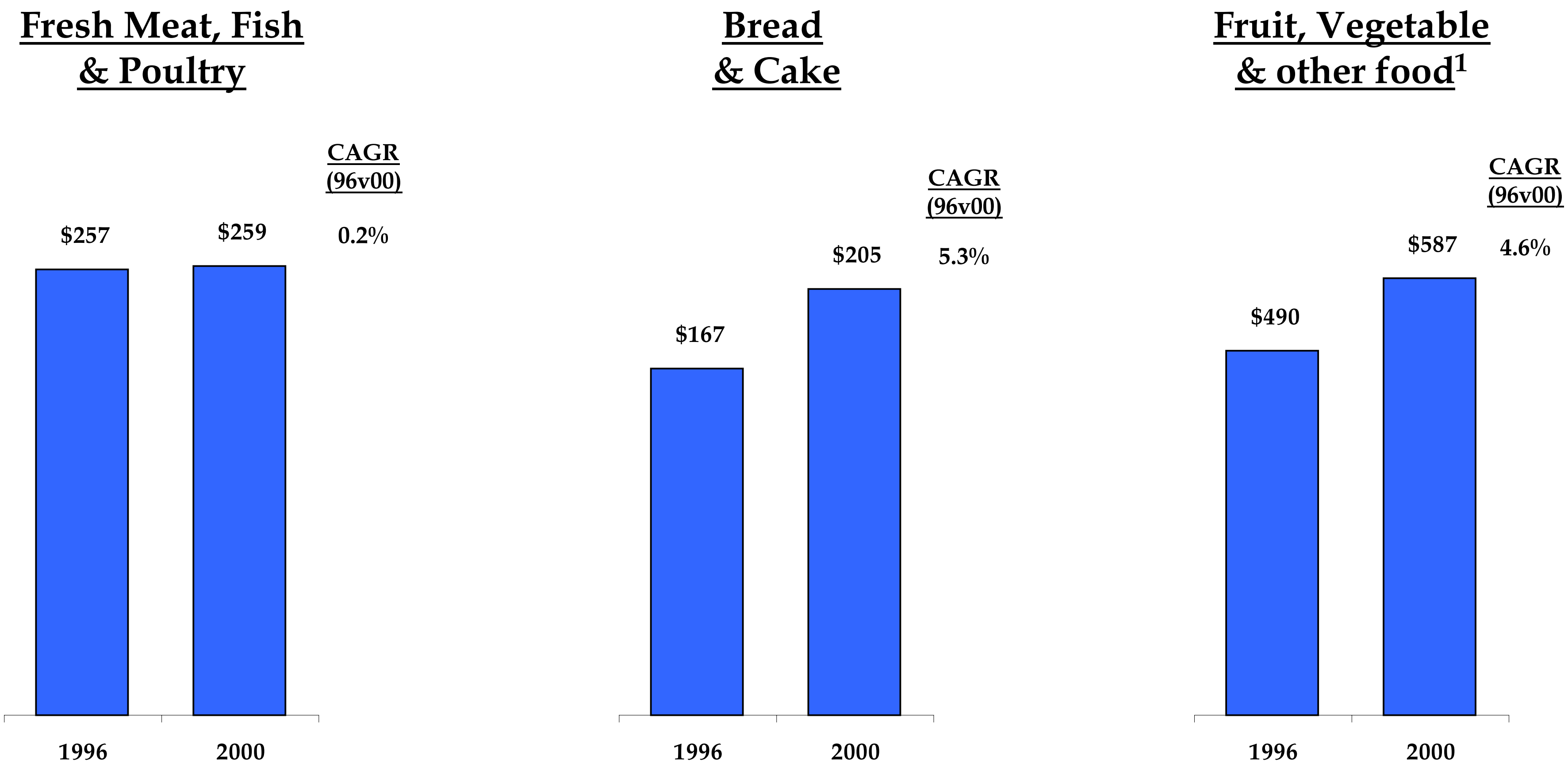


Baker



Most categories of food specialist are showing sales growth

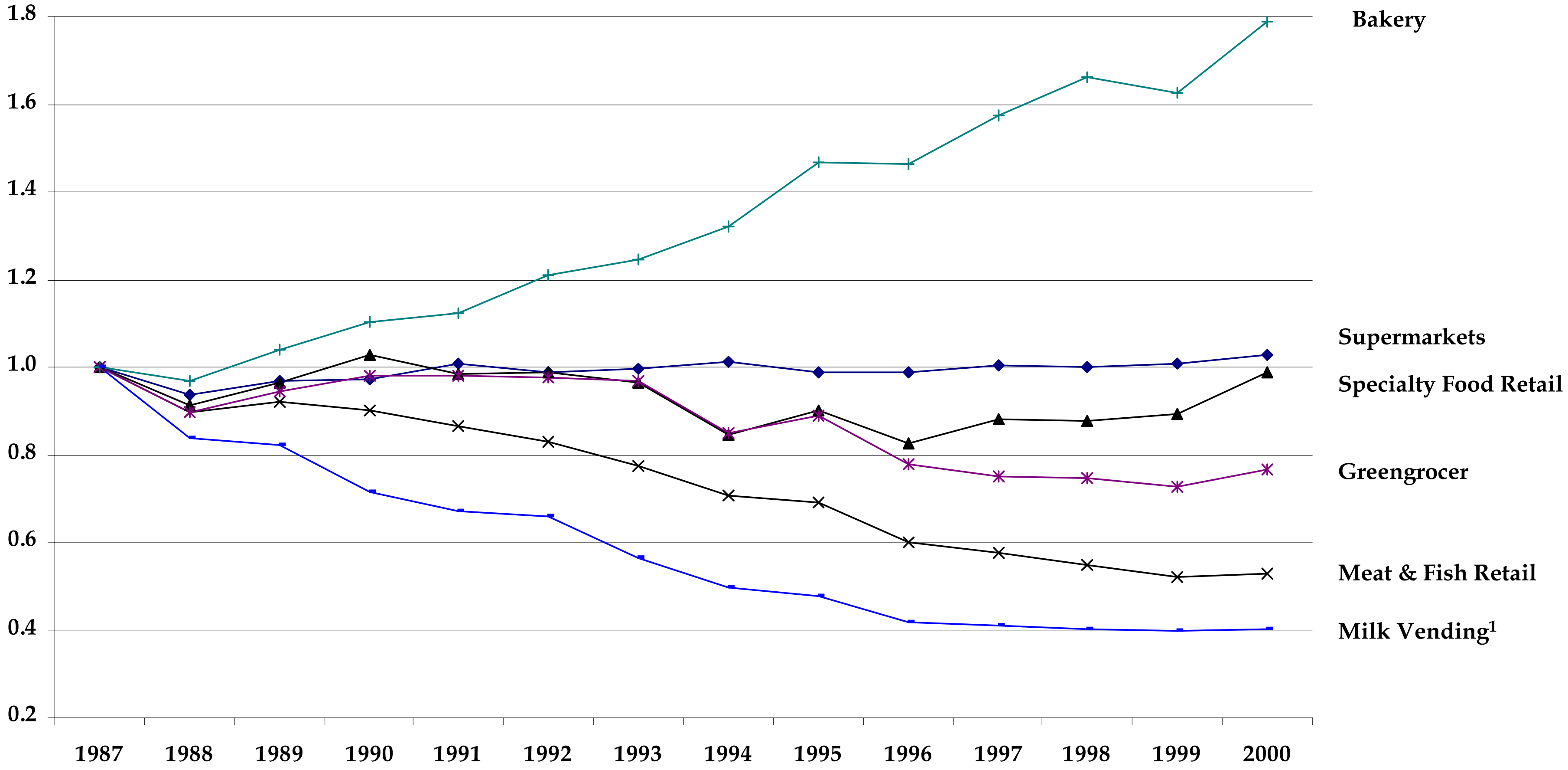
RETAIL SALES BY TYPE OF OUTLET[1]
(Dollars; millions; 1996v2000)



1. Due to confidentiality restrictions no finer breakdown available; includes milk home delivery and specialised food
Source: Statistics New Zealand (Retail Trade Survey)

While the number of supermarkets has remained relatively flat, the number of perishables specialists is fluctuating, with both winners and losers

RELATIVE CHANGE IN OUTLET NUMBERS BY TYPE OF RETAILER
(Number of outlets in 1987=1; 87-00)



1. Home delivery
Source: Statistics New Zealand (Business Demography Survey); Coriolis analysis

There are a number of medium size perishable specialist chains

EXAMPLES OF PERISHABLE SPECIALIST CHAINS
(# of outlets; 2001)

Greengrocer	Pumpkin Planet	14
	Vegie World	8
Butcher	Mad Butcher	19
	Aussie Butcher	4
Baker	Baker's Delight	27
	Baker Boys	15
	KB's	13
	Baker Street	5
Bulk Food	Bin Inn	52

The retail bakers sector is showing strong growth, both by chains and by independents

RETAIL BAKERIES/CAKE SHOPS

Brand	# of outlets	Supplier/Owner
Bakers Delight	27	Franchised
Baker Boys	15	Independents
KBs	13	Franchised
Baker Street	5	Private
Other Retailers	832	
Total Retailers	904	

Source: Industry Interviews; Statistics New Zealand, (Business Demography Survey)

Independent greengrocers and florists are still a very strong force in New Zealand retailing

GREENGROCERS/FLORIST RETAILERS

Brand	# of outlets	Supplier/Owner
Pumpkin Planet	14	Private; franchised
Vegie World	8	Private
Total Greengrocers	516	
Total Florists	507	

 Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

While the number of independent butchers shops is down, total sales have remained stable - implying an increasing turnover per outlet

BUTCHERS/FISHMONGERS/DELI'S

Brand	# of outlets	Supplier/Owner
Mad Butcher	19	Private
Lenards Chicken	5	Private; being sold
Aussie Butcher	4	Private
Other Retailers		
Total Retailers	737	

Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

There is also a large group of other specialist retailers each with a different offer and different market niche

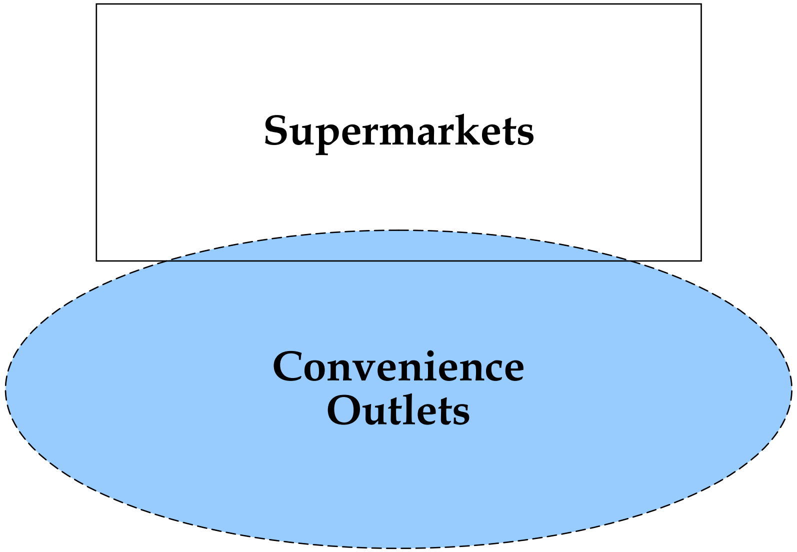
SPECIALTY RETAILERS

Brand	# of outlets	Supplier/Owner
Bin Inn	52	Franchised
Bulk Barn	3	Independent
Total Public Markets	64	
Total Specialty Food Retailing	554	

 Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

Convenience outlets are defined by the importance of location and ease-of-access

ALTERNATIVES TO THE SUPERMARKET

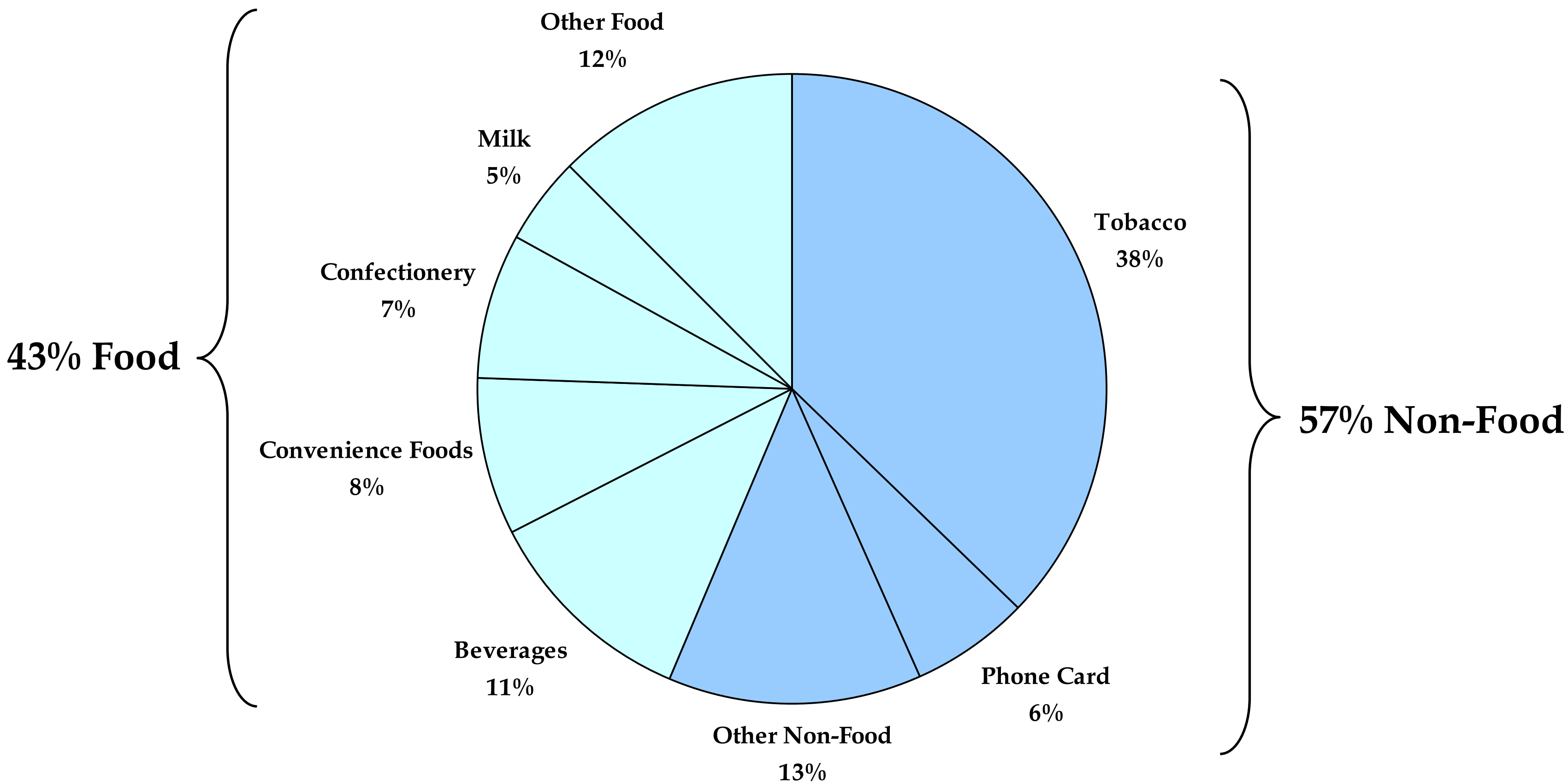


Convenience-oriented retailers are professionalising rapidly

<u>CONVENIENCE-ORIENTED STORES</u>

Convenience stores sell a mix of both food and non-food

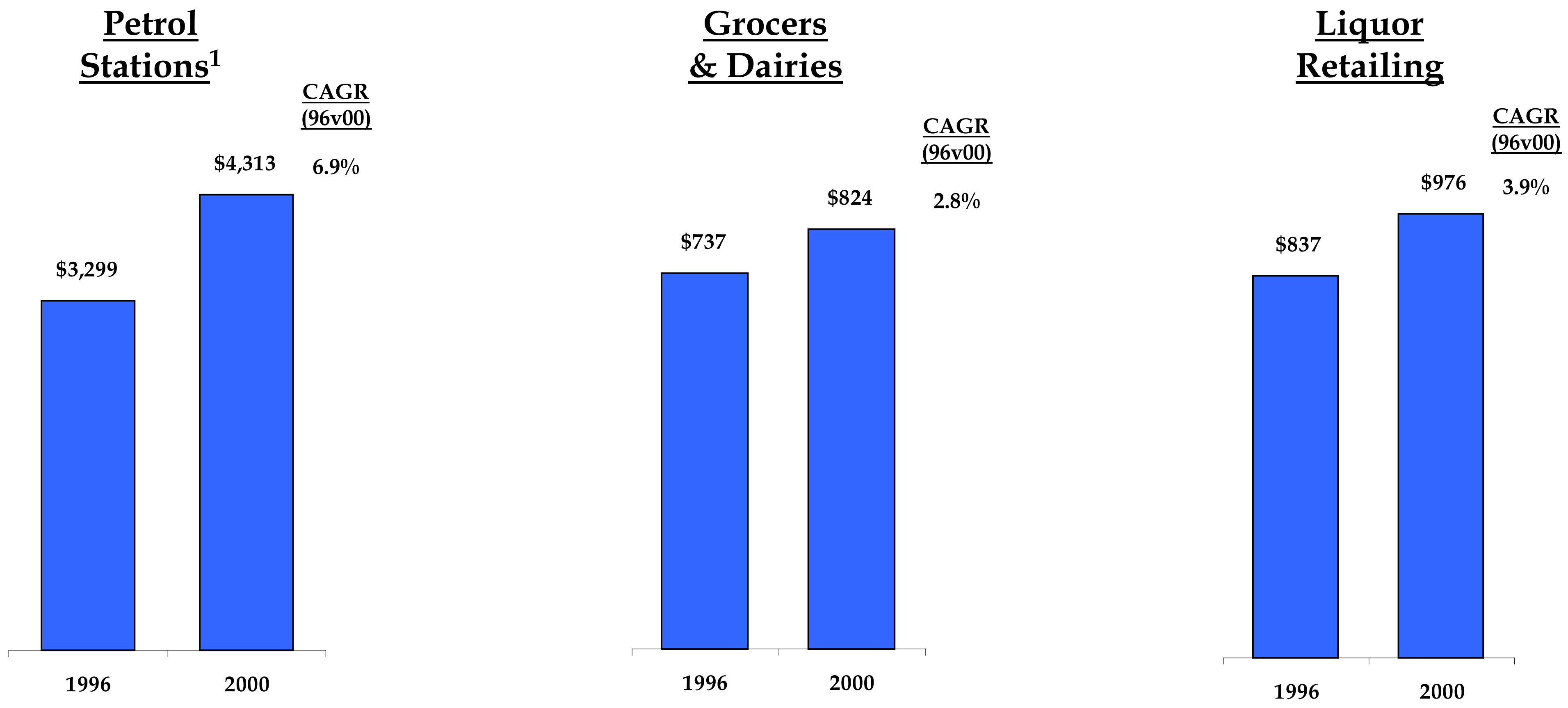
CONVENIENCE STORE SALES BY CATEGORY[1]
(% of sales; 2000)



1. *Excludes any fuel or alcohol sales*
Source: AACS

Convenience-oriented stores are showing sales growth, albeit at different rates

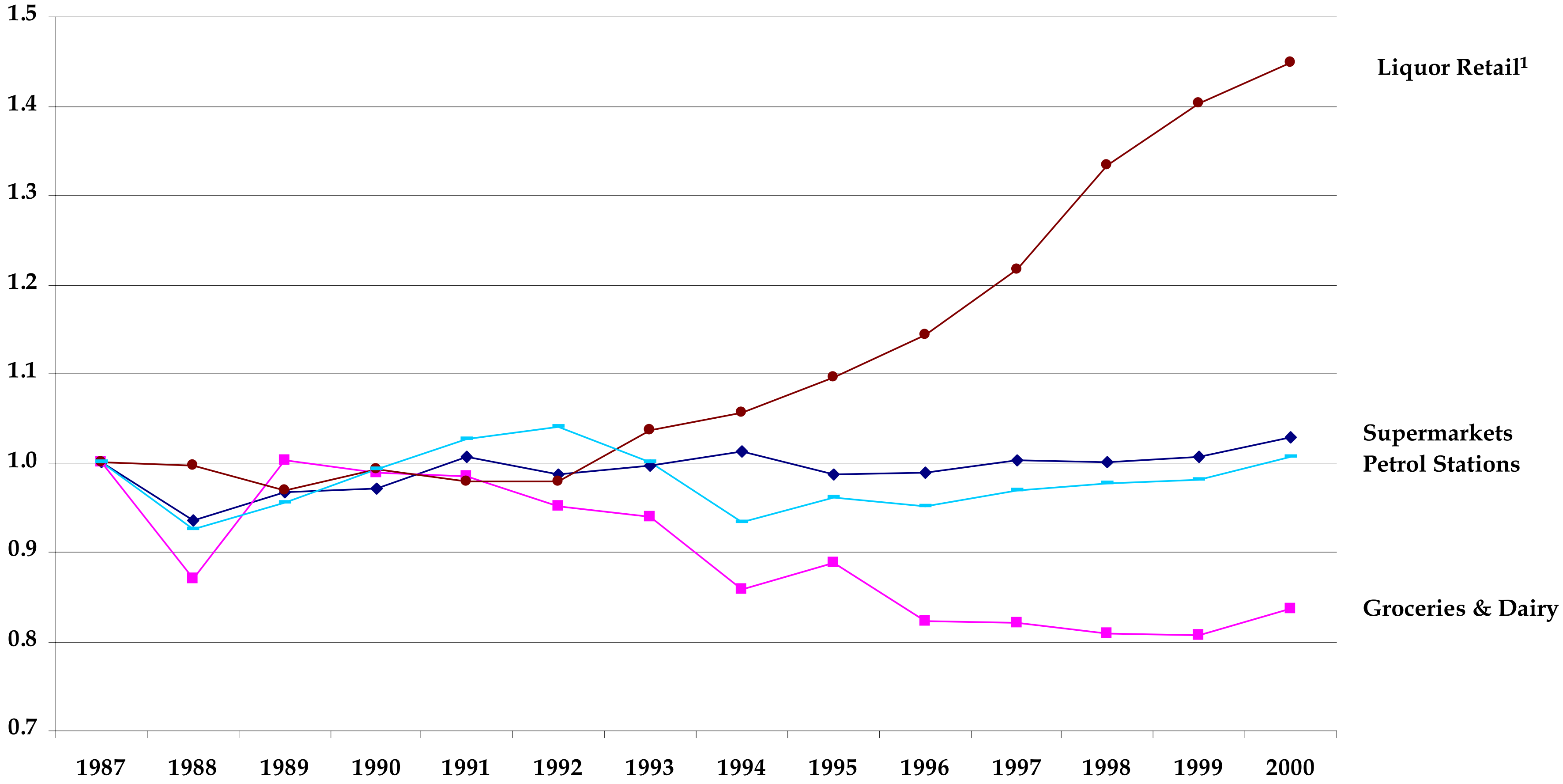
RETAIL SALES BY TYPE OF OUTLET[1]
(Dollars; millions; 1996v2000)



1. Sales including fuel
Source: Statistics New Zealand (Retail Trade Survey)

While the number of supermarkets has remained relatively flat, the number of convenience oriented stores is fluctuating, with both winners and losers

RELATIVE CHANGE IN OUTLET NUMBERS BY TYPE OF RETAILER
(Number of outlets in 1987=1; 87-00)



1. This report defines Liquor Retailes are primarily convenience retailers, as in markets without legal restrictions, these store formats merge with convenience stores
Source: Statistics New Zealand (Business Demography Survey); Coriolis analysis

There are a number of large convenience-oriented chains

EXAMPLES OF CONVENIENCE-ORIENTED CHAINS
(# of outlets; 2001)

Petrol	Mobil	On The Run	39
		Mobil Mart	199
		Other	286
	BP	Connect	11
		Express	42
		Other	301
	Shell	Select	98
		Shell Shop	772
		Challenge	130
	Caltex	Star Mart	82
		Caltex Shop	149
		Other	52
	Gull Shop		20+
Dairies	On The Spot		244
	Four Square		353
	Price Cutter		56
	Super 7		69

Cash& Carry	Gilmours	10
	Toops	5
	Moore Wilson	6
	Rattrays	6
	Trents	7
Liquor Stores	Super Liquor	99
	Liquorland	84
	Liquor King	34
	Glengary	22

The classic Kiwi dairy is evolving into professional chains of convenience stores with better pricing and a more relevant product offer

GROCERY/CONVENIENCE/DAIRIES

Brand	# of outlets	Supplier/Owner
On the Spot	244	Independently owned; supplied by Trents
Four Square	353	Independently owned; supplied by Foodstuffs (Various)
Price Cutter	56	Independently owned; Supplied by Rattrays (Infogate)
Super 7	69	Independently owned; Supplied by Rattrays (Infogate)
Others	1,635	
Total	2,357	

Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

New Zealand has a strong Cash & Carry sector servicing primarily small retailers and foodservice

CASH & CARRY WAREHOUSES

Brand	# of outlets	Supplier/Owner
Gilmours	10	Foodstuffs (Auckland)
Toops	5	Foodstuffs (Wellington)
Moore Wilson	6	Private
Rattrays	6	Infogate
Trents	7	Foodstuffs (South Island)
Other Retailers		
Total Retailers		

Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

Liquor retailing is highly competitive, with a number of strong chains battling with independents

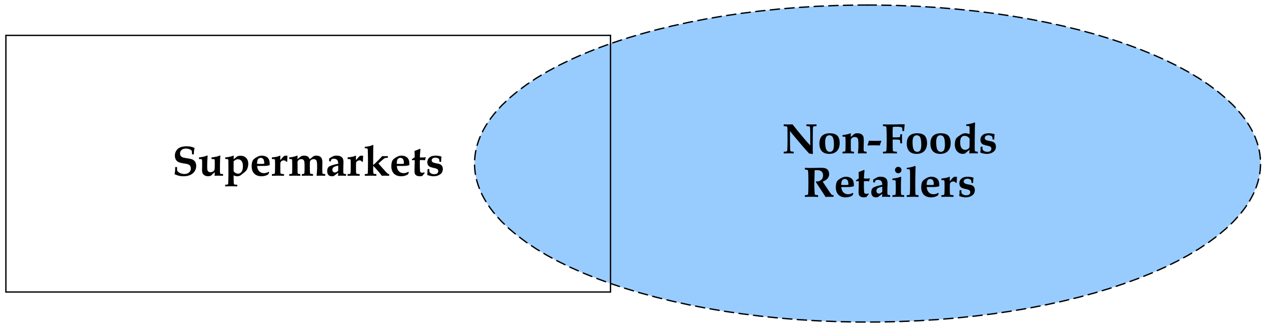
LIQUOR RETAILERS

Brand	# of outlets	Supplier/Owner
Super Liquor	99	Franchised
Liquorland	84	DB Breweries
Liquor King	34	Lion Breweries
Glengarry	22	Glengarry Hancocks Ltd
Other Retailers	429	
Total Retailers	668	

Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

Non-foods retailers encompasses a broad range of store-types

ALTERNATIVES TO THE SUPERMARKET

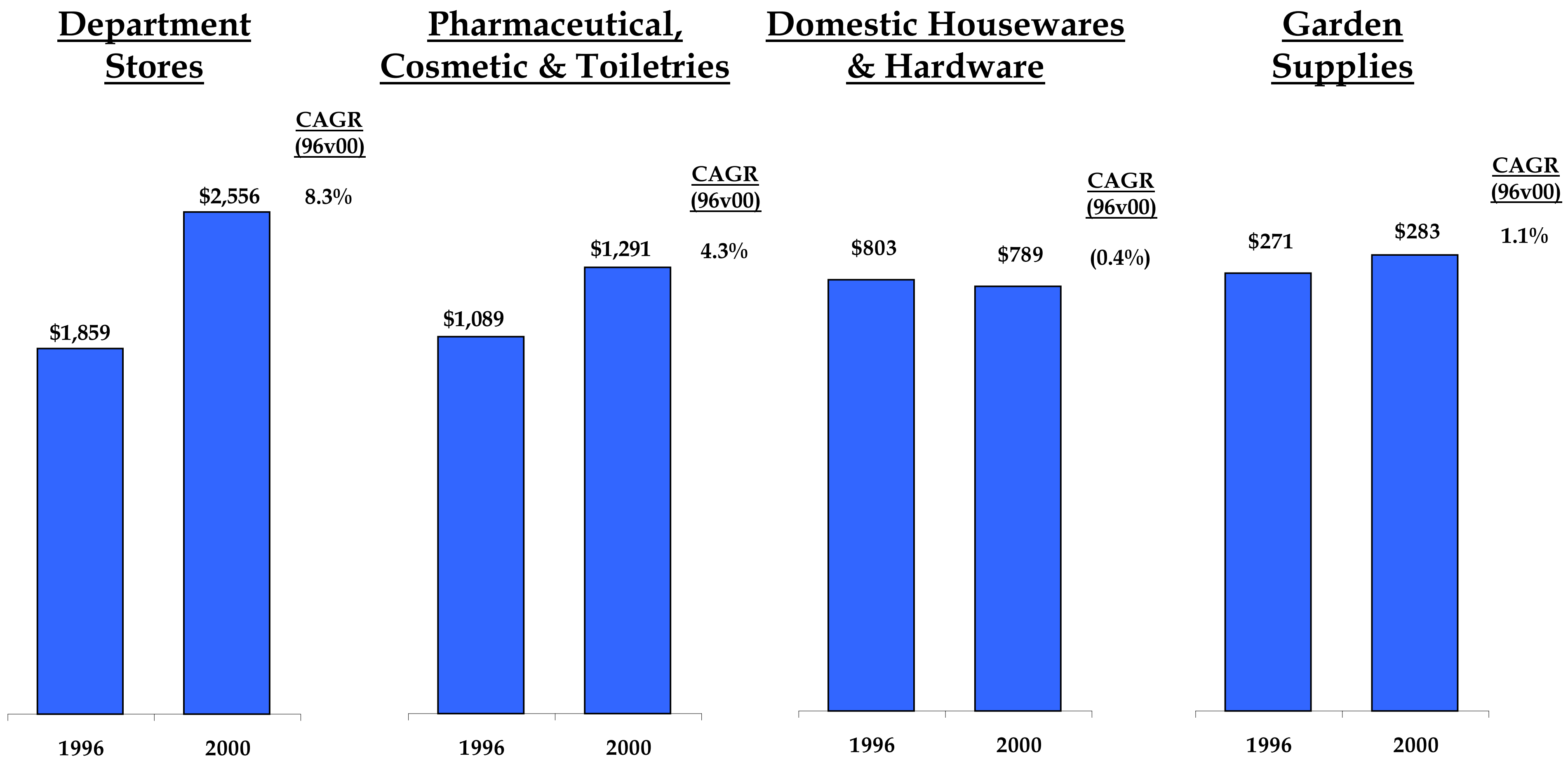


Some non-food retailers are building very large boxes

<u>NON-FOOD FMCG RETAILERS</u>

Department stores and pharmaceutical, cosmetics and toiletries retailers are showing strong sales growth while other sectors are flat or down

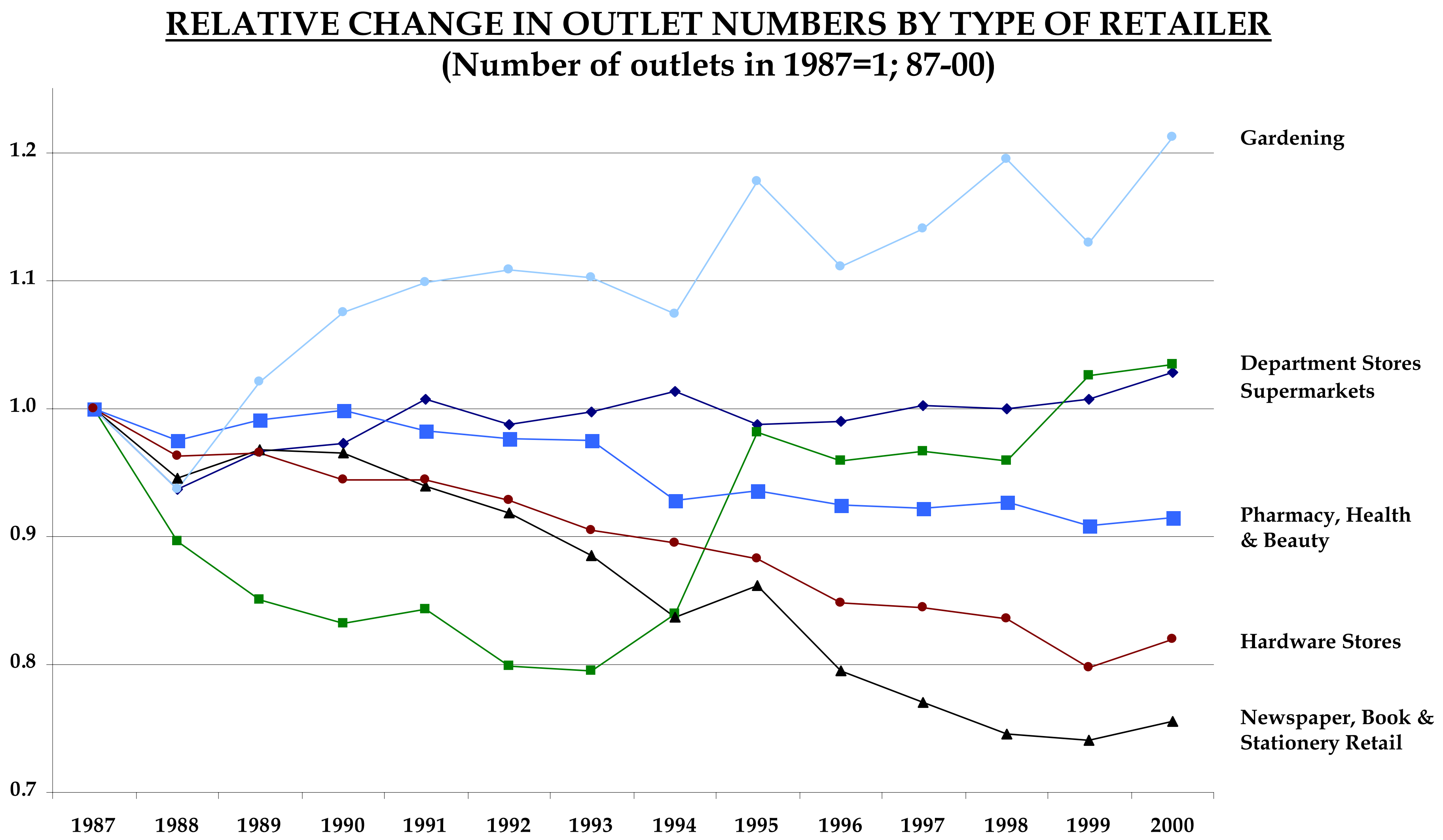
RETAIL SALES BY TYPE OF OUTLET[1]
(Dollars; millions; 1996v2000)



1. Due to confidentiality restrictions no finer breakdown available; includes milk home delivery and specialised food
Source: Statistics New Zealand (Retail Trade Survey)

The primarily non-food FMCG sector is undergoing massive changes as discounters replace traditional department stores

RELACTIVE CHANGE IN OUTLET NUMBERS BY TYPE OF RETAILER



Source: Statistics New Zealand (Business Demography Survey); Coriolis analysis

There are a number of large primarily non-foods chains

EXAMPLES OF PRIMARILY NON-FOODS CHAINS
(# of outlets; 2001)

Department Stores	Farmers	63
	The Warehouse	47
	The $2 Shop	40
	Briscoes	28
	K-Mart	11
	Rendells	7
Housewares /Hardware	Mitre 10	130
	Hammer Hardware	85
	ITM	83
	Placemakers	55
	Benchmark	42

Pharmacy /Cosmetics	Unichem	120
	Amcal	82
	Care	16
	Chemist Shop	7
Newsagents Office Supplies	Paper Plus	171
	Whitcoulls	32
	Office Products Depot	38
	Warehouse Stationery	32
	Books & More	23
	Bennetts	7
	Stationery City	6

Competition in the department store sector is fierce, with new price-oriented discounters like The Warehouse and The $2 Shop displacing old favourites

VARIETY/DEPARTMENT RETAILERS

Brand	# of outlets	Supplier/Owner
Farmers	63	FAL
DEKA	62	FAL (closing)
The Warehouse	47	Public
The $2 Shop	40	Franchised
Briscoes	28	Private
K-Mart	11	Coles Myer
Rendells	7	Private
Other Retailers	19	
Total Retailers	277	

Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

There is a strong hardware sector with growing FMCG sales, especially in detergents and cleaning products

HARDWARE RETAILERS

Brand	# of outlets	Supplier/Owner
Hammer Hardware	85	Franchised
Mitre 10	130	Franchised
ITM	83	Independently owned
Placemakers	55	Private & Fletcher Distribution
Benchmark Building Supplies	42	Corporate
Other Retailers	582	
Total Retailers	977	

 Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

There are a large number of chain and independent chemists and health and beauty specialists selling a wide range of health and beauty related products

PHARMACEUTICAL, COSMETICS & TOILETRIES RETAILERS

Brand	# of outlets	Supplier/Owner
Unichem	120	Independents (Zuellig Pharma banner group)
Amcal	82	Independents (Zuellig Pharma banner group)
Care Chemists	16	Independents (Zuellig Pharma banner group)
The Chemist Shop	7	Independents (Zuellig Pharma banner group)
Other Retailers	955	
Total Retailers	1,180	

Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

The line between most newsagents and stationers, and convenience stores is becoming blurred

NEWSPAPERS, BOOKS & STATIONERY RETAILERS

Brand	# of outlets	Supplier/Owner
PaperPlus	171	Franchised
Whitcoulls	32	Blue Star Retail Group
Office Products Depot	38	Franchised
Warehouse Stationery	32	Public
Books&More	23	Franchised
Bennetts Bookstores	7	Blue Star Retail Group
Stationery City	6	Private
Other Retailers	846	
Total Retailers	1,193	

Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

The garden supplies sector is still highly fragmented

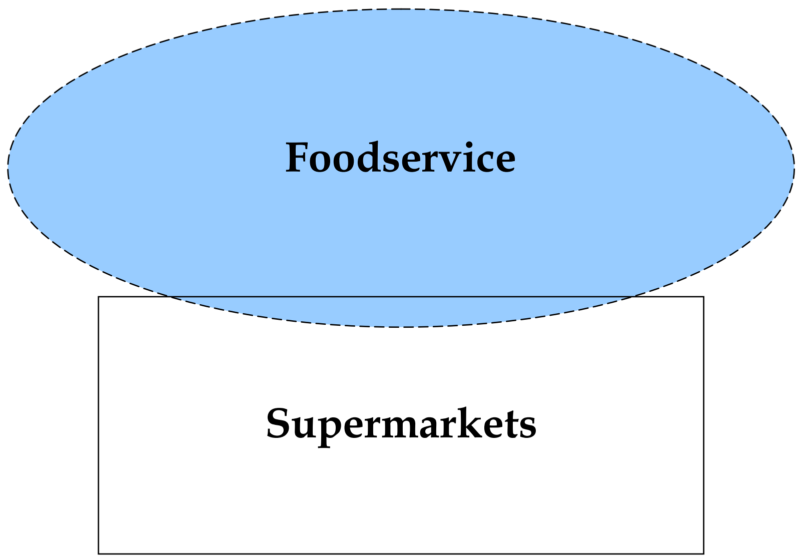
GARDEN SUPPLIERS

Brand	# of outlets	Supplier/Owner
Palmers Garden World	20	Mitre 10
Oderings	9	Private
Athol McCully	3	Private
Gardenways	3	Franchised
Turners Garden Centre	2	Private
Other Retailers	364	
Total Retailers	401	

Source: Industry Interviews; Statistics New Zealand (Business Demography Survey)

Foodservice includes restaurants, catering clubs and bars

ALTERNATIVES TO THE SUPERMARKET

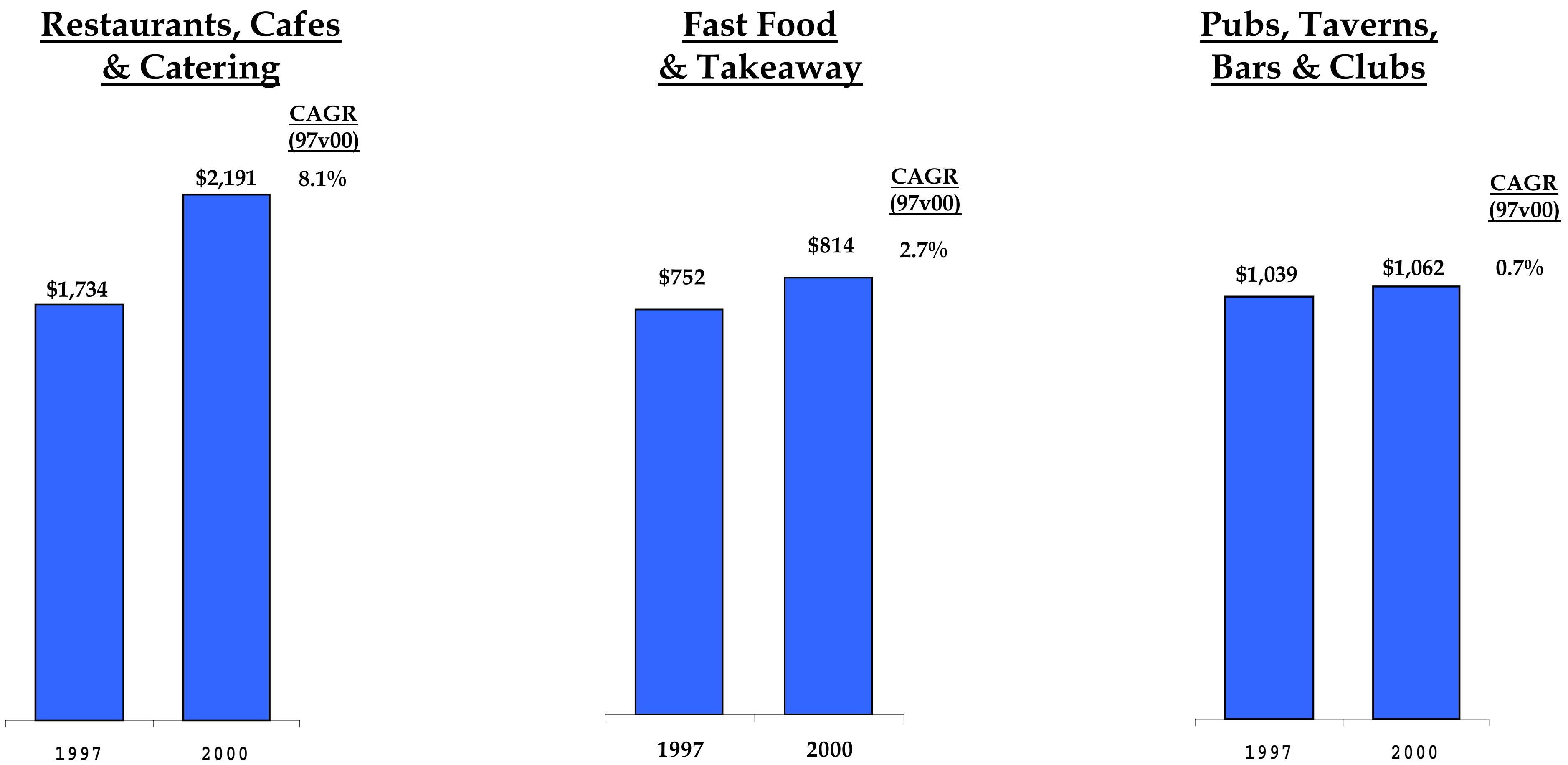


Foodservice outlets cover the full range from global chain to local eatery

FOODSERVICE

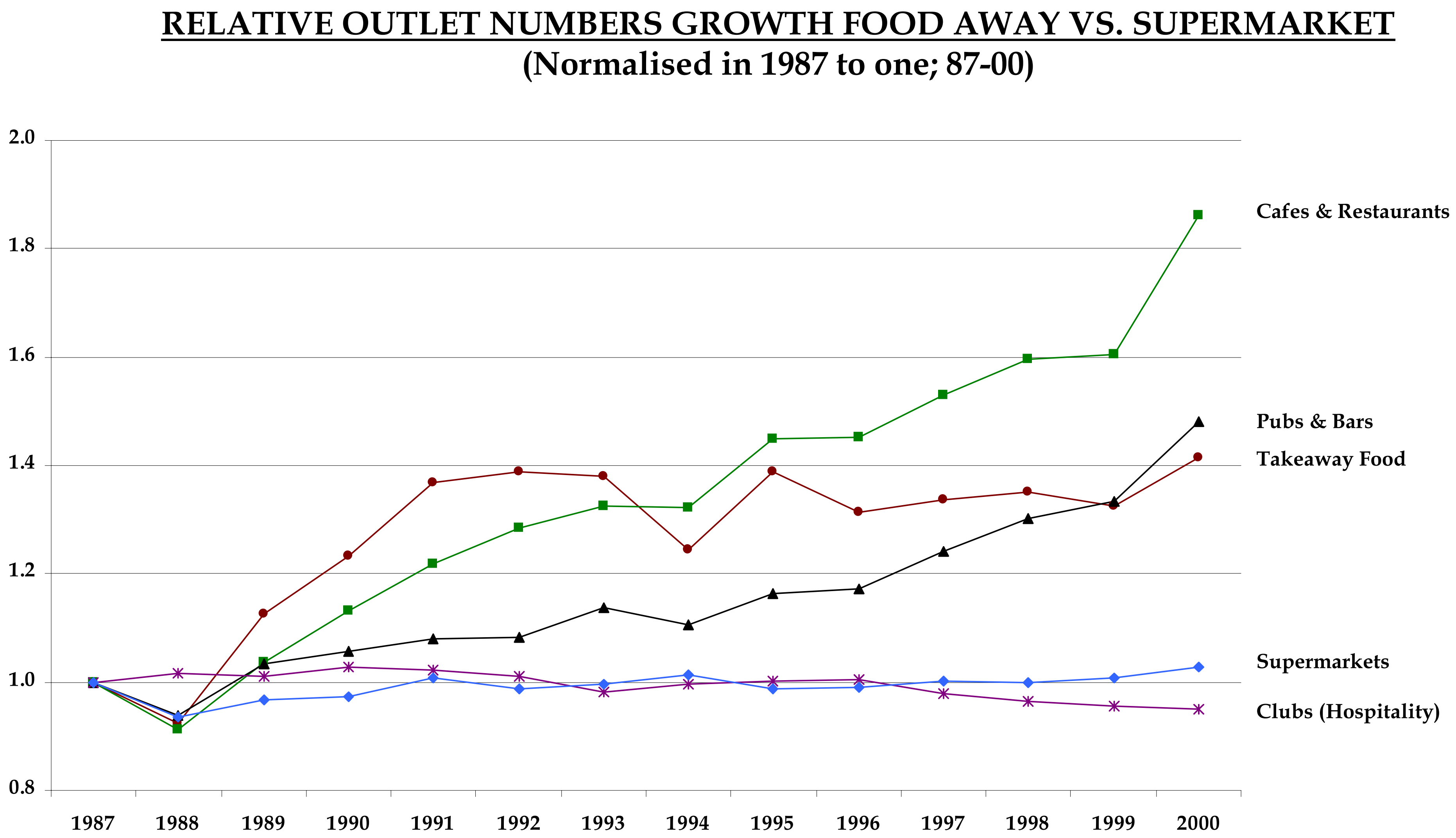
Restaurants are showing much stronger turnover growth than other food away segments

RETAIL SALES BY TYPE OF OUTLET[1]
(Dollars; millions; 1997v2000)



1. *Redefined as SNZ classifies fast food as unlicensed restaurants, not takeaway*
Source: Statistics New Zealand; RANZ; Coriolis analysis

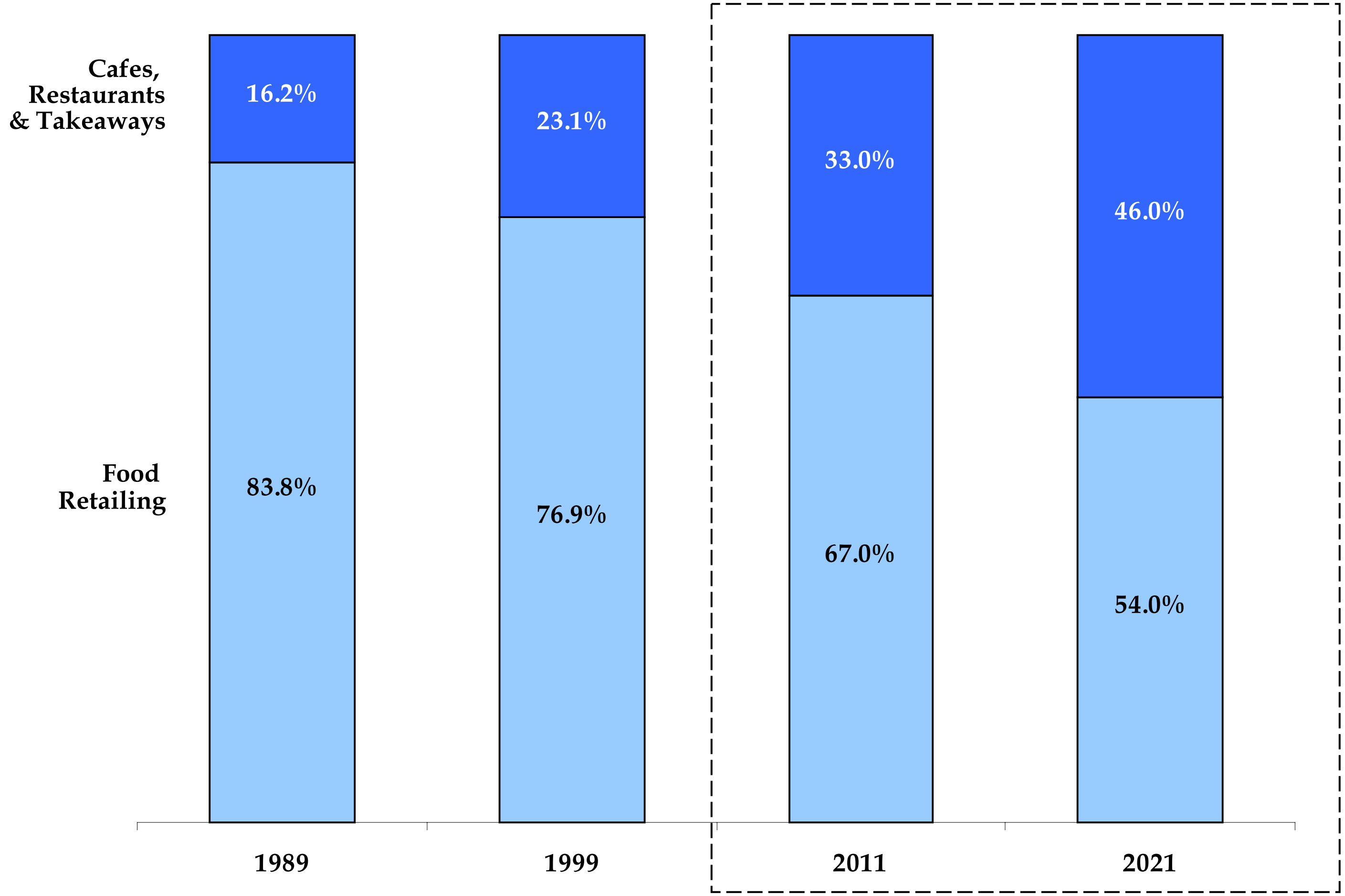
The number of food away from home outlets is growing rapidly



Source: Statistics New Zealand (Business Demography Survey); Coriolis analysis

The experience of other markets suggests this trend will continue, causing food retailers to lose 'share-of-stomach'

THE CONTINUING GROWTH OF FOODSERVICE
(% food spend on food away from home; 1989-2021p)



 Source: Statistics New Zealand; Coriolis analysis

Finally, this presentation looks at how manufacturers can begin to target alternative channels

PRESENTATION OVERVIEW

Overview of Alternative Channels

Profiles of Four Key Alternative Channels

Targeting Alternative Channels

Manufacturers looking to develop an alternative channel strategy need to answer four key questions

FOUR KEY QUESTIONS

1. **What channels stock or are likely to stock your product?**
2. **Where should you focus your effort?**
3. **How do you effectively and profitably service these channels?**
4. **How can you change your product/packaging to better serve these channels?**

1. <u>What channels stock or are likely to stock your product</u>? Different products are, obviously, suited for different channels

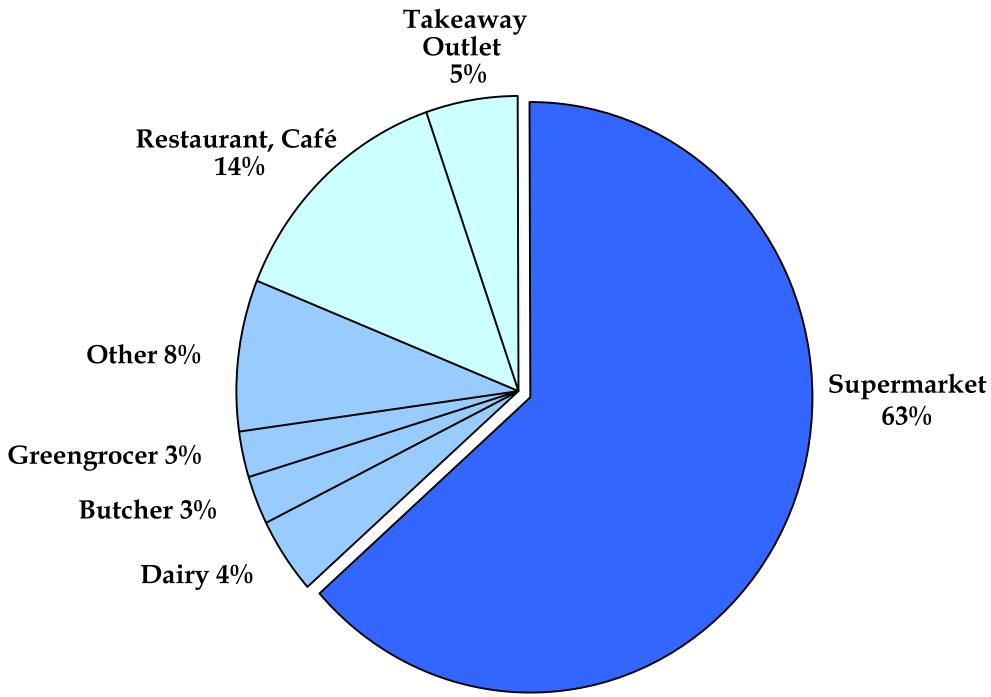
PRODUCT CATEGORY STRENGTH BY CHANNEL

	Convenience			Perishables Specialists			Non-Foods		
	Dairies	Petrol Stations	Liquor Stores	Green Grocers	Butchers	Bakers	Department Stores	Chemists Cosmetics	Housewares Hardware
Bread & In-Store Bakery	●	●	○	◑	○	●	○	○	○
Fruit, Vegetables & Flowers	◑	◑	○	●	○	○	○	○	○
Meat, Seafood & Deli	◑	○	○	○	●	○	○	○	○
Dry Grocery, Bulk Food	◑	◑	○	◑	○	○	○	○	○
Frozen Food	◑	◑	○	○	◑	○	○	○	○
Dairy/Refrigerated	●	●	○	○	○	○	○	○	○
Beverages	●	●	●	●	○	◑	●	○	○
Confectionery	●	●	○	○	○	○	●	○	○
Beer & Wine	○	○	●	○	○	○	○	○	○
Tobacco	●	●	●	○	○	○	●	○	○
General Merchandise	◔	◔	○	○	○	○	●	◑	●
Health & Beauty Care	◔	◔	○	○	○	○	●	●	○
Garden Supplies	○	○	○	○	○	○	●	○	●

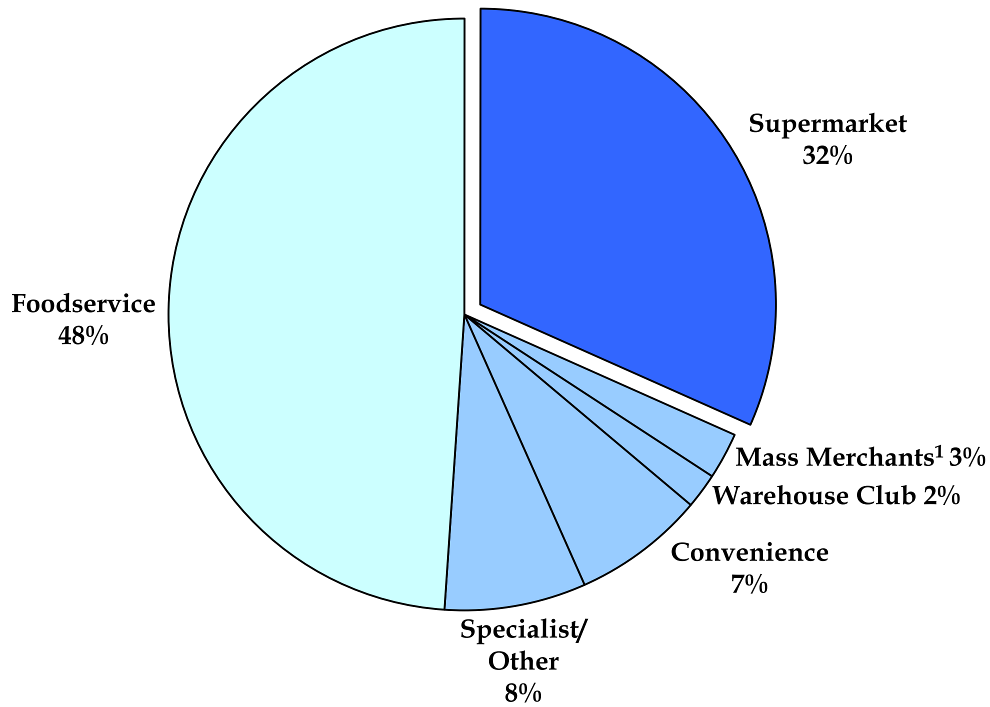
2. <u>Where should you focus your effort</u>? Focus your effort on likely winners, which the U.S. market suggests are foodservice, warehouse clubs (Cash & Carry) and discounters

FOOD & NON-ALCOHOLIC BEVERAGE SALES BY STORE TYPE
(% of sales; 2000)

New Zealand



United States



1. Does not include supercenters, counted in supermarkets
Source: Statistics New Zealand; ERS; FMI; Coriolis analysis

3. How do you effectively and profitably service these channels? Distribution costs are the key variable in any alternative channel strategy

EXAMPLE: THE CHALLENGE OF EFFICIENT DISTRIBUTION TO CONVENIENCE

Key Account Supermarkets
403

10 X →

Grocers & Dairies	2,357
Automotive Fuel Retailers	1,658
Total	4,015

4. <u>How can you change your product/packaging to better serve these channels</u>? The product and packaging requirements of alternative channels differ from supermarkets

<u>EXAMPLE: STAGES OF CUSTOMISATION FOR FOODSERVICE</u>

	STAGE I	STAGE II	STAGE III
Product	Standard Supermarket Item	New Larger Pack Size	Customised Product Formulation
Objective	Incremental Sales	Incremental Margin	Market Leadership
Go-To-Market Strategy	Sell Through Cash & Carry	Sell Through Foodservice Distributor	Sell Direct

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