

# Strengthening The Candy Core

In dealing with everything from new items to exit strategies, discipline is key in 2010

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**D**eciding which of about 7,000 SKUs should fit into an 8-foot c-store candy set can be like the puzzle computer game Tetris.

You start off slowly, building a base of well-known brands that sell reliably. Then new items trickle in, and you try to fit them into the set because of their potential. Some of these sell through, but others stack up and consume valuable space.

Then, at some point, you lose track of the reliable sellers. Suddenly, you have too many pieces. Cash flow quickly clogs up, the set gets messy and

**“The core brand opportunity is one area—but the real focus is on category-management execution and working collaboratively.”**

that potential is never realized.

Or, to put a number on it: The c-store channel is losing about \$410 million in incremental sales each year by failing to keep those top 50 SKUs in stock, according to the recent study “Convenience, Confections & Profit: Targeting the Core.”

That’s the battle major manufacturers and wholesalers are taking to the

street in 2010: a focus on the core brands of confections, and an attempt to capture more sales and profits in a category already known for offering among the highest margins. Consider it also a reaction to the excess of limited-edition items of a few years prior, which threw every element of the supply chain—manufacturer, distributor and retailer—off their game.

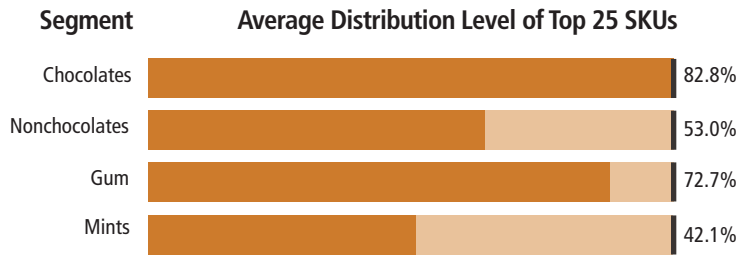
“You fall in love with innovation and feel like you have to have a certain amount of promotion and unique items, and that’s certainly true,” says Tom Joyce, vice president, customer and industry affairs for The Hershey Co., Hershey, Pa. “But it puts energy around [new items] and takes energy away from best-selling items.”

“[The lead manufacturers] have really gotten back to basics,” says John Scardina, vice president of merchandising for distributor Eby-Brown Co., Naperville, Ill. “All played in the realm of flavor extensions and playing off key brands. What they wound up doing was diluting brand presence and confusing the consumer. ... All of them have gotten back to: ‘Here’s what took us to the race, here



## ▶ Top SKU Distribution Levels

Various factors affect a segment's distribution level, such as number of new products and manufacturers.



Source: Dietz Consulting LLC, The Nielsen Co.

are the horses that need to run.’”

But an overabundance of new items isn't the only tripwire. Distribution and execution at the store level are also lagging. Consider that while the top 50 candy SKUs contributed 32.7% of category sales, their distribution levels averaged 83% across the channel, according to the “Convenience, Confections & Profit” study.

The research, sponsored by the American Wholesale Marketers Association, NACS and the National Confectioners Association, examined Nielsen sales data for the last quarter of 2008. It found the category awash in excess product, which was preventing core SKUs from shining through.

“Forty-seven percent of the volume is being driven by 100 SKUs, but more than 7,000 SKUs are in distribution across the supply chain,” says Kit Dietz, principal of Dietz Consulting LLC, Huron, Ohio, and author of the 2009 study, which is being updated this year. “Really, you have 93.6% of SKUs to drive 20% of the volume. That talks to

the point of diminishing value as far as SKU counts—a lot of cost in the system to handle SKUs not making an impact in the channel, and just a cost burden.” In other words: too much variety for a limited-assortment channel.

It also revealed a few industry practices that should fall by the wayside, including the practice by many retailers of returning unsold candy items to the wholesaler for credit, rather than marking it down, and of not sticking to the plan-o-gram.

Of course, the danger is that the pendulum will swing in the other direction; that is, with such a tight focus on the proven, core sellers, the c-store channel may lose its luster as a home of new products, and the category will sacrifice variety as smaller manufacturers get muscled out. The key to keeping the balance: Take a holistic category-management approach.

### THE BIG PICTURE

For the channel to reach its full potential with candy, its different players need

to free themselves of worst practices, Dietz says. This begins with the philosophy behind new products.

“New products are very important; retailers are always looking at them, and the consumer likes them. But at the same time, the success rate on new items after a year and a half is not very positive,” Dietz says. There is also a direct correlation between the proliferation of new products and the level of distribution on core items.

The distribution levels of the top 25 SKUs in the various segments range from a high of 82.8% for chocolate to a low of 42.1% for nonchocolate, according to the study. A couple of those with the lower distribution levels—mints and gum—are seeing chaos from a proliferation of new products that keep the excitement level high but risk unbalancing the consumer. In gum, for example, only two of the top 10 brands were on this same list 10 years prior.

“You also see much lower distribution levels on top-selling [gum] SKUs because they haven't been established; people don't recognize what the No. 1's are anymore,” says Dietz. While innovation drives consumer excitement, it can make the segment unmanageable on the store level, and difficult for a shopper to navigate as packaging becomes a cacophony of color.

Striking that new-item balance is tough for retailers and manufacturers. Hershey decided to introduce fewer—but more innovative—items each year.



### ▶ Tips to Grow On

- Identify poor performers and develop an exit strategy for their removal.
- Maintain the core of top SKUs in a set.
- Revisit and reset the plan-o-gram several times a year.
- Identify the gaps in a set, including core items that have not recently been ordered.

## Top 10 C-store Candy Brands

Major manufacturers and wholesalers are encouraging a focus on core candy brands to deliver long-lasting growth for the category. Retailers should assess—and reassess—the top contributors in each segment to ensure the best SKUs are given a place in the set.



Brand	C-store sales (\$ millions)	PCYA*	Unit sales (millions)	PCYA*
Reese's (< 3.5oz)	\$228.9	8.9%	185.2	-5.4%
M&M's (< 3.5oz)	\$202.7	5.6%	176.1	-1.7%
Snickers (< 3.5oz)	\$183.4	29.3%	164.5	11.8%
Orbit	\$166.8	-9.8%	118.2	-17.5%
Wrigley's 5	\$144.5	39.1%	84.6	36.3%
Hershey's Milk Chocolate (< 3.5oz)	\$142.2	-5.4%	122.3	-15.7%
Trident	\$137.3	-0.6%	100.3	-7.2%
Twix (< 3.5oz)	\$112.5	12.6%	89.5	0.8%
Stride	\$103.6	8.2%	74.8	1.3%
Skittles	\$87.6	-1.0%	74.0	-10.2%

Source: Information Resources Inc.

\* Percent change from a year ago

C-store sales, 52 weeks ending Nov. 29, 2009

consumer appeal, whether on an adult, teenager or child's level."

This is part intuition and part benchmarking, Scardina says. It means relying on data that shows how the new product has proven itself in other channels and examining like items within the segment that are already performing well.

Differentiation can also be created in a retailer's merchandising technique and promotional activity. Secondary displays featuring new products at a promotional retail price point can keep consumers aware of the category and capitalize on the impulse nature of candy, Scardina says.

## PROCLAIMING INDEPENDENCE

For retailers, returning to category-management best practices means eschewing the easy money.

Jim Anholzer, general manager for U.S. Oil Co. Inc. dba Express Convenience Centers, Combined Locks, Wis., says 2010 is the year of proclaiming independence from candy contracts and the lure of manufacturer rebates, so he can focus on a purer category-management ideal.

"I'm not being a slave to the candy contracts and demands," he says. "I'm giving up rebates to regain control over my floor space." The retailer embraces shippers—it typically has two to three in the store at all times—but only if they highlight new products. Otherwise, they simply duplicate the main set, Anholzer argues.

About 15% of the retailer's in-store sales are generated by candy, but 2009 was flat in terms of volume growth after years of steady increases. The company works with its category captain, Hershey, on

"If you get into new-item mode, you will get excitement and spend a lot of energy getting a new item into distribution, and a lot of times, you [end up] discontinuing one of your own items to get it on the shelf," says Joyce. "At the end of the day, a new item doesn't sell more product than an old [core] one taken off of the shelf. It's a tough game."

Larry Lupo, vice president of sales for Mars Chocolate North America, Hackettstown, N.J., concurs. "Core brands are important and should be given the proper space on the planogram," he says via e-mail. "Consumers should be able to find the top sellers easily. This may require the right amount of space to be given to top sellers."

While the focus on core brands may seem to favor major manufacturers, Dietz says even smaller, one-hit players should benefit. Indeed, he relates the response of a small, Texas-based confectioner to the study's rec-

ommendation to improve distribution on core items.

"The owner said, 'This is right for me, too—I've got one item and a 30% distribution level,'" Dietz says. "He said if he got [distribution] into the 60% or 70% level, he wouldn't have to worry about any other products he sold in this channel. So it's not just getting it right for big manufacturers, but getting it right for smaller ones as well."

So what role does this leave for new items and variety?

"Variety in the confection category—you have to have it for the consumer, because [new items] are the ones we rely on to keep sales moving," says Scardina of Eby-Brown. He recommends prioritizing all candy SKUs by unit sales into tiers. The first tier is the core, followed by second-tier items. "Then you go into third- and fourth-tier items that offer a balanced mix to the category itself," he says. "They may not be top-selling items within the candy category, but they have play and

plan-o-grams, which it resets twice a year.

Express Convenience Centers participates in Hershey's retail contract, which requires participants to keep the top 33 Hershey SKUs in stock to earn rebates. That being said, Anholzer does not feel restrained by it. "If something doesn't work being in the sets, isn't moving at all, we don't hesitate to pull it out," he says. He gives products 90 days to meet their profit targets. Products are removed on a quarterly basis.

This brings us to another common, but short-sighted, industry practice: returning unsold candy to the wholesaler for credit—typically the invoice cost minus a restocking fee.

"The lag time of having a product sit on the shelf, until the credit request is done and the distributor picks it up, creates too much of a time lag in the process, and the retailer loses money in the process," says Dietz. "They can make more money by marking it down, selling it at cost and moving it out quickly, and replacing it on the shelf with even an average item. The core brand opportunity is one area—but the real focus is on category-management execution and working

collaboratively."

It's all part of having an exit strategy for poor performers. A new product typically proves itself within the first three months in the store. "If you don't have an exit strategy by the sixth month, you're probably carrying it too long," says Lance Smith, candy category manager for McLane Co., Temple, Texas. The goal: replace underperforming SKUs with another new item to capitalize on manufacturer advertising and promotional monies.

It's a practice some retailers may be hesitant to put in place. If the product is a guaranteed item, Express Convenience will return it to the wholesaler for credit. "If I'm going to get full credit on something vs. marking it down, it's more valuable to send it back and get full credit," says Anholzer. "I suppose there's some value in the perception of a customer if you always have marked-down candy, that you're running good deals. That'd be a big leap of faith for my part—giving up those pennies to get full credit."

"It becomes a bit of a challenge to take lesser-performing items out of the retail environment and make sure everyone is kept whole in the process,"

says Scardina of Eby-Brown, citing that the retailer already has invested inventory and real estate on the new item. That being said, "The markdown theory works. Let's get the dead stuff off the shelf, let's put stuff on the shelf that's going to generate sales and gross-profit margin, and sell the other stuff at discount so we can get it out of the store and keep cash flow rolling."

Another common industry practice that, in the quest for greater profits, tends to backfire: buying discounted slow-selling products and putting them on the gondola. The discounted item may displace a core brand, which has greater long-term potential.

In the end, maximizing candy category growth for the long-term is simple: Perfect the assortment, stay in stock on best sellers, include secondary placements in high-traffic areas, and choose new items strategically, says Joyce of Hershey. Whether the core items come from a club store, a distributor or are direct from the manufacturer, "It is constant education and it is doing everything we can to help a retailer understand that if they stay in stock on best-selling items, they're going to have good sales and profit out of a high-profit category." ■