Choices and Consequences

It's time to give the cigarettes category the same attention and passion as we do to fuel. Most top-performing retailers, when measured by store operating profit, already do this. But many chains continue to forfeit gross-profit dollar opportunities by making the wrong marketing choices and suffering the (lower GP dollars) consequences.

I just finished some new research and thought that a fresh look at this category might help us come together on a few basic facts. Some will disagree with a few marketing concepts I propose but, conceptually, maybe we can all agree with some primary facts about the smoker's shopping habits, the need to be competitively priced, and how to measure the category's performance.

In the NACS 2005 State of the Industry Report, the cigarettes category approximated 35% of industry sales and 23% of in-store gross-profit dollars. The report shows average cigarettes gross-profit dollars per store at about $65,000 for 2004 and the average pretax profit at $36,000 per store. If we factor in that the typical pack smoker visits our stores more than any other patron (about 4.6 times per week), we can conclude that our policies have to be smoker-friendly lest we frustrate our No. 1 consumer.

Cig Dynamics

Last year, we at CStoreXchange (CSX), an online benchmarking company of industry-specific monthly operating results and trends, established a matrix to better analyze and monitor key trends related to cigarettes. The metrics we tracked cover the basics: cigarette inventory value, segregated from total in-store inventory; and unit trends, in cartons per month sold. In the data we collected, respondents also had the option to report data by premium, savings and other subcategories such as fourth tier.

By reviewing CSX's key cigarette metrics it helped me gain a fresh perspective on why some retailers continue to grow this category and why too many retailers do not.

My conclusion is that some marketing "choices" create the "consequences" of this category's ultimate success:

Setting the stage. Nothing else matters if your counter and displays don't appeal to the smoker. If the area is cluttered, not well-lit, lacks promotional materials and your inventory has limited SKUs, then you'll probably sell less than 100 cartons per week (CPWs).

Understand the smoker. If you educate your store associates and top management about the nature of your smoking consumers, they'll be astute in relating to your customers' needs.

Inventory management. When national statistics suggest that more than 70% of c-store cigarettes are sold via promotions, logic would follow that if you're not promoting the brands that smokers desire, you'll forfeit share of market to other retailers. Further, the loss sustained from disproportionate out-of-stocks—the stat that says a brand-loyal pack smoker will change venues after not finding their brand twice—is pretty scary. If the value of that MVP (most valuable patron) approximates $360/year (a conservative value these days), you forfeit the average pretax profit if you lose just one of these customers every three days.

Customer service level (CSL). This is probably the retailer's biggest choice and has the biggest consequence. One cigarette manufacturer crystallized a retailer's five choices in managing cigarettes. The first choice is to be a retailer that elects to make cigarettes a "destination and driver." The second choice is being perceived as a "staple" venue for most brands. Format three is a "niche" appeal; this applies to more of a tobacco outlet. Options four and five appeal to the occasional and fill-in smokers; to me they say to the smoker, "I'll sell it to you if I got it." The first two choices are the only ones to consider unless you are a tobacco outlet.

Dick Meyer is president of Meyer & Associates, a consulting firm that specializes in the convenience store industry. He also is co-founder of CSX LLC. He can be reached at dmeyer@dickmeyer.com

Measuring Results

To validate your company's progress, I suggest you keep track of these key cigarette-related metrics:

1. Units and cigs gross-profit-dollar trends. Is the category growing or declining, and how is it performing in contrast to same-firm national averages from external data such as CSX, and by-brand/by store and regional volume trends analyses available from the tobacco manufacturers?

2. Total store gross-profit-dollar trends. Just as fuel pricing can directly affect in-store volume, so can cigarette pricing and promotions. Thus, compare total merchandise gross-profit dollars and total store (including fuel) gross-profit dollars against external same-firms trends so you don't allow one category's strategies to negatively affect aggregate traffic and profits per store.

3. Cigarette inventory turns. Have your internal reports segregate cigs value from other inventory. Then measure your turns against CSX-type same-firms benchmarks. Then assign an "owner" to monitor by-store and company turns every week.

4. Monitor out-of-stocks religiously. If you want to sell more cigarettes and be a "destination" or "staple" location in the eyes of the smoker, you'll have to implement an "alert" system by store that immediately advises when key brands are out of stock, fix the situation ASAP and minimize recurring situations.

5. Elevate cig marketing to the executive level. In many companies, discussion of cigs strategies and trends are part of weekly management meetings. If they are not, tell everyone that they will be, just as I'll bet fuel strategies and overall profitability are.

In closing, I'll guarantee that the adage, "Know the score, keep the score and the score will improve," will apply with even more vigor to any retailer that decides to fine-tune its cigarettes category management. We don't want to forfeit our controlling share of cigarettes and fuel to competitors because we took them for granted. ■