

Convenience Store News

Webinar Zeroes In on OTP Shopper

JERSEY CITY, N.J. -- Sales of other tobacco products in convenience stores continue to climb as competition for the OTP shopper heats up and government regulation looms around the corner. But with the right tools, retailers can win their share -- and even more than their share -- of OTP dollars.

In the *CSNews Online* Webinar, "High Stakes: Winning the Battle for the OTP Shopper," sponsored by Swedish Match, Joe Teller, director, category management for Swedish Match, explained that despite the lack of good economic news, OTP sales dollars have increased 9.5 percent year-to-date through June 2011. This is true even though total tobacco dollar sales growth stalled. OTP GP percentage fell by three points YTD through June; however, increased competition may be key factor behind this, Teller added.

What the numbers show is that there is money to be made within the OTP category. "The OTP shopper is worth three times the annual dollars vs. the average convenience store shopper," he explained. In addition, since more than half of adult dippers also smoke, OTP is a good way to build cigarette loyalty, Teller added.

Teller offered up a general checklist for retailers looking to become among the best in class c-store operators. For starters, retailers need to have a placement strategy in place. This would include allocating more space and making an effort to brand the tobacco section to set it apart from other retail stores, he added. The checklist also includes offering the right products, having an aggressive POS, implementing strong promotional programs and having the right pricing.

And it is Swedish Match's experience that those retailers that follow that checklist stand above the rest. For example, according to Teller, the best in class c-store operators sell 380 cans of moist snuff tobacco (MST) per store per week, 700 cigar sticks per store per week and saw MST velocity growth of more than 11 percent.

Smoker Friendly International is just one example of a retailer looking to recoup dwindling cigarette sales dollars by focusing on the OTP category. According to Mary Szarmach, vice president of trade marketing for Smoker Friendly International, the retailer has found success with alternative smoking products including moist snuff/chewing tobacco, snus and dissolvable products, electronic cigarettes, and cigars -- both domestic and premium.

Moist snuff/chewing tobacco is seeing very modest growth -- at 1.5 percent year-to-date compared to double-digit growth in the 2000s, she said, but it is still "a very good margin product that offer excellent sales for a smaller footprint."

Carrying snus in its stores has also been a positive for Smoker Friendly, she said. "We are seeing new faces and enjoying higher margins. It has created a new category within a category," she added.

Roll your own, make your own and pipe tobacco have also been hits among its customers. "The volume has exploded," she said, explaining the growth is mainly attributed to the increase in cigarette taxes across the country. And the accessories with RYO, MYO and pipe -- such as tubes, wraps and injectors -- help increase sales. "It certainly brings the ring up to close to what traditional cigarettes would be but the margin is two times, maybe three times, what you would get on traditional cigarettes," Szarmach explained.

But of major concerns to Smoker Friendly and other retailers, according to Szarmach, are taxation and regulation. "Taxation is an ongoing battle and the [Food and Drug Administration] is a major threat to all our businesses," she explained. "There is fear because it doesn't understand the products it is regulating right now so what is going to happen when it moves to other products?"

As for the FDA regulations and compliance, Tom Briant, executive director of the National Association of Tobacco Outlets (NATO), explained that the agency has contracts with 38 states to have a state agency in each conduct compliance checks on behalf of the FDA. And of all the compliance checks done this year, 97 percent of the retail outlets have passed.

But there are several issues NATO and retailers are keeping their eyes on. For one, the FDA is looking to create a public violation form to report any retailers that may be in violation of regulations. However, NATO opposes this idea mainly because members of the public are not trained like state inspectors, which could lead to false reports or harassment against a retailer, Briant explained.

The industry is also watching a lawsuit filed by manufacturers against the FDA trying to block the nine graphic cigarette label warnings the agency made public in June. Those warnings are mandated to be on all cigarette packaging and advertising by September 2012. A federal judge is expected to rule on the suit at the end of this month.