

See your kiosk as a profit centre

Focus on a wide offering to boost sales over the counter

By LAURA DURHAM

Puffing away profits

Cigarettes and other tobacco products has always been a lucrative category with many stores, particularly forecourt stores, benefiting from smokers dashing in for a pack of their fix and more often than not, going away with more.

However, high prices (increasing by 80 cents according to Minister of Finance, Pravin Gordhan's Budget Speech), the hard-hitting health campaigns and strong advertising legislation has caused some suffering.

Euromonitor International reports* a 4% decline in volumes to 19.9 billion cigarette sticks in 2009. However, the same report notes that illicit cigarettes have recorded 6% volume growth in the same period.

Restrictive legislation

Legislation that further restricts smoking in public places has also negatively affected sales as the stigma attached to smoking increases. The report notes that manufacturers have responded to the changes in legislation to moving into the premium category where they can achieve the best margins possible. British American Tobacco South Africa continues to dominate South African cigarettes with an 85% volume share in 2009.



A well-stocked kiosk with a wide variety of products will assist in making your kiosk a destination point for your store, not to mention the added sales that will come with selling premium products.

The kiosk is an all too often neglected area and yet it has the opportunity to bring in serious extra sales for the store. With its high priced goods (think cigarettes, razors and batteries) and the opportunity to offer added services – prepaid electricity, airtime and Lotto – the kiosk is a profit centre waiting to be tapped. *Wholesale Business* took a look at some of what a kiosk can offer and what more retailers can do in this potential profit centre.

Manufacturers are also responding to the growing health trend by introducing lighter cigarettes that contain low and ultra low tar levels. However, ultra low tar cigarettes only comprises 8% of total cigarettes value sales in South Africa. They too declined by 2% in volume terms but "price increases of these high-priced cigarettes contributed to 10% current value growth", reads the report.

"Stringent smoking restrictions and the current economic downturn have resulted in a decline in legitimate cigarette sales. Generally there has been a shift to cheaper cigarettes as consumers have decreased disposable incomes due to the economic recession."

Cigars, which are traditionally associated with upper-income groups have also suffered as consumers down trade and get

rid of luxury habits. The report notes that cigars recorded a 4% volume decline to reach 12 million units in 2009. "Cigars have seen a dramatic decrease due to pricing," agrees Joe de Barros, GM of Other Tobacco Products (OTP).

Although still regarded as a status symbol, the popularity of the cigar continues to diminish. Small cigars and cigarillos (defined as a miniature cigar weighing less than 3 grams) did not decline as much in 2009 as the previous year as traditional cigar smokers downtraded to the smaller and cheaper versions.

*Cigarettes – South Africa, August 2010, Euromonitor International



Rural market

De Barros notes that sales of pipe tobacco and roll your own (RYO) tobacco continues to rise; an effect of the expensive cigarette price no doubt. Looking at the rural market, however, he says that pipe tobacco has completely stagnated. "Youngsters have moved away from pipe tobacco, which they see as old-fashioned, to cheap cigarettes," he says. Not being able to sponsor events has also made tobacco products suffer in rural areas in particular.

Future of cigarettes

Looking ahead, the impact of legislative changes restricting smoking, price increases and growing health awareness amongst consumers will all contribute to the continuous decline in volume sales of

Kiosk feature

tobacco products. "Cigarettes is expected to record a negative 3% constant annual retail value growth and a 4% volume over the next five year period." And even more worrying, is that Euromonitor expects illicit cigarettes to see a 4% annual volume growth in the next five year period.



Reducing pilferage, adding value and a strong merchandising technique tailor made for the specific store and customer base are key for battery sales success. Selling batteries from the kiosk or off a stand in-store are two such merchandising techniques.

in addition to steady innovation in the category which is bringing it out of commoditisation."

"Rural and peri-urban are upgrading to alkaline as the value and performance proposition is so much more appealing and saves these savvy consumers money," he says.

Innovation a key driver

New product launches include Duracell's StayCharged rechargeable batteries (they come pre-charged and stay charged up to five times longer) and a variety of mobile charging devices and solutions to charge cellphone, iPods and other devices on the go. These innovations are appealing to a wider base of customer – not just the housewife looking for a battery for her kitchen clock, and sales figures indicate that this is paying off.

Power surge for batteries

Reducing pilferage, adding value and a strong merchandising technique tailor made for the specific store and customer base are key for battery sales success, says Jason Frichol, Fore Good Group marketing head.

He suggests that product innovation is the driving force. "Batteries, especially the alkaline segment have been pretty robust showing positive growth in challenging times. Two major influences are consumers are trading up from zinc to alkaline



Stub out illegal cigarette trade

British American Tobacco (BAT) South Africa has launched an awareness campaign against the sale and consumption of illegal cigarettes. Supported by the Tobacco Institute of Southern Africa (TISA), the drive aims to educate, wholesalers,

retailers, consumers and the general public about the illegal trade, which accounts for more than 1 in 4 cigarettes sold in South Africa.

"In the past 18 months, we have seen an alarming rise in the availability of illegal cigarettes. Current estimations are that some 15 million sticks or 750 000 packets of 20s are sold illegally in our country every day. This accounts for more than 20% of our tobacco market, and far exceeds international averages, which hover between 6 and 12%. Around 80% of the illegal cigarettes sold in South Africa come across the border from Zimbabwe," explains Fay Kajee, corporate and regulatory affairs director, BAT SA.

Essentially there are two types of 'illicit' cigarette products: evasion of taxes on brands imported or manufactured in South Africa; or the counterfeiting of a legal brand. In South Africa the evasion of taxes is the most common one with over 80% of the illegal trade in cigarettes coming across the Zimbabwe border.

The estimated annual revenue loss to the South Africa Government is more than R2.5 billion a year in unpaid taxes as just over half of the cost of a packet of cigarettes goes to excise and VAT. "Besides undermining the substantial contribution made by the tobacco industry to the fiscus each year, the growing trade in illegal cigarettes has been linked to organised crime," says Kajee.

TISA has sent out warning letters to wholesalers and retailers, reminding them of penalties of buying, stocking and selling illicit cigarettes. BAT SA has also launched a hard-hitting advertising campaign aimed at highlighting the consequences of handling illegal tobacco products.

"Selling illegal cigarettes is a crime and we will continue to work closely with the South African Revenue Services and the SA Police Services to help bring guilty parties to book. If prosecuted under the Customs and Excise Act for evasion of tax, one can face a fine of R20 000 or up to five years in prison; and if prosecuted under the Tobacco Controls Act for non-compliant product, one could face a fine of up to R1million," explains Kajee.

Illegally manufactured or counterfeit tobacco products can normally be distinguished by the relatively low selling price to consumers. A packet costing less than R13-50 should be treated with suspicion. Other telltale signs on the pack can be misplaced or missing health warnings; missing SA diamond excise stamp; the +27(0)11 number at the back of the pack and the maximum tar/nicotine readings of 12mg and 1.2mg respectively.

To report any illegal trade in cigarettes, phone the TISA hotline on 0800 214 710.



Rechargeable batteries are growing steadily, says Frichol, although they have not yet had the same impact and market share compared to Western Europe. He believes the core reason behind this is that rechargeables are treated as a simple add-on and marketers are not paying enough attention to usage and need states.

Perhaps another reason is due to the fact that the majority of our population lie in the lower income group and cannot afford the luxury of digital cameras, iPods and other devices that would require rechargeable batteries.

To boost this sub-category's growth, suppliers and retailers need to take a different approach when talking to shoppers in different channels. Batteries are often an impulse purchase so positioning in store is vital. Many retailers choose to stock them behind the kiosk to reduce pilferage.



Cigarettes and other tobacco products has always been a lucrative category although high prices, the hard-hitting health campaigns and strong advertising legislation has caused some suffering for the market.



More and more stores are able to give an added service to customers by offering prepaid electricity tokens. A choice between a cellphone pin or paper voucher (like airtime) is making this even more accessible for everyone.

But this is too often considered as the only point of purchase which hampers overall category growth.

Kiosks can also appeal to those pop-in customers, such as the shopper who comes in for a pack of cigarettes and then remembers his/her digital device needs charging on-the-go. The secret is linking into the shopper's mission. "Batteries are a true margin and value driver for the retailer and the insufficient space allocated is motivated by the fear of high pilferage."

Other points of purchase include the tills (great for impulse purchases) and off location areas such as power wings and permanent gondola ends. "The correct ranging and placement per channel complemented by targeted shopper messaging endures and the merchandising practise needs to be tailored by shopper and channel," Frichol says.

Looking ahead to the growth of this category, Frichol says that suppliers need to work on adding value and innovation, rather than driving down value by focusing

on price. "Proposition, value, application and performance need to be highlighted for the health of the category and the satisfaction of the consumer and shopper."

Offer prepaid electricity to draw feet to your store

"Electricity has become like airtime; a commodity," says Alan Kodesh, electricity product executive at Blue Label Distribution. And seeing as retail is all about commodities, selling prepaid electricity in your store (at the kiosk or tills) is key to keeping up with your customers' demands for convenience.

South Africans have access to electricity in two ways: a prepaid meter or municipality account. There are approximately 5-6 million active prepaid customers in the country (For those with prepaid meters, the availability and convenience of prepaid electricity recharge is vital.

According to Kodesh, there are three different categories which municipalities fall into in South Africa:

- 1.** Municipalities who don't have any prepaid meters (not common).
- 2.** Municipalities who have prepaid meters but consumers have to buy their tokens from municipal offices or from selected retailers that the municipality manages.
- 3.** The municipality awards a third party the contract to vend prepaid electricity tokens to the community. This option is becoming increasingly popular, particularly in the cities, because it improves service delivery (increasingly important as the local elections draw near) and revenue collection.

More and more consumers are choosing to change over onto prepaid meters and many houses (all RDP housing) comes standard with a meter now. There are a number of benefits of using a prepaid meter. For consumers, they are able to control their electricity spend and they do not have to wait for a shock at the end of the month when the bill arrives. From a municipality perspective, prepaid meters help with revenue control and minimise their bad debts (that come about from consumers not paying their accounts).

The importance of convenience

If it is a hassle for consumers to recharge their meter because merchants are far away, they will more than likely manage their consumption better or stay without electricity for longer until they can afford it. Both scenarios are not good for vendors trying to make a profit from prepaid electricity. Therefore, the more convenient and available the product, the more often the consumer will buy it. This will also minimise illegal power theft from consumers as 'bridging your meter' whereby an illegal connection is made is deemed unnecessary.

In the past, many retailers have not wanted to sell electricity because the online transaction takes time (20-50 seconds) and this leads to long queues in-store, which is a huge deterrent for customers. However, Blue Label Distribution has come up with a solution – UniPIN Prepaid Electricity.

Instead of having to install complex online systems, retailers can sell prepaid electricity in the same way and on the same systems they currently use to sell prepaid airtime. On purchase, the consumer is able to USSD the UniPIN Pin number and their electricity meter number to Blue Label who will then immediately source a token from the correct electricity supplier and send this to the consumer's mobile phone via SMS (paid for by Blue Label).

The benefits for retailers are numerous:

- No online connection necessary
- Stock is held on device
- Decreased congestion at the till point
- No Point-of-Sale complexities traditionally experienced with selling online prepaid electricity
- Even when the municipality server is down, retailers can still sell electricity (although the pin can only be redeemed once the server is back up running)
- Minimal hassle for customers – no long queues in store
- Value-added service for the customer
- Increased customer footprint into the store
- Increase in turnover

- Can bulk print onto sheets of paper – which can be sold like airtime

Being able to use paper vouchers, like airtime, is a great solution for rural areas and resellers, such as spaza shops, shebeens and individual vendors. UniPIN is also available in various denominations – from R20 to R1 000.

The UniPIN currently services the following prepaid electricity customers and they are currently tendering for a larger footprint: Eskom customers nationwide, JHB City Power, Tshwane Metro, Ekurhuleni

Metro, Lekwa Metro, Emalahleni Metro, Kokstad Metro, Durban Metro going live in May 2011 and various private metering companies.

Conclusion for kiosks

Offering more than just the usual headache tablets and cigarettes will not only boost sales in your kiosk, but it will boost your store's image as a one-stop shop for your regular customers, as well as bring in more pop-in trade from customers who might have gone elsewhere in search of their prepaid electricity token or battery charger.

Offering Lotto has become standard practice for most stores but retailers need to improve the convenience for customers not buying Lotto at the kiosk by creating a separate queue with a dedicated staff member, particularly on draw days.

