

Kick-start your kiosk

Offer the right range to build a destination in your store

By LAURA DURHAM

Too many kiosks in stores are not given the attention they deserve. They are often dimly lit and so squashed full of items that neither customers nor staff can navigate through the offering. It is therefore time to focus on this profit centre and rationalise ranges, improve marketing and promotions and get customers spending more.

No more luxuries

Consumers continue to muddle through the post-recession climate and as a result, keep their luxury purchases down to a minimum. And unfortunately, many of these luxury purchases can be found at the kiosk. Think cigarettes, razor blades and cosmetics. Of course, some kiosk items are never going to fall off the shopping list – airtime, condoms and Lotto (just in case they win the jackpot this week!).

Restructuring your kiosk to adequately meet the needs of the 2012 consumer is therefore vital if you are going to keep up sales and create a destination in-store.

Ebrahim Delair, owner of Yarona Cash & Carry in Crown Mines, Johannesburg, says



Legal cigarette sales have dropped significantly over the last year as consumers cut out luxuries. Unfortunately, this has also caused illicit cigarette sales to soar.

they are planning to expand the kiosk side of the business. "It's already 5% of our total turnover so we plan on growing it. We have just hired an extra buyer for cosmetics as well."

The kiosk at Yarona Cash & Carry is reserved for high pilferage items, such as cosmetics and other personal care products. Delair says these items were put behind the counter from the start – 10 years ago – as he'd come to know their risk after years of experience in retail. "We also only keep shrinks at the kiosk because most of our customers are shop keepers," he says.

Aaron Molefi, who has been working at the kiosk in Super Jumbo Cash & Carry since October, says that condom sales peak at month end. He says the most popular brands with their customers are Lover's Plus, Trust, and Contempo.

Growing cellphone business

Delair chose not to sell airtime in-store but to rather outsource that part of the

business. "It's too dangerous," he says. Prepaid electricity is also sold out of the Corner Cell store. Delair says there have been a few cases in the cash & carry stronghold of Crown Mines where thieves stand on the main road looking down at customer activity – and then follow customers and hijack them.

Besides the security issue, airtime and prepaid electricity have become a cornerstone for many kiosk operations. "Airtime and prepaid electricity have small margins – but they're a platform for big business," says Sheldon Frank, head of the independent channel at Blue Label Distribution. So much so that traders buy airtime in bulk from wholesalers to then resell from their spaza store or hawker's table.

A growing side of the retail business is the entire cellphone category. Many stores now have their own cell shops (often outsourced to one of the main service providers in the country) and this is certainly drawing

feet. Discount Cash & Carry in Fordsburg, Johannesburg doesn't have a kiosk per se, but customers are able to buy airtime at the in-store cell shop. They are also able to register for RICA (Regulation of Interception of Communication Act). This would have been a huge drawcard for the store just before the deadline to RICA existing cellphones in July last year.

Burnt out profits from tobacco

Grocery executive at Super Jumbo Cash & Carry, Martin Fouche, says cigarette sales have dropped by 50% over the past year. Euromonitor International's October 2011 report on Tobacco in South Africa confirms this, saying cigarettes continued to decline in volume last year.

According to Euromonitor International, cigarette volumes fell from 22 528.5 million sticks in 2005 to 19 431.1 million in 2010 – down 13.7%. The projected number for 2015 is 15 736 million sticks of cigarettes, a further decrease of 19% from 2010.

In retail value terms, cigarettes in South Africa grew from US\$2 994.1 mil in 2005 to US\$3 894.7 mil in 2010 (based on 2010

fixed exchange rates) – a 30.1% growth. The projected number for 2015 is US\$3 839.5 mil.

British American Tobacco South Africa currently dominates South African cigarettes volume sales. "Since cigarettes accounts for the majority of tobacco products, the company therefore dominates South African tobacco," says the report. Philip Morris South Africa (Marlboro) and JT International South Africa (Camel) are other significant players. "Morris's acquisition of Swedish Match South Africa in September 2009 is expected to contribute to growth in volume share," suggests the report.

Fouche says their cigarette sales do pick up over the weekend when the store is full of retail customers (the rest of the week is dominated by traders and shopkeepers). Security is always an issue when it comes to such a hot commodity so Fouche explains the stringent measures Super Jumbo has put in place. "When the armed delivery vehicle stops at the retail customer's premises, only the security company can open the door. Not even the driver has access."

In Euromonitor's breakdown of the channel, 96.1% of cigarettes are sold in store-based transactions, with 19.3% being in small grocery outlets (convenience stores, independent small grocers and forecourts).

5% are sold through other grocery channels – news agents/kiosks and street vendors. This figure might just be growing as illicit cigarette volumes continue to increase in South Africa.

The report attributes the decline in cigarette popularity to the significant increase in the cost of living, which led to limited consumer spending and consumers subsequently trading down to cheaper tobacco products.

Waging the war on illegal cigarettes

And sometimes, these cheaper tobacco products are illegal. According to Euromonitor, the sale of illicit cigarettes rose sharply in 2011, resulting in a reduction in legitimate cigarette sales volumes in South Africa. "This was prompted by the increase in the cost of living and smokers subsequently trying to minimise their spending, including on cigarettes. They are therefore resorting to buying illegitimate cigarettes which are 50% cheaper than legitimate cigarettes. This is having a detrimental affect on sales of legitimate cigarettes."

Itumeleng Langeni, communications manager at British American Tobacco South Africa says the trade in illegal cigarettes remains a major concern for the tobacco industry.

"It is the fastest growing tobacco category globally and locally and currently, around 25% of cigarettes (one in every four) sold in South Africa is illegal. The trade in illegal cigarettes costs legitimate retailers more than R7 billion in turnover profit and more than R750 million in margins annually," she says.

"It is also to blame for approximately R3 billion lost in government revenue due to unpaid taxes on illegal cigarettes," she adds.

As a result, South African Revenue Services (SARS) and the South Africa Police Service (SAPS), together with the tobacco industry and other stakeholders have joined forces in an integrated effort to crack down on the illegal trade in cigarettes. 2011 was a very successful year with more than 7 000 raids and the seizure of close to 1.2 billion illegal cigarettes. 800 key players in the



Although spending less, customers will always visit a kiosk to top up on airtime, cigarettes and to play the Lotto. But could you be doing – or selling – more?

illicit industry were also arrested during the year.

"The tobacco industry is also taking a hard line to fight illicit trade by stopping supply to those retailers, resellers and wholesalers who are found to be selling illegal cigarettes. We feel that retailers can play an important role in shutting down the trade in illegal cigarettes and taking back the market that is being plundered by illegal traders."

Says Langeni: "The increased incidence of the illicit trade in tobacco products globally has prompted the WHO to act decisively against illicit traders by spearheading the first global treaty on illicit trade in tobacco products. This treaty is anticipated to be passed at the fifth Conference of the Parties to the Framework Convention on Tobacco Control (FCTC) meeting in November 2012."

Cutting out the middle man

Apart from the general trend of consumers cutting down on such luxury purchases, Super Jumbo has also been affected by British American Tobacco's programme to deliver direct to store. "They've now got a direct route to market, which has hurt our sales," admits Fouche.

BAT SA implemented direct store sales (DSS) at the end of April 2008 to customers who meet certain criteria, in addition to the service that was previously offered through



Big and bright signage will draw feet to your kiosk. Also, a familiar location – such as near the entrance or exit, will also increase sales.

the wholesale network. "The South African tobacco market is dynamic and has seen significant changes over the last few years. Organisations such as ours have to understand the impact of changes in the market, and revise their business models accordingly in order to ensure their long-term sustainability," explains Langeni.

Many other fast moving consumer goods (FMCG) products are already distributed in this way in South Africa and BAT already had DSS implemented in many countries.

"Through our DSS model, retailers who meet our qualifying criteria have the choice of purchasing products directly from us. The whole process is enabled by the latest distribution technology meaning orders can be delivered in an efficient and timely manner," she explains.

- The retailer orders stock directly from a BAT representative
- The order is picked and packed at a BAT distribution centre
- The order is delivered to the retailer
- The retailer pays for the order.

"Through weekly face-to-face meetings, the representative assists retailers in areas such as order management, new product introductions, product quality, product returns, and merchandising," says Langeni.

Regulations shaping the tobacco industry

Tobacco regulation globally is primarily influenced by the Framework Convention on Tobacco Control (FCTC), which falls under the umbrella of the World Health Organisation (WHO). "The FCTC has played a major role in driving regulation that potentially impacts upon the entire tobacco supply chain," says Langeni.



Many stores now have their own cell shops – providing airtime, RICA facilities, cellphones and even contracts – to customers.

Cigarettes have been in the news often of late, particularly in Australia where the government has passed controversial 'generic packaging' legislation. According to politics.co.uk, from December, all tobacco products will be sold in olive green packets, which researchers say is the colour least attractive to smokers. "Experts are divided on how effective plain packaging would be," the article reads. "One report suggested it would actually reduce the cost of the product by between 4.4% and 16.1%, and so increase consumption by up to 13.6%."

On the local front, tobacco control measures are not new. The first Act in South Africa was introduced in 1993 and has since been amended three times – in 1998, 2009 and 2010. More recently regulations have been published regarding the ignition propensity of cigarettes and the communication of the availability of tobacco products at retail and wholesale levels. The former comes into effect in November this year while the latter is still at draft stage.



Condom sales tend peak at month end so it is vital that you carry enough stock to get you through pay weekend.

Fouche says that not being allowed to advertise tobacco products in-store can also dampen the attraction of the kiosk.

The recent gazetting of the Reduced Ignition Propensity regulation (R429 of Government Gazette 34302, 16 May 2011) is also going to have a huge impact on the tobacco industry in coming months. When applied to cigarettes, the term 'reduced ignition propensity' refers to the fire risk posed by a discarded cigarette. "In order to comply with the standard, cigarettes are manufactured using a specific paper with special bands that are designed to, under

specific conditions, lessen the amount of air flowing through the cigarette, causing it to self-extinguish if left unattended," explains Langeni. This regulation will apply to all cigarettes sold in the country as of 16 November 2012.

BAT South Africa will be introducing its first compliant cigarettes into the market in March to ensure full compliance by the November deadline. However, the company does believe that there are more effective ways to prevent fires, such as consumer education and awareness programmes. "Reduced Ignition Propensity cigarettes are tested under very specific laboratory conditions. There is no such thing as a fire-safe cigarette and lit cigarettes should always be carefully extinguished and disposed of," she says.

On the issue of regulation and legislation, Langeni concludes saying: "We are not opposed to regulation and believe reducing the public health impact of smoking is a goal governments should support. We are committed to open and constructive dialogue around tobacco control in order to have in place regulation that is practical, workable and, above all, enforceable."

Get creative with your kiosk

Even though various regulations and potential security issues do make running a kiosk a challenge, the rewards are worth the effort. Some of the ways you can boost your kiosk without too much effort, are:

- **Rationalise your ranges.** Choose to stock only the top selling brands in each category – that's what your customers are going to be buying anyway.
- **Promote the position.** Some stores have such poor signage that customers can't even find the kiosk, even if they wanted to. Situate your kiosk near the entrance or exit of your store because this is what customers are used to.
- **Direct feet.** If you keep your more expensive cosmetics behind the counter, make sure there is a sign in your health and beauty department to indicate this and direct customers to the kiosk. Else, they might just think you don't stock the products they want.
- **Keep staff informed.** It is vital that the staff members working behind the kiosk are aware of the entire offering. It is no good them sending customers away just because they didn't know there was more stock hidden in a box or that the item was there in the first place – this could push them out of your doors for good!
- **Clean up.** Even though it is a small space, make sure that your kiosk is neat and tidy. Staff must take out the boxes after restocking and you need to invest in shelving, hooks and plastic tubs to accommodate all the products – even the little ones – neatly.



Sajid Panchbhaya makes sure the kiosk at Yarona Cash & Carry is fully stocked with all the shrink-wrapped cosmetics that their customers require.