

# Alliance of Australian Retailers

## Plain packaging and channel shift

**June 2011**



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## **Statement of Responsibility**

This Report was prepared for Alliance of Australian Retailers Pty Ltd (AAR) for the purpose of evaluating the potential impact on small retailers that may result from channel shift to large retailers following the introduction of plain packaging, as set out in our agreement dated 21 February 2011.

In preparing this Report we have relied on the accuracy and completeness of the information provided to us by independent retailers aligned with the AAR, information collected through market research by Roy Morgan Research, and from publicly available sources. We have not audited or otherwise verified the accuracy or completeness of the information. We have not contemplated the requirements or circumstances of anyone other than AAR.

Events may have occurred since we prepared this Report which may impact on it and its conclusions.

No one else, apart from the AAR, is entitled to rely on this Report for any purpose. We do not accept or assume any responsibility to anyone other than the AAR in respect of our work or this Report.

The AAR is supported by British American Tobacco Australia Limited, Philip Morris Limited and Imperial Tobacco Australia Limited.

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# Executive summary

## *This study*

This study has been commissioned as a result of previous work completed for the Alliance of Australian Retailers (AAR) that examined the potential impact of plain packaging of tobacco products (*Potential impact on retailers from the introduction of plain tobacco packaging*, November 2010). One of the key impacts identified by small retailers in the previous study was the possible shift of customers away from small retail stores to larger retail stores, i.e., a channel shift effect.

Specifically, small retailers considered that channel shift may occur due to one or more of the following:

- The increase in time required to complete a tobacco related transaction would lead to customers becoming increasingly frustrated due to delays and longer queuing time
- The knowledge that a larger retailer, e.g. a major supermarket with a broader range of products, would always have what they require.

The purpose of this study was to assess whether the risk of channel shift identified by small retailers was valid and to illustrate the potential loss of sales that could result. To explore the likelihood of this risk, Roy Morgan Research (RMR) was engaged by the AAR to undertake a consumer survey.

The findings from the consumer survey supported the small retailers contention that there was a risk of channel shift following the introduction of plain packaging. The RMR survey found that 34 per cent of tobacco consumers and 18 per cent of non-tobacco consumers were either somewhat likely or very likely to change where they shopped as a result of plain packaging.

## *Approach adopted*

In undertaking this report, we adopted the following approach:

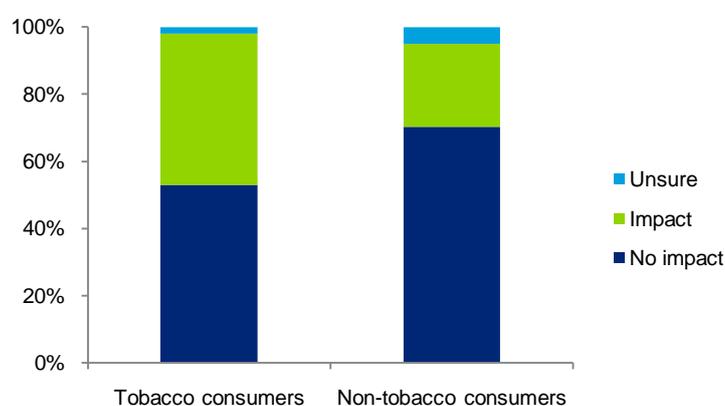
- Stage 1: Background research to gain an understanding of any previous work conducted on the issue of channel shift. During this stage, key issues and challenges for estimating the associated costs were identified
- Stage 2: Focus group sessions facilitated by Storyville Consulting were held in Cairns, Newcastle, Sydney, Melbourne, Bendigo and Adelaide and included retailers in the service station, convenience store, milk bar, fast food/takeaway and newsagent categories. These sessions were attended by over 70 proprietors and provided small retailers with an opportunity to discuss in detail the issues associated with channel shift that may result following the introduction of plain packaging. The responses served as input into the development of the Stage 3
- Stage 3: A telephone based survey of consumers that frequently visit the relevant small retail categories was conducted by RMR on a representative sample of consumers across Australia
- Stage 4: Report preparation, documenting our key findings and illustrating the potential impact on small retail businesses based on the responses received from the consumer survey.

### *The consumer survey*

RMR was engaged by the AAR to conduct a consumer survey to verify the risk of channel shift following the introduction of plain packaging. The approach adopted for the survey was by telephone and was conducted on a representative sample of adult consumers, aged 18 years or older, that visit small retailers across Australia. The RMR consumer survey was completed on a sample of 481 consumers, of which 210 were tobacco consuming and 271 were non-tobacco consuming.

Respondents were presented with an overview of the proposed regulation and asked whether they thought their shopping experience at a small retailer would be affected. As illustrated below, overall the RMR consumer survey found that 45 per cent of tobacco consumers and 25 per cent of non-tobacco consumers thought that their experience would be affected as a result of plain packaging being introduced.

**Figure E.S.1: Expectation of an impact on a consumer's shopping experience at a small retailer as a result of plain packaging**

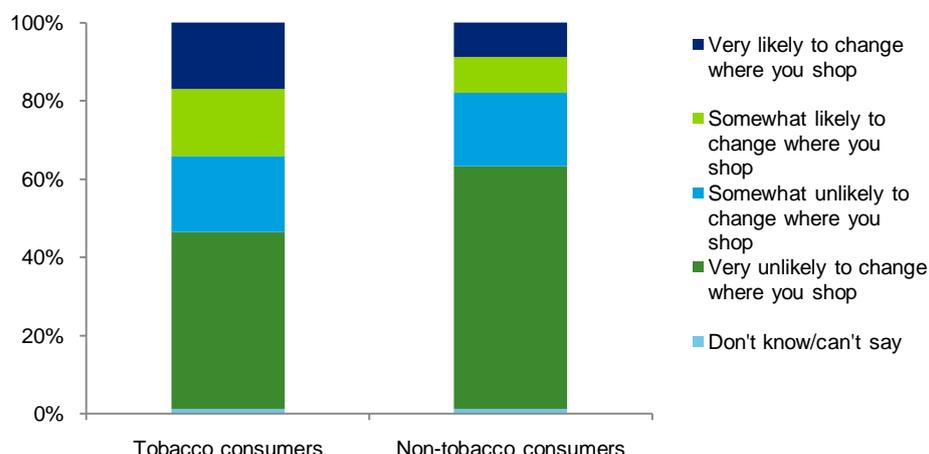


When asked how they thought their experience would change, the main response given by consumers was that it would take longer to shop at a small retailer. Other common responses included:

- Would be less convenient
- More likely to be given the wrong tobacco product (for tobacco consumers)
- Staff would have a harder time finding what I want (tobacco products)
- Queues would be longer.

RMR consumer survey participants were also asked about their likelihood of changing where they shopped as a result of the introduction of plain packaging. As detailed on the following page, 34 per cent of tobacco consumers and 18 per cent of non-tobacco consumers surveyed indicated that they were somewhat likely or very likely to change where they shopped.

**Figure E.S.2: Likelihood of changing where they shopped – tobacco vs. non-tobacco consumers**



### *Potential impact on small retailers from channel shift*

The findings from the RMR consumer survey supported small retailers contention that there was a risk of channel shift following the introduction of plain packaging. While it is difficult to definitively predict future behaviour patterns, the results of the RMR consumer survey do provide a basis for illustrating the potential impact on small retailers.

The potential impact on small retailers resulting from channel shift was estimated based on information from the following sources:

- Responses from the RMR consumer survey (as detailed in Section 5 of this Report)
- Information provided by the small retailers during the focus groups (as detailed in Section 4 of this Report)
- Market information on small retailers obtained from previous Deloitte studies on the small retail sector
- Publicly available research reports on the small retail sector.

### *Tobacco consumers*

The RMR consumer survey found that 34 per cent of tobacco consumers were either somewhat likely or very likely to change where they shopped as a result of plain packaging. Based on the market information available (as detailed in Section 3), if 34 per cent of tobacco customers did change where they shopped, this could result in lost sales of between \$164 and \$1,882 per week for the small retailers covered by this report.

To give a sense of this potential reduction, in the table on the following page we set out the number of lost tobacco related transactions that would equate to these lost sales based on the typical spend on tobacco only related products by retailer type (as detailed in Section 6).

**Figure E.S.3: Potential loss of sales from tobacco consumers**

Inputs	Convenience store	Fast food/ takeaway shop	Milk bar	Newsagent	Service (petrol) station
Potential weekly loss from consumers purchasing tobacco products	\$1,882	\$288	\$980	\$164	\$942
Equivalent lost number of tobacco related transactions per week	63	18	43	9	36

### *Non-tobacco consumers*

The RMR consumer survey also found that non-tobacco consumers surveyed thought their own shopping experience would be affected. From the survey, 18 per cent of respondents stated that they were either somewhat likely or very likely to change where they shopped. Based on information respondents also provided about their spending patterns at small retailers, this could potentially equate to a loss of approximately \$14 in revenue for each non-tobacco related transaction (as detailed in Section 6).

The report shows an illustrative example of the potential impact on convenience stores from non-tobacco consumers changing where they shopped. Assuming that 18% of non-tobacco customers shifted from a convenience store, the sales revenue lost could be approximately \$2,300 per week.

This estimate was calculated as follows:

To illustrate the potential impact on one key category of small retailer as a result of non-tobacco consumers shopping elsewhere, an estimate of the potential lost revenue for convenience stores can be calculated. Using information from the RMR consumer survey and publicly available research on convenience stores, this estimate has been generated as follows:

1. Average annual turnover (refer to Table 4) = \$0.96 million
2. Estimated contribution of non-tobacco to annual sales = 70%
3. Estimated weekly non-tobacco sales [ $\$0.96 \text{ million} \times 70\%$ ] = \$12,923
4. From the RMR consumer survey, likelihood of channel shift
  - a. Estimated proportion of non-tobacco consumers that are *somewhat likely* to channel shift = 9%
  - b. Estimated proportion of non-tobacco consumers that are *very likely* to channel shift = 9%
5. Potential weekly loss [ $5 = 3 \times 4$ ]
  - a. Potential weekly loss from non-tobacco consumers that are *somewhat likely* to channel shift = \$1,163
  - b. Potential weekly loss from non-tobacco consumers that are *very likely* to channel shift = \$1,163
6. Total potential weekly loss from non-tobacco consumers [ $6 = 5a + 5b$ ] = \$2,326

Hence, if it eventuated that 18 per cent of non-tobacco consumers no longer shopped at a convenience store, approximately \$2,300 per week in revenue could potentially be lost.

Using this potential weekly loss estimate from non-tobacco consumers as a result of channel shift, an equivalent lost number of non-tobacco related transactions per week can be estimated.

7. From the RMR consumer survey, typical spend on non-tobacco related products = \$14
8. Potential equivalent lost number of non-tobacco related transactions per week [ $8 = 6 / 7$ ] = 166

Therefore, given that the RMR consumer survey reports that an average of \$14 is typically spent by non-tobacco consumers per transaction; convenience stores could potentially face a loss of 166 non-tobacco transactions per week.

Source: RMR, Australian Retailers Association, IBIS World

# 1 Introduction

## 1.1 Background

The Commonwealth Government has recently introduced a number of initiatives in relation to smoking in Australia. These recent announcements include a proposal to introduce plain packaging of tobacco products from 1 July 2012.

On 7 April 2011, the Commonwealth Government released an exposure draft of the Tobacco Plain Packaging Bill 2011 which seeks to amend product information standards to remove brands, trademarks and logos from tobacco packaging.

The consultation paper accompanying the exposure draft identified some options for the colour, design, size and shape of a tobacco pack in order to reduce the distinctiveness of packaging and emphasise consumer product information. In particular, the consultation paper proposed that the packaging colour would be a shade of dark olive brown in a matt finish, that the font for the brand name would be 'lucida sans 14' or similar and that brand names would be positioned on the top, front and base of the pack. The Department of Health and Ageing called for submissions from interested parties and individuals by 6 June 2011.

In November 2010, Deloitte prepared a report for the AAR entitled *Potential impact on retailers from the introduction of plain tobacco packaging*. The purpose of that report was to illustrate the potential impact of the introduction of plain tobacco packaging on retail businesses. The approach involved consultations with retail operators in the following categories:

- Convenience stores
- Newsagents
- Service stations
- Tobacconists.

During consultations, retailers described that many consumers also purchase other products (such as milk, bread and magazines) when making a tobacco purchase and foresaw a channel shift away from their business that would have significant broader implications on the financial viability of their business.

Amongst the potential impacts on businesses, channel shift was identified as a key impact retailers may face. Specifically, channel shift was defined as being a loss in business when customers took their purchases elsewhere. In particular, small retailers expressed concern about this potential loss of business to larger retailers.

## 1.2 Purpose of this report

The purpose of this study is to assess whether the risk of channel shift identified by small retailers was valid and to illustrate the potential loss of sales that could result.

To illustrate the potential impact, we have estimated the potential loss in sales that could arise from channel shift to larger retailers based on the responses to the RMR consumer survey.

Key variables included in the estimate were:

- Likelihood of no longer purchasing from service station/convenience store, milk bar or newsagent and going elsewhere (i.e. likelihood of channel shift)
- Contribution of tobacco to overall sales
- Assumptions about the revenue of a typical small retailer.

## 1.3 Approach

In undertaking this Report, we adopted the following approach:

- Stage 1: Background research to gain an understanding of any previous work conducted on the issue of channel shift. During this stage, key issues and challenges for estimating the associated costs were identified
- Stage 2: Focus group sessions facilitated by Storyville Consulting were held in Cairns, Newcastle, Sydney, Melbourne, Bendigo and Adelaide and included retailers in the service station, convenience store, milk bar, fast food/takeaway and newsagent categories. These sessions were attended by over 70 proprietors and provided retailers with an opportunity to discuss in detail the potential issues associated with channel shift brought about by plain packaging and served as input into the development of Stage 3
- Stage 3: A telephone based survey of consumers that frequently visit the relevant small retail categories was conducted by RMR on a representative sample of consumers across Australia
- Stage 4: Report preparation, documenting our key findings and illustrating the potential impact on small retail businesses based on the responses received from the consumer survey.

## 2 Channel shift

In undertaking our previous report for the AAR (*Potential impact on retailers from the introduction of plain tobacco packaging*), the retailers consulted identified that one of the potential impacts from the introduction of plain packaging could be channel shift. In the context of these retailers, channel shift would occur if customers chose to move from small retailers (i.e. convenience store, fast food/takeaway store, milk bar, newsagent or service station) to larger retailers, such as supermarkets.

Small retailers expressed concern about the potential loss of business to larger retailers following the introduction of plain packaging. Small retailers considered that channel shift may occur due to one or more of the following:

- The increase in time required to complete a tobacco related transaction would lead to customers becoming increasingly frustrated due to the delays and longer queuing time. As a result, many small retailers believed such customers would leave their store without making a purchase and would opt to visit a larger retailer with more staff
- The knowledge that a larger retailer, e.g. a major supermarket with a broader range of products, would always have what they require.

Small retailers described that many customers also purchase other products (such as milk, bread and magazines) when making a tobacco purchase and foresaw a channel shift away from their business would have significant broader implications on the financial viability of their businesses.

# 3 Retail sector background

*This chapter provides an overview of the key retail categories that are the focus of this report.*

The focus of this study has been on small format retailers who sell tobacco products. The retail business categories included in this study were:

- Convenience stores
- Fast food/takeaway stores
- Milk bars
- Newsagents
- Service stations.

Some of the key characteristics of these small retailers are:

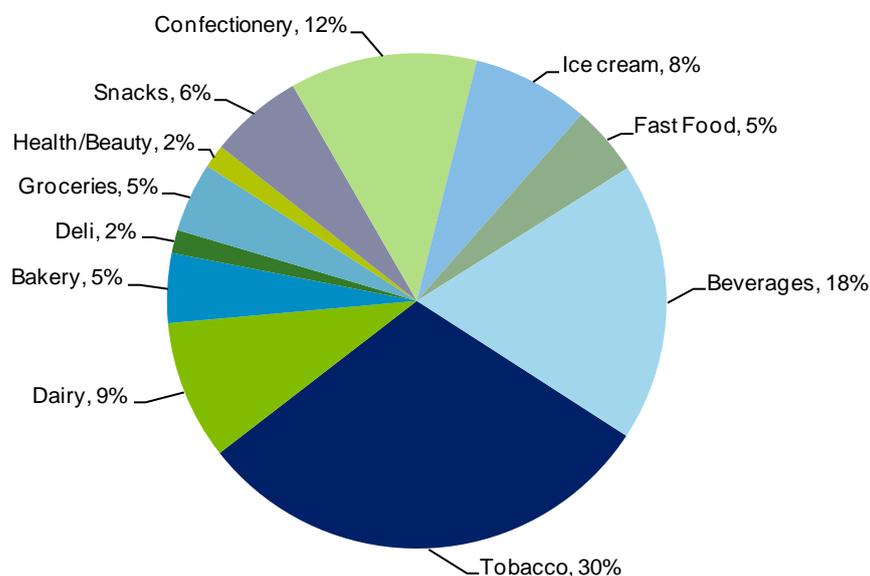
- Business operations are conducted in both metropolitan and regional areas
- Each category comprises both major and independent proprietors
- Proprietors that are independent tend to be either sole proprietors or partnerships, with a significant number being family-run
- The average independent retailer in these categories employs five to ten employees, with the majority of these employed on a part-time or casual basis.

The following section provides a brief market overview of each of the retail categories included in this study.

## 3.1 Convenience Stores

The traditional market position of a convenience store is based on its location alongside busy roads, densely populated urban neighbourhoods, at service stations or near railway stations or transport hubs. Convenience stores generally stock products based on these key locations, for example bakery/deli products where breakfast and lunchtime traffic is high or live bait and tackle for sites at beach/holiday locations. There tends to be an overlap between the business models of service stations and convenience stores, with non-fuel products at service stations often being similar to those found at convenience stores.

On the following page, Figure 3.1 illustrates the typical products sold at convenience stores. Cigarettes are the largest merchandise category and account for 30 per cent of total sales. Beverages (18 per cent) and confectionery (12 per cent) represent other key merchandise categories however these products combined have approximately the same turnover as cigarettes.

**Figure 3.1: Product mix for convenience stores (as % of total sales)**

Source: ARA

## 3.2 Fast food/takeaway stores

Fast food/takeaway stores sell a broad range of food such as hamburgers, fish and chips, and pizza. Produce is often purchased from wholesalers in its raw state before being prepared into takeaway food at the store premises. Retailers are often also involved in the sale of other goods such as beverages, snacks, ice-creams and tobacco related products.

The sector is considered to be mature with a saturated market. In recent years, the industry has undergone what many deem to be a 'health-kick' as consumers have become more concerned about the nutritional content of takeaway food. As a result, a variety of new entrants have emerged in the sector. The sector has faced growing competition from supermarkets as they place a larger focus on their non-cooking meals designed to be bought by time poor consumers.

One of the key drawcards for fast food/takeaway stores is the convenience factor and this will likely continue to drive the demand for such food. The largest share of takeaway food is purchased by consumers aged 18-24.<sup>1</sup>

## 3.3 Milk bars

A milk bar is typically a local shop or general store which carries a broad range of products. Traditionally, they sell products similar to those found at a convenience store, such as beverages, milk, bakery and tobacco related products.

The trading hours of milk bars are typically unrestricted. They are often located in residential areas and as a result, their customer base will largely involve local residents. The industry is largely unconsolidated with most milk bars being run by a single-person/family operation.

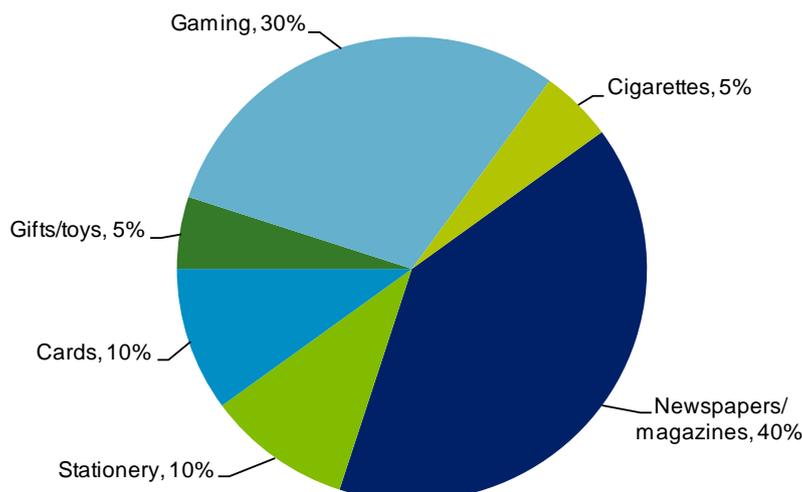
<sup>1</sup> IBIS World (2010)

### 3.4 Newsagents

Alongside newspapers, magazines, stationery and greeting cards, newsagents also sell tobacco related products.

Figure 3.2 illustrates the breakdown of products that newsagencies typically stock.

**Figure 3.2: Product mix for newsagencies (as a % of total sales)**



Source: ARA

Across Australia, there are approximately 5,000 individually owned and operated newsagencies, with more than 20,000 employees.<sup>2</sup> Newsagencies in Australia are typically owned and operated independently, with the majority operating under a franchise brand or banner group.

### 3.5 Service Stations

Like a convenience store, a service station is a retail establishment where, alongside the refuelling of motor vehicles, customers can also purchase a variety of non-fuel products. These can include beverages, confectionery, dairy, groceries, newspapers and magazines, fast food and tobacco.

Approximately one-third of service stations in Australia are independent.<sup>3</sup> Since the late 1990s there has been a major increase in the number of supermarket owned service stations.

<sup>2</sup> Australian Newsagents Federation Ltd

<sup>3</sup> AC Nielsen, "Coal Consulting Face and Him! For AACS" (2007), State of the Industry Survey Australia 2007

# 4 Focus groups

## 4.1 Approach

Structured focus group sessions facilitated by Storyville Consulting were held in the cities identified below. They comprised the following types of retailers:

- Convenience stores
- Fast food/takeaway stores
- Milk bars
- Newsagents
- Service stations.



The aim of these sessions was to provide retailers with an opportunity to discuss in detail the issues associated with channel shift brought about by plain packaging. The focus group discussions were also used as additional inputs for developing the approach and questions for the consumer survey.

Given the different available samples between metropolitan and regional areas, two x 90-120 minute groups were held in each of the metropolitan locations (Sydney, Melbourne and Adelaide) and one x 90-120 minute group in the regional locations (Cairns, Newcastle and Bendigo). In total there were approximately 70 participants.

The discussion areas for each focus group comprised the following:

### 1. Independent Business Overview:

- a. Customer make-up – ‘type’ of customer & what they value about the retail business
- b. Points of difference from larger operations – key advantages and vulnerabilities
- c. Consumer purchase patterns – items and cycles.

**2. Role of tobacco in their business:**

- a. As direct contributor to turnover / profit
- b. As indirect element in business.

**3. Legislation** – spontaneous then prompted awareness and understanding of legislation.**4. Plain packaging** – awareness / understanding

- a. Spontaneous reactions:
  - i. Impact on business
  - ii. Specific concerns
  - iii. Basis of concerns.
- b. Prompted issues – their relevance, impact and consequence:
  - i. Increased serving time
  - ii. Customer relations
  - iii. Console operative safety
  - iv. Influence on other non-tobacco stock-keeping units (SKUs)
  - v. Potential for confusion
  - vi. Competition from bigger retailers and black market operations.

## 4.2 Observations

### 4.2.1 Characteristics of retailers

All retailers consulted felt that their businesses depend upon key 'drawcards' which then translate into broader product purchases. These drawcard products, such as tobacco, lotto and petrol, trigger the purchase of ancillary products, such as milk, bread and accessories.

Among the businesses included in the focus group sessions, the importance of tobacco to overall sales was noted. As an indirect driver or drawcard for ancillary purchases, tobacco was also recognised to be significant.

As independent and mostly small businesses, the retailers consulted rely on establishing long term customer relationships. The owners and managers of small retailers are thus very mindful of the value of losing even a single customer which can amount to a loss of several hundreds of dollars over a year.

According to the retailers consulted, small retailers focus on their people oriented skills to build customer relationships and business. In comparison, larger retailers, such as supermarkets, focus on their overall processes to build business.

### 4.2.2 Pull factors

Retailers identified the following 'pull factors' that attract customers to small retailers:

- Convenience – small retailers have smaller space and focus on providing efficient service which allows for quick and easy purchases to be made
- Customer relations/personalised service – small retailers seek to build relationships with their customers and provide friendly conversation
- Preference for small retailers – small retailers provide a feasible alternative for customers who dislike larger retailers and mainstream products.

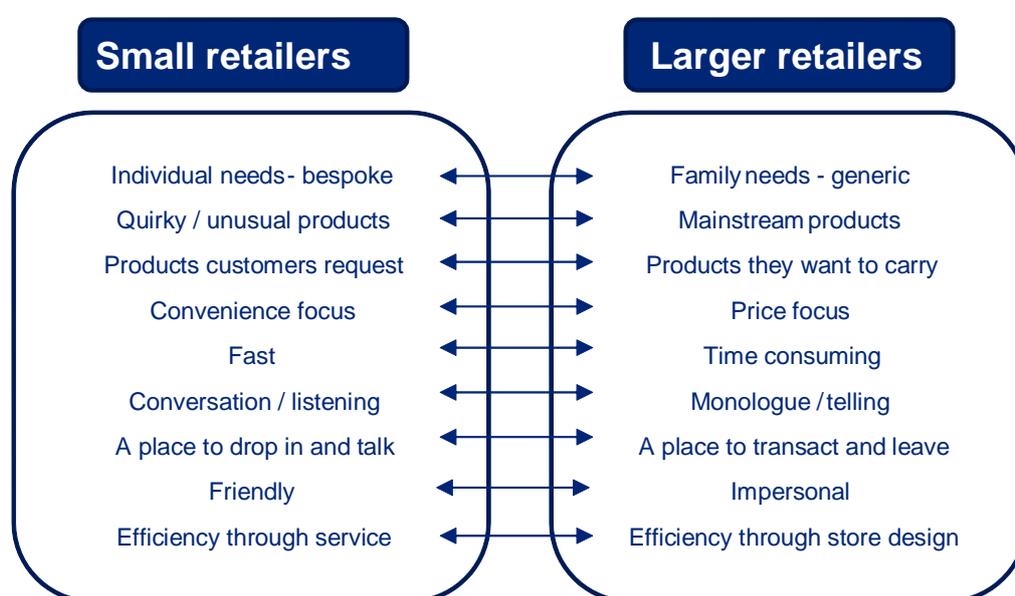
### 4.2.3 Push factors

Retailers also identified the following 'push factors' that draw customers away from small retailers towards larger retailers:

- Price – Larger retailers are generally able to buy their products in larger quantities than small retailers and sell them at lower prices
- Range – Larger retailers tend to stock a much wider range of products than small retailers.

Retailers perceive a number of differences between small and larger retailers. These key differences are illustrated in the following diagram.

**Figure 4.1: Perceived differences between small and large retailers**



Source: Storyville Consulting

### 4.2.4 Anticipated impact of plain packaging

Small retailers anticipated that the introduction of plain packaging legislation would significantly affect their businesses and push customers away from them and towards larger retailers instead. The following table summarises a number of anticipated impacts of plain packaging on small retailers.

**Table 1: Anticipated impacts identified by retailers**

Anticipated impact	Description
Bespoke, accurate service	The ability of retailers to provide personalised and accurate service to their customers may be undermined in a plain packaging environment.
Customer choice	To minimise confusion caused by the packaging of tobacco products becoming very similar, retailers anticipate a tendency towards rationalising their overall tobacco range.
Customer serving time	Retailers anticipate that plain packaging will increase the time spent by each staff member to serve customers.
Staff training costs	An increase in investment required to train staff.
Stock management	Without distinctive packaging, tobacco products will take longer to sort and put away and stock levels will be less easily tracked.
Stock recognition	Minimal points of differentiation and with staff unable to continue to rely heavily on pack colour to identify variants, the ease and speed of product selection and the convenience currently provided may be reduced.
Tourists and non-English speaking customers	Customers from overseas or a non-English speaking background may be unable to rely on their visual recognition cues to select their preferred tobacco product.
Wider sales opportunities	Retailers anticipate a loss of wider sales opportunities.
Working environment	Working practices in small retailers will become less relaxed and may even become more dangerous due to staff having to spend more time with their backs to customers. As a result there may be greater chance of personal attack, theft and robbery.

#### 4.2.4.1 Bespoke, accurate service

Small retailers anticipate their ability to provide personalised and accurate service to their customers will be undermined in a plain packaging environment for two reasons:

1. A reduction in personalised service: As staff will spend more time identifying correct tobacco products, they may have less time to speak to their customers and provide the personalised service that attracts their customers
2. Increased chance of errors: Plain packaging of tobacco products will increase the potential for errors to be made by staff in selecting products and will reduce the accuracy of service that small retailers are able to currently provide.

Both of these expected effects of plain packaging will likely result in customers no longer feeling personally valued and will create a less relaxed retail environment. Customers who previously visited small retailers for their personalised, accurate service may opt to visit a larger retailer and purchase a good based solely on price instead.

#### 4.2.4.2 Customer choice

To minimise the confusion caused by the similar packaging of tobacco products, retailers anticipate a tendency towards rationalising their overall tobacco range. However by reducing their range, the small retailers may also lose their point of difference from the larger retailers. Customers may feel the small retailers have lost what made them interesting (such as catering for their less-mainstream variants), that they no longer cater for their particular needs and thus may visit larger retailers that can offer a potentially wider range of products at cheaper prices.

#### 4.2.4.3 Customer serving time

Small retailers anticipate that plain packaging will increase the time spent by each staff member in serving customers. This increased transaction time will result from tobacco packaging no longer being easily differentiated by its colour and branding. Staff (and customers) will have to spend more time identifying the correct pack and double checking packs for accuracy.

Staff currently unfamiliar with the tobacco products they sell (for example, staff that lack knowledge of the different variants of particular products) and who instead rely on pack colour will experience significant difficulties in identifying products in a plain packaging environment. If small retailers have greater transaction times and can no longer provide fast, convenient service, they may lose their convenience advantage over larger retailers and customers may decide to shop elsewhere. Small retailers will not only lose tobacco sales but also the incidental purchases of other products that tobacco customers make.

#### 4.2.4.4 Staff training costs

Small retailers believe that they may need to increase investment in staff training. Since tobacco products will no longer be easily differentiated, staff with limited product knowledge may need greater training to correctly identify tobacco products. Customers may find the staff no longer as efficient and may not seem to know their product as well (particularly if they have to consult a guide or ask the customer for clarification). If a customer finds they no longer have a convenient shopping experience at a small retailer, they may have less reason to pay a premium for such convenience and might opt to shop at larger retailers instead.

#### 4.2.4.5 Stock management

Small retailers anticipate that stock management will be more time consuming and difficult under a plain packaging environment. Without distinctive packaging, it will take longer to sort and put away tobacco products and stock levels will be less easily tracked. Stock management will no longer be conducted by just 'eyeballing' stock levels as this may become unreliable without easily differentiated packaging.

The retailer may run out of tobacco stock more frequently (particularly for the relatively unusual product variants) and they may be unable to maintain consistent stock levels on which their customers currently rely. Customers may no longer find small retailers as convenient and reliable and may choose to frequent larger retailers that have more automated stock management processes that allow them to provide better stock reliability.

#### 4.2.4.6 Stock recognition

Small retailers predict reduced stock recognition in a plain packaging environment. With minimal points of differentiation and with staff unable to rely on pack colour to serve customers quickly and efficiently, the ease and speed of product selection and the convenience currently provided by and associated with small retailers will be reduced. In addition, customers will be less able to participate in their brand selection process and staff will take longer to recognise and/or translate customer requests to the new packaging format, creating a poorer quality customer interaction. As a result, customers will have less reason to favour a small retailer over a larger retailer.

#### 4.2.4.7 Tourists and non-English speaking customers

Customers from overseas or a non-English speaking background may be particularly disadvantaged in a plain packaging environment as they will be unable to rely on their visual recognition cues to select their preferred tobacco product. These customers may not be aware of the plain packaging legislation and may potentially believe a small retailer is trying to sell a cheap generic product and not the real brand. In addition to these customers having a perception of products being illegitimate, it may also result in tobacco products having a generic-brand appearance that is likely to foster a price based purchase strategy. As a result, customers may shop at larger retailers able to provide the 'generic brand' at a cheaper price.

#### 4.2.4.8 Wider sales opportunities

Small retailers anticipate a loss of wider sales opportunities in a plain packaging environment. With the increased difficulties in selecting the right tobacco products and the increased chance of mistakes, customers may feel they need to 'check' their purchase, and find themselves 'forgetting' additional items they may have wanted. Customers' tension may reduce their inclination to consider ancillary purchases and instead they may choose to visit a larger retailer where they feel there is limited stress and uncertainty over any single purchase.

#### 4.2.4.9 Working environment

Under a plain packaging environment, small retailers feel that working practices will become less relaxed and may even become more dangerous for staff. With increased transaction times and potentially far more time spent by staff with their backs to customers there is a greater chance of personal attack, theft and robbery.

### 4.2.5 Broader implications of plain packaging

As this chapter has identified, small retailers who participated in the focus group sessions anticipate that plain packaging will have a significant and negative impact on their businesses. In particular, they believe that plain packaging will shift the retail landscape strongly in favour of larger retailers with the following potential effects:

- Negative economic impact on small retailers with lost revenue and potentially employment
- Negative social impacts resulting from reduced service – currently small retailers play an important personal and community role for a broad range of purchase needs.

# 5 Consumer survey

*This section provides information on the consumer survey undertaken to identify the business impacts identified by small retailers.*

To identify the potential impact of channel shift following the introduction of plain packaging, RMR was engaged by the AAR to conduct a consumer survey. The undertaking of a consumer survey also enabled data to be obtained for use in estimating the potential impact on a small retailer from channel shift.

## 5.1 Approach

The approach adopted for the survey was by telephone and was conducted on a representative sample of adult consumers, aged 18 years or older, that visit small retailers across Australia.

Specifically, the survey involved a 15-minute CATI (Computer-Assisted Telephone Interview) method. Consumers were chosen and subsequently contacted based on the latest available computer listings of landlines and mobile phone numbers in Australia.

The survey was designed to be completed by consumers (both tobacco and non-tobacco consuming) who had visited a small retailer within the past seven days of the date on which the survey took place. Small retailers identified were:

- Convenience stores
- Fast food/takeaway stores
- Milk bars
- Newsagents
- Service stations.

The RMR consumer survey was completed by a sample of 481 consumers, of which 210 were tobacco consuming and 271 were non-tobacco consuming. Table 2 below lists the key topics covered by the RMR consumer survey.

**Table 2: Key RMR consumer survey topics**

Topic	Category
Retailer visited within last four weeks	By retailer category
Number of times purchase made within last four weeks	By retailer visited
Usual total spend	By retailer visited
Usual spend on tobacco products (tobacco consumers only)	By retailer visited
Reasons for shopping at small retailer	By retailer visited
Awareness of plain packaging and perceived impacts	By impact type
Likelihood of plain packaging changing shopping behaviour	By retailer visited

Further detail on the consumer survey's methodology can be found within Appendix 1.

## 5.2 RMR consumer survey analysis

The RMR consumer survey facilitated the analysis of two topics with consumers who frequent small retailers:

- The first involves an understanding of the shopping behaviour of consumers who visit such stores
- The second involves the extent to which plain packaging could potentially lead to a change in this shopping behaviour (i.e. channel shift).

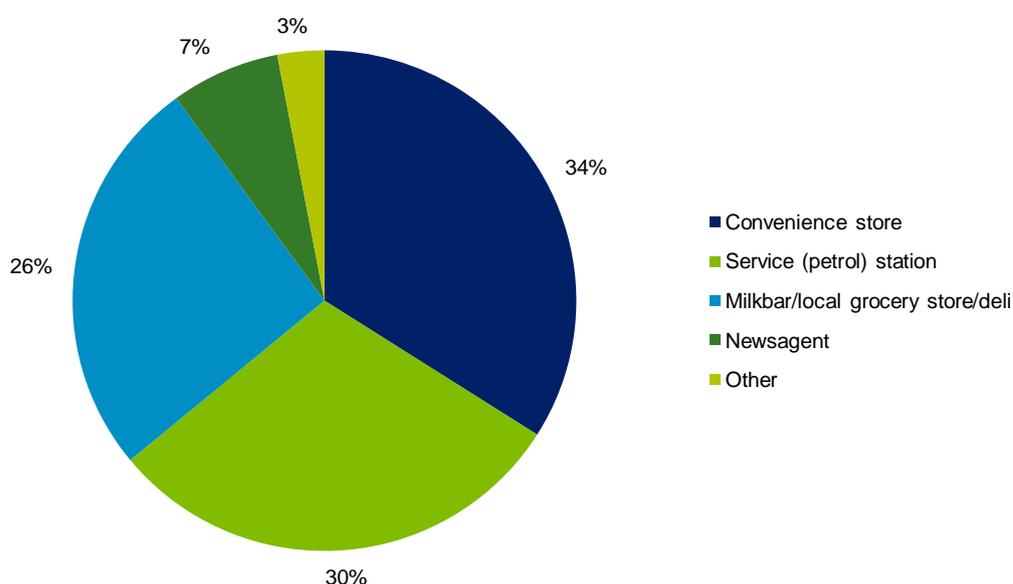
### 5.2.1 Key findings

Consumers visit a small retailer for a number of reasons, however the overwhelming majority viewed convenience to be the main pull factor. When faced with the prospect of the introduction of plain packaging, however, many acknowledged that an expected increase in transaction and queuing time could potentially lead them to shop elsewhere. Specifically, an overwhelming majority of those who thought they would shop elsewhere identified a large supermarket to be the alternative retailer that they would visit.

## 5.3 Small retail consumers' behaviour

### 5.3.1 Place of purchase – tobacco consumers

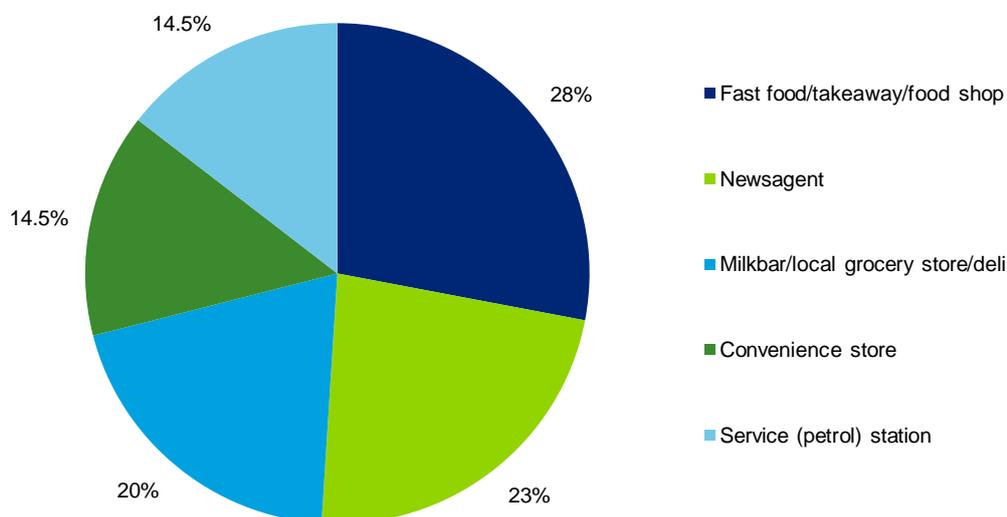
**Figure 5.1: Small retailers most frequently visited by tobacco consumers within the past four weeks**



When asked which small retailer they had most frequently visited during the past four weeks to purchase tobacco products, approximately 34 per cent of tobacco respondents reported it was at a convenience store and approximately 30 per cent a service (petrol) station. These were then followed by a milk bar/local grocery store/deli with 26 per cent of tobacco respondents.

### 5.3.2 Place of purchase – non-tobacco consumers

**Figure 5.2: Small retailers visited by non-tobacco consumers within past four weeks**



Non-tobacco consumers were asked which small retailers they frequented. The most common response was a fast food/takeaway store (28 per cent of responses), followed by a newsagent (23 per cent of responses).

### 5.3.3 Reasons for visiting small retailers

Small retailers are visited by consumers for a variety of reasons. To identify these reasons, consumers were asked why they shopped at a small retailer.

Even with the opportunity to provide multiple reasons, the most frequently reported answer by both tobacco and non-tobacco consumers was convenience (27 per cent and 36 per cent of sample respectively). Other reasons identified for shopping at a small retailer were the close location of the store and that it sold the products which they required.

Table 3 on the following page shows reasons identified for shopping at a small retailer by tobacco and non-tobacco consumers.

**Table 3: Reasons for shopping at small retailer, proportion of responses**

Reason	Tobacco consumers	Non-tobacco consumers
Convenience	33%	35%
Close location	21%	11%
Lower cost	9%	4%
Have the products I need	7%	13%
Saves me time	4%	4%
Easy to find what I need	4%	3%
Good selection/variety	3%	6%
Friendly service	3%	2%

Reason	Tobacco consumers	Non-tobacco consumers
Quick service	2%	7%
Other	14%	15%

Box 5.1 below further highlights some comments made by respondents during the survey on their reasons for shopping at a small retailer.

**Box 5.1: Reasons for shopping at a small retailer**

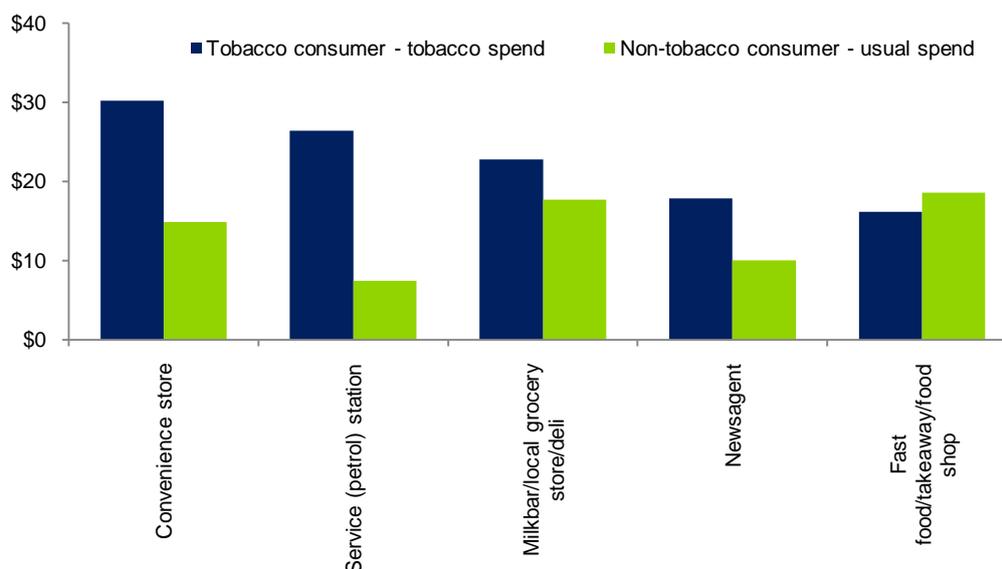
“Normally it’s after work and the supermarket is not open” - *Tobacco consumer, male, aged 20-24*

“Location” - *Tobacco consumer, female, aged 30-34*

“Open at a convenient time” - *Non-tobacco consumer, female, aged 18-20 years*

### 5.3.4 Usual amount spent at small retailers

**Figure 5.3: Total usual amount spent per visit**



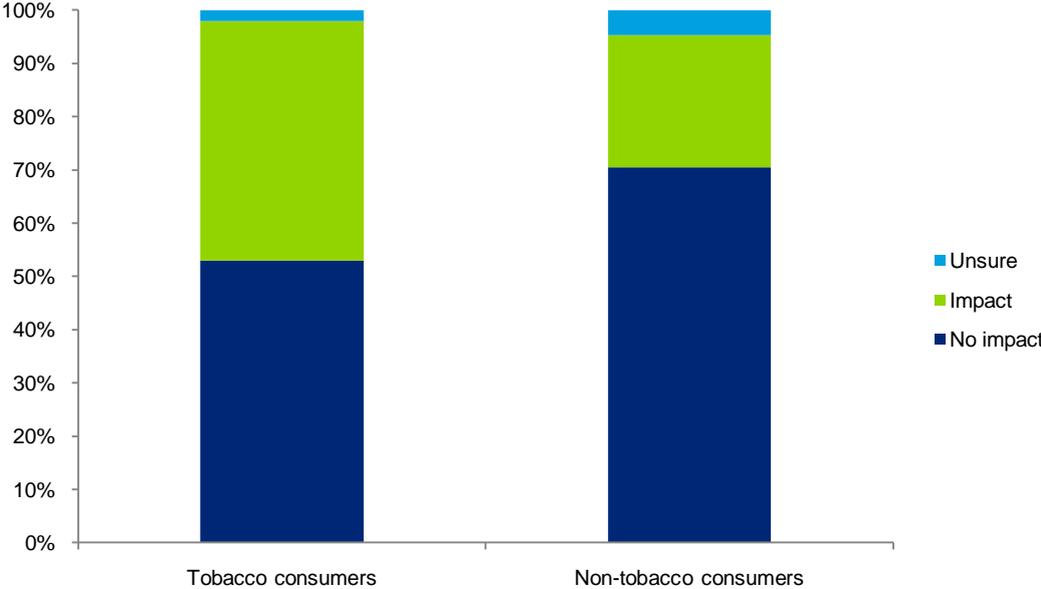
The usual amount spent by tobacco consumers at small retailers on tobacco products averaged approximately \$23 per visit. Across retailers, consumers tended to spend the most at convenience stores (\$30 per visit) and the least at fast food/takeaway stores (\$16 per visit).

The usual amount spent by non-tobacco consumers at small retailers averaged approximately \$14 per visit. Across retailers, these consumers tended to spend the most at fast food/takeaway stores (\$19 per visit) and the least at service (petrol) stations (excluding fuel) (\$7 per visit).

## 5.4 Potential impact of plain packaging

Respondents were presented with an overview of the proposed legislation and asked how they thought their shopping experience at a small retailer would be affected.

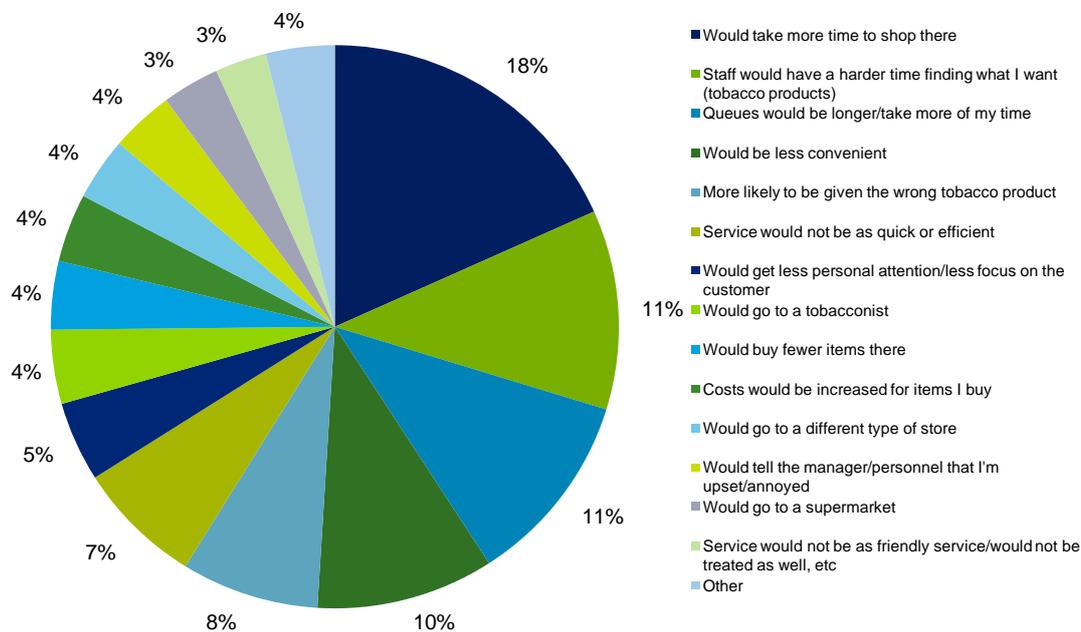
**Figure 5.4: Expected impact on a customer’s shopping experience at a small retailer**



Overall, 45 per cent of tobacco consumers and 25 per cent of non-tobacco consumers thought that their experience would be affected as a result of plain packaging being introduced.

### 5.4.1 Changes to tobacco consumers' experiences

**Figure 5.5: Reasons for tobacco consumers' experience changing under plain packaging**

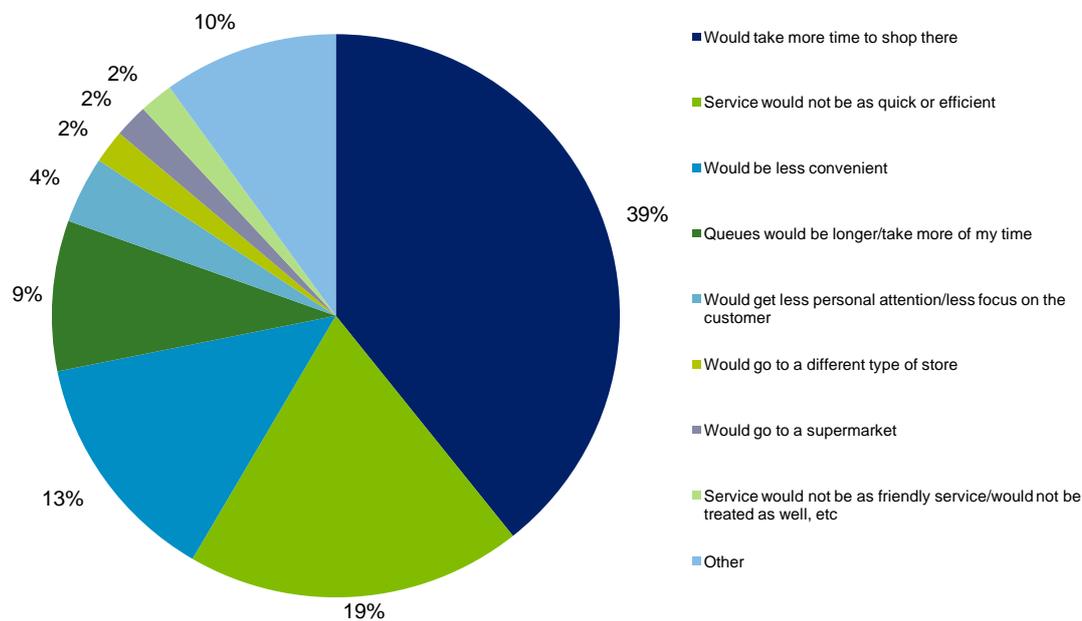


When tobacco consumers were asked how they thought their experience would change as a result of plain packaging, the main response given was that it would take longer to shop at a small retailer (18 per cent of tobacco consumers). Other common responses included:

- Staff would have a harder time finding what I want (tobacco products) – 11 per cent
- Queues would be longer – 11 per cent
- Would be less convenient – 10 per cent
- More likely to be given the wrong tobacco product – 8 per cent.

## 5.4.2 Potential impact on non-tobacco consumers' experiences

**Figure 5.6: Reasons for non-tobacco consumers' experience changing under plain packaging**

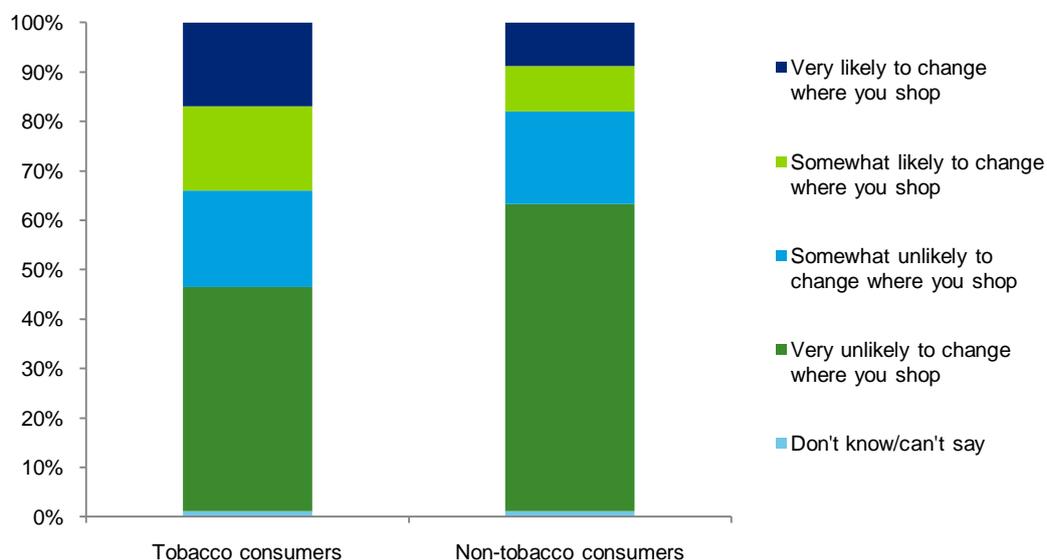


When non-tobacco consumers were asked how they thought their experience would change as a result of plain packaging, the main response given was that it would take longer to shop at a small retailer (39 per cent of non-tobacco consumers). Other common responses included:

- Service would not be as quick or efficient – 19 per cent
- Would be less convenient – 13 per cent
- Queues would be longer/take more of my time – 9 per cent.

## 5.5 Likelihood of channel shift

Figure 5.7: Likelihood of changing where they shopped – tobacco vs. non-tobacco consumers



Respondents were asked how likely they would be to change where they shopped if plain packaging was introduced. It was found that 34 per cent of tobacco consumers and 18 per cent of non-tobacco consumers were very or somewhat likely to change where they shopped as a result of plain packaging.

With regards to where consumers were likely to shift their purchases, of those respondents that were likely to change where they shopped, 61 per cent of tobacco consumers and 71 per cent of non-tobacco consumers reported that they would shop at a large supermarket if plain packaging was introduced.

# 6 Potential impact on small retailers from channel shift

*Based on the RMR consumer survey results, this section illustrates the potential impact on small retailers that could result from channel shift.*

As outlined in Section 5, the purpose of the RMR consumer survey was to test the view of small retailers that the introduction of plain packaging may cause a degree of channel shift to larger format retailers. As detailed previously, the findings from the consumer survey did support small retailers' contention that there was a risk of channel shift following the introduction of plain packaging.

While it is difficult to predict future patterns of behaviour, the results of the survey do provide a basis for illustrating the potential impact on retailers. The following section provides estimates of the potential impact on small retailers resulting from channel shift. These estimates are based on information from the following sources:

- The RMR consumer survey (as detailed in Section 5 of this report)
- Information provided by the small retailers during the focus groups sessions (as detailed in Section 4 of this report)
- Market information on small retailers obtained from previous Deloitte studies on the small retail sector
- Publicly available research reports on the small retail sector.

## 6.1 Potential lost sales from tobacco consumers

To estimate the potential loss of tobacco related sales we have adopted a revenue based approach. This approach calculates the potential loss of sales based on estimates of the ratio of tobacco related revenues for the different categories of retailers. The key inputs we have used for estimating the potential loss in sales from tobacco consumers are:

- The RMR survey result that 34 per cent of the tobacco consumers surveyed were likely to change where they shopped
- Estimates of the average annual turnover for each of the small retailer categories
- Estimates of the contribution of tobacco purchase to overall sales (ratio of tobacco as a proportion of total sales).

As detailed in Section 5, the RMR consumer survey found that 34 per cent of tobacco consumers were either somewhat likely or very likely to change where they shopped as a result of plain packaging. Based on the market information available, if 34 per cent of tobacco related customers did change where they shopped, this could translate into lost per store sales of between \$164 per week and \$1,882 per week for the small retailers covered by this report (as detailed on the following page).

In Table 4 below, we also provide the number of lost tobacco related transactions that would equate to these lost sales (item 7).

**Table 4: Potential weekly lost tobacco-related revenue resulting from channel shift (per small retailer)**

Inputs	Convenience store	Fast food/ takeaway shop	Milk bar	Newsagent	Service (petrol) station
1. Average annual turnover (\$ million)	0.96	0.44	0.5	0.5	2.4
2. Estimated contribution of tobacco to annual sales	30%	10%	30%	5%	6%
3. Estimated weekly tobacco sales [3 = 1 x 2 / 52 weeks]	\$5,538	\$846	\$2,885	\$481	\$2,770
4. Likelihood of channel shift					
a) Estimated proportion of tobacco consumers that are somewhat likely to channel shift	17%	17%	17%	17%	17%
b) Estimated proportion of tobacco consumers that are very likely to channel shift	17%	17%	17%	17%	17%
5. Potential weekly loss [5 = 3 x 4]					
a) From non-tobacco consumers that are somewhat likely to channel shift	\$941	\$144	\$490	\$82	\$471
b) From non-tobacco consumers that are very likely to channel shift	\$941	\$144	\$490	\$82	\$471
6. <b>Total potential weekly loss from consumers purchasing tobacco products</b> [6 = 5(a) + 5(b)]	<b>\$1,882</b>	<b>\$288</b>	<b>\$980</b>	<b>\$164</b>	<b>\$942</b>
7. Typical spend on tobacco related products	\$30	\$16	\$23	\$18	\$26
8. <b>Equivalent lost number of tobacco related transactions per week</b> [8 = 6 / 7]	<b>63</b>	<b>18</b>	<b>43</b>	<b>9</b>	<b>36</b>

Source: RMR, Australian Retailers Association, IBIS World

## 6.2 Potential lost sales from non-tobacco consumers

The RMR consumer survey also found that non-tobacco consumers surveyed thought their own shopping experience would be affected. From the survey, 18 per cent of respondents who were non-tobacco consumers stated that they were either somewhat likely or very likely to change where they shopped. Based on information respondents provided about their spending patterns at small retailers, this could potentially equate to a loss of \$14 in revenue for each transaction by a non-tobacco consumer.

Box 2 below provides an illustrative example of the potential impact on convenience stores from non-tobacco consumers changing where they shopped.

### Box 2: Potential impact on convenience stores from non-tobacco consumers changing where they shopped

To illustrate the potential impact on one key category of small retailer as a result of non-tobacco consumers shopping elsewhere, an estimate of the potential lost revenue for convenience stores can be calculated. Using information from the RMR consumer survey and publicly available research on convenience stores, this estimate has been generated as follows:

9. Average annual turnover (refer to Table 4) = \$0.96 million
10. Estimated contribution of non-tobacco to annual sales = 70%<sup>4</sup>
11. Estimated weekly non-tobacco sales [ $\$0.96 \text{ million} \times 70\%$ ] = \$12,923
12. From the RMR consumer survey, likelihood of channel shift
  - a. Estimated proportion of non-tobacco consumers that are *somewhat likely* to channel shift = 9%
  - b. Estimated proportion of non-tobacco consumers that are *very likely* to channel shift = 9%
13. Potential weekly loss [ $5 = 3 \times 4$ ]
  - a. Potential weekly loss from non-tobacco consumers that are *somewhat likely* to channel shift = \$1,163
  - b. Potential weekly loss from non-tobacco consumers that are *very likely* to channel shift = \$1,163
14. Total potential weekly loss from non-tobacco consumers [ $6 = 5a + 5b$ ] = \$2,326

Hence, if it eventuated that 18 per cent of non-tobacco consumers no longer shopped at a convenience store, approximately \$2,300 per week in revenue could potentially be lost.

Using this potential weekly loss estimate from non-tobacco consumers as a result of channel shift, an equivalent lost number of non-tobacco related transactions per week can be estimated.

15. From the RMR consumer survey, typical spend on non-tobacco related products = \$14
16. Potential equivalent lost number of non-tobacco related transactions per week [ $8 = 6 / 7$ ] = 166

Therefore, given that the RMR consumer survey reports that an average of \$14 is typically spent by non-tobacco consumers per transaction; convenience stores could potentially face a loss of 166 non-tobacco transactions per week.

Source: RMR, Australian Retailers Association, IBIS World

<sup>4</sup> As detailed in Table 4, tobacco products contribution to annual sales is approximately 30 per cent, hence non-tobacco products' contribution to annual sales is approximately 70 per cent.

# Appendix A – RMR consumer survey methodology

## *Sample*

The survey involved 481 people currently living in Australia, 18 years and older (210 smokers and 271 non-smokers, defined further below).

The following employment exclusions were applied:

- Participants could not work in the media, tobacco or market research industry
- Participants could not work at a supermarket, service station, convenience store, tobacconist, newsagent, or milk bar.

## *Screening*

Qualified smokers met the following screening criteria:

- Currently smoke manufactured cigarettes or roll-your-own
- Typically purchase cigarettes at least once a week
- Purchased cigarettes in past seven days
- Purchase cigarettes or roll-your-own tobacco at a small retailer most often or second most often
- At least 1 of last 10 cigarette/tobacco purchases made at a small retailer.

Qualified Non-smokers met the following screening criteria:

- Not a current consumer of tobacco products
- In past 7 days, purchased a non-fuel item from a petrol service station or purchased an item from a small retailer

Participants were recruited via telephone through the use of the latest available computer listings of landlines and mobile numbers and through Roy Morgan Single Source re-contact.<sup>5</sup>

## *Quotas*

Recruitment quotas were set according to recent statistics drawn from Single Source for smokers and non-smokers who made purchases at small retailers in the past 7 days.

There were 96 cells in the quota structure: gender (2: male/female) x age (4: 18-29, 30-39, 40-49, 50 and older) x state/region (6 areas) x smoking (2: smoker vs. non-smoker). Quota cells were filled based on targets of 250 smokers and 250 non-smokers (N.B., actual sample size was 210 smokers and 271 non smokers, refer paragraph on margin of error below).

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<sup>5</sup> Each year, Roy Morgan Research conducts more than 50,000 face-to-face interviews covering a wide range of topics. The resulting data set is called Single Source. Many of the people agree to participate in additional surveys. This is the Roy Morgan Research re-contact resource.

## *Weighting*

Weighting is used in research to correct sample biases. In theory, a survey with a perfect quota should not need to be adjusted except to “gross up” the sample to reflect population values. In practice, a weighting framework helps to adjust for any deviations between the target sample and the achieved sample. Data in the present study were weighted to balance the obtained data on the age/gender/location variables.

## *Survey*

The 10-15 minute CATI (computer-assisted telephone interview) survey was conducted from 1 April 2011 through 17 April 2011.

Calls were made weekday evenings and during daytime on weekends. Up to four call attempts were made per household and only one person per household was allowed to answer the survey questions.

## *Pilot*

A pilot survey phase was conducted which resulted in the changing of a few screening criteria.

## *Margin of error*

Typically in statistical research, a census of the entire population is impractical. As a result, a random population sample is drawn from the total population which is underlined by an assumption that the sample's statistics reflect those of the total population.

To quantify the degree to which the sample reflects the true population values, the sample's margin of error can be assessed by estimating a confidence interval. Analyses based on sample sub-groups have reduced reliability however data from sub-samples of 100 or more are commonly reported. The confidence interval for data derived from a sample of 100 is  $\pm$  ten per cent at the 95 per cent confidence level.

For this report the standard 95 per cent confidence level was used. As a result, the total sample of 210 smokers is expected to be accurate to within  $\pm$  6.8 per cent of the population figures at the 95 per cent confidence level. Essentially, this margin of error infers that there is only a five per cent chance that the population value is more than 6.8 per cent away from the values observed with the sample of 210 smokers.

As for non-smokers, the total sample size of 271 is expected to be accurate to within  $\pm$  5.9 per cent of the population at the 95 per cent confidence level.

For the overall sample size of 481 participants, the sample is expected to be within  $\pm$  4.5 per cent of the population at the 95 per cent confidence level.

# Appendix B – Bibliography

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