

OPEN PANTRY TESTS THE WATERS

Retailer gives away bottled water with purchases of coffee and fountain drinks

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It's difficult to talk about water at Open Pantry without the conversation becoming enmeshed in coffee talk. So intertwined are the two because of a year-old promotion that gives customers a free half-liter bottle of water with coffee purchase.

Jim Fiene, COO of the Pleasant-Prairie, Wis.-based chain, refers to the program as the company's economic stimulus package, giving customers the chance to "untax your thirst."

Fiene explains how the free water program—a hit as both a coffee and bottled-water promotion—came to be. "We could have discounted coffee, but so many companies in our industry discount coffee to let's say 59 cents a pop, 79 cents a pop," he says. "What does that tell you about the coffee? So we didn't want to take our price down and play in that world.



Photo by Scott Anderson

STICK IT TO ME: Jim Fiene is pleased with the 6-inch stickers on water cases at Open Pantry. "That tells the story right there," he says.

Right as Rain

This yin-and-yang, coffee-water dualism plays out symbiotically on a cold, blustery October day when CSP shows up at an Open Pantry store in Franklin, Wis. A crew from GSP Marketing Technologies is scattered throughout to promote a Rainforest Alliance coffee, farmed without harming rainforests, launched just that day. Despite the declining mercury outside, you could almost feel the water and steam of a rainforest as the crew created thunder, lightning, clouds, fog and vine effects throughout the store.

The promotion takes on a stronger feel with toy frogs placed strategically across this human-created habitat. “We took [Jim Fiene’s] ideas and ran with it. This is awesome; we love it too,” says Steve Juday, GSP’s mid-Atlantic regional manager and vice president of sales.

The marketing behind the rainforest effect is to stoke the curiosity of the 1,400 to 1,500 people who walk into the store each day. “The



HOPPY DAY: A happy frog helps to promote Open Pantry’s Rainforest Alliance coffee.

cherry on top of that whole thing,” says Fiene, “is we create an interaction between the consumer and the employee, which is the best thing you can do inside a convenience store.”

Although the new coffee actually costs

Open Pantry double what it pays for its house blend, consumers won’t pay any more for it—and it comes with the signature Open Pantry free bottle of water. Think of it as two promotions wrapped in one.

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Open Pantry introduced Willow Creek coffee, which Fiene describes as a high-end Arabica bean coffee that is “not your gas station’s coffee,” at its 26 stores four years ago. The offering includes a house blend, a hypercaffeinated blend, an organic fair trade coffee and a new Rainforest Alliance blend (see sidebar, above). The coffee comes from Louisville, Ky.-based Consumers Choice Coffee Inc., which buys it and roasts it to Open Pantry’s specifications. And Bob Patterson, president of Consumers Choice, says he has been impressed with the free-water program. “I think it’s very innovative,” he says. “The thing about Jim and Open Pantry is they just get it.”

STILL WATERS

While the coffee offerings seek to bring

new customers into the store, the goal of the water program is to engender loyalty—a proposition the company plans to hold onto, no matter how popular the coffee becomes on its own.

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I have you getting free water every time you buy a cup of coffee, every time you leave your house and you want to get a cup of coffee, we hope that Open Pantry comes to your mind,” Fiene says. And if

the consumer shops at Open Pantry several times a week and doesn’t drink the water right away, even better. “We get consumers with three or four bottles of water in the backseat of their car. That’s phenomenal loyalty, because every morning they get in their car, they see those three bottles and they say ‘Open Pantry.’”

Fiene says the offering will be “a forever program,” and it’s no wonder: He estimates that coffee unit sales have increased 18% in the past year. “And we’ve built this significant growth at full price at full profit on our coffee, without hurting our brand image at all by lowering that price,” he says. “A free bottle of water: We want it to be just part of Open Pantry’s brand.”

While consumers value a bottle of water at about \$1, the actual cost to Open Pantry can be 12 to 15 cents. “So we’re giving a very low-cost item to us, but the consumers put a high value on it,” he says. The brands being offered with promotion can vary, depending

More to Come

The water program has been so successful that on the day CSP visited Open Pantry, the program was expanding to include other freebie categories. “The employees got so used to giving the bottle away, the fun of the interaction had gone down a little bit because it was, ‘Here’s your water again,’” Fiene says. Customers now can choose between a Nestlé water, a five-piece package of Trident gum or a Jack Link’s beef stick. “So we’ve brought other business partners into it, and they’ve given pricing structures that are about the same prices as the water.”

The hope is to continue to promote water, but attract other valuable customer groups. “So now we can get Bubba,” Fiene says. “Bubba wants his 32-ounce fountain drink, and he really doesn’t want a bottle of water. He’ll take it, but he doesn’t really necessarily want it, but he would love a beef stick.” And the gum is set to further attract Open Pantry’s busy female target: “The female consumer drinks a cup of coffee and wants to freshen her breath.

“We knew we targeted the world with water and it’s been very, very successful. We then say, ‘All right—who are we missing?’ So now there’s the interaction between the customer and the employee again. It’s fresh, new and bright.” He rubs his hands together and demonstrates. “So what would you like this morning?”



FREE FOR ALL: A sign shows customers the freebies they can choose from with any coffee or fountain-drink purchase.



UP A TREE: Fog and lighting calls attention to Open Pantry’s new Rainforest Alliance coffee.

on who has the lower price point. “The trick to this is keeping the cost low.”

Promotional partners include Nestlé, Dasani and Aquafina, who compete on pricing to be part of the program. “We’re putting literally hundreds of thousands of water bottles in people’s hands ... and what great marketing that is for them, having their brand in somebody’s hands,” Fiene says.

And he says Open Pantry would never do a private-label water. “To convince somebody that we have a spring, and that we bottle from that spring is crazy,” he says. “Who’s behind that water? Where’d that stuff really come from? I don’t want to fight that branding battle. My brand is customer service and quality; that’s who I want to be.”

Customers pay \$1.19 for a 16-ounce, \$1.39 for a 20-ounce and \$1.49 for a 24-ounce coffee. While Fiene declines to give precise margins, an average margin for coffee is 65%, he says. The half-liter bottles of water sit near the cash register and are served warm. “We don’t do cold water, because we didn’t want to cannibalize the sale of our cold water inside the store,” he says.

And while the offering initially undercut cold-vault water sales by 3%, those sales have rebounded and are up around 2% from last year as Open Pantry has become known as a water destination.

“That was the biggest fear for our [water] partners: We’re going to kill our

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water sales out of the cooler because we’re giving away a free bottle of water,” he says. “And after three, four months into the program they were like, ‘Wow.’ They were very happy to see we’d done that. For the person that wants an ice-cold water for drinking immediately, that warm water is not going to satisfy them.”

FOUNTAIN OF DRINKS

When warmer weather hit, and coffee became just a breakfast beverage and not a warm-up solution, coffee sales declined. And so the company decided



FINE VINES: Merchandising about the free products Open Pantry offers with coffee and fountain drinks is prominently displayed at the pump, vines and all.

to add the free-water offering to its fountain drinks in the spring of this year. “A lot of people questioned that: How much liquid are you going to give somebody?” Fiene says. “But once again, the loyalty effect there is people grab their fountain drink, and they expect their water now. And they got their water.”

The promotion translated well. Fountain drinks were selling for 79 cents last year, but Open Pantry still has seen an increase of 17% to 18% in fountain-drink unit sales since the launch of the water program—despite going back to regular pricing of \$1.47

for 20 ounces, \$1.57 for 24 ounces and \$1.68 for 44 ounces. “[That] means we’re getting all that margin back by giving away a 12-cent bottle or 13-cent bottle of water,” he says.

Fiene believes that stores offering heavily discounted fountain drinks “are just giving away all their profit, and they say they’re doing it to just build traffic.” While he concedes that it’s not a bad strategy, Open Pantry seeks to grab traffic by building loyalty. And because the consumer values bottled water at about \$1, they look at it as getting something free of equal value.

While 12-packs of carbonated soft drinks have declined 6% in 2007 and 9% in 2008, and will likely be down 6% for 2009, that isn’t necessarily a cannibalization, according to Fiene. There has been a continual decline as consumers make their CSD purchases at grocery stores, which use it as a loss leader to bring customers in. Open Pantry has reduced CSD sets at all of its stores by one full cooler door to accommodate growth in water, tea and energy categories.

JUST IN CASE

Cases are also a big part of Open Pantry’s water strategy. According to Fiene, the company started promoting case water four years ago. The company begins its promotion in April, prior to traditional summer sales, to let consumers become familiar with its water offering.

The strategy plays well to Open Pantry’s target customer: women. “The female consumer wants to buy cases of water,” Fiene says, “but doesn’t want to lug them around all over the place, so it’s simpler to purchase them at Open Pantry.” On warmer days, the company merchandises the water outside, making it even easier for customers to place



WARM RECEPTION: Water is kept at the cashier counter, served warm to avoid cannibalization of cold-water sales.

multiple cases in their car. The strategy has lifted case water with continued double-digit growth: 36% in 2007, 25% in 2008 and on target for more than 20% in 2009.

And it's unlikely anyone will be con-

fused about where that water came from. Each case is affixed with a 6-inch neon-green decal touting the \$3.99 price for a 20-pack, with the Open Pantry logo and the phrase "All Summer Long!"

"With our strategy, we wanted to

get pricing that the consumer knew," Fiene says. "And hopefully, we build in some consistency, some loyalty of saying, 'You know what, every time I get my gas I'm going to pay \$3.99 for my case of water.'" And despite the case stickers' reference to summer, the pricing is offered all year long; new stickers will reflect that.

"Bottled water used to be considered a luxury. Today, it's a staple, so that we offer it at all times," he says. "The 'All Summer Long' is just the concept of: We don't change our price every day."

The offering has also built up market baskets. According to Fiene, water goes out more than 80% of the time with another sale tied to it: "So it's not just grabbing a case of water, and that's important to us." ■