Front-End Focus

Maximizing
Checkout Performance

MARS incorporated

Time/Warner Retail Sales & Marketing

The Coca-Cola Company

DechertHampe

Front-End Focus

Best Practices For Superior Checkout Merchandising

Front-End Focus Leadership Sponsors

Mars Chocolate North America

Time-Warner Retail Sales & Marketing

The Coca-Cola Company

In partnership with leading retailers and Dechert-Hampe Consulting, an independent research & consulting firm.

Front-End Focus Objectives

- Gain new insights on shopper attitudes and buying behavior relative to the Front-End checkstand
- Determine the impact of developments such as self-checkout on consumer buying behavior and product sales
- Identify opportunities to maximize sales and profit performance through implementation of Best Practices
- Improve the overall productivity of the Front-End through collaboration among all the major stakeholders

Front-End Focus Initiatives

Front-End Focus studies have been conducted in Grocery, Drug, and Convenience Outlets.

- **Best Practices for Checkout Merchandising (Grocery, 2002)**
- **Convenience Store Merchandising (2004)**
- **Impulse Merchandising in Drug Stores (2005)**
- **Front-End Operations Management (2006)**
- **Front-End Focus Grocery (2009)**

Scope Of The 2009 Front-End Focus Research

- Research was conducted in partnership with six leading retailers representing almost 3,200 stores and 12% of U.S. Grocery Volume
- Retailers provided SKU level data for over 5000 items in 300 stores over a 6-month timeframe
- Checkout planograms were collected and over 300 stores were audited at the lane level to identify merchandising conditions
- In-store research with 1,300 shoppers was conducted relative to checkout attitudes and purchase behavior at Regular, Express & Self-Checkout lanes
- Several retailers also provided shopper card data on over 750,000 individual front-end transactions
- All research and analysis was performed by Dechert-Hampe & Company in order to ensure objective conclusions

The Study Includes Information On Over 30 Major Categories

- Candy
- Gum
- Mints
- Magazines
- Carbonated Beverages
- Non-Carbonated Beverages
- Bottled Water
- Energy Drinks
- Cookies/Crackers
- Salty Snacks
- Phone/Gift Cards
- Batteries/Flashlights
- Film/Cameras
- Oral Care
- Nutrition/Energy Bars
- Nuts Seeds
- Meat Snacks
- Baked Snacks
- Other Snacks
- Razors/Blades
- Cosmetics
- HBC
- Lip Care
- Books
- Audio/Video/CD/DVD
- General Merchandise
- Children's Toys/Games/Books
- Tobacco Accessories
- Maps/Horoscopes/Puzzles
- All Other Products
- Household Products
- Grocery Products

The Landscape Of The Front-End Checkstands Have Changed Over Time

% Grocery Stores Stocking At Checkout

	1992	1997	2002	2008
Magazines	99	97	96	100
Candy	95	97	98	100
Gum/Mints	95	94	98	100
Carb. Beverages		85	93	95
Non-Carb. Beverages			67	76
Salty Snacks		43	64	92
Cookies		32	35	37
Other Snacks			37	21
Batteries	60	74	92	95
Film/Cameras	52	65	91	67
Razors/Blades	54	59	77	69
Lip Care			73	74
Oral Care			62	75
HBC		16	10	65
Books		45	47	14
Audio/Video		20	24	58
Phone/Gift Cards			61	97

- **Many categories have been added to the front-end**

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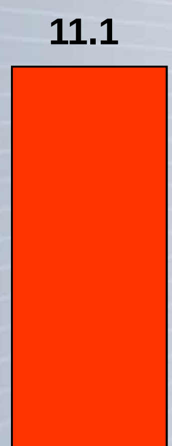
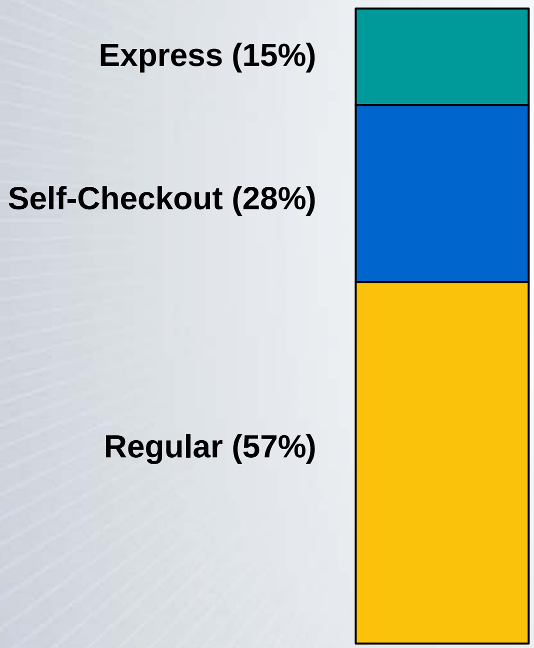
The Average Supermarket Has 11 Lanes With 28% Of The Lanes Being Self-Checkout

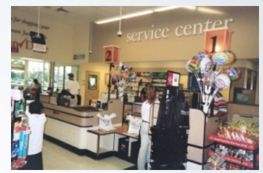
Supermarkets

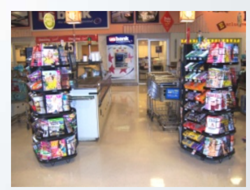
Average # Of Checkout Lanes Per Store



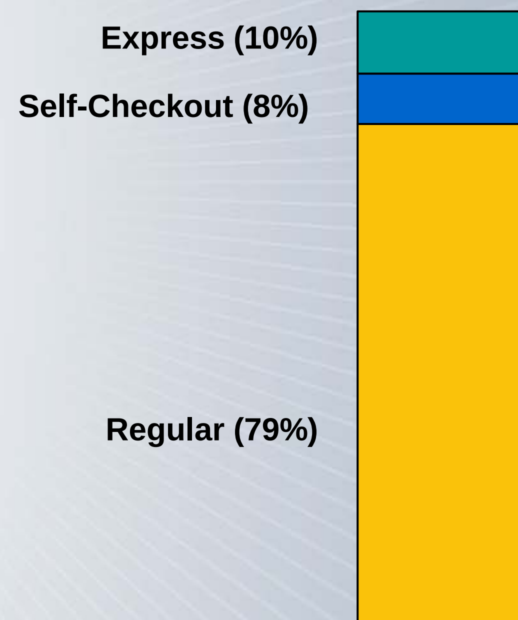
Percent Of Lanes By Lane Type







Percent Of Linear Space



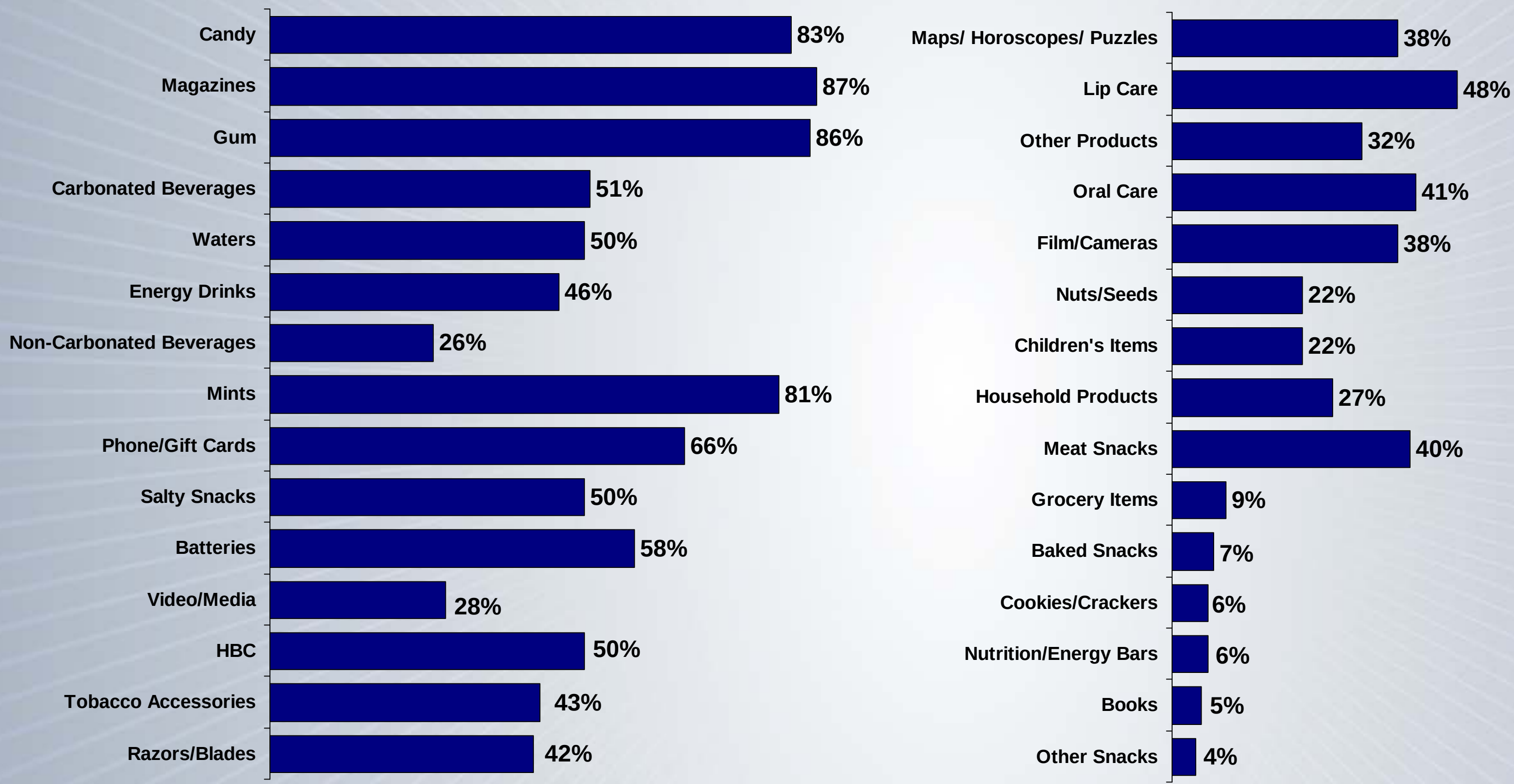
Note: A Self-Checkout "pod" of 4 registers counts as 4 lanes.

- **"Average" lane has 858 linear feet of merchandising space**

Source: Front-End Focus

Confectionery & Magazines Are Stocked On Most Of The Front-End Checkstands

% Of Front-End Checkstand Lanes That Stock:
(All Lanes)

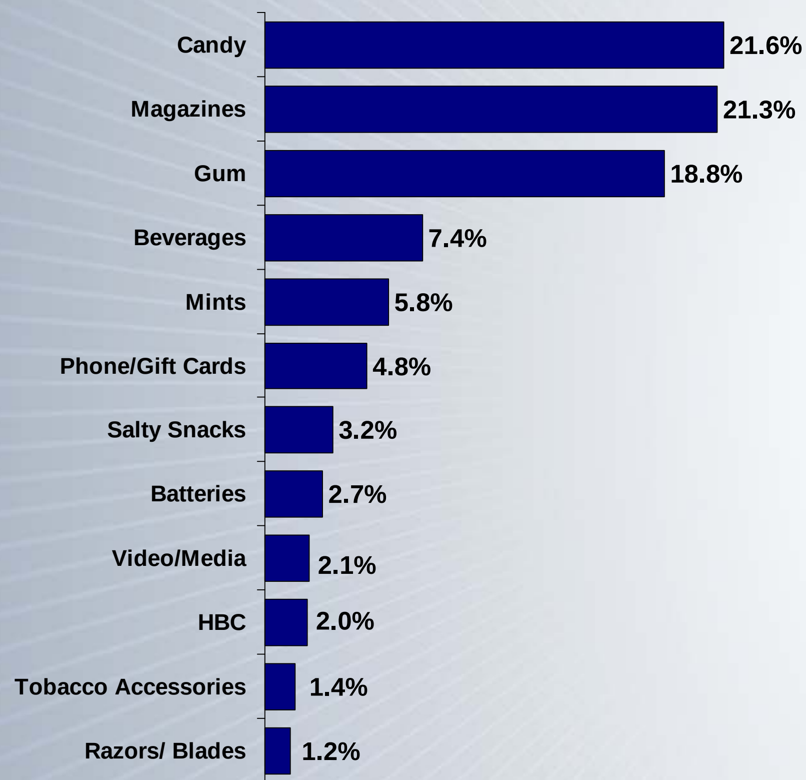


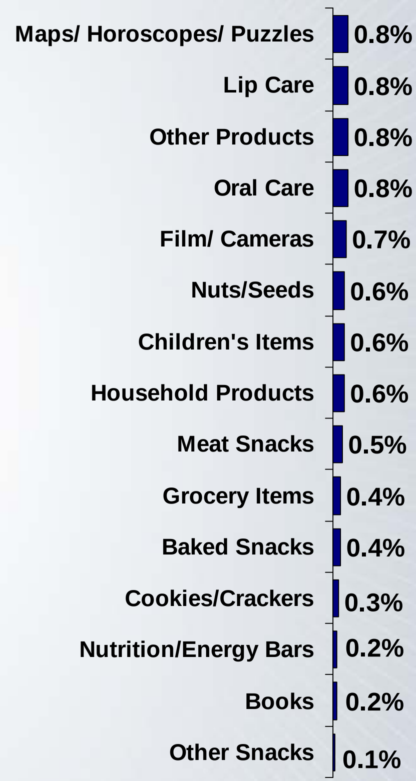
- **Carbonated Beverages and Waters are on 1/2 of the front-end checkstands**

Note: Categories are ranked by % of front-end merchandising space from a previous page

Magazines, Candy, & Gum Account For 60% Of Front-End Checkstand Merchandising Space

% Of Front-End Merchandising Space (All Lanes)





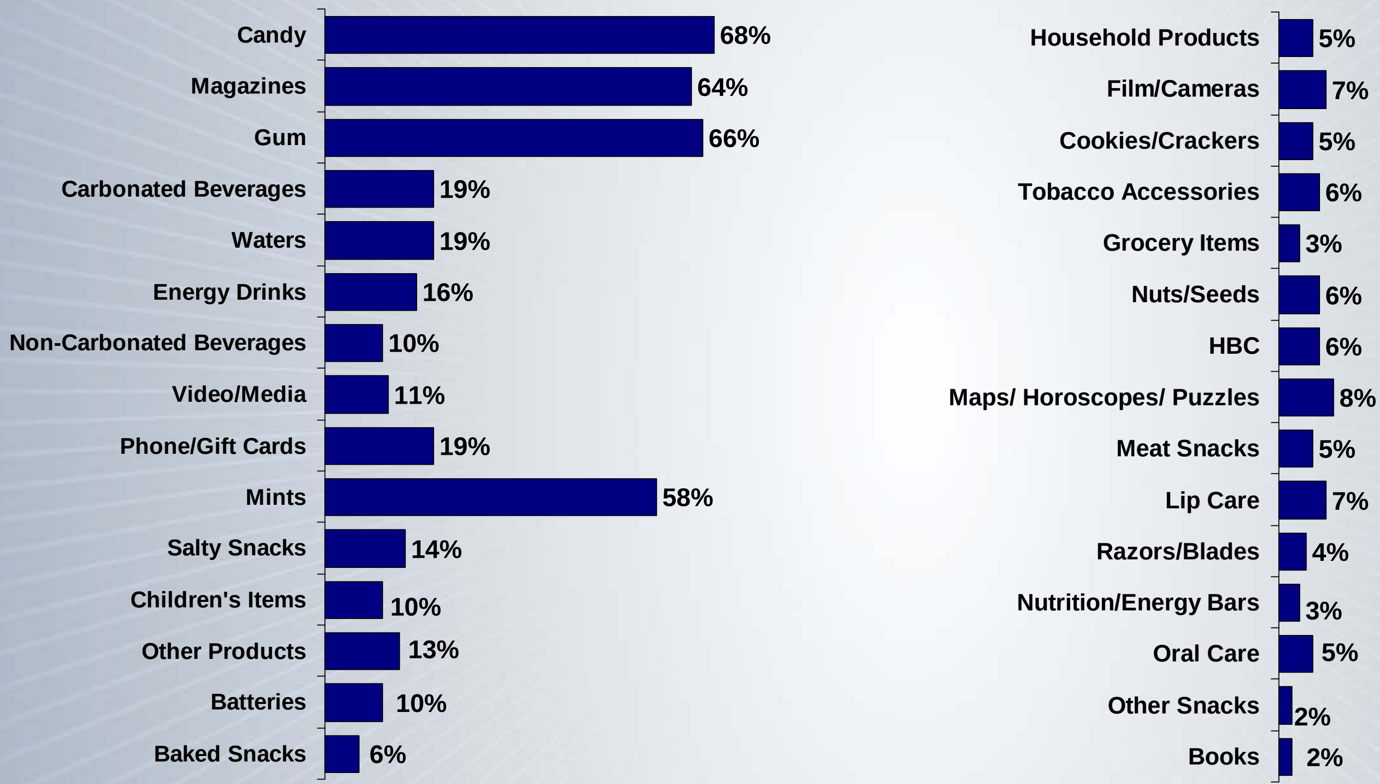
- **Beverages have 7.4% of the front-end space**

Source: Front-End Focus

Best Practices For Superior Checkout Merchandising

The Confectionery Category Is Only Stocked On 2/3 Of The Self-Checkout Lanes

% Of Front-End Self-Checkout Lanes That Stock:



- **Magazines are on 64% of the Self-Checkouts while Carbonated Beverages are on 20% of the Self-Checkouts**

Note: Categories are ranked by % of front-end merchandising space from a previous page

Source: Front-End Focus

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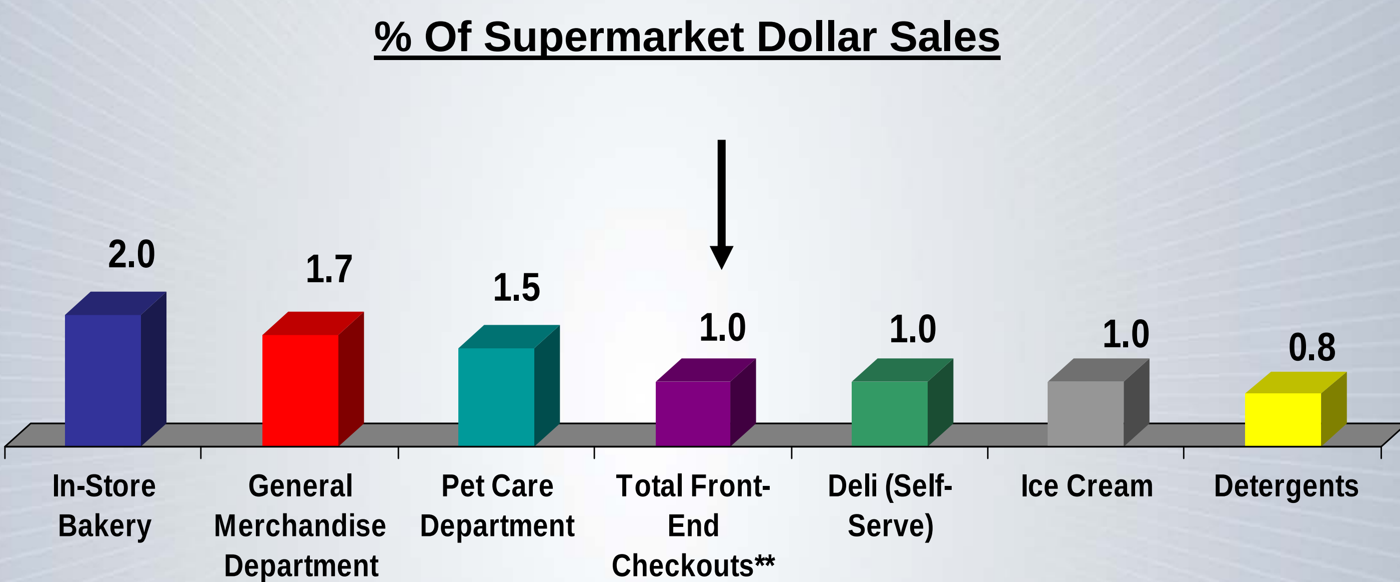
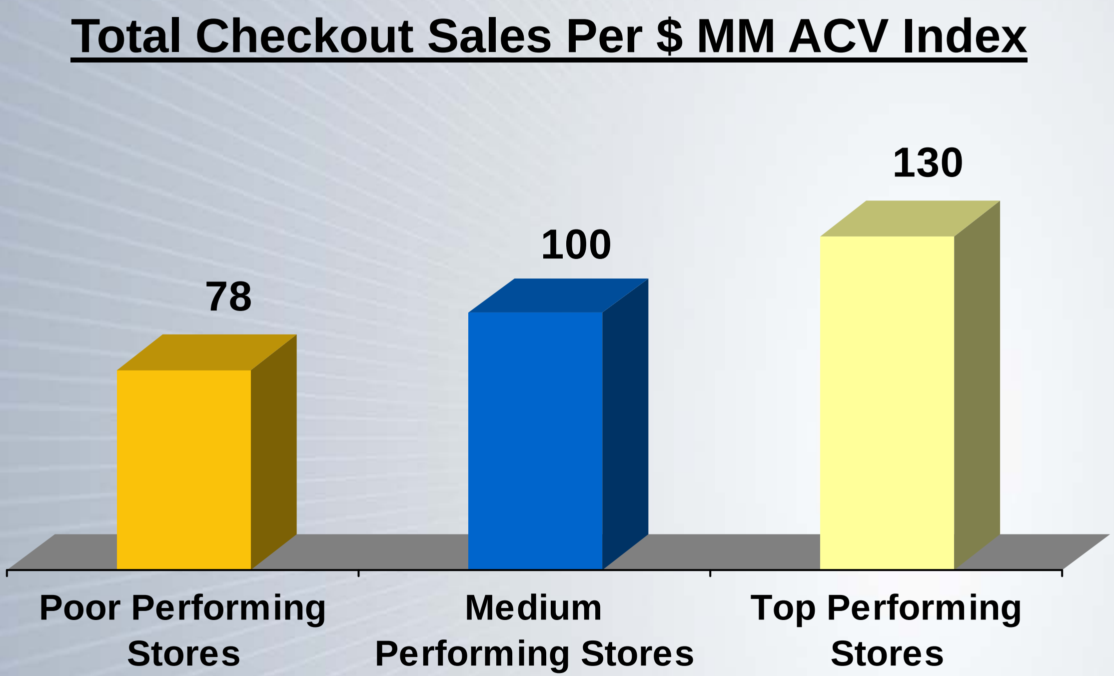
The Front-End Is Larger Than Many Other Retail Categories/Departments



Strategy: The Front-End should be managed as a department with its own Category Manager

Source: DHC Analysis. A.C. Nielsen 52 weeks ending 12/28/08 Progressive Grocer, **FEF Study.

Opportunity For Improved Performance at the Front-End Is Huge



- **Top performing retailers enjoy a 30% advantage in store performance at Front-Ends**

Strategy: Take advantage of this opportunity by adopting the Best Practices of top performing retailers

Source: Front-End Focus Study. DHC Analysis.

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Magazines, Confectionery and Beverages Account for 79% of All Front-End Sales

% Total Front End Sales

Category	% Sales
Confectionery (Candy/Gum/Mint)	29.9
Magazines	24.8
Beverages	24.4
Gift/Phone Cards	6.2
Batteries	3.0
Salty Snacks	2.4
Razors/Blades	2.0
Tobacco/Accessories	2.0
Health/Beauty Care	1.4
Meat Snacks	0.7
Cookies/Crackers	0.6
Oral Care	0.6
Video/Media	0.6
Lip Care	0.5
Nuts/Seeds	0.5
Film/Cameras	0.3

Power Categories = 79%

Source: DHC Analysis of Retailer Data.

The Bulk of the Front-End Opportunity Gap Is in the Power Categories, Especially Beverages

- **Beverages, Confectionery, and Magazines Account for 83%**

Sales Per $ MM ACV Difference Between Medium & Top Performing Stores		
Category	**Growth Opportunity Per $ MM ACV**	**% Of Total Growth**
Beverages	$1,071	37.2%
Confectionery	$747	25.9%
Magazines	$583	20.3%
Gift/Phone Cards	$146	5.1%
Snacks	$143	5.0%
Razor/Blades	$79	2.7%
Batteries	$78	2.7%

83%

Strategy: Focus performance improvement on the key categories that offer the greatest opportunity

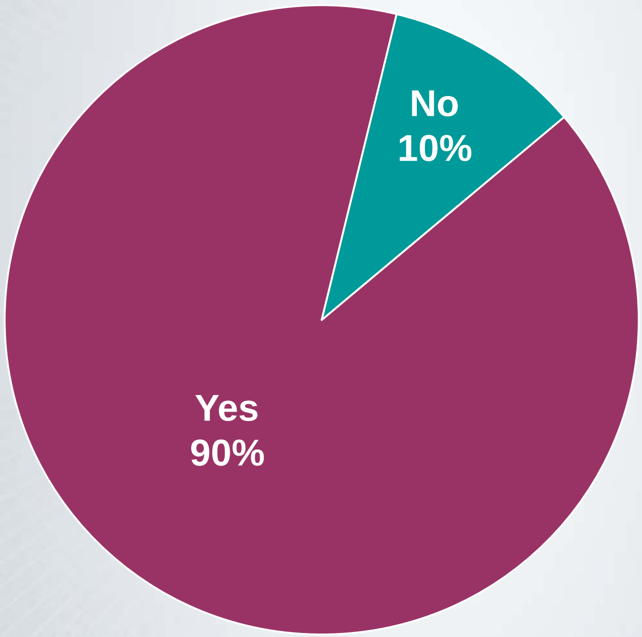
Source: FEF Study. DHC Analysis.

Consumer Shopping Behavior

90% Of Shoppers Purchased Something From The Front-End During a Six-Month Period

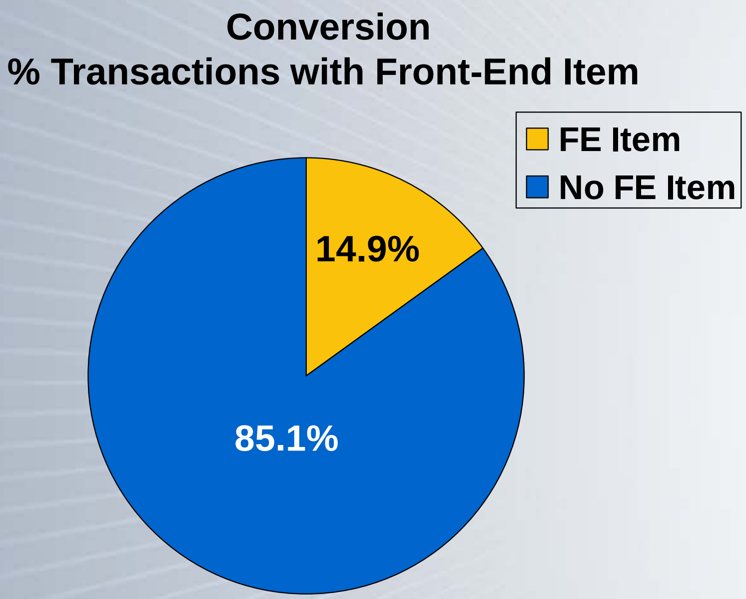
<u>In The Last Six Months, Have You Purchased Any Items Merchandised At The Front-End Checkouts In This Store?</u>

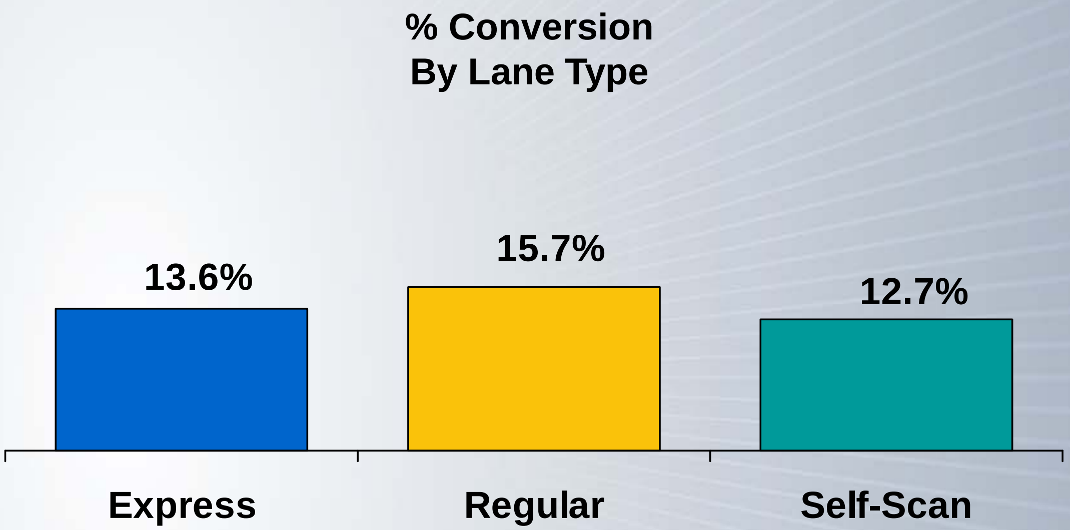
(% Of All Respondents)



Source: Front-End Focus

Conversion Rates Differ By Lane Type

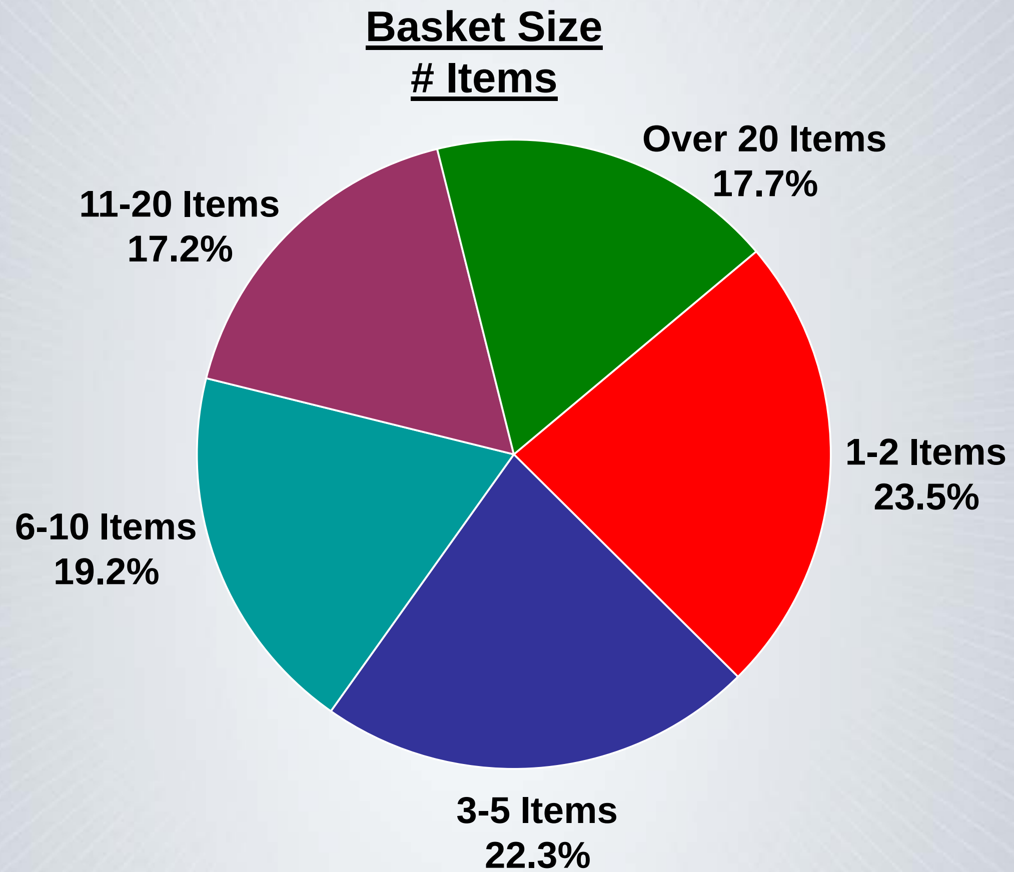




- Conversion is highest at Regular lanes where shoppers wait longer
- Conversion is lowest at Self-Scan lanes where the shopper is doing their own transaction and there is less merchandising of products

Source: Front-End Focus

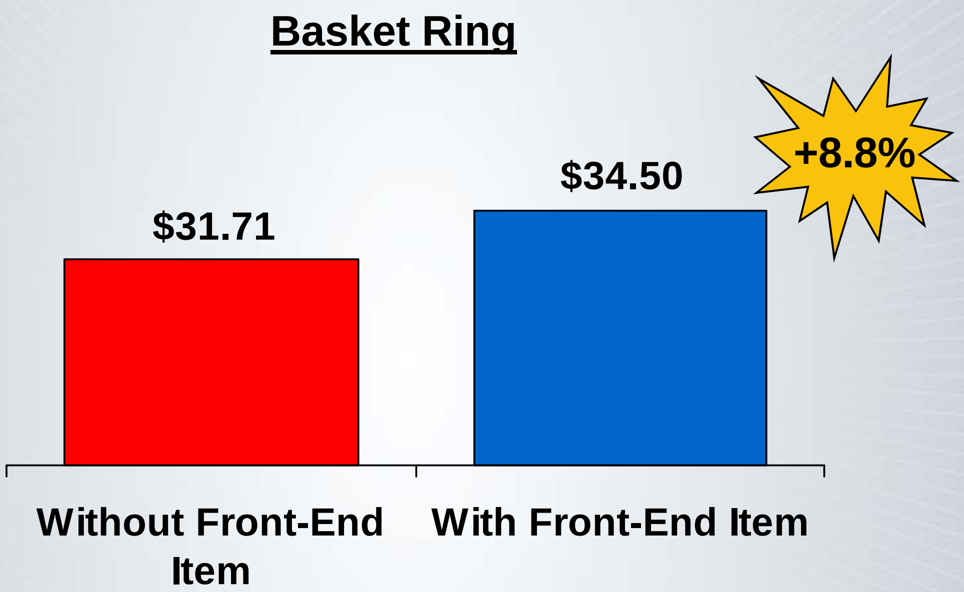
Nearly Half Of All Grocery Baskets Contain Five Items Or Less



- **Basket size averages only about 12 items due to many Quick Trips**
- **Front-End offers opportunity to add incremental items**

Source: Front-End Focus

Front-End Purchasing Adds 8.8% To The Basket Ring

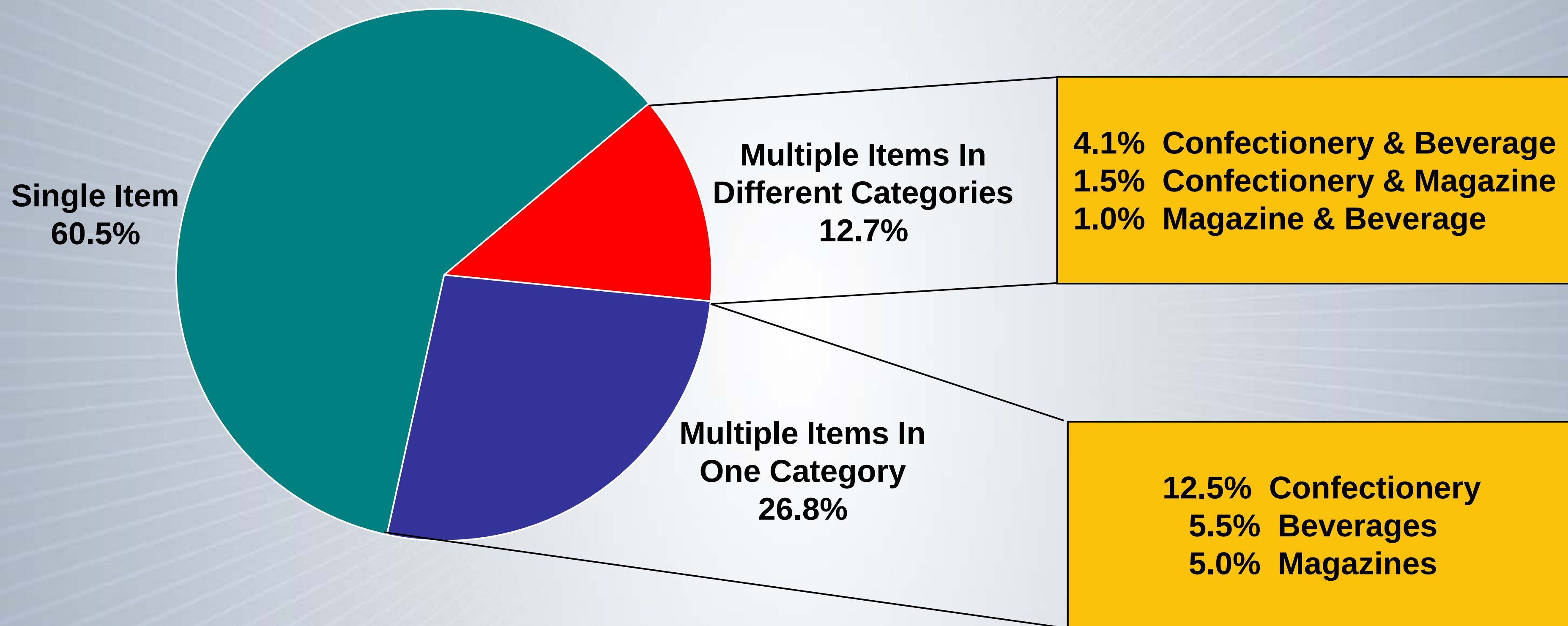


- The key is to increase Front-End conversion

Source: Front-End Focus

Multiple Item Purchasing Is Common At Front-End and Should Be Encouraged

% Of Front-End Buyers Who Purchase:



- **40% of Front-End buyers buy multiple items**
- **Confectionery and Beverage are the most common combo**

Source: Front-End Focus

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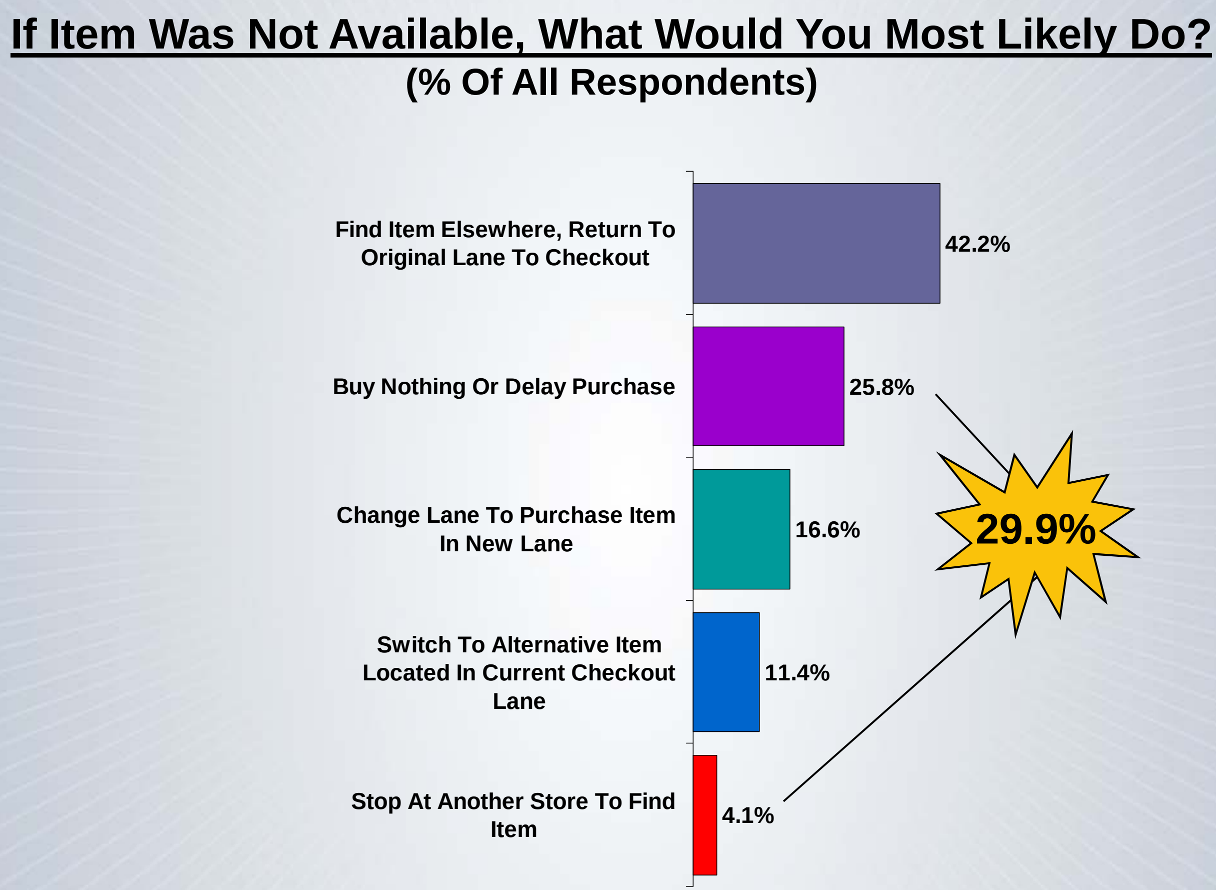
Almost One In Three Shoppers Would "Walk Away" If The Item They Wanted Was Not Available



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Category Purchase Potential Is Driven By Penetration, Frequency And Impulse

Category Purchase Potential

=

PENETRATION
% Consumers Buying

x

FREQUENCY
% Consumers Buying Once A Month Or More

x

IMPULSE
% Consumers Buying On Impulse

Source: Dechert-Hampe & Co.

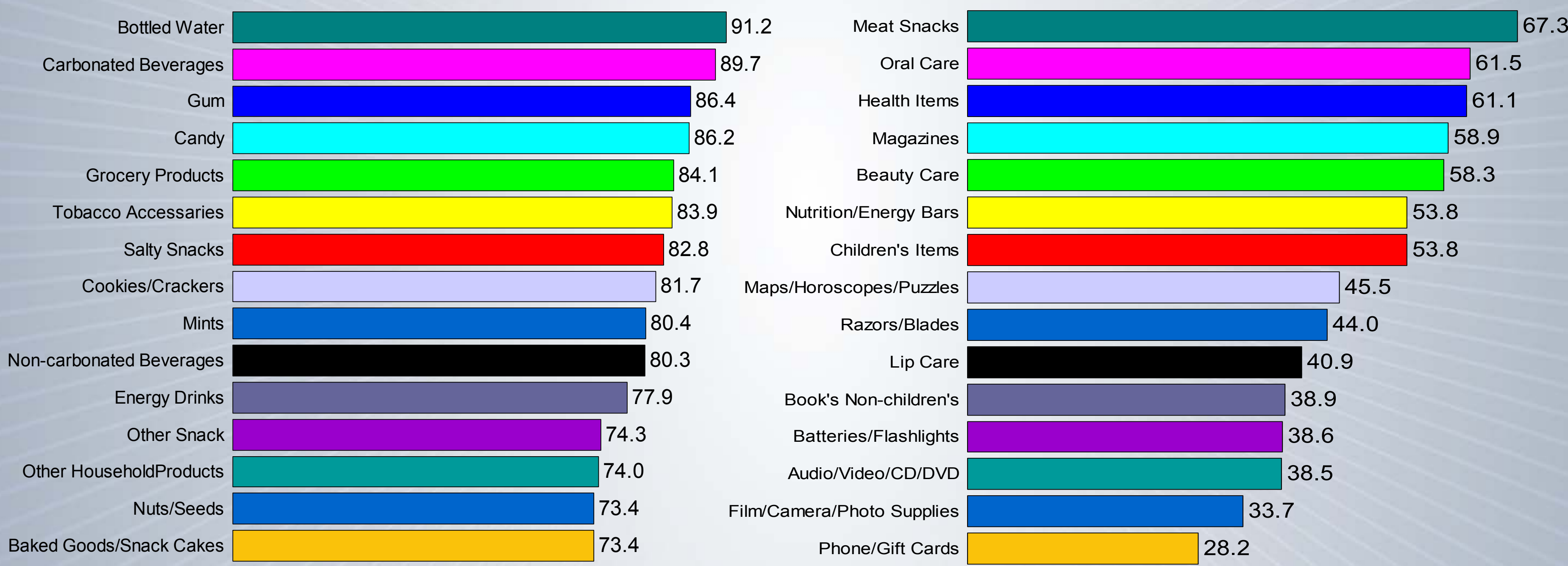
Confectionery, Beverages, and Magazines Have the Greatest Penetration at the Front-End

Source: Shopper Interviews.

Confectionery, Beverages and Snacks Are the Most Frequently Purchased Categories at Front-End

% Shoppers Buying Frequently at Checkout (Once a Month or More)

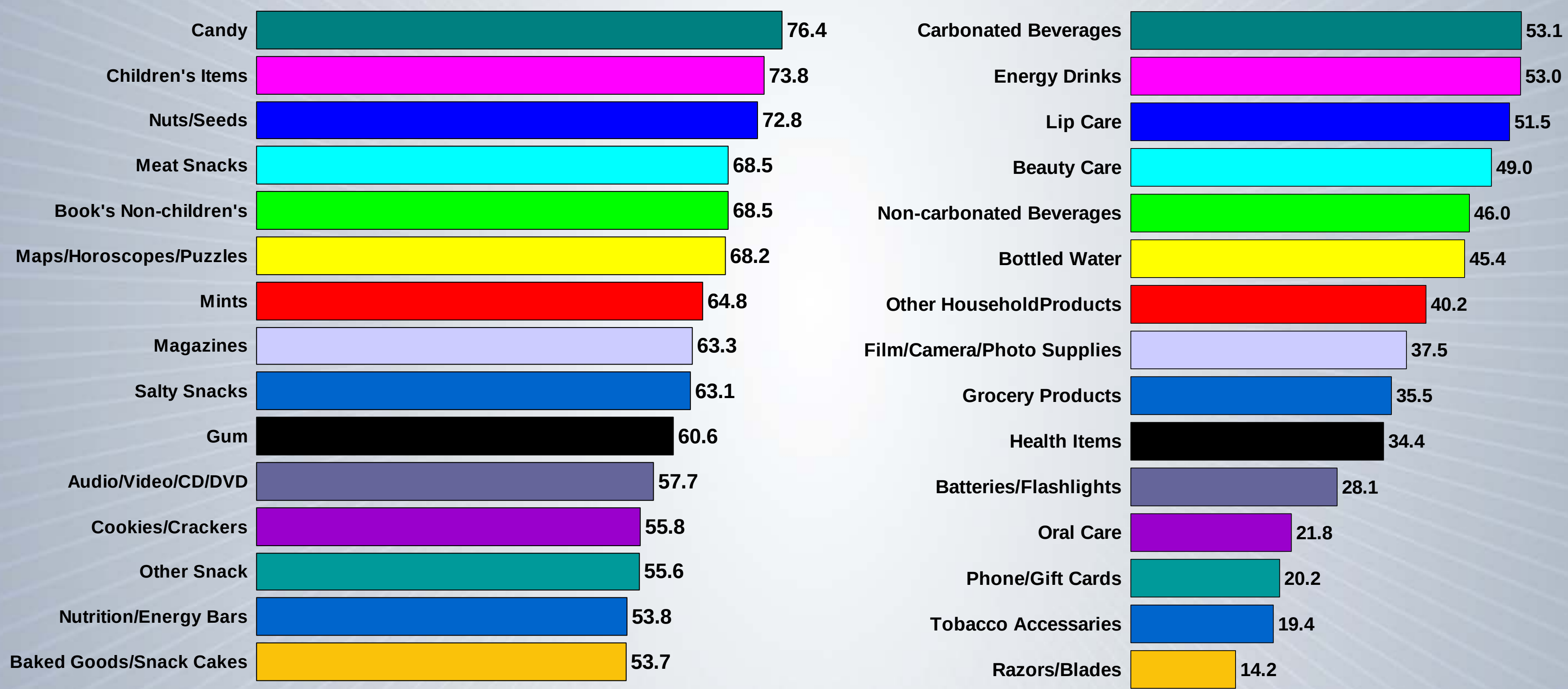
(% Of Purchasers Of Categories)



Source: Shopper Interviews.

Confectionery, Snacks, and Magazines Are High Impulse Categories at Front-End

% Shoppers Buying on Impulse
(% Of Purchasers Of Categories)

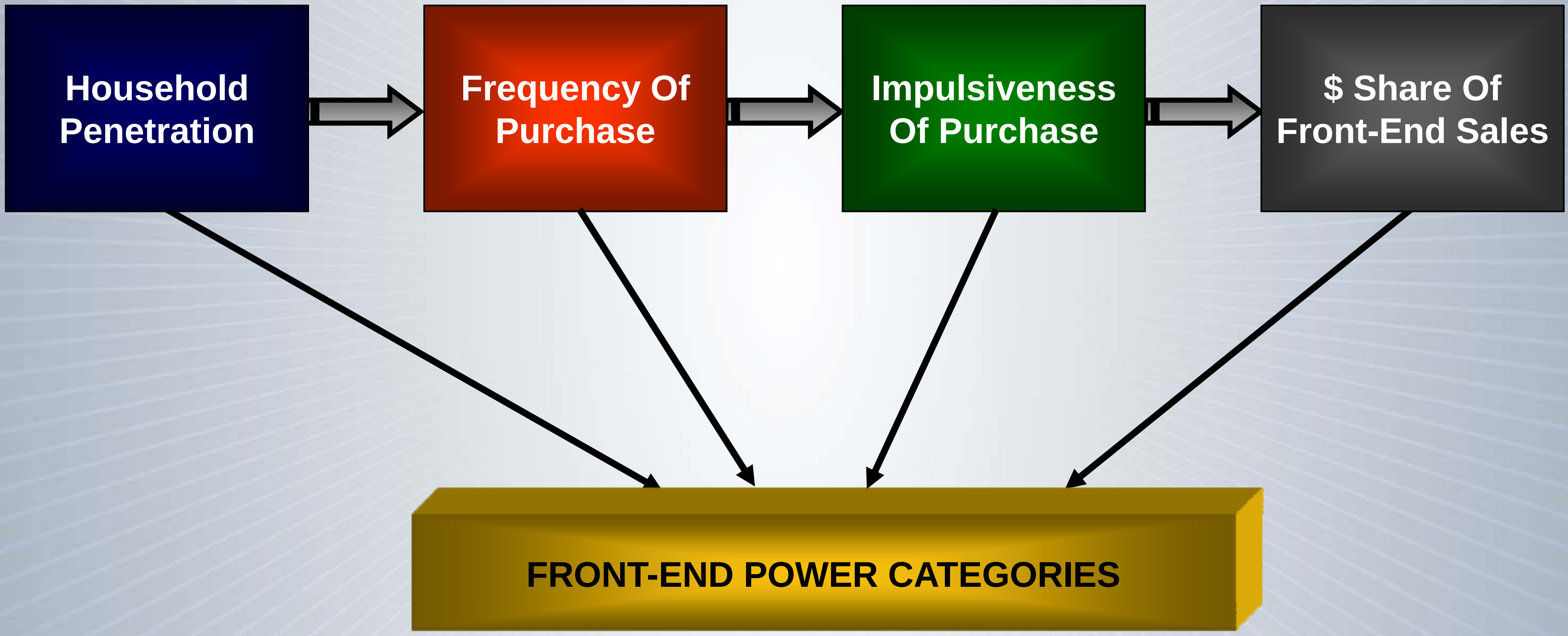


- **Children’s items and Books/Puzzles also attract impulse purchases**

Source: Shopper Interviews.

Best Practices For Superior Checkout Merchandising

Front-End Power Categories Are Defined By Key Metrics



Best Practice: Manage The Front-End Based On Consumer Buying Behavior

Low Scores	Mixed Scores	High Scores
Health Items	Salty Snacks	Confectionery
Razors/Blades	Batteries/Flashlights	Beverages
Baked Goods	Cookies/Crackers	Magazines
Lip Care	Nuts/Seeds	
Oral Care	Meat Snacks	
Household Products	Gift/Phone Cards	
Audio/Video/DVD	Tobacco Accessories	
Other Snacks		
Beauty Care		
Grocery Products		
Film/Camera Supplies		
Children's Items		
Nutrition/Energy Bars		
Books		
Maps/Horoscopes/Puzzles		

- **Focus on key categories that have high Household Penetration, Purchase Frequency, Provide Higher Impulse Sales, and generate higher Front-End Sales**

Source: FEF Study, DHC Analysis

Best Practices For Superior Checkout Merchandising

Key Strategies For The Front-End

- **Recognize the value of the Front-End to store sales & profits**
- **Manage the Front-End as a department with a dedicated manager**
- **Base decisions on total profits from sales revenue & placement fees**
- **Focus on the power categories that drive Front-End sales & profits**
- **Take advantage of the growth opportunity by adopting the Best Practices of top performing retailers**

Source: Dechert-Hampe & Co.

Best Practices At The Front-End

- **Products merchandised at the checkout should be driven by consumer buying behavior. Select items with high penetration, high frequency & impulse appeal.**

- **Focus should be on the power categories that represent 79% of Front-end sales and profits: Confectionery, Magazines & Beverages.**

- **Identify the key lanes in each store that represent the bulk of the transactions and make sure to carry the power categories on those lanes.**

- **Be sure to merchandise the self-checkout lanes. Most consumers do not shop across the lanes. Stock Confectionery, Beverages and Magazines.**

Source: Dechert-Hampe & Co.

Best Practices At The Front-End

- **Carry Confectionery on all the lanes. Sales are proportional to exposure. Merchandise it on both sides of the consumer to maximize impulse sales.**

- **Maximize Magazine presence at the Front-End. Merchandise Magazines on end caps as well as in the lane and over the belt to enable consumer buying opportunities.**

- **Over the belt sales are optimized when merchandised with top-selling items for both Confectionery and Magazines.**

- **Make sure the top selling Magazine titles are broadly available. It is more important to carry the right titles than a large number of titles at the Front-End.**

Source: Dechert-Hampe & Co.

Best Practices At The Front-End

- Make beverage coolers easily available to shoppers by stocking on most lanes. Merchandise beverages in-line at regular lanes and on end-caps at Express and Self-scan lanes.
- Carry an assortment of beverages in each cooler that includes water, energy and non-carbonated as well as carbonated beverages.
- Provide a moderate space for GM/HBC. Remember that most of these items are need driven and many are also located elsewhere in the store.
- With the exception of the power categories, you can usually meet shopper needs with a limited assortment of just a few popular items.

Source: Dechert-Hampe & Co.

Best Practice Checklist

Checkstand

- Devote at least 83 linear feet
- Stock between 530 and 599 items
- Generate at least 80% of checkout sales from Confectionery, Magazines, & Beverages
- Merchandise all self-checkout lanes

Confectionery

- Stock on all lanes
- Allocate at least 56% of space
- Stock on both sides of the lane

Magazines

- Merchandise on end-caps and in-line
- Stock on all lanes
- Allocate at least 24% of space

Beverages

- Stock on at least 80% of the lanes
- Pass through coolers at regular lanes
- Rear facing endcap coolers at self-checkout and express lanes
- Allocate at least 10% of space

GM/HBC

- Provide 7% to 10% of space

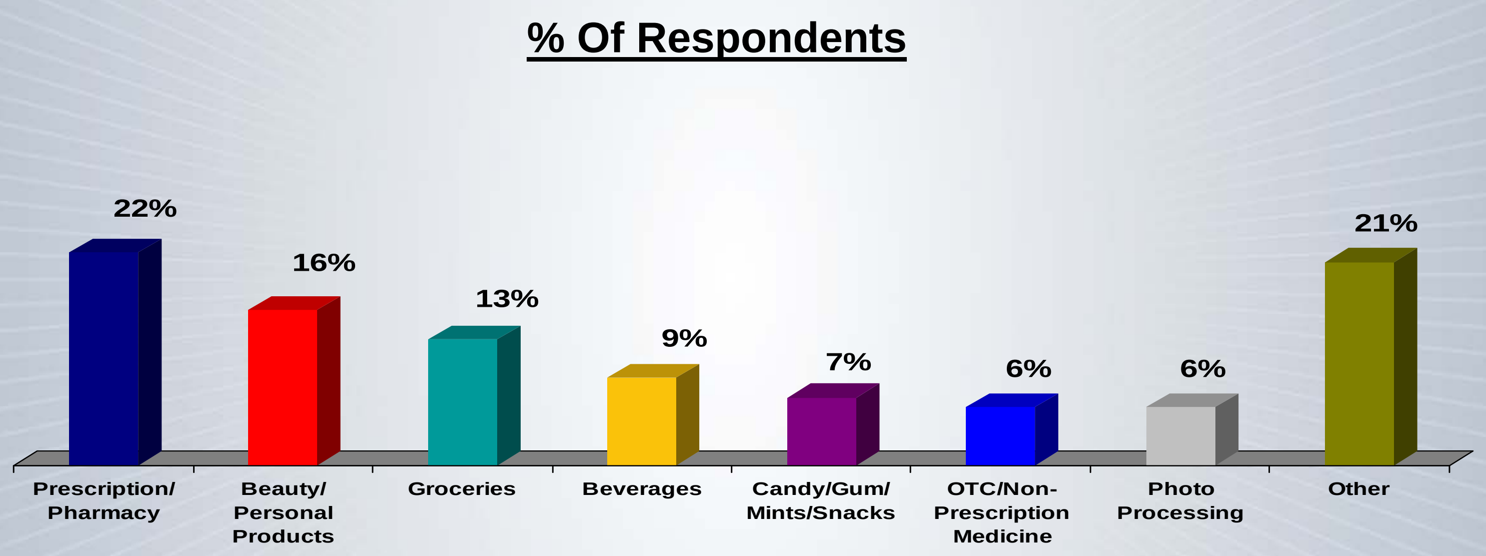
Gift Cards

- Allocate 4% to 5% of space
- Focus on Dining, Home Improvement, Electronics, & Entertainment Cards

Drug Store Opportunities For Impulse Merchandising

Consumers Expressed A Variety Of Reasons For The Shopping Trip

Primary Reason For Shopping Today

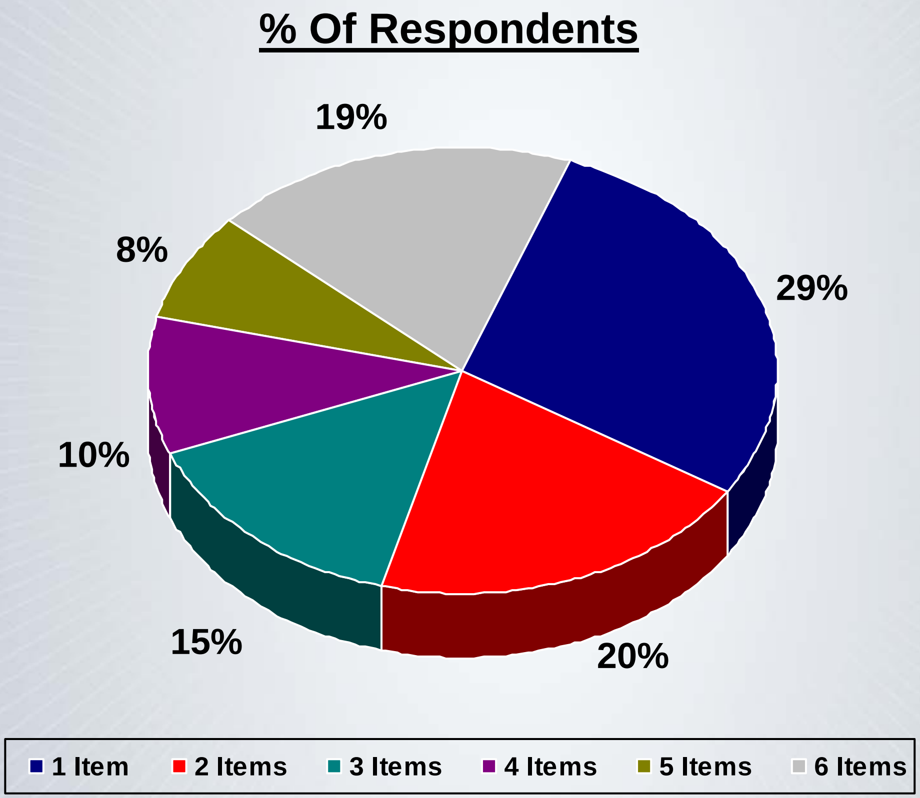


- Pharmacy accounted for about one-fourth
- Personal Care and OTC accounted for a similar amount
- Consumables were a surprising 29%

Source: Drug Store Interviews.

While the Average Shopper Bought Four Items, Half Bought Just One or Two

Number of Items Bought



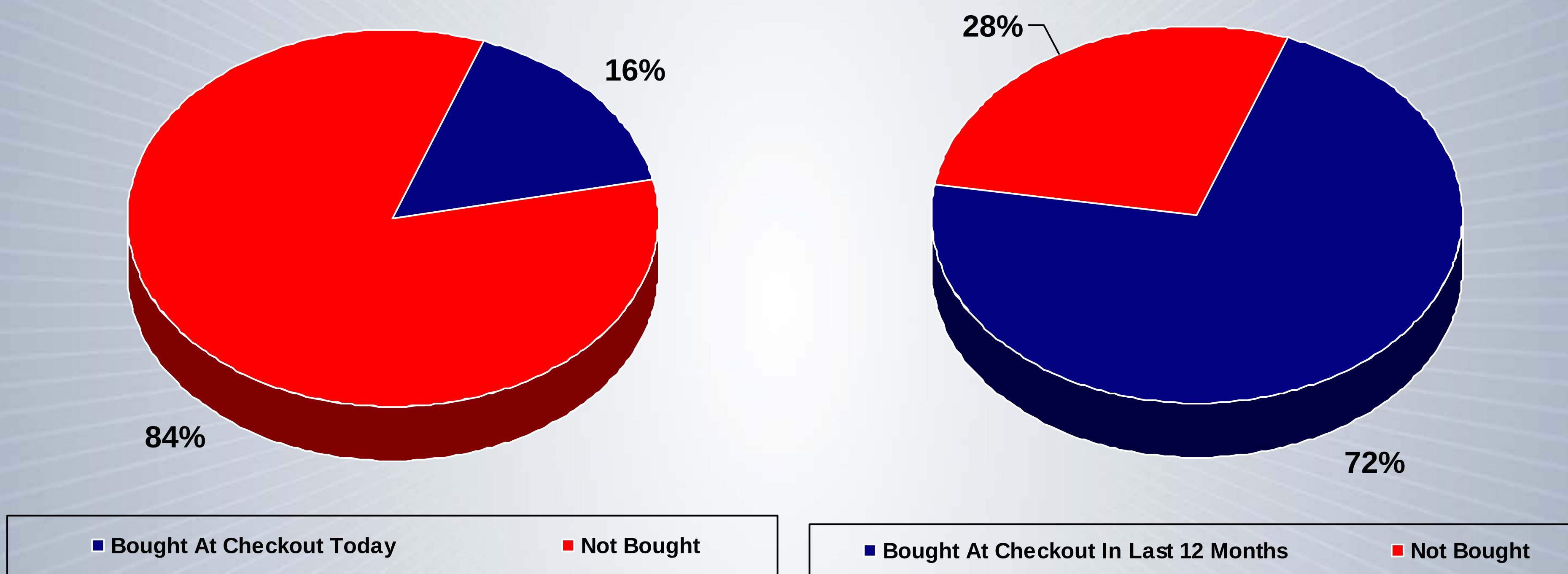
Mean = 3.8 Items

Source: Drug Store Interviews.

Checkout Purchases Are A Key Source Of Incremental Volume

% Shoppers

% Shoppers



- One in six shoppers bought something at checkout today
- Seven in ten shoppers buy at checkout regularly

Source: Drug Store Interviews.

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Opportunity to Drive Drug Store Shopping Frequency With Key Consumables

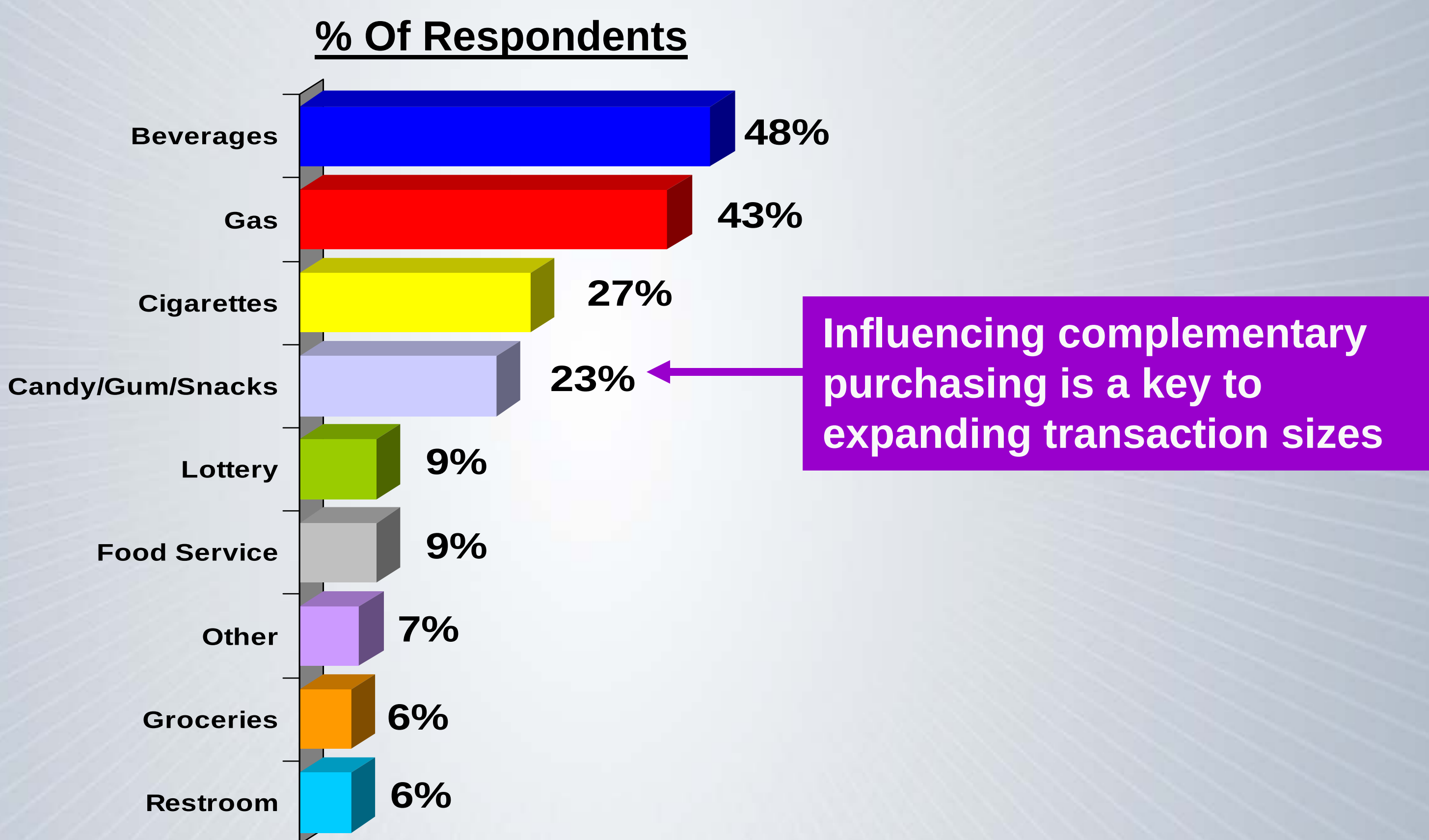
- **Current frequency of store visits is dictated by prescriptions and infrequently purchased personal care**
- **Frequency can be influenced by focus on convenience and effective in-store merchandising**
- **Merchandising of frequently purchased items at checkout will be key to success**
- **Drug store needs to become the convenience store for women**

Source: Dechert-Hampe & Co.

Convenience Store Opportunities For Impulse Merchandising

Beverages, Gas, Cigarettes, And Confectionery/Snac Drive Convenience Store Visits

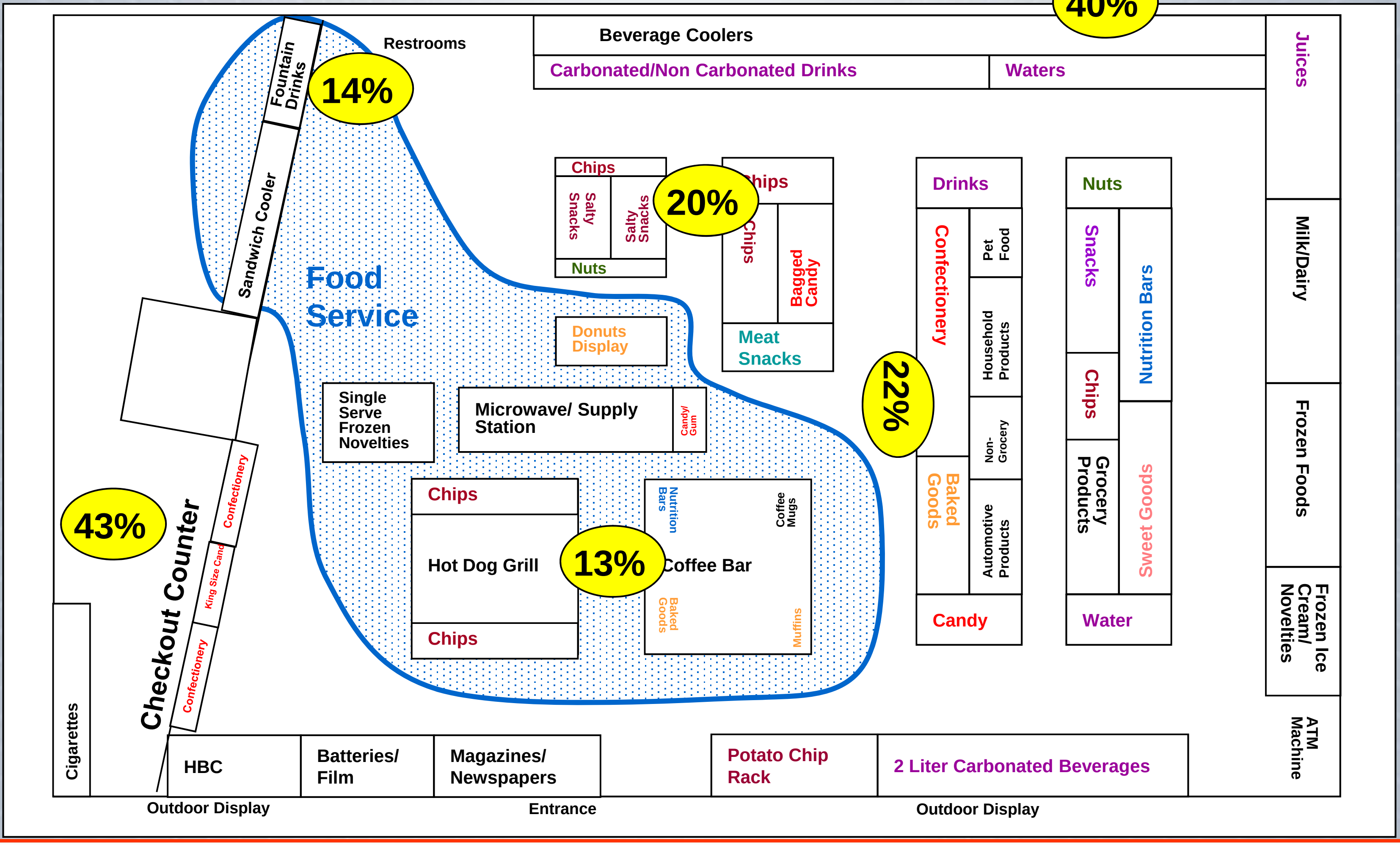
What Was Your Primary Reason For Shopping This Store?*



* Respondents could give multiple answers.
Source: C-Store Study, September 2004.

The Checkout Counter And Beverage Cooler Are Primary Shopping Locations

What Areas Of The Store Did You Shop Today?
(Consumer Interviews – % Of Respondents)

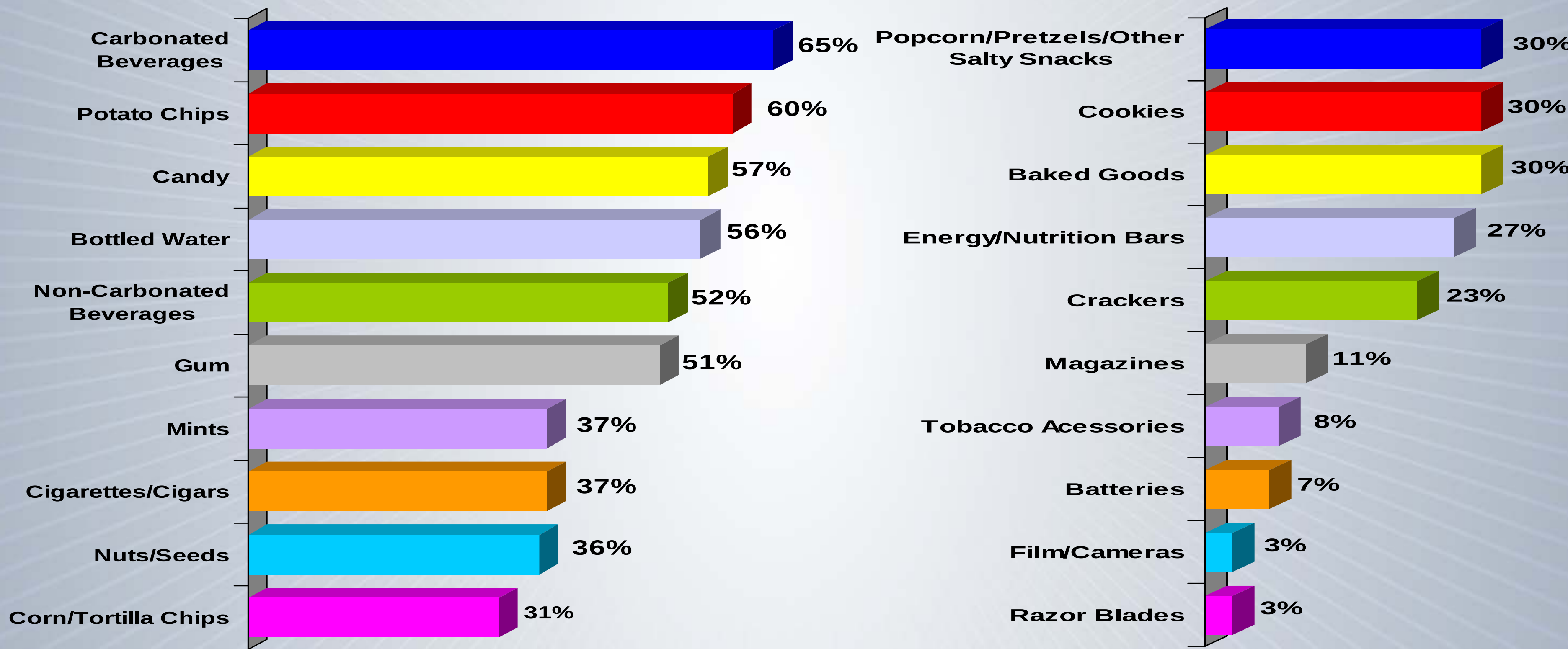


Best Practices For Superior Checkout Merchandising

Beverages, Potato Chips, And Candy Were Among The Categories Purchased Most in C-Stores

What Snack Categories Have You Purchased Over The Last 6 Months?

% Of Respondents



Source: C-Store Study, September 2004.

Recommendations for Convenience Stores

- Use merchandising vehicles at the gas pumps to attract pay-at-the-pump customers into the store
- Expand market basket size by focusing on complementary merchandising of single serve snacks
- Focus secondary merchandising locations on the categories that have high penetration, frequency, and impulse (Candy, Potato Chips, Gum)
- Merchandise Confectionery and Potato Chips in Food Service
- Merchandise Confectionery at checkout locations
- Merchandise Chocolate Candy in refrigerated Beverage Coolers

Source: Dechert-Hampe & Co.

The FrontEndFocus.com Website