Front-End FOCUS

Best Practices For Superior **Checkout** Merchandising

Retailer Presentation

MasterfoodsUSA
A Division of Mars, Incorporated

TDS

WRIGLEY

DECHERT-HAMPE & CO.
Integrated Marketplace Management Solutions and Services

Agenda

Front-End Focus Summary

- Current Situation
- Consumer Insights
- Strategic Insights
- Best Practices
- Appendix

The Front-End Situation

Front-End checkout is a critical location in the store

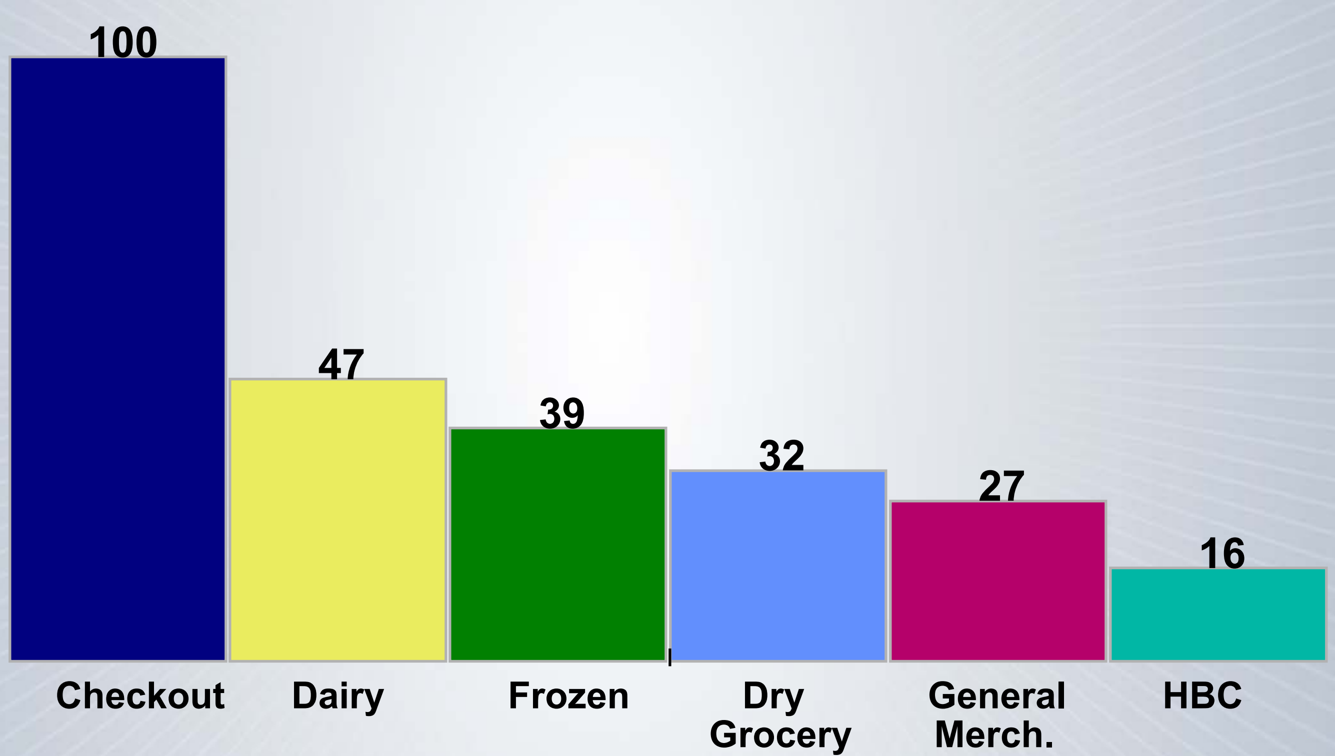
- **The only location everyone passes**
- **Significant source of impulse sales**
- **Critical location to maximize customer satisfaction**

Retailers are facing a changing landscape

- **There are more categories available at the checkout**
- **Consumers are changing the way they shop**
- **New technology is changing the transaction**

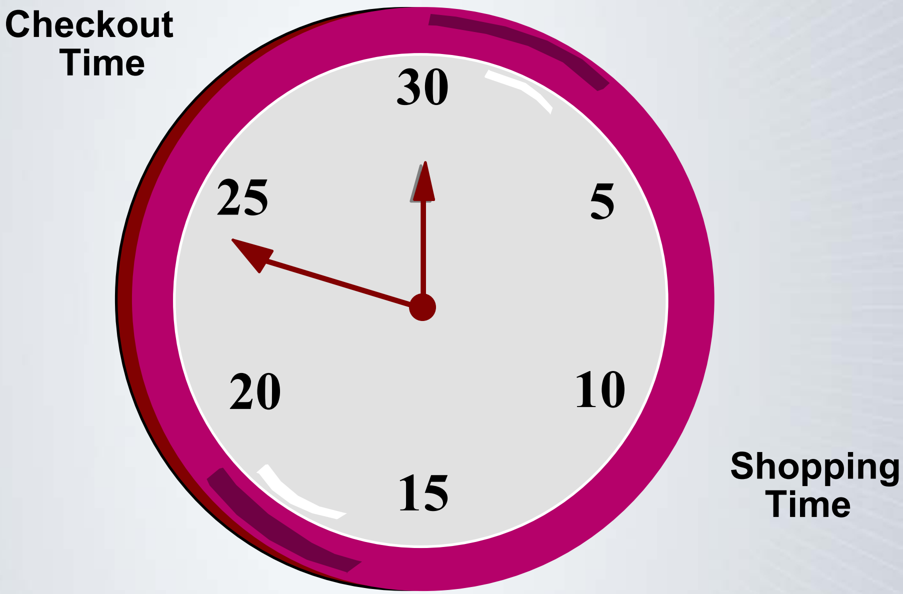
The Checkout Is The Only Store Location All Shoppers Visit

% Shoppers Visiting By Department



SOURCE: Marsh Superstudy.

Consumers Spend Significant Time At The Checkstand

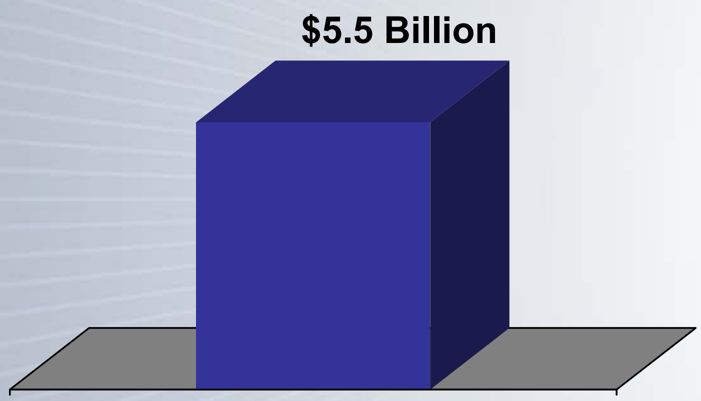


Shoppers spend 5-7 minutes at the checkout

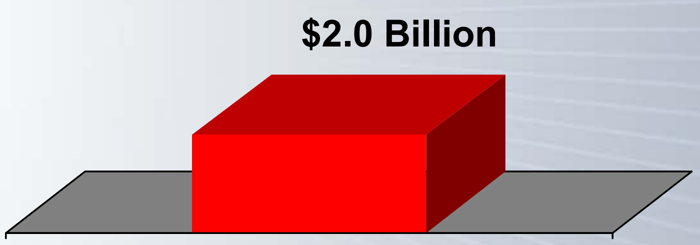
SOURCE: DHC Analysis.

The Front-End Checkstands Deliver $5.5 Billion In Sales To Supermarkets, But Significant Opportunities Still Exist

Dollar Sales Of Products
Sold At Front-End Checkstands



Dollar Opportunity For Improvement
Of Front-End Merchandising



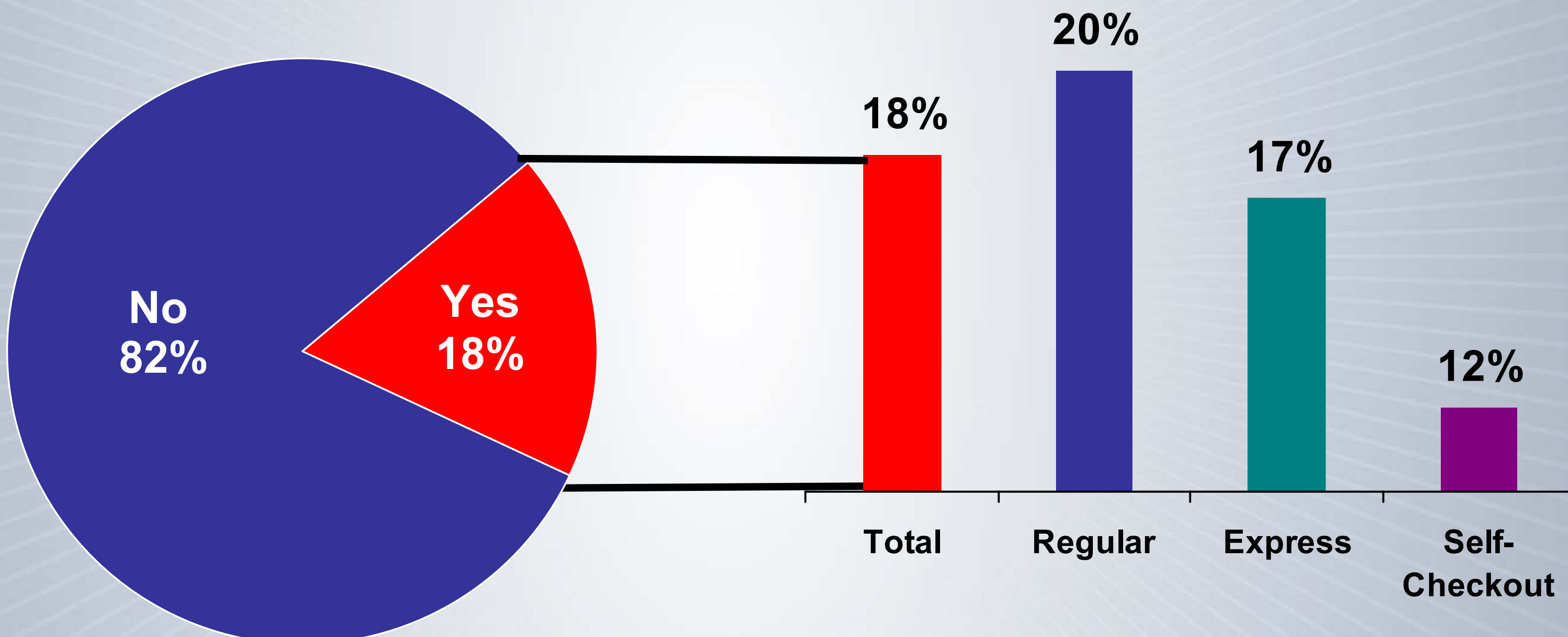
- **Improving Front-End Checkout Merchandising could yield an additional $2 billion**

Source: FEF Study. DHC Analysis.

Improving Conversion Rates Of Consumers Purchasing Off The Checkout Is A Key Opportunity For Retailers

% Grocery Shoppers
<u>Purchasing At Checkout Today</u>

% Grocery Shoppers
Purchasing At Checkout Today
By Checkout Type
<u>(Each Lane = 100%)</u>



- **Purchase Penetration is lower on Express & Self-Checkout Lanes which is influenced by limited or no merchandising**

Source: FEF Study

Front-End Focus Sponsors

Front-End Focus is a major initiative sponsored by:

- Masterfoods USA
- The Wm. Wrigley Jr. Company
- Time Distribution Services (TDS), a division of AOL Time Warner
- In partnership with Dechert-Hampe & Company, an independent consulting firm.

Front-End Focus Elements

Through a comprehensive study of:

- Consumer research
- Retailer data analysis
- Store testing

The study defines:

- Best Practices in merchandising
- Ways to improve consumer shopping satisfaction
- How to maximize Front-End performance

Front-End Focus Objectives

Front-End Focus is designed to help retailers & manufacturer work together to

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

Scope Of The Front-End Focus Study

- Research was conducted in partnership with eight leading retailers representing over 5,500 stores & 20% of U.S. Grocery Volume
- Retailers provided SKU level data for almost 500 stores over a 6 month timeframe of January 1, 2002, through June 30, 2002
- Checkout planograms were collected & all stores were audited at the lane level to identify merchandising conditions
- In-Store research with 1,326 consumers was conducted relative to checkout attitudes & purchase behavior at Regular, Express & Self-Checkout lanes
- All research & analysis was performed by Dechert-Hampe & Company in order to ensure objective conclusions

The Study Includes Data On Over Twenty Major Categories

- Candy
- Cookies/Crackers
- Salty Snacks
- Batteries
- Film/Cameras
- Oral Care
- Magazines
- Phone Cards
- Carbonated Beverages
- Non-Carbonated Beverages
- Gum
- Mints
- Nutrition / Granola
- Meat / Other Snacks
- Razors / Blades
- Cosmetics / HBC
- Lip Care
- Audio / Video
- Other General Merchandise

Source: FEF Study. DHC Analysis.

Front-End Focus Average Store

Front-End Focus Average Store	
Store Volume (MM ACV)	$22.3
Checkout Sales (Per MM ACV)	$11,745
Checkout Items Carried	310
Checkout Square (Facing) Footage	50
Checkout Linear (Shelf) Footage	76
Checkout Lanes	10.7
Express	1.9
Regular/Self-Checkout	8.8
Coolers	4
Sales Of A Typical Checkstand	$24,531
Profit From A Typical Checkstand	$8,316

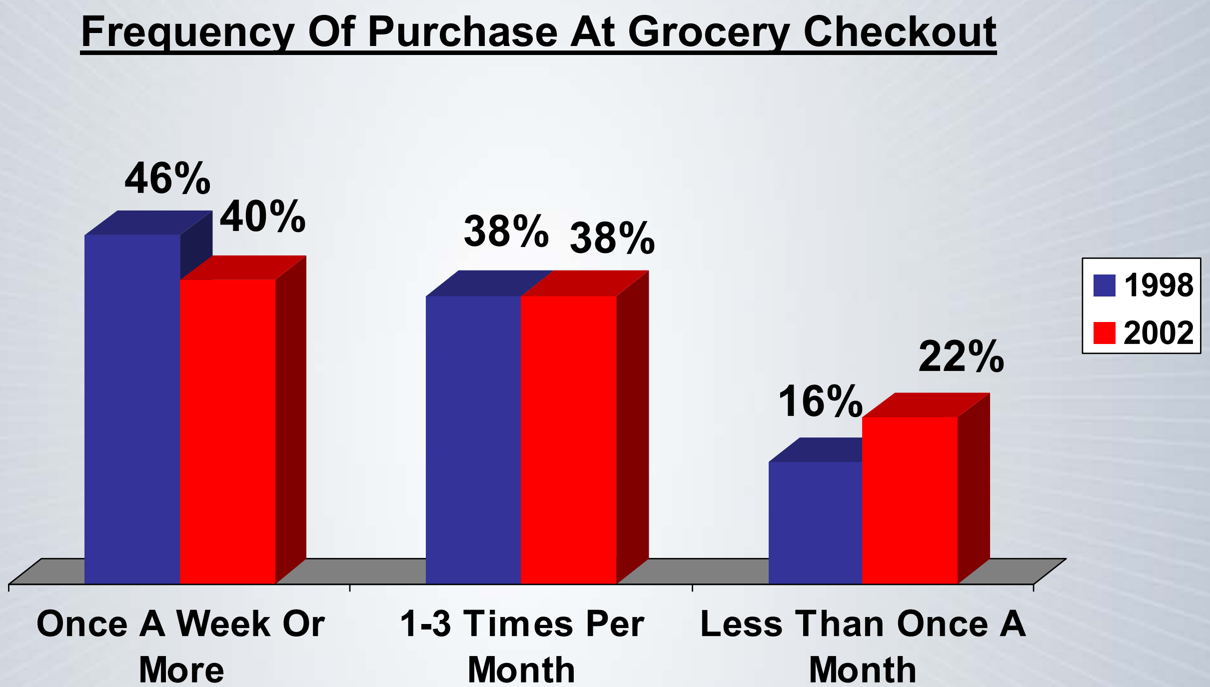
Source: FEF Study; DHC Analysis

Interviews With Grocery Retailers Identified Key Questions Regarding The Front-End

- What is the value of the Front-End? How profitable is it?
- What categories are driving Front-End sales & profits?
- What categories should I stock on the Front-End?
- Should I merchandise Self-Checkouts & Express Lanes?
- What is the right amount of merchandising space to allocate to the check lanes?
- How many Beverage coolers do I need in my stores?
- What is the value of following Best Practices?"
- How many items should I carry at the Front-End?
- How much space should I provide to Confectionery, Magazines & GM/HBC?
- What does an optimum Front-End look like?

Consumer Learning

Retailers Need To Increase Purchase Levels At The Checkout



- **Retailers must focus on Front-End categories/items that are purchased frequently by many consumers**

Source: FEF Study

Candy, Gum/Mints, Magazines & Soft Drinks Are The Categories Most Commonly Purchased At Checkout

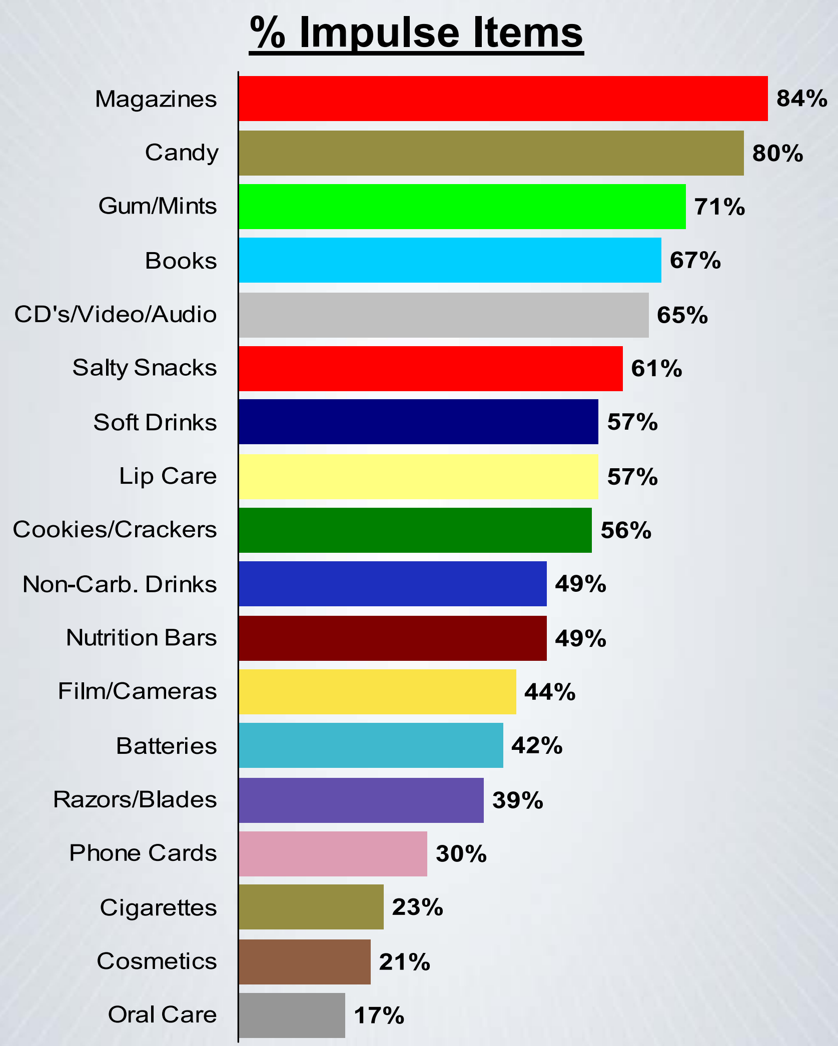
% of Shoppers Buying At Checkout – National Sample

Category	Within Last Year	Once a Month Or More
Gum/Mints	72%	63%
Candy	69%	58%
Magazines	48%	34%
Soft Drinks	35%	29%
Batteries	28%	11%
Non-Carbonated Drinks	18%	15%
Film/Cameras	15%	5%
Cookies/Crackers	13%	10%
Salty Snacks	13%	11%
Lip Care	13%	5%
Cigarettes/Tobacco	11%	9%
Razors/Blades	10%	5%
Nutrition Bars	6%	4%
Oral Care	5%	3%
Books	5%	5%
Phone/Gift Cards	5%	2%
Cosmetics	3%	2%
Audio/Video/CD	3%	1%

- **Retailers must question the value of having a significant number of low penetration categories/items represented at the checkout**

Source: FEF Study

Magazines & Confections Are Also The Highest Impulse Purchases



Source: FEF Study

Key Categories To Carry At The Checkout Score High On Penetration, Frequency & Impulse

Low Penetration Low Frequency Low Impulse	Mixed Score	High Penetration High Frequency High Impulse
Nutrition Bars Film/Cameras Razors/Blades Lip Care Oral Care Cosmetics Phone Cards Books Audio/Video/CD	Non-Carbonated Drinks Salty Snacks Cookies/Crackers Batteries	Gum/Mint Candy Magazines Soft Drinks

- **FEF needs to highlight the value of having high penetration, high frequency, and high impulse items at every checkout**

Source: FEF Study. DHC Analysis.

Consumers Do Not Generally "Shop" Across Checkout Lanes

% Agree Completely/Somewhat	
	National
You sometimes select an item from one checkout counter and then go to another lane to check out	32%
Sometimes you have to look at all of the checkout counters in the store just to find an item you want	18%
You often select a certain checkout lane because of the particular items displayed there	16%

- This underscores the importance of stocking key items at every lane

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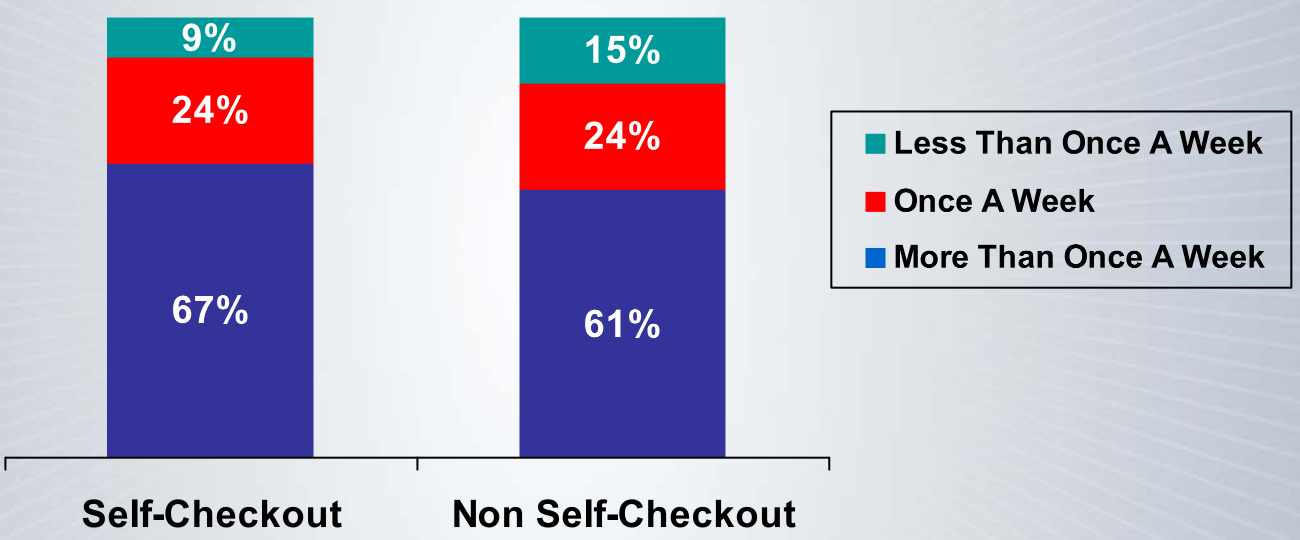
Source: FEF Study

A Higher Percentage Of Self-Checkout Users Shop More Frequently

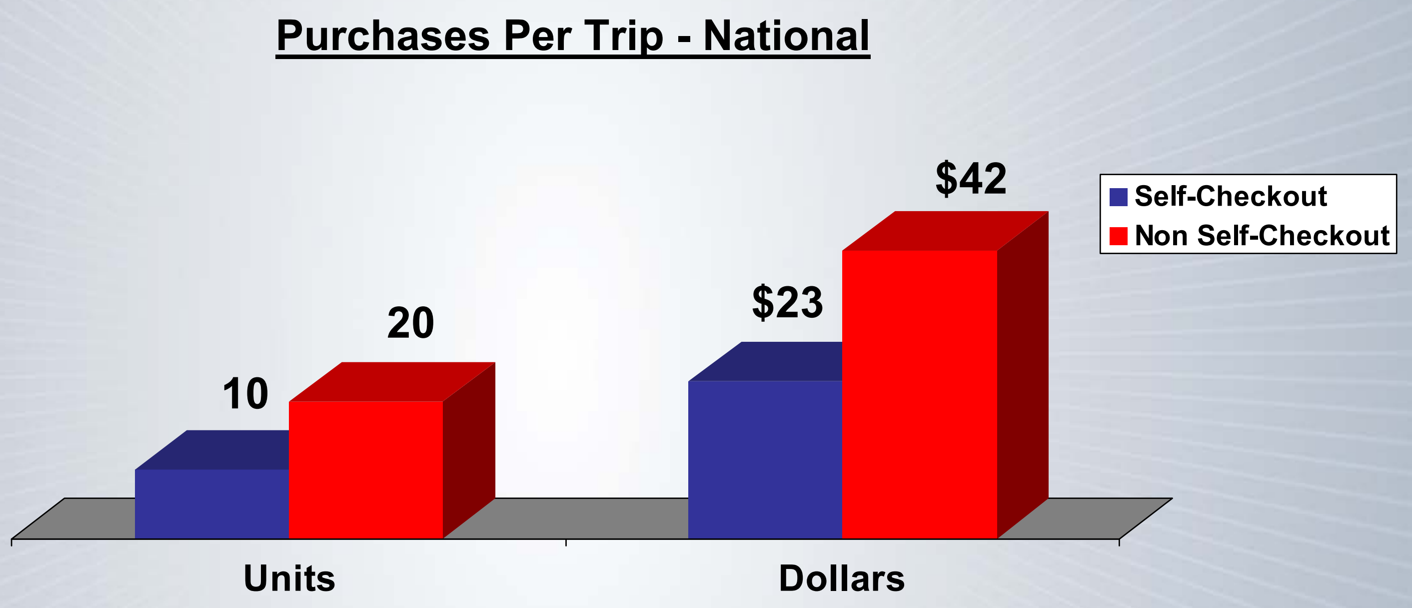
Frequency Of Grocery Shopping



- **Merchandising self-checkout lanes can result in more frequent purchases**

Source: FEF Study

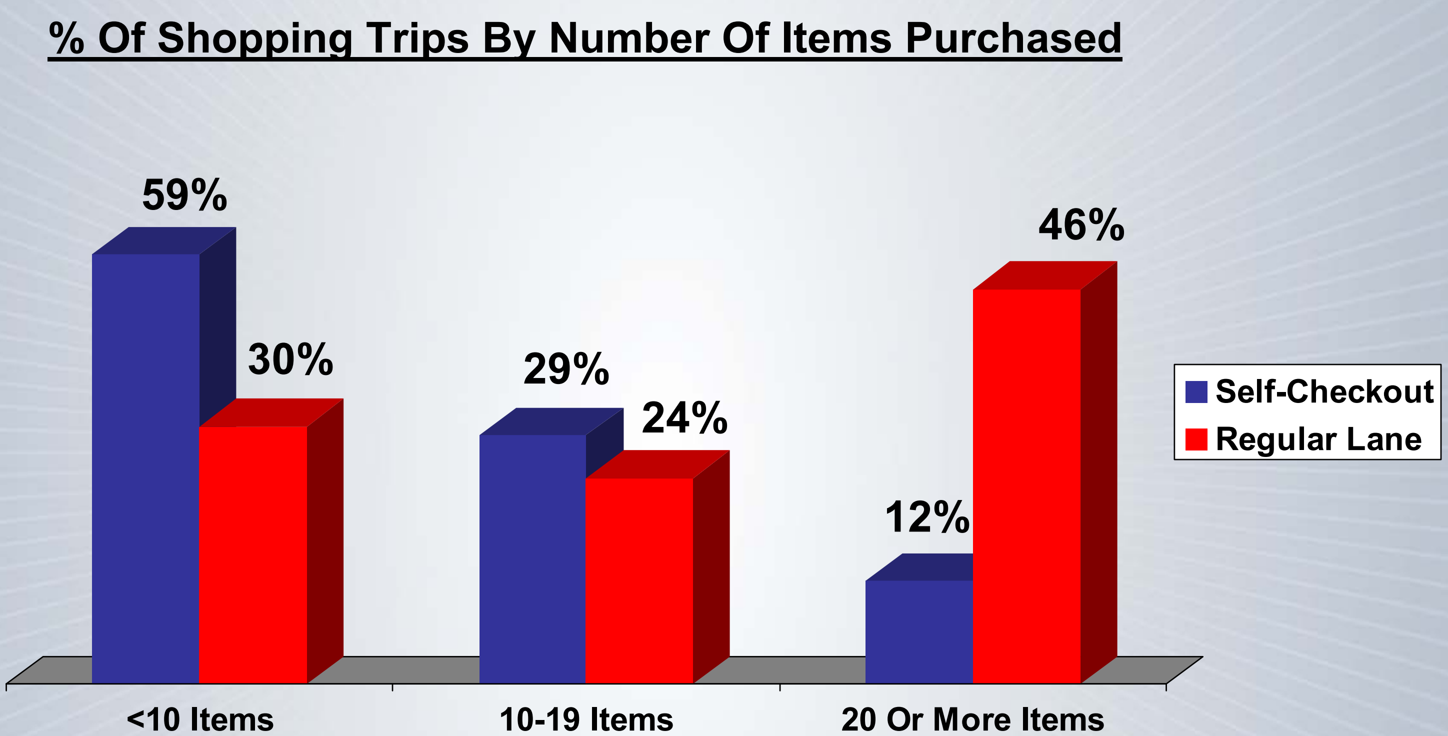
Self-Checkout Users Purchase Fewer Items Per Shopping Trip Due To The Express Nature Of These Shopping Trips



- Getting self-checkout shoppers to purchase additional items from the checkout can be a key strategy for retailers

Source: FEF Study

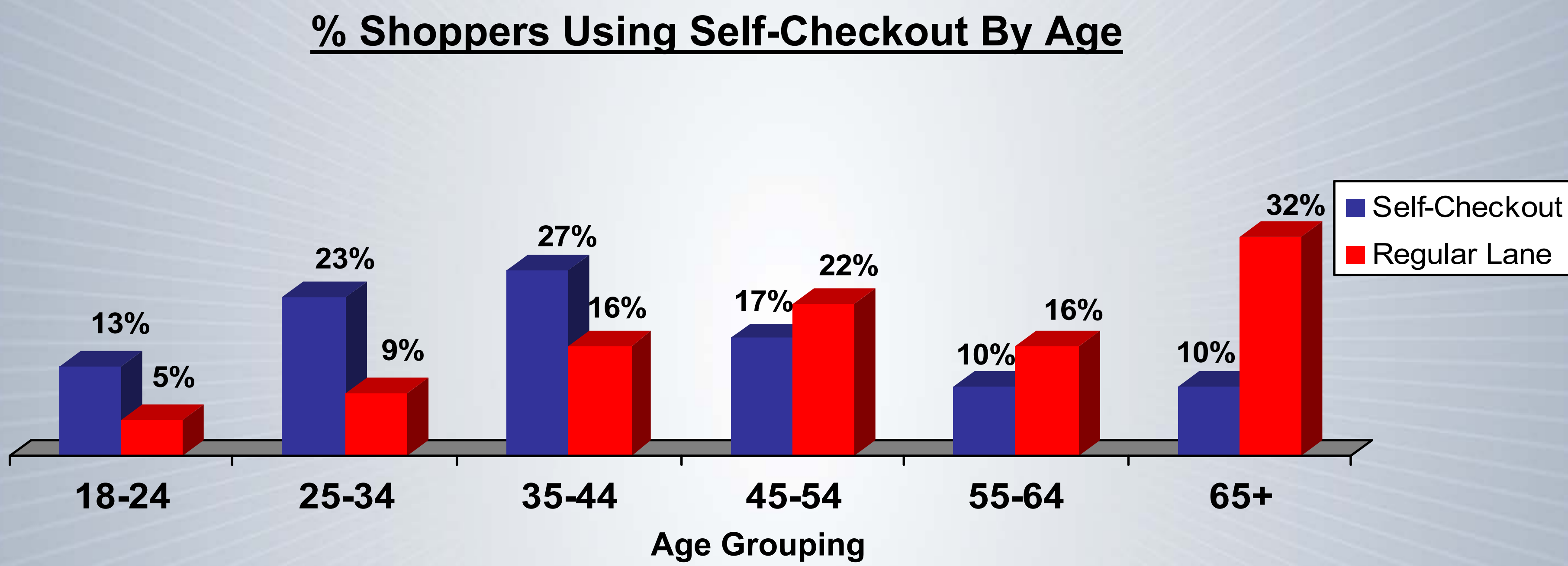
Still, Some Self-Checkout Users Purchase Larger Numbers Of Items



- Over time self-checkout lanes will become more mainstream with mainstream purchase habits

Source: FEF Study

Self-Checkout Usage Is Skewed Toward Younger Shoppers But There Are Some Older Users



- Current merchandising of self-checkout lanes should be geared to the younger shopper

Source: FEF Study

Front-End Focus Strategic Insights

Key Strategies For The Front-End

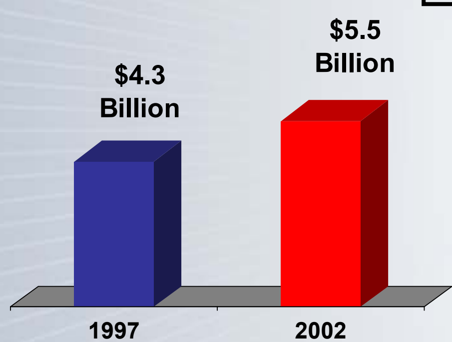
- Recognize the value of the Front-End to store sales & profits
- Manage the Front-End as a department with a dedicated manager
- Base decisions on total profits from sales revenue & placement fees
- Focus on the power categories that drive Front-End sales & profits
- Take advantage of the growth opportunity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

What Is The Value Of The Front-End In Retail Sales Dollars & Profits?

- **The Front-End generates $5.5 Billion in sales & represents 1.6% of store profit**

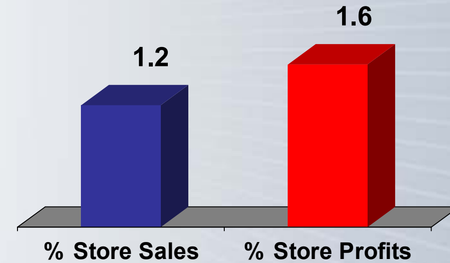
Total Front-End Checkout Sales

+28%



Total Grocery $ Sales $334.5 Billion $398.2 Billion +19%

Front-End Checkout

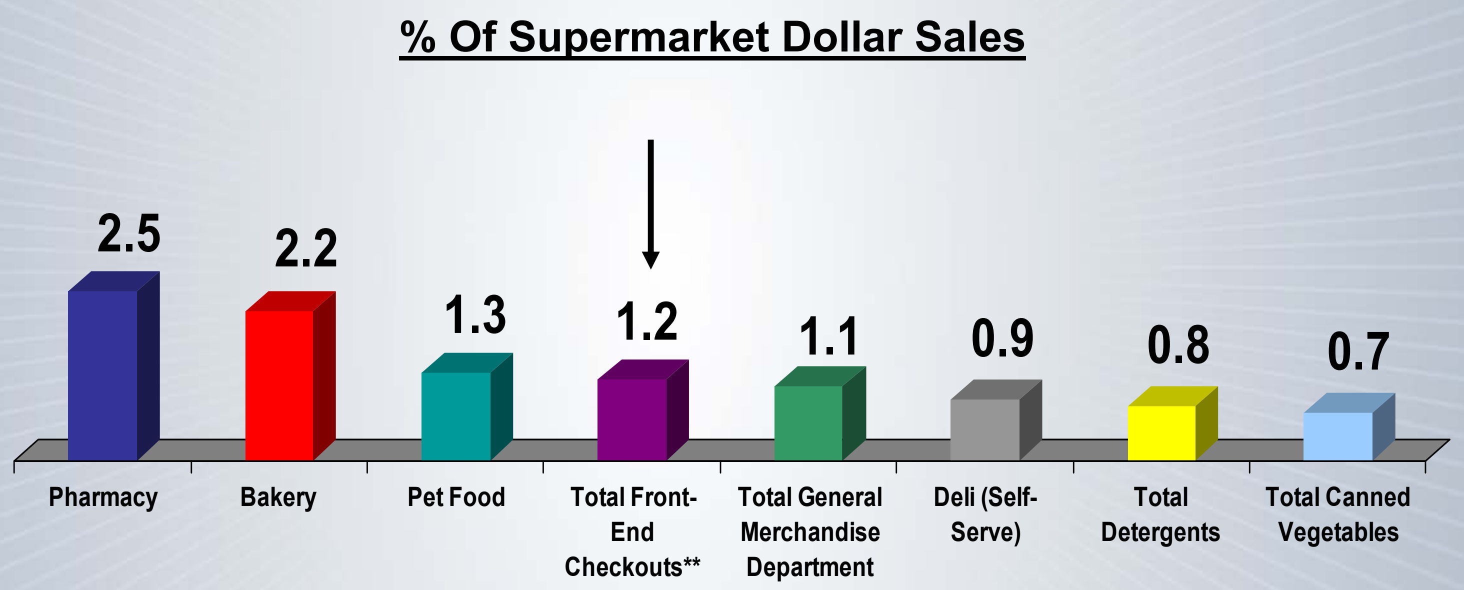


Strategy: Recognize the value of the Front-End in sales & profits

Source: FEF Study. Progressive Grocer.

How Should The Front-End Be Managed?

- 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 12/28/02. Progressive Grocer, **FEF Study.

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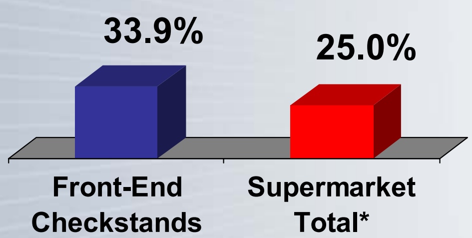
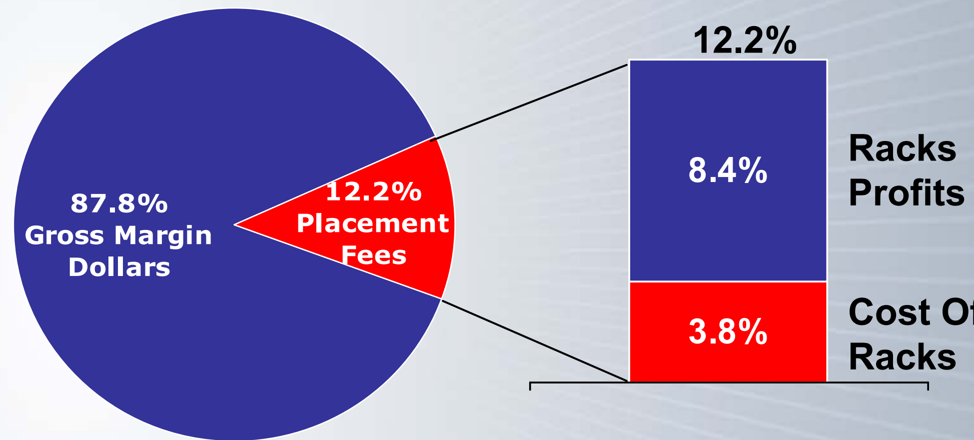
How Profitable Is The Front-End?

- **Gross Margins are much higher on the Front-End checkstand generating greater Profit Dollars**

Gross Margin %



Percent Of Total Profits**



- **The majority of Total Profit Dollars are driven by selling product, not product placement fees**

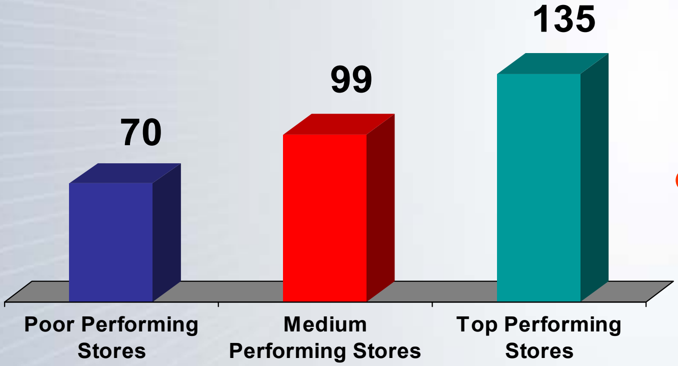
Strategy: The Front-End should be managed to maximize total revenue including both profit from sales & placement fees

*- Source: Progressive Grocer 9/15/2002.
**- Includes Gross Margin % & Placement Fees.
Source: FEF Study. DHC Analysis.

What Is The Opportunity For Improved Front-End Performance?

Top Performing Retailers have a 36% advantage in performance
A $2 Billion opportunity for the industry

Total Checkout Sales
Per $ MM ACV Index



+ 36% opportunity between average & top performing stores

- **Moving Poor & Medium performing stores to Top performing stores could yield an additional $2 Billion in sales**

Strategy: **Take advantage of this opportunity by adopting the Best Practices of Top Performing Retailers**

Source: FEF Study. DHC Analysis.

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What Categories Drive Front-End Sales & Profits?

- Magazines, Confectionery & Beverages generate 80% of sales profits

Category	Share of Checkout Dollar Sales	Share of Checkout Total Profits[1]
Magazines	33.7%	30.0%
Confectionery*	31.7%	33.8%
Beverages**	14.6%	16.2%
	$\underbrace{}_{}$ 80%	80%
Film/Cameras	4.5%	3.6%
Snacks***	3.9%	3.0%
Batteries	3.4%	4.7%
Razors/Blades	3.4%	2.9%
Other GM/HBC	2.0%	2.2%
Cookies/Crackers	0.8%	0.6%
Oral Care	0.7%	0.8%
Phone Cards	0.7%	0.6%
Lip Care	0.6%	0.9%

Strategy: Focus on the key categories to maximize checkout performance

*- Includes Candy, Gum, Mints.
** - Includes Carbonated & Non-Carbonated Drinks.
*** - Includes Salty, Meat, Nutritional.
[1] - Includes Gross Margin & Placement Fees.

Source: FEF Study. DHC Analysis.

What Categories Provide The Greatest Opportunity At The Front-End?

- The largest opportunity gap exists with Confectionery, Magazines & Beverages

Sales Per $ MM ACV Difference Between Medium & Top Performing Stores		
Category	Growth Opportunity Per $ MM ACV	% Of Total Growth
Confectionery	$1,501	36.0%
Magazines	$1,262	30.3%
Beverages	$577	13.9%
Film/Cameras	$150	3.6%
Razor/Blades	$130	3.1%
Batteries	$89	2.1%
All Other	$456	11.0%
Total	$4,165	100%

80%

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

Source: FEF Study. DHC Analysis.

Best Practices

How Should I Decide What Categories To Stock At The Front-End?

Best Practice: Manage the Front-End based on consumer buying behavior. Focus on categories that have high Household Penetration, Purchase Frequency & provide impulse purchases

Low Penetration Low Frequency Low Impulse	Mixed Score	High Penetration High Frequency High Impulse
Nutrition Bars Film/Cameras Razors/Blades Lip Care Oral Care Cosmetics Phone Cards Books Audio/Video/CD	Non-Carbonated Drinks Salty Snacks Cookies/Crackers Batteries	Gum/Mint Candy Magazines Soft Drinks

1. Give broad exposure to the "High" categories: Confectionery, Magazines & Soft Drinks
2. Provide some exposure to "Mixed" categories, but not a key focus
3. Limit exposure of the "Low" categories to top sellers. These are usually available elsewhere in the store

Source: FEF Study. DHC Analysis.

What Categories Should I Stock At The Front-End?

Best Practice: Focus on Confectionery & Magazines to drive consumer buying at the Front-End

Percent of Front-End Shoppers that

Category	$ Share Of Checkstand	Purchased At Checkout Within Last Year	Purchased At Checkout Once A Month Or More	Percent Of Purchases That Were Impulse
Magazines	33.7%	48%	34%	84%
Gum/Mints	17.3%	72%	63%	71%
Candy	14.4%	69%	58%	80%
Carbonated Beverages	11.1%	35%	29%	57%
Non-Carb. Beverages	3.5%	18%	15%	49%

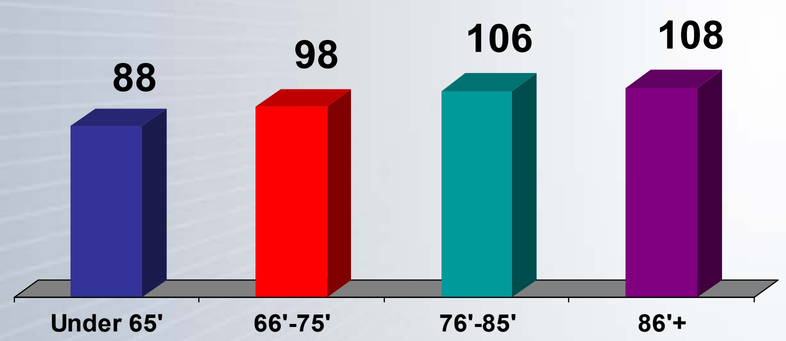
Source: FEF Study. DHC Analysis.

How Much Space & How Many Items Are Needed At The Checkout?

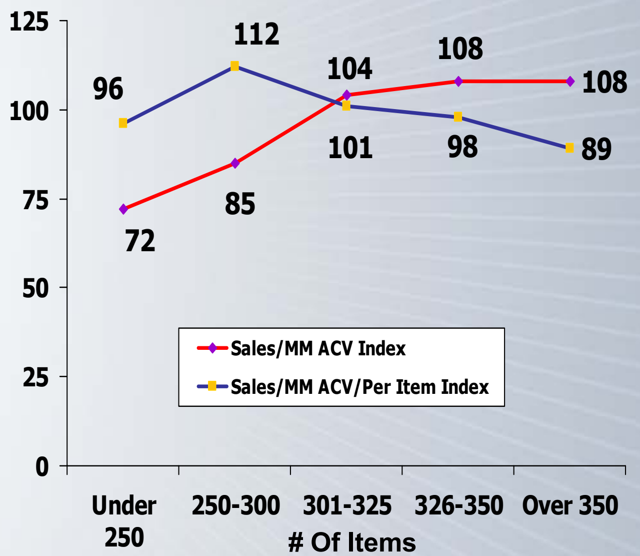
Best Practice: Allocate at least 76 linear feet to each checkout & carry 301 to 350 items, at the Front-End

Total Checkout Sales Per $ MM ACV Index

By Linear Feet/Lane



By Number Of Items Per Store



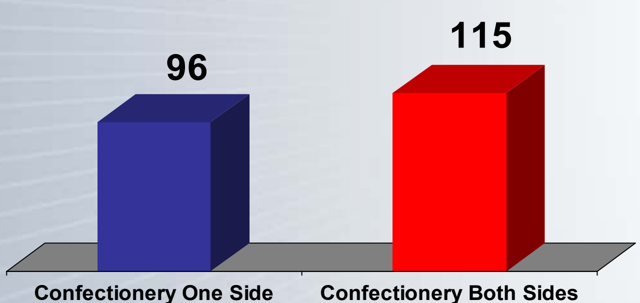
- The typical store had 76 linear feet per lane & carried 310 items across all lanes on the Front-End
- Top Performing Stores dedicated more space & carried up to 350 items

Source: FEF Study. DHC Analysis.

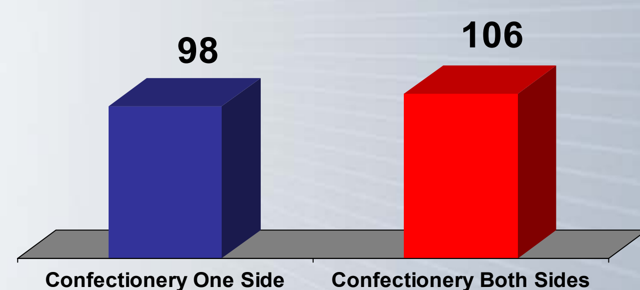
What Is The Best Way To Merchandise Confectionery?

Best Practice: Stock some Confectionery on both sides of the lane

Confectionery
Sales Per $ MM ACV Index



Total Checkout
Sales Per $ MM ACV Index



- **Increased consumer exposure to Confectionery drives checkout purchases**
- **Stores stocking Confectionery on both sides realize greater Confectionery & Total Checkout Performance**

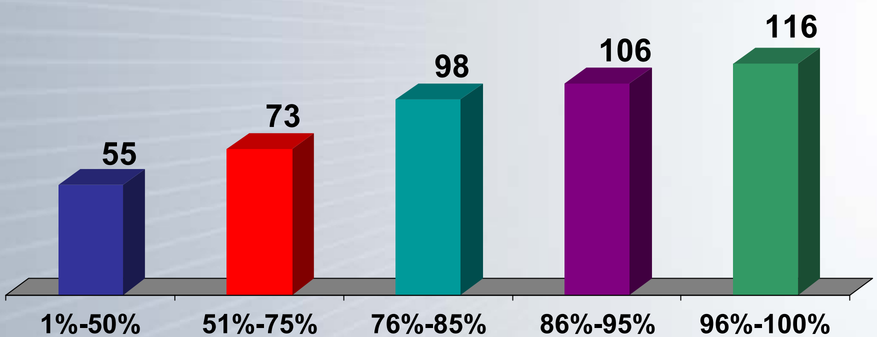
Source: FEF Study. DHC Analysis.

Do I Need To Stock Confectionery On Every Lane?

Best Practice: Stock a selection of Confectionery items on every lane

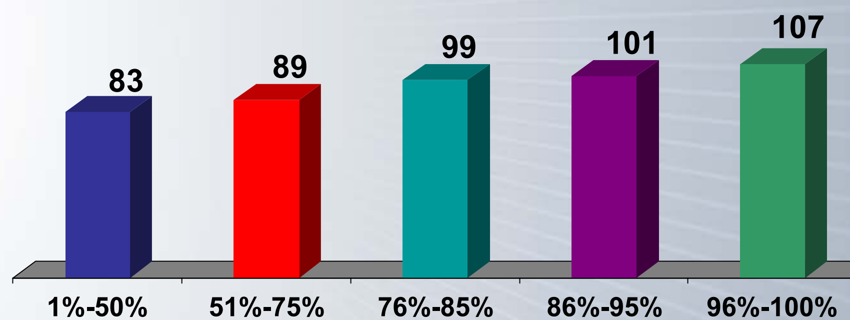
Sales Per $ MM ACV Index

Confectionery



% Of Lanes Stocking

Total Checkout



% Of Lanes Stocking

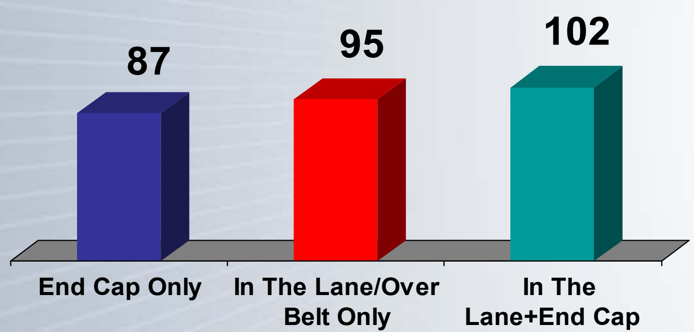
- **Retailers that stock Confectionery on every lane enjoy greater performance**

Source: FEF Study. DHC Analysis.

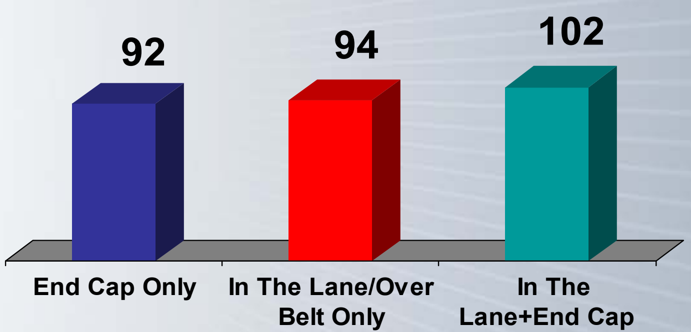
How Should Magazines Be Merchandised At The Front-End?

Best Practice: Magazines should be merchandised both in the lane & on end caps

Magazine
Sales Per $ MM ACV Index



Total Checkout
Sales Per $ MM ACV Index



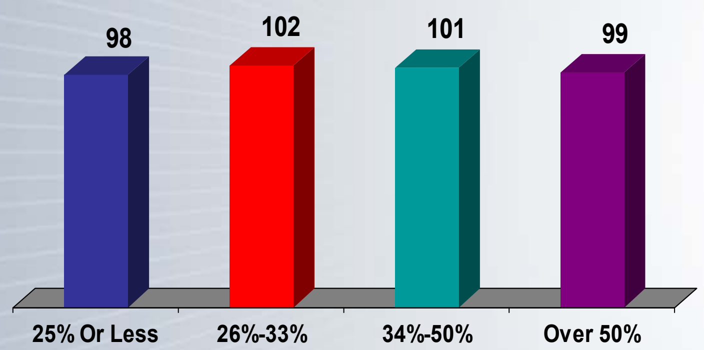
- **This provides for an enhanced consumer purchasing opportunity**
- **Both Magazine & Total Checkout performance is improved**

Source: FEF Study. DHC Analysis.

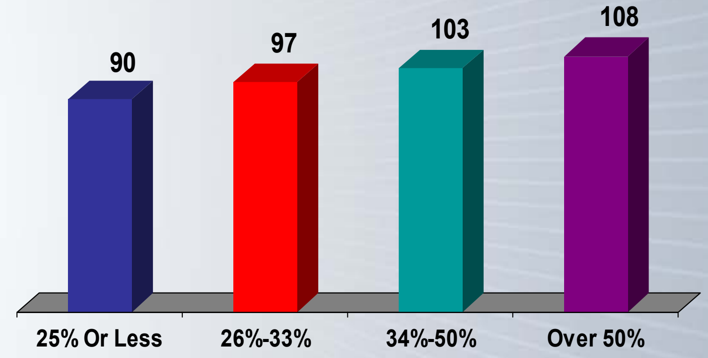
How Many Beverage Coolers Do I Need In My Stores?

Best Practice: Beverage Coolers should be located on 26 to 33% of lanes

Beverage Sales Per $ MM ACV Index
By Percent Of Lanes Stocking



Total Checkout Sales
Per $ MM ACV Index



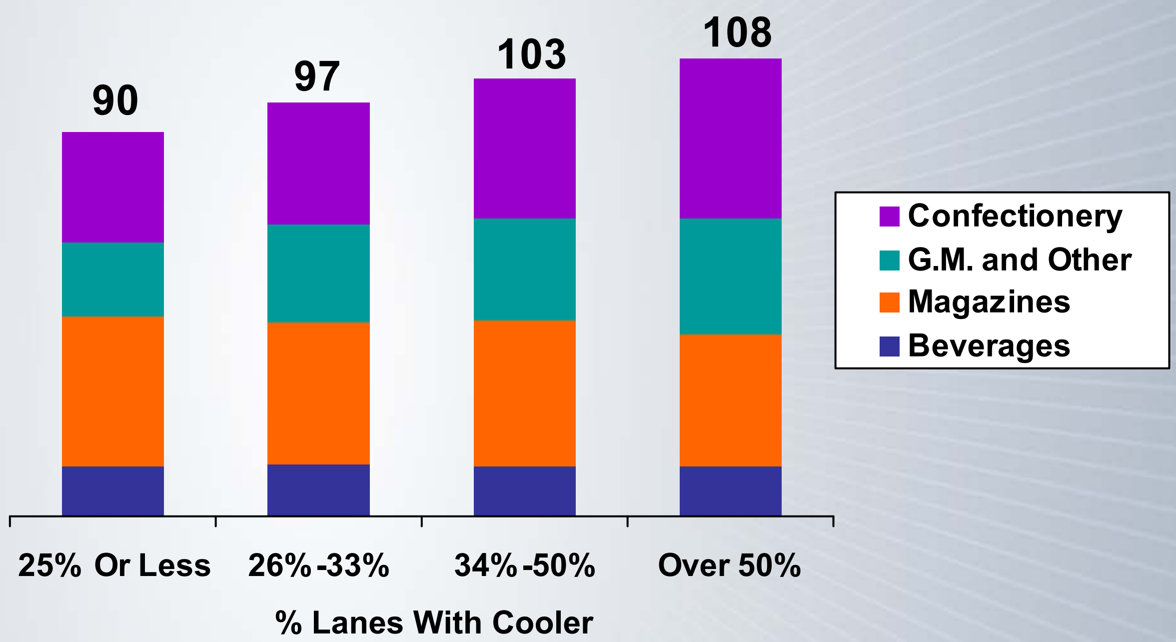
% Lanes With Cooler

- Beverage sales do not increase significantly by simply adding coolers
- Total checkout sales are higher, but this is driven by other factors

Source: FEF Study. DHC Analysis.

Increased Checkout Performance Is Driven By Confectionery, Not Coolers

Total Checkout Sales
Per $MM ACV Index



% of Lanes With Confectionery	72%	79%	92%	96%
# of Confectionery UPC's Carried	112	118	121	131

- **Stores with more Coolers also stock and sell more Confectionery. It is this, not the Coolers, that drives total performance.**

Source: FEF Study. DHC Analysis.

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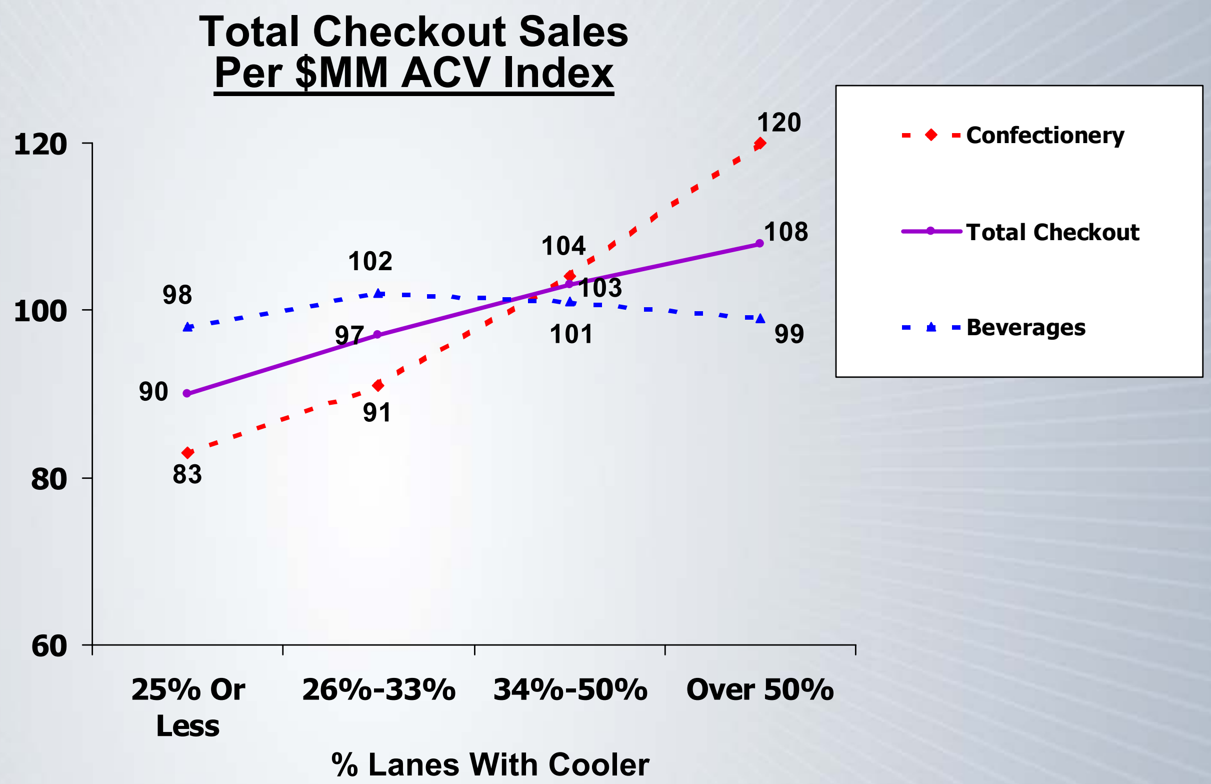
Increased Checkout Performance Is Driven By Confectionery, Not Coolers



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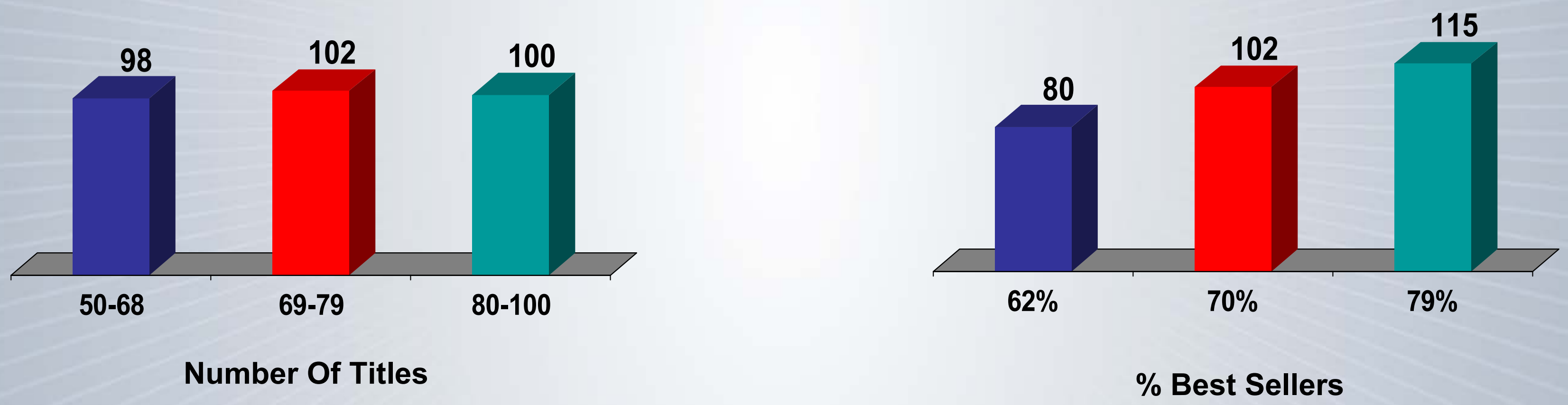
- **Stores with more Coolers also stock and sell more Confectionery. It is this, not the Coolers, that drives total performance.**

Source: FEF Study. DHC Analysis.

How Many Magazine Titles Should I Carry?

Best Practice: **Maximize Magazine sales by focusing on best selling titles**

Magazine Sales Per $ MM ACV Index



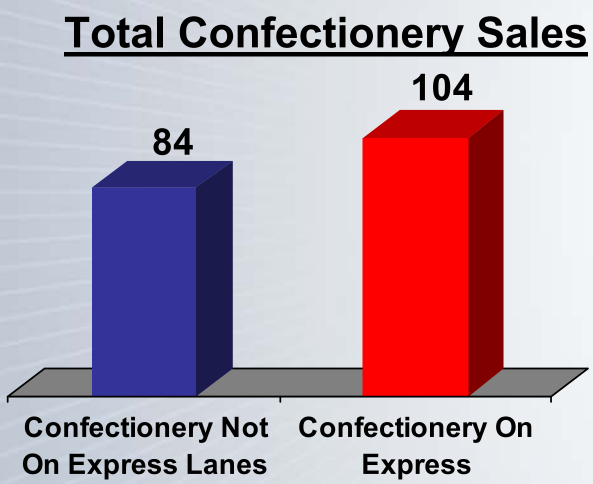
- **Stocking more Magazine titles is not as important as carrying the right assortment**

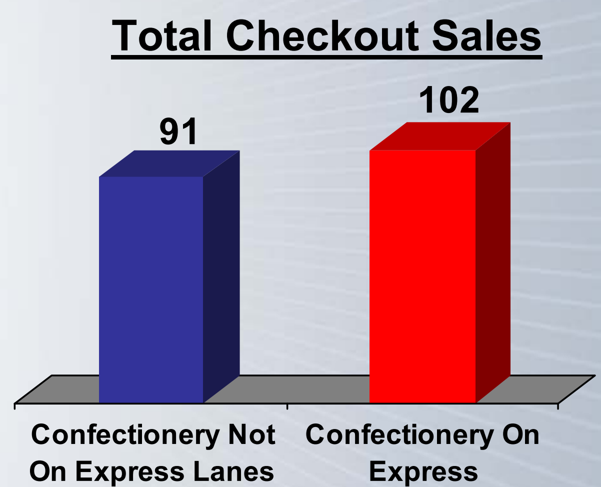
Source: FEF Study. DHC Analysis.

Should Confectionery Be Stocked On The Express Lanes?

Best Practice: Stock Confectionery on Express as well as Regular lanes

Sales Per $ MM ACV Index





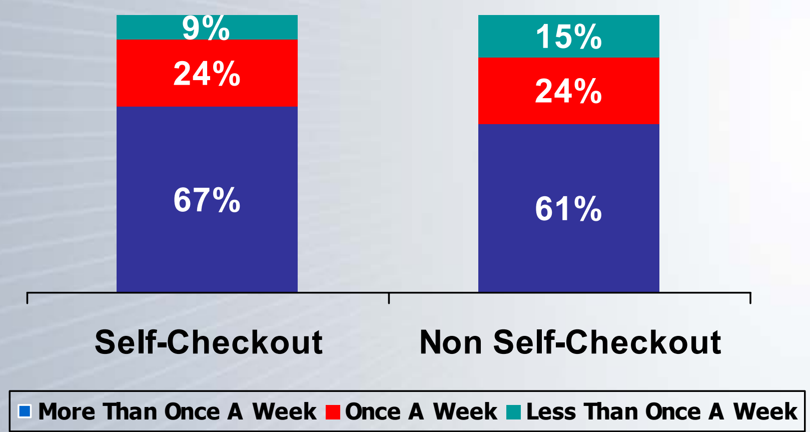
- Confectionery is the most common purchase at the express lane
- Stores stocking Confectionery on express lanes outperform stores that don't

Source: FEF Study. DHC Analysis.

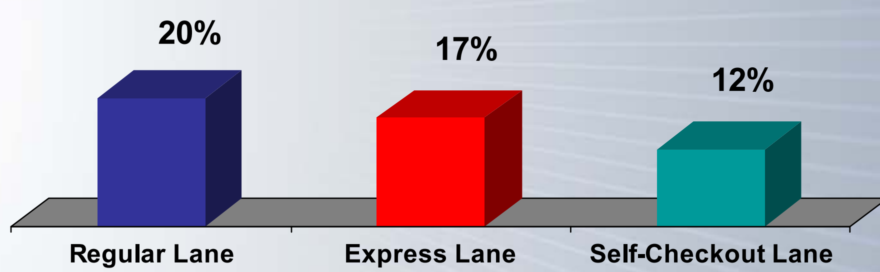
Should I Merchandise Self-Checkout Lanes?

Best Practice: Be sure to merchandise self-checkout lanes to avoid lost sales

Frequency Of Grocery Shopping



% Of Grocery Shoppers Who Purchase At Checkout Today (Each Lane = 100%)



- Self-checkout shoppers shop more frequently but fewer shoppers actually purchase at the checkstand

Source: FEF Study. DHC Analysis.

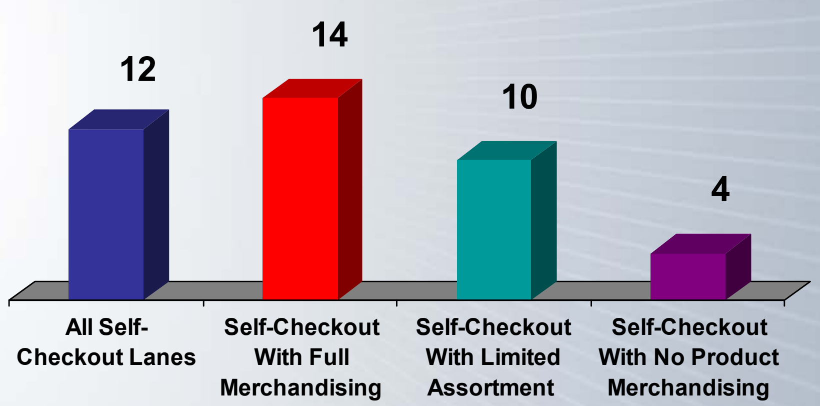
How Should I Merchandise My Self-Checkout Lanes?

Best Practice: **Merchandise self-checkout lanes with "High Penetration" & frequently purchased categories such as Confectionery & Magazines**

Consumers % That Agree Completely/Somewhat

You often select a certain checkout lane because of the particular items displayed there	16%
You sometimes select an item from one checkout counter & then go to another lane to check out	32%

% Purchased Product At Grocery Checkout Today (Each Lane = 100%)



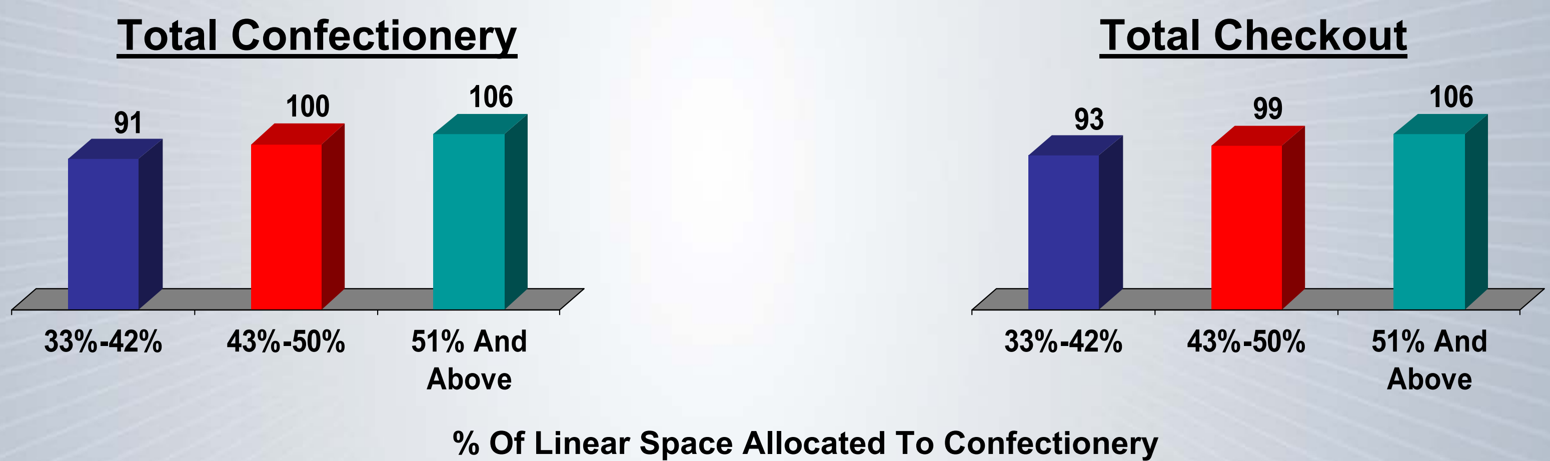
- **Consumers do not generally "shop" across checkout lanes**
- **Merchandising at a self-checkout checkout is extremely important**

Source: FEF Study. DHC Analysis.

What Percentage Of My Space Should I Allocate To The Confectionery Category?

Best Practice: **Allocate at least 51% of the linear feet available to Confectionery to drive higher sales**

Sales Per $ MM ACV Index



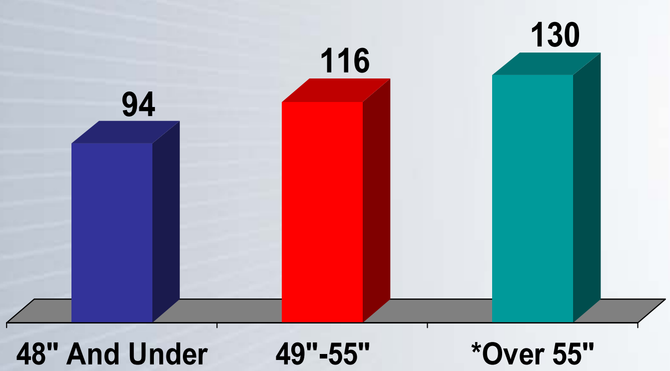
- **Providing adequate space to Confectionery drives both Confectionery & Total Checkout Sales**

Source: FEF Study. DHC Analysis.

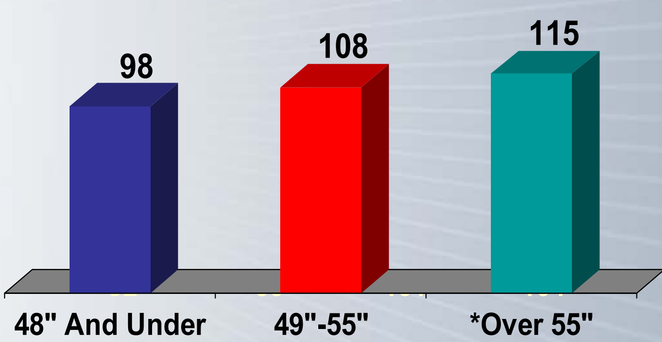
What Size Confectionery Rack Do I Need?

Best Practice: Where space allows, use a Confectionery Rack of 49" or more

Confectionery Sales Per $ MM ACV Index



Total Checkout Sales Per $ MM ACV Index



Width Of Confectionery Rack

- A wider Confectionery rack can result in greater sales & total checkout performance

*- Limited store count.

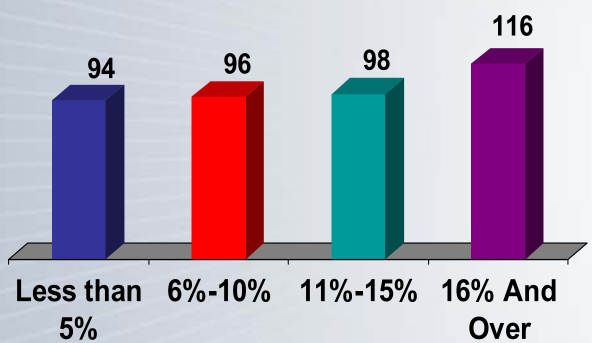
Source: FEF Study. DHC Analysis.

How Much Space Should I Allocate To The GM/HBC Categories?

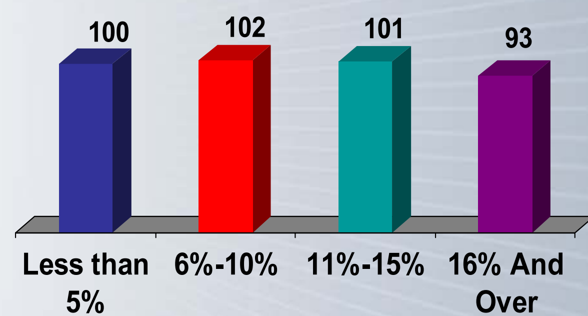
Best Practice: Provide GM/HBC with no more than 15% of the linear feet available at the checkout

Sales Per $ MM ACV Index

Total GM/HBC*



Total Checkout



% Of Linear Space Allocated To GM/HBC*

- **At 16% of space & over, GM/HBC* sales increase but total checkout sales suffer**

*- Includes Batteries, Razors/Blades, Cameras/Film, Lip Care, Oral Care, Lighters, Phone Cards, Hair Care, Analgesics, etc.
Source: FEF Study. DHC Analysis.

How Much Space Should I Devote To Each Major Group Of Products At The Front-End?

Best Practice: Allocate space to optimize the total checkout performance

Recommended Space Allocations		
Category	**% Linear Feet**	**What Does That Mean?**
Confectionery	50%+	Confectionery on every lane with at least a 48” wide rack
Magazines	30-33%	Magazines on every lane with placement over the belt and on end caps where coolers are not in place.
GM/HBC*	7-10%	18” to 24” rack on lanes where coolers do not exist. No more than 75% of the lanes.
Beverages	2-4%	Coolers no more than every 3 lanes.
Snacks**	2-3%	Carried on top of Beverage coolers.
Cookies/Crackers	1-2%	Carried on top of Beverage coolers.

- **Leading retailers balance space to profits within the suggested ranges**

*- Includes Batteries, Razors/Blades, Cameras/Film, Lip Care, Oral Care, Lighters, Phone Cards, Hair Care, Analgesics, etc.
**- Includes Salty, Meat, Nutritional.

Source: FEF Study. DHC Analysis.

Take Advantage Of The $2 Billion Opportunity By Implementing The Best Practices At The Front-End

- **Top performing retailers have at least 76 linear feet of merchandising space on a lane & carry 301 to 350 items 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 top categories that represent 80% of sales & profits: Confectionery, Magazines & Beverages**
- **Carry Confectionery on all the lanes including express. Merchandise it on both sides of the consumer. Where space allows, use at least a 49” rack**
- **Maximize Magazine presence at the Front-End. Merchandise Magazines on end caps as well as in the lane to enable consumer buying opportunities**

The Best Practices At The Front-End (Cont'd)

- Make sure 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

- Place Beverage coolers on end caps at 26% to 33% of the checkout lanes. Unlike other categories, the majority of Beverage sales are in a few key items

- Provide up to 15% of linear space for GM/HBC. Remember that most of these items are need driven & located elsewhere in the store. Focus on just a few key items in each category

- Be sure to merchandise the self-checkout lanes. Most consumers do not shop across the lanes. At a minimum, carry an assortment of popular Confectionery & Magazines

Best Practices Checklist

BEST PRACTICES

CHECKSTAND

- Devote at least 76 linear feet
- Stock 301 to 350 items
- Generate at least 80% of sales from power categories of Confectionery, Magazines, Beverages
- Merchandise self-scan lanes with Confectionery and Magazines

CONFECTIONERY

- Stock on all lanes
- Allocate 51% or more space
- Rack size at least 49”
- Stock on both sides of aisle

MAGAZINES

- Merchandise end-cap and in-line
- Allocate at least 30-33% of space
- Focus on best sellers – 79%

BEVERAGES

- Beverage coolers on 26-33% of lanes

GM/HBC

- Allocate 11-15% of space

Contact Information

For more information, call Bill Dusek or Ray Jones at 847-559-0490

Appendix

Consumer Findings

Magazines, Confectionery, And Beverages Are Impulse Categories That Have High Household Penetration And Are Purchased Frequently

Percent Of Front-End Shoppers That:			
Category	**Purchased At Checkout Within Last Year**	**Purchased At Checkout Once A Month Or More**	**Percent Of Checkout Purchases That Were Impulse**
Magazines	48%	34%	84%
Candy	69%	58%	80%
Gum/Mints	72%	63%	71%
Carbonated Beverages	35%	29%	57%
Non-Carbonated Beverages	18%	15%	49%
Batteries	28%	11%	42%
Film/Cameras	15%	5%	44%
Razors/Blades	10%	5%	39%
Salty Snacks (Salty, Meat, Nutritional)	13%	11%	61%
Cookies/Crackers	13%	10%	56%
Oral Care	5%	3%	21%
Lip Care	13%	5%	57%
Other GM/HBC	3%	2%	21%
Phone Cards	5%	2%	30%

Source: FEF Study

Shoppers Like The Convenience Of Self-Checkout

% of Shoppers			
Likes about Self-Checkout		**Dislikes about Self-Checkout**	
Convenience	88%	Need Attendant help	13%
Quick/Save Time	62%	Codes don't checkout	11%
No or shorter line	35%	Need for lookups	10%
Do not deal with store employees	14%	Payment issues	4%
		Hard to use coupons	4%
		Slow	4%
		Need to use instructions	4%
		Limit on number of items	4%
		Bag own groceries	4%

- **There are a few common concerns, but none are major**

Source: FEF Study

Ethnic Consumers Tend To Be Heavy Buyers At The Front-End Checkout

FRONT-END PURCHASE FREQUENCY INDICES

Index Of African-American & Hispanic Consumers To All Consumers		
	African-American Consumers	Hispanic Consumers
Heavy (Once a Week or More)	128	150
Medium (1-3 Times Per Month)	105	92
Light (Less Than Once A Month)	41	23

- Ethnic consumers purchase products carried at the checkstand more frequently

Source: FEF Study. DHC Analysis.

Ethnic Consumers Purchase More Impulse Categories Such As Confectionery, Carbonated Beverages, And Cookies

FRONT-END PURCHASE FREQUENCY INDICES

% Purchased In Last Year

Index Of African-American & Hispanic Consumers To All Consumers		
	African-American Consumers	Hispanic Consumers
Gum/Mint	114	106
Candy	114	103
Carbonated Beverages	134	140
Batteries	118	114
Non-Carbonated Beverages	144	56
Film/Cameras	113	147
Cookies/Crackers	161	154
Lip Care	138	115
Phone/Gift Cards	180	200

- Phone Cards are also a category that a higher percentage of African-American and Hispanic consumers purchase

Source: FEF Study. DHC Analysis.

Consumers Tend To Switch Lanes For Need, Not Impulse

- Only 33% of consumers said they would switch lanes to buy something at checkout

	Switching Index <u>By Category</u>
Gum/Mints	64
Magazines	67
Candy	75
Film	103
Soft Drinks	125
Batteries	125
Razors	180
Cigarettes	278

Impulse

Need

Source: FEF Study

Other Findings

Confectionery And Magazines Contribute Almost 2/3 Of Front-End Sales And Profits

Category	Dollar Shares	Share of Total Profits*
Magazines	33.7%	30.0%
Total Confections	31.7%	33.8%
Candy	14.4%	14.7%
Gum	12.4%	13.6%
Mints	4.9%	5.5%
Total Beverages	14.5%	16.2%
Carbonated	10.9%	NA#
Non-Carbonated	3.6%	NA#
Film/Cameras	4.5%	3.7%
Salty Snacks**	3.9%	3.1%
Batteries	3.4%	3.9%
Razors/Blades	3.4%	3.0%
Other GM/HBC	2.0%	2.6%
Cookies/Crackers	0.8%	1.0%
Oral Care	0.7%	0.8%
Phone Cards	0.7%	1.0%
Lip Care	0.6%	0.9%

*- Includes Gross Margin & Rack Fees.
**- Includes Salty, Meat, Nutritional.
#- Cooler fees not broken out by Carbonated vs. Non-Carbonated.

Source: FEF Study

Magazines And Confectionery Generate 66% Of Front-End Sales And Occupy 78% Of The Front-End Space

	Dollar Shares	Share of Linear Feet
Magazines	33.7%	30.7%
Total Confections	31.7%	47.9%
Candy	14.4%	22.6%
Gum	12.4%	16.4%
Mints	4.9%	8.9%
Total Beverages	14.5%	4.3%
Carbonated	10.9%	3.1%
Non-Carbonated	3.6%	1.2%
Salty Snacks*	3.9%	3.7%
Film/Cameras	4.5%	1.7%
Razors/Blades	3.4%	0.9%
Batteries	3.4%	1.7%
Other GM/HBC	2.0%	3.9%
Cookies/Crackers	0.8%	2.1%
Oral Care	0.7%	0.7%
Lip Care	0.6%	1.4%
Phone Cards	0.5%	1.0%

Source: FEF Study

*- Includes Salty, Meat, Nutritional.

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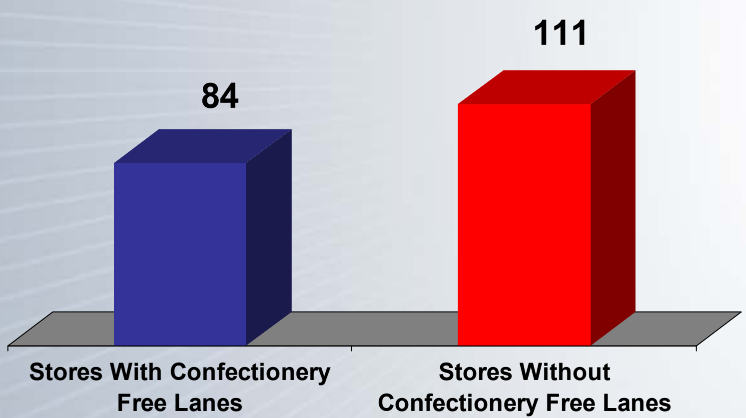
What Is The Impact Of Having Confection Free Lanes?

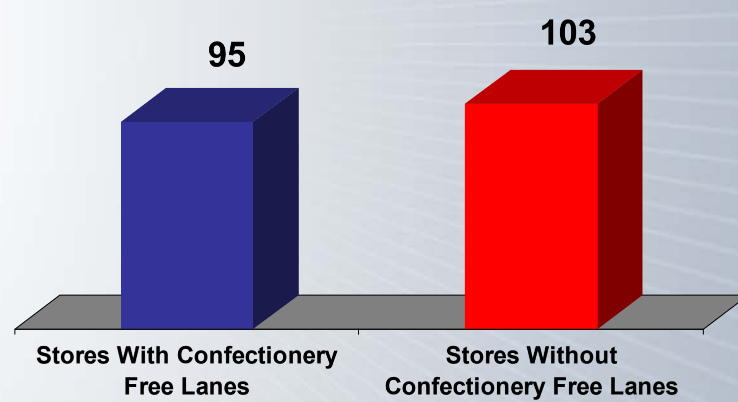
Best Practice: Stock a selection of Confectionery items on every lane.

Sales Per $ MM ACV Index

Total Confectionery Sales



Total Checkout Sales



- **Retailers that do not have Confectionery free lanes enjoy a greater performance for Confectionery and the total checkout**

Source: FEF Study. DHC Analysis.

Miscellaneous

Profit Assumptions Were Generated With The Assistance Of Alliance Retailers And The Source Interlink Companies

Category	Gross Margin*	Rack Fees#	Commitment*
Magazines	30%	$22.28 Per Pocket	3 Years
Candy	36%	$2.00 Per Inch	3 Years
Gum	40%	$2.00 Per Inch	3 Years
Mints	40%	$2.00 Per Inch	3 Years
Carbonated Beverages	40%	$500 Per Cooler	1 Year
Non-Carbonated Beverages	35%	$500 Per Cooler	1 Year
Batteries	35%	$17.50 Per Peg	1 Year
Film/Cameras	25%	$13.50 Per Peg	1 Year
Razors/Blades	30%	$13.50 Per Peg	1 Year
Salty Snacks (Salty, Meat, Nutritional)	28%	$2.00 Per Inch	3 Years
Cookies/Crackers	40%	$2.00 Per Inch	3 Years
Oral Care	30%	$13.50 Per Peg	1 Year
Lip Care	30%	$13.50 Per Peg	1 Year
Other GM/HBC	40%	$13.50 Per Peg	1 Year
Phone Cards	35%	$13.50 Per Peg	1 Year

Source: *- Retailer Input.
#- Interlink Companies.

Other Categories Have Invaded The Checkout Lanes

- Candles
- Match Box Cars
- Work Gloves
- Bagged Candy
- Walkie Talkies
- Plastic Table Clothes
- Charcoal Lighter Fluid
- Maps
- Greeting Cards
- Small Dolls
- Paper Cups
- Eye Glass Repair Kits
- Analgesic Rubs
- Pizza Cutters
- Rotisserie Chicken
- Children's Toys
- Coloring Books
- Dieting Aids
- Cotton Balls
- Facial Tissue
- Ribbons
- Long Neck Lighters
- Playing Cards
- Children Stickers
- Rubber Gloves
- Scotch Tape
- Scissors
- Bakery
- Lint Traps
- Foot Stones
- Stuffed Animals
- Fireplace Logs
- Ear Plugs
- Trading Cards
- Canned Cookies
- Air Fresheners
- Remote Control Cars
- Hair Brushes
- Crayons
- Scouring Pads
- Balloons
- Vitamins
- Doughnuts
- Windshield Solvent
- Blowing Bubbles

Source: FEF Study