

# Front-End Merchandising and Operations Management



# Front-End Focus

**Front-End Focus is a major initiative sponsored by:**

- **Mars, Inc.**
- **The Wm. Wrigley Jr. Company**
- **Time Warner Retail Sales and Marketing**
- **In partnership with Dechert-Hampe & Company, an independent consulting firm.**

**Front-End Focus objectives include:**

- **Gain new insights on consumer attitudes and buying behavior at the Front-End**
- **Determine the impact of new developments such as self-checkout on the Front-End**
- **Improve the overall productivity of the Front-End through collaboration on Best Practices**

# Overall Scope Of Front-End Focus

- **Research has been conducted in partnership with leading retailers representing over 5,500 stores & 20% of U.S. Grocery Volume**
- **Retailers have provided UPC level sales data for over 5000 items found at front-ends in 500 stores**
- **Checkout planograms were collected & all stores were audited at the lane level to identify merchandising conditions**
- **Several retailers also provided shopper card data on over 750,000 front-end transactions**
- **In-Store interviews were conducted with a total of over 2000 grocery shoppers about checkout attitudes & purchase behavior**
- **Personal interviews were conducted with store managers and operations personnel relative to stocking and management**

# Scope Of Front-End Operations Study

- This phase of the research was conducted in partnership with four leading retailers with 500 stores and 5% of total U.S. Grocery ACV
- Retailers provided UPC level sales data for all items found at front-ends in 47 stores
- Checkout planograms were collected & all stores were audited at the lane level (765 lanes in total)
- These retailers also provided shopper card data on over 750,000 front-end transactions
- In-Store interviews were conducted with a total of 750 grocery shoppers about checkout attitudes & purchase behavior
- Personal interviews were conducted with store managers and operations personnel relative to stocking and management

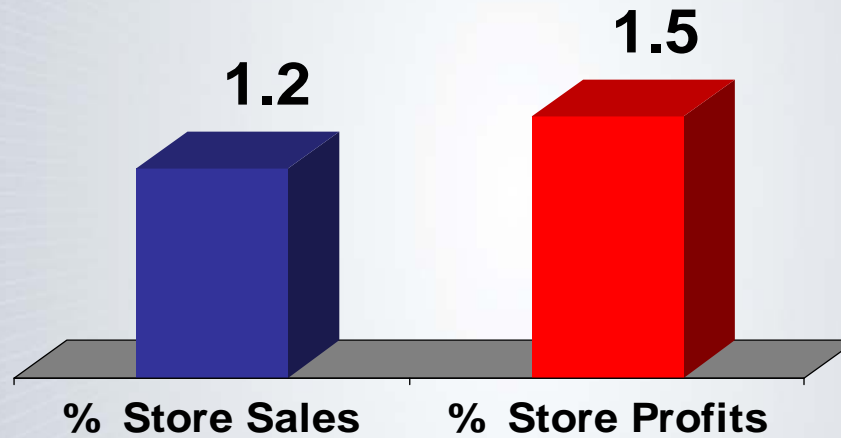
# The Study Includes Data On Over 24 Major Categories

- **Candy**
- **Cookies/Crackers**
- **Salty Snacks**
- **Batteries/Flashlights**
- **Film/Cameras**
- **Oral Care**
- **Magazines**
- **Books**
- **Phone Cards**
- **Carbonated Beverages**
- **Non-Carbonated Beverages**
- **Bottled Water**
- **Gum**
- **Mints**
- **Nutrition / Granola Bars**
- **Nuts / Seeds**
- **Meat / Other Snacks**
- **Razors / Blades**
- **Cosmetics / HBC**
- **Lip Care**
- **Audio / Video / CD / DVD**
- **General Merchandise**
- **Children's Toys / Games / Books**
- **Smoking Needs**

Source: Front-End Focus Study.

# The Front-End Represents 1.2% of Store Sales and 1.5% of Profits

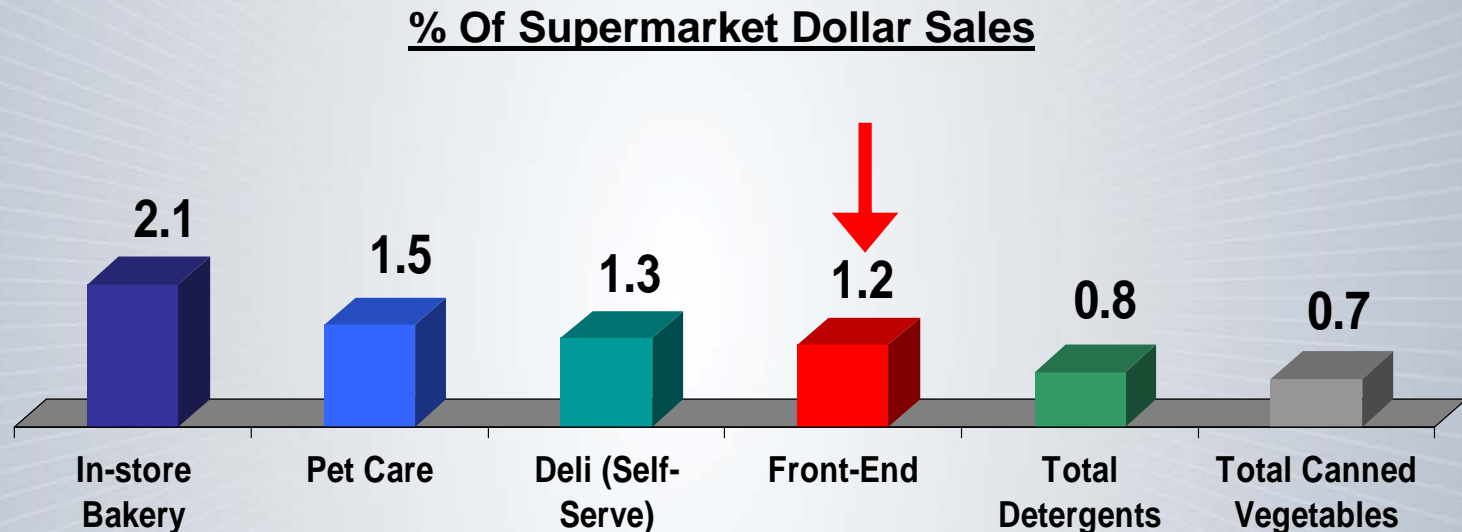
## Grocery Front-End



- Front-End Checkout sales add up to \$ 5.5 Billion

Source: Front-End Focus Study.

# The Front-End Is the Size of Other Actively Managed Departments

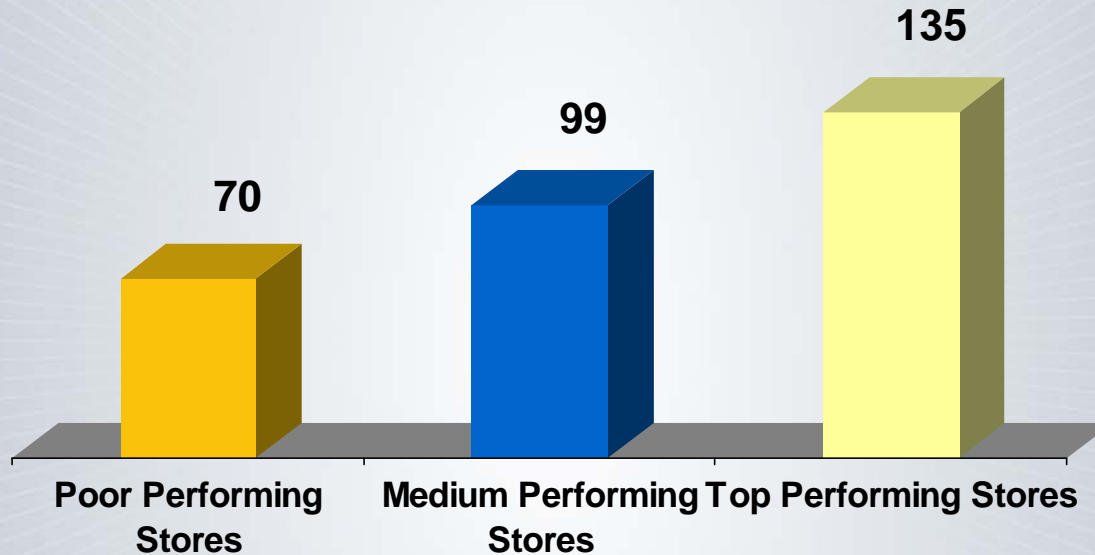


- It should be viewed as a department with its own Manager

Source: FEF Study. DHC Analysis. A.C. Nielsen.

# The Opportunity For Improved Performance at the Front-End Is Huge

Total Checkout Sales Per \$ MM ACV Index



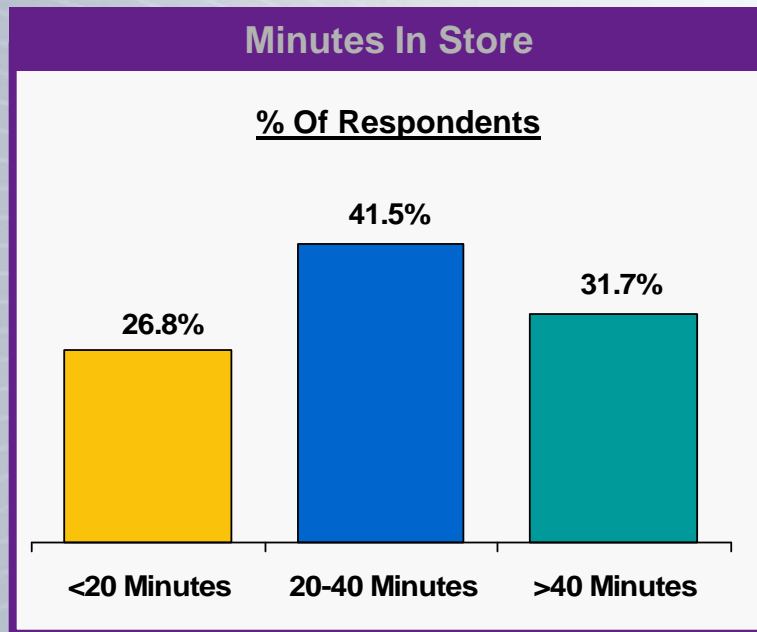
- Top performing retailers enjoy a 36% advantage in store performance at Front-ends

Source: Front-End Focus Study. DHC Analysis.

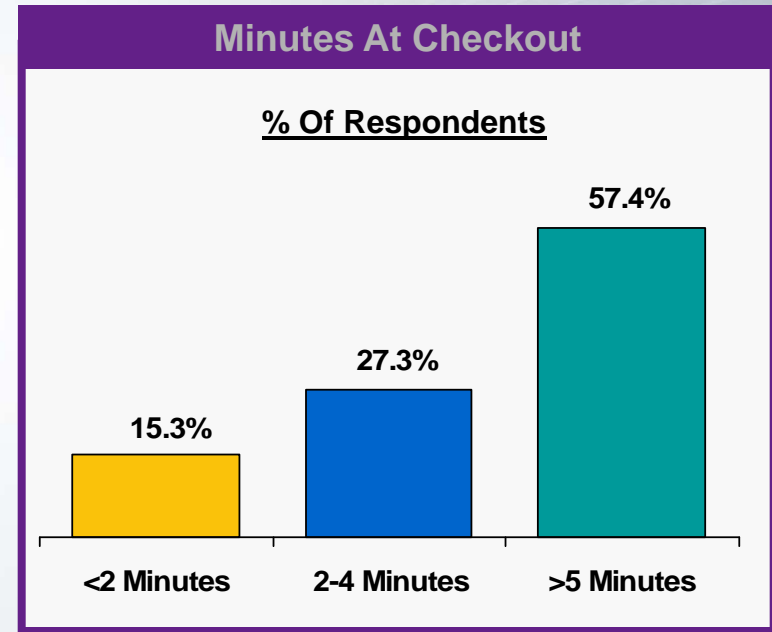
# Consumer Learning

# Customers Spend Almost 35 Minutes In The Store & Over 5 Minutes At The Checkout

## How Much Time Did You Spend In The Store And How Much Time Did You Spend At Checkout?



**Average = 34:06**

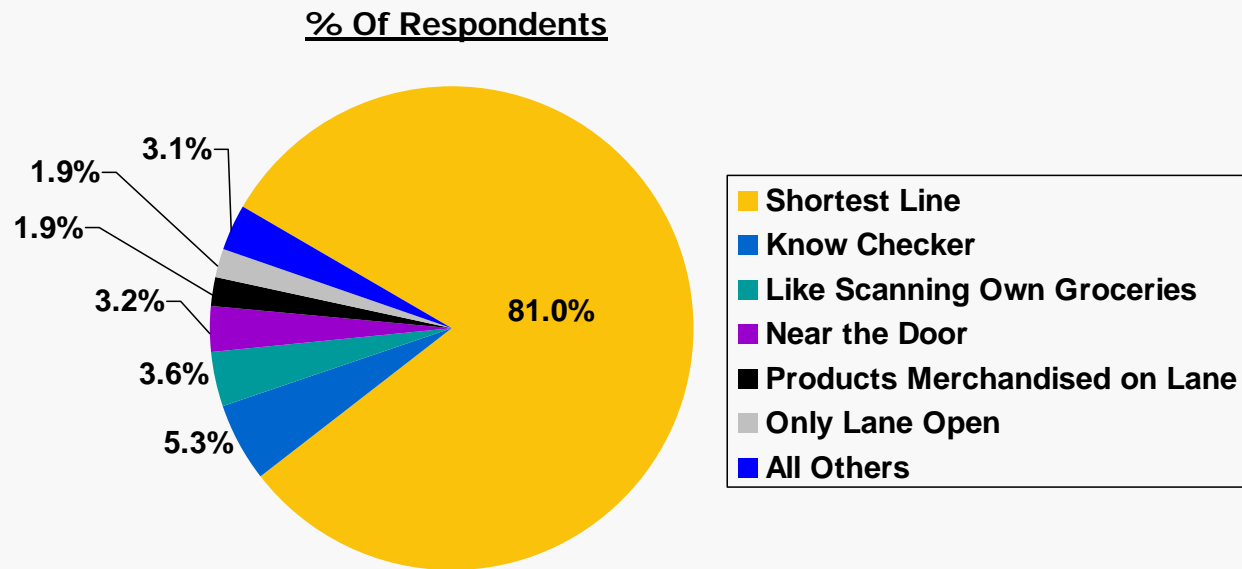


**Average = 5:32 Minutes**

Source: DHC Consumer Interviews 2006

# Most Shoppers Choose The Shortest Checkout Lane

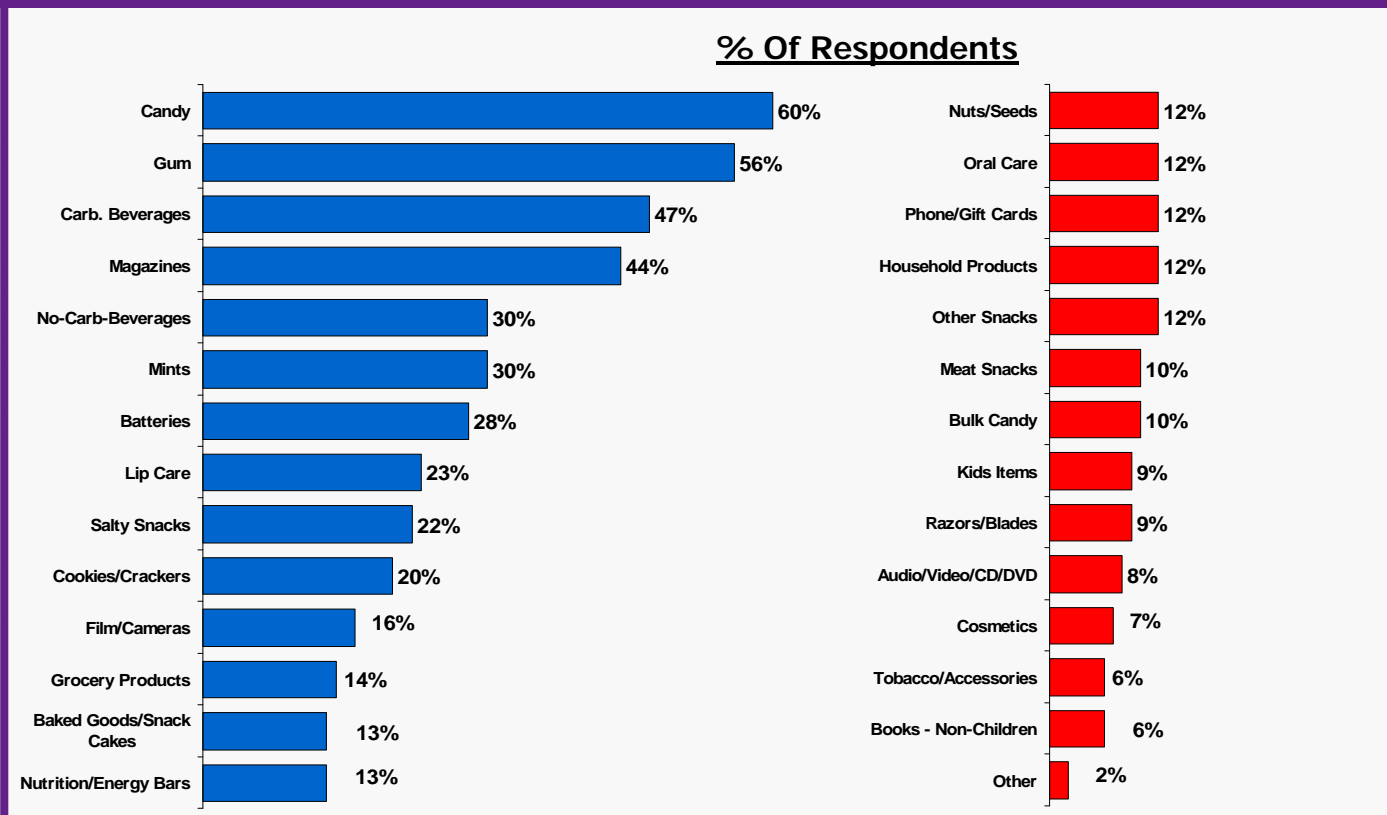
## Why Did You Choose The Lane You Chose Today?



Source: DHC Consumer Interviews 2006

# Candy, Gum, Beverages & Magazines Are Most Commonly Purchased

## What Categories Have You Purchased From This Store's Front-End Checkout Over The Past 6 Months?

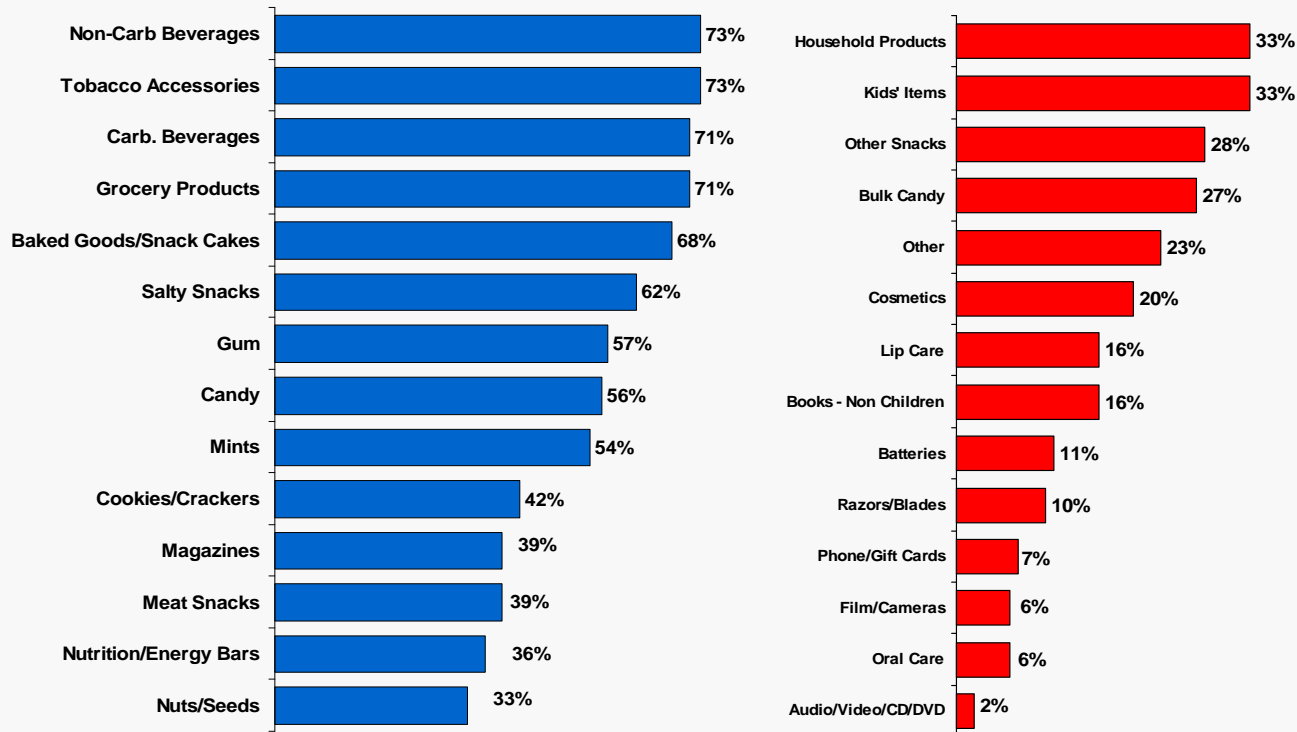


Source: DHC Consumer Interviews 2006

# People Who Purchase Checkout Categories Tend To Purchase Many Of These Categories Frequently

## How Often Do You Purchase These Categories From This Store's Front-End Checkout?

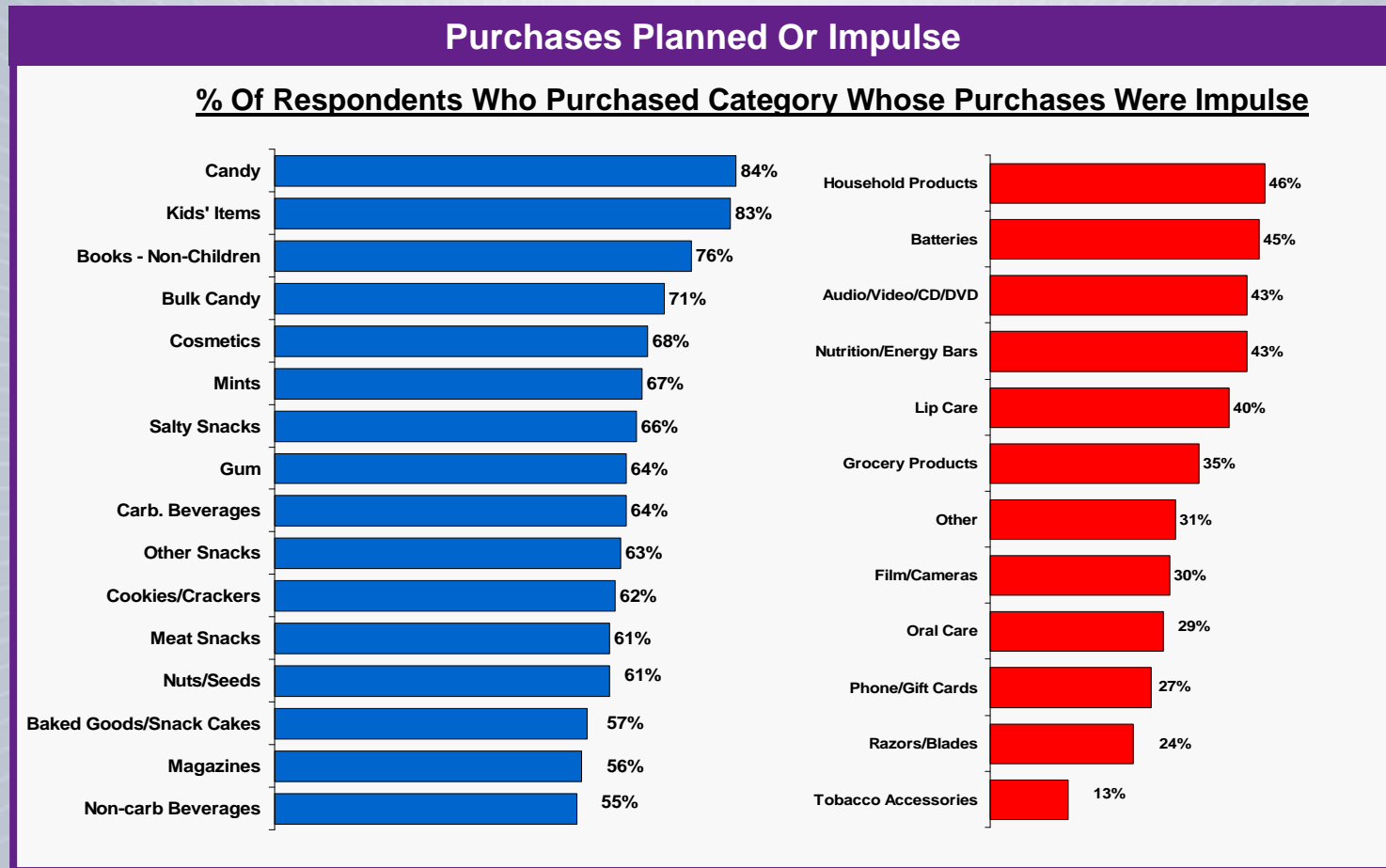
### % Of All Respondents Who Purchased Category Answering 2-3 Times a Month Or More



- Frequency of purchase must be analyzed in concert with the percentage of people purchasing (see previous page)

Source: DHC Consumer Interviews 2006

# Candy & Kids' Items Had The Highest Incidence Of Being Purchased On Impulse



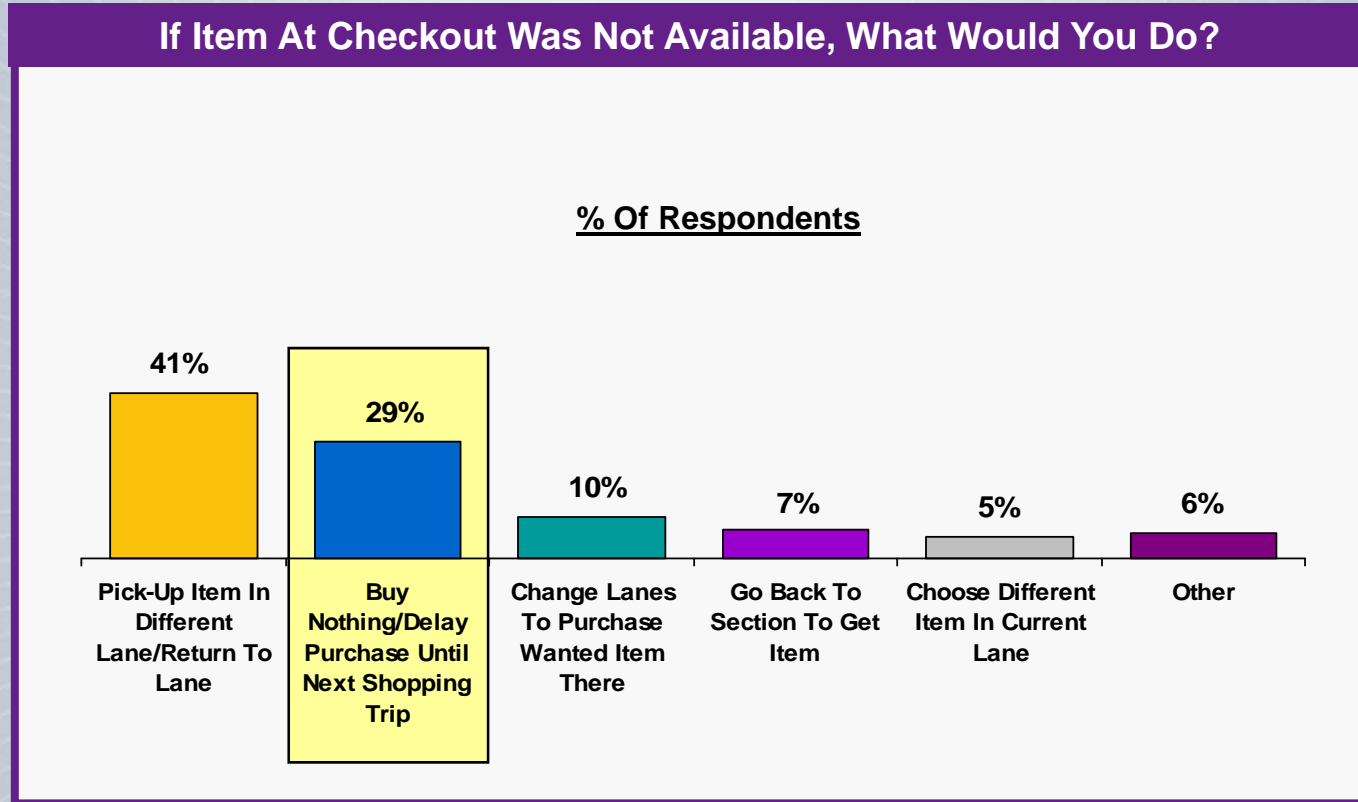
- While many front-end categories are purchased on impulse, once again the results must be reviewed in light of the percentage of people who actually purchase the category

# Key Categories Combine High Penetration, Frequency And Impulse

Low Scores	Mixed Scores	High Scores
<ul style="list-style-type: none"> <li>Lip Care</li> <li>Meat Snacks</li> <li>Kids Items</li> <li>Bulk Candy</li> <li>Grocery Products</li> <li>Household Products</li> <li>Energy Bars</li> <li>Cosmetics</li> <li>Books</li> <li>Film/Cameras</li> <li>Oral Care</li> <li>Gift Cards</li> <li>Audio/CD/DVD</li> <li>Razors/Blades</li> <li>Tobacco Accessories</li> </ul>	<ul style="list-style-type: none"> <li>Non-Carb. Beverages</li> <li>Salty Snacks</li> <li>Cookies/Crackers</li> <li>Baked Goods/Snack Cakes</li> <li>Batteries</li> <li>Nuts/Seeds</li> <li>Other Snacks</li> </ul>	<div style="border: 2px solid black; padding: 10px; text-align: center;"> <ul style="list-style-type: none"> <li>Candy</li> <li>Gum</li> <li>Carb. Beverages</li> <li>Magazines</li> <li>Mints</li> </ul> </div>

Source: DHC Consumer Interviews 2006

# Many Shoppers Would Buy Nothing Or Defer Purchase If Item Not Available On Lane



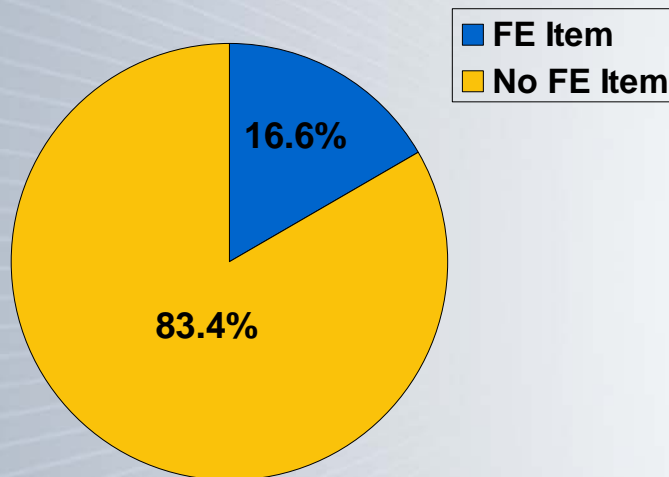
- High “walk-away” rate underscores importance of having key items available on every lane

Source: DHC Consumer Interviews 2006

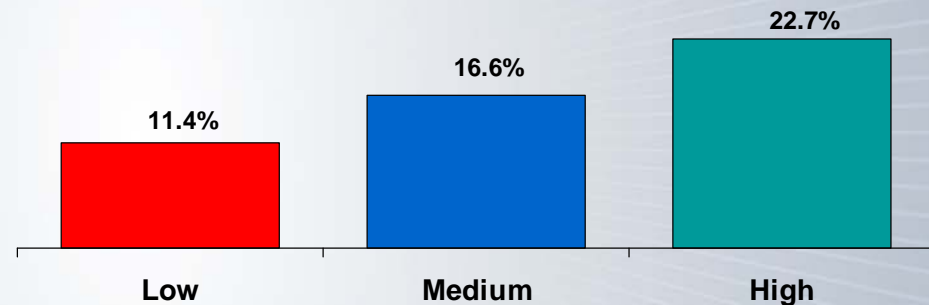
# Front-End Purchase Dynamics

# About 1 in 6 Shoppers Purchases a Front-End Item

**Conversion**  
**% Transactions with Front-End Item**



**% Conversion**  
**By Retailer Performance**

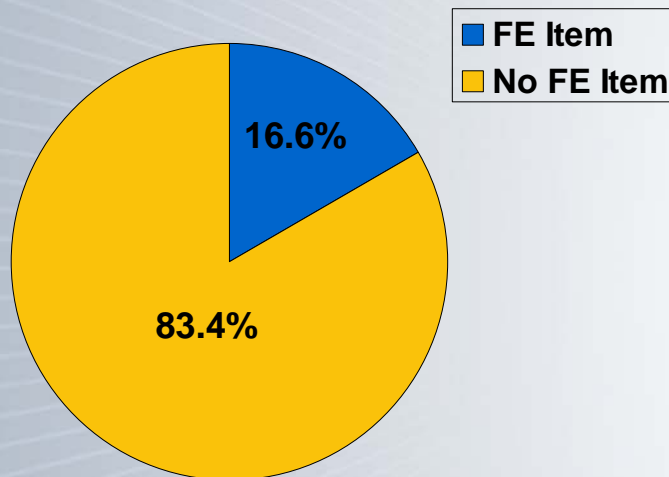


- Improved shopper conversion is a key opportunity
- Conversion is much greater for high performing retailers

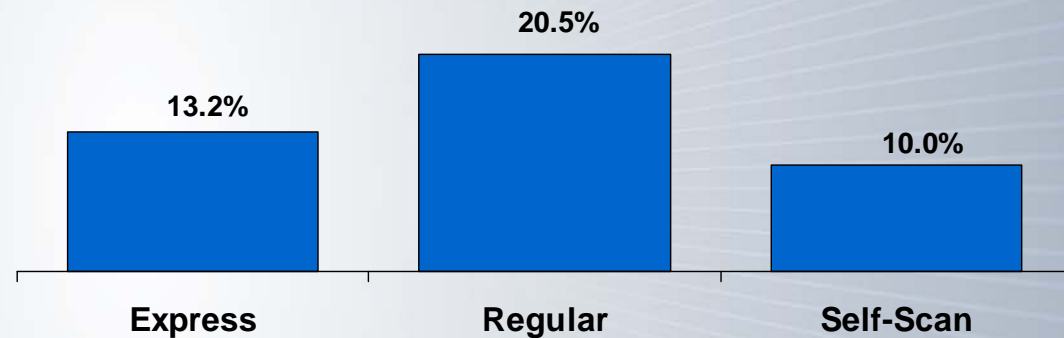
Source: DHC Analysis of Retailer Data.

# Conversion Rates Differ by Lane Type

Conversion  
% Transactions with Front-End Item



% Conversion  
By Lane Type

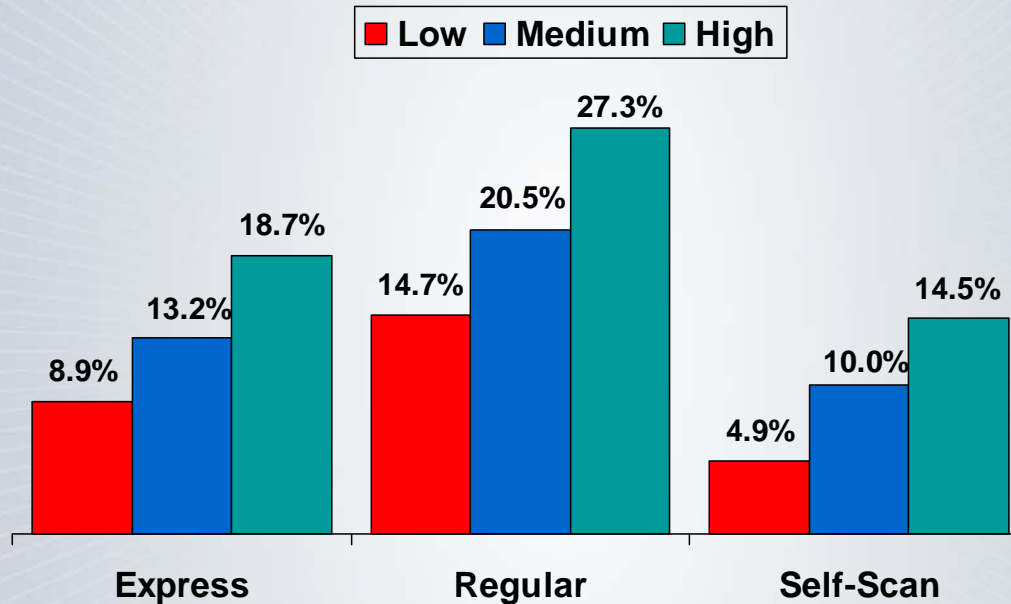


- Conversion is highest at Regular lanes
- Conversion is lowest at Self-Scan lanes

Source: DHC Analysis of Retailer Data.

# Opportunity to Increase Conversion

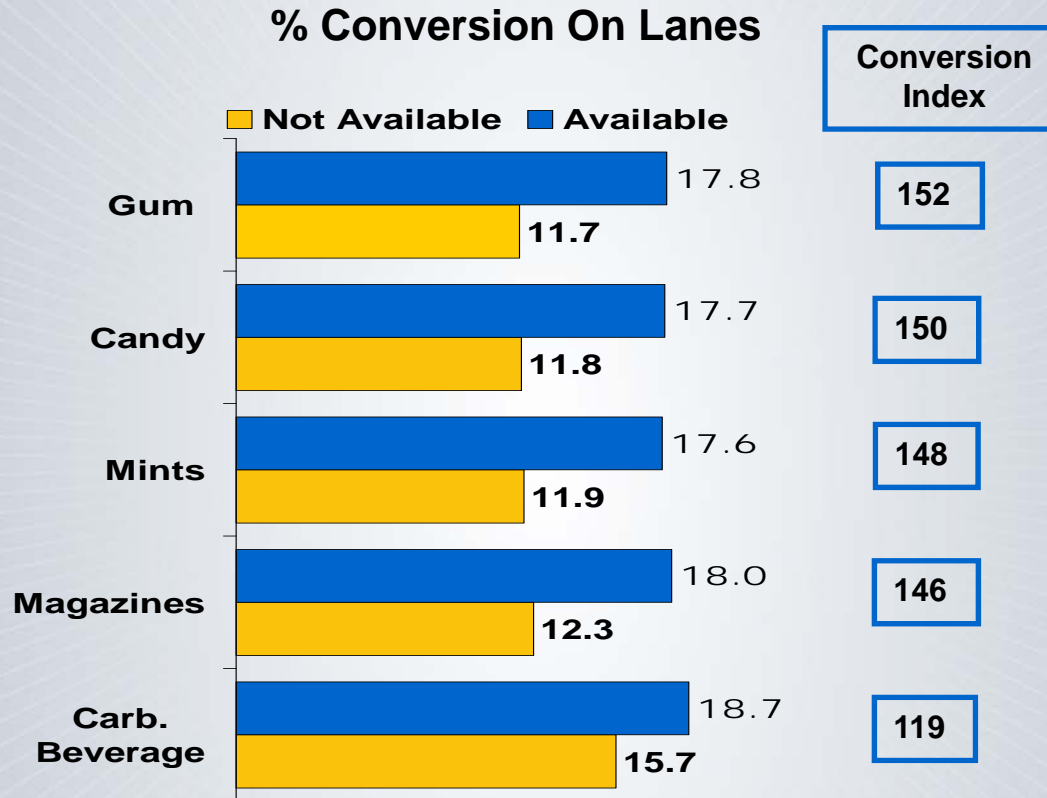
% Conversion By Lane Type  
by Retailer Performance



● Conversion can be significantly improved on all kinds of lanes

Source: DHC Analysis of Retailer Data.

# Front-End Conversion is Higher on Lanes with Power Categories Available



- Making these key power categories available on more lanes drives increased conversion rates

Source: DHC Analysis of Retailer Data.

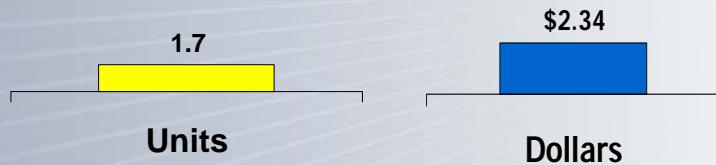
# Front-End Conversion

- **Increased shopper conversion is a key opportunity for Front-End sales**
- **Self-scan lanes should be a particular focus of improved conversion**
- **Front-end conversion can be influenced by the categories available on the lanes**
- **Conversion can be improved by more presence of the key power categories at Front-end lanes**

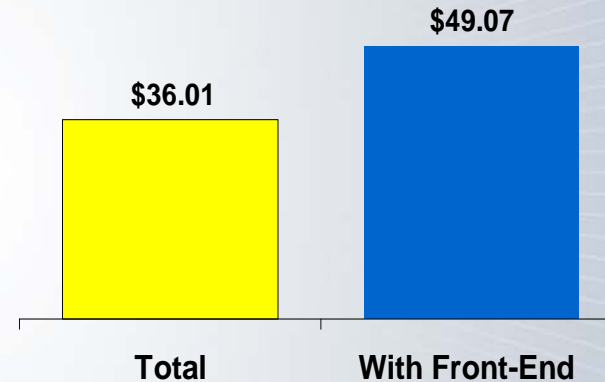
Source: Dechert-Hampe & Co.

# Front-End Purchases Help Build Transaction Basket Size

## Front-End Purchase



## Transaction Basket Dollars



- Front-End Purchases Average \$2.34
- Basket dollars are much higher with Front-End items

Source: DHC Analysis of Retailer Data.

# Front-End Adds to Customer Sales

Front-End Sales per 100 Transactions



● **Front-End adds much more on Regular lanes**

Source: DHC Analysis of Retailer Data.

# Great Opportunity to Increase the Front-End Sales Per Customer

Front-End Sales per 100 Transactions  
by Retailer Performance

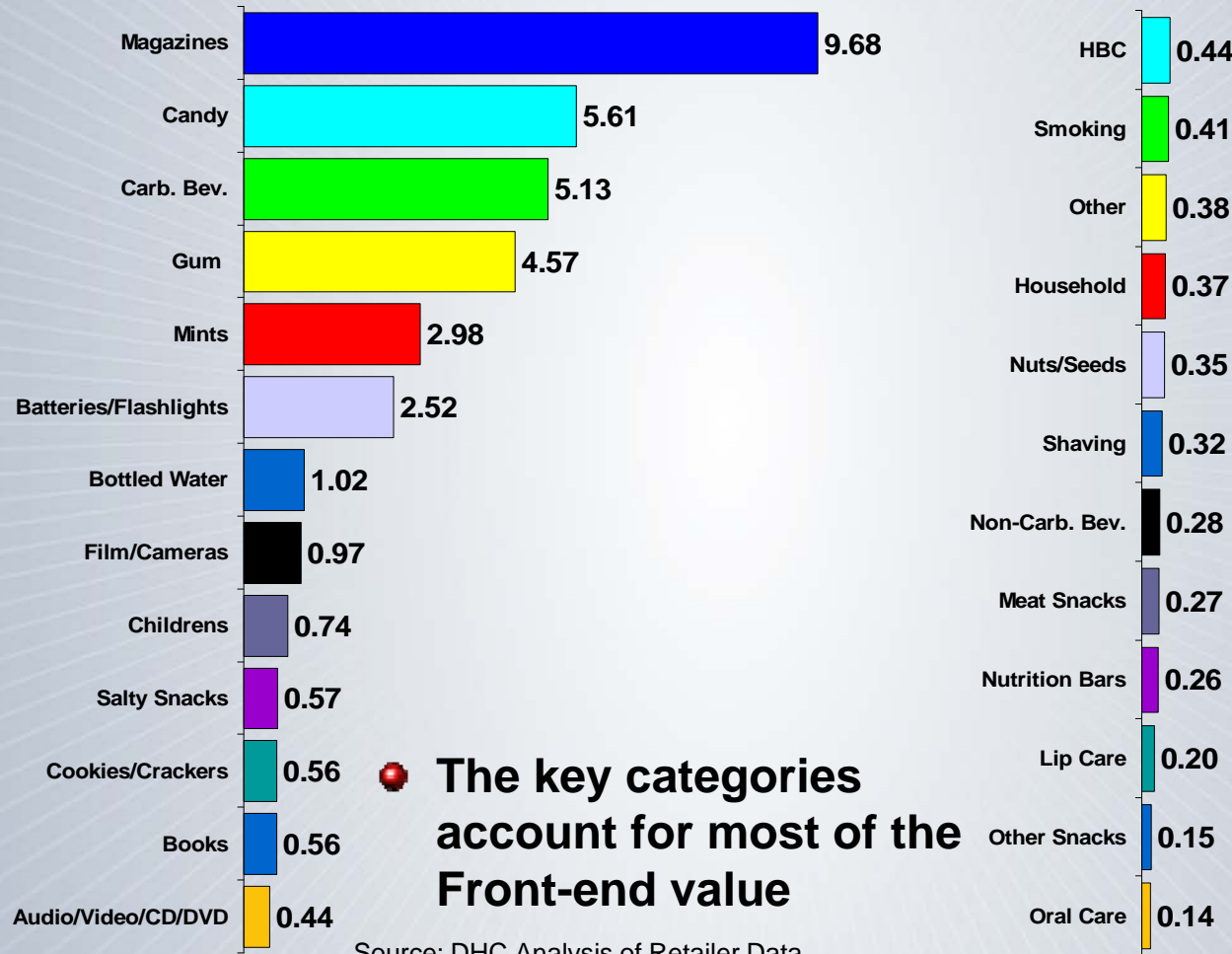


- High performing retailers generate almost 50% more from Front-End

Source: DHC Analysis of Retailer Data.

# Front-End Sales Per Customer by Category

FE \$ Per 100 Transactions

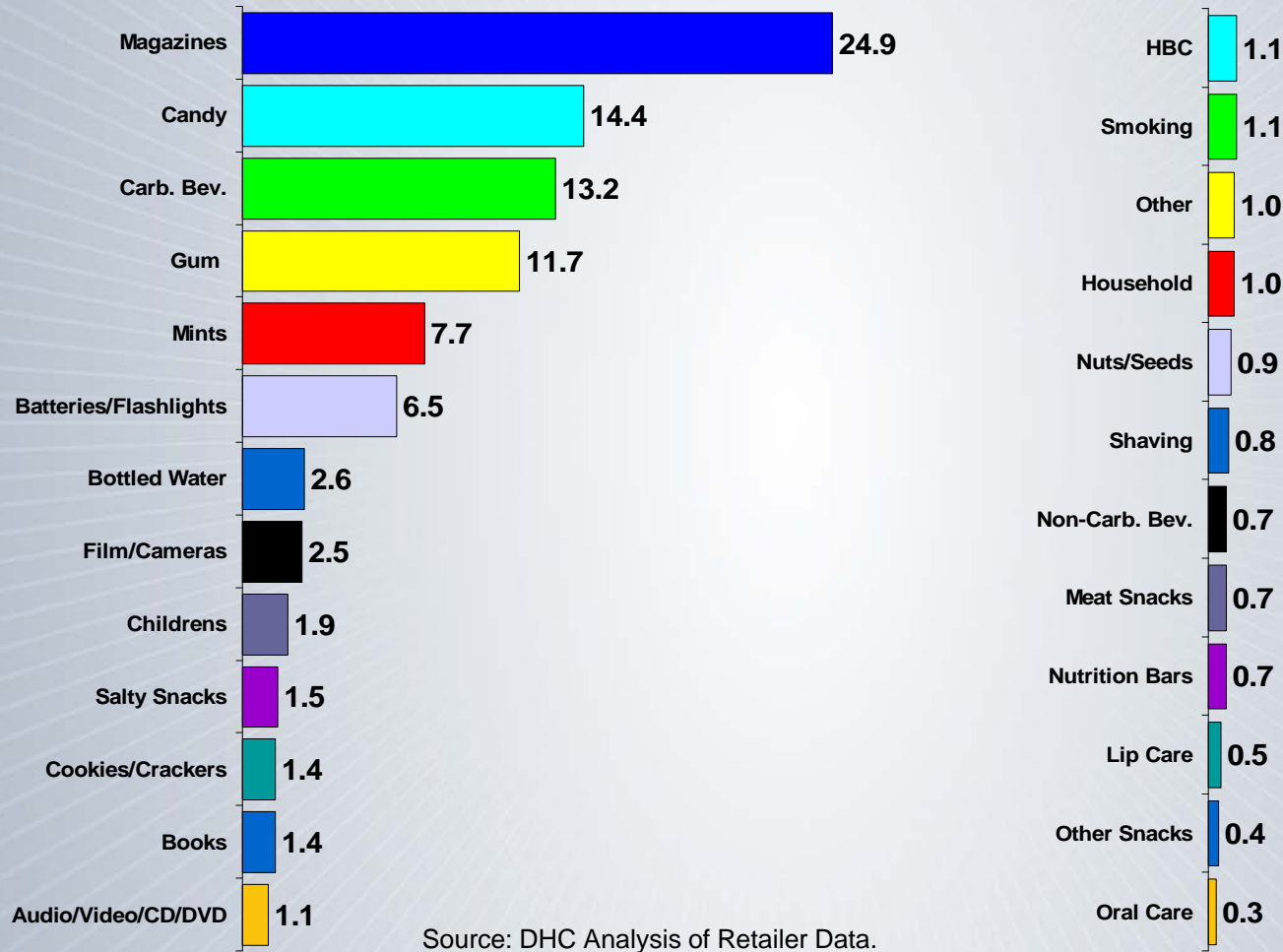


● The key categories account for most of the Front-end value

Source: DHC Analysis of Retailer Data.

# Magazines, Confectionery and Beverages Account for 75% of Sales

**% Total Front End Sales**



Source: DHC Analysis of Retailer Data.

# Front-End Is Often Cluttered by Excessive Category Presence

CATEGORY	% LANES AVAILABLE	% FRONT-END SALES
Magazines	85.2%	24.9%
Candy	91.0%	14.4%
Carb. Bev.	27.1%	13.2%
Gum	89.9%	11.7%
Mints	86.7%	7.7%
Batteries/Flashlights	69.6%	6.5%
Non-carb. Bev./Water	13.7%	3.3%
Film/Cameras	68.9%	2.5%
Children's	37.0%	1.9%
Salty Snacks	26.8%	1.5%
Cookies/Crackers	22.2%	1.4%
Books	24.7%	1.4%
Audio/Video/CD/DVD	18.6%	1.1%
HBC	45.7%	1.1%
Smoking	34.8%	1.1%
Other	55.5%	1.0%
Household	56.1%	1.0%
Nuts/Seeds	29.0%	0.9%
Shaving	39.4%	0.8%
Meat Snacks	18.4%	0.7%
Nutrition Bars	5.1%	0.7%
Lip Care	67.6%	0.5%
Other Snacks	4.6%	0.4%
Oral Care	65.0%	0.3%

- = Under-represented
- = Adequately represented
- = Over-represented

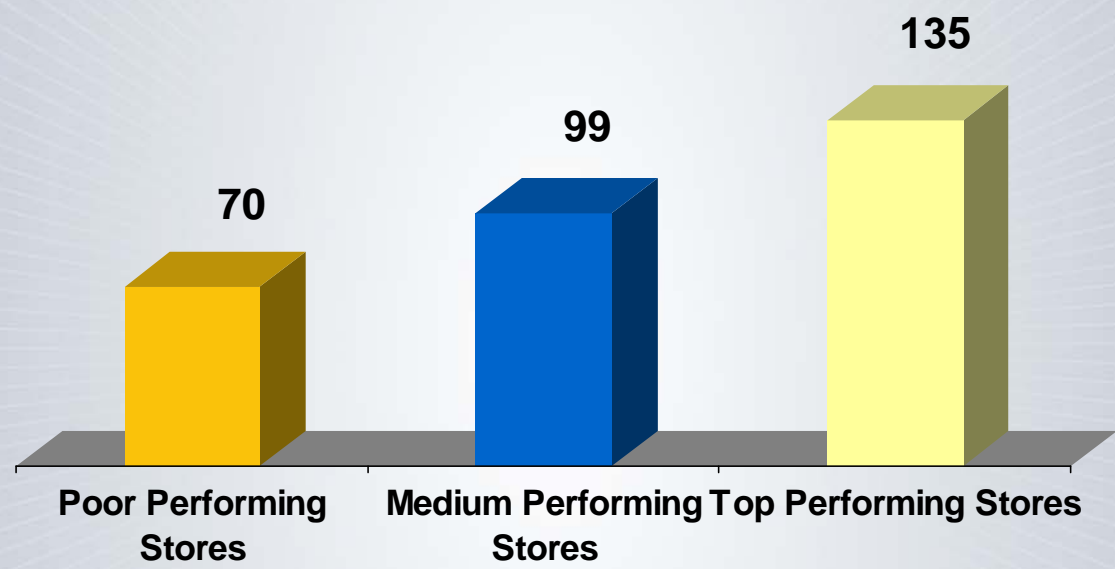
● There is often a significant gap between category contribution and presence

Source: IRI Store Audits, DHC Analysis of Retailer Data

# Best Practices for Merchandising

# Top Performing Retailers Enjoy A Major Advantage at the Front-End

Total Checkout Sales Per \$ MM ACV Index



- What are the key merchandising practices of the top performing retailers?

Source: Front-End Focus Study. DHC Analysis.

# 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 75% 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. At a minimum, carry an assortment of popular Confectionery & Magazines**

Source: Dechert-Hampe & Co.

# Best Practices At The Front-End

- **Carry Confectionery on all the lanes including express. Merchandise it on both sides of the consumer. Where space allows, use at least a 48” rack**
- **Maximize Magazine presence at the Front-End. Merchandise Magazines on end caps as well as in the lane to enable consumer buying opportunities**
  - **Merchandise Magazines on both sides of the consumer**
- **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

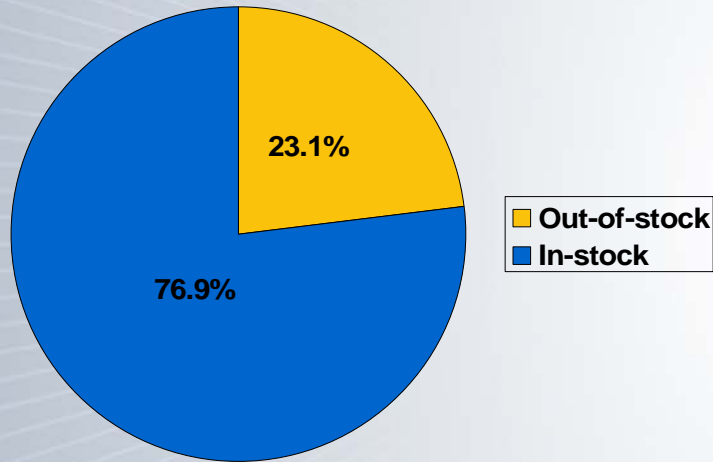
- **Make beverage coolers easily available to shoppers**
- **Carry an assortment of beverages in each cooler that includes water and non-carbonated as well as carbonated beverages**
- **Provide a moderate space for GM/HBC. Remember that most of these items are need driven and many are also located elsewhere 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.

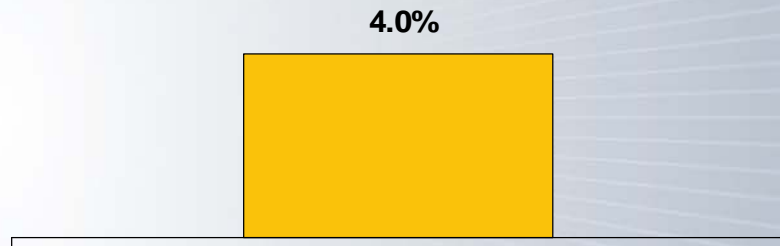
# Best Practices For Operations

# Out-of-stocks Are A Very Serious Problem at the Front-End

**% Categories with lane OOS**



**% Items OOS on Lane**

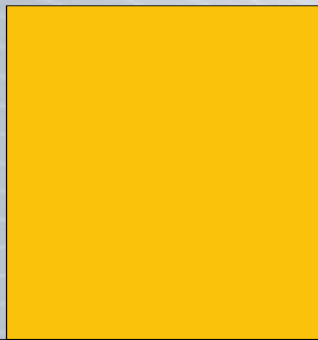


● **23% of the lanes had some Out-of-stocks representing 4% of all Front-end items**

Source: IRI Store Audits, DHC Analysis of Retailer Data

# Front-End Out-of-Stocks Can Cost The Store \$ 50,000 in Lost Sales Per year

\$12,000



Total Front-End sales  
per \$ Million ACV

\$2,500



Potential Front-End sales  
lost due to out-of-stock  
per \$ Million ACV

\$ 50,000

Potential Front-End sales  
lost due to out-of-stock  
(\$20MM ACV Store)

- In a 100-store Grocery Chain, the potential lost sales due to front-end items being out of stock is about \$5.0 million per year

\*Assumes items out-of-stock would have been purchased if available

Source: IRI Store Audits, DHC Analysis of Retailer Data

# Out-of-stock Issues Are Most Severe on Confectionery and Magazines

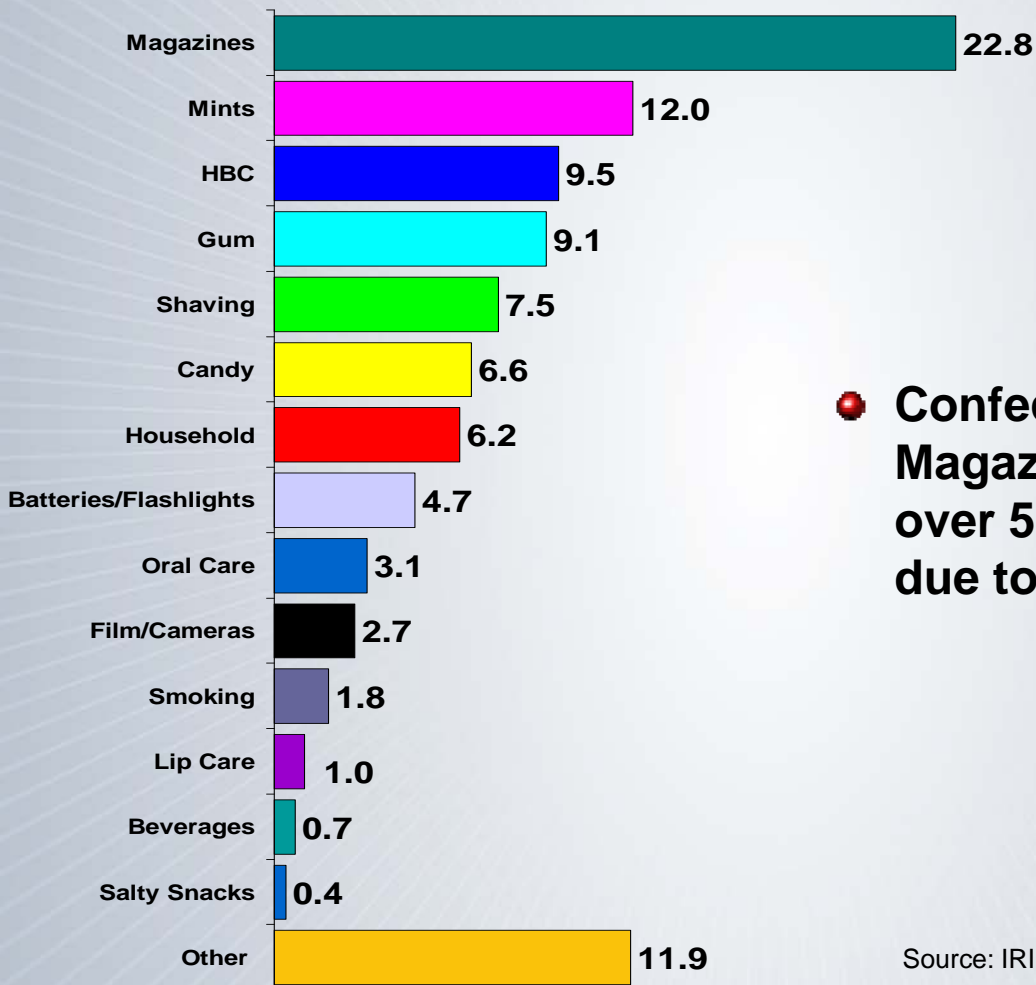
Category	% Lanes with OOS	% All Item OOS
Gum	45.0%	16.2%
Mints	45.6	15.1
Magazines	36.8	14.1
Candy	36.1	13.8
HBC	30.0	12.4
Household	37.3	8.7
Oral care	20.2	3.4
Shaving	39.8	3.0
Batteries	12.3	2.6
Film/Cameras	11.6	1.4
Lip Care	10.9	1.4
Smoking	11.0	1.1
Beverages	6.5	0.9
Salty Snacks	6.7	0.6

● These are the categories purchased most often

Source: IRI Store Audits, DHC Analysis of Retailer Data

# Key Categories Lose the Most Sales at the Front-End Due to Out-of-stocks

**% Total Lost Sales to OOS by Category**

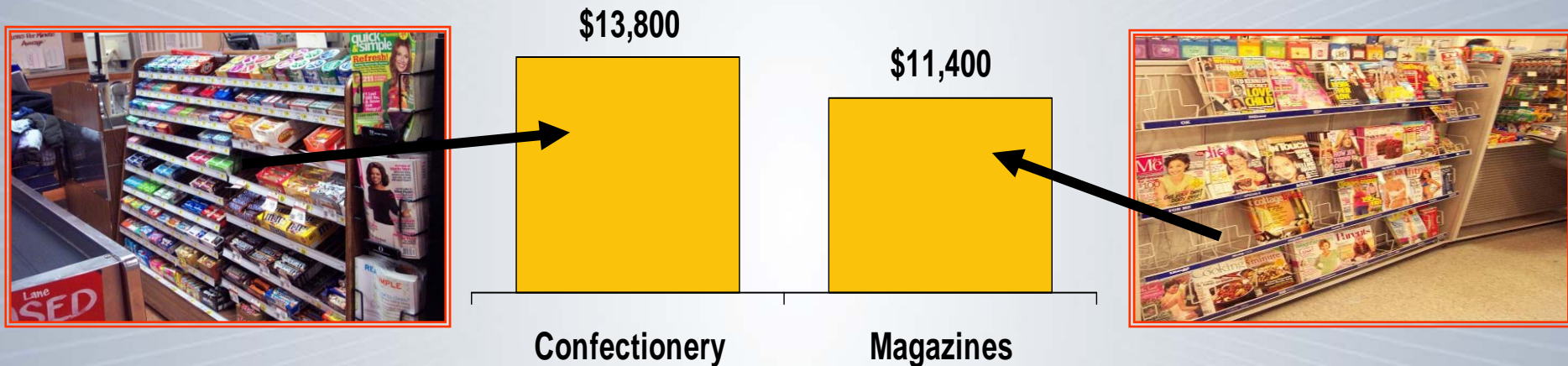


● **Confectionery and Magazines account for over 50% of sales lost due to Out-of-stocks.**

Source: IRI Store Audits, DHC Analysis of Retailer Data

# Retailers Risk Major Lost Sales From Out-Of-Stocks On Confectionery & Magazines

**% Potential Front-End Lost Dollar Sales Due To Out-Of-Stock\***  
(All Front-End Items = \$50,000)



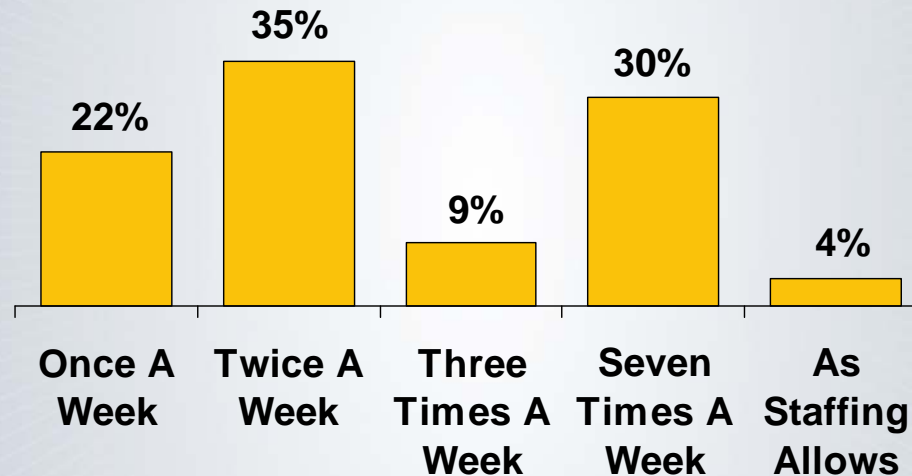
- **Front-end out-of-stocks on Confectionery and Magazines alone cost the average store over \$25,000 each year**

\*Assumes items out-of-stock would have been purchased if available

Source: IRI Store Audits, DHC Analysis of Retailer Data

# Front-End Out-Of-Stocks Are Monitored By Store Personnel

## How Often Is A Checkout Lane Manually Checked For Out-Of-Stocks? (% Of Respondents)

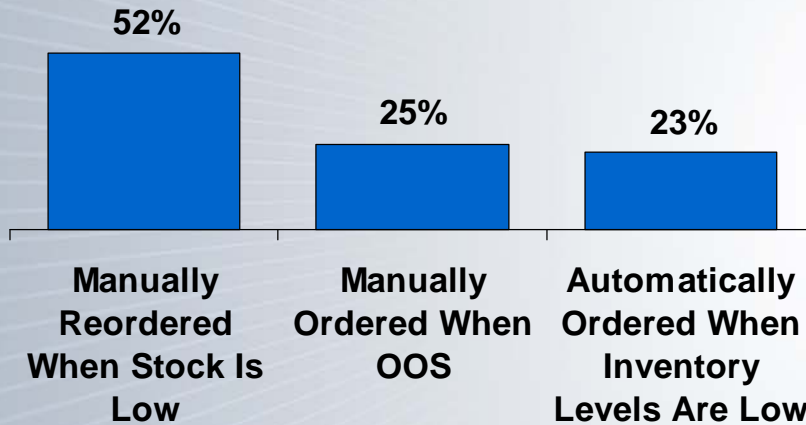


- Many respondents check out-of-stock levels only once or twice a week

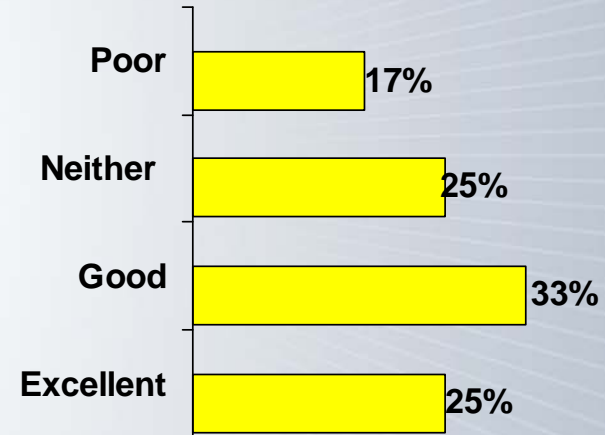
Source: DHC Front-End Operations Interviews

# Most Front-End Reordering Is Still Done Manually

**Front-End Reorder Process  
(% Of Respondents)**



**Reliability of Auto Replenishment?  
(% Of Respondents)**

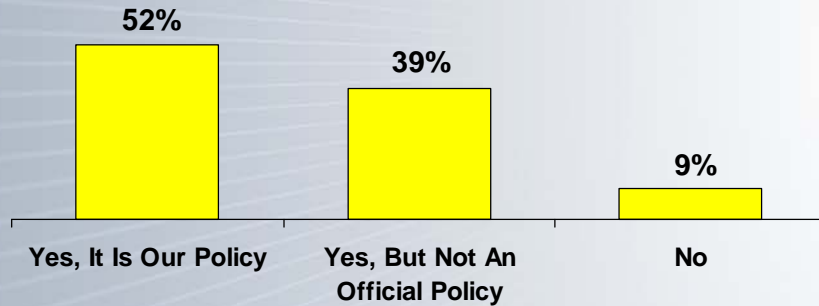


- 25% of respondents wait until items are OOS before reordering

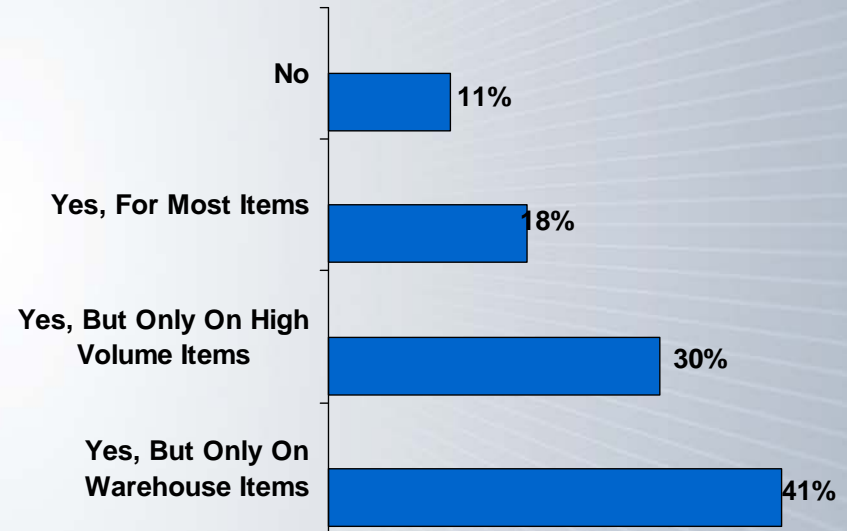
Source: DHC Front-End Operations Interviews

# Stores May Borrow Merchandise From A Closed Lane To Restock An Open Lane

## Borrow Merchandise From Closed Lanes To Stock Open Lanes % Respondents



## Front-End Overstock Available (% of Responses)



- **Overstock is usually only available for certain items**

Source: DHC Front-End Operations Interviews

# Stores Have Little Control Over Front-End Categories Stocked by Outside Vendors

## Who Determines The Store Visit Schedule Of Outside Vendors Who Service The Front-End Checkstands? (% of Responses)



- 16% of schedules are set by vendor

Source: DHC Front-End Operations Interviews

# Front-End Compliance/Restocking Recommendations

- Appoint a specific **Front-End Manager** at the store level and have that person held accountable for planogram compliance
- Have the **Front-End Manager** monitor stock position for all front-end items including those managed by outside vendors
- Monitor out-of-stocks, lane-by-lane, on a daily basis and initiate corrective actions as necessary
- Have checkers/cashiers check for items that are OOS prior to opening a lane. If out-of-stocks exist, replenish them.
- Improve autoreplenishment capabilities and monitor “trigger” levels to determine where adjustments are required

Source: Dechert-Hampe & Co.