

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

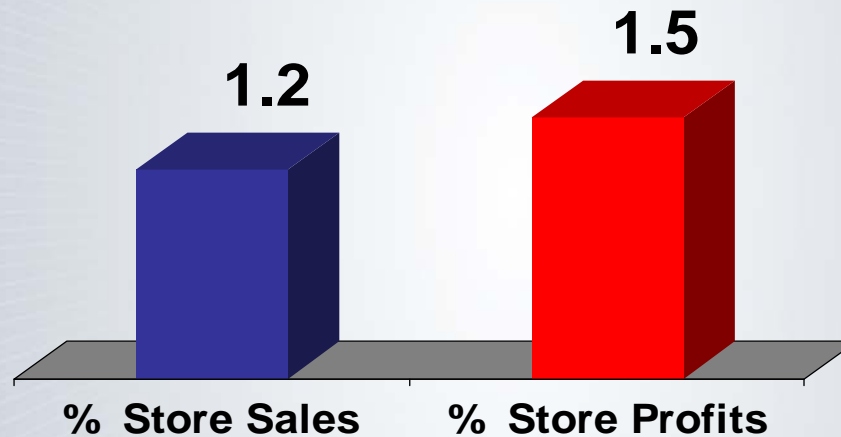
The Study Includes Data On Over 24 Major Categories

- **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

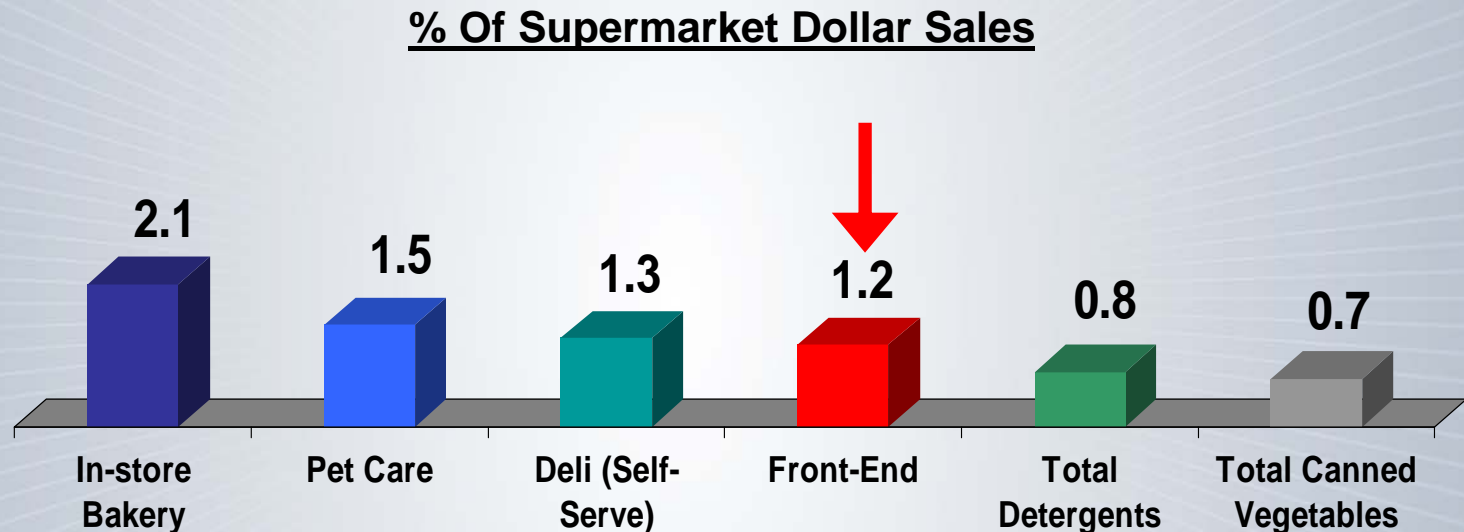
Grocery Front-End



- **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

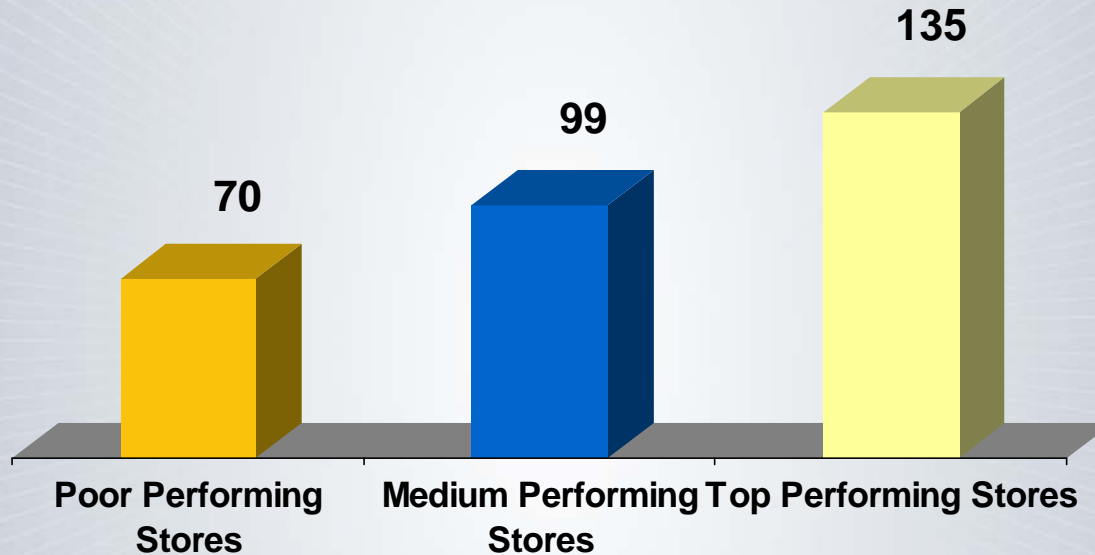


- It should be viewed as a department with its own Manager

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



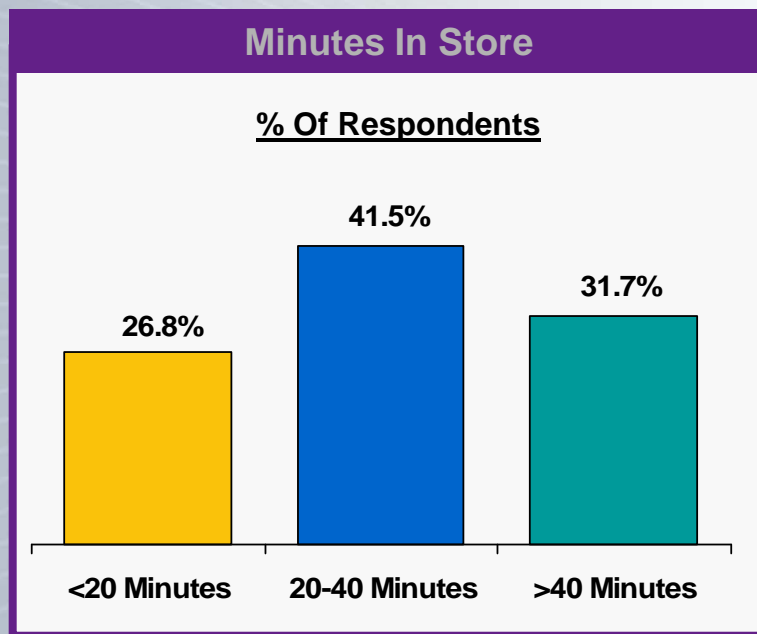
- Top performing retailers enjoy a 36% advantage in store performance at Front-ends

Source: Front-End Focus Study. DHC Analysis.

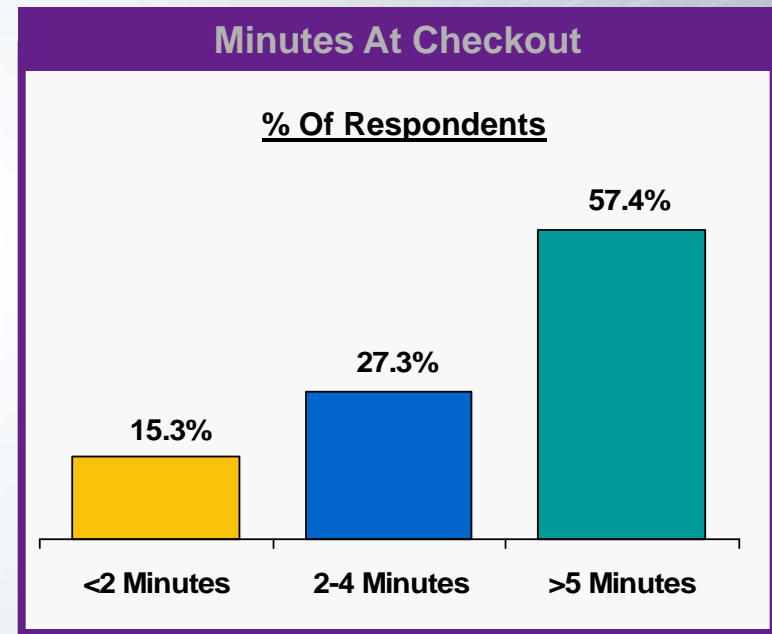
Consumer Learning

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

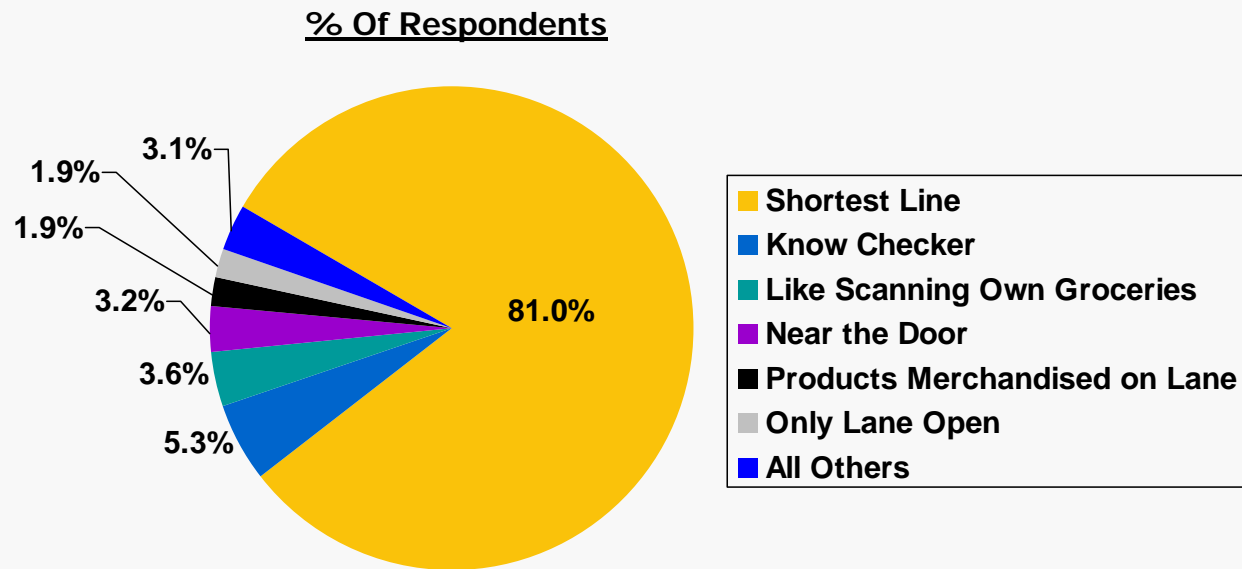


Average = 5:32 Minutes

Source: DHC Consumer Interviews 2006

Most Shoppers Choose The Shortest Checkout Lane

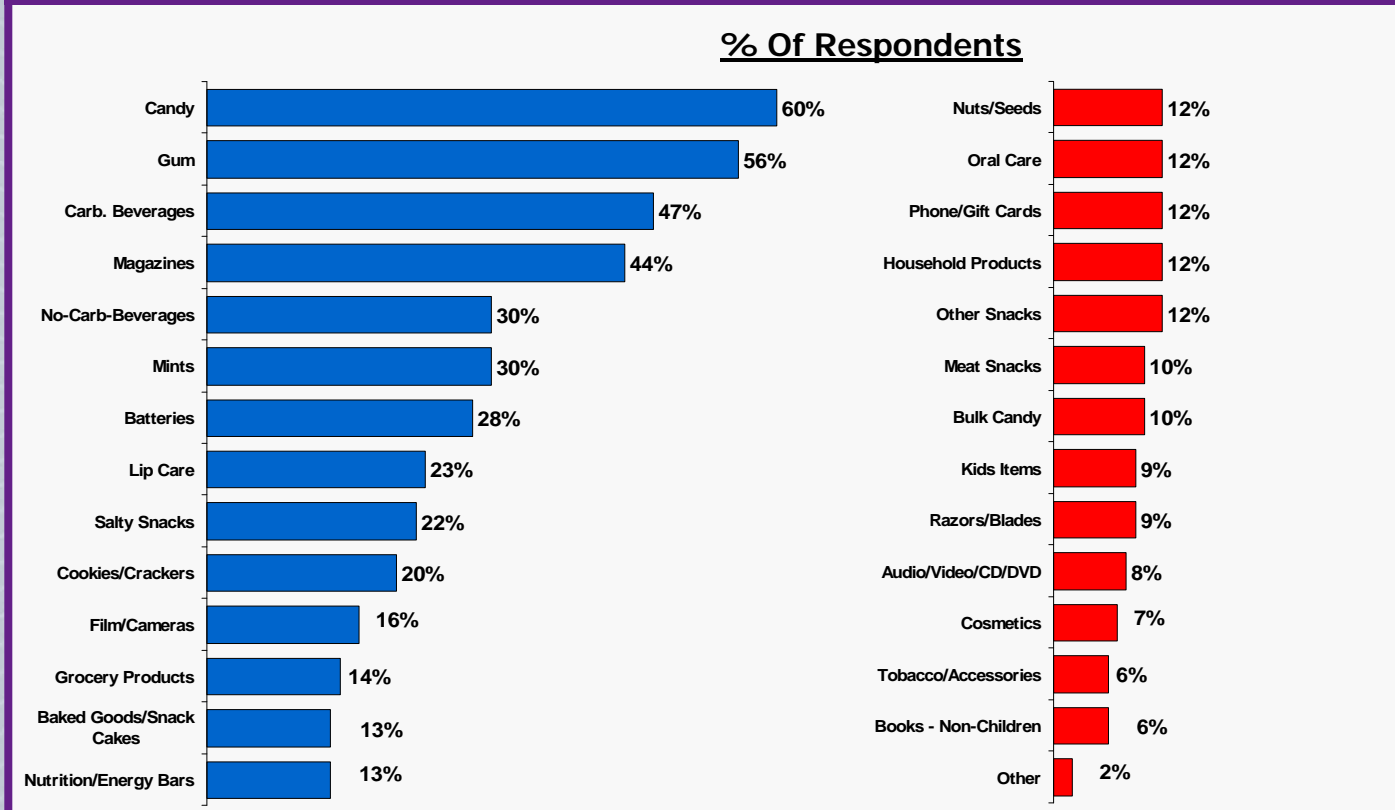
Why Did You Choose The Lane You Chose Today?



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?

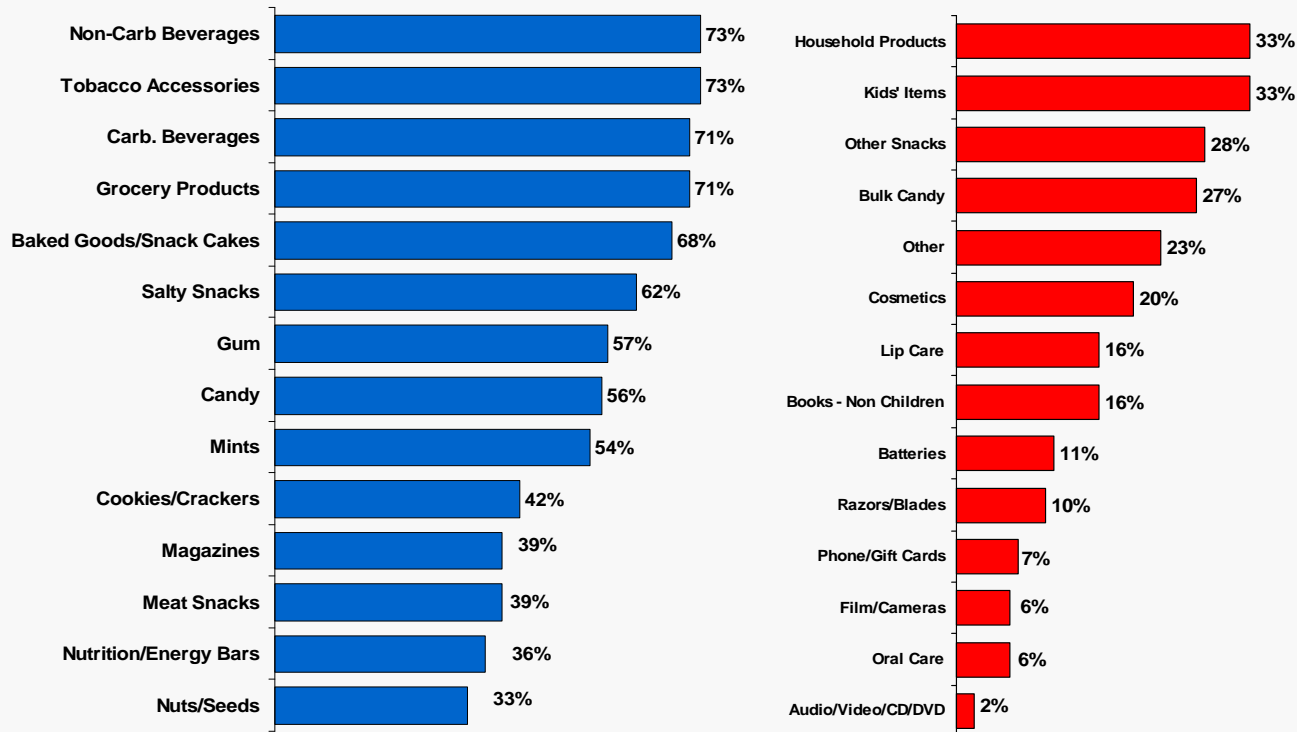


Source: DHC Consumer Interviews 2006

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?

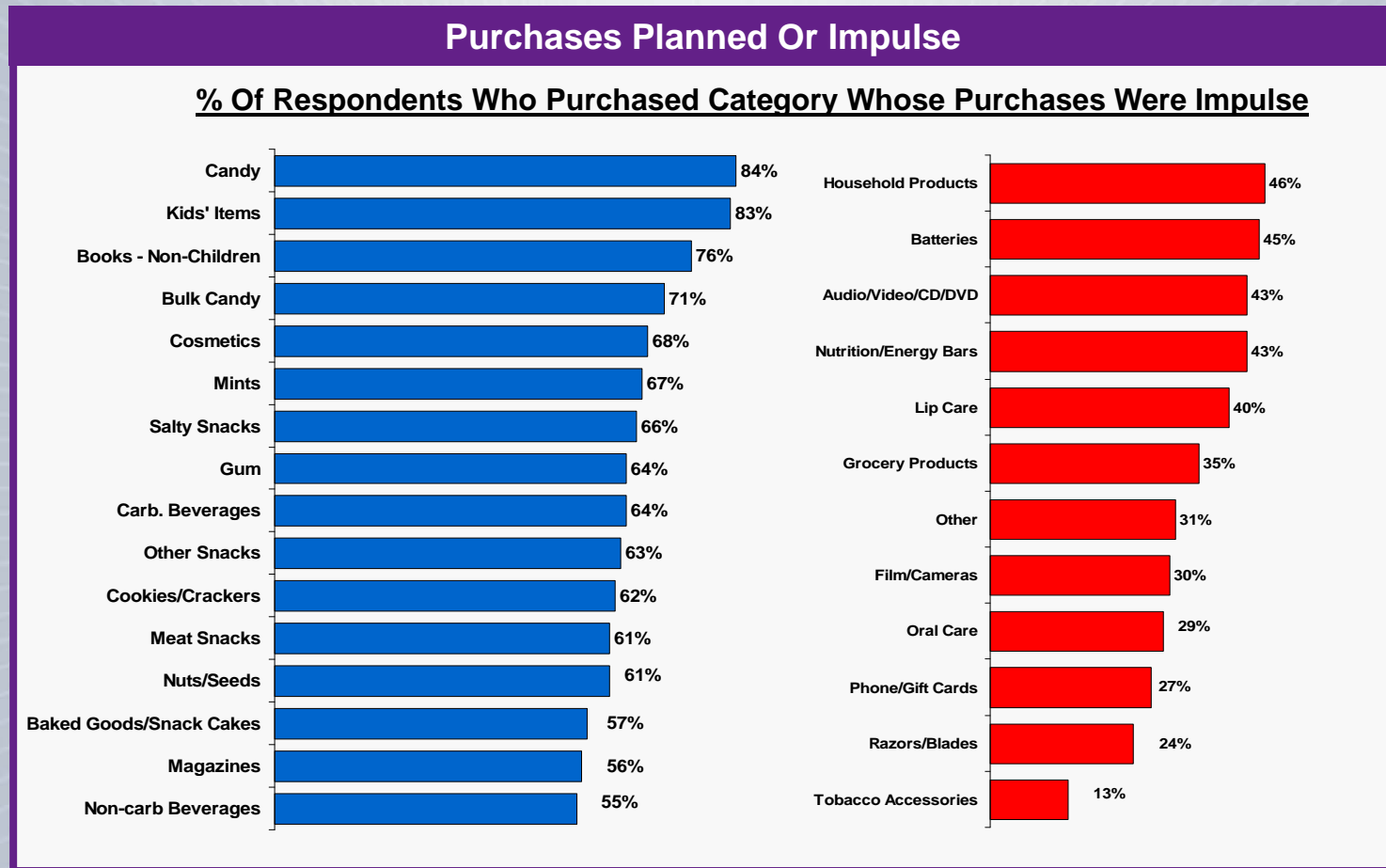
% Of All Respondents Who Purchased Category Answering 2-3 Times a Month Or More



- 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



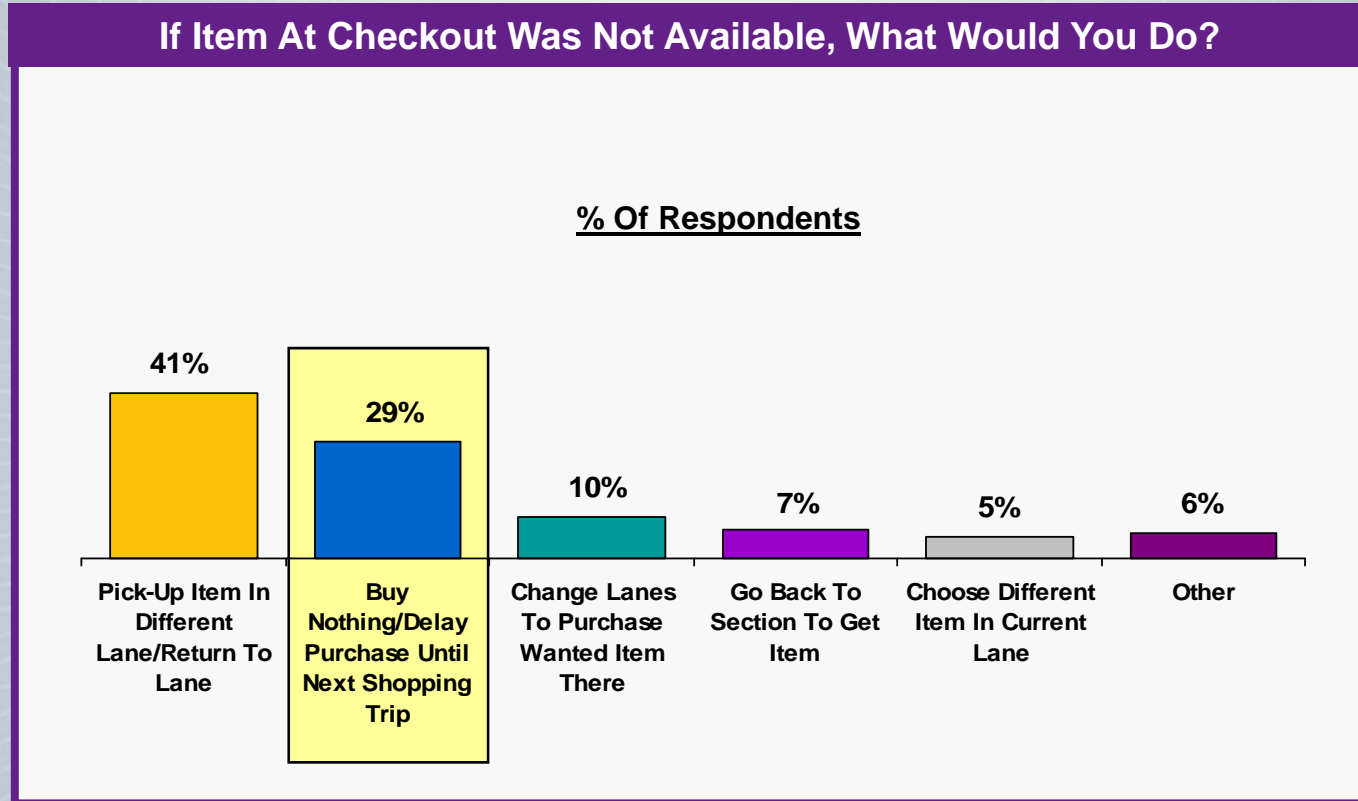
- While many front-end categories are purchased on impulse, once again the results must be reviewed in light of the percentage of people who actually purchase the category

Key Categories Combine High Penetration, Frequency And Impulse

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

Source: DHC Consumer Interviews 2006

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



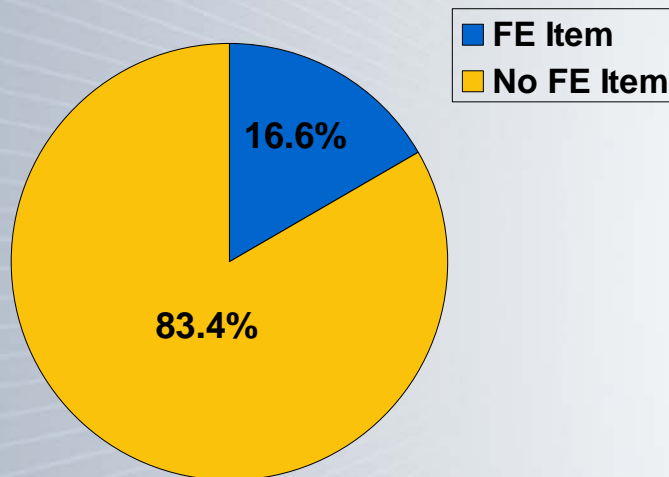
- High “walk-away” rate underscores importance of having key items available on every lane

Source: DHC Consumer Interviews 2006

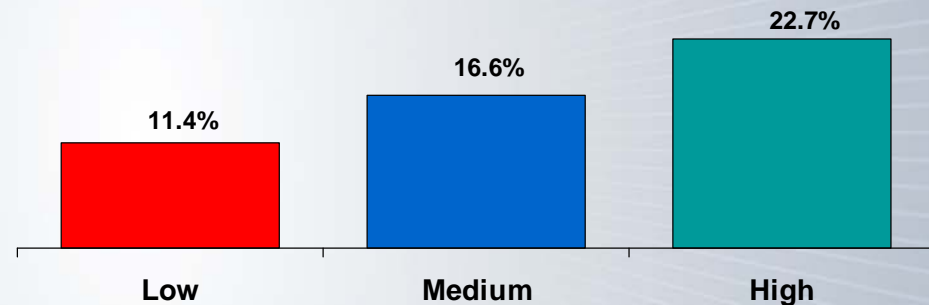
Front-End Purchase Dynamics

About 1 in 6 Shoppers Purchases a Front-End Item

Conversion
% Transactions with Front-End Item



% Conversion
By Retailer Performance

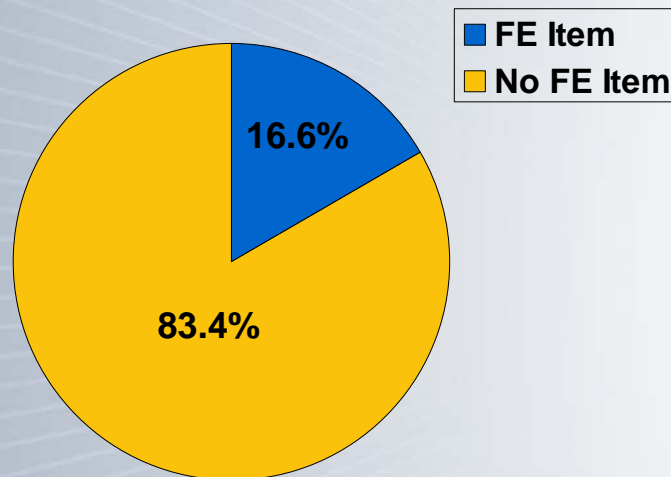


- Improved shopper conversion is a key opportunity
- Conversion is much greater for high performing retailers

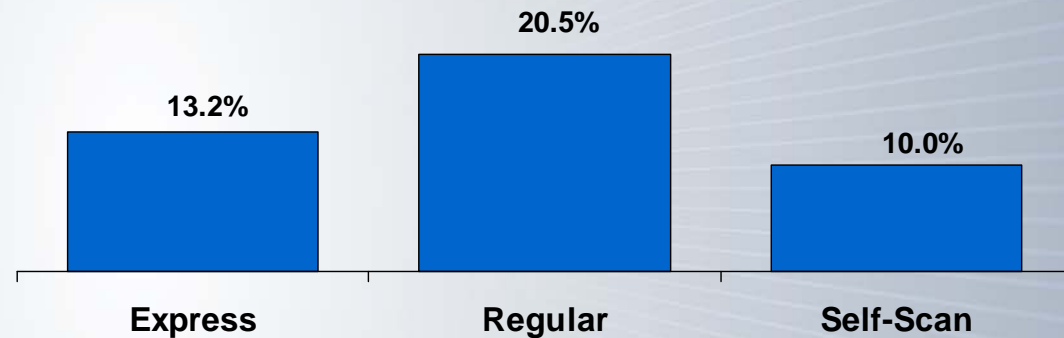
Source: DHC Analysis of Retailer Data.

Conversion Rates Differ by Lane Type

Conversion
% Transactions with Front-End Item



% Conversion
By Lane Type

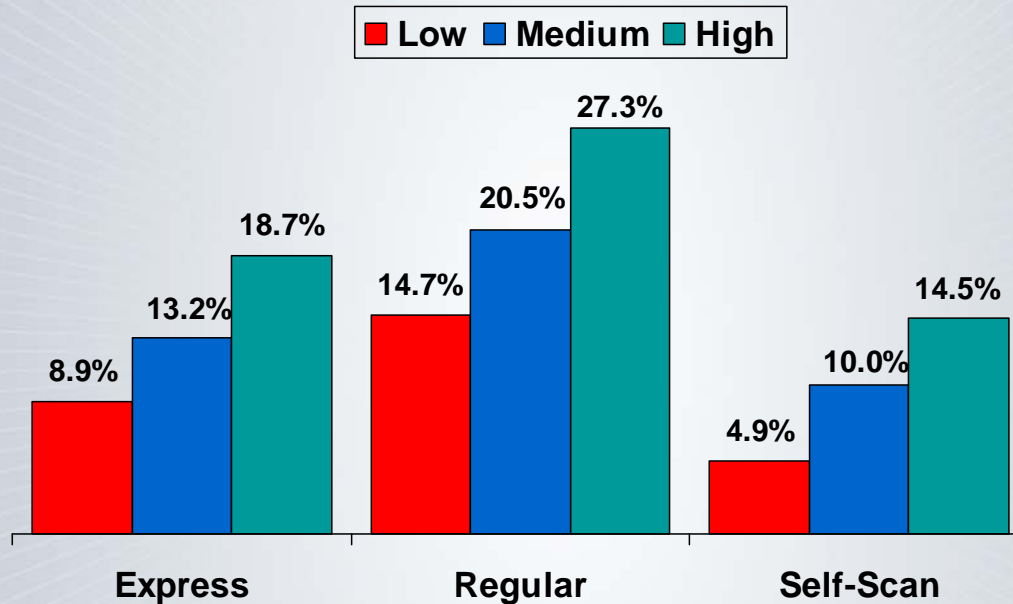


- Conversion is highest at Regular lanes
- Conversion is lowest at Self-Scan lanes

Source: DHC Analysis of Retailer Data.

Opportunity to Increase Conversion

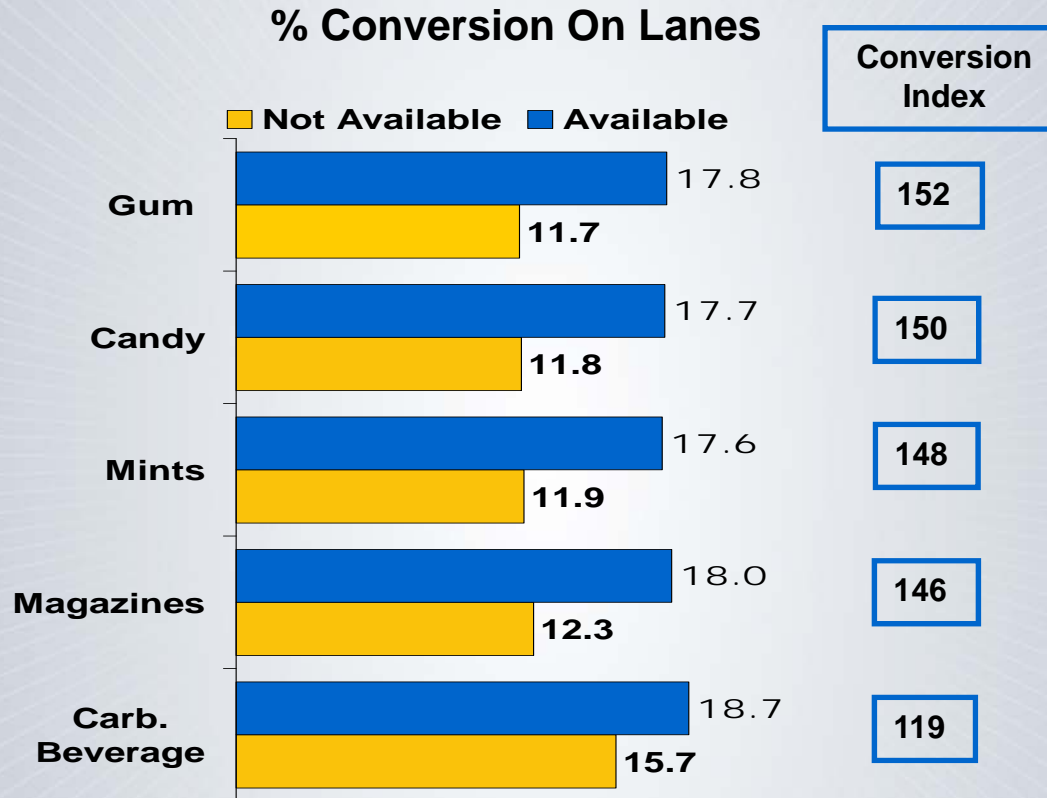
% Conversion By Lane Type
by Retailer Performance



● 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.

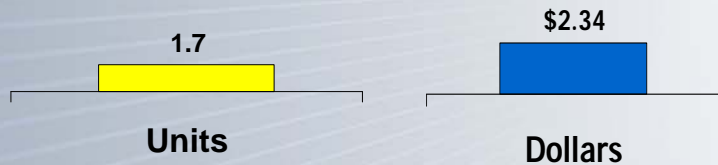
Front-End Conversion

- **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**

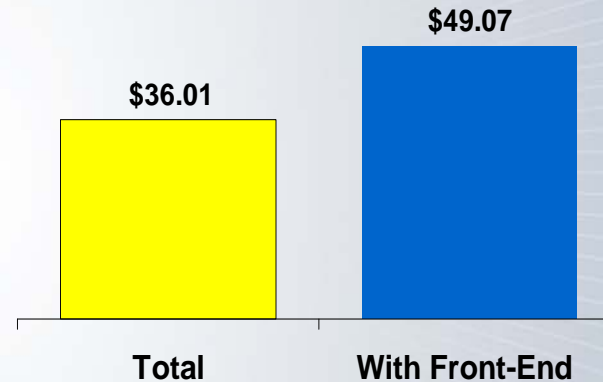
Source: Dechert-Hampe & Co.

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

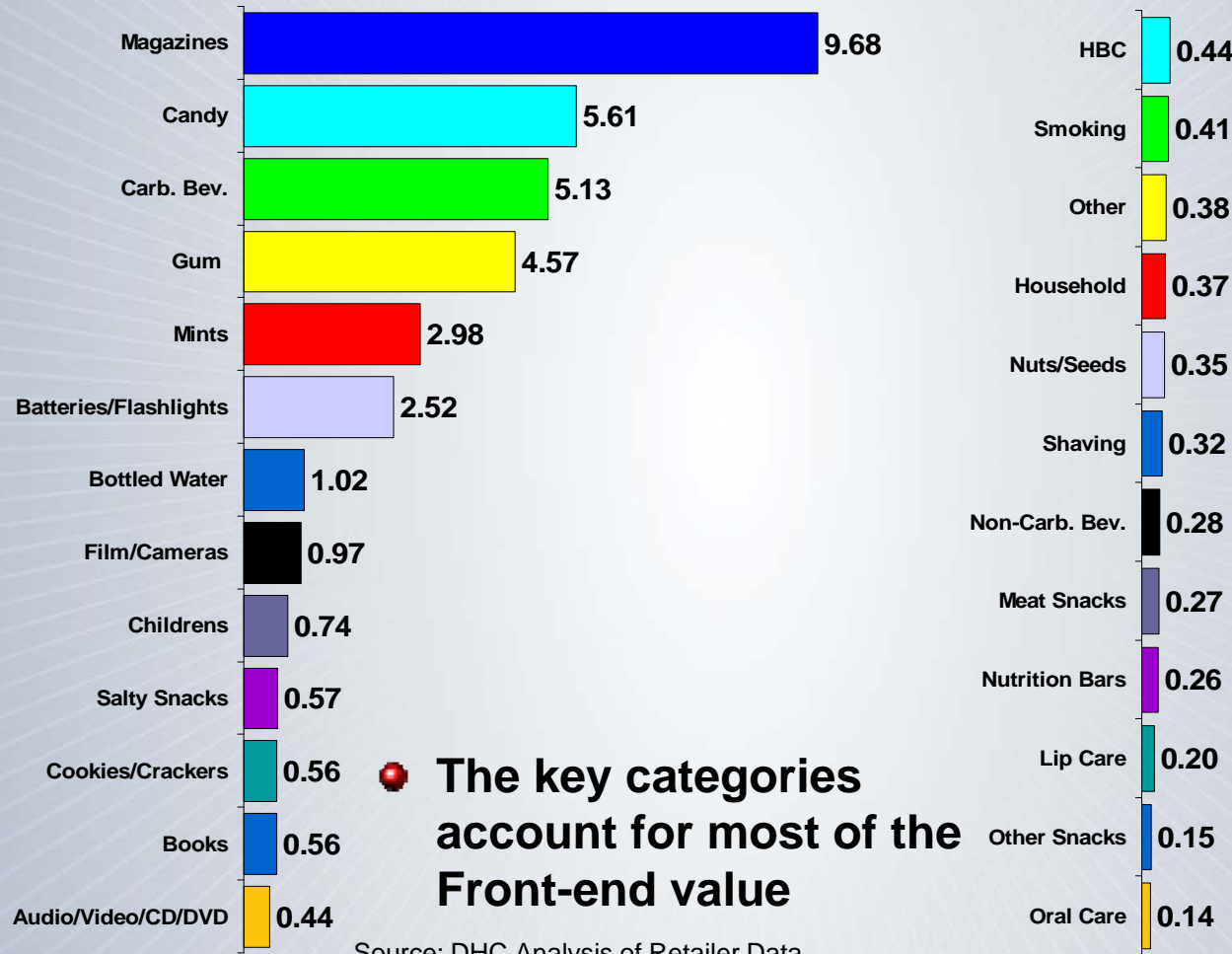


- High performing retailers generate almost 50% more from Front-End

Source: DHC Analysis of Retailer Data.

Front-End Sales Per Customer by Category

FE \$ Per 100 Transactions

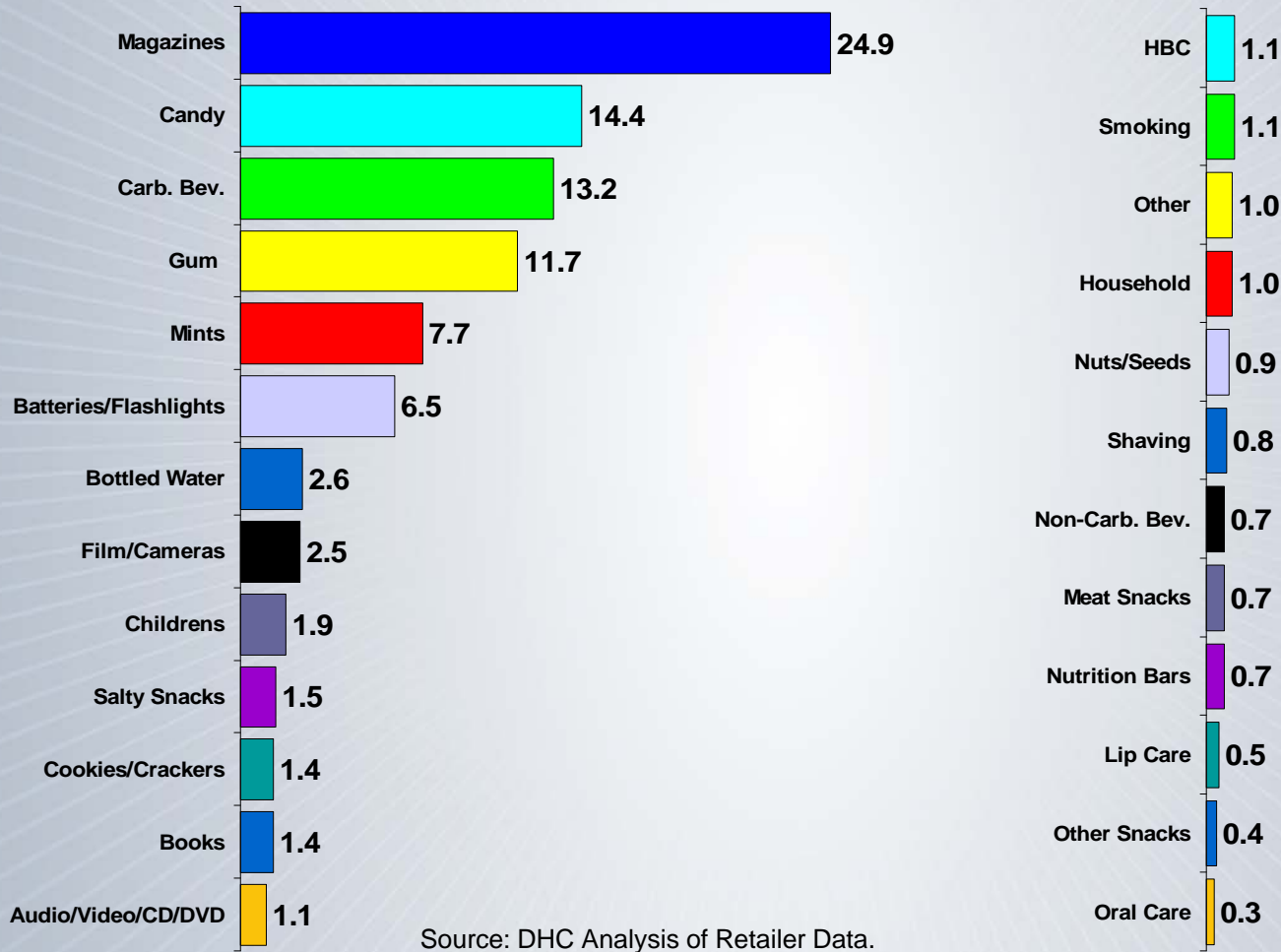


The key categories account for most of the Front-end value

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

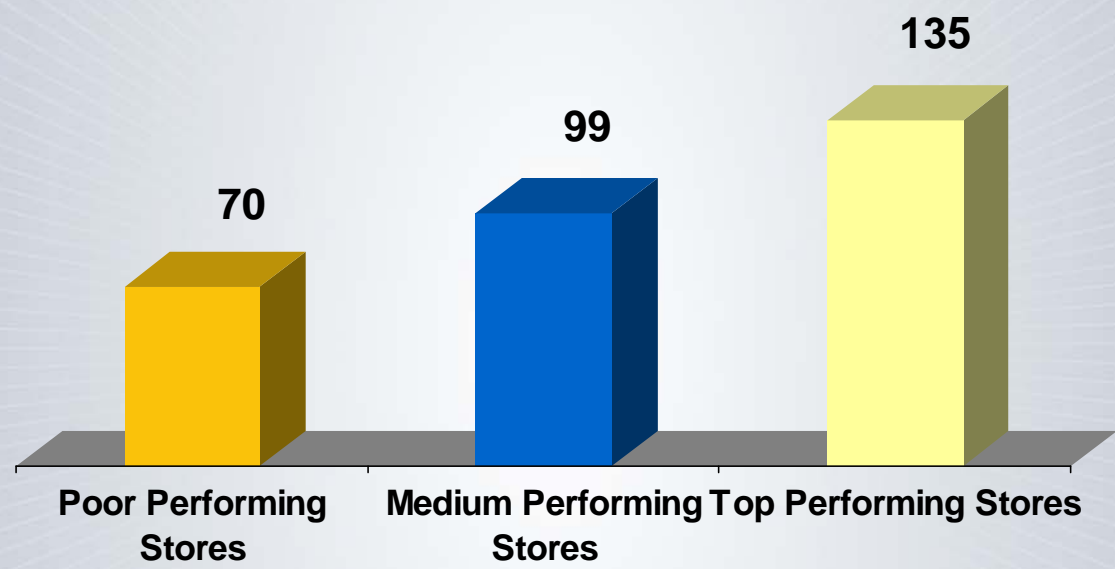
● There is often a significant gap between category contribution and presence

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

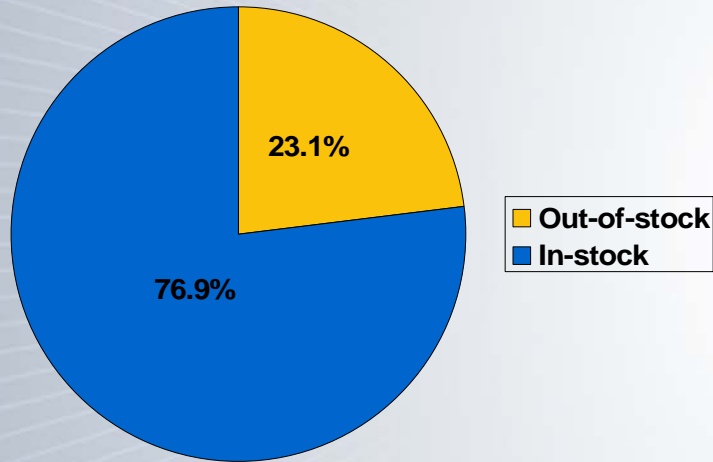
- **Make beverage coolers easily available to shoppers**
- **Carry an assortment of beverages in each cooler that includes water and non-carbonated as well as carbonated beverages**
- **Provide a moderate space for GM/HBC. Remember that most of these items are need driven and many are also located elsewhere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

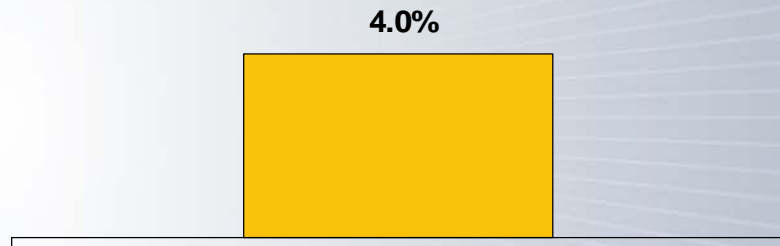
Best Practices For Operations

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

% Categories with lane OOS



% Items OOS on Lane

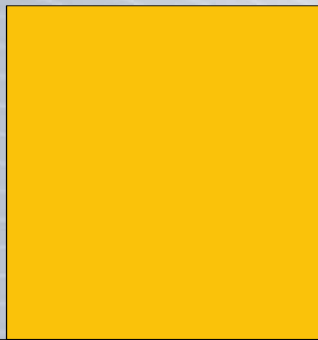


● **23% of the lanes had some Out-of-stocks representing 4% of all Front-end items**

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

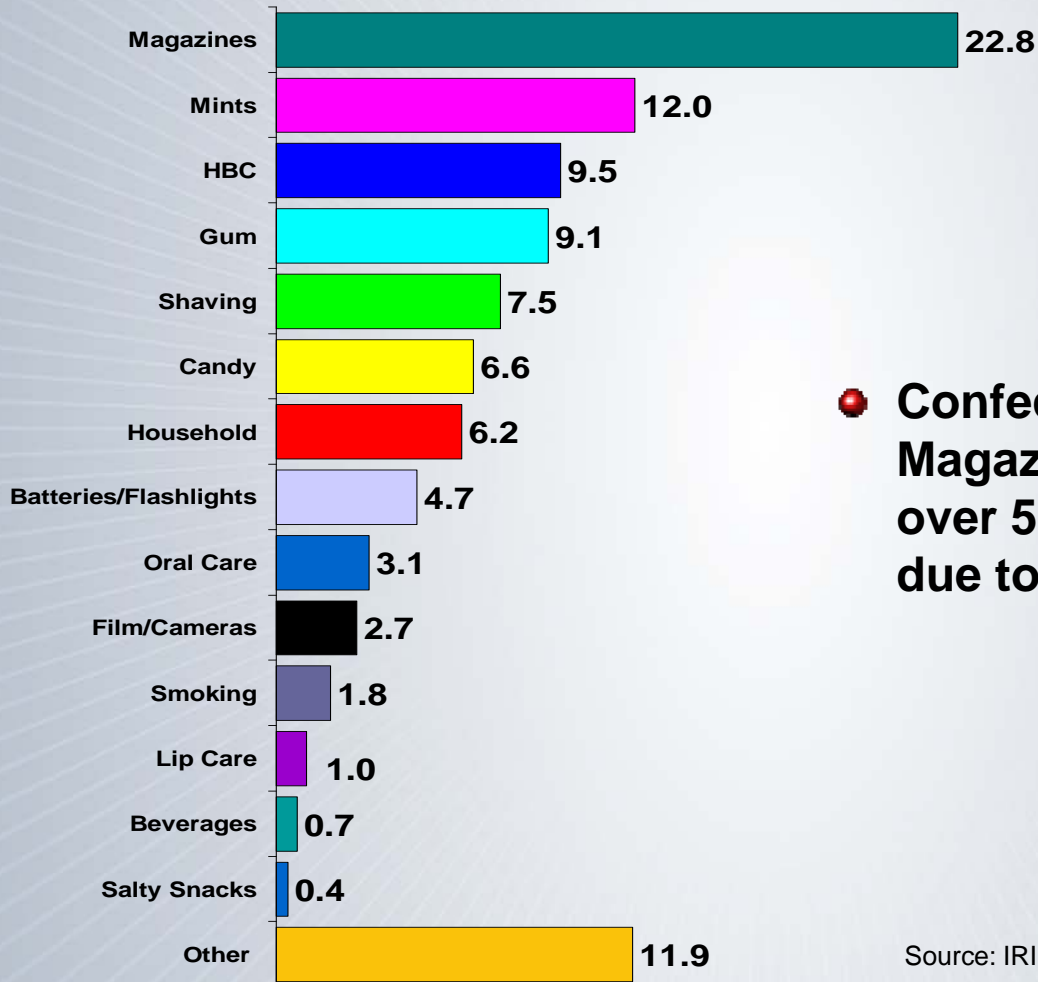
| Category | % Lanes with OOS | % All Item OOS |
|--------------|------------------|----------------|
| Gum | 45.0% | 16.2% |
| Mints | 45.6 | 15.1 |
| Magazines | 36.8 | 14.1 |
| Candy | 36.1 | 13.8 |
| HBC | 30.0 | 12.4 |
| Household | 37.3 | 8.7 |
| Oral care | 20.2 | 3.4 |
| Shaving | 39.8 | 3.0 |
| 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.**

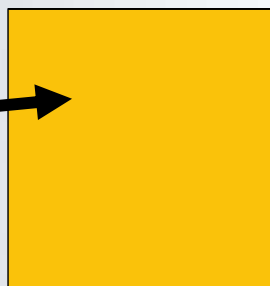
Source: IRI Store Audits, DHC Analysis of Retailer Data

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)

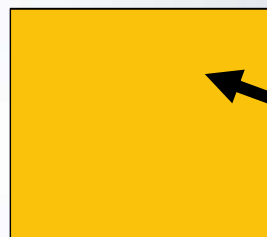


\$13,800



Confectionery

\$11,400



Magazines



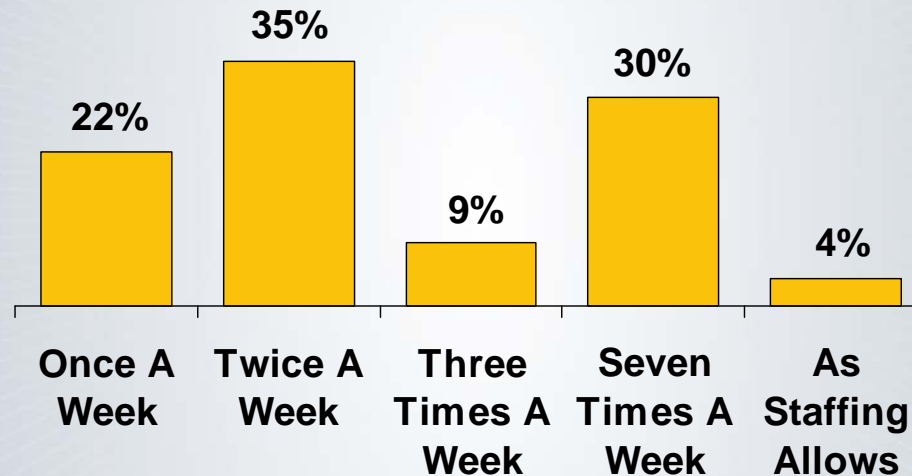
- **Front-end out-of-stocks on Confectionery and Magazines alone cost the average store over \$25,000 each year**

*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)

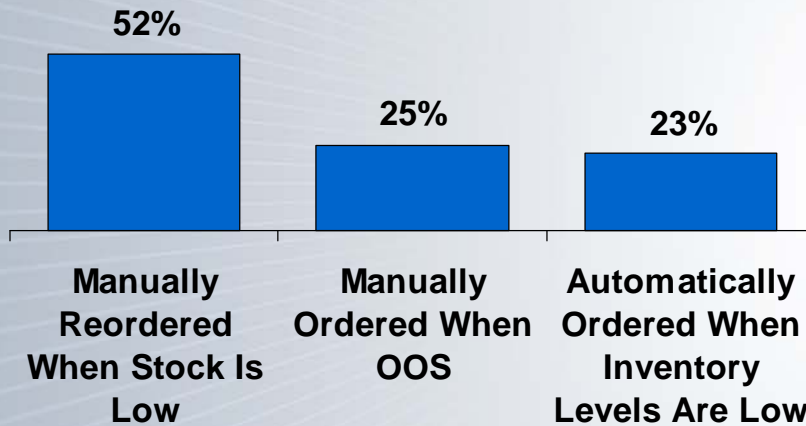


- Many respondents check out-of-stock levels only once or twice a week

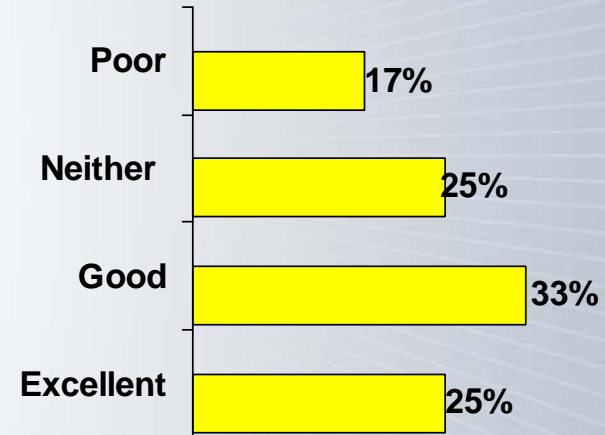
Source: DHC Front-End Operations Interviews

Most Front-End Reordering Is Still Done Manually

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



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

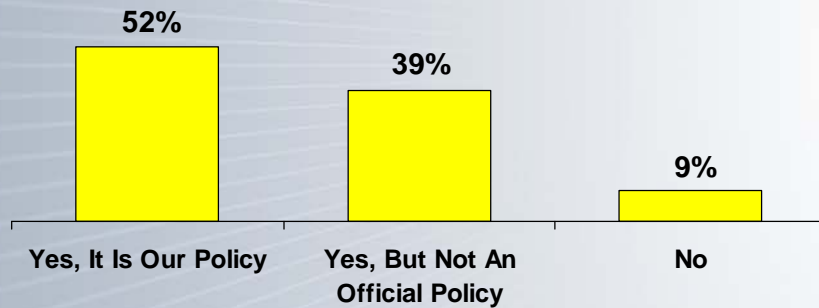


- **25% of respondents wait until items are OOS before reordering**

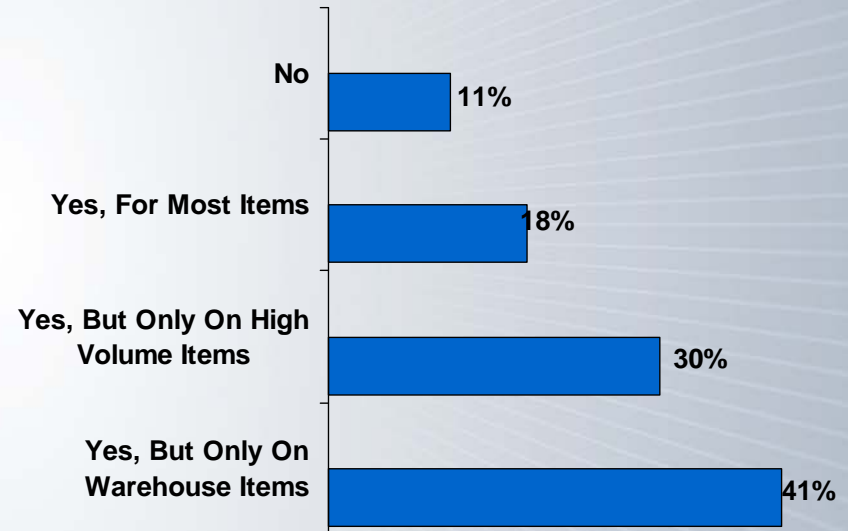
Source: DHC Front-End Operations Interviews

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)

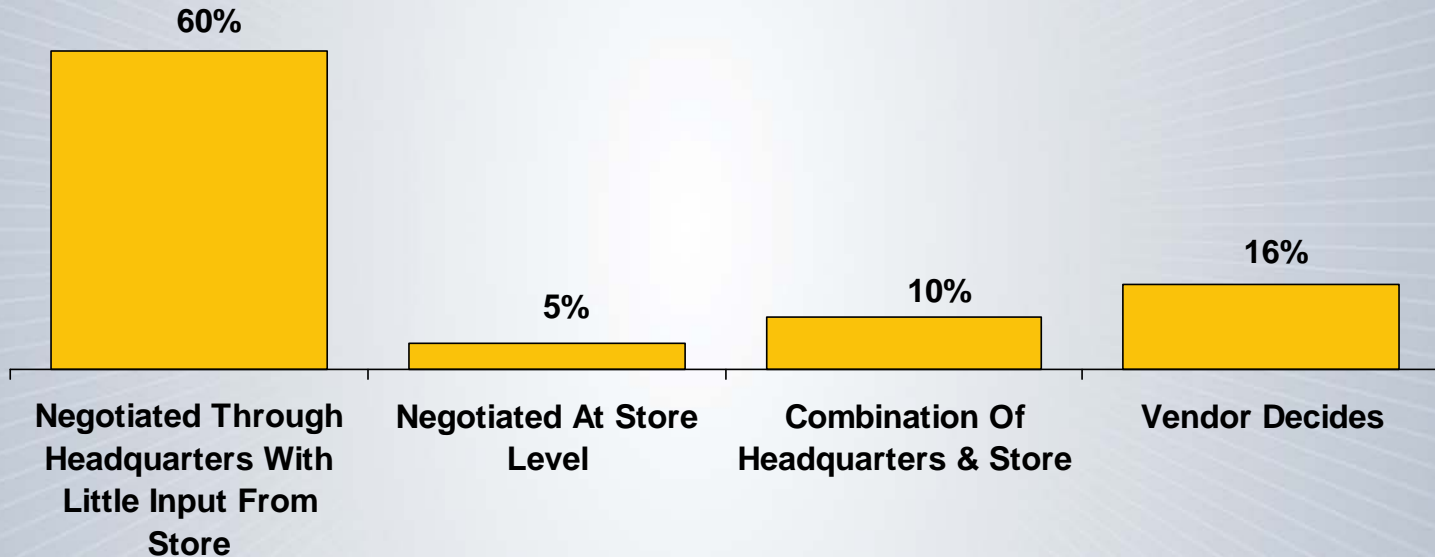


- **Overstock is usually only available for certain items**

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.