THE IMPACT OF CONTINUED CHECKSTAND EVOLUTION ON FRONT-END IMPULSE SALES
Overview of DHC Capabilities and Expertise

Strategy, Structure & Planning
- Customer Segmentation
- Go to Market Planning
- Channel & Customer Development
- Process Engineering
- Organization Structure Design
- Organization Development
- Change Management

Productivity & Performance Improvement
- Sales Effectiveness Assessment
- Learning Needs/Competency Assessment
- Learning & Development Programs
- Score Carding/Incentives
- CRM/System Implementation
- Forecasting, Planning & Reporting Tools

Research, Analytics & Insights
- Shopper Insights
- Category Management
- In-Store Research & Testing
- Benchmarking & Competitive
- Market, Channel & Customer
- Trade Spending
- Models & Metrics
MOST STUDIES INCLUDED

MOST STUDIES FOUND AT

WWW.FRONTENDFOCUS.COM
RESEARCH ELEMENTS
- Retailer Interviews
- Consumer Interviews
- Consumer Focus Groups
- Retail Space Audits
- Count/Recount
- Transaction Level Data
- Benchmark Development
- Best Practice Development

STUDY PARTICIPATION
- 2 to 4 Manufacturer Sponsors
- 4 to 7 Retail Participants
"The goals of the project were not driven by the financial targets of Time/Warner Retail, Masterfoods USA and the Wm. Wrigley Company. (They) were to provide insights to (retailers) to help them make better front-end merchandising decisions, thus driving higher sales and profit across the product categories available at front-end checkstands."

-- GMA CPG

* The Front-End Focus study conducted by Dechert-Hampe & Co in alliance with retail chains across grocery, convenience and drug store channels
RETAILERS FACE A CHANGING ENVIRONMENT

CONSUMERS
Changing Shopping Patterns
Evolving Purchase Behaviors

RETAILERS
Channels & Formats Compete for Limited Number of Shopping Occasions

CHECKOUT
Range of Categories Stocked Changed Dramatically

SELF-CHECKOUT
Growing at Some Retailers Declining at Others

TECHNOLOGY
Changing the Transaction Process
Front-End Checkout

- Location every shopper passes
- Significant source of impulse sales
- Influences customer satisfaction
Some Retailers Have Questionable Front-End Merchandising Practices
**Primary Reason for Choosing a checkout lane: The Shortest Line**

### Reason For Choosing Checkout Lane*

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortest Line</td>
<td>72.5%</td>
</tr>
<tr>
<td>Privacy/Scan Myself</td>
<td>7.8%</td>
</tr>
<tr>
<td>Know Checker</td>
<td>6.7%</td>
</tr>
<tr>
<td>Only Lane Open</td>
<td>5.5%</td>
</tr>
<tr>
<td>Near Door</td>
<td>3.4%</td>
</tr>
<tr>
<td>Requested by Employee</td>
<td>1.9%</td>
</tr>
<tr>
<td>Merchandised Products</td>
<td>1.4%</td>
</tr>
<tr>
<td>Other</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

* Percentage of Respondents  
Source: Front-End Focus Study
**1 IN 3 SHOPPERS WALK AWAY**

If the Item They Want Is Not Available

**What would you most likely do if the item was not available**?

- **Find Item Elsewhere, Return To Original Lane To Checkout**: 42.2%
- **Buy Nothing Or Delay Purchase**: 25.8%
- **Change Lane To Purchase Item In New Lane**: 16.6%
- **Switch To Alternative Item Located In Current Checkout Lane**: 11.4%
- **Stop At Another Store To Find Item**: 4.1%

* Percentage of Respondents  
Source: Front-End Focus Study
WHAT DRIVES FRONT-END SALES

Beverages
Confectionery
Magazines

Dollar Shares of Front-End Checkstand Sales

- Beverages: 43.0%
- Confectionery: 32.2%
- Magazines: 16.5%
- Salty Snacks: 3.0%
- Batteries: 1.6%
- Snack/Granola Bars: 1.4%
- Razors/Blades: 1.3%
- Nuts: 1.0%

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Source: tri Front End Research; IRI 52 weeks ending 6/30/2013; DHC Analysis
Front-End Power Categories Defined By Key Metrics

Household Penetration

Frequency of Purchase

Impulsiveness Of Purchase

$ Share of Front-End Sales

Power Category Metrics
**MANAGE FRONT-END BASED ON CONSUMER BUYING BEHAVIOR**

**FOCUS CATEGORIES:**
- High Household Penetration
- High Purchase Frequency
- High Impulse Sales
- High Front-End Sales

<table>
<thead>
<tr>
<th>HIGH Score</th>
<th>MIXED Score</th>
<th>LOW Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Confectionery</td>
<td>• Salty Snacks</td>
<td>• Health Items</td>
</tr>
<tr>
<td>• Beverages</td>
<td>• Batteries/Flashlights</td>
<td>• Razors/Blades</td>
</tr>
<tr>
<td>• Magazines</td>
<td>• Cookies/Crackers</td>
<td>• Baked Goods</td>
</tr>
<tr>
<td></td>
<td>• Nuts/Seeds</td>
<td>• Lip Care</td>
</tr>
<tr>
<td></td>
<td>• Meat Snacks</td>
<td>• Oral Care</td>
</tr>
<tr>
<td></td>
<td>• Gift/Phone Cards</td>
<td>• Household Products</td>
</tr>
<tr>
<td></td>
<td>• Tobacco Accessories</td>
<td>• Audio/Video/DVD</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Other Snacks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Beauty Care</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Grocery Products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Film/Camera Supplies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Children’s Items</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Nutrition/Energy Bars</td>
</tr>
</tbody>
</table>

Source: FEF Study, DHC Analysis
CHECKSTAND MERCHANDISING SIGNIFICANTLY IMPACTS TOP LINE SALES

$31,298 Value of a Checkstand

*Checkout carries Magazines, Candy, Gum, Mints, Beverages, Batteries, Film, Razor Blades, and other GM items

Source: Front-End Focus Study
Self-Checkouts Continue to Evolve

- Impulse merchandising is very important
- Many retailers have embraced self-checkouts
- Some retailers have removed self-checkouts (Albertsons LLC, Big Y, Jewel)
SOME CHAINS USE QUEUING
Vast Majority of Shoppers Believe Queuing Is Faster

Which lane type do you prefer?

- Queuing Lane: 60% Queuing Shoppers, 33% Non-Queuing Shoppers
- Traditional Lane: 50% Queuing Shoppers, 21% Non-Queuing Shoppers
- Does Not Matter: 19% Queuing Shoppers, 17% Non-Queuing Shoppers

* Percentage of Respondents  
Source: DHC Queuing Research
Queuing Approach Influences Impulse Sales

**Total $ Spent**
- Queuing Shoppers: $32.82
- Non-Queuing Shoppers: $45.85
  - Increase: +40%

**% Who Purchase from Front-End**
- Queuing Shoppers: 34%
- Non-Queuing Shoppers: 42%
  - Increase: +24%

Item Number Limits at Checkout Influence Total Dollars Spent

Source: DHC Queuing Research
ALTERNATING ASSORTMENTS ARE NOT OPTIMAL

- Not every lane is open
- Shoppers do not change lanes to purchase
- Limits exposure for key impulse items
- Impacts sale of key impulse items
LED LIGHTING IS EFFECTIVE

Illuminates the Checkstand
Captures Shoppers’ Interest

10% - 12%
Increase in Sales with Illumination

Source: Mars, Wrigley LED Racks Drive Front End Sales, Progressive Grocer.com, Sept 2015
Alternative Checkout Approaches Can Result in Lower Front-End Impulse Sales

How can retailers ensure they do NOT lose impulse sales with alternative checkouts?
A common approach

But can have negative effects on checkstand sales
Secondary Displays Significantly Reduce Time Spent Viewing the Primary Displays

Are secondary displays important enough to distract from primary displays?

Source: Time Retail Inc./Indiana University Eye Tracking Research, 2013
SECONDARY DISPLAYS NEGATIVELY IMPACT TOTAL CHECKOUT SALES

5-Hr Energy Secondary Display: -19%

Kind Bar Secondary Display: -41%

Source: Time Retail Inc./Indiana University Eye Tracking Research, 2013
ENCOURAGE FRONT-END MULTI-ITEM PURCHASING

40%
Front-End Buyers Buying Multiple Items

Confectionery Beverages
Most Common Front-End Purchase Combo

% Front-End Buyers Purchasing

- 60.5% Single Item
- 26.8% Multiple Items Single Category
- 12.7% Multiple Items Multiple Categories
- 12.5% Confectionery; 5.5% Beverages; 5.0% Magazines

Source: Front-End Focus Study

1. 4.1% Confectionery & Beverage; 1.5% Confectionery & Magazines; 1.0% Magazines & Beverages
2. 12.5% Confectionery; 5.5% Beverages; 5.0% Magazines
TIE-INS
DRIVE MULTI-ITEM PURCHASING
MOBILE IS HERE NOW

Mobile devices deeply integrated
Shoppers less impulsive
Mobile blinders
Digital is the future

How are shoppers using Smart Phones?

What merchandising approaches work as Smart Phones become integrated into how shoppers check out?
SMARTPHONE FACTS

56% American adults who own a smartphone

53.2 M U.S. mobile coupon users

70% Shoppers who use a smartphone in a retail store

48% Use/would like to use a smartphone in the store

50% Smartphone users who will use mobile wallets within 5 yrs

Placing magazines both in-line and end-cap maximizes sales

Both magazines and total checkout sales lift when shoppers have more opportunities to buy magazines

Source: FEF Study. DHC Analysis.
Locate pass-through beverage coolers in-line at regular checkouts

**BEST PRACTICE**

<table>
<thead>
<tr>
<th>Beverage Sales/$MM ACV Index</th>
<th>Total Checkout Sales/$MM ACV Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>89</td>
<td>105</td>
</tr>
<tr>
<td>In-Line Only</td>
<td>Endcap Only</td>
</tr>
<tr>
<td></td>
<td>105</td>
</tr>
<tr>
<td>In-Line Only</td>
<td>Endcap Only</td>
</tr>
</tbody>
</table>

Total checkout performs better when coolers are in-line even though endcap coolers also lift sales

Source: FEF Study, DHC Analysis.
Recognize value of front-end to store sales & profits

Manage front-end as a department with dedicated manager

Focus on power categories that drive front-end sales & profits

Continually research consumer shopping habits & attitudes toward front-end merchandising
DHC Planning a New Front-End Research Study

- Omnibus study with many sponsors
- First study = supermarkets
- New research components
  - Eye tracking
  - Impact of mobile technology

Seeking manufacturer sponsors & retail participants

Contact Bill Dusek • (847) 559-0490 • bdusek@dechert-hampe.com