

Rethinking the front end

A six-month study says supermarkets are selling themselves short at checkout—by as much as \$2 billion.

By Tom Weir

SEPTEMBER 01, 2003 -- Some supermarket products sell just fine when they sit on a shelf waiting for people to find them. Others move much faster when they grab the attention of shoppers who might not have been thinking about them when they walked into the store. A new study contends that getting a firm grasp on the difference could mean a \$2 billion boost in checkout sales across the industry.

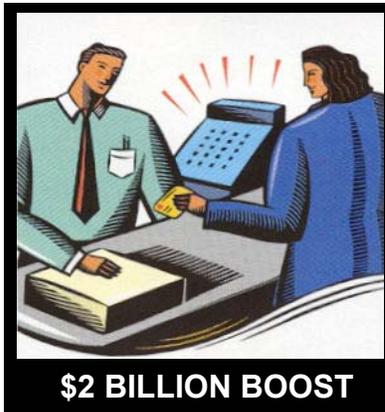
Front-End Focus, conducted by consulting firm Dechert-Hampe & Co. on behalf of a consortium formed by Masterfoods USA, Time Distribution Services, and Wm. Wrigley Jr. Co., concludes that the main emphasis of checkout merchandising should be on high-penetration, high-frequency, high-impulse categories, particularly confectionery, magazines, and beverages, which together contribute 80 percent of sales and profits in the front end. While the study strongly supports the categories supplied by its sponsors, Dechert-Hampe managing director Raymond D. Jones says it was agreed early on to let the chips fall where they may in the evaluation process. And the dominance of impulse categories reinforces the notion that the more likely an item is to be on a consumer's shopping list, the less likely she'll wait till she gets to the checkout to put it in her basket.

The study says there's a 36 percent opportunity gap between stores that turn in an average performance at checkout and the top performers. Between poor performers and the best stores, the gap is 65 percent.

"I think probably the biggest surprise was the size of the opportunity," says Michael Lanaghan, national merchandising manager for Wrigley. "That was a big number."

"We find that there's a large variation in performance across the front ends, and there are some best practices that suggest that if you implement these best practices, you can get that type of lift," adds Michael Weiermiller, Masterfoods USA's v.p. of market development.

Optimizing the portfolio



A major element in boosting front end performance is influencing demand patterns to drive incremental purchases, says William Romollino, v.p. customer development at Time Distribution Services. "If you really think about it, that is how the strong regional grocery retailers remain relevant, through a tenacious effort utilizing assortment and promotions to inspire incremental purchases," he says. "The best way to optimize front end checkout performance is to optimize the entire portfolio as a category and to recognize that a

heavy checkstand buyer exists through assortment planning."

The study revisits many issues covered in research published in 1998, but since then such developments as widespread self-scanning and a proliferation of beverage coolers have changed the dynamics at checkout. "There have been a lot of changes on the front end," says George Knobloch, v.p. customer marketing and support at Wrigley. "But as many changes as there have been, it also has remained somewhat stagnant in what the front end looks like, and so we're trying to understand what is the ideal solution at the front end."

Front-End Focus pegs the growth opportunity in making an average store a top performer at \$4,165 per \$1 million ACV. But 80.2 percent of the increase would come from three categories: confectionery, \$1,501, or 36 percent; magazines, \$1,262, or 30.3 percent; and beverages, \$577, or 13.9 percent. The remainder is divided this way: film/cameras, \$150, or 3.6 percent; razors/blades, \$130, or 3.1 percent; batteries, \$89, or 2.1 percent; and all others, \$456, or 11 percent.

Gross margins at checkout average 33.9 percent, compared with 25 percent for the overall supermarket, according to the study, which raises a cautionary note about the effects of product placement fees on front end profits. Because only 12.2 percent of total checkout profits come from placement fees and 87.8 percent come from sales, the researchers recommend a strategy of managing the front end to maximize total revenue, taking into account both sales and placement fees.

Last-minute buys		
Percentage of shoppers purchasing at checkout		
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
Noncarbonated 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

SOURCE: FRONT-END FOCUS STUDY

On any given day, the study found, 18 percent of all grocery shoppers buy something at the checkout. But while 20 percent of those who go through the regular lanes make a purchase, only 17 percent of express-lane customers and 12 percent of those who use self-checkout buy at the front end, a fact the researchers attribute to reduced merchandising at the express and self-checkout lanes. The findings on self-scanning were released earlier this year (see Progressive Grocer, May 1, page 10).

The implications of self-scanning's rapid proliferation are of great concern to the study sponsors. Noting that consumers are embracing the technology, Romollino says while it's highly effective for increasing customer satisfaction, reduced checkout sales are the downside. "Do you want to lose those impulse purchases as a result of that?" he asks. "I don't think you do. I think you need to figure out a way to get consumers through the stores quickly, but also give them the opportunity to deviate from the shopping list."

Strictly from the confectionery perspective, self-scanning poses a risk to consumption, Weiermiller says, "but there's also a risk in volume and profit if the retailers don't handle the assortment of products and merchandising strategies correctly in conjunction with putting those checkouts in play."

"Our next initiative is going to be around understanding what the specific best merchandising approach is to self-scan checkouts," Lanaghan says. "And then we're considering looking into out-of-stock prevention and operational maintenance issues, how to help retailers be more efficient in those areas."

What catches shoppers' fancy	
Percentage of category bought on impulse	
Magazines	84%
Candy	80
Gum/mints	71
Books	67
CDs/video/audio	65
Salty snacks	61
Soft drinks	57
Lip care	57
Cookies/crackers	56
Noncarbonated drinks	49
Nutrition bars	49
Film/cameras	44
Batteries	42
Razors/blades	39
Phone cards	30
Cigarettes	23
Cosmetics	21
Oral care	17

SOURCE: FRONT-END FOCUS STUDY

Separate department

A major recommendation of the study is that the front end should be operated as its own department, with a dedicated manager. It points out that the \$5.5 billion, or 1.2 percent of supermarket sales, contributed by the front end is greater than the revenue share from general merchandise (1.1 percent), self-serve deli (0.9 percent), detergents (0.8 percent), or canned vegetables (0.7 percent), and only slightly behind pet food (1.3 percent). The checkout contributes 1.6 percent of total store profit, according to the study.

Masterfoods, TDS, and Wrigley are approaching large supermarket chains as a consortium to promote the best practices developed in the study and the idea of putting a single department manager in charge of the front end.

The reception has been "absolutely fantastic," Lanaghan says. "We've talked to somewhere in the neighborhood of 20 major players in the retail marketplace so far, and in every case we get a lot of interest and follow-up action steps on opportunities. Importantly, this interest is coming from senior management."

A key driver of this interest, he says, is that most retailers don't have internal systems for measuring performance of self-checkout and various front end categories, and the information in the study is helpful in developing such measures.

Lanaghan says establishing the job of front end manager is also attracting attention. "Everybody appreciates the infrastructure and logistical difficulties in pulling that off," he says. "But we get a lot of head nods that people recognize it's a valid recommendation. And, as retailers overcome those difficulties, we'll see more and more of them adopting this best practice of treating the front end as a department."

"I think there are many that we've talked to that are going to consider managing this as a department," Weiernmiller says. "I think that's the biggest piece: getting them to recognize that you need to treat the front end as a department in the store, rather than viewing it as just display space you divide up across a variety of competing category buyers."

He says Masterfoods considers the study findings so important that the company has been working with both its third-party providers and other manufacturers on different coverage programs for the front end.

Romollino gives the team approach much of the credit for the favorable reception from retailers. "Having three companies come together and really talk about the research with a third party enhances our credibility, because we're not in there peddling our own categories," he says. "We're going in there and talking about how to maximize the performance of the front end as a total department. I think they appreciate that."

500-store sample

Eight supermarket companies, representing more than 5,500 stores and 20 percent of the nation's grocery volume, partnered with the consortium on the six-month study. Jones declines to identify the retailers, but he says they provided SKU-level movement and sales data for a total of nearly 500 stores. The stores were audited at the lane level to identify merchandising conditions.

In addition, about 1,500 in-store shoppers were surveyed on their attitudes and buying behavior at regular, express, and self-checkout lanes. All research and analysis were performed by Dechert-Hampe, Jones says.

The retailer participants are at an advantage, Romollino says, because they got to see the results of each phase of the study as soon as they were available. "They really got a bit of a jump on the rest of the industry because they participated," he says.

Among the recommended best practices are that at least 51 percent of the linear feet at the front end be devoted to confectionery, that confectionery be displayed on both sides of the checkout lane, and that confectionery be located in every lane. Jones says only 1 percent of consumers surveyed care about the no-candy lanes retailers have created.

The study also recommends allocating at least 76 linear feet to each checkout and stocking each with 301 to 350 items. Broad exposure should be given to confectionery, magazines, and soft drinks. Categories like noncarbonated drinks, salty snacks, cookies/crackers, and batteries should get some exposure but not be a key focus, it says, while categories with low penetration, frequency, and impulse that are usually available elsewhere in the store should get limited front end exposure. These include nutrition bars, film/cameras, razors/ blades, lip care, oral care, cosmetics, phone cards, books, and audio/ video/CD.

Among best practices given for specific categories are:

- **Magazines.** These should be merchandised both in the lane and on endcaps, increasing consumer purchase opportunities and improving sales of both magazines and total checkout. Sales can be maximized by stocking the best-selling titles; having the right assortment is more important than adding more titles.
- **Confectionery.** The confectionery rack should be 49 inches or more wherever space allows. Racks over 55 inches boost sales even further above average.
- **Beverage coolers.** Optimum merchandising calls for placing coolers on 26 percent to 33 percent of the checkout lanes. Increasing the proportion of lanes with coolers does not significantly raise beverage sales.
- **GM/HBC.** No more than 15 percent of the available linear footage should be devoted to general merchandise and health & beauty care. Pushing them to 16 percent or more of the space raises GM/HBC sales but depresses total checkout sales.