AN NCA PUBLICATION
Candy & Snack TODAY

# Maximize Checkout Performance

By Raymond D. Jones
Managing Director, Dechert-Hampe & Co.

The importance of the front-end checkout area has become even more important for retailers in recent years. And it also represents a critical location for confectionery and snack suppliers that want their products to benefit from high-traffic exposure and impulse purchases. Showcasing that importance, Front-End Focus, a continuing research and communication program about the front-end, has found approximately one in six shoppers buys an incremental item at checkout, a considerable addition to the market basket.

Explaining the importance of such a project, John Richards, director of category management, Wm. Wrigley Jr. Co., said: "Leading-edge retailers recognize the value of the front end checkout to their business. We are working to provide them with the knowledge to optimize their results."

Consumers often face a dizzying array of products at checkout, and they are generally unaware of what products are located in which lanes. Shoppers could be disappointed if the item they're looking for can't be found. This final shopper impression can be one of clutter and confusion, rather than convenience and satisfaction.

The retail checkout environment is changing as well with developments such as self-scan checkouts that are redefining the shopping experience. While retailers have incorporated these systems seeking labor savings, the impact on customer satisfaction and the in-store experience are also critical concerns.

## Examining Front-End Shopper Behavior

Because one in six shoppers buys an incremental item at the checkout, this indicates there is a substantial opportunity to increase shopper conversion, of which the rate differs by lane type. It is highest at regular lanes where the shopper buys more and spends more time in line. The rate is lowest at self-scans where shoppers purchase fewer items and conduct their own transactions. Self-scan conversion is also hurt by limited merchandising availability.

Based on consumer research, the emphasis at checkout should be placed on categories that have three critical characteristics: high penetration, high purchase frequency and high impulse. Research has found these factors to be extremely predictive of checkout success.

Many retailers alternate products at checkout lanes, though data shows shoppers seek out the shortest line and tend not to switch lanes. In fact, if the desired front-end item was not available, nearly 30 percent of consumers have said they would buy nothing at checkout or go to another store. This obviously results in lost sales for the retailer.

## Front-End Presents Opportunity

Based on the Front-End Focus research, checkout sales represent more than one percent of total store sales. This means the checkout is larger than almost any individual category in the store and rivals many full departments in importance.

The study also found a large variation in store checkout performance with the most successful retailers enjoying a 36 percent advantage over average checkout sales. This range of results suggests a huge opportunity for improvement of checkout sales based on adoption of best practices by more outlets.

It was apparent from the research that many categories currently found at checkouts have a presence far in excess of the underlying consumer demand. This imbalance represents a major opportunity for increased merchandising effectiveness. The implications of these findings are far-reaching. They suggest consumers might be better served and more satisfied with a less-extensive product assortment at checkout, and with better merchandising and presentation. They also bring into question the tendency of retailers to alternate lanes or have some categories available on just one lane.

Also, there is a particular opportunity to improve merchandising at self-scan checkouts. Front-End Focus research shows many shoppers prefer the self-scan checkout, especially when only buying a few items. However, many retailers that have installed self-scan units have not designed appropriate product merchandising racks, and have incurred lost sales as a result. There is a substantial opportunity to remedy this with new merchandising solutions.

## Key Strategies For The Front-End

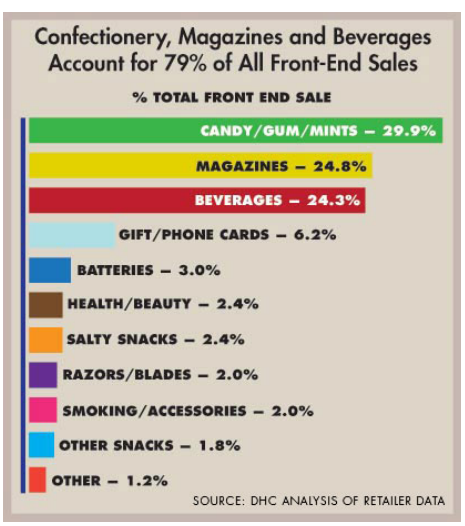
For retailers to take advantage of this opportunity, they need to recognize the real value of the front-end checkout. This includes both the magnitude of impulse and reminder sales generated by product displays and the critical importance to the overall customer satisfaction with the shopping experience.

Because checkout sales are larger than all but a few major product categories and even many entire departments, the study strongly suggests retailers should manage the front-end as a department with a dedicated manager. A singular focused resource would be able to make key decisions based on objective criteria with a view toward maximizing total checkout revenues. It would also greatly facilitate the implementation of best practices and standards for performance.

Another important strategy emerging from the study is the need for evaluating and making decisions at the front-end based on total profit generation from both placement fees and sales revenues. The Front-End Focus study found that 88 percent of total front-end profits were generated by the sales of the items versus just 12 percent from initial fees. There is a tendency among many retailers to overemphasize initial fees and allowances and effectively sub-optimize the total profit performance of the front-end.

## Power Categories Drive Checkout Sales

A key Front-End Focus finding is the importance of confectionery, beverages and magazines at checkout. While research addressed the contribution of more than 30 major categories to total checkout sales, the study shows nearly 80 percent of sales are still accounted for by these Power categories.



Not surprisingly, these Power Categories have the high penetration, high purchase frequency and high impulse characteristics identified in shopper research. While many retailers have pursued a strategy of adding new categories and items to the front-end checkout, the study suggests retailers should focus on these Power Categories to drive checkout sales performance.

To further underscore the value of the Power Categories to overall checkout sales, the study also shows that emphasizing these sectors generates results superior to those that focus on broad variety. In fact, the greatest opportunity at checkout is presented by improving the merchandising of beverages, confectionery and magazines, rather than adding to the assortment of categories available.

## Defining Best Practices

Analyzing Front-End Focus results, researchers have defined a number of best practices for retailers to maximize checkout sales.

- Merchandise front-end checkout displays to reflect shopper buying behavior. Retailers should select items with high penetration (appeal to large numbers of shoppers) that are purchased frequently and that are commonly bought on impulse.
- Focus at the front-end checkout should be on the Power Categories that represent almost 80 percent of front-end sales and profits: confectionery, magazines and beverages.
- Identify the key lanes in each store that represent the bulk of the transactions and be sure to stock the Power Categories on those lanes.
- Be sure to merchandise self-scan checkout lanes. Consumers do not generally shop the regular checkout lanes and then proceed to self-scan aisles.
- Carry confectionery on all the lanes including express, regular and self-scan. If possible, merchandise confectionery on both sides of the consumer to generate impulse purchases.
- Maximize magazine presence at the front-end on end-caps as well as in the lane to enable consumer buying opportunities. Shoppers need to browse magazines.
- Make sure the top selling magazine titles are broadly available on key lanes. It is more important to carry the right titles rather than a large number of titles at checkout.
- 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 General Merchandise/Health and Beauty Care. 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.

## About The Author

Raymond D. Jones is managing director at Dechert-Hampe & Co. in Northbrook, IL. He specializes in shopper insights, market analytics and customer leadership. He can be reached at (847) 559 0490 or rjones@dechert-hampe.com