Front-End Focus:

Moving Beyond Category Management

By Ray Jones

Instead of limiting our perspective to a category, we need to look at an aisle, a department or even a total consumer solution.

Leading edge manufacturers have begun to explore the next level of alliance with retailers to address mutual opportunities in an increasingly consumer-driven environment. This involves moving beyond the category perspective to the multi-category, store aisle, department level or other "consumer-defined" product/service groupings.

This kind of collaborative initiative presents new challenges in a number of ways. For instance, it may require partnerships with multiple retailers and possibly other manufacturers. It can also involve a broad spectrum of products or categories. It almost certainly requires the integration of diverse sources of information into a solid set of findings and recommendations.

Mars, Inc., Time Warner Retail (a division of Time Warner, Inc.) and Dechert-Hampe & Company recently completed a project that involved all of these elements. The study, called Front-End Focus, established a process and approach for meeting these challenges and specifically identified a billion-dollar opportunity for the grocery industry.

The Front-End Checkstand

The front-end checkstand is the only place in the store that every consumer visits every trip. It is a critical location for most retailers since it represents the last chance for an incremental purchase. It also provides the final impression to a consumer as she/he leaves the store. It is an essential element in the merchandising of many impulse-driven products such as confectionery and magazines, and has been recognized as an area of opportunity for the entire industry. In a special report on the front-end, Progressive Grocer stated, "The front-end is still perhaps the least studied, most poorly constructed department in the store."

MARS, Inc. and Time Warner Retail (TWR) recognized the importance of this issue to their own businesses and those of their retail partners. Both companies have heavy stakes at the front-end with more than half of all magazines and over a third of all candy sales taking place there.

The Front-End Focus Study

Perhaps the most compelling driver for the study was the lack of an objective measurement for evaluating the roles and contribution of various products at the front-end checkstand. Without any benchmarks or standards, decisions tend to be made on the basis of judgment or worse, on the amount of payments offered for the privilege of checkstand display.

The specific objectives of the Front-End Focus study were:

- To develop a better understanding of consumer attitudes and buying behavior at front-end checkstands
- To develop a better understanding of the impact of category availability, merchandising

©1987-2009 Dechert-Hampe & Co. All rights reserved.

techniques and product assortment on checkstand sales

- To establish a defined set of "Best Practices" guidelines for maximizing front-end checkstand results

Exhibit E illustrates the scope of the Front-End Focus Study. Since an understanding of the consumer was the critical element that had been lacking, a key component of the study was consumer research at the point-of-sale relative to the checkstand. The study also incorporated a detailed examination of the types of merchandising at the checkstand and an evaluation of overall store performance.

The study was focused on the key categories that were available in most of the retailers. This included over 15 major categories and a variety of other products.

Findings and Conclusions

One of the key findings of the study is that the front-end checkstand represents about $4.3 billion or 1.1% of total store sales. It is an important source of incremental sales from impulse buying and is a major element in customer satisfaction with the shopping experience. The front-end checkstand can be extremely profitable with high margins and should be managed as a department in the store.

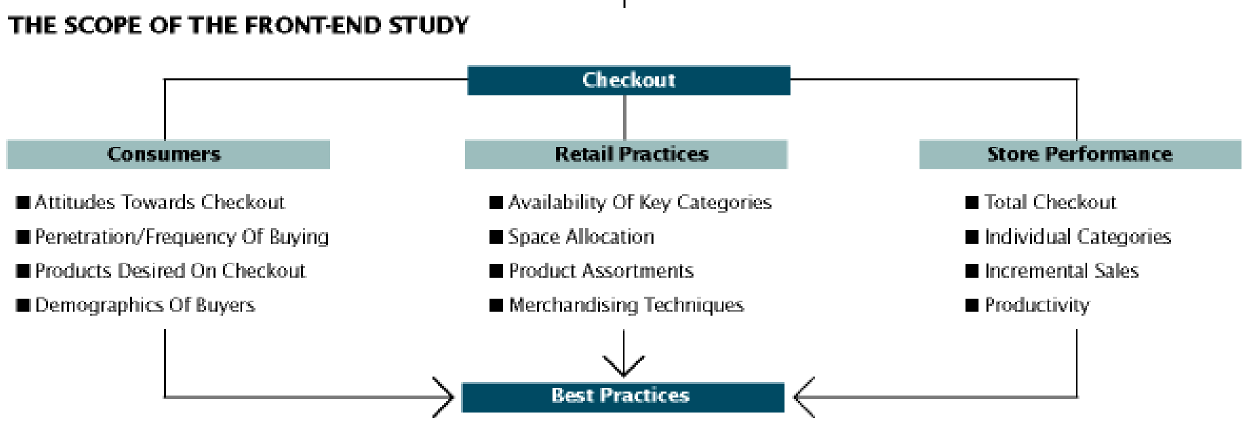

Exhibit E

Retailer Alliances

The study was conducted in alliance with several leading retailers representing the East, South, Midwest, West and Northwest. The retailers provided SKU level data for 500 stores over a six-month timeframe. Planograms were collected and all stores were audited for checkstand conditions. Tests were conducted to measure sales of items in multiple locations in the store.

Each chain agreed to provide detailed information on their store sets along with 26 weeks of SKU movement and sales data for those items at the checkstand in each store. In addition, they agreed to participate in a variety of consumer and sales research activities in their stores. In return, they were offered a first look at the study results and individual comparisons of their checkstand performance versus the benchmarks developed from the study.

The different categories at checkout have distinct roles and contributions to total performance and a holistic approach is needed to optimize results.

There are several key criteria that should be employed jointly to select products for the checkstand as illustrated in Exhibit F. These criteria include frequency of purchase, impulse buying and image/shopping experience in addition to sales, profitability and space productivity.

©1987-2009 Dechert-Hampe & Co. All rights reserved.

Category Criteria Benchmarks

CATEGORY PLACEMENT AT CHECKOUT SHOULD BE BASED ON KEY CRITERIA

	KEY CRITERIA					
	Frequency Of Purchase	Impulse Buying	Image/ Shopping Experience	Sales Volume	Profit Margin	Space Productivity
Magazines	✓	✓	✓	✓	✓	
Candy	✓	✓		✓	✓	
Gum/Mints	✓	✓		✓	✓	
Soft Drinks		✓		✓	✓	
Batteries				✓	✓	✓
Film/Cameras				✓	✓	✓
Razors/Blades				✓	✓	✓
Cookies		✓				
Salty Snacks		✓				
Cosmetics					✓	
Books						
Video						

Consider The Role Of Each Category When Developing Your Front-End Strategy

EXHIBIT F

Checkstand performance varies significantly by store and chain. The difference is driven by improving performance on the major categories, not by adding other categories to the checkstand. On average, the higher performing stores realized 24% greater sales and productivity from their front-end checkstand. Since the total industry checkstand sales were estimated at $4.3 billion, the opportunity for the grocery industry is estimated to be approximately $1 billion.

The key to realizing this opportunity is to start with the most important products, get these merchandised properly, and then round out the assortment based on the types of shoppers who frequent that chain or store. Focus should be on the top categories; confectionery and magazines alone account for two-thirds of all checkout sales. When you add in soft drinks, batteries, film, and razors, these six categories account for 96% of all sales.

Implications for the Future

In many respects, this study provides a blueprint for emerging opportunities in retailer category management. The development of retailer alliances and the collaboration between manufacturers and retailers offers a new range of options to address industry issues and to better serve the consumer.

Front-End Focus involved the collection and synthesis of a variety of data sources including learning about consumer purchase behavior, store merchandising conditions and sales performance. Future business solutions will increasingly require us to conduct in-store consumer research and integrate a broad array of data sources.

Perhaps most important, studies like Front-End Focus demonstrate the huge potential for expanding the scope and impact of collaborative business initiatives between manufacturers and retailers. The time has come to move to multi-category management. Instead of limiting our perspective to a category, we need to look at an aisle, a department or even a total consumer solution.

ABOUT THE AUTHOR: Ray Jones is a Managing Director in our Northbrook, Illinois office. He works with clients on market development, market research and customer development projects. Prior to joining Dechert-Hampe, Ray held a variety of senior marketing positions in various industries.

©1987-2009 Dechert-Hampe & Co. All rights reserved.