Contemporizing the Checkout Area with Insights from "Informed Choices"

February 6, 2019

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The In-Point in Time Experience, is Critical to Building Baskets and Meeting Shoppers' Satisfaction

Grocery stores of the future will offer innovative, customer-centric shopping experiences to meet needs and demands of modern shoppers."

Dr. Pallab Chatterjee, Symphony Retail AI

Source: Progressive Grocer "Experience is Crucial in the Grocery Store of the Future", August 21, 2018

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After Price and Location, The Checkout Experience is Cited as Important by 85% of Shoppers as Where they Elect to Shop

Shoppers cite long lines and speed of checkout leads to a poor experience impacting their decision where to shop

Source: Forrester Opportunity Snapshot / Digimarc "Consumers Cringe at Slow Checkout", August 2018

Self-Checkout Continues to Grow in terms of Installations and Shopper Usage

- 2018 was another record setting year with 63,000 self-checkout units shipped worldwide – more than half to the US*
- RBR projects a 7% CAGR for self checkout growth 2017 to 2023*
- 75% of consumers said they tried self-checkout in the past year**

Source: 2018 RBR Global EPOS & Self-Checkout Market report; Diebold Nixdorf "New Trend Driving Self-Checkout's Global Popularity" July 2018

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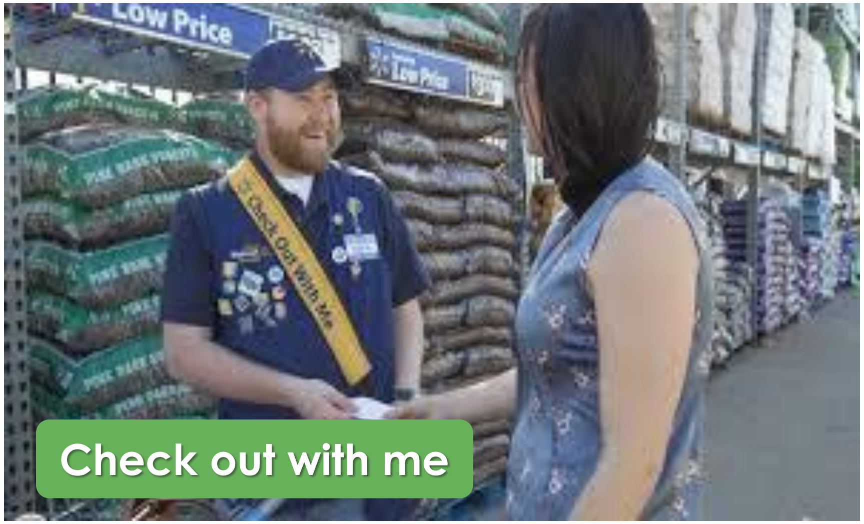
As Well, Retailers Are Testing Many In-Store Alternative Pay Point Options



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But What about Me - I have Needs and Expectations that Don't Change Based on the Transaction Location

- Reward Myself
- Hydration
- Convenient Items
- Hunger Satisfaction
- Functional Items
- Entertain Pass the Time

Meanwhile, Retailers Are Under Pressure to Make Changes in Assortment That Could Impact Sales

Checkout Category is a Top 10 in Revenue at Most Retailers with Higher Margins when Compared to Overall Store

52 weeks ending Jan 22, 2017				52 weeks ending June 14, 2015		
Ranking**	Category	Dollar Sales	Dollar Sales % Chg YAgo	Ranking**	Category	Dollar Sales
1	CARBONATED BEVERAGES	$10,639,500,000	-0.7	1	CARBONATED BEVERAGES	$10,943,968,256
2	BEER/ALE/ALCOHOLIC CIDER	$10,518,000,000	2.4	2	MILK	$10,594,338,816
3	SALTY SNACKS	$10,004,000,000	2.2	3	BEER/ALE/ALCOHOLIC CIDER	$9,864,431,616
4	MILK	$9,521,600,000	-5.4	4	SALTY SNACKS	$9,670,235,136
5	NATURAL CHEESE	$9,103,500,000	0	5	FRESH BREAD & ROLLS	$9,512,313,856
6	FRESH BREAD & ROLLS	$8,948,800,000	-0.7	6	NATURAL CHEESE	$9,016,193,024
7	WINE	$7,728,300,000	4.7	7	WINE	$7,349,528,064
8	BOTTLED WATER	$5,831,000,000	8		**CHECKOUT***	**$5,626,256,982**
	CHECKOUT*	**$5,539,040,640**	**-1.6%**	8	COLD CEREAL	$5,298,443,264
9	PET FOOD	$5,238,000,000	0	9	YOGURT	$5,207,877,632
10	YOGURT	$5,190,900,000	-2.4	10	FZ DINNERS/ENTREES	$5,122,487,808
11	COFFEE	$5,165,700,000	0.1	11	COFFEE	$4,930,121,216
12	COLD CEREAL	$5,122,600,000	-2.6	12	BOTTLED WATER	$4,868,366,848
13	FROZEN DINNERS/ENTREES	$5,019,100,000	-0.9	13	ICE CREAM/SHERBERT	$4,331,470,336
14	ICE CREAM/SHERBERT	$4,552,300,000	3.9	14	CRACKERS	$4,266,127,872
15	CRACKERS	$4,356,800,000	0.4	15	RFG FRESH EGGS	$4,203,556,608

**Source: IMC Checkout Update 2017*
***Source: IRI - Annual Sales for 52 Weeks ending January 22, 2017 and June 14, 2015 Supermarket Sales*

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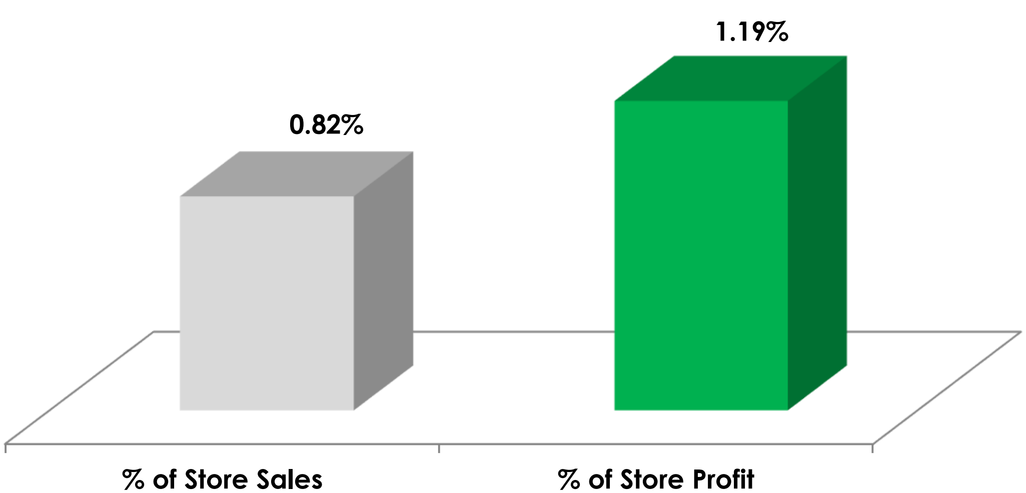
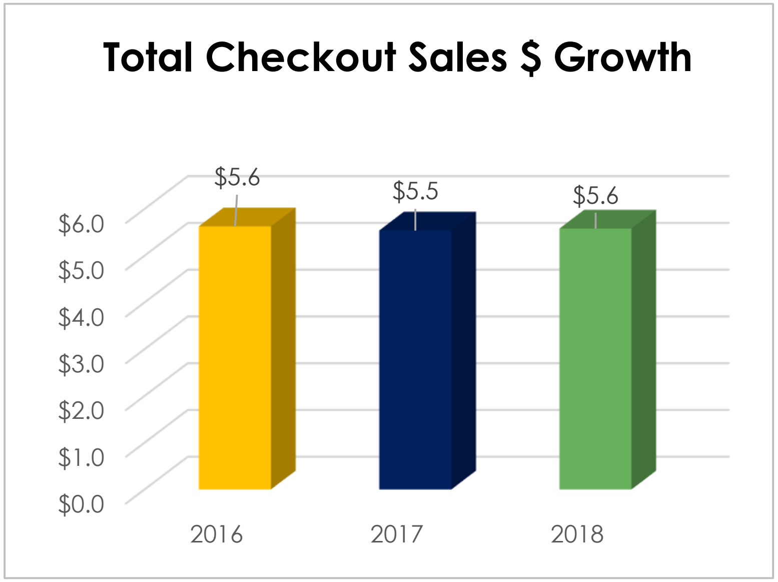
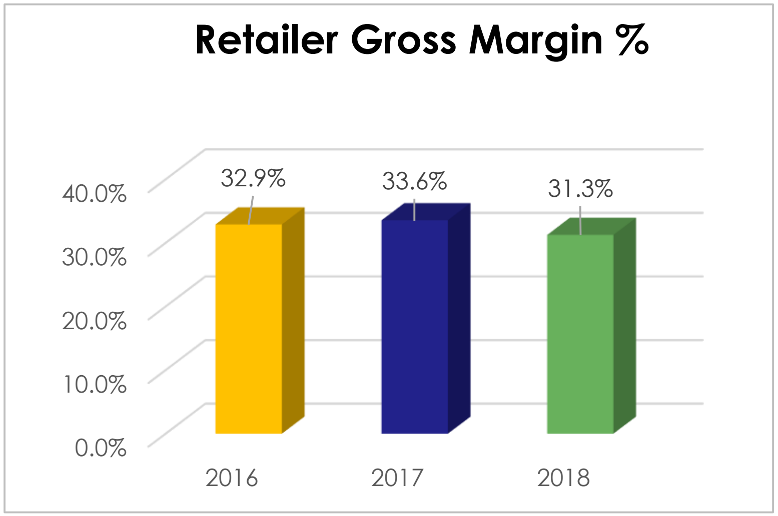
The Checkout Category is Big, Delivering Almost 1% of Store Sales and 1.19% of Store Profits –But Relatively Flat

Annual US Supermarket Sales*
=
$680 Billion X .82% of Sales**
=
~$5.6 Billion Total Checkout Sales







**Source: Progressive Grocer Institute 2018*
***IMC Checkout Update 2018*

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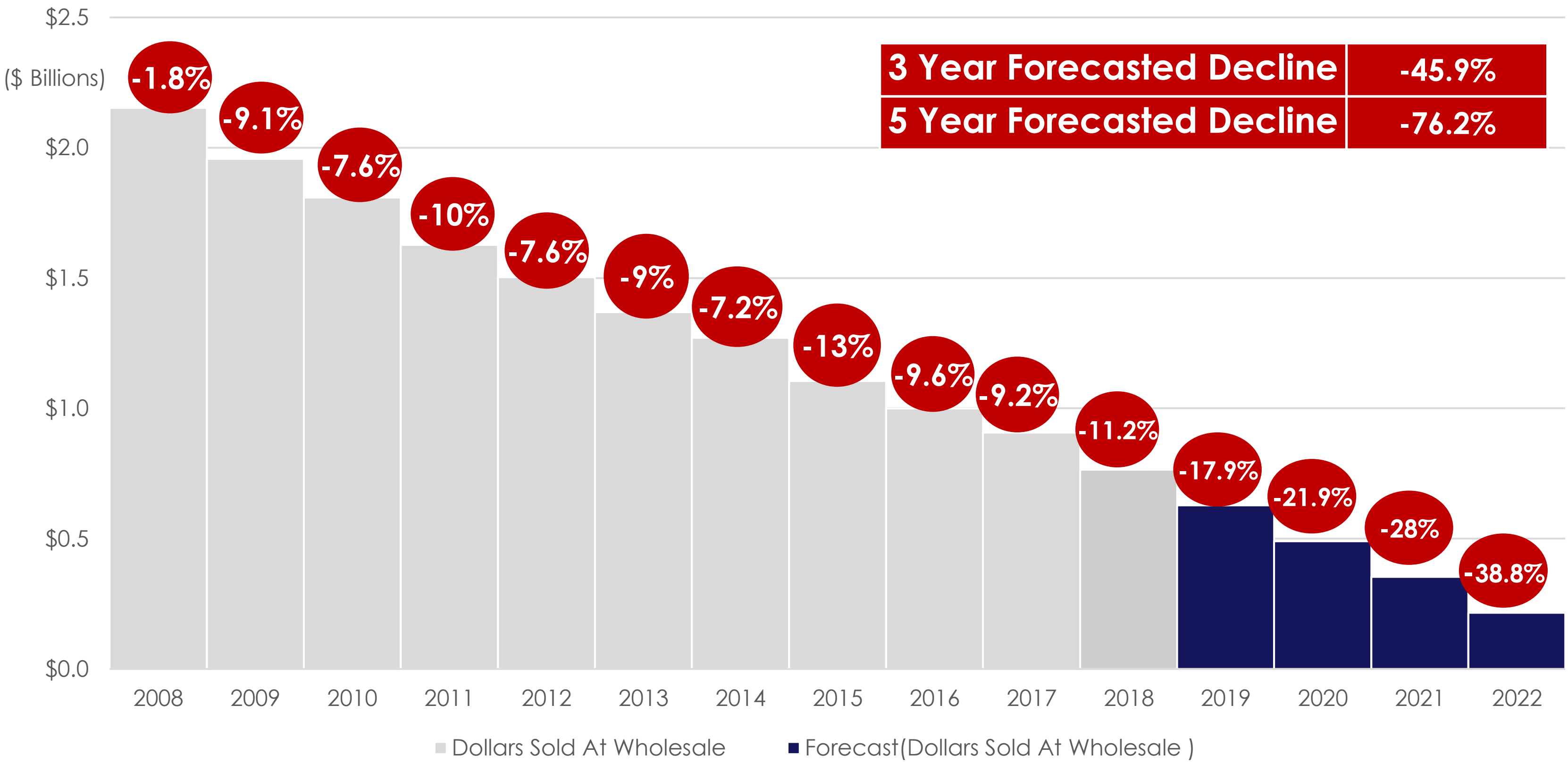
Magazines, a former Power Category Continues Single Copy Decline and Leaves a Big Void in Sales



Projections assumes a total collapse of the distribution channel does not occur

- Forecasted data (2018-2022) calculated using AAA method of Exponential Smoothing (ETS) algorithm based on historical data.

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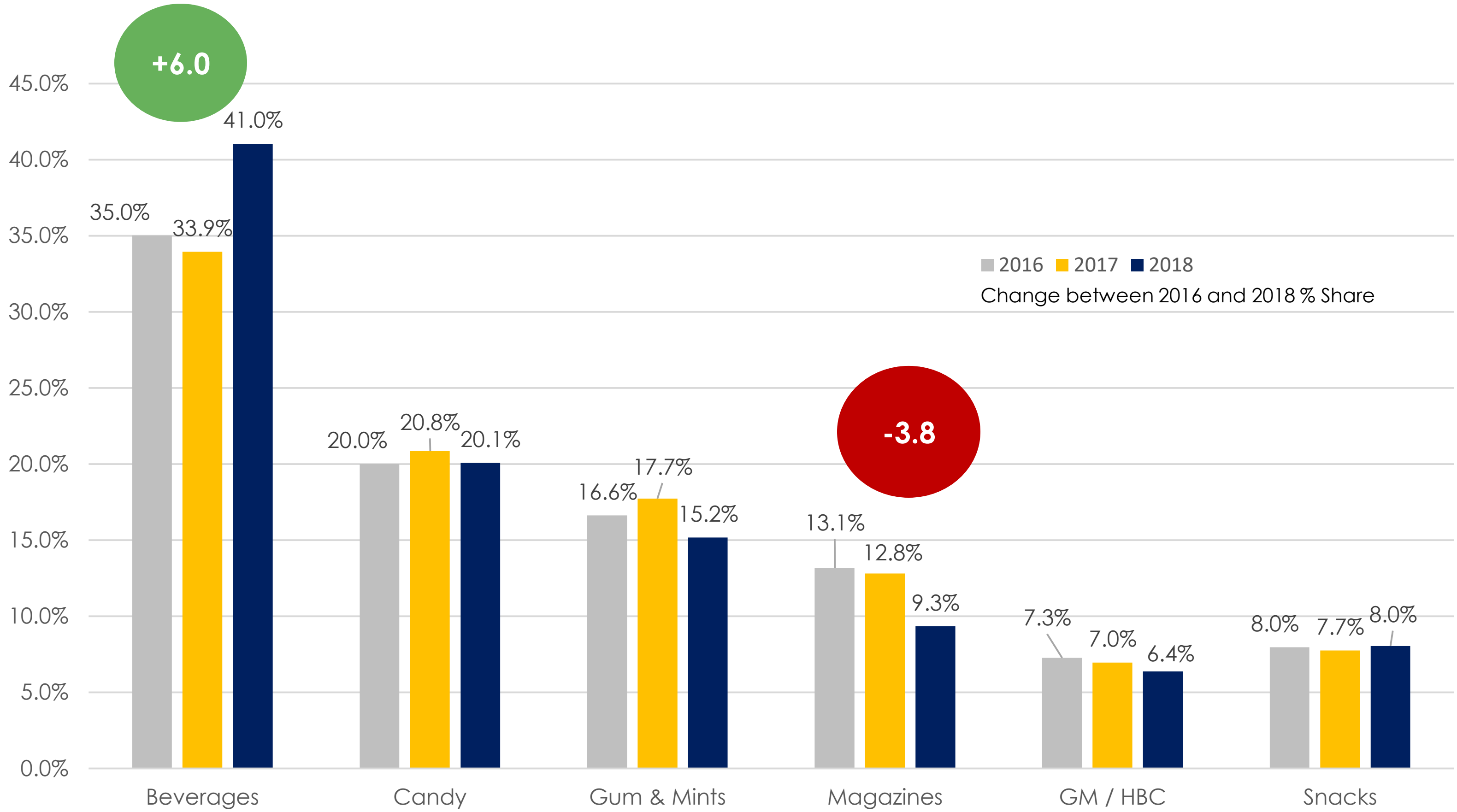
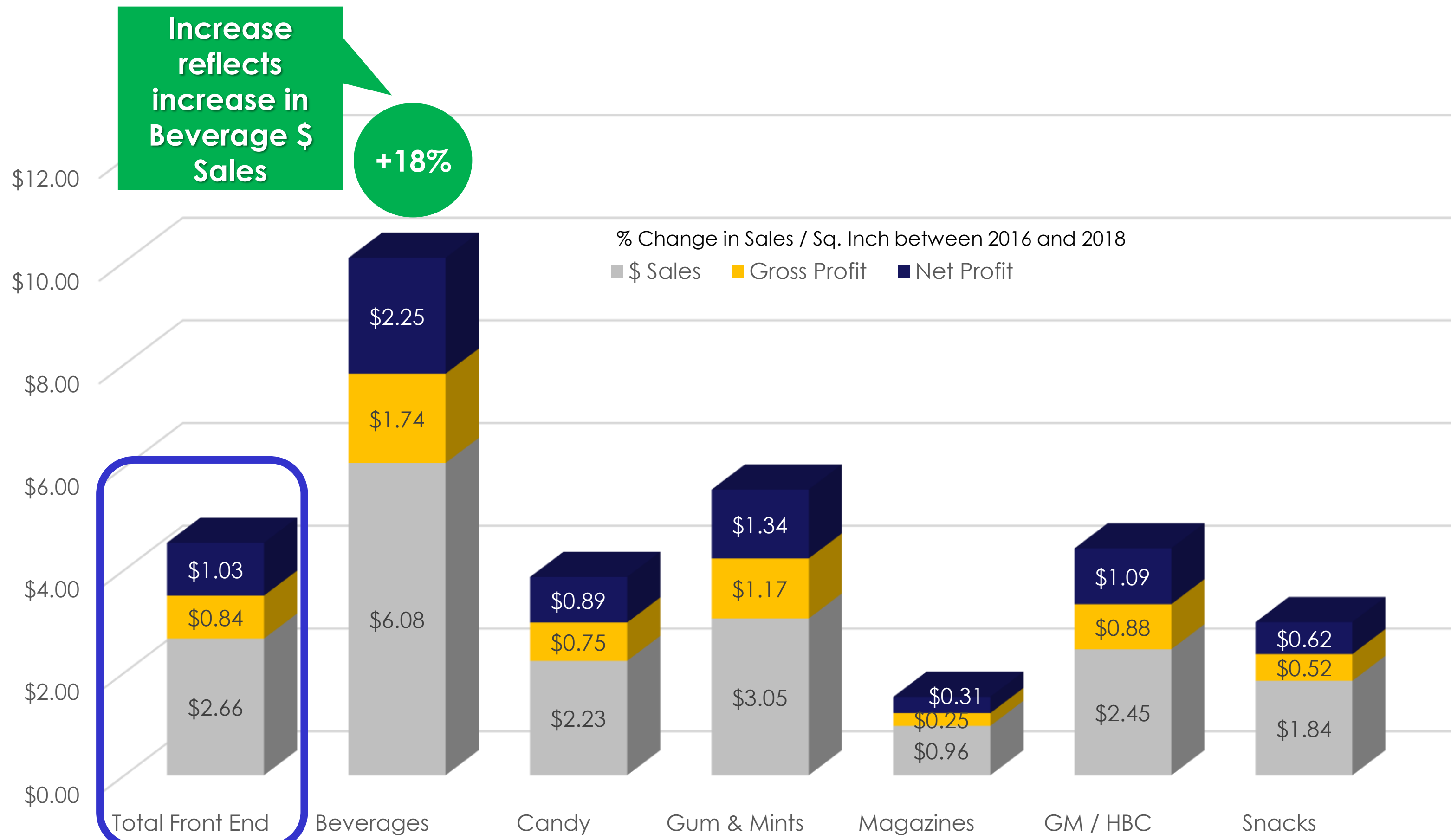
As Magazine Share Decline, the Share of Edible Categories Grows



% Share of Total Checkout $ by Category

Source: IMC Checkout Update 2018

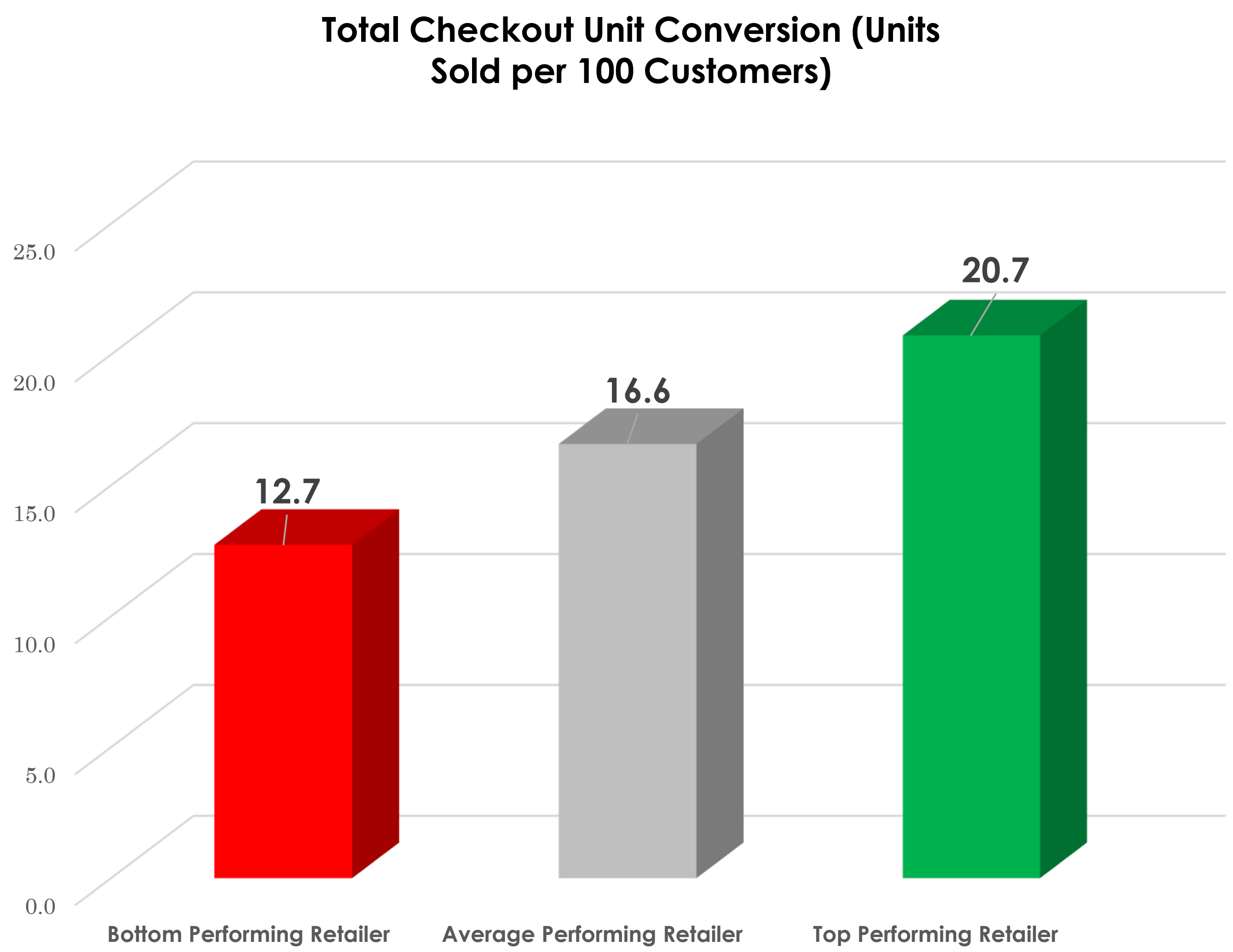
Beverage and Edible Continue to Deliver Highest Sales and Profits



$ Sales /Gross Profit/Net Profit per Sq. Inch

Source: IMC Checkout Update 2018

Top Retailers Outperform Average Retailers by 25%



•Source: IMC Checkout Update 2018
•Top Performing Retailers – Top 6 retailers based on TTL Checkout units sold per 100 customers
•Bottom Performing Stores – Bottom 6 retailers based on TTL Checkout units sold per 100 customers
*Source: FMI Institute. Sales per Customer Transaction 2016

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Capitalizing on Snacking / Balance is a Source for Growth

The individual snacking category reaches $33B in the US and while growth is happening across all categories, snacking products with healthful claims drive the strongest uptick in sales

Source: "The Sweet Success of Snacking Across the Store" Nielsen October 2017

The Demand for Single Serve
"Grab and Go" Snacking Continues to Grow

- Annual household spending in individually packaged snacks increased 1.1% with almost every household (98%) purchasing at least once
- Busy households spend an average of $133 annually on individual snack items
- Large families purchase 16% more than the average family

Source: "The Sweet Success of Snacking Across the Store" Nielsen October 2017

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Consumers Are Also Seeking Healthier Choices Across Snacking Occasions is Also Growing

- Eighty percent of shoppers have purchased a BFY snack, such reduced salt, fat or calories
- Slightly fewer, 68% have bought clean label snacks or are paying more attention to the recommended portion size (67%)

Source: SmartFood Choices; 210 Analytics; May 2018

Even Still, Most Shoppers Desire the Choice to Purchase an Occasional Treat

The majority of shoppers still believe in indulgent snacking as well, with only 34 percent saying they stopped buying less healthy snacks altogether

Source: SmartFood Choices; 210 Analytics; May 2018

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Healthy Attributes Extend Across Shelf-Stable and Refrigerated Snacks and Beverages

Refrigerated Snacking

Protein Snacking

Waters

Single Serve Fruit

Juices and Smoothies

Functional / Enhanced

Yogurts / Dairy / Non-Dairy

Shelf Stable Snacking

Healthy Salty

Nutrition

Nuts and Seeds

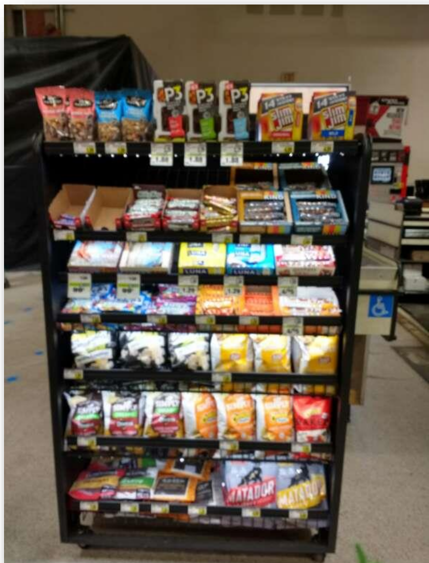
Meat Snacks

Fruit Snacks

Cereal / Fruit Bars

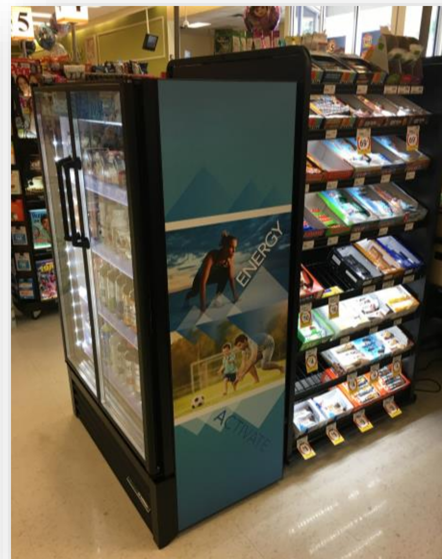
Two Retail Pilots Evaluate the Impact of Adding Additional Snacking Choices to Traditional Checkout Items

Southwest Regional Chain



6 Test & 6 Control Stores
Healthy Cooler End-Cap & Shelf Stable Lane Blocker
20 Weeks

Southeast Regional Chain



6 Test & 6 Control Stores
Healthy Cooler & Shelf Stable End-Caps
18 Weeks

NCA
National Confectioners Association
ALWAYS A TREAT

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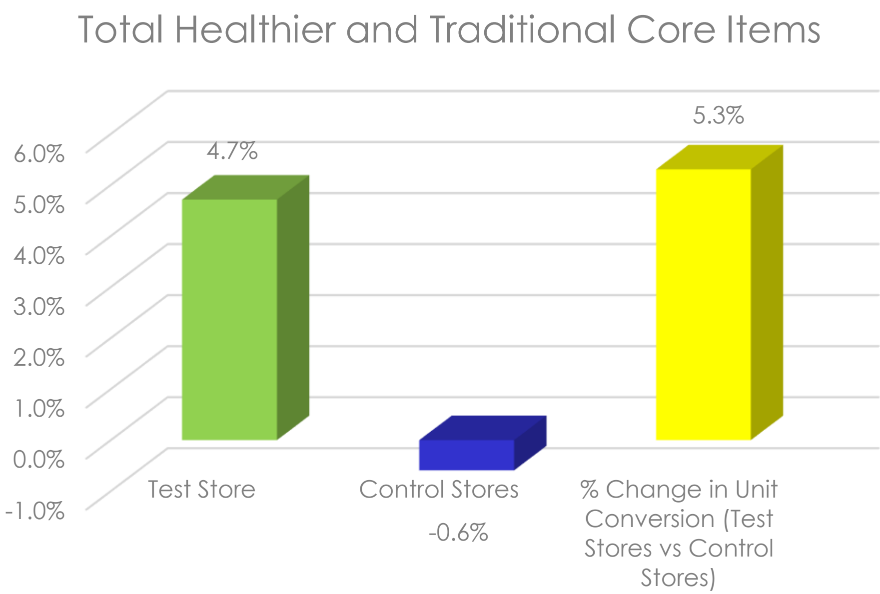
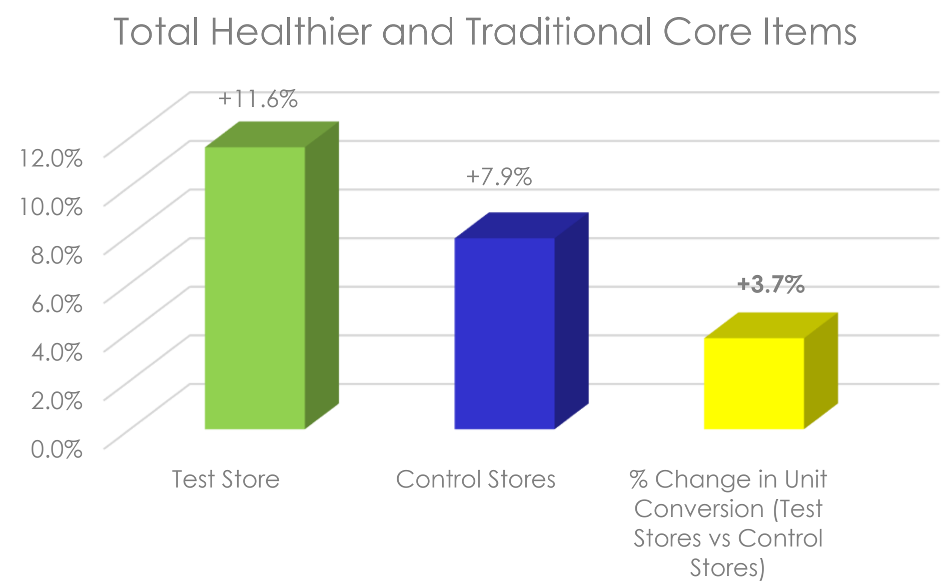
Both Retailers Showed Positive Results
Shopper Conversion Increased in Test Stores

Southwest Regional Chain



Southeast Regional Chain



Unit conversion is units sold per 100 shoppers. Charts represent increase in test store conversion change vs. control stores conversion

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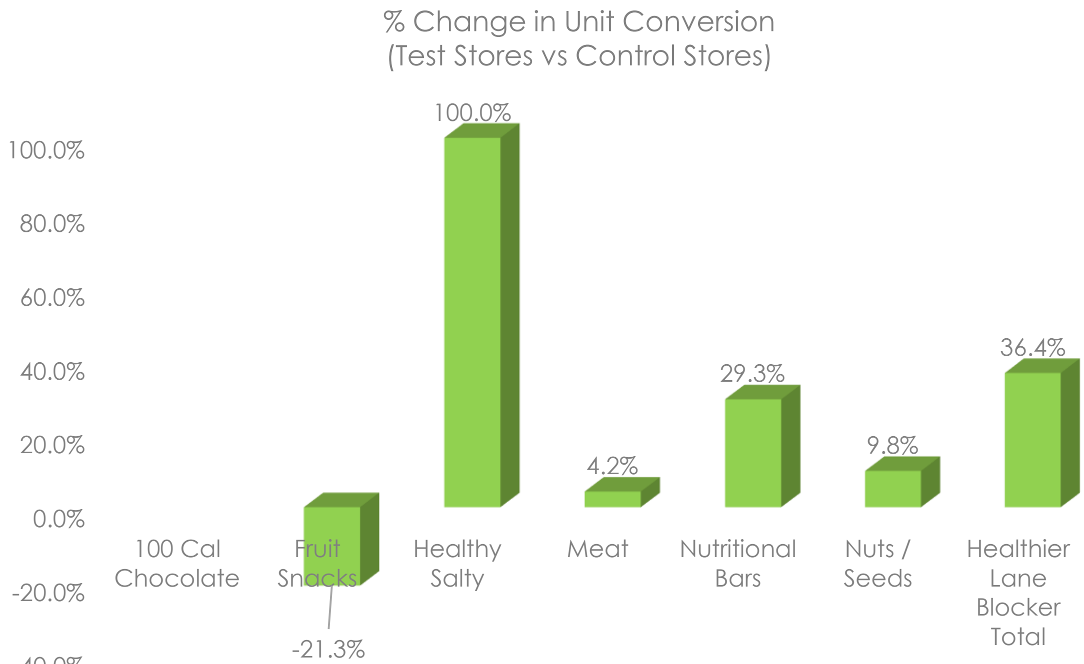
Shelf Stable Items Increased Conversion by 36.4% in Test vs Control Stores in Southwest



Southwest Regional Chain

All Alternative Snacking Lane Blocker categories - other than fruit snacks - increased conversion growth

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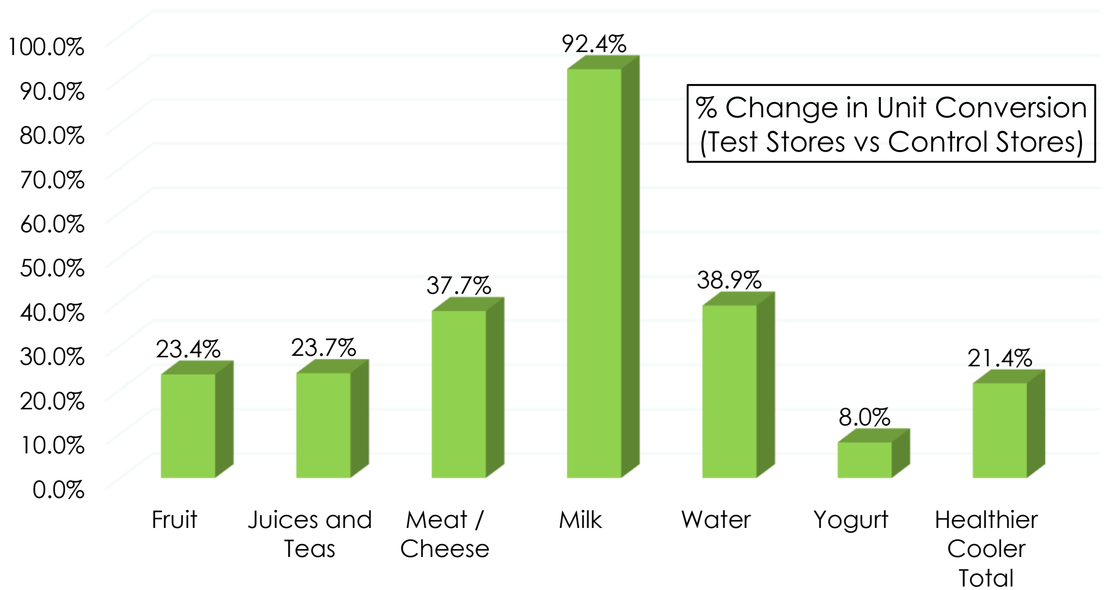
Conversion for the Refrigerated Snacks and Drinks Increased 21.4% in Test vs Control Stores - S.W.

Southwest Regional Chain



Milk, Waters, and Protein Snacking contributed the highest increases in customer conversion growth

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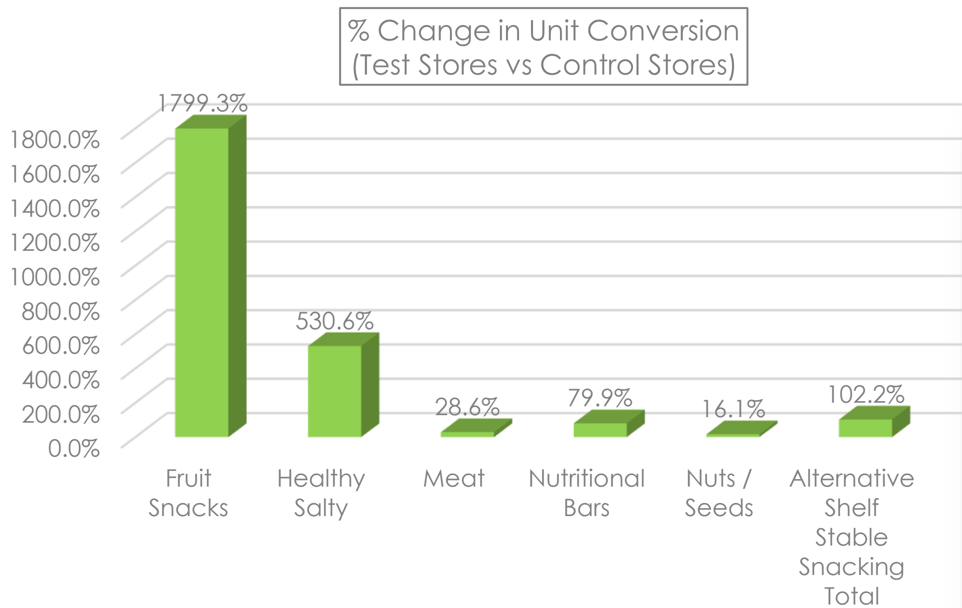
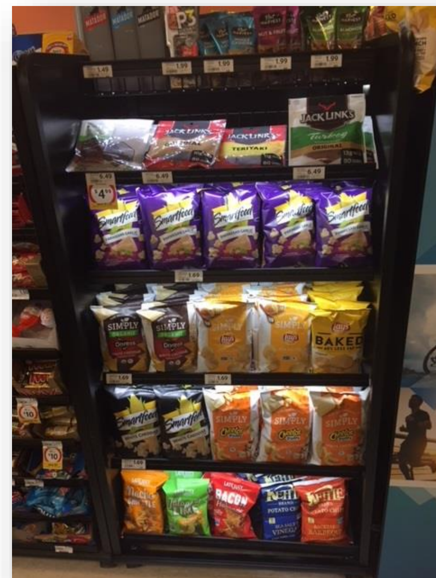
Shelf Stable Snacking Items
Increased Conversion in Test vs Control at S.E. Chain

Alternative Shelf Stable Snacking



Southeast Regional Chain



All Alternative Shelf Stable Snacking categories had increased conversion growth.

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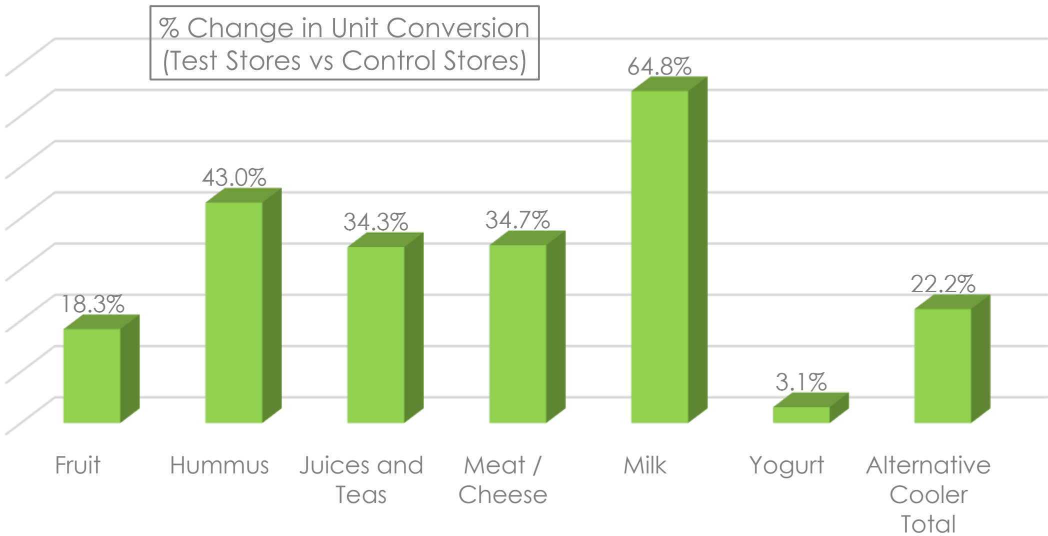
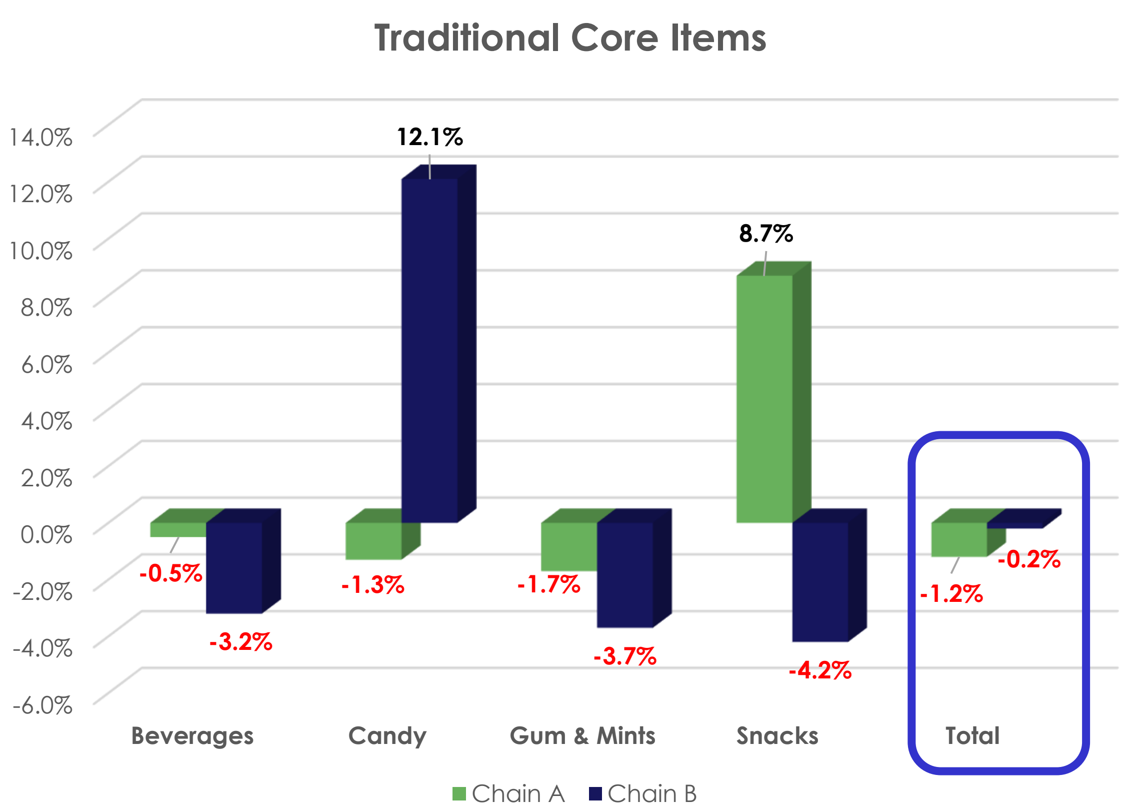
Conversion for the Alternative Snacks and Drinks Increased 22.1% in Test vs Control Stores at S.E. Chain



All Alternative Cooler categories had increased conversion growth.

Southeast Regional Chain

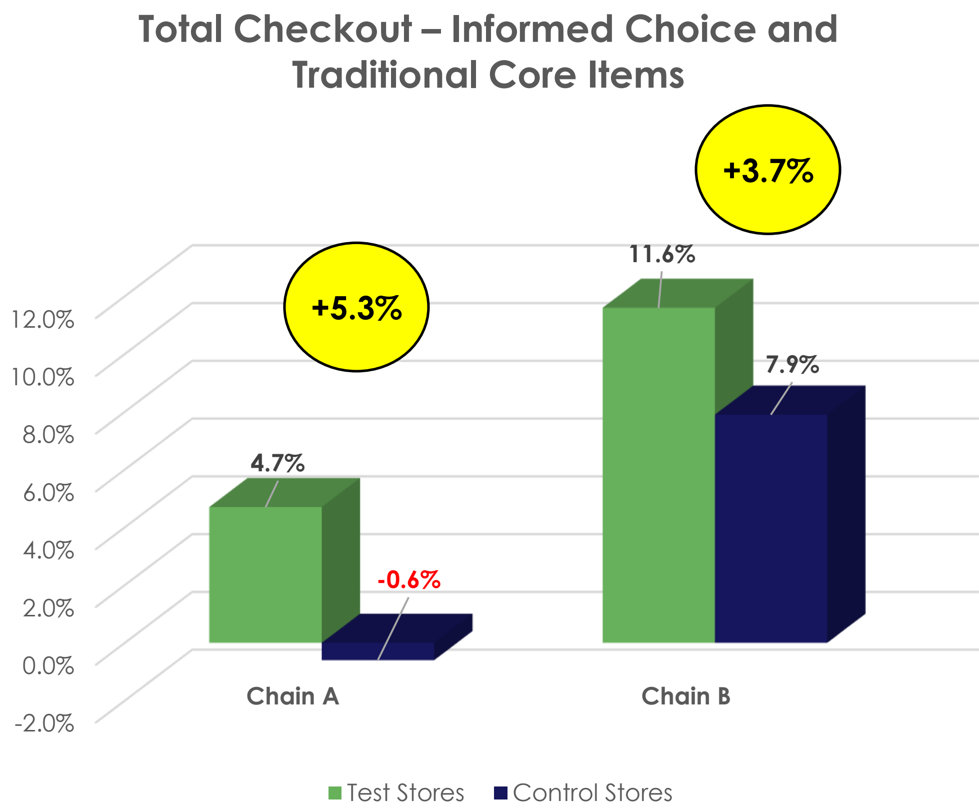
The Addition of Informed Choices Minimally Impacted Traditional Core Categories

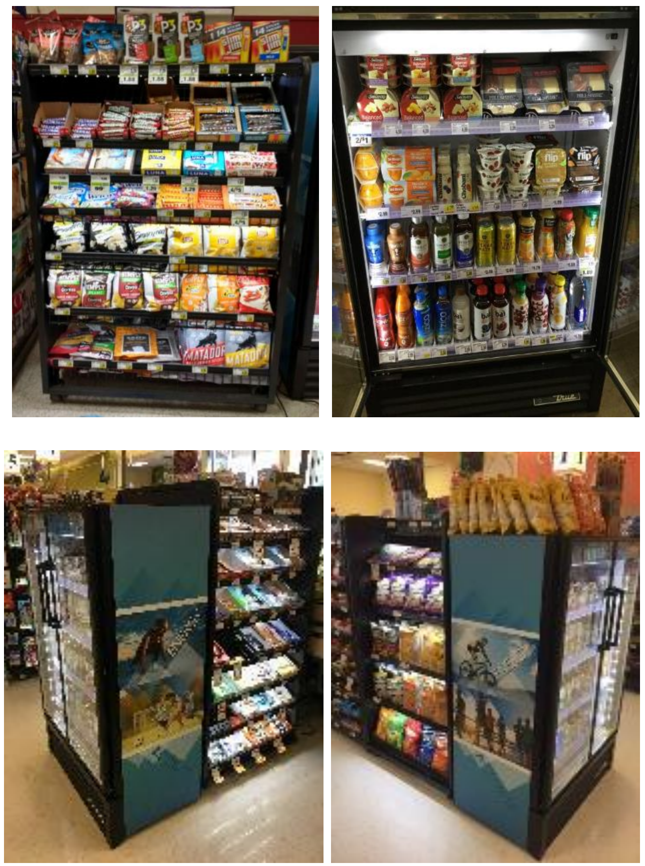


Depending on the retailers' merchandising and assortment strategies, overall growth can be achieved with both healthier and core items

Source: Impulse Marketing Co / NCA Continuum of Choice Test 2018

Results at Both Retailers was Encouraging
Shopper Conversion Up as Much as 5.3% in Test Stores





Unit conversion is units sold per 100 shoppers. Charts represent increase in test store conversion change vs. control stores conversion

Source: Impulse Marketing Co / NCA Continuum of Choice Test 2018

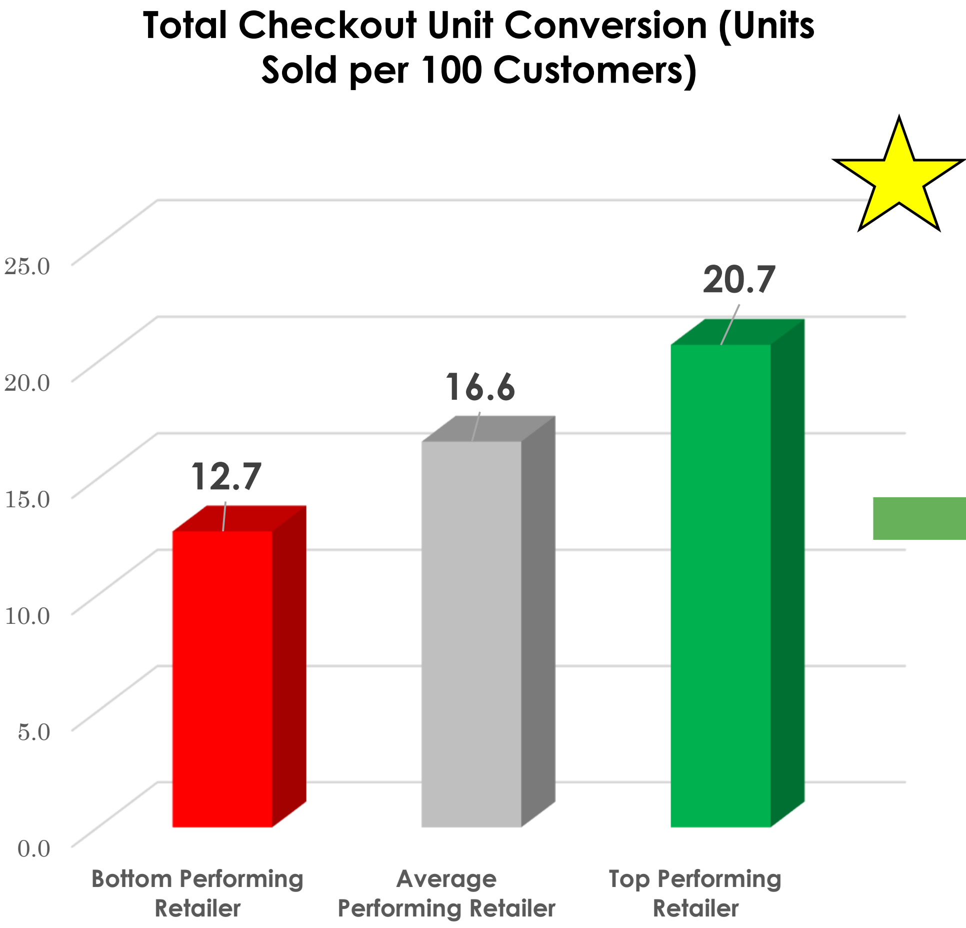
Additional Learning and Recommendations From Testing Can Lead to Even Better Results

Cross-department merchandising support is CRITICAL to minimize out of stocks

Assortments can be adjusted to reflect demographics and a variety of on-trend choices

Clear, impactful signage is important to differentiating healthier options to shoppers

Checkout Merchandising Principles Drive Conversion at Top Performing Retailer



- Offering a Continuum of Choice Across Categories
- Implementing Appropriate Merchandising By Transaction Type
- Optimal Category Allocation, Location and Assortment
- Merchandising That Improves Shopper Experience and Maximizes Convenience

Source: IMC Checkout Update 2018

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Overall Checkout Summary and Key Strategies For Merchandising

The Key to Success is To Make It Easier for Shoppers to Solve Their Immediate Needs

Source: "6 Factors Driving Consumers Quest for Convenience" Nielsen August 2018

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The Solution is to Offer A Continuum of Choice Across Core and Healthy Categories that Meet Shoppers' Need States

"Continuum of Choice"

Functional Refreshment	Fresh & Light Snacks	Salty and Sweet	Treating & Entertainment	Personal & Convenient

Address the Shopper's Need State with an Informed Choice Merchandising Strategy at all Pay Points

Merchandise appropriately and consistently across all pay points - *make it useful for me to have the item I want wherever I checkout*

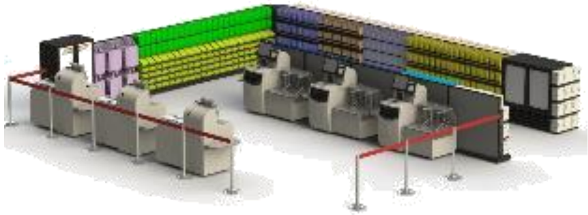
Broaden choice and capitalize on trends with the right balance of indulgent and healthier items – *make it easy to find the snack I want*

Create the right allocation, location, and signage for checkout categories – *make it simple to locate the items I want on the day I want them*

Best Results Are Achieved When Merchandising and Operations Departments Work Together

Transactional layouts need to be co-exist with merchandising environments
to optimize sales performance and shopper satisfaction

Merchandising Designs Need to Reflect Shopping Needs at all Pay Points



Traditional Lane

- Top sellers available in every lane – shoppers won't switch lanes
- Customers will shop across end-caps so an alternation strategy can work in this locations

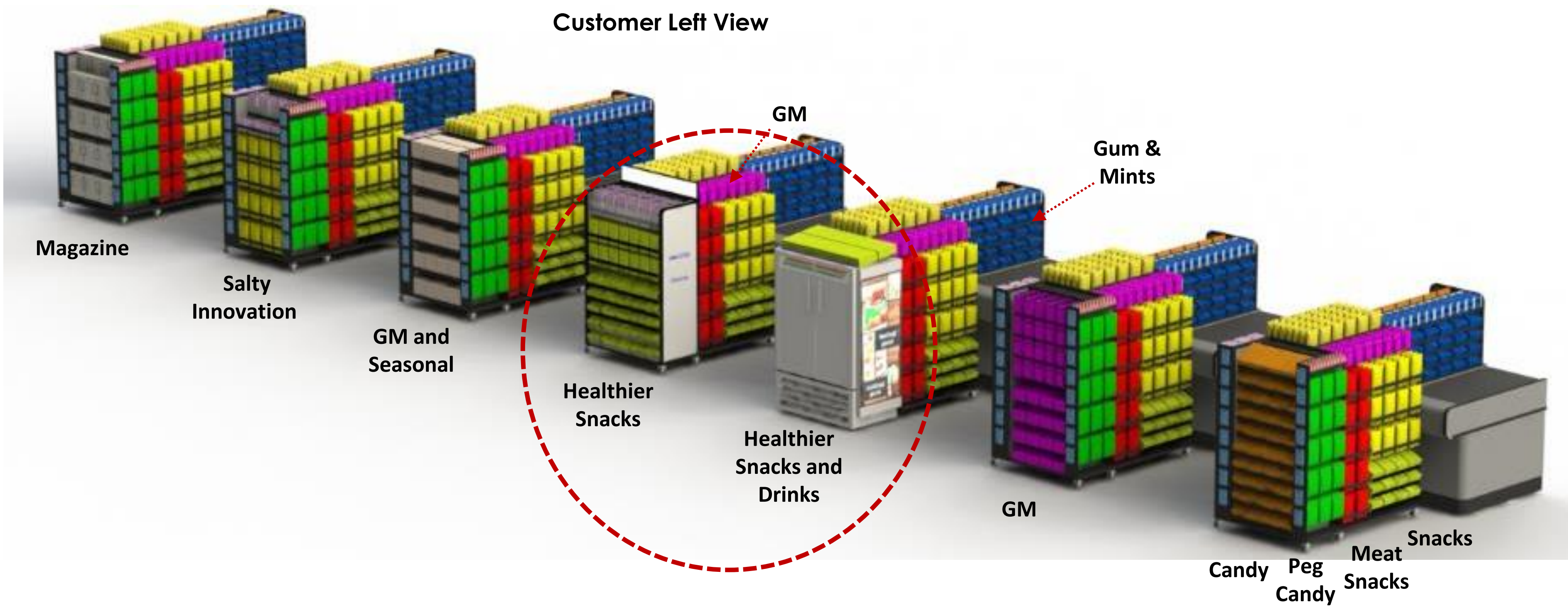
Self / Express Checkout

- Limited / browsing shopping time
- Focus on "grab and go" and edible Items

Self / Queue Line

- Browse time differs between location in queue
- "Grab and go" items closest to the registers

For Cashier Lanes, Merchandising Focus Should Be on Edibles with a Broad and Informed Choice Strategy



- Candy
- Gum & Mints
- Convenience Foods
- Snacks
- Meat Snack
- Peg / SUP Confection
- Energy Shots
- GM HBC
- Magazines
- BFY Shelf Stable
- Gift Cards

The key is in designing merchandising so that core top sellers are available close to every transaction point and healthier options are clearly highlighted

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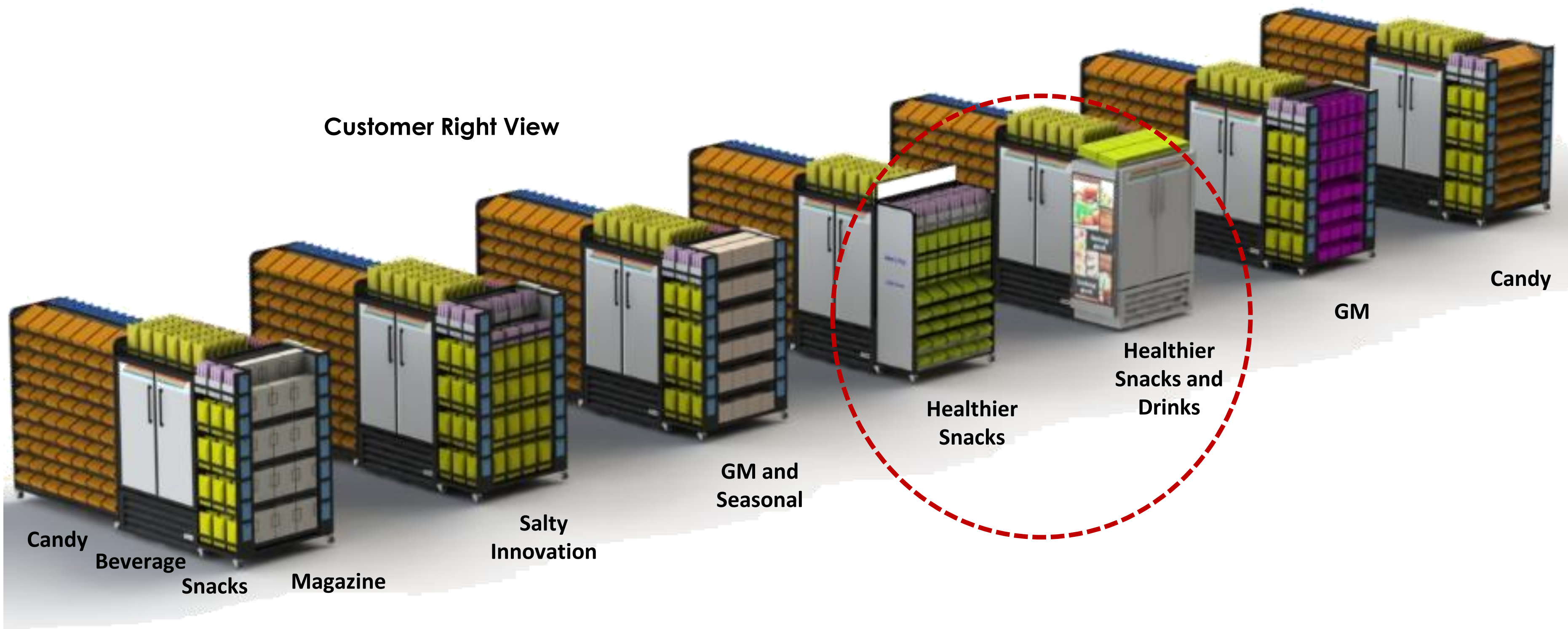
Getting the Right Mix, However, is Challenging and Needs to Be Balanced with End-Caps Playing Key Role



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End-caps allow for innovation in key segments – such as Snacking and Beverage and / or allocate appropriate space for Magazines and GM

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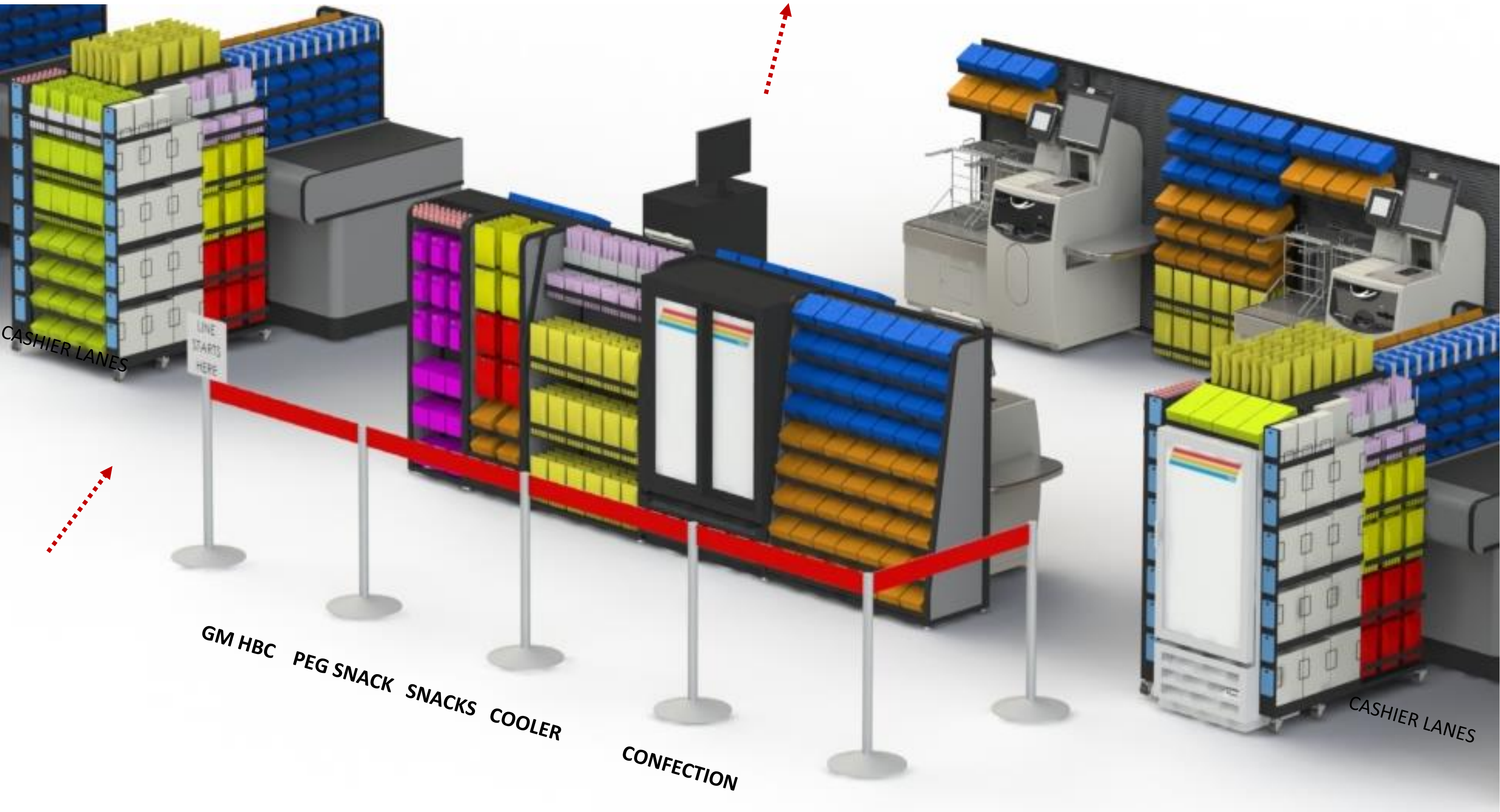
Browse Time, Category Location, and Category Allocation are Key Considerations in Maximizing Sales at Self-Checkout



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Helping Meet On-The-Go Shopper Needs, Maximizing Sales and Profits for Retailers and Brands

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