The Impact of Convenience at Checkout -

Effectively Balancing Efficiency and Meeting Shoppers' Needs States

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Price and Quality are the leading factors in store selection by shoppers

Price and Quality are the core of shopper's value perception and have the largest impact on financial performance and in creating an emotional bond with their choice of retailer

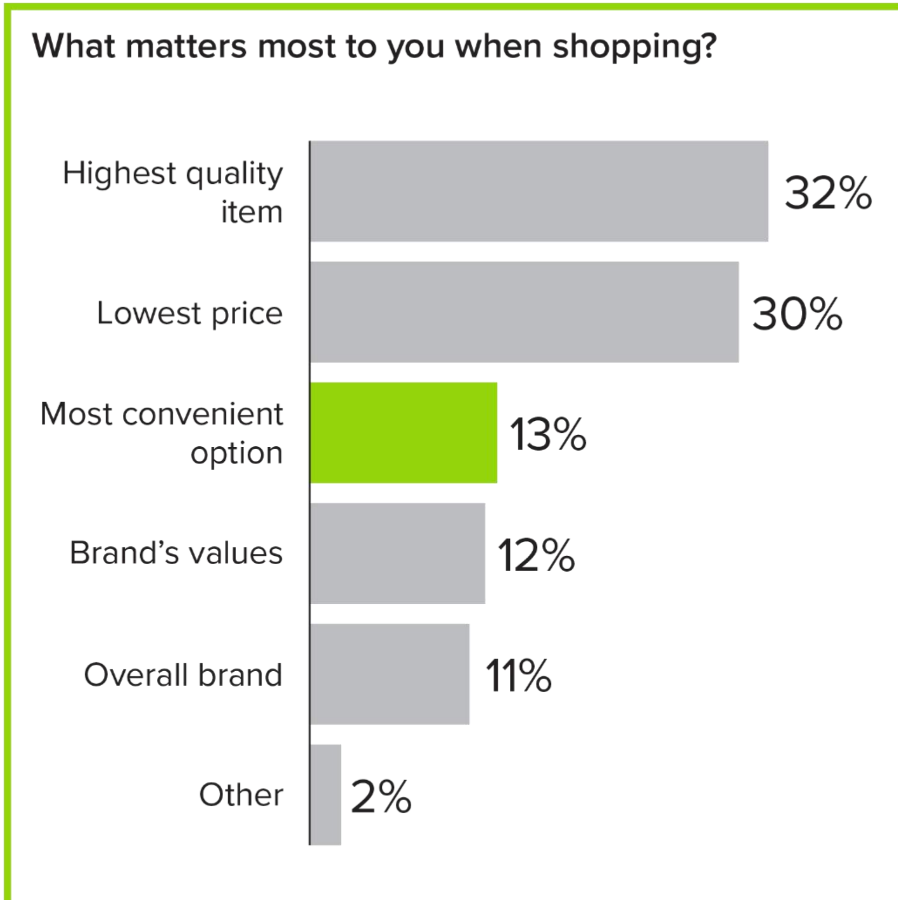
*Source: Dunnhumby Retail Preference Index, January 2020

Due to shoppers increasingly hectic lives, Convenience has grown more in importance in the last three years

Busy consumers are demanding products, places, spaces, and processes to simplify their life and overcome obstacles to effortless living

*Source: Dunnhumby Retail Preference Index, January 2020
*Source: The Conference Board (TCB) Global Consumer Confidence Survey, in collaboration with Nielsen. Top 1 and 2 concerns, Quarter 1, 2018

Shoppers rank “Convenience” as the #3 Criteria



The unspoken cost of convenience

97%

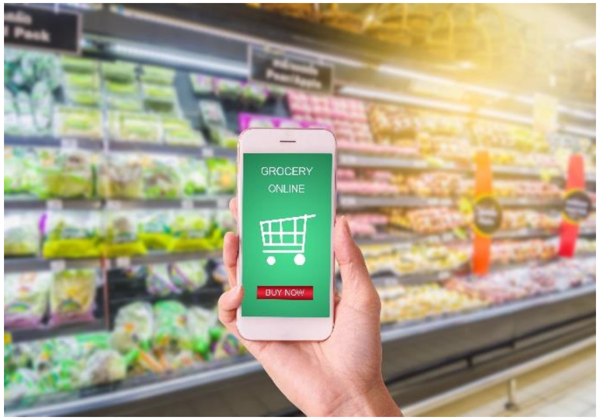
have backed out of a purchase because it was inconvenient to them…

*Source: NRF Consumer View, Convenience and the Consumer, Winter 2020

Convenience can be defined and valued differently by different shoppers

Location is close to Home / Work

Easy to find products I want / need



Offers digital technology to make shopping easier

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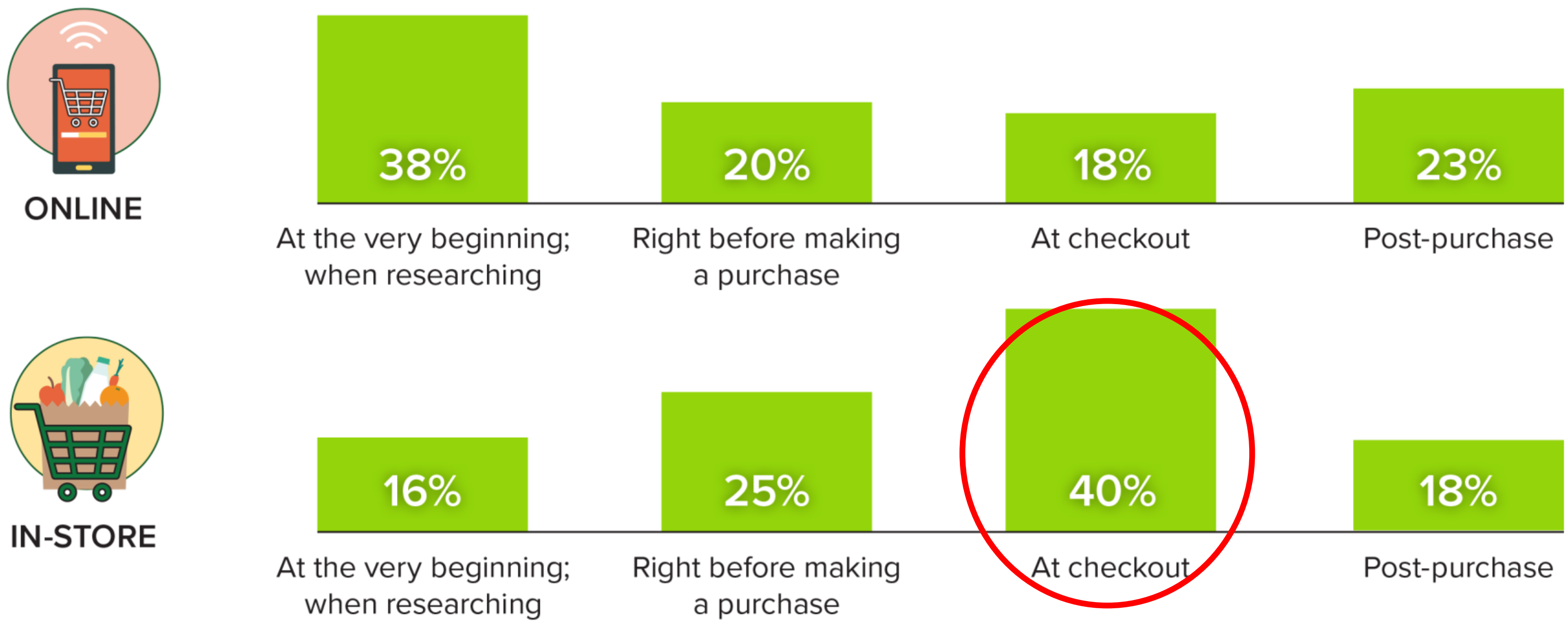
As well, Convenience can be valued differently across channels and in different parts of the shopping experience

At which part of the shopping experience is convenience most important to you?



For physical retailers, making checkout a more convenient experience has become an imperative

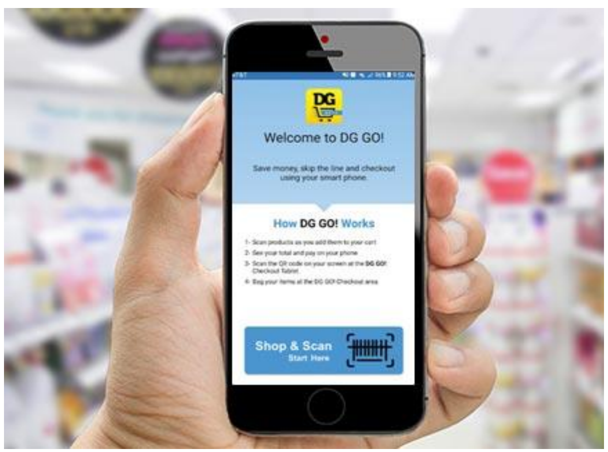
*Source: NRF Consumer View, Convenience and the Consumer, Winter 2020

As a result, the race to a faster checkout experience has lead to the installation of more self-service (frictionless) transactional solutions – or are they?

The SCO market is expected to exceed more than $5B by 2024 at a CAGR of 10.3 percent

*Source: 10 Percent Retail Self-Checkout Market Growth Collides with Deployment Risks, Loss Prevention Media, April 2019

There are many variations of self-service solutions being tested, deployed and expanded at retailers across channels



In general, shoppers are responding by shifting annual # of transactions from traditional (service) lanes to self-service

According to IHL, retailers that have traditional self-checkout see about 40% of their transactions and 20% of their sales volume now taking place at self-checkout

*Source: 10 Percent Retail Self-Checkout Market Growth Collides with Deployment Risks, Loss Prevention Media, April 2019

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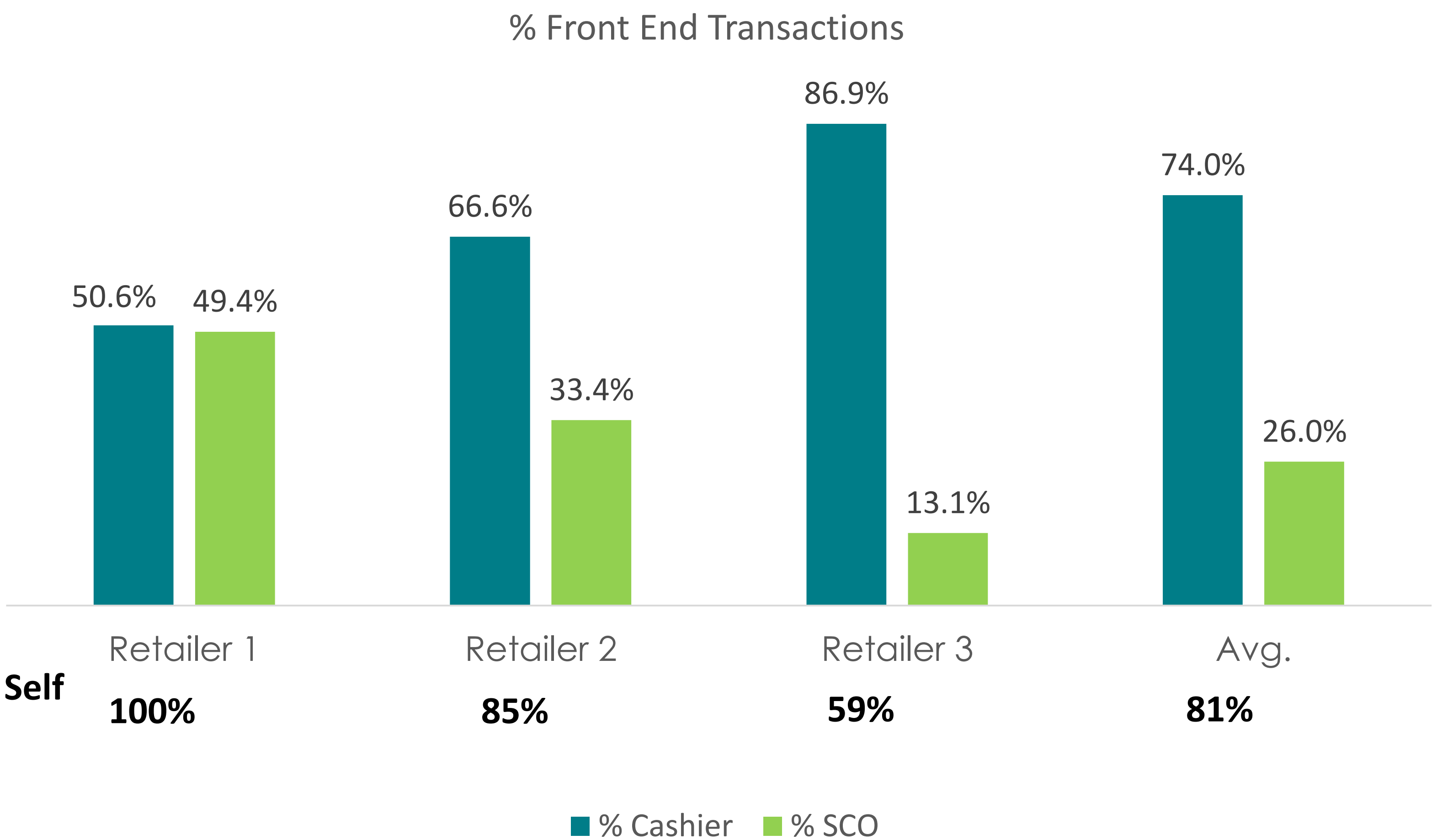
There is, however, variation in usage based on specific retailer's customers, store location, and overall prioritization / training



% of stores w/ Self Checkout	100%	85%	59%	81%

*Source: Impulse Marketing Co Proprietary Research 2019

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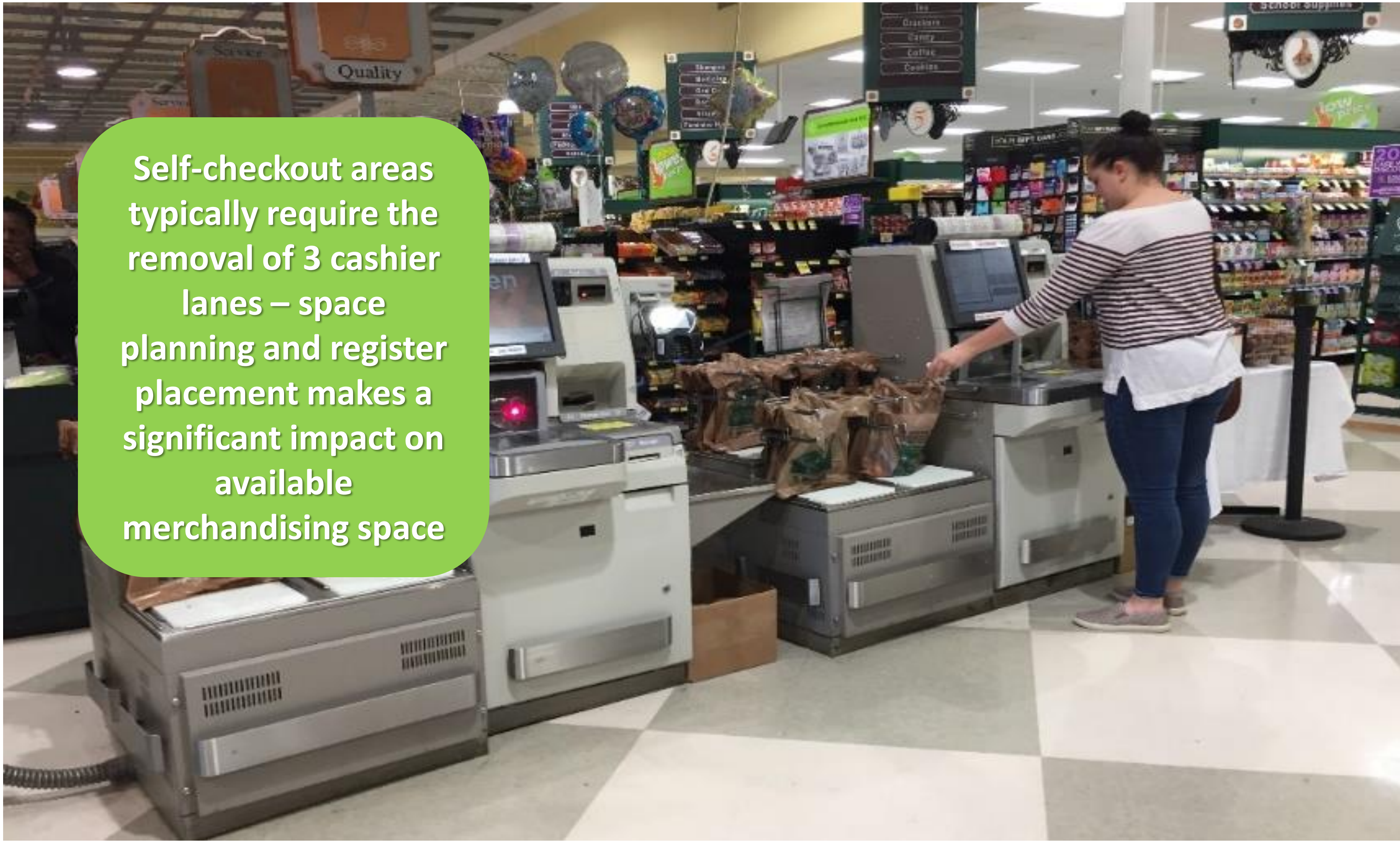
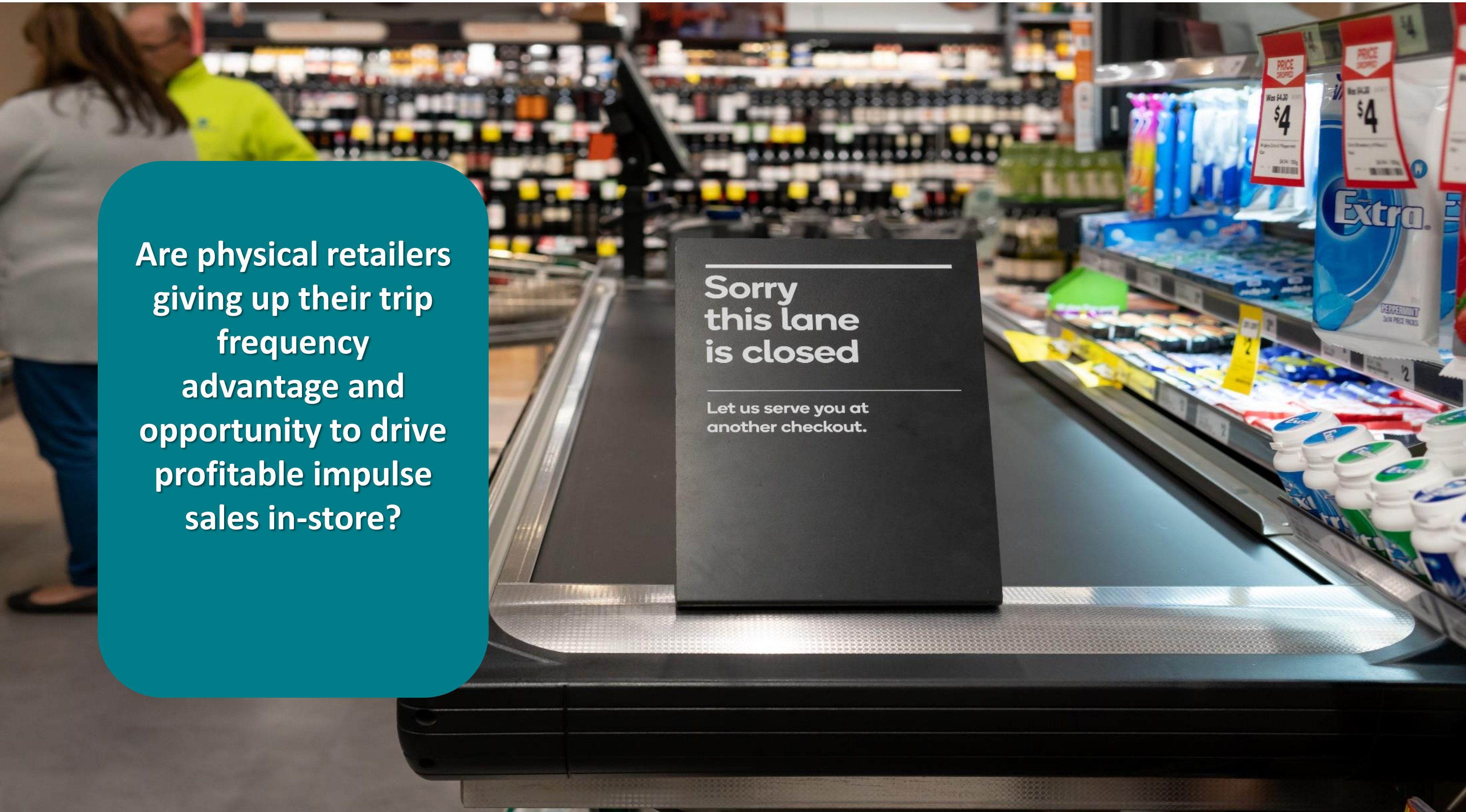
Internally, self-service retail solutions tend to be operational initiatives with focus on technology and efficiency



Self-checkout areas typically require the removal of 3 cashier lanes – space planning and register placement makes a significant impact on available merchandising space

But how do these decisions impact merchandising and financial performance? What about the shoppers' need states and performance of the checkout category?



Are physical retailers giving up their trip frequency advantage and opportunity to drive profitable impulse sales in-store?

*Source: Impulse Marketing Co Proprietary Research 2019

Consider, Checkout is a big, important category for retailers in both sales and profits

Rank	Product Category	Dollar Sales	Dollar Sales % Change vs YA
1	BEER/ALE/ALCOHOLIC CIDER	$10,713,897,281	1.2%
2	CARBONATED BEVERAGES	$10,634,757,678	1.1%
3	SALTY SNACKS	$10,431,677,802	2.8%
4	MILK	$9,077,777,597	-4.3%
5	FRESH BREAD & ROLLS	$8,946,773,087	0.0%
6	NATURAL CHEESE	$8,854,396,327	0.5%
7	WINE	$7,997,301,478	1.9%
8	BOTTLED WATER	$6,519,687,122	6.8%
9	**CHECKOUT**	**$5,539,040,640**	**-1.6%**
10	COFFEE	$5,299,418,237	1.5%
11	FRZ DINNERS/ENTREES	$5,052,191,042	1.0%
12	YOGURT	$5,005,859,478	-3.4%
13	COLD CEREAL	$4,896,789,250	-2.7%
14	ICE CREAM/SHERBET	$4,671,131,677	0.1%
15	BREAKFAST MEATS	$4,326,443,072	5.3%

Checkout accounts for almost 1% of total store sales and 1.2% of profits

It ranks as a top 10 category for retailers if measured as such

*Source: IMC Checkout Update 2018

And, the checkout category shoppers are valuable as they spend more per trip and more overall per year

	All Shoppers	Front End Shoppers
Total Store Spend per Trip	**$43**	**$57**

*Source: Kantar Consulting; THE STORE OF THE FUTURE: HOW TO PREPARE FOR THE EVOLVING FRONT END; Shoppergenetics latest 52 weeks ending 8/18

13.4% of trips include a checkout item, the biggest opportunity is to increase shopper purchase frequency via availability

Front-End spending per trip is

$3.03

Annual Front-End spending is

$31.61

*Source: Kantar Consulting; THE STORE OF THE FUTURE: HOW TO PREPARE FOR THE EVOLVING FRONT END; Shoppergenetics latest 52 weeks ending 8/18

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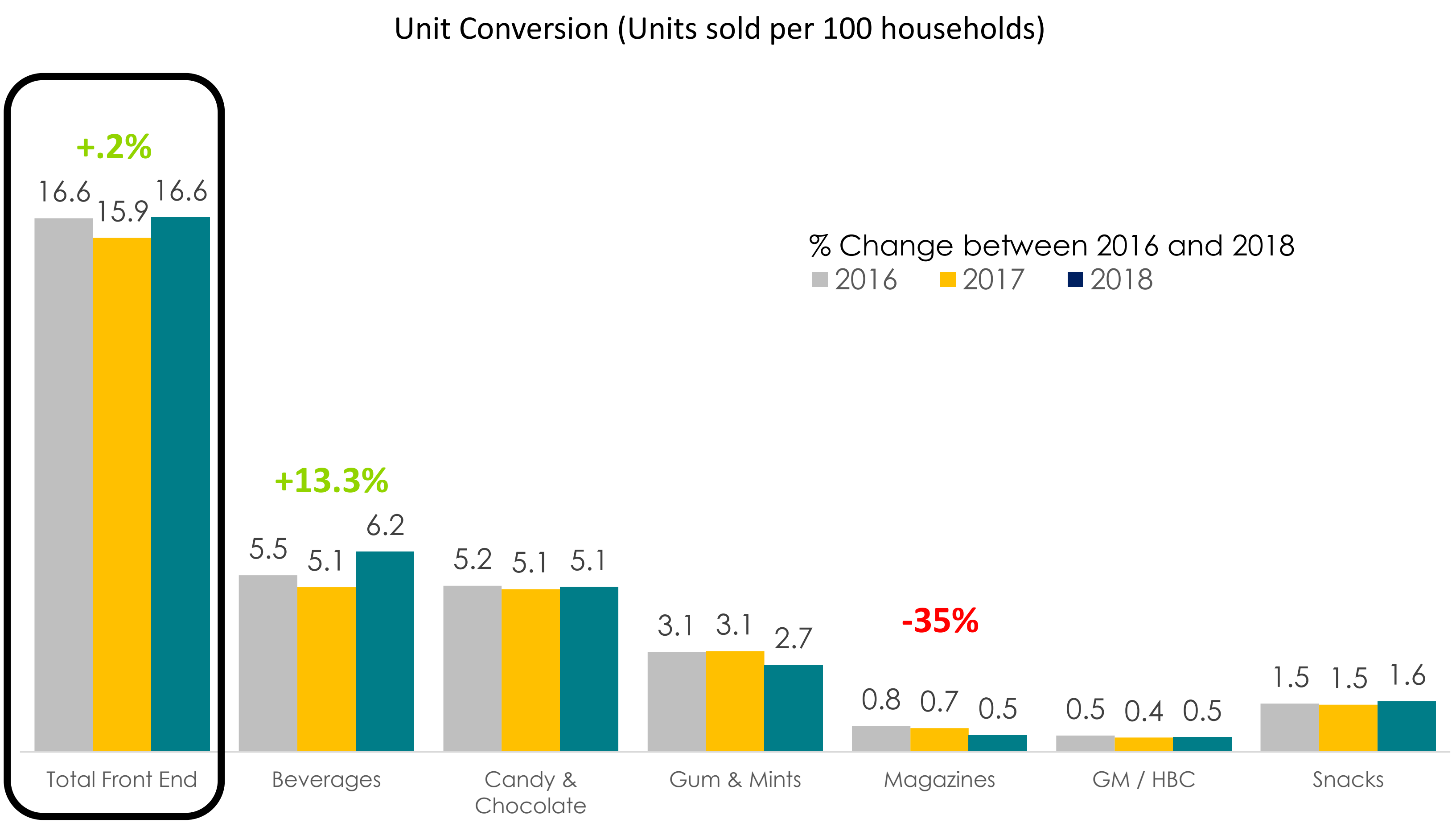
Shopper conversion is largely flat given the impact of self-checkout, a meaningful opportunity exists to improve performance by meeting the shopper's need state



*Source: IMC Checkout Update 2018

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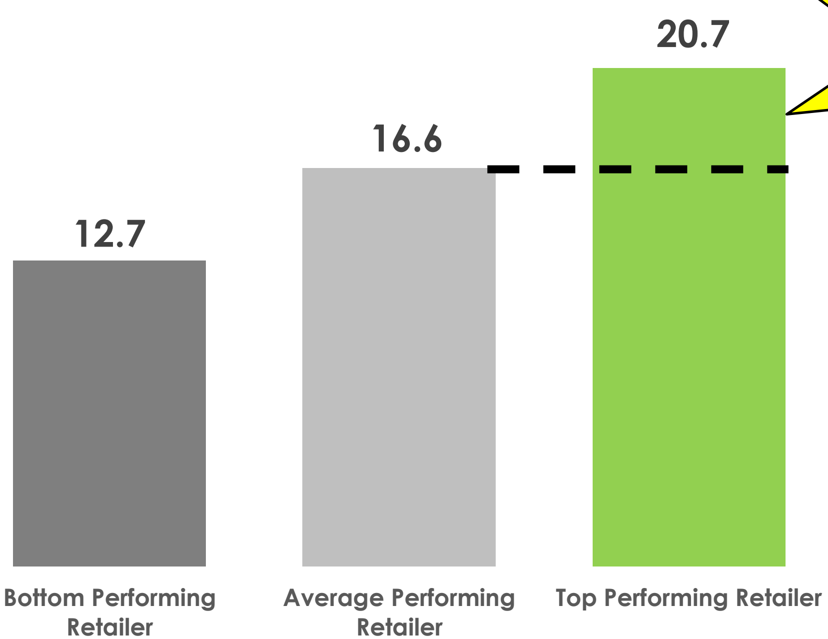
Moving average retail performers to top performers is worth $1.4B across the Grocery channel alone

Total Checkout Unit Conversion (Units Sold per 100 Customers)



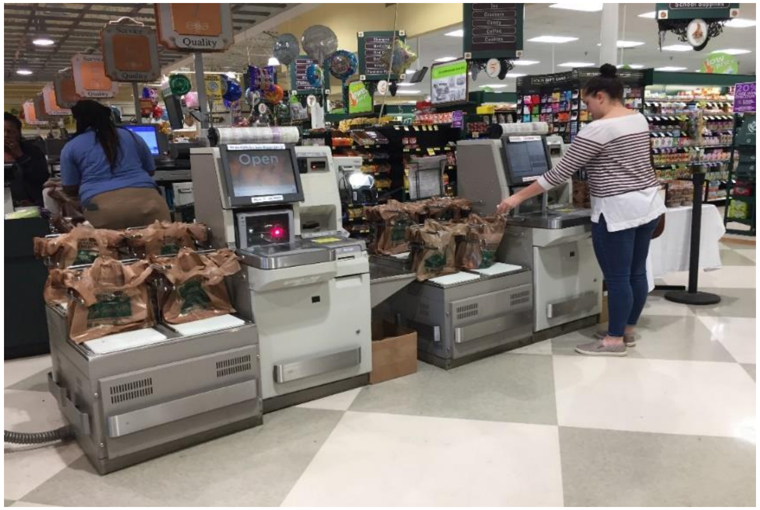
25% higher conversion

Value of Total Checkout Unit Conversion from Average Performing to Top Performing	Annual Per Store	Per Day / Per Store
$ Sales	$35,609	**$97.56**
Gross Profit	$9,475	$25.96
Total Profit (Net)	$11,569	$31.70

- 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

Self-checkout merchandising has been inconsistent at best across stores – how does this impact shopper satisfaction, conversion and financial performance?

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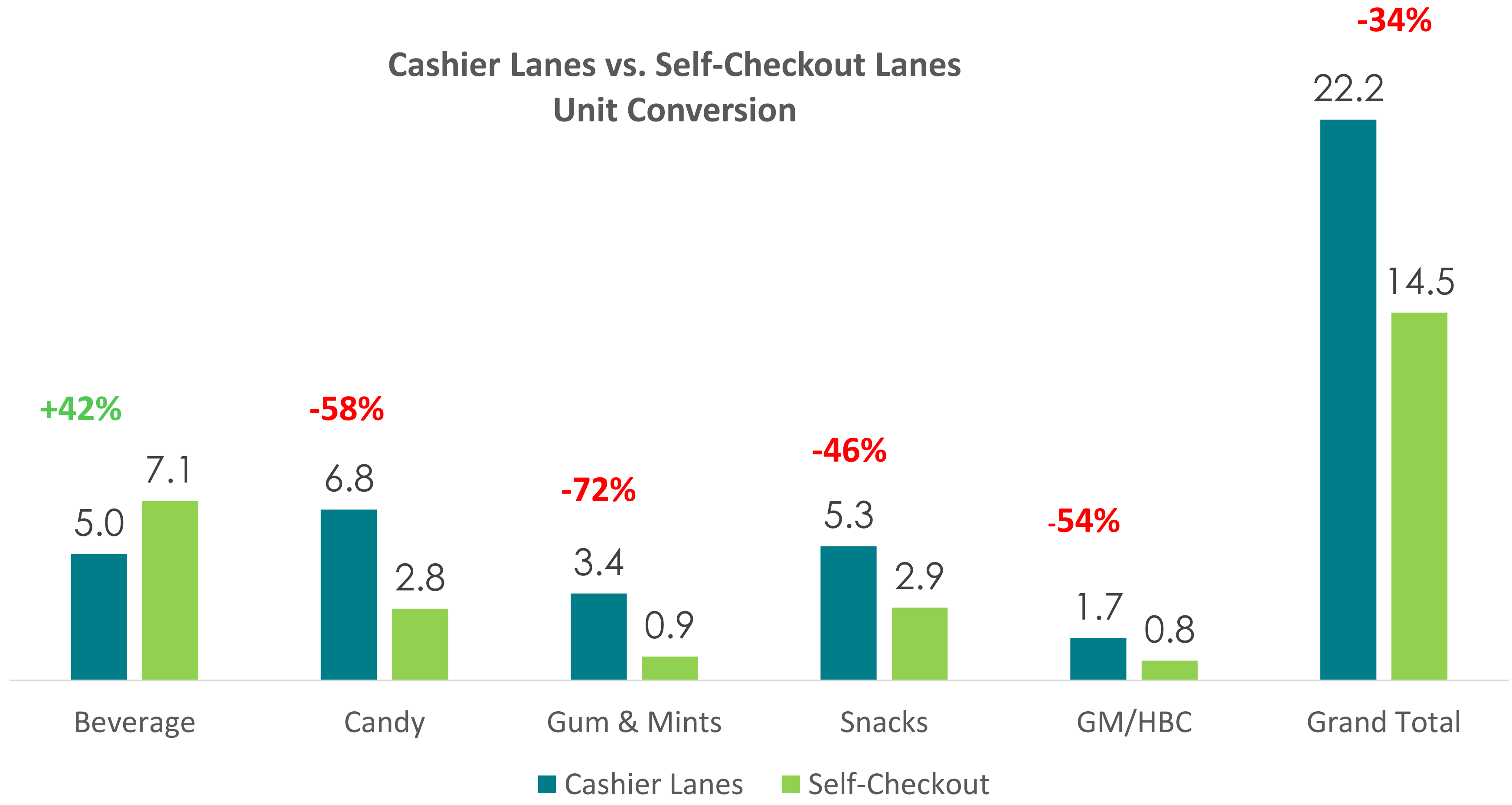
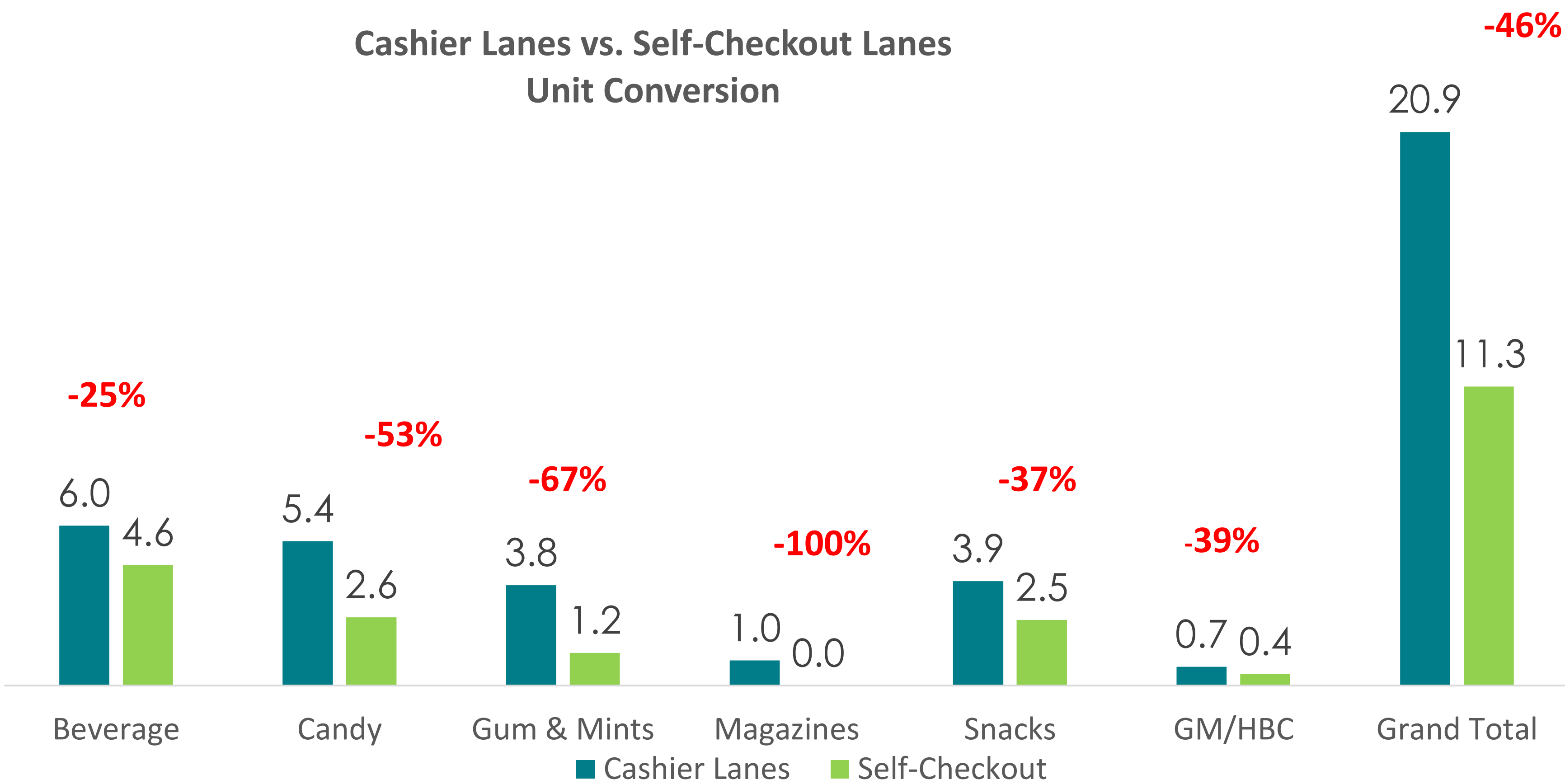
Impulse Marketing's work with one retailer shows that overall conversion decreases by **34%** with Gum & Mints as high as a 72% decline



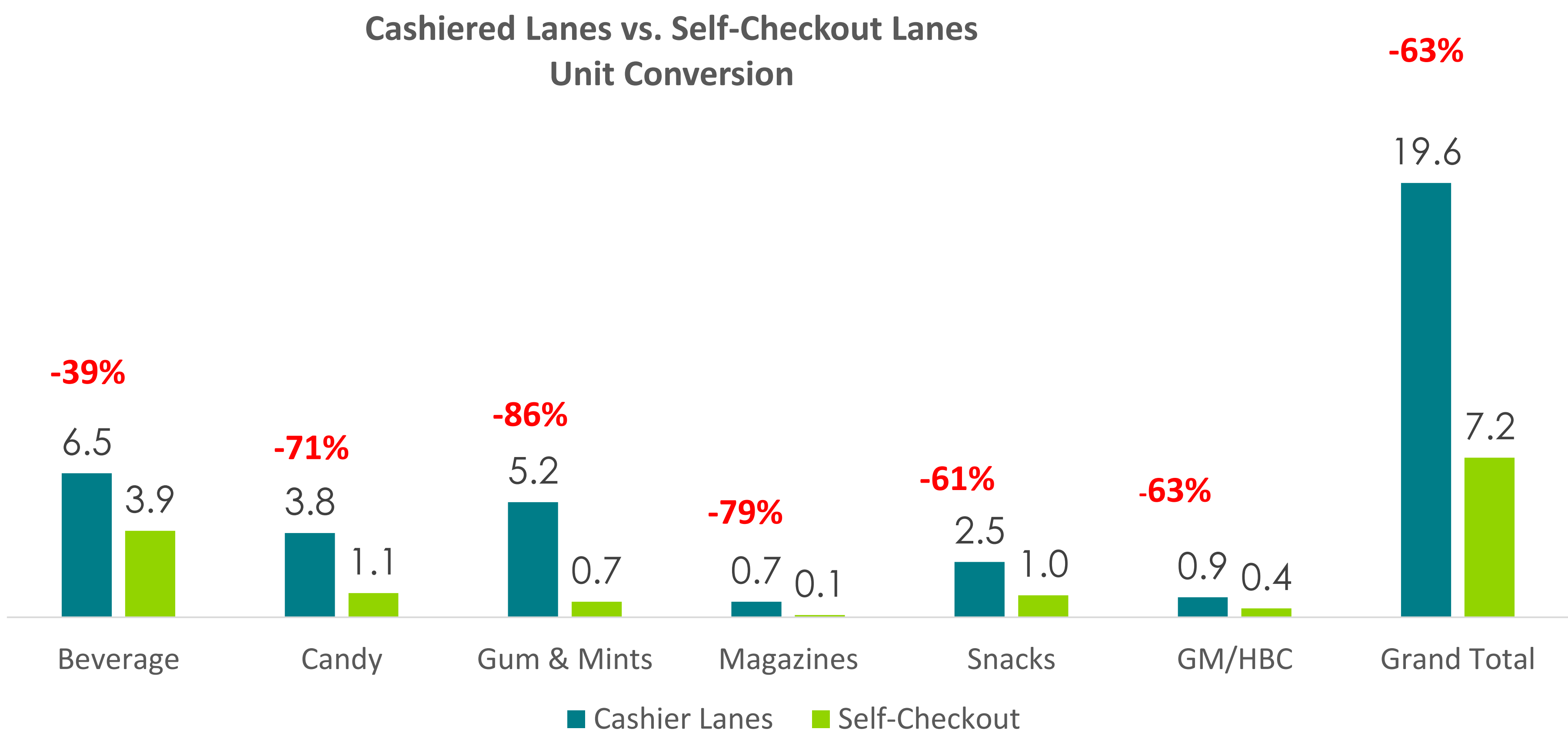
*Source: Impulse Marketing Co Proprietary Research 2019

Another retailer revealed average conversion declined by **46%** with all categories losing shopper conversion



*Source: Impulse Marketing Co Proprietary Research 2019

Yet another retailer experienced a **63%** decrease in shopper conversion and declines across all categories



*Source: Impulse Marketing Co Proprietary Research 2019

Does the shoppers no longer have immediate needs for a snack, beverage, or convenience item at self-checkout?

How convenient is it for them to have to search for their favorite snack in other areas of the store? Is this frictionless?

We think not!

Convenience is offering shoppers what they want to buy, at the point they want to buy it

Complete consumption, shopping, and engagement experiences need to intertwine product, place, purpose, process and technology with ease, utility, and simplicity

*Source: The Quest for Convenience, The Nielsen Company 2018

Research has shown that shoppers' mindset shifts when they are done shopping to reflect on immediate or "me-moment" needs

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And, consumers are snacking more than ever, macro-snacking is expected to grow by $16B – in next 5 years

47% of consumers have 3+ snacks per day – up 4 points since 2015

*Source: IRI How America Eats; 2019 State of Snack Industry

Certainly, options for where shoppers can buy snacks & drinks has significantly increased as has their demand for choice

		Total	18-24	55-64	65-74
Indulgent Snacks		53%	49%	52%	58%
Healthy Snacks		48%	34%	60%	61%
Cold Carbonated Beverages		41%	39%	38%	45%
Cold Bottled Water		41%	39%	33%	27%
Healthy Ready-to-Drink (Smoothies, Juices, Etc.)		33%	32%	26%	21%

37% of Consumers, however, say they are influenced at checkout as to what snacks they buy – and this varies across demographics

*Source: IRI Snacking Survey 2019, "You mentioned your snack purchase decisions were influenced by the checkout. What specifically influenced your decisions?

Retailers that understand and merchandise to their shopper's "need states" are winning in terms of loyalty and improved financial performance

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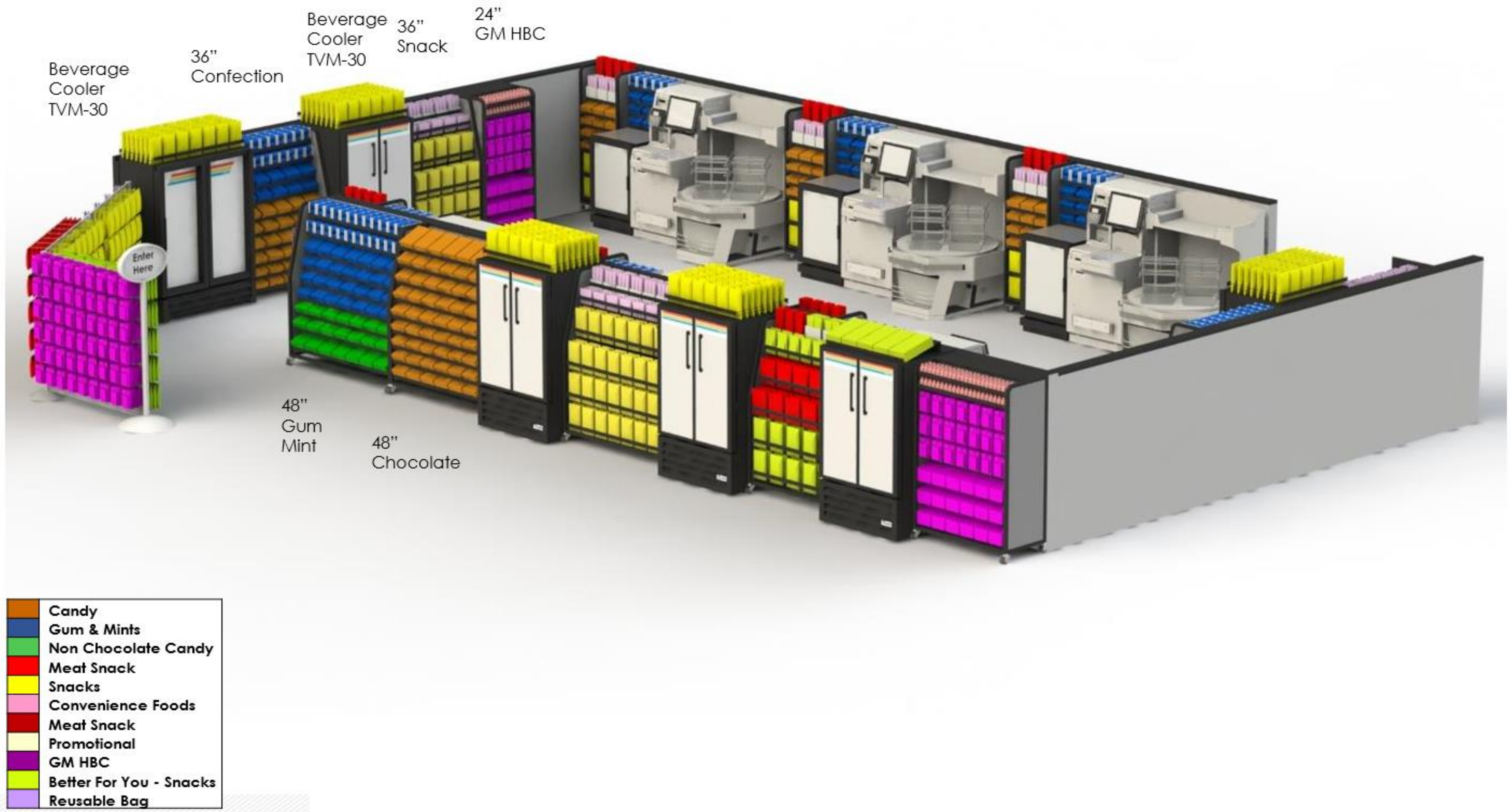
To achieve success, merchandising designs should offer a variety of choice across categories in locations that maximize shopper engagement and conversion



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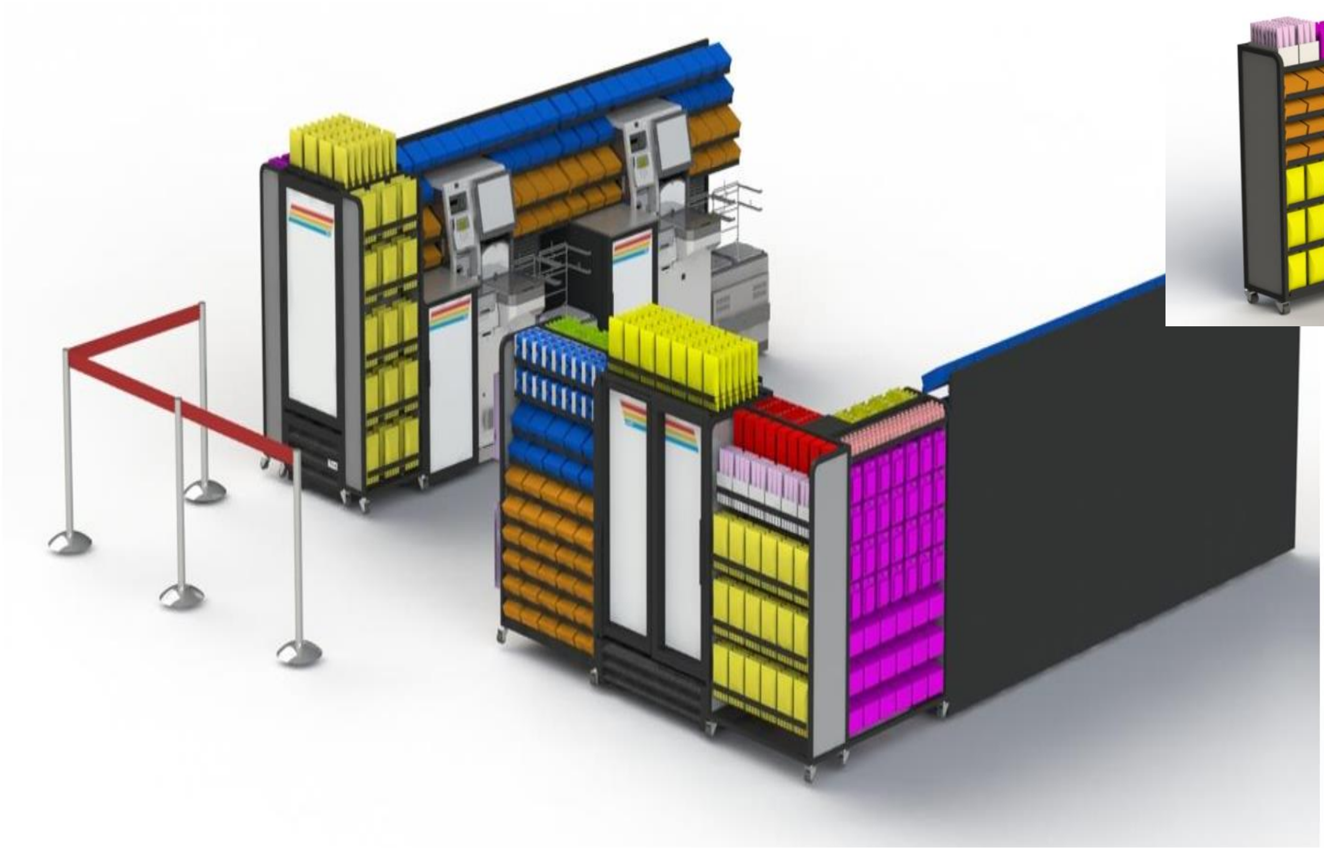
This requires Operations and Merchandising work together to create space for both an efficient transaction and great impulse shopping experience

Strategic planning can also include total transactions, basket size, store demographics, etc. to assess how many lanes and type of transaction points are needed by store

On-going performance evaluation across all stores, merchandising layouts, and transaction types is critical to adapt effectively to changing shopper patterns

Align on internal and external metrics to assess productivity and trends to make appropriate decisions on changes to assortment and merchandising design

In the meantime, there are interim solutions that can be created and implemented to mitigate losses and keep shoppers happy



Impulse Marketing are experts in delivering cross-category merchandising solutions to drive impulse sales and meet shoppers' needs states at checkout

Goal is to help Retailers and Brands create practical and actionable solutions to optimize merchandising and manage costs

Checkout Productivity Analysis

Program Optimization

Trusted Resource
+75%
Of US Grocery Retailers

Merchandising Design Development

In-Store Survey and Implementation Support

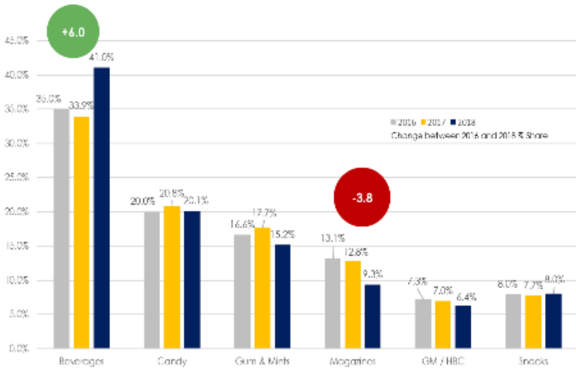
CHALLENGE: *What does your checkout category conversion look like and how do you compare to best in class retailers?*

IMC can help you assess your current merchandising and recommend strategies and tactics to help you be more successful in driving sales and delivering great shopper experiences

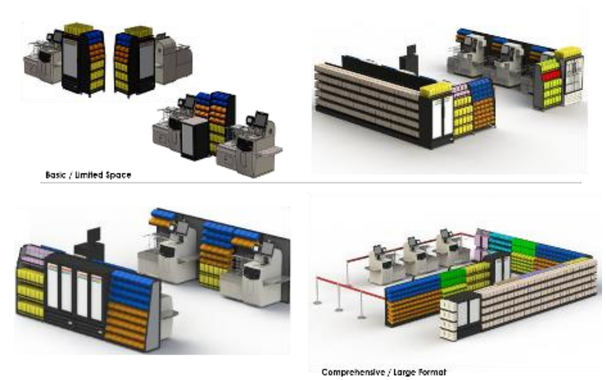
What's the health and financial performance of the checkout category in your stores?

APPENDIX

IMC's process yields category insights, turn-key solutions, and support services to help retailers build an effective, profitable merchandising program



% Share of Total Checkout $ by Category



Industry benchmarking, front-end insights, category trends, and recommendations

Customized checkout fixture designs optimized by category to work in all stores / formats

Strategies for effective self-checkout / queue line merchandising across all pay points in-store

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