Voice of the Industry:

THE FUTURE OF
THE FRONT END

HERSHEY

September 22, 2020
THE FRAMEWORK REMAINS
BUT THE SHOPPER ECOSYSTEM CALLS FOR EVOLUTION

### Planning
- **Definition & Segmentation**
- **Investment Strategy**
- **Assessment & Performance Analysis**
- **Pricing & Promotional Strategy**
- **Assortment & Spacing**
- **Shelving & Merchandising**
- **Shopper Communication**
- **Measurement & Evaluation**

### Executing
- **Product/Store-Based**
- **Trade Promotion**
- **Periodic Analysis**
- **Static/Regimented Promotion**
- **POG, Placement, Space**
- **Store Navigation, Flow, Adjacencies**
- **POS, Category-Centric**
- **Sales, Category Profitability**

### Measurement
- **Definition & Segmentation**
- **Investment Strategy**
- **Assessment & Performance Analysis**
- **Pricing & Promotional Strategy**
- **Assortment & Spacing**
- **Shelving & Merchandising**
- **Shopper Communication**
- **Measurement & Evaluation**

### New Variables to Manage
- **Product/Store-Based**
- **Trade Promotion**
- **Periodic Analysis**
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- **Shopper (Need/Occasion/Trip)-Based**
- **Media & Search Investment**
- **Ongoing Tracking and Optimization**
- **Dynamic, SKU-Level Pricing & Promotion**
- **Fulfilment, Substitutability, Keyword Strategy**
- **Search, Content, Taxonomy, Site Navigation**
- **Media, Content, Occasion/Basket-Centric**
- **Item/Basket Profitability, Search, Traffic, Conversion**
A Strategic Approach to identifying growth and optimization opportunities

- First in the industry to have a “front end team”
- Best in class partners across the industry offer informed perspective
- Leading data and insights focused on the total shopper
- Top-down approach provides solutions to achieve best in class results
COVID has accelerated changes in shopping behavior, and those changes are here to stay.
EMERGING TECHNOLOGIES ARE TRANSFORMING SHOPPING HABITS

Innovators (2.5%)  Early Adopters (13.5%)  Early Majority (34%)  Late Majority (34%)  Laggards (16%)

Current Adoption

Time

A Diffusion curve visualizes the evolution of the spread of new innovations technology. Within the rate of adoption, there is a point at which an innovation reaches critical mass—typically the fourth stage.

SOURCE: Edge By Ascential; The Future Of Impulse Tracker for The Hershey Company, 2020
CONTINUED DISRUPTION & EVOLUTION
AT FRONT OF STORE

Shift in Mix of Transaction Types

Profitability of Every Square Inch

Shift in Share of Space at Front of Store

Leaner Labor Models at Front End

The Expanding Role of the Front End of the Future

Bridge Online/Offline Experience for Shopper

Expectation of Flexibility and Ease

Digital Disruption

High Touch/High Contact Zone
Leading to consumers’ growing preference for a convenient, flexible, seamless experience

- Seamless & Frictionless Experience
- Asset-Light Lifestyles
- Health & Wellness
- Hyper-Personalization Expectations
- Accountability Transparency & Traceability
- Demands Experiential Environments
- Demands Convenience & Flexibility
- Immediacy Critical – Instant Gratification

SOURCE: Edge By Ascential; The Future Of Impulse Tracker for The Hershey Company, 2020
AMID THIS SHIFT, NEW TOUCHPOINTS HAVE EMERGED TO REPLACE THE TRADITIONAL FRONT OF STORE

- Traditional Front of Store Checkout Zone
- Associate Mobile Checkout
- Serviced Click & Collect
- Curbside Pickup
- Self Checkout
- Automated Click & Collect
- Digital Front End
- Self Scan
- Checkoutless
- Home Fulfillment

SOURCE: Edge By Ascential; The Future Of Impulse Tracker for The Hershey Company, 2020
THESE SOLUTIONS ARE AT VERY DIFFERENT STAGES OF DEVELOPMENT AND ADOPTION FOR GROCERY

**CURRENT ADOPTION**

- Innovators (2.5%)
- Early Adopters (13.5%)
- Early Majority (34%)
- Late Majority (34%)
- Laggards (16%)

**TIME**

- "Detectable"
- "Relevant"
- "Clear"
- "Inevitable"
- "The New Normal"

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**OPPORTUNITIES FOR ENGAGEMENT**

- Checkoutless
- Associate Mobile Checkout
- Self Scan
- Home Fulfillment
- Curbside Pickup
- Serviced Click & Collect
- Pickup
- Self Checkout
- Digital Front End
- Traditional Front End

SOURCE: Edge By Ascential; The Future Of Impulse Tracker for The Hershey Company, 2020
Retailers are rapidly adapting to evolution at the front of store.

Retail technology advancements are enabling more convenient checkout experience.

Operator goals often drive the change at the front of store.

The future of retail is ensuring the same experience online as shoppers get in store.

Changes present opportunities for engagement as the front of store evolves.
WHY IS FRONT END EVOLUTION SO CRITICAL?

Check-out is critical to **customer loyalty.**

Shoppers desire a **reward at check-out,** regardless of fulfillment type.

Check-out/front end is the last physical touch point the shopper has with the retailer’s brand.

Desire for **Personalization** in checkout type.

Shopper demand for **personalization** (right offer, right assortment, my shelf).

Efficiency of Merchandising

Engagement: **Create experiences with shopper needs in mind.**

Check-out experience ranks 3rd in importance to customer experience.

Front end is **ten times as productive in sales/profits per square foot** as remainder of store.

Lost opportunity at front end due to poor merchandising and assortment is estimated to be over $5B in food channel alone.

Technology Evolutions

Front end is **growing faster than rest of the store.**

Opportunity to optimize **CORE Pay Point Categories** to meet shopper needs and drive profitability.

Front end is **highly profitable for most retailers.**
CHECKOUT EXPERIENCE 3RD MOST IMPORTANT FACTOR IN CREATING CUSTOMER LOYALTY

BEST PART
TREAT TIME
RECHARGING
CLOSURE
FUN

STRESSFUL
RUSHED
LONG
CLUTTERED
NARROW

SOURCE: FRC Front End Cross-Category Research
6 PILLARS OF PAY POINT MERCHANDISING

1. RELEVANT
   EXPECTED AT CHECKOUT

2. RESPONSIVE
   UNPLANNED & INCREMENTAL

3. HOUSEHOLD
   MAXIMIZE POTENTIAL BUYERS

4. FREQUENCY
   REPEAT PURCHASES

5. DOLLARS
   MAXIMIZE PROFIT

6. PRODUCT
   CORE CATEGORIES
EVOLUTION OF A CONVENIENT FRONT OF STORE OFFERING CHOICE IN CHECKOUT

Mobile & Self Payment | Self Checkout | Semi Assisted Checkout | Flexible Service Checkout (Convertible) | Full-Service Checkout

BASKET SIZE

Medium/Large Quantity | Small/Medium Quantity | Medium/Large Quantity | Medium/Large Quantity | Large Quantity

SOURCE: NCR, HERSHEY-FRONT END/PAY POINT SUMMIT, 2020
POSITIVE CHECKOUT EXPERIENCES
CREATE CUSTOMER LOYALTY

Traditional Lane

“CONSUMABLES DRIVE 75% OF PURCHASES ON THE FRONT END”

Space allocation, category flow and product assortment
Flexible merchandising solutions
Optimize space for growth categories

+5-13%
GROWTH OPPORTUNITY
POSITIVE CHECKOUT EXPERIENCES
CREATE CUSTOMER LOYALTY

Self Checkout / Scan & Go

“MAXIMIZE ASSORTMENT AND CHOICE FOR YOUR SHOPPER BY IMPLEMENTING A GRID WALL AT SCO”

Merchandising with technology
Maximize assortment and choice

+6-8% GROWTH OPPORTUNITY
POSITIVE CHECKOUT EXPERIENCES
CREATE CUSTOMER LOYALTY

Queueing

“QUEUEING ENHANCES EXPERIENCE (SOCIAL JUSTICE) AND PRODUCTIVITY (CONVERSION)”

Queueing enhances shopper experience and productivity

Modular queueing solutions
Expanded assortment

+10-20% GROWTH ON QUEUE ITEMS

+8 POINTS
Control Test CONVERSION
POSITIVE CHECKOUT EXPERIENCES
CREATE CUSTOMER LOYALTY

Alternative Fulfillment

Same checkout experience at all points of fulfillment
Merchandising solutions
Impulse and reward opportunities
“On-the-Go” frictionless solution
Our Retail Experience Team can support a variety of Pay Point projects, including total front of store evolution.

- Space optimization at all check outs
- Queueing design and implementation
- Tactics for alternative fulfilment
- Front of store layout and design
- Creating modular and flexible front ends to plan for the future
- Creating new impulse occasions

For more information, please contact us at RetailRevolution@hersheys.com
PROVIDE RETAIL STRATEGY AND RECOMMENDATIONS THAT GO BEYOND THE SHELF

Center Store

SHELF  Aisle  Valley  Snack Zone
For more information, please contact us at RetailRevolution@hersheys.com