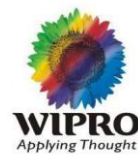
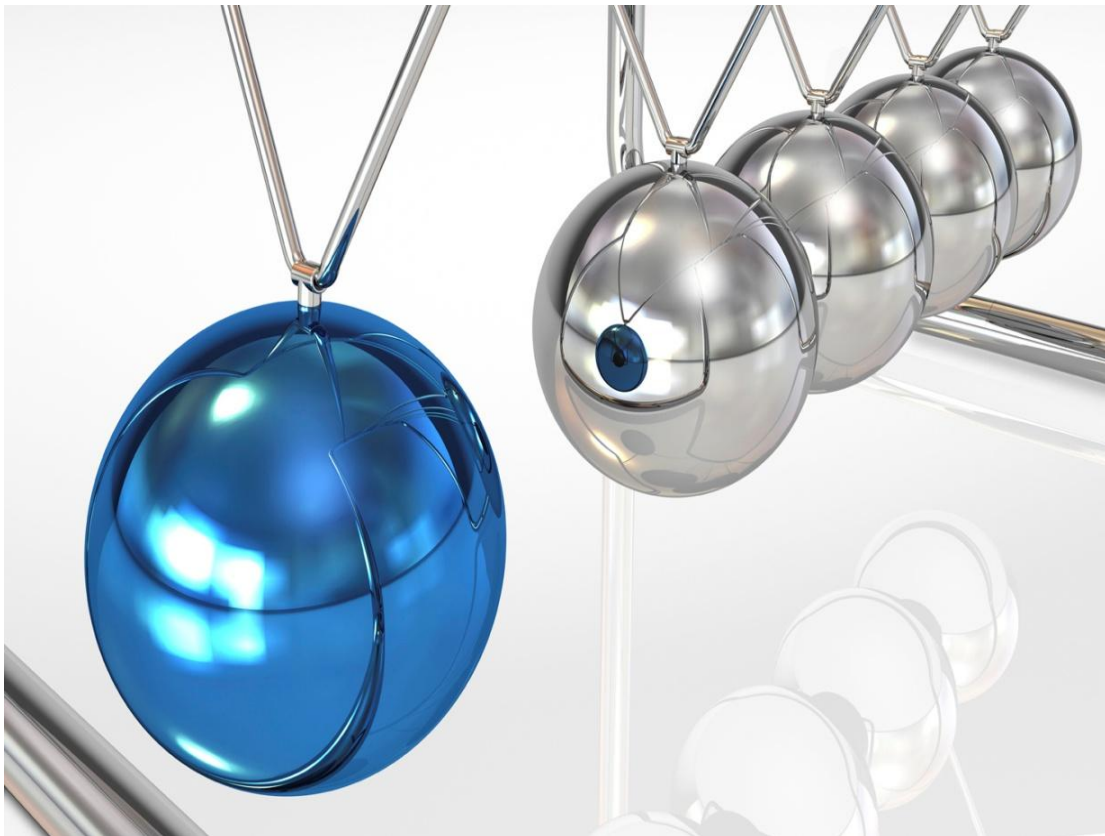


The Impact of Sales and Procurement on Reverse Logistics Management



About FMI

Food Marketing Institute (FMI) conducts programs in public affairs, food safety, research, education and industry relations on behalf of its 1,500 member companies - food retailers and wholesalers - in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores and 14,000 pharmacies. Their combined annual sales volume of \$680 billion represents three-quarters of all retail food store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from more than 50 countries. FMI's associate members include the supplier partners of its retail and wholesale members. For more information, visit the FMI Web site at www.fmi.org

About GMA

Based in Washington, D.C., the Grocery Manufacturers Association is the voice of more than 300 leading food, beverage and consumer product companies that sustain and enhance the quality of life for hundreds of millions of people in the United States and around the globe.

Founded in 1908, GMA is an active, vocal advocate for its member companies and a trusted source of information about the industry and the products consumers rely on and enjoy every day. The association and its member companies are committed to meeting the needs of consumers through product innovation, responsible business practices and effective public policy solutions developed through a genuine partnership with policymakers and other stakeholders.

In keeping with its founding principles, GMA helps its members produce safe products through a strong and ongoing commitment to scientific research, testing and evaluation and to providing consumers with the products, tools and information they need to achieve a healthy diet and an active lifestyle.

The food, beverage and consumer packaged goods industry in the United States generates sales of \$2.1 trillion annually, employs 14 million workers and contributes \$1 trillion in added value to the economy every year. For more information, visit the GMA Web site at www.gmaonline.org.

About Wipro Technologies

Wipro Technologies, the global IT business of Wipro Limited (NYSE:WIT) is a leading Information Technology, Consulting and Outsourcing company, that delivers solutions to enable its clients do business better. Wipro Technologies delivers winning business outcomes through its deep industry experience and a 360 degree view of "Business through Technology" – helping clients create successful and adaptive businesses. A company recognised globally for its comprehensive portfolio of services, a practitioner's approach to delivering innovation and an organization wide commitment to sustainability, Wipro Technologies has 120,000 employees and clients across 54 countries. For more information, please visit www.wipro.com

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Introduction	2
Objectives and Methodology	2
Unsaleables Defined	3
Acknowledgements	4
Top Challenges	5
Managing Discontinued and Expired Products	5
Managing, Capturing and Enabling	5
Key Findings	7
Finding 1 - Shelf Life Management Required	7
Finding 2 - Coordinated Planning Required.....	10
Finding 3 - Opportunities to Formalize Collaboration	14
Finding 4 - Accountability, Incentives and Education Drive Behavior.....	16
Finding 5 - Demand Chain Management Opportunities	19
Recommendations	21
Bibliography	23

Introduction

Objectives and Methodology

An element of unsaleables management that has come into focus in recent years is the impact of sales and procurement (internal sales, field sales organizations, sales and marketing agencies/brokers, merchandising, procurement and operations) on the volume of unsaleables. This document will reveal the findings of a study commissioned by the Joint Industry Unsaleables Leadership Team (JIULT) to better understand the effect of sales operations on unsaleables, provide recommendations to reduce the incidence of unsaleables, and raise industry awareness of future trends.

The study was conducted in four phases:

1. *Data Collection:* Development and issuance of a 28 question survey specific to JIULT manufacturer and retailer members ([Table 1](#)).
2. *Validation:* Individual interviews with 16 subject matter experts split evenly between manufacturers and retailers.
3. *Analysis:* In-depth analysis of the survey results, interview results, and published reports.
4. *Synthesize Findings:* Review and summary of the findings with industry experts.

Table 1 – JIULT Members

Abbott Nutrition	The Dial Corporation
C&S Wholesale Grocers, Inc.	Energizer Holdings, Inc.
Campbell Soup Company	General Mills, Inc
Church & Dwight Company, Inc	Harris Teeter, Inc.
Clabber Girl Corporation	H-E-B
Coca-Cola North America	The Hershey Company
ConAgra Foods	H.J. Heinz Company
CVS Caremark Corporation	Kraft Foods Inc.
Delhaize America, Inc.	Kellogg Company

Table 1 – JUILT Members (Cont.)

The Kroger Company	SUPERVALU INC.
Land O'Lakes, Inc.	Petco Animal Supplies, Inc.
Mars Chocolate North America, LLC	Pharmavite LLC
Nash-Finch Company	Rite Aid Corporation
Nestlé Purina PetCare Company	Unilever
Nestlé USA, Inc.	Walgreen Company
The Procter & Gamble Company	Walmart Stores, Inc.
Safeway Inc.	Welch Foods, Inc.
S.C. Johnson & Son, Inc.	Winn-Dixie Stores, Inc.

The report is organized into the following three sections:

Section 1: Top Challenges: Summarizes the current challenges manufacturers and retailers are experiencing in unsaleables.

Section 2: Key Findings: Outlines the current state of unsaleables and related challenges experienced by manufacturers and retailers in sales operations.

Section 3: Recommendations: Provides recommendations for reducing unsaleables and resolving key challenges utilizing industry leading practices.

Unsaleables Defined

For purposes of this report, unsaleables are defined as consumer products which are removed from the primary channel of distribution for any reason (damaged, discontinued, or expired) and which may or may not be processed through product reclamation centers.

Acknowledgements

Wipro Technologies would like to thank GMA for providing the opportunity to develop this report for the industry. We would like to recognize the Joint Industry Unsaleables Leadership Team for their time and contributions to this effort.

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Mr. George Thrower,
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Harris Teeter, Inc.

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Kraft Foods Inc.

Mr. Gary M. Piwko
Director, Remarketing & Returns
Management
Kellogg Company

Co-Chair

Ms. Christine Taber
Reverse Logistics Manager
Church & Dwight Company, Inc.

Mr. David A. Aukstikalnis
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Wipro Technologies and GMA would like to recognize the many individuals from consumer products manufacturers and retailers who supported this research by providing interviews and/or completing the survey.

Finally, we extend our special thanks to GMA and FMI, specifically Logan Kastner and Patrick Walsh who provided oversight and facilitated the study.

Top Challenges

“If you look at trends, most of the damages are going down – what is going up is conversion cost and expired product.”

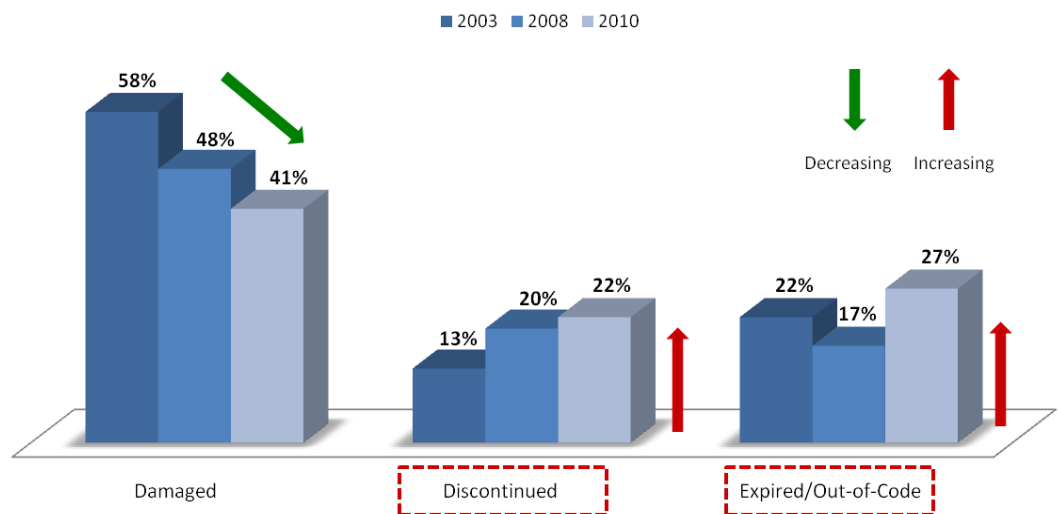
- Retailer Executive

Managing Discontinued and Expired Products

Unsaleables continue to be a significant cost factor to both manufacturers and retailers. Study results indicate that annual average unsaleables rates, as a percent of gross sales, are .96 percent for manufacturers and 1.13 percent for retailers. The potential cost impact to the study participants is over \$2 billion annually.¹

Expired and discontinued products represent a major challenge to manufacturers and retailers in reducing the cost of unsaleables. These two categories combine for over 50 percent of the total unsaleables incurred and have increased steadily in significance the past three years and show no signs of slowing ([Figure 1](#)).

Figure 1 – Unsaleables by Type



Source: Adapted from the GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics; GMA, FMI 2003 Unsaleables Sales & Procurement Study Results; GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Though those two categories have increased, manufacturers and retailers have made noteworthy improvement in reducing the incidences of damages from 48 percent to approximately 40 percent over the past three years.² This is a positive indicator that focused efforts achieve results, but challenges and opportunities remain to make further impacts.

Managing, Capturing and Enabling

The top challenges facing manufacturers and retailers in reducing unsaleables are quite similar. In consolidating and weighting the

¹ Wipro Technologies, Analysis

² Deloitte Consulting, 2008 Joint Industry Unsaleables Report

feedback from both parties the results indicate there are five shared challenges which impact the overall cost and process of managing unsaleables ([Figure 2](#)). These challenges are:

1. Managing Open Code Dating/Expired Products

- Managing the physical, financial and information flows to ensure optimal remaining shelf life and reduced volume of expired products

2. Managing New Product Introductions/Discontinued Items

- Coordination between manufacturers and retailers on new product launches and product discontinuations to ensure optimal sales, balanced inventory, and minimal unsaleables

3. Capturing and Providing the “Right” Data

- Leveraging of business capabilities by capturing relevant data and subsequently providing that information to trading partners to enable enhanced decision-making

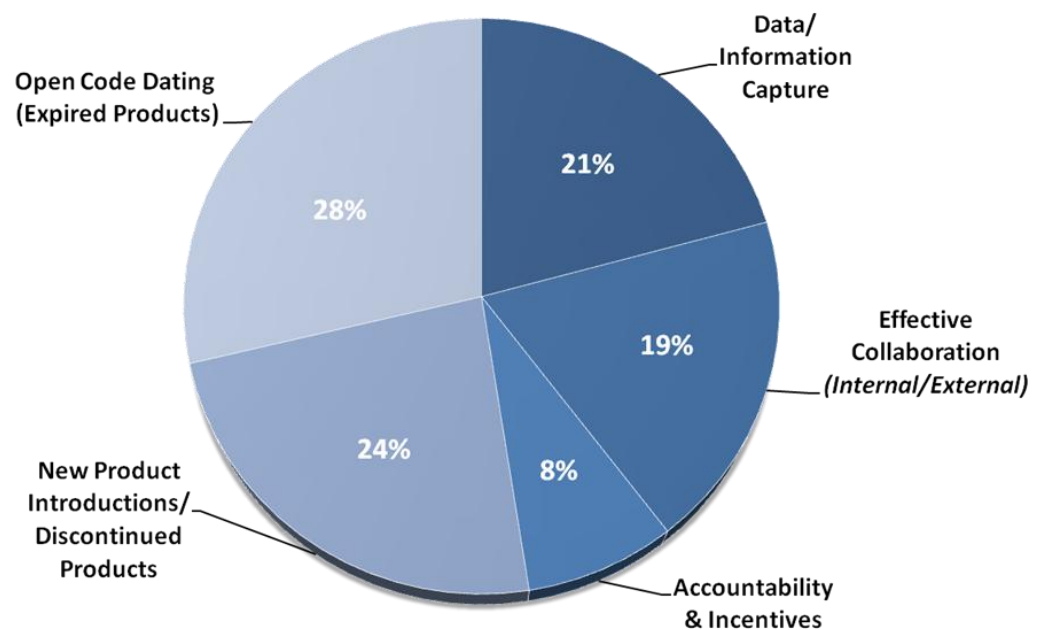
4. Enabling Effective Collaboration Internally and Externally

- Establishing mutually agreed-upon objectives with defined roles and responsibilities supported by an enabling process and shared metrics

5. Ensuring Proper Accountability and Incentives

- Aligning accountability and incentives within cross-functional areas to address opportunities, gain an understanding of total cost, and ensure commitment to take action to reduce unsaleables

Figure 2 – Top Unsaleables Challenges



Key Findings

“Products are coming into the warehouse with thirty (30) days shelf life [remaining].”

- Retailer Executive

“[Shelf life] is an area we are looking at closely. Today we have minimum guaranteed remaining days.... We are reviewing the potential of offering a minimum guarantee based on percent of manufactured code life.”

- Manufacturing Executive

Finding 1 - Shelf Life Management Required

Expired and out-of-code products contribute approximately one-third to the overall cost of unsaleables resulting in an estimated \$700 million in expenses for the study group.³ For the combined industries, the financial impact is well into the billions of dollars. This does not include any potential liabilities incurred from inadvertently selling expired or out-of-code products.

Reducing the proliferation of expired and out-of-code products is a priority for manufacturers and retailers; however, the solution is not an easy one as several factors contribute to the issue, including consumer confusion regarding the date or code stamped on products. In addition, neither side completely agrees as to the root cause of the problem. What is evident is that better management of product shelf life is required to reduce the amount of unsaleables. This includes education and execution in four specific areas.

Remaining Shelf Life Disconnect

The concern over remaining shelf life dominates the conversation between manufacturers and retailers. Manufacturers report that they are shipping products to retailers with sufficient shelf life remaining; while retailers are indicating this is not consistently occurring.

Given the advances in technology, strong process manufacturing software solutions can enable companies to establish an effective product shelf life management program. Within the system, manufacturers can establish shelf life parameters by product group or category to ensure products are being shipped within agreed upon shelf life parameters. Retailers may also establish minimum shelf life requirements and reject items from being received within the actual shelf life tolerance – avoiding rejecting items in “anticipation” there will be insufficient time to sell thru. This capability should ensure, near 100 percent, that no products are introduced onto the shelf without sufficient remaining life – yet it is happening.

Our findings indicate that technology is not the limiting factor in connecting end-to-end shelf life between manufacturers and retailers. The disconnect resides in the material master set-up on both sides either due to process failures and/or as a result of the differences in shelf life guarantees provided by manufacturers. For example, manufacturers speak in terms of average product life given; while retailers want to know specific dates. In addition, manufacturers differ in their approach in providing shelf life guarantees either by remaining days or percent of manufactured code life.

³ Wipro Technologies, Analysis

This is not to suggest that the manufacturer has sole responsibility, but rather to outline that better coordination and planning needs to take place to ensure product master data is synchronized and validated by both parties to ensure product shelf life is connected and managed.

Product Rotation Execution

In support of connecting product shelf life, retail establishments work towards maximizing shelf life by using stock rotation to move products with the earliest sell by date to the front of the shelf. This is essential to ensuring that expired and out-of-code unsaleables are reduced.

Since most products contain open codes an increased level of rotation at retail stores is called for as consumers are paying attention to expiration dates, with 77 percent of consumers claiming they regularly check product code dates.⁴ Given the conventional supermarket has more than 15,000 items, rotation execution at the retail level is a significant challenge.⁵ The majority of retailers in our study report that proper product rotation is occurring; however, the data collected suggests room for improvement. Supporting proper product rotation is the need for customized planograms to fit fast/slow moving items with high/low volume stores. In addition, retailers should ensure policies and procedures are in place to avoid rotating items off the shelf prior to the shelf life limit being reached.

Product Dating Variances

The lack of standardized product date coding practices contributes to the challenges in managing the shelf life of a product in that retailers report difficulty understanding established code dates within the same product families.

Manufacturers, with the adoption of open code dating, tended to be conservative in some brands in estimating the shelf life of a product thereby reducing the effective time a retailer had to potentially sell that item. For example, one brand when transitioning to open code dating reduced the shelf life from 36 to 24 months without changing the packaging or product contents.⁶ Given the importance of delivering a high-quality product that has not degraded in color, texture or taste over time to brand equity, the transition to shorter shelf life could be a valid approach under open-code dating.

Further contributing to product variances and potentially reducing the “real” shelf life of a product is the proliferation of accelerated product

⁴ Insight Express, Online Survey, November 2008

⁵ FMI, Supermarket Industry Overview, 2008 (15,000–60,000 SKU's)

⁶ Wipro Technologies, Analysis

“We work internally with our Customer Service Team to identify those accounts with minimums on when they will accept short dated product.”

- Manufacturing Executive

testing. When new products are developed, manufacturers want to get them on the market as soon as possible without waiting a year for the product information needed on the packaging. Therefore, they may get data on nutrition and shelf life through the use of accelerated testing. Under this scenario the product might be subjected to greater than usual temperatures and/or humidity to simulate a year’s time in a few months. This may result in a less than accurate quality assessment (but does not compromise food safety), impacting the final shelf life determination and reduced time for the retailer to sell the product.⁷

Consumer Confusion

The final aspect impacting proper shelf life management is the consumer and their attitude and perception of what the product code dates really mean. Such wording as "use by, best by, best if used by" dating creates some confusion with the consumer who then determines the freshness or remaining useful life of the product independently.

A new study says that 76 percent of U.S. consumers mistakenly believe certain foods are unsafe to eat after the date printed on the packaging has passed.⁸ In addition, 61 percent of consumers mistakenly believe the printed date (sell-by) is the final date they can consume the product.⁹ The result is a direct impact to the volume of expired and out-of-code products.

Retailers prefer the sell-by date since that directly provides a reference for rotation practices and shelf management; while consumers prefer best-if-used by date. Regardless of which dates are applied, the majority of consumers are confused.

To start solving this problem some companies are considering using a food label or intelligent barcode initially for meat and produce items which changes its color by reacting to ammonia given off by food as it ages. When the food is no longer edible, the food label makes the bar code unreadable and thus not available for purchase.¹⁰

⁷ Susan Brewer, Ph.D., University of Illinois, Department of Food Science and Human Nutrition

⁸ ShelfLifeAdvice.com and Harris Interactive Study, July 2010

⁹ Sankar Sen and Lauren G. Block. "Why My Mother Never Threw Anything Out: The Effects of Product Freshness on Consumption." *Journal of Consumer Research*: June 2009.

¹⁰ Packaging of the World, Fresh Label, June 2010

Finding 2 - Coordinated Planning Required

The findings of our research indicate that sales and procurement organizations have an opportunity to improve their joint planning processes with respect to new product launches, product discontinuations, exit strategies and execution of sales promotions to better manage and reduce unsaleables.

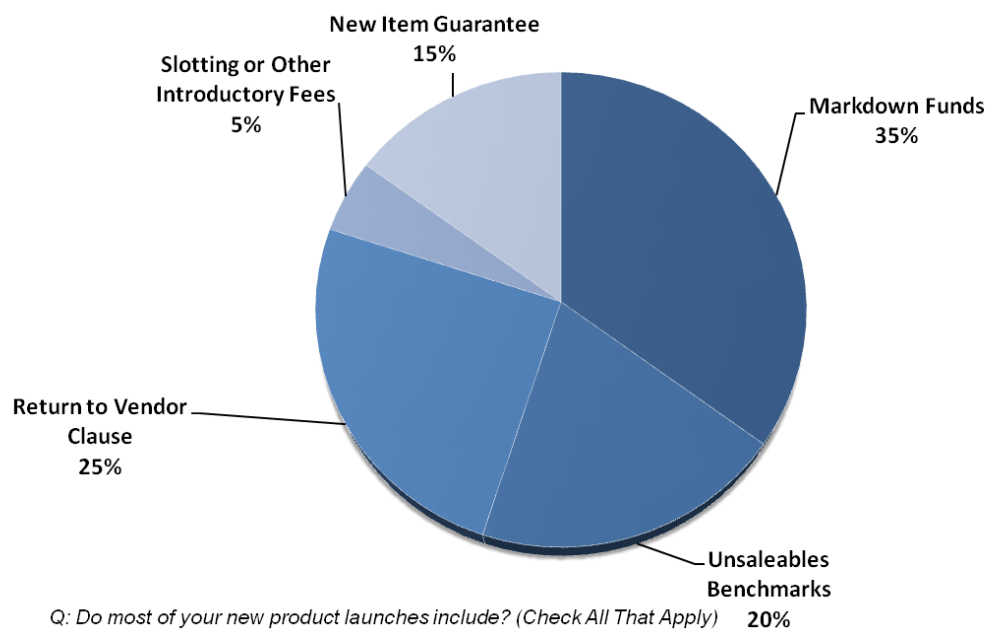
New Product Launch

New product introductions are essential to the growth of consumer products companies. Supporting those introductions a coordinated and planned process is critical to ensuring sales and margin goals are achieved and that inventory levels are appropriate to support consumer demand. In addition, coordination regarding planograms and product placement is necessary to drive sales volume.

According to a 2009 survey more than 50 percent of consumer respondents cited the store shelf as their first introduction to a new product, as opposed to traditional advertising.¹¹

As critical as new product introductions are the findings from our study indicate that 28 percent of manufacturers do not address key aspects of new product launches to ensure full retailer involvement; and 20 percent do not include unsaleables benchmarks to identify new product introduction execution results (Figure 3).

Figure 3 – New Product Launch Components



Source: GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics

¹¹ Nielsen, Research, 2009

Furthermore, manufacturer internal collaboration during launch (marketing, sales, supply chain, manufacturing, finance and procurement) does not occur in 25 percent of new product launches.¹²

Many retailers are structured in such way that their multiple functions (category management, procurement, store operations) do not work with each other to optimize new product launches, compounding the challenges of new product introductions.

The impact to unsaleables can be substantial when a new product introduction is not properly planned between sales and procurement to ensure sufficient stock is on-hand. Five percent of new product introductions fail due to inventory shortage and availability and another 11 percent fail due to an inefficient commercialization process.¹³

Though opportunities do exist for improvement some companies are applying leading practices to ensure new product introduction success. Some examples identified include:

- Using retailer data to track new products through the supply chain, all the way to the shelf and register
- Collaboration with retailers on planogram, quantities, shipment timing, retail reset support requirements, and promotional support/pricing
- Working with retail buyers to review comparable launches to estimate demand and then shipment timing

Discontinued Products

The decision to discontinue a product is either triggered by profitability, seasonality, velocity, or new item offering decisions from the manufacturer or the retailer. The coordination of those events is essential to optimize sales and minimize unsaleables; however, our findings indicate that, for the most part, discontinued items are not managed as an integrated process. Delayed and scarce communication about discontinued products, both inside an organization as well as between trading partners, is one of the core issues driving inefficiencies.

There is no consistent practice for the inclusion or exclusion of discontinued items. In some cases, discontinued products are considered unsaleables, yet in others, they are sold in markdown

¹² AMR Research, Innovation in Consumer Products, 2008

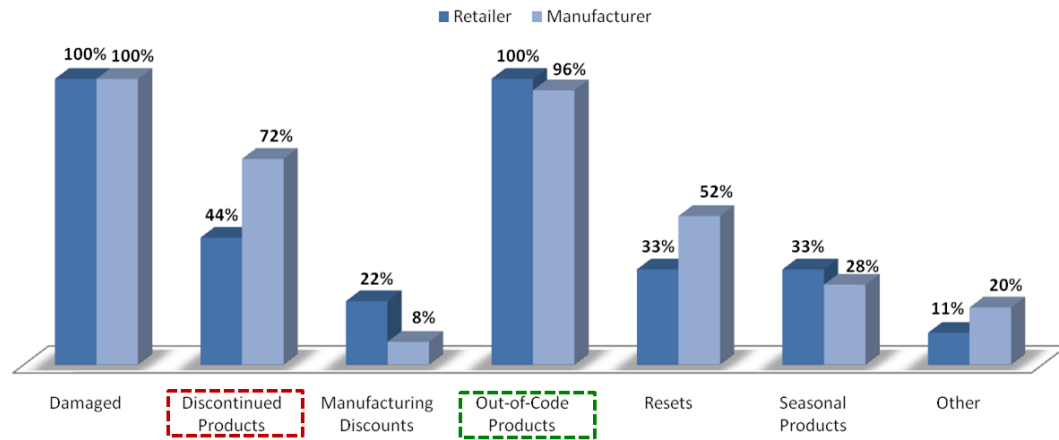
¹³ Ibid

“Discontinued items are not included in our unsaleables compensation, but as we understand the industry shift we are proposing a more holistic approach that will ensure all players have some skin in the game.”

– Manufacturing Executive

programs and not tracked as unsaleables. Approximately 60 percent of retailers and 30 percent of manufacturers do not classify discontinued products as unsaleables ([Figure 4](#)).

Figure 4 – Discontinued Products



Q: What categories are classified as unsaleables in your organization? (Please check all that apply)

Source: GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics

This requires that each party work harder to plan ahead and ensure the approach to discontinuing items is understood and mark-down programs are effectively coordinated to limit unsaleables. What is occurring as the number of discontinued products increase is a subsequent increase in the use of markdowns to deal with this issue. Markdowns are generally charged back to the manufacturer, minimizing the profit impact to the retailer, and the typical markdown cost to the manufacturer is less than the corresponding unsaleables cost. Nevertheless, strong coordination is required to ensure discontinued items are managed efficiently to minimize unsaleables.

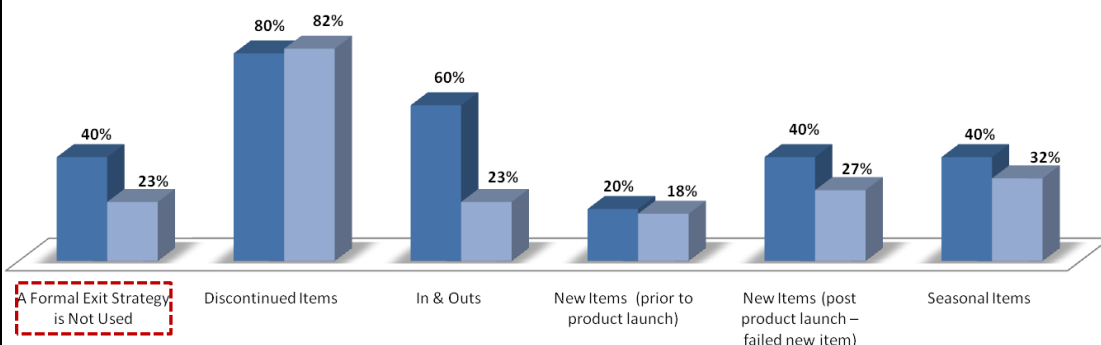
Survey respondents indicate that they are experiencing information gaps and a fragmented process. In several examples procurement was buying items two weeks before the discontinued date resulting in excess product. Sales and broker teams were not aware the product was being discontinued; and category and marketing managers failed to inform their replenishment and purchasing departments respectively that items were being discontinued, resulting in excess product.

Exit Strategies

The ability to swiftly remove product from the market with minimal commercial impact and cost is essential in limiting the impact to unsaleables. While companies have been constructing their new product development skills, very few have focused on their ability to

successfully remove products from the market. Our findings indicate that manufacturers apply exit strategies to varying degrees dependent on the type of product (new item, seasonal, discontinued). Seventy-seven percent of manufacturers confirm they use a formal exit strategy, but mostly with discontinued products. As outlined above that process is not integrated. Twenty-three percent of manufacturers do not use a formal exit strategy to remove products from the market (Figure 5).

Figure 5 – Exit Strategies Used ■ Retailers ■ Manufacturers



Q: Retailer - Please indicate in what areas the manufacturer routinely advises you on the product exit strategy?
 Q: Manufacturer - Please indicate for which products your company utilizes a formal exit strategy with your partners.

Source: GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics

Certainly new products are not introduced to fail, but not having an exit strategy is a concern given the historical failure rate is 60-80 percent, exceeding 90 percent for some categories. The reality is that the majority of new products will not succeed. Over the past 15 years less than 3 percent of new products achieved more than \$50 million in one-year sales; while 78 percent achieved less than \$7.9 million in one-year sales.¹⁴

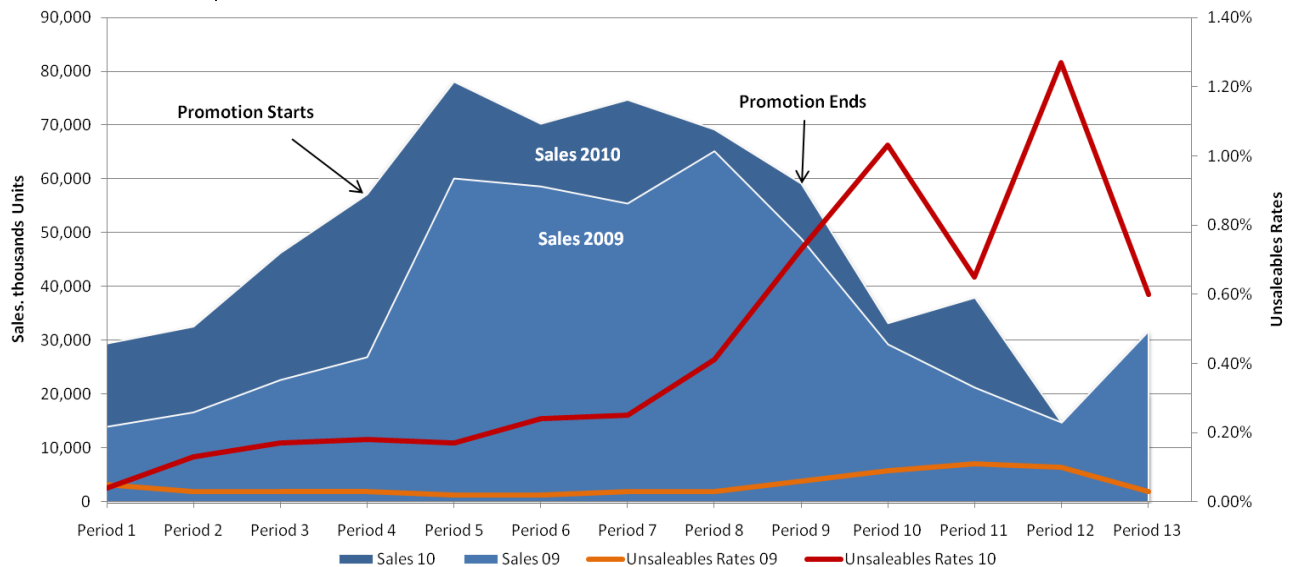
Sales Promotions

Seventy-five percent of the survey respondents reported challenges with effectively executing promotions. Failed sales promotions have become a liability to unsaleables due to open-code dating and the subsequent expiration of products. Proper sales planning and forecasting processes need to be in place to support the promotion launch and ensure product is available for consumers. Companies should also plan and forecast for the termination of the promotion to ensure inventory is in balance and that excess product is not on-hand resulting in unsaleables.

¹⁴ IRI, "Innovation Highlights from 15 Years of New Product Pacesetters", January 2010

The research indicates that manufacturer sales teams and retailers still continue to operate inefficiently. Planning, communication, and collaboration are intermittent and promotions and unsaleables rates suffer. An example of what can occur when promotions are not planned appropriately is presented in (Figure 6).

Figure 6 – Promotions Planning



Source: Adapted from Wesley Associates Business Consultants, Inc.

“Some retailers are getting more sophisticated and working more closely with us to improve promotion planning. These changes have led to reduced unsaleables.”

– Manufacturing Executive

At the conclusion of the promotion the unsaleables rate spiked as inventory was not adjusted to account for the end of the promotion. Some manufacturers report that they lack visibility to store level promotion execution and are hindered in assisting retailers in making adjustments.

Retailers report that though promotional spends can drive top-line growth, back-end costs may negate some or all of the gained benefit. Retailers report success when promotions are presented by the manufacturer, sales goals are agreed upon, and processes and supporting measures are in place.

Finding 3 - Opportunities to Formalize Collaboration

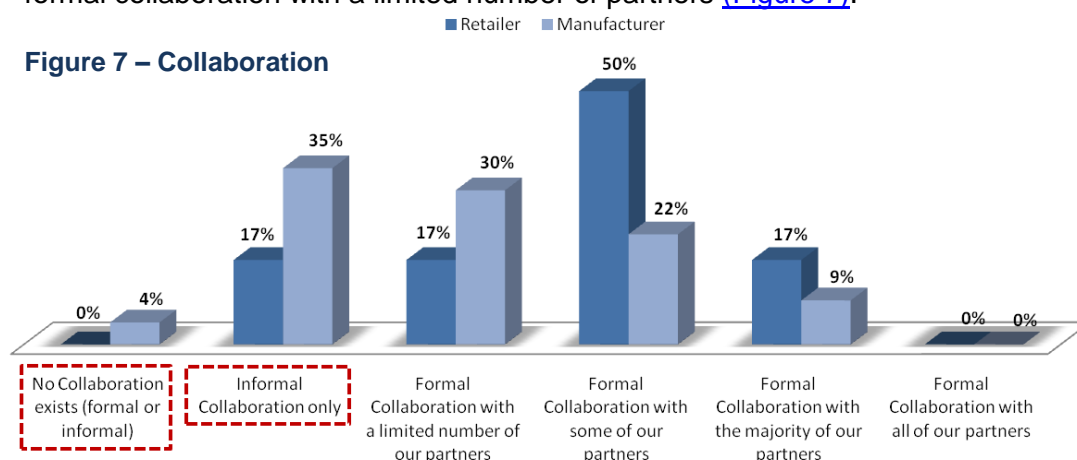
Formal collaboration is when participants have defined roles and responsibilities, regularly scheduled meetings take place and specific data are shared. Throughout the survey manufacturers and retailers indicated that they shared data and information or were willing to do so regularly. Examples of solid collaboration were provided and

“We have made significant reductions in unsaleables with all the suppliers we are actively involved with.”

– Retailer Executive

impressive results achieved in multiple instances in terms of reducing the overall unsaleables impact to an organization.

Certainly the time is right for collaboration between manufacturers and retailers as both are experiencing the challenges associated with managing unsaleables. The sharing of data has been a key component to that effort; however, manufacturers and retailers have yet to completely formalize a collaboration process to achieve sustainable and repeatable results.¹⁵ Thirty-nine percent of manufacturers and 17 percent of retailers report having either no collaboration or informal collaboration with their trading partners. Another 30 percent of manufacturers and 17 percent of retailers report formal collaboration with a limited number of partners (Figure 7).



Q: Which of the following best describes the unsaleables collaboration process with your trading partners. (Please Select One)

Source: GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics

The result of this lack of formalization is a “fire-fighting” approach to reducing unsaleables. Organizations reactively respond to a crisis rather than proactively establishing formal plans and measurements to ensure a sustainable effort and subsequent reduction in unsaleables.

¹⁵ The type of shared information provided by some manufacturers includes third party audit data (suboptimal processes in the retailers’ networks, manufacturer shortcomings, details on which SKUs/locations are outliers in terms of unsaleables rates). They also share reports on the shelf life remaining when products are shipped and review unsaleables rates by SKU and compare them to product families to help retailers make good portfolio decisions. Some retailers share point-of-sale (POS) data, inventory, and reclaim data.

The establishment of a formal collaboration process is not reserved only for manufacturers and retailer interaction, but should also be applied internally between functional areas such as sales, merchandising, procurement and operations.

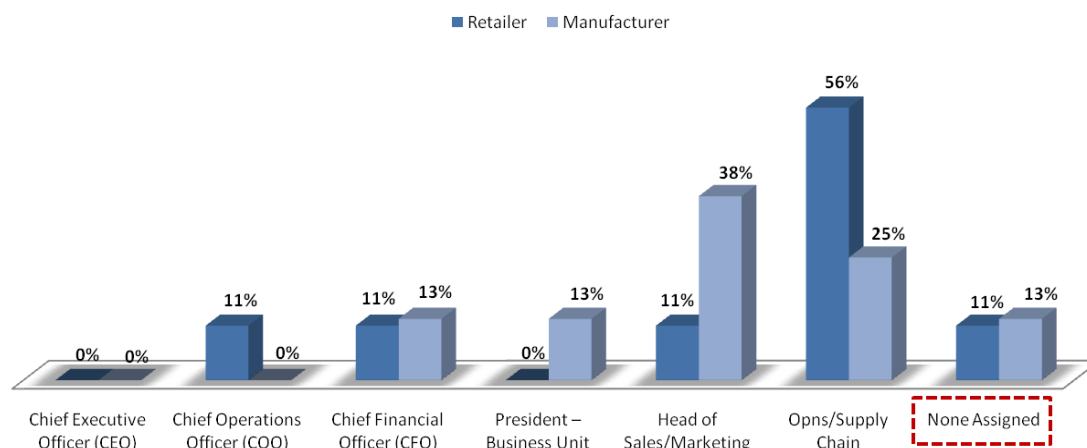
Finding 4 - Accountability, Incentives and Education Drive Behavior

Leading companies that align accountability and incentives to their execution processes, supported by proper education and training, are 2-3 times more likely to outperform their peers.¹⁶

Our research sought to identify which senior executive within a company was assigned “primary” accountability and responsibility for unsaleables across the organization and correlate that assignment to successful unsaleables execution and reduced costs.¹⁷

What our research indicates is that the assignment of the senior executive varies by company with manufacturers assigning unsaleables responsibility to the head of sales and marketing (38 percent) or supply chain (25 percent). The majority of retailers (56 percent) assigned unsaleables responsibility to the head of operations/supply chain (Figure 8).

Figure 8 – Unsaleables Accountability



Q: Please select the senior executive in your company who has “primary” accountability and responsibility for unsaleables across the organization. .

Source: GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics

¹⁶ David Gordon, Strategy Execution Priority, November 2009

¹⁷ “Primary” is defined as having responsibility for the financial and process aspects of unsaleables

“Volume smoothing incentives with sales have resulted in less volume spikes”

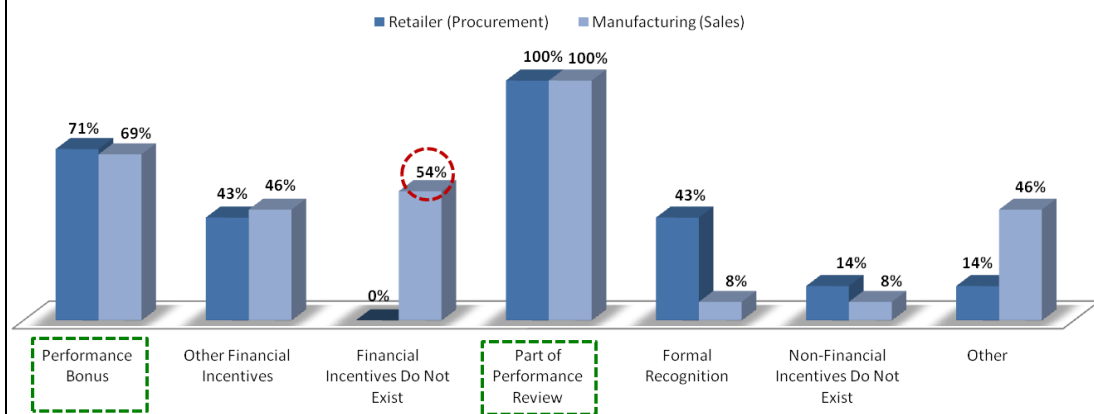
- Consumer Packaged Goods Company

The assignment level did not directly correlate to the unsaleables rate experienced by the organization or to the company’s level of commitment in terms of improving the unsaleables process and financial impact. However, the more senior the executive the easier he/she was able to build cross-functional alignment and bridge internal gaps and ensure external alignment.

Those organizations that focus unsaleables responsibility on a shared model between sales/merchandising and supply chain incurred a smoother path to building alignment. For example, a manufacturer earlier this year transitioned its customer logistics function from reporting through sales to the supply chain organization. This served to enable a shared responsibility model and build cross-functional alignment to address opportunities to reduce unsaleables.

Complimenting unsaleables accountability is the incentive structure companies provide for sales and procurement individuals to manage and limit unsaleables (Figure 9). Financial incentives in terms of a performance bonus are in place for two-thirds of organizations and all include unsaleables as part of individual performance reviews.

Figure 9 – Incentives



Q: What financial and non-financial incentives are in place for Sales/Procurement to manage/limit unsaleables? (Please check all that apply)

Source: GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics

However, the feedback from survey participants is that more can be done to ensure accountability and to drive results. One of the gaps cited by retailers is that the buyer/category managers may not be properly incented to reduce unsaleables.

“Because sales reps are paid on net sales, they are paying more attention to unsaleables”

- Health and Personal Care Company

“We are educating our field sales reps to not over inventory retailers, and to sell-through discontinued product with markdown support.”

- Food and Beverage Company

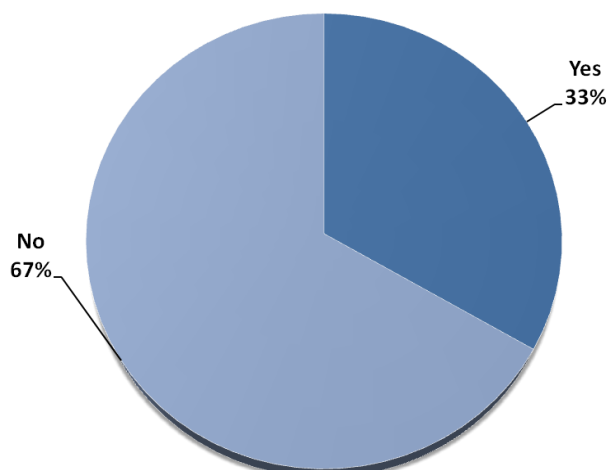
“Cross-functional education is critical to the overall process of reducing unsaleables.”

- Grocery Retailer

The majority of respondents indicate that procurement is not accountable for profitability at the SKU level (Figure 10). All believe that adoption of this accountability model will improve unsaleables results within the procurement organization. Those who have moved to this model have experienced success. One retailer cited lower unsaleables rates over the past two years since moving to this accountability method.

Successful companies are striving to understand the total cost of unsaleables and create internal ownership opportunities and commitment to ensure action is taken to reduce unsaleables. Successful sales organizations are evolving from specific unsaleables goals to including unsaleables in the customer profitability model supported by performance metrics.

Figure 10 – Procurement Accountability



Q: Is procurement accountable for profitability (net profit) at the SKU level?

Source: GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics

Proper education plays an important role in managing unsaleables. Manufacturer and retail personnel from sales to procurement to merchandising need to understand the financial and brand implications of unsaleables and how their role impacts results.

Our findings indicate that organizations recognize that education supports the process. Manufacturers are educating field sales representatives regarding the impact of overselling accounts and the importance of supporting discontinued SKU's with markdown funds. Retailers are working with procurement to outline process improvements and coordination.

Manufacturers and retailers indicate that they are seeing results from partner training and education commitments, but that more needs to be done to expand and cover all touch points from planogram assortments to inventory levels to information analysis.

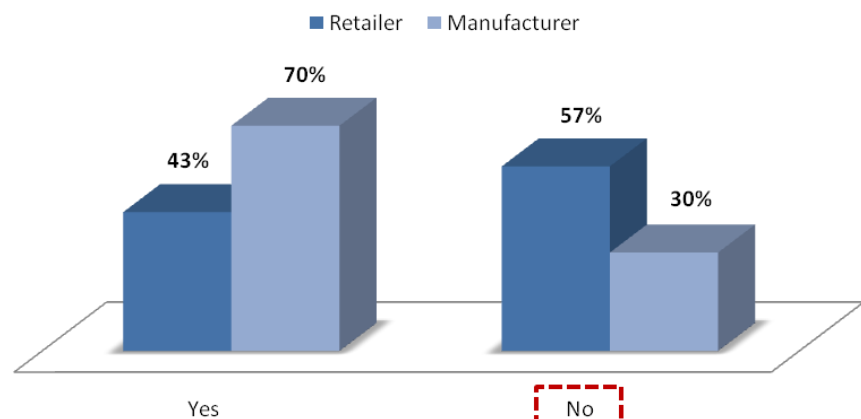
Finding 5 - Demand Chain Management Opportunities

Manufacturers and retailers have an opportunity to effectively manage upstream and downstream relationships to deliver the best value and limit unsaleables exposure and assist in the management of sales and procurement interactions.

Collaborative Planning, Forecasting, and Replenishment (CPFR) and Vendor Managed Inventory (VMI) potentially offer two methods to better managing interactions and the impact of unsaleables. CPFR seeks cooperative management of inventory through joint visibility and replenishment of products. Shared information between manufacturers and retailers aids in planning and satisfying consumer demands through a system of shared information. This enables continuous updating of inventory and requirements creating efficiency through the decrease of expenditures for merchandising, inventory, and logistics.

Despite the potential benefits, 57 percent of retailers and 30 percent of manufacturers indicated they did not have a CPFR program (Figure 11). Of those that utilize CPFR, approximately 30 percent of retailers and 25 percent of manufacturers do not include Strategy and Planning or Analysis as part of their solution (Figure 12).

Figure 11 – CPFR Program

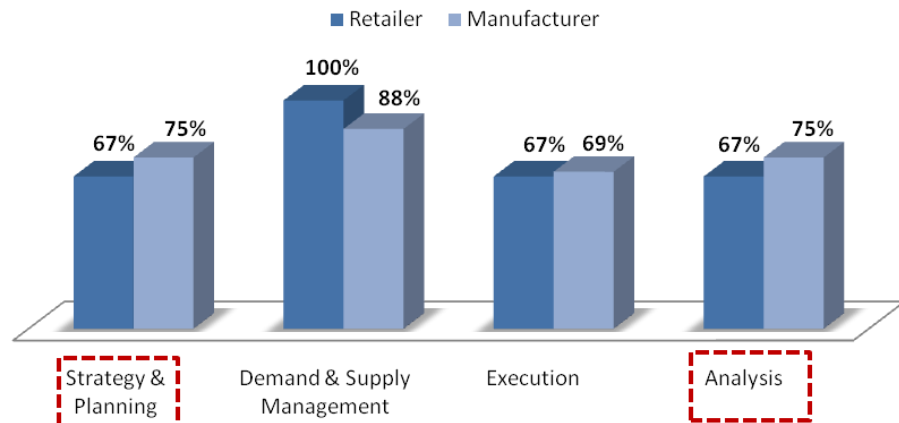


Q: Does your organization have a Collaborative Planning, Forecasting and Replenishment (CPFR) program?

“Promotions can be easily incorporated into the inventory plan by using VMI.”

- Manufacturing Executive

Figure 12 – CPFR Elements



Q: What elements of CPFR does your organization use with partners? (Check All That Apply)

Source: GMA, FMI and Wipro Technologies 2010 study - The Impact of Sales and Procurement on Reverse Logistics

These are key components to ensuring success within the unsaleables arena. The purpose of Strategy and Planning is to establish the ground rules and identify significant events that affect supply and demand. The Analysis component monitors the execution, aggregates results, and shares insights for continuous improvement. The feedback from the survey respondents is that their CPFR programs are working to help manage supply and demand, but that success is predicated on the open sharing of information and taking required action without delay. It is also essential that both parties understand they have a joint responsibility for managing the overall inventory. This is where companies appear to be experiencing difficulties.

VMI programs, for those adopters, are emerging to be fairly successful in reducing unsaleables rates. Sixty-seven percent of respondents indicate that they have made progress with VMI partners and that in most situations unsaleables have decreased.¹⁸ In the rare instances where results have not been seen, retailers have stopped the process.

Close to one-third of retailers indicate that VMI has not achieved desired results. The responsibility for poor performance is typically divided equally between trading partners. Effective VMI programs depend on strong relationships with information sharing, commitments, and issue

“In most cases, unsaleables have decreased by using a VMI program.”

- Retailer Executive

¹⁸ Wipro Technologies, Analysis

Recommendations

resolution and serve as a strong stepping stone to more productive collaborative relationships.

Summary Recommendations

The solutions to resolving the financial impact of unsaleables are complex and multi-faceted. The five major challenges organizations experience are significant and will require continued commitment from manufacturers and retailers to affect change.

1. Managing Open Code Dating/Expired Products
2. Managing New Product Introductions/Discontinued Items
3. Capturing and Providing the “Right” Data
4. Enabling Effective Collaboration Internally and Externally
5. Ensuring Proper Accountability and Incentives

Organizations must collaboratively work together and strive for excellence. Based on the findings of this study and our research, below are recommended actions for improving unsaleables performance. We are not suggesting that organizations attempt to implement all at once; rather, focus on one or two key elements that enable quick wins. Achieve success and then push forward with elements that may take longer to fully implement.

Shelf Life Management	Synchronize Product Data	<ul style="list-style-type: none"> • Synchronize product data with partner to ensure product shelf life is understood • Ensure a product data review process is established to account for changes in data
	Drive consistency in product shelf life	<ul style="list-style-type: none"> • Guarantee a reasonable amount of 'minimum shelf life' to ensure sell through and collaborate with partner • Explore the potential to base minimum code life on a product's sales velocity and quantities sold to the customer
	Adopt targeted product rotation	<ul style="list-style-type: none"> • Identify top 10% problem SKU's, conduct root cause analysis and target for rotation plan or other action • Ensure accuracy of planograms and customize to fit fast/slow items with high/low volume stores • Reward department leads for reducing out-of-code/expired product
Coordinated Planning	Consistently apply exit strategies	<ul style="list-style-type: none"> • Communicate exit strategy in writing during program sell-in and obtain agreement from the retailer buying agent • Include exit strategy for any item being replaced

Coordinated Planning <i>(Continued)</i>	Plan Discontinued Product	<ul style="list-style-type: none"> • Implement regular portfolio performance reviews to identify and monitor potential product delist risks or planned exits • Include accountability for cost of discontinuation in new item introductions • Determine product markdowns with trading partners and establish a time limit • Timely communicate decision to discontinue a product • Jointly explore product redeployment options
	Coordinate New Product Launch	<ul style="list-style-type: none"> • Establish clear hand-over points for each New Product Introduction (NPI) from the 'project' team to line operations • Reflect optimal store mix in distribution strategy • Identify course correction opportunities throughout the product launch/checkpoints • Continually monitor actual versus projected sales growth in aggregate, across consumer segments and by store
	Optimize Sales Promotions	<ul style="list-style-type: none"> • Establish joint coordination for promotion execution • Monitor results at specific touch-points
Formal Collaboration	Establish a formal collaboration process	<ul style="list-style-type: none"> • Assign dedicated resources • Define roles & responsibilities • Establish regular meetings • Openly share data • Assign relationship owner/leader • Share cost to optimize ownership and involvement
Accountability Incentives Education	Match accountability and incentive structure to desired goals and outcomes	<ul style="list-style-type: none"> • Assign SKU profitability goals and accountability metrics to procurement • Assign customer profitability and metrics to sales
Demand Chain	Optimize demand chain	<ul style="list-style-type: none"> • Include strategy/planning and analysis in collaborative efforts

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