2006 Joint Industry Unsaleables Management Conference

THE CHANGING WORLD OF UNSALEABLES

Impact of Unsaleables Management Practices on Brand Loyalty – The Consumer Perspective

Industry Trends Impact Consumer Experience!

Industry Focusing on Consumers

Consolidation of Retailers & Manufacturers

Consumers More Aware

Purchase Decision Point (PDP)

Increase Product Introduction/ Product Failure

Private Label Increasing & improving

Open Date Code Requirements

ARP Policies

The Consumer Behavior Index™

- Sample Profile
  - 15 market areas
  - 13 retail grocery chains
  - 7 categories
    - CCA – Cough / Cold / Allergy
    - FC – Feminine Care
    - HCSC – Hair Care / Shampoo & Conditioners
    - LC – Laundry Care
    - PCF – Pet Care / Food
    - RTEC – Ready to eat Cereal
  - Includes at least 5 manufacturer/vendors per category, including private label
  - 561 consumers surveyed

Consumer Profile – 561 Surveys

<u>Gender</u>
Male…. 22%
Female.. 78%

<u>Age</u>
30 & Under..15%
31 – 50……. 43%
Over 50…… 42%

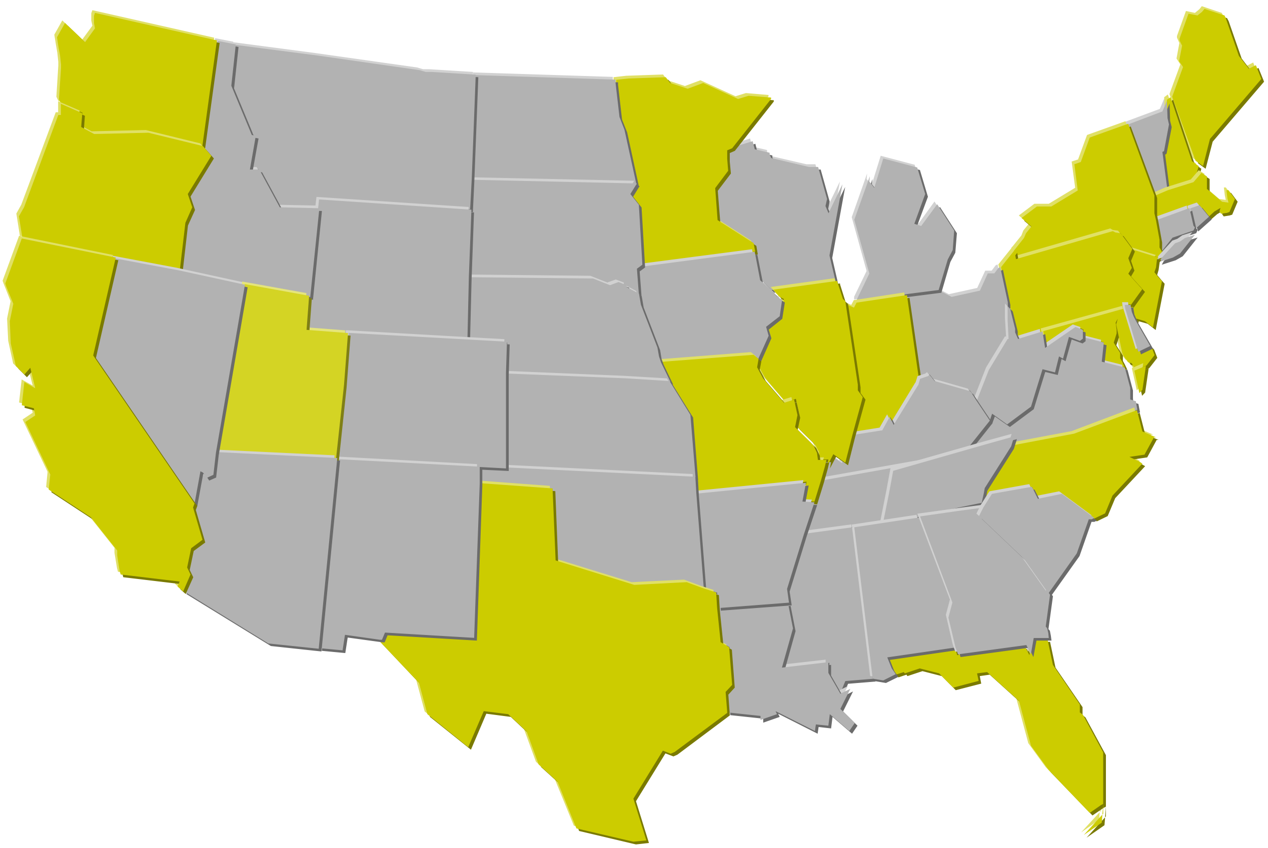
<u>Race</u>
African-American…19%
Asian……………… 2%
Caucasian………… 68%
Hispanic………….. 8%
Other……………… 2%

<u>Own Pets</u>
Cats…. 28%
Dogs… 38%
Other… 8%

<u>Primary Shopper</u>?..87%

<u>Children over 18 living at home</u>
None.. 47%
1…….. 16%
2…….. 20%
> 2….. 17%

CBI Geographic Coverage



SUPERVALU
- Cub Foods
- Farm Fresh
- Shoppers
- Scott's
- Shop n Save

Albertsons
- Acme
- Shaws
- Jewel
- Albertsons

Delhaize
- Food Lion
- Hannaford
- Kash n Karry

HEB

The Data Includes…

- Analysis of Product Condition on store shelves with Consumer perception of:
  - Less than Pristine
  - Rejectable
  - Out of date
- Consumer Surveys by category
  - Demographics
  - Point of Purchase
  - Point of Use
  - Open ended consumer remarks
- Digital Photographs

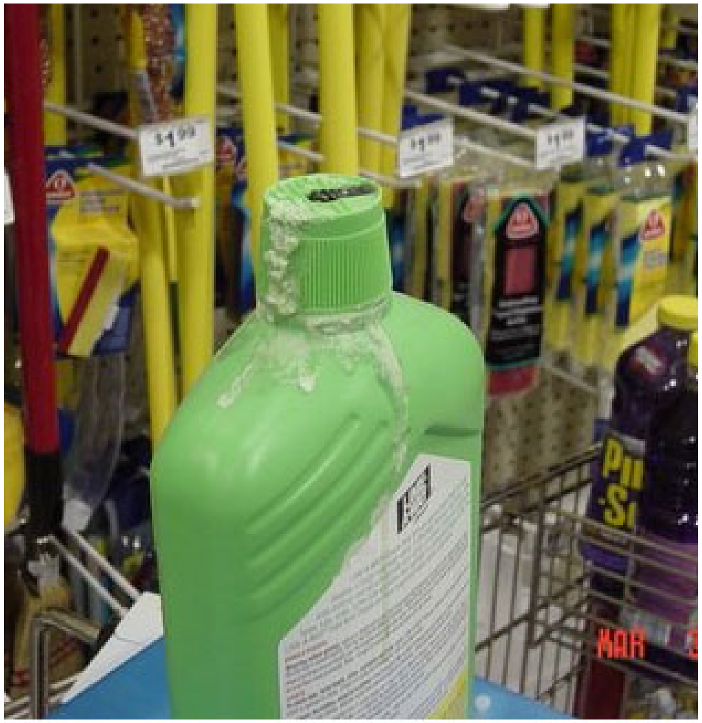
  * Photos in this presentation are shown to demonstrate consumer experience today and to demonstrate calibration of data. No specific manufacturer or category was singled out.

What Consumers are Seeing…

Consumer Remarks on Surveys

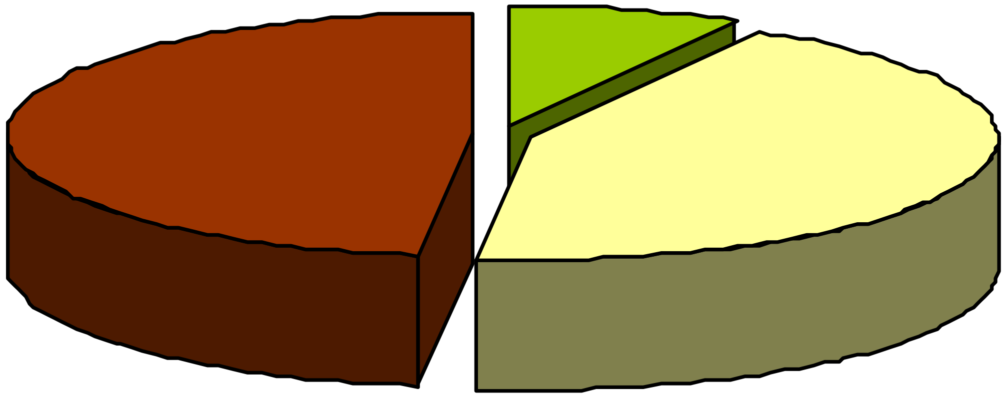
- “At my age quality is prime. But my dog does not mind a bit if the can is dented and marked down. I don't mind either as long as seam on can is OK.“
- “I am always willing to buy damaged goods if the price is adjusted.”
- “I come here only out of convenience. This used to be a much better store.”
- “Damaged food items/expired dairy are my biggest concerns.”

“Rejectable” or “Less than Pristine” Determined by Consumers

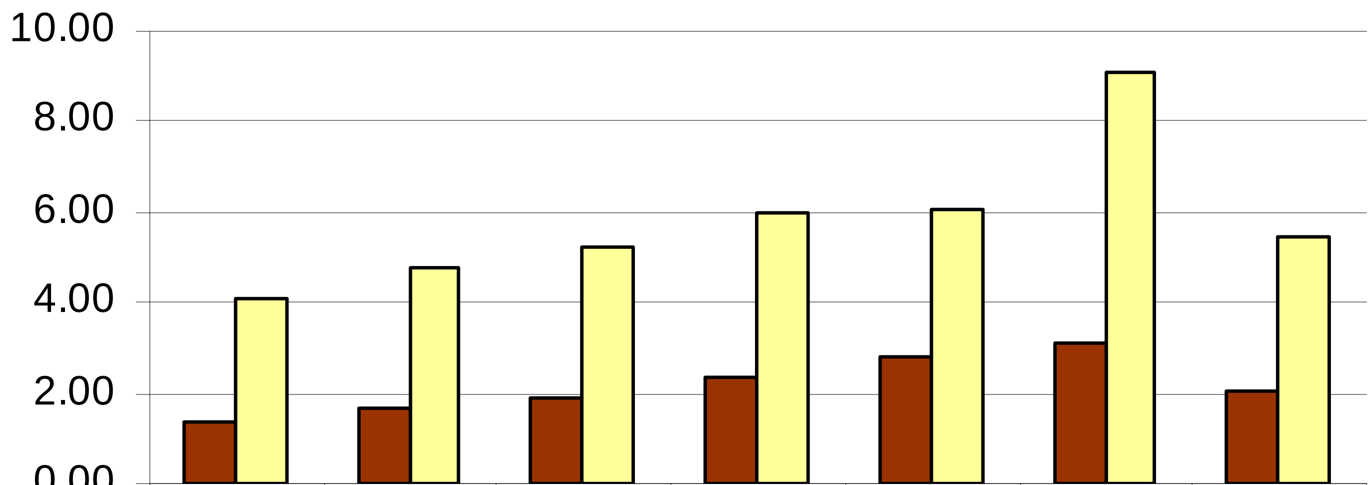


This is Probably *not* How Brand Managers Envisioned Their Product Display at Retail…

Who Do Consumers Hold Responsible for Damage at Retail?

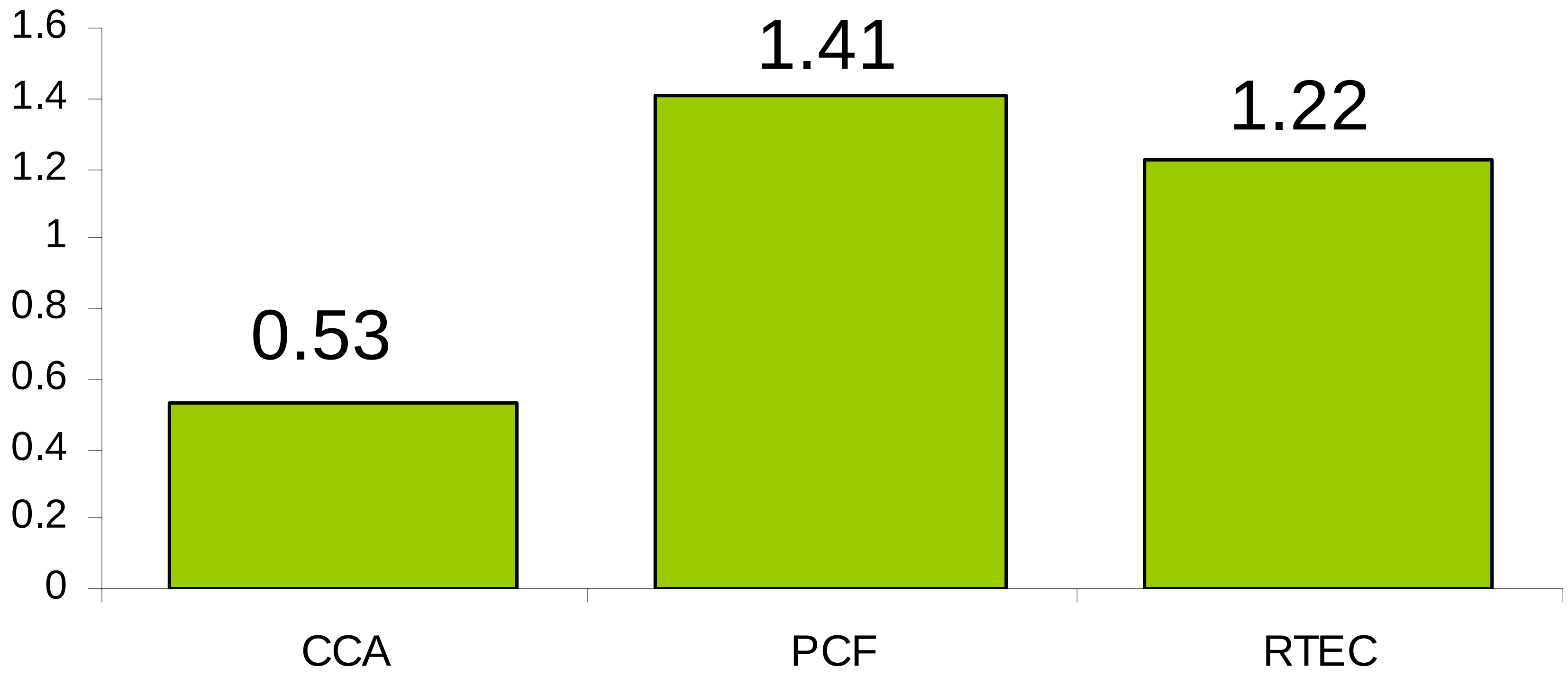


Overall Shelf Performance by Category

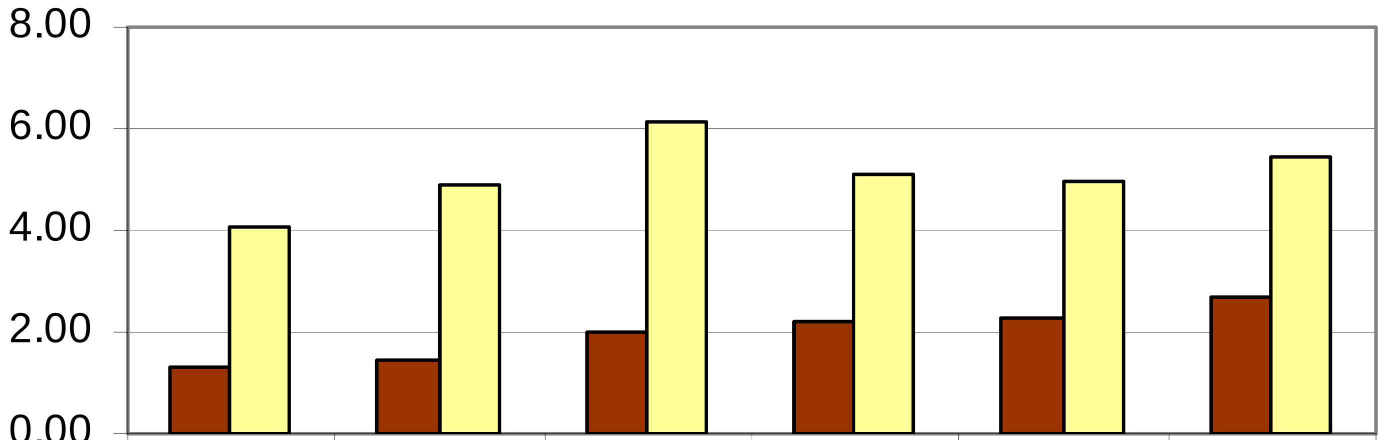


	LC	HHC	FC	CCA	PCF	RTEC	Overall
% Rejectable	1.36	1.70	1.86	2.36	2.79	3.13	2.07
% Less than Pristine	4.07	4.77	5.22	5.95	6.03	9.07	5.49

91% of Survey Respondents State They "Select the freshest product on the shelf."

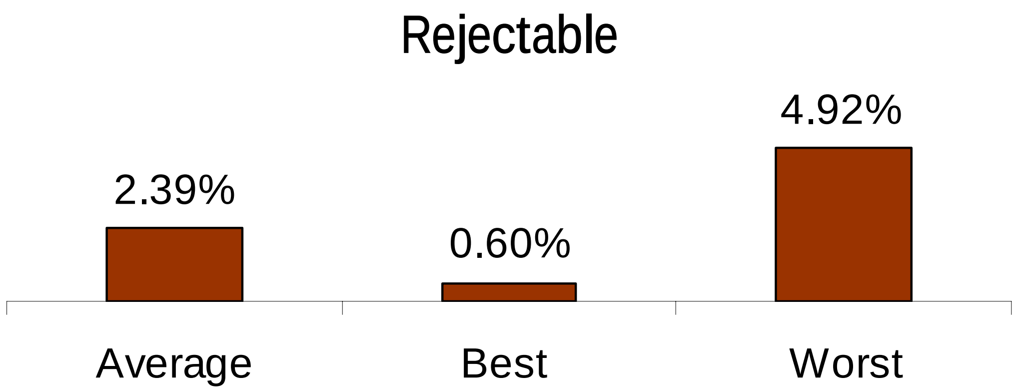


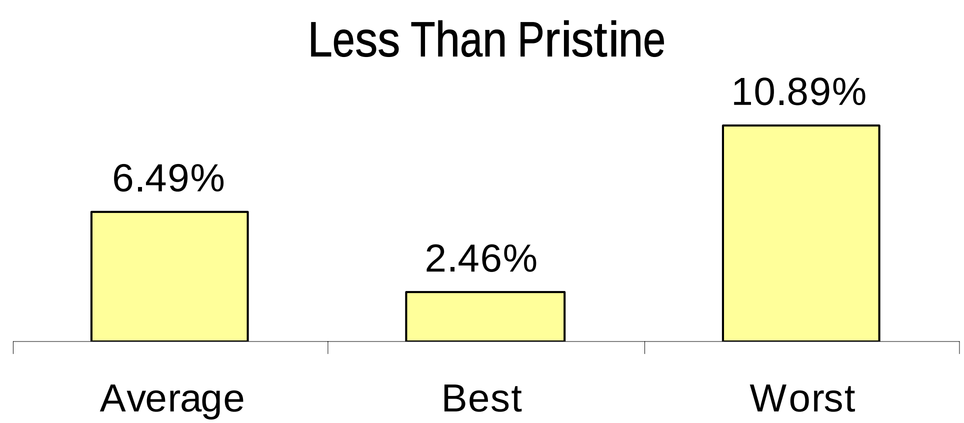
Overall shelf performance by Chain



	Chain#14	Chain#13	Chain#1	Chain#7	Chain#9	Chain#15
% Rejectable	1.33	1.42	1.97	2.18	2.25	2.69
% Less than Pristine	4.07	4.88	6.13	5.09	4.94	5.42

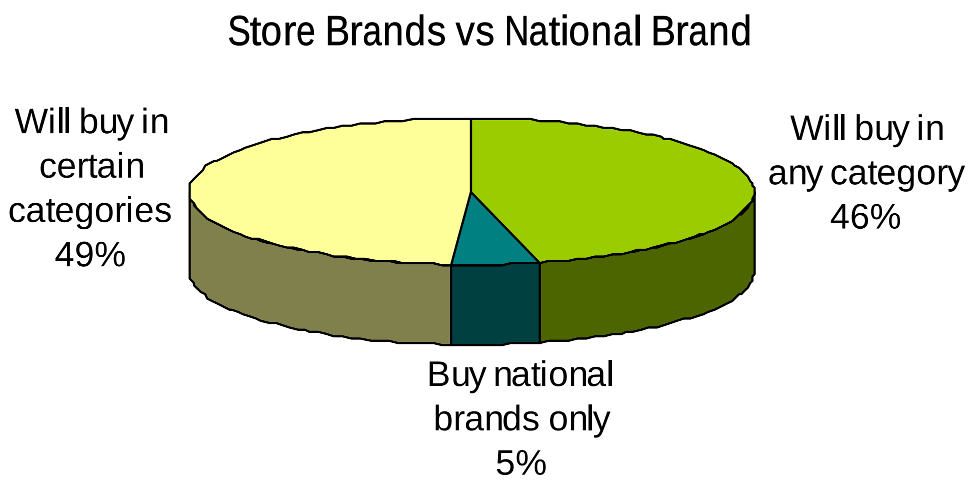
Individual Store Performance Variation



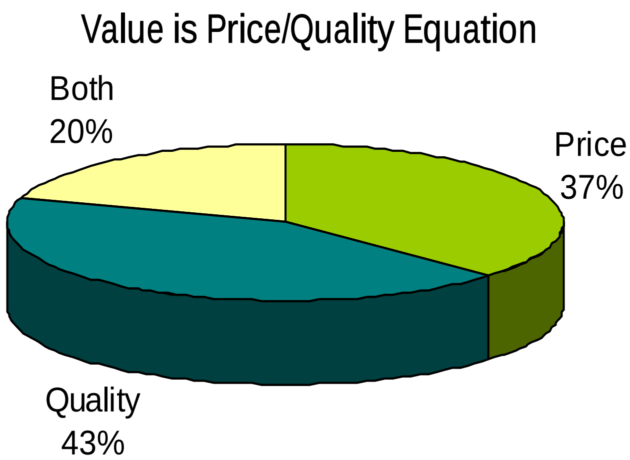


- Does rewarding low reclaim impact shelf condition?

Insight on the Changing Consumer Attitudes Toward Store Brands

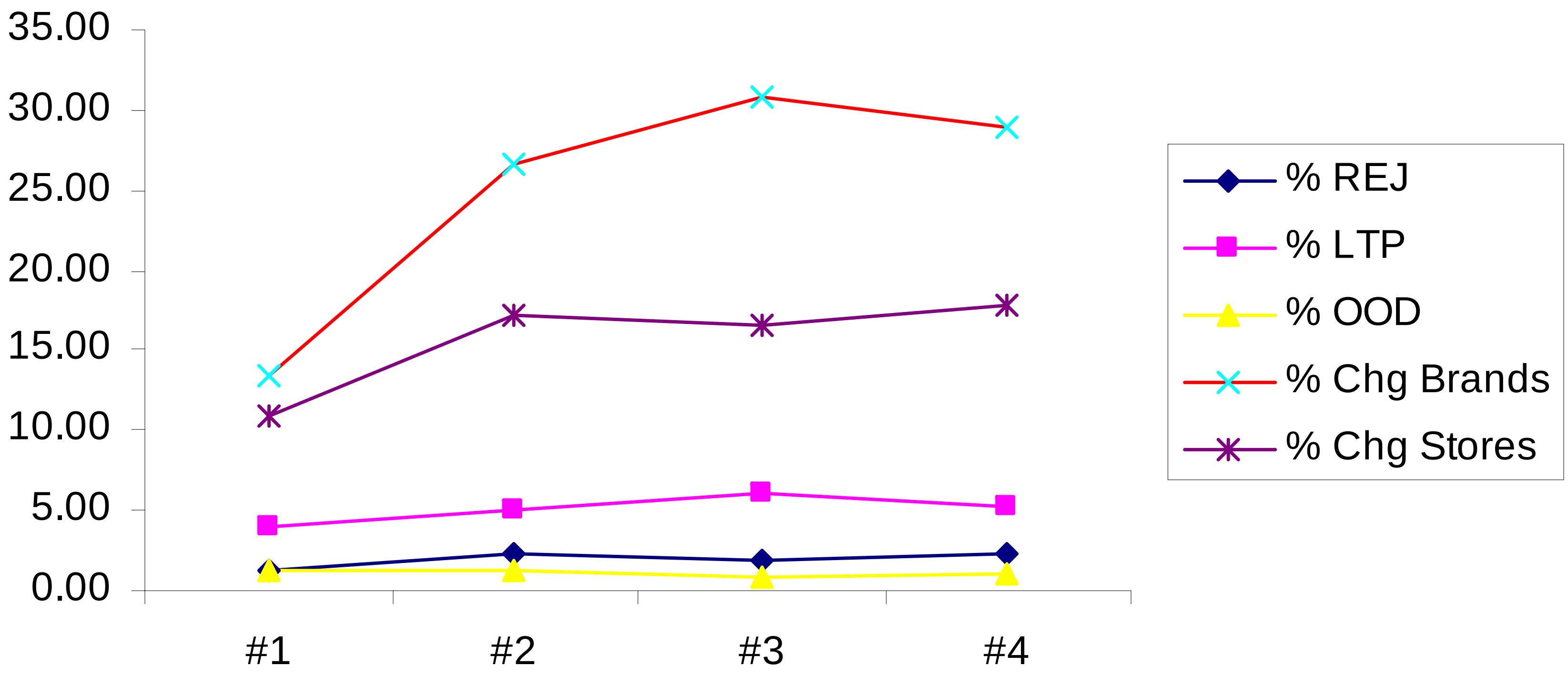


- **70% of survey respondents stated that they believed the Store's private label brand to be as good as national brands.**

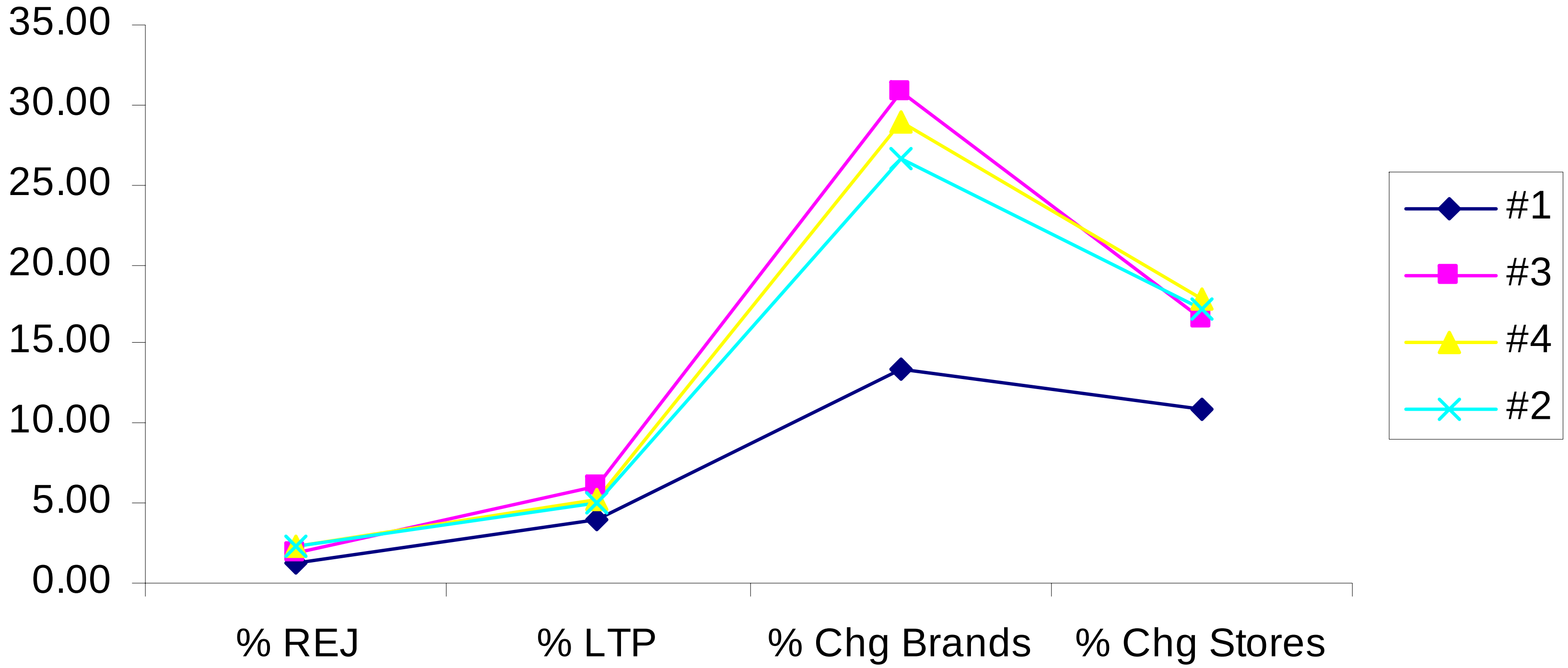


In-store Visual Data Shows True Consumer Experience…What Will Consumers Select?

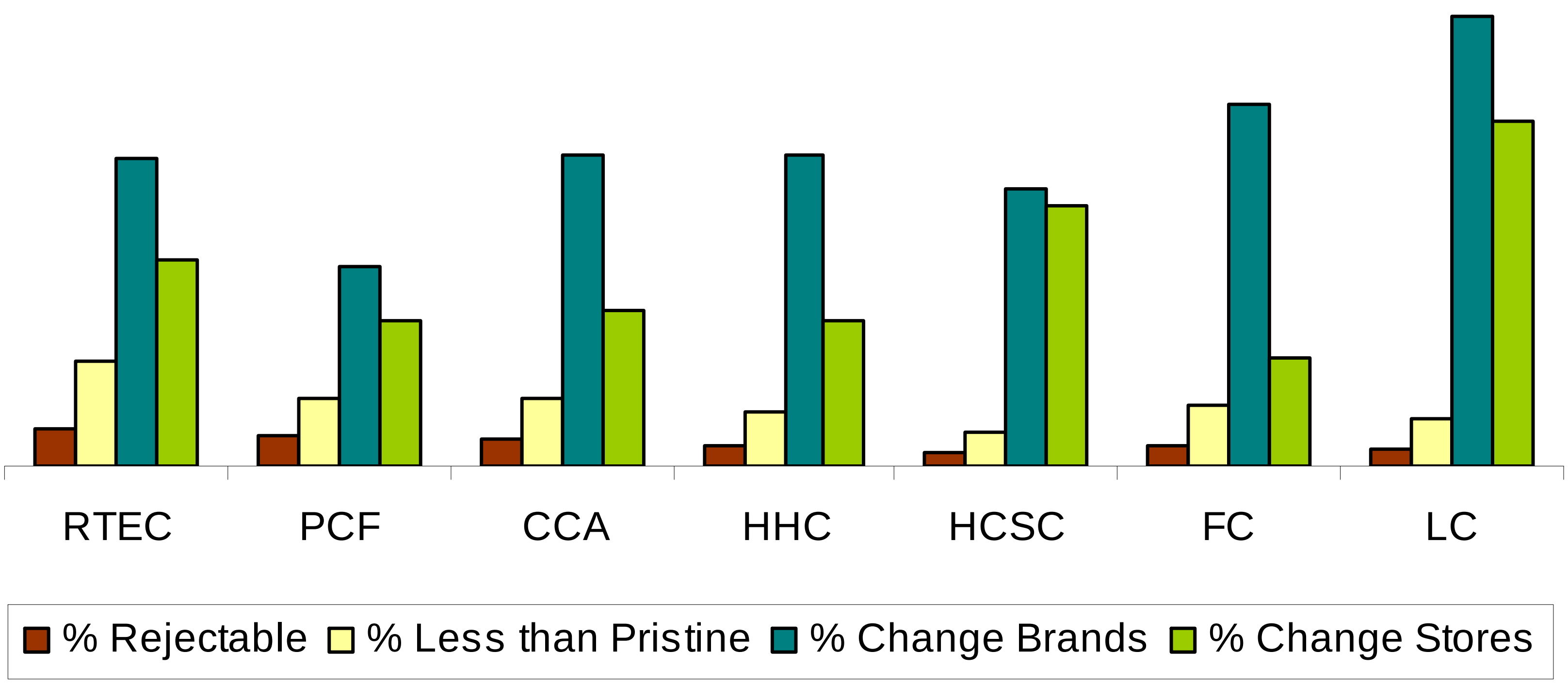
Shelf-performance / Loyalty Correlation by Retail Controlling Organization



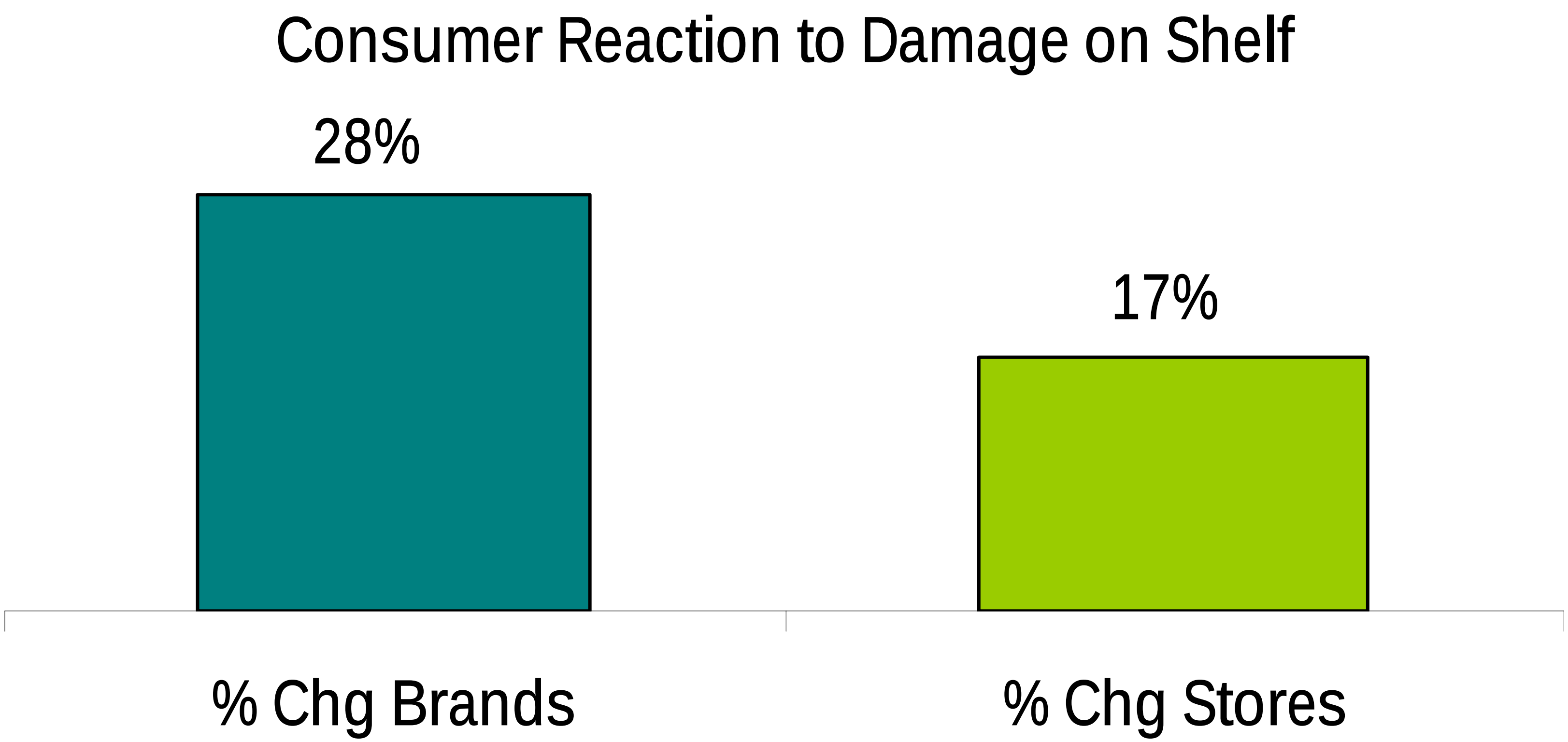
Shelf-performance / Loyalty Correlation View #2 – Retail Controlling Organization



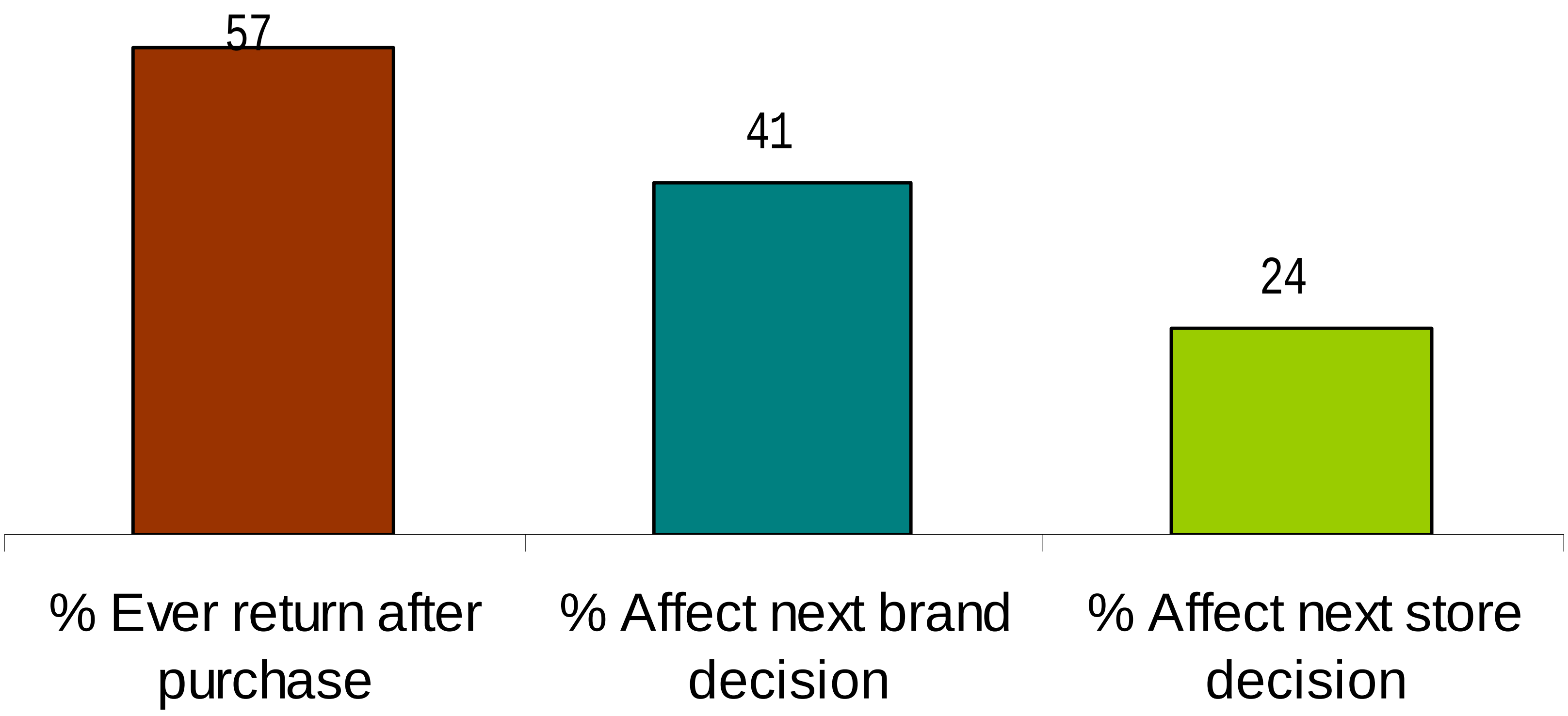
Shelf-performance/ Loyalty Correlation by Category



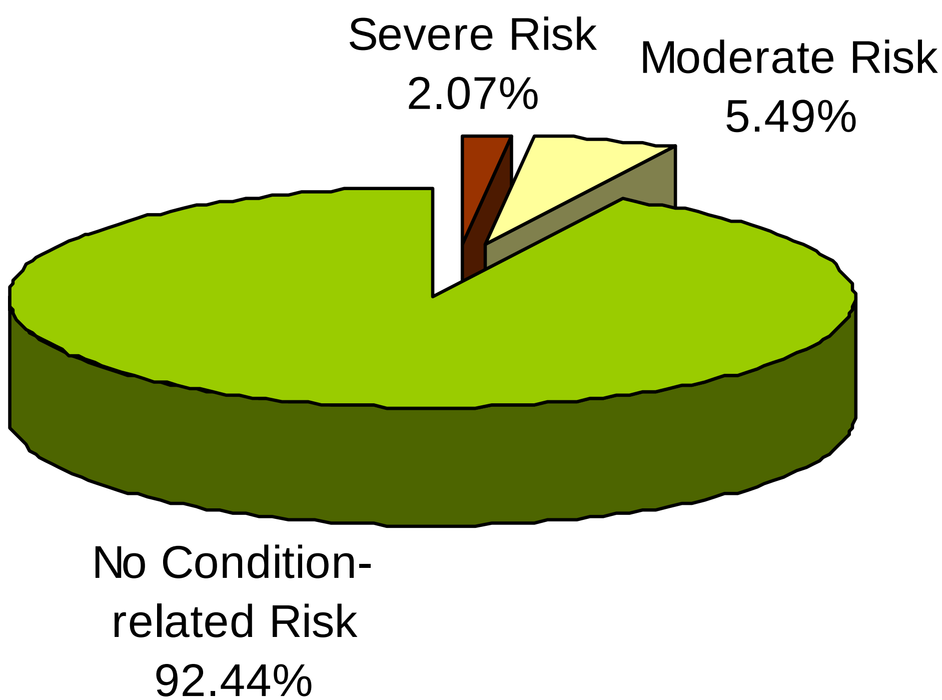
POINT OF PURCHASE: 76% state they "routinely check for damaged and out of date"



POINT OF USE: 74% Say They Have Discovered Damage or Dating Issues After Their Purchase



Quantifying Market Risk



Implications:

1. Offsets organic growth projections – Same Store or Same product
2. Impacts brand quality image – “Brand” can be national brands, private label, store
3. When consumers change stores, whole Market Basket is lost
4. Retailers selecting best performing brands = loss of shelf presence

Dollarizing the Market Risk

COUGH / COLD / ALLERGY ANALYSIS

US Market Sales 2004-2005 (per Drugstore Management 2005-2006 edition)
$2.9 billion
55% Drug = $1.57B
39% Food = $1.13B
6% Mass = $ 199M

CBI Consumer Reaction
28% have changed brands
17% have changed stores

CBI Cough / Cold / Allergy Shelf Performance Rating
5.95%

Dollars in play – Consumers changing brands or changing stores
$2,900,000,000 * (.28 * .0595) = $49,300,000 – Consumers changing brands
$2,900,000,000 * (.17 * .0595) = $29,000,000 – Consumers changing stores

Dollars in play ………………. $78,300,000

Conclusions and Recommendations

- It is not about reimbursement method – ARP or JIR – it is about:
  - Focus on total supply chain, which ends with the *consumer,*
  - Collaborative efforts that yield improved sell-through and customer satisfaction,
  - Staying engaged

Conclusions and Recommendations

- There is always room for improvement internally
  - 100% difference in store operations between best and worst (DC implications, incentive programs, training, monitoring against SOPs, etc)
  - Significant relative performance between vendors delivering product through a constant retailer supply chain
  - Look for the “high bar opportunities”
  - Denial vs. “We have met the enemy and it is us.”

Conclusions and Recommendations

- The Law of Unintended Consequences
  - Does rewarding stores for low shrink related to damage encourage store managers to leave damage on the shelves?
  - Does capping return rates encourage retailers to find creative ways to make up their loss that negatively impact your brands in the long run?

Conclusions and Recommendations

- Use data, including photos, to identify areas of opportunity and then take the next steps
  - More in-depth studies of dating, packaging design, logistics issues, store procedures, etc.
  - Focus discussions on root issue resolution. Paying for damage is not an investment and will therefore never generate a return.