

Product Discontinuation

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Winn-Dixie
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K r a f t F o o d s

I. Discontinued Items - Overview

- 2004 Benchmark Report for Unsaleables
 - Total Unsaleables for warehouse-delivered CPG products across all channels was an estimated \$2.57 billion
 - 13% (or \$338MM) of all reclamation volume is related to discontinued products
 - Discontinued volume processed through reclaim represents 21% of the total volume for discontinued products
- **Drivers include:**
 - Unsuccessful item launches
 - New Item launches/Includes competitor launches
 - Seasonal items
 - Product changes

Overview: Definition

- **DISCONTINUED ITEMS:** The removal of a product from distribution to Wholesalers or Retailers by Manufacturers or Sales Agencies; or the removal of a product from stores and warehouses by a Distributor (also known as delisting).
- **UNSALEABLES:** Product removed from the primary channel of distribution, regardless of the reason for removal. This includes product discontinuations, damaged, seasonal, out-of-code products.

Overview: 2001 White Paper Study

- This report defines the major problems in the existing product discontinuation process and offers potential solutions and recommendations for making that process more efficient.

Overview: Have a Plan

- Minimize impact on total supply chain inventory costs
- Accountability for cost of discontinuation included in new item introductions
- Specific disposition plans for product in all warehouses and stores
- Decision Making Process
- Exit Strategy
- Phase Out
 - Geographic Location
 - Customer Account

Overview: Policy & Markdown Funds

- Most manufacturers have a written policy (72%)
- One of the benefits this provides is a clear written statement of manufacturer guidelines for sales representatives to follow
- Discontinued Item Policy Components - Industry Suggestions & Collaborative Options
 - Advance Notice
 - Full-Case Returns
 - Markdown at retail
 - Residual Inventory Processed through Reclamation Center

Overview: Discontinued Markdown Program

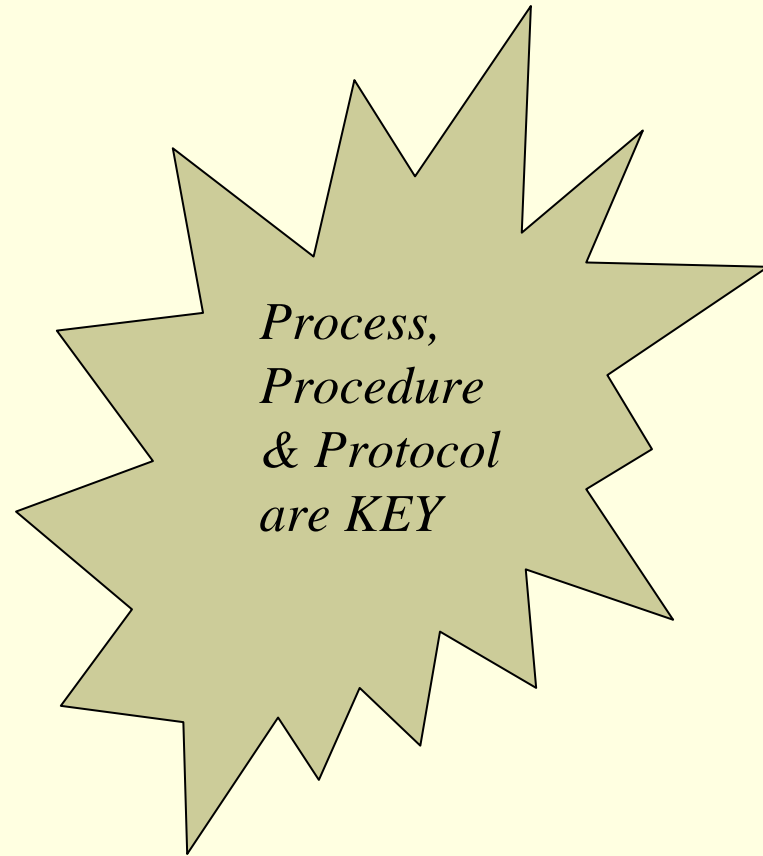
- The program can greatly reduce your exposure as a manufacturer
- Components should include:
 - Advance Notification Requirement
 - Resolution for full cases at warehouse
 - Establishment of maximum rates
 - Establishment of minimum timing
 - Plan for residual inventory
 - Payment requirements
 - Post performance executional elements

Overview: Solving for Discontinued Items

- Discontinued items can be:
 - Returned to manufacturer (full case quantities)
 - Sold through to the consumer
 - Sent to reclamation
- Reclamation is the most expensive option
- At-shelf Markdown programs are a popular option

Manufacturer - POV

- New item introduction
- Package / size change
- Product reformulation
- SKU rationalization
- Product failure
- Seasonal items
- “In and out” items
- Brand ownership change



Retailer and Wholesaler-POV

- New item introduction
- Category review
- SKU rationalization
- Total store reset
- Change in order quantity minimum
- Store ownership change
- Store closing
- Wholesaler change

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To: Our Valued Suppliers
Subject: **Discontinued Item Policy**

We are pleased to announce that effective August 28, 2000, Winn Dixie has established a new discontinued item policy that will cover all areas of Distribution across our marketing area.

This policy will cover all Grocery, Health and Beauty, General Merchandise, Dairy and Frozen Food items. Our main objective is to **Eliminate all Discontinued items scanned at reclaim.** Listed below is the process that our Suppliers, Distribution Centers and our Retail Stores will follow to comply with this policy:

1. All Suppliers communicate to the Supply Chain Manager items to be deleted with a minimum of 8 weeks lead-time.
2. All Distribution Center's are to be notified of product to be "**Billed Out**" to the Supplier for pick up on discontinued items. **(Supplier will be given 10 business days to pickup this product. Winn Dixie will not be responsible for any product remaining at the end of this time period.)**
3. Scan down/Scan track is to be in place with a 4-week window at a reduced retail of 50% through the W/D UPC Ad Projection System. This will move the retail units through our P.O.S. system. Signage will be sent for these items to highlight reduction and closeout. **It will be the responsibility of the retail stores to move this product through their P.O.S. system during the 4-week scan down. All items discontinued will be flagged "UNAUTHORIZED" and NO CREDIT WILL BE ISSUED to the retail stores at the Reclaim Centers during the scan down period!**
4. Each week of the 4-week scan down period, an invoice will be generated to the Supplier to cover Scan mark down through the W/D UPC Ad Projection System. Any residual product left after this point will be returned to our reclaim centers.
5. All Reset or Blitz teams set up by the Division Layout Specialists will be instructed by the In Store Presentation Manager on the proper handling of this product in such a manner that will comply with this policy. **It is imperative that all our Retail support teams from the Broker community follow these guidelines.**

In closing, it is no secret that discontinued items are a major contributor to the abuse of any Reclaim program. With this process in place, we can expect to reduce our reclaim scans up to 30% or more. We must have the proper awareness within our Retail Operations and Retail Support teams that Reclaim is a **deficit** to our over all operation. A **Culture Change** must happen.

If you have any questions concerning this policy, please feel free to contact Gary Regina at Winn Dixie's Central Procurement office. (904) 370-6351 or email garyregina@winn-dixie.com

We look forward to your cooperation and continued service to our mutual customers as we grow our businesses together.

Sincerely,