

P&G Guest Perspective 2

Conference Schedule 3

Purina Case Study 4

Unsaleables Update

Adjustable Rate Policies Probed in White Paper

The development and implementation of adjustable rate policies have been a catalyst for manufacturers and retailers to devote greater resources to addressing the root causes of unsaleables, according to a white paper on adjustable rate policies developed by two Harvard University M.B.A. students.

"The measure of success (of the adjustable rate policies) will be whether these efforts (to address the root causes of unsaleables) translate into a decline in unsaleables in the industry," the conclusion of the white paper states.

The publication said manufacturers developed the new approach to unsaleables reduction against a backdrop of steadily increasing rates. In the latter half of the 1990s, manufacturers established unsaleables funds whereby the supplier agreed to reimburse a retailer based on a predetermined rate — a rate expressed as a percentage of the manufacturer's sales to the retailer. The policies were labeled "adjustable" because the manufacturer could change the rate at its discretion

Continued on page 2.

Conference Features Unsaleables Strategies and Solutions

The 2002 Joint Industry Unsaleables Management Conference begins July 23 with solutions and strategies to tackle the challenges of unsaleables in the industry.

"This year's conference promises to be not only our best ever — but our largest ever," Joint Industry Committee on Unsaleables Co-Chair Mike Gadbois of Hannaford Bros. Co. said. "We expect to exceed last year's attendance by attracting some 200 attendees or more this year."

The conference is being held at Newport, Rhode Island's Goat Island Hyatt Regency.

Keynoter Thomas J. Winninger will explore ways to improve business relationships by seeing trading partners as customers. He is a leading national business strategist, successful author and founder of the Winninger Institute for Market Strategy.

"Leading experts and successful unsaleables practitioners from across North America are scheduled in a series of sessions, followed by

smaller, interactive breakout sessions," Joint Industry Committee Co-Chair Gary Piwko of Kellogg Company said. "At these and at topic-specific tables at lunches, our attendees can go into more detail on unsaleables issues of particular concern to their companies."

Conference hosts are Jim Leuck, manager of unsaleables for Nestlé USA, and Bruce Stevenson, manager of operational services for Roundy's, Inc.

For more conference information, see the schedule of events, page 3.



Thomas J. Winninger
 Founder
 Winninger Institute for
 Market Strategy

Watch Next Issue for Details

Unsaleables Rate/Costs Up After One-Year Decline

Manufacturer unsaleable rates are back up after the first drop ever last year — up to 1.14 percent, the highest level since the Grocery Manufacturers of America began tracking unsaleables in 1994.

The dollar cost of unsaleables in warehouse-delivered food and grocery products in all distribution channels last year is estimated to be \$2.5 billion — up from \$2.4 billion last year.

These are the findings in the new unsaleables benchmark report published annually by the Joint Industry Unsaleables Steering Committee. The report is scheduled for release during the Newport unsaleables conference and will be profiled in detail in the next issue of *Unsaleables Update*.

The good news is that the supermarket channel posted a decline in its unsaleables rate since 1999 — a testament to industry efforts to stem the tide of unsaleables in the largest food/CPG distribution channel. Watch for details next issue.

Sponsoring
 Associations



Guest Perspective / Multi-Functional Effort Reduces Returns

By William J. Bigham



William J. Bigham
Customer Team
Logistics Manager
The Procter & Gamble
Company

In November of 2001, The Procter & Gamble Company announced a conversion on a portion of one of its major lines with shipments beginning in early January 2002. This conversion included a product change with no U.P.C. change.

When presenting these pending changes to a large Southeastern retailer, it became quite apparent to both that they needed to manage this conversion carefully in order to avoid having retail outlets returning “good” product to their reclamation centers.

P&G and the retailer decided a multi-functional team would be created to manage this transition. The make-up of the team was as follows:

Procter & Gamble	Retailer
Account Executive	Category Manager
Logistic Manager	Buyer
Customer Service Rep	Damage Manager

The team met in mid-November 2001 to establish its objectives for this conversion and develop a game plan to achieve them. The objectives were simple: 1) get the new product on the retail shelves quickly and 2) eliminate the returns of old product to the reclamation centers.

The game plan identified the SKUs involved and the current inventory levels for each. Having the inventory information in hand, the P&G customer service representative and the retailer’s buyer established a “stop buying” calendar that would effectively run the SKUs out-of stock at the distribution centers (DCs)

just prior to the start of shipments of the new product.

For the SKUs with inventory greater than the time left to deplete, the P&G account executive and retailer’s category manager developed a retail program for the stores to move the excess inventory into consumption. The retail category manager also developed an information bulletin for the retail stores on the conversion, including the timing and the details of the retail program.

The P&G customer service rep and the retailer’s buyer monitored inventory weekly. The team agreed to meet every two weeks to track progress and make adjustments, if necessary. During the first meeting, it became obvious that quick intervention was necessary in order to balance the inventory in the DCs. The retailer’s buyer arranged to transfer product from some DCs to others. At follow-up meetings, the joint team carefully looked at the inventory levels of the SKUs to determine whether they needed to adjust their approach to depleting inventories.

The combination of the retail program and the balancing of inventories across the DCs enabled the retailer to basically run out of “old” product just prior to the start of shipments of the new product.

Results were outstanding. The new product was on all of the retail stores’ shelves within two weeks of the start of shipments. And, importantly, returns to the reclamation centers were eliminated during and after the conversion. A joint multi-functional group, working together, improved speed-to-shelf while eliminating returns – a true win-win!

Unsaleables Update

Summer 2002

Unsaleables Update is published quarterly by the Joint Industry Unsaleables Steering Committee and its industry sponsors, Food Distributors International, Food Marketing Institute and Grocery Manufacturers of America.

Copyright 2002. All rights reserved. No part of this publication may be reprinted or reproduced in any way without written consent, which may be obtained by contacting Dan Bushey, GMA, 1010 Wisconsin Avenue N.W. #900, Washington, D.C. 20007.

Comments and story ideas may be sent to:
Editor:

Jo Anne Singley Sharlach
jsharlach@aol.com

Co-Chairs:

Peter Bonneau
pabonneau@foodlion.com

Carol A. Snyder
csnyder@purina.com

Design: CSSdesign

barry@cssdesign.com

White Paper Analyzes History, Impact of Rate Policies

Continued from page 1.

based on actual damage rates and damage study results.

“The goal of the new approach was to attack the perceived drivers of the rate escalation, which were the lack of retailer incentives to reduce unsaleables and the increasing cost of unsaleables handling,” the report notes. “In addition, manufacturers were trying to determine what the drivers of unsaleables were in order to improve their own processes.”

Prior to adjustable rate policies, the majority of manufacturers reimbursed distributors for all damaged or expired product at customer reclamation centers, regardless of which party was responsible the cause. “As a result, some manufacturers believed that retailers

had no incentive to address internal supply chain processes that might contribute to a product becoming unsaleable,” the white paper points out.

It continues that joint industry report fostered the idea of “shared responsibility” between the supplier and the customer where supply chain analysis of the damage was to be mutually covered by each party. The industry, however, never embraced the shared responsibility, and the vast majority of unsaleables went back to the manufacturer.

“Adjustable rate policies allowed manufacturers to correct this perceived misalignment by providing a monetary incentive to distributors,” the report continues.

2002 Joint Industry Unsaleables Management Conference

Tuesday, July 23

Unsaleables Management 101: 3:00 – 5:00 p.m.

An introduction to unsaleables issues.

Opening Reception with Exhibitors: 6:00 – 7:30 p.m.

Sponsored by Universal Solutions, Inc.

Wednesday, July 24

Continental Breakfast with Exhibitors 7:00 – 8:00 a.m.

Sponsored by Strategic Solutions, Inc.

General Session: 8:00 a.m. – Noon

Opening Remarks and Welcome: 8:00 – 8:15 a.m.

C. Manly Molpus, President and CEO/**GROCERY MANUFACTURERS OF AMERICA**

Jim Leuck, Manager of Unsaleables/**NESTLÉ USA**

Bruce Stevenson, Manager of Operational Service/**ROUNDY'S, INC.**

The Future of the Supply Chain & Its Impact on

Unsaleables: 8:15 – 9:00 a.m.

Jack Horst, Principal/**KURT SALMON ASSOCIATES**

2002 Unsaleables Benchmark Report: 9:00 – 10:00 a.m.

Anne Lightburn, President/**FOODBIZ**

Mike Gadbois, Manager of Unsaleables/**PRC'S/**

Corporate Inventory Control/**HANNAFORD BROS. CO.**

Gary Piwko, Senior Manager, Unsaleables Management/**KELLOGG COMPANY**

Break with Exhibitors: 10:00 – 10:30 a.m.

Disposition Options for Unsaleable Products:

10:30 – 11:30 a.m.

Jim Garrick, Operations Manager/Trade Marketing/**JIMMY**

DEAN FOODS

Doug Ford, Reverse Logistics Manager/**S.C. JOHNSON & SON**

Leora Jones, Secondary General Manager/**CON AGRA**

GROCERY PRODUCTS COMPANY

Eric Davis, Manager of Unsaleables/**AMERICA'S SECOND**

HARVEST

Norm Rankin, Senior Vice President/**BIG LOTS, INC.**

Dan Raftery, President/**PRIME CONSULTING GROUP**

(Moderator)

Recent Government Regulations: What They Will Mean for Your Business: 11:30 a.m. – 12:10 p.m.

Susan Liner, New England District Recall Coordinator/**U.S. FOOD AND DRUG ADMINISTRATION**

Discussion Topics Lunch: 12:10 – 1:15 p.m.

Sponsored by Damage Recovery Systems

- **Data & Reporting:** Pete Bonneau/**FOOD LION, LLC**
- **Product Disposition/Salvage Sales:** Jim Hicks/**QUAKER FOODS & BEVERAGES**
- **Discontinued Items:** Gary Regina/**WINN-DIXIE, INC.**
- **Discontinued Items:** Doug Ford/**S.C. JOHNSON & SON, INC.**
- **Benchmarking:** Anne Lightburn/**FOODBIZ**

- **Recalls:** Denise Corcoran/**GLAXOSMITHKLINE CONSUMER HEALTHCARE**

- **Organizational Structures:** Joe Scaccia/**KRAFT FOODS, INC.**

- **Packaging:** Gary Piwko/**KELLOGG COMPANY**

Special Presentation: 1:20 – 1:30 p.m.

Dave Krepcho, Director/Business Development/**AMERICA'S SECOND HARVEST**

Keynote Address: 1:30 – 2:30 p.m.

Yes, You Too Are in the Customer Service Business

Thomas Wwinner, Leading Business Strategist & Founder/**WINNINGER INSTITUTE FOR MARKET STRATEGY**

Breakout Sessions: 2:30 – 3:15 p.m.

Sessions on:

- **Unsaleables Policies:** Ernie Argenio & Bruce Stevenson
- **2002 Benchmark Report:** Mike Gadbois, Joe Scaccia & Anne Lightburn
- **Retail Focus:** Gary Regina & Gary Piwko
- **Discontinued Products:** Denise Corcoran & Ted Lechner
- **Hands-On Learning Session:** Pete Bonneau & Carol Snyder

Break with Exhibitors: 3:15 – 3:45 p.m.

Store Operations/Retailer Reimbursement Options/Retail Credit Level: 3:45 – 4:30 p.m.

Ted Lechner, Manager of Continuous Improvement for

Returned Goods/**H.E. BUTT GROCERY COMPANY**

Pete Bonneau, Manager/Reverse Logistics/**FOOD LION LLC**

An In-Depth Look at Unsaleables Policies: 4:30 – 5:00 p.m.

Erin Harcourt, Director, Industry Affairs/**GROCERY**

MANUFACTURERS OF AMERICA

Pat Walsh, Director, Industry Relations/**FOOD MARKETING**

INSTITUTE

Reception & Dinner: 6:30 p.m.

Thursday, July 25

Continental Breakfast with Exhibitors: 7:00 – 8:00 a.m.

Sponsored by ITW Shippers Products

General Session: 8:00 a.m. – 12:00 p.m.

Opening Remarks: 8:00 – 8:05 a.m.

Jim Leuck, Manager of Unsaleables/**NESTLÉ USA**

Bruce Stevenson, Manager of Operational Services/**ROUNDY'S, INC.**

Piloting Efficiencies in Product Discontinuation:

8:05 – 8:35 a.m.

Jason Derrig, Regional Sales Manager/**KELLOGG COMPANY**

Jason Dominick, Key Account Executive/**KELLOGG COMPANY**

Scott Craig, Director of Logistics/**HANNAFORD BROS. CO.**

**Hyatt Regency
Goat Island
Newport, Rhode Island
July 23 – 25**

Conference Exhibitors and Sponsors

Special thanks goes to the sponsors and exhibitors at the 2002 Joint Industry Unsaleables Management Conference. They include:

Sponsors & Exhibitors:

Active International
America's Second Harvest
Big Lots, Inc.
Carolina Logistics, Inc.,
Damage Research, Inc.
Damage Recovery Systems
Feed the Children
The Gustnado Group
Haht Commerce
ITW Shippers Papers Products
Strategic Solutions, Inc.
Universal Solutions, Inc.
USF Processors

A Case Study | Nestlé Purina's Approach Reduced Customer's Unsaleables Costs in Southeast Region

Ralston Purina Company implemented an Unsaleables Efficiency Program in October 2000, after several years of research and program development. Now, as Nestlé Purina PetCare Company (NPPC), this program continues to allow customers to accrue a certain percentage of sales to cover customer unsaleables costs, including pre/post damage handling and shortage and damage claims.

This approach to unsaleables management was designed to address four key objectives.

- Deliver the freshest product possible to the consumer.
- Offer Nestlé Purina resources to identify and reduce root causes of unsaleables with customers.
- Manage unsaleables in the most efficient manner.
- Provide all customers an unsaleable rate that is fair.

Both Sides Benefit

Through collaborative efforts with customers, these objectives are being achieved and both the retailer and NPPC are realizing the benefits.

Helping customers and customer teams manage the program and manage down unsaleables costs is just one of the responsibilities of the customer supply chain manager. NPPC Customer Supply Chain Manager Beverly Biggs has had some real success reducing unsaleables costs for her team's customers, racking up a 42 percent reduction over the last year.

"My work is just part of the comprehensive overall program to which Nestlé Purina has committed," Biggs said.

Since 1996, customer-specific unsaleable audits have provided a basis of information to help NPPC teams identify the most common causes of unsaleables, according to Biggs. In addition, Nestlé Purina, in support of the program continues to collect data about its own responsibility for damage through quarterly "phantom" shipments between distribution centers.

Program Includes Extensive Inspections

Biggs' work in the Southeast includes extensive customer warehouse and store inspections, plus collecting information on damage, product conditions, shipping conditions, shelving conditions and store conditions.

Working with her customers, Biggs facilitates feedback both back to Nestlé Purina and to the customer on opportunities to improve product, packaging, handling, storage and shelving.

Like Biggs, all of NPPC's customer supply chain managers are armed with digital cameras to record product conditions on customer visits. This feedback is shared both with the customer and with Nestlé Purina research and production groups.

Nestlé Purina has found that retailers too are focusing more on the costs of unsaleables. The company has found that successful retailers build unsaleables measures and goals into total category performance measurement and operational mission statements. "By partnering and looking at root causes, the retailer can take appropriate measures to improve results," Biggs said. "Joint visits to a retailer's warehouse create avenues for on-going input from the warehouse staff. Through continued dialogue, systems and measures are created to resolve uncovered issues."

The results of the Nestlé Purina program are as follows:

Nestlé Purina Program Results:

- Informed buying priorities and accurate promotional order quantities.
- Improved marketing and sell-through.
- Additional accountability at DCs and retail.
- Improved communication.
- Better understanding of the issues and sounder business relationships.
- New roles – individuals responsible for unsaleables.
- Improved slipsheet and quality size.
- Eliminate overhang.
- Advanced packaging improvements and durability.

Unsaleables Management Conference Schedule

Continued from page 3.

General Session (continued)

Partnering to Identify Root Causes of Unsaleables: 8:35 - 9:30 a.m.

Jim Leuck, Manager of Unsaleables/**NESTLÉ FOOD COMPANY**

Gary Regina, Supply Chain Manager, HPC/**WINN-DIXIE STORES, INC.**

Denise Corcoran, Reverse Logistics Manager/**GLAXOSMITHKLINE CONSUMER HEALTHCARE**

Pete Reynolds, Manager, Return Center Operations/**KMART CORPORATION**

New Training Program Proves Successful for Kraft Foods: 9:30 - 10:15 a.m.

Philip Carlson, Director of Distribution/**KRAFT FOODS, INC.**

Unsaleables Source Reduction — A Blueprint for Success: 10:30 - 11:15 a.m.

Gene Bodenheimer, Executive Vice President/**UNIVERSAL SOLUTIONS, INC.**

Breakout Sessions: 11:15 a.m. — Noon

Sessions on:

- **Unsaleables Policies:** Ernie Argenio & Bruce Stevenson
- **2002 Benchmark Report:** Mike Gadbois, Joe Scaccia & Anne Lightburn
- **Retail Focus:** Gary Regina & Gary Piwko
- **Discontinued Products:** Denise Corcoran & Ted Lechner
- **Hands-On Learning Session:** Pete Bonneau & Carol Snyder

Break with Exhibitors: 10:15 – 10:30 a.m.