2002 Unsaleables

Benchmark Report

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Executive Summary

Industry Unsaleable Rates Back Up After One-Year Decline

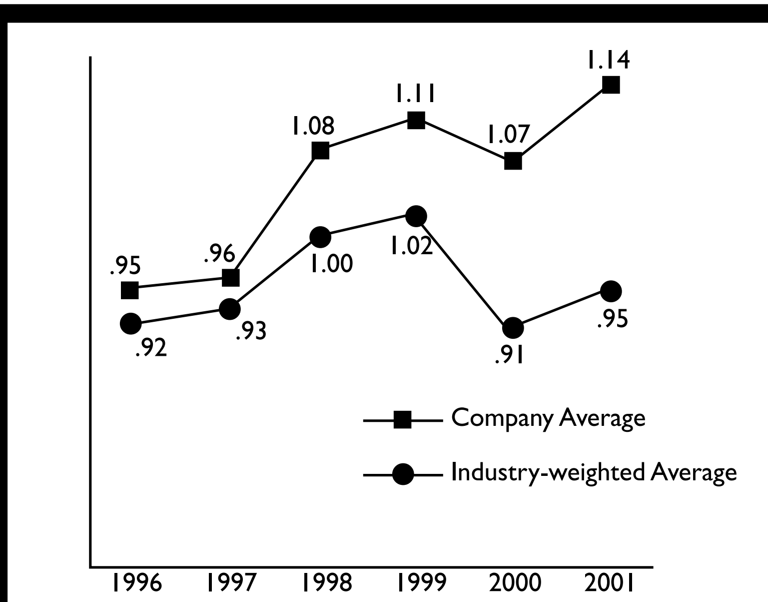
The cost of unsaleables historically has hovered around 1 percent of sales and an even greater percentage of profits for the past decade. Last year, the dollar cost of unsaleable warehouse-delivered food and grocery products from all distribution channels was an estimated $2.5 billion — up from $2.4 billion in 2000.

The majority of these unsaleable costs are due to damage — 63 percent or $1.6 billion – that arises from inadequate packaging, distribution/ logistics and handling practices. Nearly $1 billion is from out-of-code, discontinued and seasonal product. These unsaleables could be reduced with increased collaboration between trading partners for improved selling/buying practices, discontinuation process management and retail stock rotation.

In 2001, the average manufacturer unsaleables rate increased, jumping to 1.14 percent of sales — its highest level since 1994 — when the Grocery Manufacturers of America began tracking unsaleables via annual surveys. Except for the decrease in the year 2000, the average manufacturer rate has steadily increased.

Survey data show that this year's increase is, in part, due to unsaleables rate increases in the drug, convenience and club store channels. Unsaleables rates in the supermarket and mass merchandiser channels remained flat during the same period.

Manufacturer Unsaleables Rate Climbs to Highest Level in 2001



The widening gap between the average company rate of unsaleables (1.14 of sales), which is not weighted by company size, and the industry-weighted average (.95 of sales), which is weighted by company size, indicates that the unsaleables rates of larger companies are not increasing as fast as smaller companies.

Benchmark:

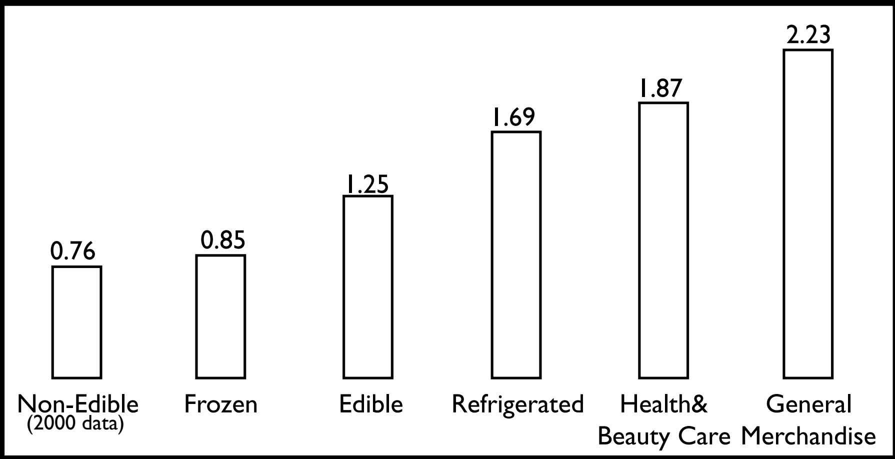
WIDENING GAP BETWEEN LARGEST/ SMALLEST COMPANIES

The question many companies are asking is "How much of the $2.5 billion can my company recoup by reducing unsaleables?" To help answer that question, this *2002 Unsaleables Benchmark Report* provides meaningful benchmarks to measure company performance and insights on industry unsaleable practices.

Survey results are based on broad representation from 42 food and consumer packaged goods (CPG) manufacturers, representing a significant percentage of total ACV, and 26 distributor companies, which include retailers and wholesalers, operating and/or servicing 48,400 stores from the supermarket, mass merchandiser and convenience store channels.

MOST COSTLY: DRUG CHANNEL AND GENERAL MERCHANDISE DEPARTMENT

Retail distribution channel and retail department unsaleable rate differences exist in part due to inherent differences between product lines and channel practices. Product lines such as general merchandise and health and beauty care tend to have high new product introductions, a fashion component, seasonality and shorter shelf life. Thus, they also tend to have the highest unsaleables rates.



MANUFACTURER 2001 UNSALEABLES RATES

BY RETAIL DEPARTMENT

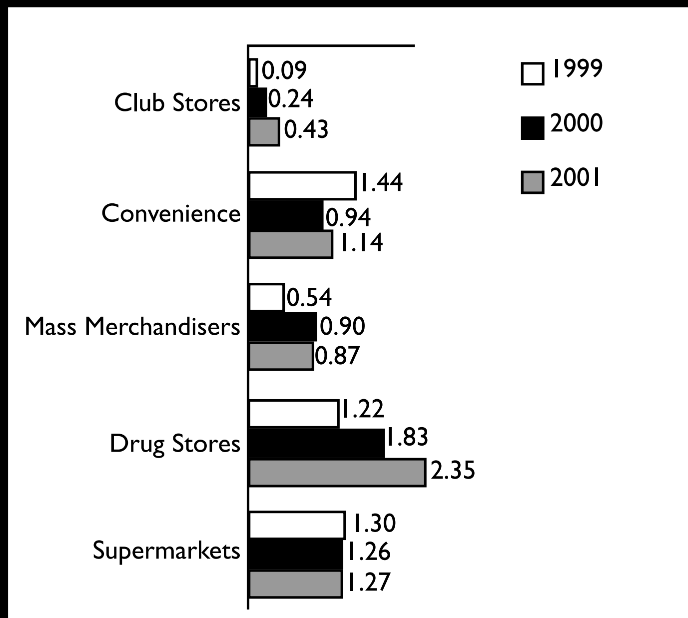
Benchmark:

DRUG CHANNEL HIGHEST RATE OF UNSALEABLES: 2.35%

Retail channels carrying a higher percentage of health & beauty care products and general merchandise — such as drug stores and those stores with large overall assortments such as supermarkets — are more likely to have the highest rates of unsaleables.

The drug store channel has the highest unsaleables rate at 2.35 percent. While modest, the supermarket channel posted a decline in its unsaleables rate since 1999 — from l.30 in 1999 to 1.27 in 2001.

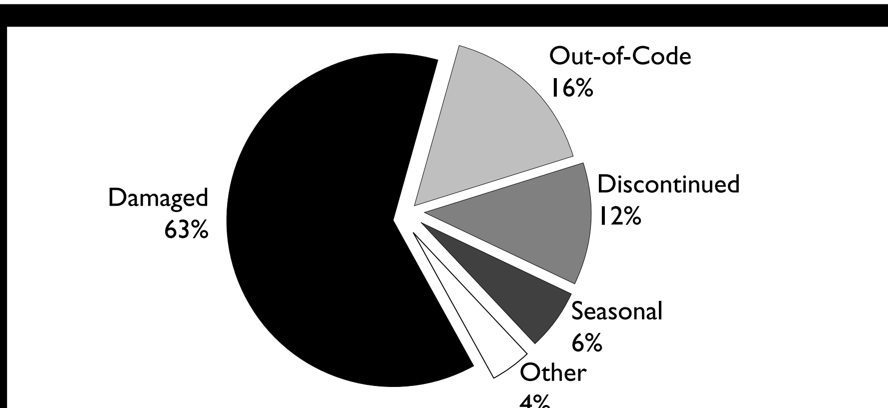
MANUFACTURER UNSALEABLES RATES BY RETAIL CHANNEL — 1999 TO 2001



DISTRIBUTORS REPORT DAMAGE IS NO. 1 CAUSE FOR RECLAMATION

While damage remains the primary reason for reclamation, 37 percent of reclamation volume is due to out-of-code, unsold discontinued/ seasonal volume and other.

DISTRIBUTORS REPORT DAMAGE NUMBER ONE REASON FOR RECLAMATION

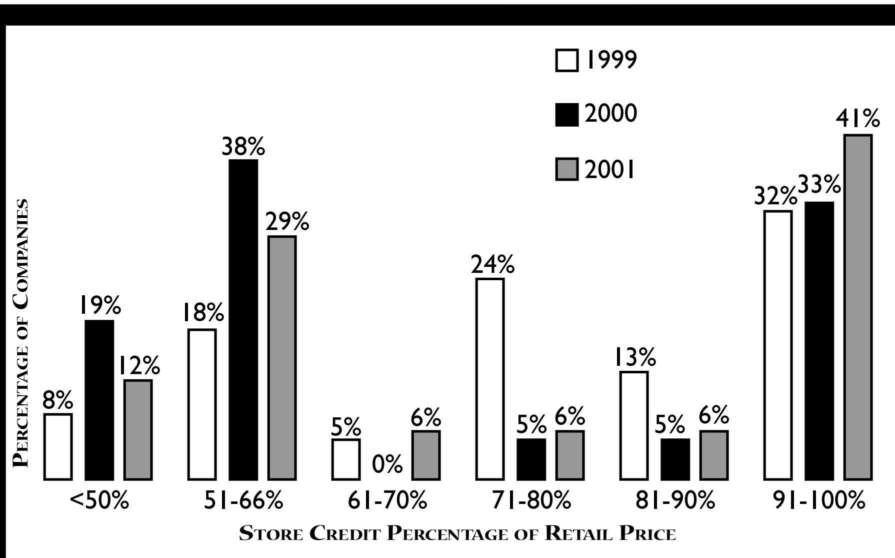


Trends to Watch: Product Disposition, Retail Credit Rates and Swell/Adjustable Rate Allowances

The use of adjustable rate policies and swell allowances is increasing. Today more than 50 percent of responding manufacturers report offering some type of swell allowance. Twenty-one percent offer adjustable rates. The increased use of these policies will undoubtedly change the unsaleables landscape, and many manufacturers, wholesalers and retailers are currently analyzing their impact.

This past year, distributors reported a dramatic increase in the rate of salvage — from 20 percent of reclamation volume to 30 percent. The increase may be due to fewer manufacturers employing third parties for product pick-up and increased financial pressures on distributors from swell allowances and adjustable rate policies.

Over the past three years, a slight downward shift has occurred in the rate at which distributors credit stores for unsaleables — creating store incentives and accountability for reducing unsaleables.



Retail Price Basis for Unsaleables Store Credit

Top Issues: Product Discontinuation and Retail Stock Rotation

Distributors discontinue about 10 percent of warehouse delivered SKUs annually. While the majority of discontinued volume is sold or returned, distributors estimate about 22 percent eventually ends up at reclamation. These products account for 12 percent of all reclamation volume.

Benchmark:

DISTRIBUTORS
— DISCONTINUE ABOUT 10% OF WAREHOUSE-DELIVERED VOLUME
— 64% TAKE STEPS TO IMPROVE STOCK ROTATION PRACTICES

While survey analysts expect the rate of discontinuation to continue, they note that real opportunities exist for improving the management of the discontinuation process between trading partners. (A white paper on discontinuation, *Improving Efficiencies in Product Discontinuation*, is available from GMA (www.gmabrands.com), FMI (www.fmi.org) and FDI (www.fdi.org.)

Both distributors and manufacturers agree that inadequate retail stock rotation is one of the top causes for unsaleables. This year, 64 percent of distributors report taking steps to improve retail stock rotation, with a heavy emphasis on preventing out-of-code conditions and increasing store-level training.

While only a third of manufacturers report new initiatives, they have provided direct support for rotation, made product date-codes easier to read and implemented policies/audits to increase accountability. When manufacturers routinely provide retail stock-rotation support, they typically do so on a quarterly basis.

WHERE COMPANIES ARE PLACING UNSALEABLES ENERGY

Manufacturers are focusing on packaging and distribution/logistics improvements to reduce unsaleables. They are placing emphasis on pallets, SKU rationalization, product discontinuation, seasonal items and support for retail stock rotation.

Distributors are heavily focused on discontinued product, slow movers and out-of-code product, store-credit rate reductions, warehouse and store-level operating practices, and retail stock rotation.

RECOMMENDATIONS

Survey analysts say the industry has significant opportunities to reduce the $2.5 billlion annual cost of unsaleables. While this report documents many areas where progress is being made, it also highlights ongoing disconnects between trading partners' perceptions and practices.

In today's highly competitive, dynamic and complex business environment, companies are encouraged to take a holistic approach for managing unsaleables. Such an approach encompasses both the physical root causes of damage (packaging, distribution/logistics and handling practices) and the behavioral root causes (which result in out-of-code and unsold discontinued/seasonal unsaleables).

Industry experts note that the unsaleables issue is not an easy one to tackle due to process complexity, liability and the variety of solutions available. However, they say companies can best achieve unsaleables reductions by working with trading partners on solutions that address root causes, assign accountability and monitor performance.

It is recommended that companies collaborate with trading partners in the following areas:

- Manufacturer packaging, distribution/logistics practices that take into account the total supply chain from plant to shopping cart.
- Distributors' warehouse receiving, slotting, product selection and store-pallet assembly practices.
- Sales/buying practices that tie routine turn, seasonal and promotion volume to consumer sales and not to historic warehouse shipments, sales targets or revenue goals.
- Improved retail stock rotation and store-level handling practices.
- Effective product discontinuation processes that permit time for maximum product sell-through to consumers.