Reverse Supply Chain Improvement
A Joint Industry Project

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July 2011
Reverse Supply Chain Improvement Project  
* A Joint Industry Project 

This document contains the final report of a joint industry project that involves each of the major stakeholders in the current reverse supply chain for food and non-prescription health and beauty care products. Retailers, wholesalers, manufacturers and service providers involved in reverse distribution, provided input to this project and this report. A total of 58 companies participated in the project’s information gathering phase and in the development of the recommendations in this report.

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See Appendix B for a list of all project participants.
How to Use This Report

Introduction Page 6
This section describes how this report came to be, its goals and the general concept behind the project that generated the report.

Executive Summary Page 9
This section contains a synthesis of the industry-level conditions affecting the reverse supply chain, developed by Raftery Resource Network (R2N).

Recommendations for Improvement Page 12
Suggestions from the Senior Executive Roundtable Summit which convened for this project are documented in this section. Four general recommendations for any company and the industry-at-large are followed by several specific recommendations for damaged goods, expired products, manufacturer discontinued items, retailer discontinued items and product recalls.

Perspectives and Practices Survey Page 18
The first information gathering effort in the project is reported in a series of qualitative findings and conclusions, also developed by R2N.

Data Survey Page 28
Quantitative information provided by wholesalers, retailers, manufacturers and service providers is aggregated in this section.

Policy Survey Page 38
A “snapshot” of several CPG manufacturers’ policies on unsaleable products (damaged and expired goods) is shown in this section. Additional policies and selected practices for discontinued products are summarized for some of these companies.

Incentives and Efficiencies Interviews Page 42
Executives from twenty five companies were individually interviewed by R2N to learn their thoughts and opinions about the various incentives currently affecting practices in the reverse supply chain. Their suggestions for improving the reverse supply chain are summarized here. Appendix D contains the verbatim comments collected in the Incentives and Efficiencies Interviews. These comments are not identified with any individual or company and contain no specific company references.

Case Studies Page 51
Twenty companies, most identified by their trading partners for “best practices” in unsaleables management, provided insight into how their efforts succeed in reducing unsaleables quantities and costs.

Appendices Page 77
The final section contains several details about the project, this report and participants.
The information in this report is based on input from a diverse, yet limited, sample of company representatives who participate in the Reverse Supply Chain. This information is intended to be directional and is not intended to represent or imply representation of all industry practices and all industry perspectives regarding the Reverse Supply Chain, unsaleable products, recalled products or any of the other conditions and situations described herein. Due to the limited sample sizes, the data in this report are not representative of total industry averages or benchmarks.
Introduction
INTRODUCTION

Introduction

Background

For nearly two decades, trading partners have energetically dialogued about the “shared responsibility” philosophy supporting the operation of the product reclamation system for food and OTC health and beauty care products. In the last few years, initiatives that were designed to help trading partners make progress resolving the issues inherent with damaged goods, expired products, discontinued items and product recalls – which are typically referred to collectively as “unsaleables” – have yielded mixed results. For example:

- The annual Joint Industry Unsaleables Management Conference has steadily grown since 1995, now attracting over 250 attendees, all involved in the reverse supply chain.
- Some manufacturers have developed reimbursement policies which do not follow all of the voluntary recommendations in the FMI/GMA guidelines for Adjustable Rate Policies (2005) and the Joint Industry Report guidelines (1990).
- Some retailers and wholesalers have reverted to pre-reclamation era practices of selling, destroying or donating unsaleable products in retail stores.

As a result, fundamental disagreements often surface in dialogues between individual trading partners over both cost recovery and physical control of unsaleable products. One of the consequences of these disagreements has been a reduction in manufacturer marketing investments, in some cases. Other consequences have potential implications for food safety and traceability.

Several FMI member companies, led by the FMI Wholesaler Advisory Board, with the endorsement of the FMI Board of Directors, launched this project to make progress on these issues and deliver solutions for the total industry. They chose this new direction to intensify their support of the Joint Industry Unsaleables Leadership Team (JIULT).

In April, 2010, FMI engaged NACDS and GMA, its long-time collaborative partners on the JIULT and this topic, in elevating productive discussions to a higher-priority level. A special Task Force including members from the three associations was formed to guide this project.

This report is the product of their collective efforts. It provides up-to-date situations and summaries of opportunities for use by industry senior executives as they engage in discussions about how to improve the reverse supply chain.

Project Overview

Retailers, wholesalers, manufacturers and service providers were enlisted by FMI, NACDS and GMA to participate in this two-phased project. Data, policy and practice information were collected and assembled by Raftery Resource Network (R2N), a recognized subject matter expert, who worked with the project Task Force to develop this report.
The project concluded with the delivery of this report and a separate set of recommendations to the associations for increasing the likelihood that the four key stakeholder groups – retailers, wholesalers, manufacturers and service providers – will implement the recommendations in this report.

**Project Goals**

The two primary goals for this project are to develop recommendations for:

- Improving the reverse supply chain, including distribution, business and financial practices.
- Increasing the likelihood that retailers, wholesalers, manufacturers and service providers will implement the improvement recommendations.

The over-arching goal is to resolve – or at least moderate – the current level of discord that exists between some trading partners on the subject of unsaleable products.

**Project Concept**

The following graphic shows the general progression of the major stages of the project, which began in September 2009 and concluded in March of 2011.

![Project Concept Diagram](image)

For additional descriptions of the activities involved in the major stages of the project, see appendix A. For a list of companies that participated in each stage, see Appendix B.
Executive Summary
The Joint Industry Task Force assembled for this project recognizes that the general perspective about the function of product reclamation centers has changed in recent years for some companies, which has frequently become a divisive topic between some trading partners. Setting aside, but not disregarding the various issues, complaints and problems that trading partners have with each other about unsaleables, the first qualitative information-gathering step in this project yielded the following from 49 companies in the Perspectives and Practices Survey:

1. The big opportunity for the total industry – food, non-prescription health and beauty care, manufacturers, retailers, wholesalers and service providers – is to develop a new definition of “shared responsibility” for the reverse supply chain which will be acceptable to all stakeholders. The currently predominant perspectives about shared responsibility are:
   - By manufacturers – Each trading partner should pay for what they cause to be in the reverse supply chain.
   - By retailers/wholesalers – Each trading partner should pay for some portion of the complete range of costs of the reverse supply chain.

2. The big challenge will be for individual companies to focus on total supply chain process improvement. At this time, that means openly and realistically addressing the reasons why all products which currently flow through this reverse distribution system, do so. Five reasons for the current flow are evident:
   - Products become damaged.
   - Product expiration dates are reached.
   - Manufacturers withdraw or discontinue products.
   - Retailers and wholesalers delist or discontinue products.
   - Products are recalled.

Individual companies choose various means and methods of dealing with reverse supply chain issues and practices. For example, retailers and wholesalers individually or together with their trading partners conduct business practices such as product donations to food banks, sales of inventory to salvage dealers, return of end-of-season inventory to name a few. As a result, industry practices cover a broader spectrum than many individual company’s practices.

Conclusion: The Senior Executive Roundtable Summit focused on developing recommendations that address the issues which have proven tough for the industry to resolve in the broader spectrum of the total supply chain and for all the products that currently flow through reclamation centers.
EXECUTIVE SUMMARY

The quantitative data collected in this project came from wholesalers, retailers, manufacturers and service providers. Major points of interest from the data survey include:

- The share of recalled products in the total annual volume of products processed in third-party operated reclamation centers has increased slightly over the past three years. The share of volume that is salvaged remained similar over the same period, at just under 50%.

- Six wholesalers and retailers reported unsaleables receipts from manufacturers totaling 1.18% of their total cost of goods last year (2009). Damaged goods and expired products represent the largest share of unsaleables (43.3% and 37.2% respectively). Since a similar study was conducted in 2008, damaged goods have declined from 48% and expired products have increased from 17%.

- For twelve manufacturers, total annual payments to customers for all unsaleables totaled .73% of gross sales last year. Over half (53.7%) of those payments were transacted through ARP programs for these companies.

- Share of unsaleables payments was less than share of gross sales for seven manufacturers in the following channels: supermarket, mass merchants and club stores. Payments for discontinued products (e.g., markdown funds) were not released by enough manufacturers to report.

While most wholesalers and retailers did not know their annual revenue from discontinued product markdown funds, the three that provided data reported a significant amount of revenue – an amount that equaled 14.5% of their total unsaleables receipts.

Conclusion: As efforts to prevent damage to products appear to be succeeding, the increase in expired products and the popularity of alternative cost recovery techniques such as markdown funds or salvage sales, indicates a major opportunity for all stakeholder companies.

Key learnings from the other qualitative information gathered in the Incentives and Efficiencies Interviews are as follows:

- Manufacturer policies for unsaleables do not conform to a standard template and some omit important information such as whom to contact with questions.

- There is a general consensus that corporate growth strategies and personal performance and compensation packages often drive “over-buying” and “over-selling” decisions, when metrics exclude data about unsaleables.

- Several companies are focusing improvement efforts on expired products and discontinued items. Store-level practices and performance data are frequently involved.

The opportunity “to be plus” in ARP programs is a frequently mentioned motivator for retailers and wholesalers to make investments in systems and resources.

Conclusion: While some companies – manufacturers, retailers and wholesalers – have adopted new performance metrics that include unsaleables and new practices for mitigating unsaleables costs, these practices are not widespread. The Senior Executive Roundtable Summit developed several recommendations for how to capture and use new metrics.
Recommendations for Improvements
Recommendations for Improvements

Senior Executive Roundtable Summit

On January 12, 2011, 24 executives came to Chicago to develop recommendations for improving the Reverse Supply Chain. They represented retailers and wholesalers in the food and chain drug store industries, manufacturers of food and OTC health and beauty care products and service providers.

In preparation for the Roundtable Summit, participants received the Phase 1 Report from this project, describing the current “state-of-the-industry” for damaged goods, expired products, discontinued items and product recalls – often collectively referred to as unsaleables. The Phase 1 Report is contained in this report and offers a wealth of information about what companies are doing to reduce their costs associated with the various types of unsaleables.

The assembled Task Force developed action-oriented recommendations intended to focus on progress and improvement by individual companies and by trading partners in collaboration with each other. In addition, these executives offered suggestions for what their associations – FMI, NACDS and GMA – can do to encourage other companies to implement their improvement recommendations.

General Recommendations

Roundtable Summit participants developed several recommendations that apply to each of the five conditions: damaged goods, expired products, manufacturer discontinued items, retailer/wholesaler discontinueds and product recalls. Some recommendations are appropriate for individual companies, some for trading partners working together and other for the industry at large.

1. **Keep the five topics separate.** Whether the discussions and improvement activities are internal or involve trading partners, the discussions will be more productive if the five topics are addressed individually.
   a. Across the five topics, issues and opportunities vary by company, by product category and often by brand.
   b. The current level of industry discord on the combined subject of unsaleables is driven, in part, by these variations.
   c. By focusing on the conditions individually, companies can be more successful in identifying and making improvements.

   *Example: Damage goods have been a focus for several companies, with positive results.*

   *Next opportunity: Expired products.*

2. **Enhance scorecards and internal performance reports** with metrics and Key Performance Indicators (KPIs) for each of the five conditions.
   a. Scorecards can be used internally among corporate divisions and with trading partners.
b. KPIs can be used in internal performance incentive programs and in industry-level comparative assessments such as “best-in-class” publications.

*Example: Service level has become an acceptable scorecard element and KPI.*

*Next opportunity: Days-of-life remaining.*

3. **Collect better data about each condition.** The first two recommendations may be implementable by only a few companies at this time – those companies that have invested in improvements in data acquisition and management resources. The current economic environment should encourage other companies to follow their lead.

   a. Some retailers include reclamation system parameters in store-level perpetual inventory systems.

   b. Several manufacturers collect supply chain data using service providers that audit multiple points in the supply chain.

   c. Improvements that require trading partner involvement are limited by data definitions and audit methodologies which are not consistent, i.e., not standardized.

   *Example: Lean Six Sigma organizations standardize procedures and measures to minimize system breakdowns.*

   *Next opportunity: Include reductions in damaged and expired products.*

4. **Adjustable Rate Policy (ARP) programs should address damaged goods and expired products** to the appropriate degree for each manufacturer and should exclude manufacturer and retailer/wholesaler discontinued products – even if they are expired – and recalls. (Note: This could result in lower ARP rates published by some manufacturers and/or additional reimbursement actions, but should not diminish efficiency incentives for trading partners).

   a. Current disputes between trading partners often focus on which conditions an ARP program addresses and which are addressed outside of the ARP program.

   b. Periodic ARP reimbursement rate reviews and updates should include data that represent actual incidents of damages and expirations of products which have not been discontinued.

   c. Since forecasting is often a basic component of ARP reimbursement calculations, increased trading partner collaboration and increased data transparency on inventory management are needed to improve the accuracy of forecasts for the amount of active product inventory that becomes expired.

   *Example: Trading partner dialogue about “minimum customer remaining shelf life” is increasingly involved in inventory management improvement initiatives.*

   *Next opportunity: Separating discontinuities from active product expirations.*
RECOMMENDATIONS FOR IMPROVEMENTS

Specific Recommendations

The Roundtable Summit participants identified several recommendations for Reverse Supply Chain improvement in the five conditions. Some recommendations are appropriate for individual companies, some for trading partners working together and other for the industry-at-large.

Damaged Products – Defined as products with compromised packaging, including, crushed, dented, punctured, unglued, etc.

1. Increase the consistency in the development of manufacturer ARP program reimbursement rates. Joint industry development is needed for:
   a. A standard formula or blank template that accommodates differences in channels, types of products and other agreed-upon variables.
   b. Consistent periodic schedule for updates (e.g., ARP rate re-calculations).
   c. Agreed-upon definitions of formula elements (i.e., blanks in templates) for damaged and expired conditions.

2. Develop and use a common scorecard for measuring progress and opportunities in the reduction of damage to products, similar to service-level scorecards.
   a. For use by trading partners in regular review and planning meetings.
   b. Focus on opportunities for improvement (e.g., packaging, handling, etc.).

3. Identify new and common data sources for individual company metrics and industry benchmarks.
   a. Based on agreed-upon definitions and standardized collection and reporting.
   b. Potentially useful in standard reimbursement formulae and scorecards.
   c. Measure from “quality of production line” through to “quality on shelf.”
   d. Needed: Agreements to share data, including POS, and certification of data collection and management service providers.

4. Adopt a strategic commitment to focus on total supply chain process improvement in order to realize several benefits, including:
   a. Improvement in trading partner relations and communications.
   b. Reimbursements and allowances more closely aligned with actual costs.
   c. Reduction in overall damages in the system.
   d. Lower overall supply chain costs.
   e. Positive rewards such as sharing in cost savings.

5. Adopt a broader focus on entire supply chain. Joint industry development is needed for:
   a. Agreed-upon definition of start and end of the supply chain.
   b. Agreed-upon definition of variations across product types, manufacturing, distribution channels, etc, for responsibility for damage.
   c. Agreement on appropriate corrective actions and related responsibilities.
**RECOMMENDATIONS FOR IMPROVEMENTS**

**Expired Products** – Defined as products for which the date printed on the package has passed.

1. Develop and use industry standards for key shelf life factors, including:
   a. Minimum customer remaining shelf life (i.e., upon receipt at customer DC), with variables by category, distribution channel, temperature, etc.
   b. Broader use of a single date descriptor (e.g., “best by”).
   c. The types of products for which expiration dates may not be necessary.

2. Develop common trading partner scorecard for shelf life performance.
   a. Needed: Agreement upon metrics such as days of life remaining, inventory turnover rate, etc.
   b. For use by trading partners in regular review and planning meetings.
   c. Special communications and actions when indicated by metrics.

3. Develop industry handbook for best practices in managing remaining shelf life.
   Handbook goals include:
   a. Improve use of category management tools such as space management software (e.g., balance space to sales and shelf life).
   b. Improve forecasting methods.
   c. Improve in-store operations disciplines, such as shelf inventory management and rotation practices.

4. Increase use of information technology to track remaining shelf life.
   a. At multiple points in supply chain (e.g., DC, store, etc.).
   b. Increase sharing of remaining shelf life data with trading partners.

**Manufacturer Discontinued Products** – Defined as products that a manufacturer has decided to stop producing and/or selling.

1. Develop a standard exit process for manufacturers and retailers to use. Process goal: no product sent to reclamation. Some key elements of a standard process might include:
   a. Minimum notification time.
   b. Phased-in markdown process, e.g., 50% for 4 weeks; 75% for next 4 weeks.
   c. Sell-through time limit (e.g., 8 weeks).
   d. Procedure for residual inventory after markdown period.
   e. Special process for full cases – lead time more critical here.
   f. Variations by distribution channel.

2. Develop and use a standard scorecard for discontinued item process performance.
   a. Metrics include: sell-through time, residual inventory, notification time.
   b. For use by trading partners in regular review and planning meetings.

3. Focus on minimizing total supply chain costs.
RECOMMENDATIONS FOR IMPROVEMENTS

a. Consider assigning markdown funds to brand budgets, versus marketing/trade budgets in order to increase brand improvement incentives and protect sales-building strategies.

b. Include exit strategy in new item introduction discussion.

4. ARP programs should exclude costs associated with manufacturer discontinued products.

**Retailer/Wholesaler Discontinued** – Defined as products that a retailer or wholesaler has decided to stop buying and merchandising.

1. Keep trading partner discussions focused on improving supply chain efficiency and trading partner relations and protecting consumer equity (e.g., brand for manufacturers; product and service brand for retailers).

2. Develop a standard process for retailer/wholesaler discontinuation of product. Some key elements of a standard process include:
   a. Communications standards, such as minimum time for notification of intent.
   b. Trading partner activities timeline.
   c. Collaborative process activities for product disposition, including clearance, return, reclamation, donation, salvage, etc.
   d. Standard financials for reimbursement discussions including freight, labor, inventory and “back-outs” such as marketing funds and ARP payments.
   e. Agreed-upon time limits on reimbursement requests.

3. ARP programs should exclude costs associated with retailer/wholesaler discontinued products.

**Recalled Products** – Defined as products for which a manufacturer issues instructions to remove specified inventory from distribution.

1. Manufacturer response procedures can be enhanced by having a crisis (response) team in place and rehearsed via mock recalls.

2. Encourage greater subscription to and use of the GS1-US Rapid Recall Exchange and industry work that has been completed, such as the Recall Execution Effectiveness report (GMA/FMI/GS1-US/Deloitte).

3. Accelerate notice of recalls to retailers and removal of products from shelves by retailers.

4. Define actual costs associated with a product recall and incurred by manufacturer, retailer, wholesaler and service provider. Joint industry development is needed for:
   a. Collaborative industry study to develop agreed-upon costs.
   b. Agreed-upon process, standardized for each type of company.

5. Consider investigating the potential impact on recall processes in a future scenario with fewer or no product reclamation centers.

6. ARP programs should exclude costs associated with recalls.
Perspectives and Practices
Perspectives and Practices Survey

The 49 companies participating in the initial information gathering activity in this project provided in-depth insight into the issues and opportunities currently surrounding the reverse supply chain portion of the grocery business. The survey participants voluntarily contributed their thoughts, experiences and opinions under the condition of confidentiality for individual responses. The findings from the Perspectives and Practices Survey are presented in this section of the report.

Finding 1: **Retailers/wholesalers and manufacturers generally agree that the current system of managing unsaleable products through reclamation centers provides certain advantages.**

Both sets of trading partners describe the current system as providing:

- Efficient, central collection point for removing products from stores and holding for audit, causal assessment and disposition.
- Consolidated data source for improvement actions and for trading partner benchmarks.
- Critical services for product recalls, withdrawals.
- Support for improved store conditions.
- Consolidated pick-up location for manufacturers with product withdrawals continuity programs, seasonal inventory or other market actions and for food banks.

Retailers and wholesalers also note that discontinued products can be consolidated in a central location and that salvage sales are centralized in reclamation centers.

With the exception of one manufacturer and one retailer, all respondents recognize some advantage that the current system provides. One retailer verbalized what may be the “catch-22” of the current reclamation system – that all products can be sent to reclamation centers.

**Conclusion:** This broad consensus can be the foundation for future problem-solving dialogue between trading partners individually or as industry representative groups, focusing on the events or conditions leading to products being removed from store shelves including:

- Damaged
- Expired
- Manufacturer Withdrawn/Discontinued
- Retailer/Wholesaler Discontinued
- Recalled
Finding 2: The primary disadvantage of the current system is its failure to ensure that all trading partners share in the financial and operational responsibilities associated with it.

Retailers/wholesalers and manufacturers recognize similar disadvantages, including:

- Costs to operate the system.
- Lack of improvement incentive for third parties; conflict of interests.
- Lack of industry standardization for manufacturer policies and for customer up-charges.

However, important differences are evident in additional “complaints” about the current system.

Retailers and wholesalers identified these additional disadvantages:

- Products which are not covered by manufacturers’ policies can be returned to reclamation centers.
- Safety & sanitation challenges with trailers.
- Poor data flow from service providers.
- Few manufacturers collect information about why products are returned to reclamation centers.

Manufacturers identified these additional disadvantages:

- Incomplete, inaccurate, not useful data.
- Brand image risks from resale.
- Audit access denial by some centers.
- Physical pick-up and financial cycles not synched.
- Lack of control for disposition; no receipts.
- Incomplete reclamation center processing of ARP products.

Conclusion: The industry associations have the opportunity to convene as a group of senior executives to address the marketplace changes that have occurred since 1990 and to update the definition of shared responsibility.
Finding 3: Most survey participants believe that the current product reclamation systems is at risk, and that the risks can be avoided.

Declining efficiency of reclamation centers, as store-level product disposition increases, is the main risk identified by retailers/wholesalers, manufacturers and service providers. They also indicate that cost recovery is increasingly difficult as more products are covered by manufacturer ARP or swell allowance policies and stores sell more damage products.

The survey participants were upbeat about mitigating this risk. All four stakeholder groups (counting retailers and wholesalers separately) suggested the following solutions:

- Collaborate on and share in the costs of root cause mitigation.
- Develop new value propositions – for both manufacturer and distributor – from product reclamation.
- Discontinue practices that only add system costs, do not enhance value propositions.

These responses are further supported by individual company testimonials, reported separately in “Case Studies in Reverse Supply Chain Improvement,” another outcome of this project. Top-level learnings from the case studies and the individual case studies are also reported in this document.

Conclusion: Several companies, including retailers, wholesalers and manufacturers, are currently engaged in initiatives designed to reduce the volume of products that enter the reverse supply chain and lower the costs associated with those products. Many of these companies are actively engaged with trading partners. Companies that demonstrate such improvements – especially in conjunction with trading partners – appear to be well-positioned to offer input to a new definition of “shared responsibility.”
Finding 4: There is no consistent pattern for ownership of unsaleables costs among retailers/wholesalers or among manufacturers.

Just under half of the retailers/wholesalers and just over half of the manufacturers in this survey assign unsaleables expenses to a single department.

**Which Department Owns Expenses Associated with Unsaleables?**

<table>
<thead>
<tr>
<th>Department</th>
<th>Retailers/Wholesalers (n=19)</th>
<th>Manufacturers (n=19)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandising</td>
<td>3/9</td>
<td>5/8</td>
</tr>
<tr>
<td>Operations</td>
<td>1/9</td>
<td>1/5</td>
</tr>
<tr>
<td>Warehousing</td>
<td>2/6</td>
<td>3/4</td>
</tr>
<tr>
<td>Transportation</td>
<td>1/6</td>
<td>2/3</td>
</tr>
<tr>
<td>Finance</td>
<td>1/2</td>
<td>3/3</td>
</tr>
<tr>
<td>Reclamation</td>
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<td>3/3</td>
</tr>
<tr>
<td>Total</td>
<td>8/11</td>
<td>11/8</td>
</tr>
</tbody>
</table>

However, there is no consistency among either supply chain segment set regarding which department owns the P&L for unsaleables. The variation is wider for companies who share unsaleables costs across two or more departments.

**P&L Ownership for Unsaleables**

<table>
<thead>
<tr>
<th>Department</th>
<th>Retailer/Wholesaler</th>
<th>Manufacturer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
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<td>8/5</td>
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<tr>
<td>Marketing</td>
<td>1/5</td>
<td>5/3</td>
</tr>
<tr>
<td>Finance</td>
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<td>4/3</td>
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<tr>
<td>Packaging</td>
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<td>3/3</td>
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<tr>
<td>Distribution</td>
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</tr>
<tr>
<td>Quality</td>
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</tr>
<tr>
<td>Total</td>
<td>11/8</td>
<td>8/8</td>
</tr>
</tbody>
</table>

Conclusion: Variations in P&L accountability may be a driving factor causing variations in operating and financial practices across the industry.
Finding 5: Most manufacturers in this survey have published policies that use multiple methods to reimburse customers for unsaleables costs.

Among these twenty manufacturers:

- Five have Adjustable Rate Policies (ARP) for all of their products.
- Three have “JIR” policies for all of their products. (See note below)
- Twelve use a combination of JIR, ARP, swell allowance and other methods for various products or customers.

While most of these manufacturers can identify strategic advantages from their type of policy, most also identify disadvantages.

To further complicate policy discussions between trading partners, most retailers/wholesalers define their own unsaleables policy as the “prevailing” policy for all or most products.

Discrepancies between a retailer/wholesaler claim for unsaleables and a manufacturer policy are resolved in several ways by manufacturers. Among the twenty manufacturers in this survey:

- 15 say that customers repay discrepancies.
- 12 use trade funds to cover discrepancies
- 9 negotiate on a customer-by-customer basis.
- 9 write-off discrepancies.

Note: multiple responses.

Conclusion: The diversity in approaches to policy methodology, application and dispute resolution has become increasingly complex in recent years, adding administrative costs to the total supply chain. Some segments may interpret the net effect as a cost shift. This complexity may be a measurable opportunity for improvement – simplification – for the industry associations to address and monitor over time.

Note: A JIR policy is generally considered to follow guidelines for responsibility, reimbursement and disposition as found in the 1990 publication “Product Reclamation Centers: A Joint Industry Report.”
Finding 6: Companies generally believe that their trading partners have not adopted improvement recommendations published in 2005, but that they themselves have adopted the recommendations.

Most (71%) retailers/wholesalers, most manufacturers (75%) and all service providers in this survey said that they are familiar with “Improving Unsaleables Management Business Practices – Joint Industry Recommendations,” published in 2005 by FMI and GMA. Aware manufacturers and retailers/wholesalers generally gave themselves high marks for following the report’s recommendations.

**R/W M Own company practices vs. report recommendations**

<table>
<thead>
<tr>
<th>R/W</th>
<th>M</th>
<th>Own company practices vs. report recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>8</td>
<td>All are very similar</td>
</tr>
<tr>
<td>10</td>
<td>5</td>
<td>Most are similar</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Some are similar</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>None are similar</td>
</tr>
</tbody>
</table>

R/W = Retailer/Wholesaler  M = Manufacturer

However, trading partner compliance is another story.

**R/W M S Have 2005 recommendations been adopted across industry?**

<table>
<thead>
<tr>
<th>R/W</th>
<th>M</th>
<th>S</th>
<th>Have 2005 recommendations been adopted across industry?</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>2</td>
<td>0</td>
<td>Yes, most followed by everyone</td>
</tr>
<tr>
<td>4</td>
<td>0</td>
<td>0</td>
<td>Most followed by distributors, not manufacturers</td>
</tr>
<tr>
<td>0</td>
<td>3</td>
<td>1</td>
<td>Most followed by manufacturers, not distributors</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>0</td>
<td>A few followed by distributors, not manufacturers</td>
</tr>
<tr>
<td>1</td>
<td>4</td>
<td>0</td>
<td>A few followed by manufacturers, not distributors</td>
</tr>
<tr>
<td>7</td>
<td>5</td>
<td>6</td>
<td>No, no one following</td>
</tr>
</tbody>
</table>

R/W = Retailer/Wholesaler  M = Manufacturer  S = Service Provider

Surveyed service providers, whose clients are on both sides of the trading partner relationship, almost universally believe that no one is following the recommendations.

Conclusion: The bulk of the industry conversations about the 2005 report focus on ARP programs by manufacturers. The lack of adoption – or the perception of same – may be a similar challenge for the associations in developing new industry guidelines.
Finding 7: Most of the current trading partner collaborations deal with damaged goods, manufacturer withdrawals and expired products.

Factoring out those companies who do not consider these subjects to be a priority (6 manufacturers and 2 retailers/wholesalers), the percentages that report these collaborations are very similar among trading partners.

### Trading Partner Collaboration

- **Damaged goods**: 95% (Retailers & Wholesalers: 86%, Manufacturers: 89%)
- **Manufacturer discontinued**: 86% (Retailers & Wholesalers: 86%, Manufacturers: 89%)
- **Expired products**: 71% (Retailers & Wholesalers: 84%, Manufacturers: 68%)
- **Customer discontinued**: 71% (Retailers & Wholesalers: 68%, Manufacturers: 71%)
- **Soon-to-expire products**: 50% (Retailers & Wholesalers: 53%, Manufacturers: 37%)
- **Saleables product in reclaim**: 64%

Most retailers/wholesalers (76%) and most manufacturers (70%) in this survey report sharing unsaleables data with their trading partners. Category and trading partner reviews are frequently mentioned as the setting.

**Conclusion:** Since all of these companies incur costs associated with unsaleables, the fact that some often do not engage trading partners in fact-based discussions indicates that concerns about cost are not universal in the industry.
Finding 8: About two-thirds of the retailers/wholesalers and manufacturers in this survey believe that they share unsaleables costs with their trading partners.

Do you share with trading partners in the costs associated with unsaleables?

![Survey Results](chart.png)

Regarding who pays for what, retailers/wholesalers mention most of the same costs identified by manufacturers as what manufacturers pay – with one exception. Manufacturers also noted ARP audit and maintenance costs.

<table>
<thead>
<tr>
<th>Who Covers What</th>
<th>Retailers/Wholesalers Pay For</th>
<th>Manufacturers Pay For</th>
</tr>
</thead>
</table>
| According to Retailers/ Wholesalers | • Labor & transport of ARP products to reclaim  
• Transport to DC  
• Third party  
• Store & DC labor  
• Corp admin, IT & accounting | • Reclaim & recall labor  
• Product value (purchase cost) |
| According to Manufacturers | • Reclaim center operations  
• Labor & transport from DC to store | • JIR handling rates for reclaim  
• Recall handling & processing  
• Product value (list cost)  
• ARP audit & maintenance |

Manufacturers similarly align with most costs mentioned by retailers/wholesalers as being covered by retailer/wholesalers, with two exceptions – corporate administration, IT, accounting and a special call-out of labor and transportation of ARP products.

Regarding salvage revenue or donation tax credits, most of these companies say that retailers/wholesalers receive the revenue or credit, some share and some say none exists.

Conclusion: Whether or not cost-sharing exists – or even should exist – the current perception of a significant number of companies is that it does not. This further indicates an opportunity to develop a new definition of shared responsibility at the industry level.
Finding 9: Retailers/Wholesalers are most concerned about reducing their costs associated with unsaleables. Manufacturers and service providers are most concerned with system efficiency improvements.

The following changes were at the top of surveyed companies “wish lists” for change. They are listed in order of frequency of mention, with the most frequent on top. The elimination of ARP and swell allowance polices is the top thing that retailers/wholesalers would change about the current product reclamation system.

1. Eliminate ARP & swell allowances
2. Capture and use better data (causal)
3. Reimburse for cost of product plus handling
4. Return product to manufacturers
5. Improve or guarantee shelf life minimums
6. Improve, shorten cycle for reimbursement

Half of these suggestions relate to financial issues that these companies would like resolved (i.e., numbers 1, 3 and 6). The other half could help reduce the incidence of damage, expiration and other causes of unsaleability.

Improvement in audit and control over unsaleables and customer claims is the top thing that manufacturers would change.

1. Improve audit and control over unsaleables & claims
2. Capture and use better data (causal)
3. Eliminate salvage sales from reclamation centers
4. Reduce excess labor – process at retail
5. Pick up unsaleables from all customers
6. Improve financial transaction process (EDI)

Eliminating salvage sales from reclamation centers and picking up products from all customers, (which would eliminate salvage sales from reclamation centers) may be brand protection motivated. The other “wishes” (2, 4 and 6) would help improve system efficiency.

Service providers are generally more esoteric on this subject.

1. Redefine the role of the reclamation center
2. Increase collaboration between retailers/wholesalers and manufacturers
3. Increase collection and sharing of trusted and useful data
4. Improve product disposition practices

Their top two “wishes” are likely to be outcomes of this project. Product disposition practice improvements likely relate to increasing pressure on waste management costs.

Conclusion: All three “wish lists” contain a desire to see and use more data to manage unsaleables and their related costs and to reduce the incidence of all types of unsaleables.
Data Survey
DATA SURVEY

Data Survey

Quantitative information about the current state of the reverse supply chain was collected for this report through a Data Survey conducted from September to November 2010. Raftery Resource Network (R2N) conducted the survey and retained all individual company responses.

All data collected in this survey are held confidential by R2N and are reported as aggregates in this document. Thirty-five companies participated in the Data Survey, as follows:

- 13 wholesalers and retailers
- 17 manufacturers
- 5 reclamation service providers

Participants used the following definition of “unsaleables” when answering the questions.

<table>
<thead>
<tr>
<th>Include</th>
<th>Exclude</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse delivered products</td>
<td>All DSD products, full case returns, fresh meat, bakery, produce, deli, Rx drug.</td>
</tr>
<tr>
<td>U.S. stores, all retail markets</td>
<td>Non U.S. stores, foodservice, institutional</td>
</tr>
</tbody>
</table>

The definition of “unsaleables” in this report is consistent with the survey definition.

The data survey of wholesalers and retailers and the separate data survey of manufacturers yielded identical percentages for completion of the questionnaires – 28% of the possible data points were answered in each survey. Possible data points are those inputs which were answered by at least one survey participant.

Wholesalers & Retailers | Manufacturers
-------------------------|----------------|
Total possible data points | 65          | 87          |
Average completion rate    | 28%          | 28%          |
Highest completion rate    | 60%          | 60%          |
Lowest completion rate     | 3%           | 7%           |

Most data points in both surveys included the option to select “data unknown.”

- In the wholesaler and retailer responses, nearly all missing data points were indicated as “data unknown.”
- In the manufacturer responses about half were “data unknown”; the other half were blanks, refusals or extraneous input.

Retailers and wholesalers were asked to provide gross volume data in terms of cost of goods, not retail sales, in order to exclude profit margins from these segments of the supply chain.

Conclusion: Since more, better, useful, shared data was one common top “wish” among retailers/wholesalers, manufacturers and service providers participating in the Perspectives and Practices Survey, one opportunity for the industry in general is for more companies to measure unsaleables as a percentage of sales or costs of goods.
Data Survey Results – Wholesalers and Retailers

Six wholesalers and retailers in this survey reported unsaleables receipts from manufacturers totaling 1.18% of their total cost of goods. Over half (53.9%) of the receipts were generated by invoice deductions and over half (55.8%) were for dry grocery products.

![Unsaleables Receipts from...](image1)

![Unsaleables Receipts for ...](image2)

While 11 companies provided annual unsaleables receipts data, only 6 provided total annual cost of product acquisition in the survey. Three indicated “data unknown” as the reason. Six companies said they do not track product acquisition costs at the department level.

Excluding costs of goods, reclamation center costs and internal costs associated with unsaleables totaled more than 2.7% of the receipts received by the 13 retailers and wholesalers in this study. While all companies in this survey identified some costs, only four said they knew all costs.

Additional costs were indicated as existing but unknown by the following number of companies:

- 7 companies said accounting, systems, management and analysis costs were unknown.
- 6 companies said freight costs were unknown.
- 5 companies said personnel costs were unknown.

Among these companies, there is no common approach to allocating unsaleables receipts from manufacturers.

- 4 companies allocate 100% to one department (2 to merchandising and 2 to reclamation).
- 4 companies allocate various percentages across several department including merchandising (1), stores (3), DCs (3), reclamation (2) and other (1).

These results are similar to the information collected in the Perspectives and Practices Survey.
**Wholesaler/Retailer Results (continued)**

**Damaged goods** represent the **largest share of unsaleables (43.3%)** for the seven companies in this survey that capture or estimated this information.

![Type of Unsaleables Diagram](image)

Expired products make up the next largest share for these seven companies. Six companies in this survey do not currently collect these data.

Four companies report returning full cases to manufacturers. Their receipts for **full case returns was 13.4% of their total receipts** from manufacturers for unsaleables. Three of these companies do not track type of unsaleables data.

Among the five companies that track internal costs for **recalled products, handling costs represent over half (68.0%) of the annual total**, excluding cost of goods.

![Recalled Product Costs Diagram](image)

The remaining eight companies in this survey do not track internal costs for recalls.
Over a third (41.8%) of unsaleable products processed for six companies in this survey went to salvage outlets. This is similar to the 43.8% reported by reclamation center service providers.

**Unsaleables Disposition**

<table>
<thead>
<tr>
<th>Disposition</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salvage</td>
<td>41.8%</td>
</tr>
<tr>
<td>Donate</td>
<td>19.3%</td>
</tr>
<tr>
<td>Return to Vendor</td>
<td>15%</td>
</tr>
<tr>
<td>Destroy</td>
<td>23.9%</td>
</tr>
</tbody>
</table>

n=6 (Data are weighted by unsaleables receipts)

Source: Data Survey of Wholesalers & Retailers

Nearly one fourth of these companies’ unsaleables were destroyed. Four surveyed companies indicated that disposition percentages were unknown.

Ten companies reported salvage revenue from unsaleables and four reported salvage revenue from warehouse inventory. Regarding salvage revenue:

- Total salvage revenue was an additional 3.4% of these companies’ total receipts from manufacturers.
- Two companies reported no salvage sales and one said this is unknown.

Regarding tax credits from unsaleables donations:

- Two companies reported tax credit data from warehouse inventory.
- Five companies reported no tax credits from unsaleables and warehouse inventory.
- Five companies said this is unknown.

Regarding total annual write-offs for unsaleables claims and costs:

- Four companies decreased their unsaleables receipts by a total of 5.4%.
- Six companies said this is unknown.

Two companies reported annual decreases in trade promotions associated with unsaleables; nine companies said these costs are unknown.

Regarding total annual revenue from discontinued product markdown funds from manufacturers:

- Three companies increased their unsaleables receipts by 14.5%.
- Seven companies said this is unknown.

One company in this survey reported costs associated with markdown funds; nine companies said these costs are unknown.
Data Survey Results – Manufacturers

Twelve manufacturers in this survey reported **total annual payments to customers for all unsaleables** (i.e., damaged and expired products) totaling .73% of their gross sales. Over half (53.7%) of manufacturer payments were made through Adjustable Rate Policy programs.

![Payments to Customers](image)

Invoice deductions were the next largest form of payment (34.1%) among the 13 companies that provided payment type information. Although companies were asked to break out payments for unsaleables, product discontinuations and recalled products separately, only four companies reported payments for discontinueds and only one provided data about payments for recalled products.

Nine manufacturers in this survey paid an average of $601,600 for **third party services** in 2009 which were related to unsaleables, discontinueds and recalls.

![Service Provider Costs](image)

Three companies said these costs existed, but were unknown for unsaleables and discontinueds; six said they were unknown for recalls.

Regarding **internal costs** (e.g. personnel, systems, freight, management, analysis, etc) associated with unsaleables, discontinueds and recalls:

- Three companies estimated total annual costs at $2.1 million, on average.
- Ten manufacturers said these costs were unknown, but existed.
Among the seven companies that provided complete data, **share of unsaleables payments** is below share of gross sales in three customer markets: supermarkets, mass merchants and club stores.

Total gross sales for these seven companies was $98.4 billion, which represents 5% of the U.S. food, beverage and consumer packaged goods industry as estimated by GMA.

Manufacturers were also asked to provide similar market-level data about **share of payments** to customers for:

- **Discontinued products** – Two companies provided partial data; seven said they do not track discontinued product payments by customer channel.
- **Recalled products** – One company provided data; two said they do not track recalled product payments by customer channel.
Six manufacturers in this survey estimated that over half (51.2%) of their unsaleables and discontinued products were destroyed. Four of these companies have JIR components to their unsaleables policies.

![Diagram showing where unsaleables and discontinued products go]

Seven manufacturers said they do not know where their unsaleables go; eight said they do not know where their discontinued products go. One of these companies has a JIR component to their unsaleables policies; the other seven have ARP policies.

Regarding how recalled products are processed:

- Four companies estimated that 67.3% of their products, on average, were removed from stores, but not processed through reclamation centers. The remaining 32.8% was processed through reclamation centers.
- Four companies did not know this information and indicated that reclamation center and non-reclamation center processing were involved to some extent.

Regarding costs for recalled products:

- Four companies reported 74.8% of their costs were for product reimbursement and 24.6% were for handling costs and other customer fees.
- Four companies reported experiencing no costs that year (2009).
- Six companies said recalled product costs were unknown.
Regarding **audits of reclamation centers or claims:**

- Seven companies indicated they incurred no costs or savings.
- Six companies said costs and savings existed but were unknown.
- No companies reported costs; one reported savings.

Regarding **total annual reductions in trade fund spending**, excluding markdown programs for discontinued products:

- Seven companies said a reduction existed but was unknown.
- Four companies said no reduction took place in 2009.
- Three companies provided widely varying answers.

Regarding **revenue and tax credits for unsaleables and discontinued products:**

- One company reported salvage revenue and tax credits for both unsaleables and discontinued products.
- Two companies indicated that tax credits existed but were unknown.
- Fourteen companies did not answer these questions.
Data Survey Results – Service Providers

The volume share of recalled products among the returned products processed through reclamation centers operated by third-party service providers has increased slightly over the last three years.

The four participating service companies reported their percentages of total annual processed units (scans) for recalls and other conditions over the last three years.

Reclamation Center Volume Share for Recalls

Source: Data Survey of Reclamation Center Operators, 2010

These operators do not distinguish among the various reasons, e.g., damaged, expired, discontinued, etc. for all of the products that they handle.

Over this three year period, nearly half of the total units processed ended up in the salvage market. Donation was the second highest share of disposition options.

Reclamation Center Disposition Share

Source: Data Survey of Reclamation Center Operators, 2010

Also during this period, less than 20% of the reclamation center volume was returned to vendors and less than 10% was destroyed.
Policy Survey
Manufacturer Policy Survey

Twelve manufacturers provided information about their customer policies regarding unsaleable products, discontinued products and product recalls. Six policies were updated in 2010 and three were updated in 2009. None contained a Non-Disclosure Agreement or Confidentiality Clause.

<table>
<thead>
<tr>
<th>General Sections in Unsaleable Policies</th>
<th>Percentage of Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>83% Statement of goal or purpose.</td>
<td></td>
</tr>
<tr>
<td>50% Contact information for administration.</td>
<td></td>
</tr>
<tr>
<td>75% Contact information for questions.</td>
<td></td>
</tr>
<tr>
<td>75% Description of products, brands, etc., which are covered.</td>
<td></td>
</tr>
<tr>
<td>50% Description of products, brands, etc., which are NOT covered.</td>
<td></td>
</tr>
<tr>
<td>17% Description of customer channels which are covered.</td>
<td></td>
</tr>
<tr>
<td>25% Description of customer channels which are NOT covered.</td>
<td></td>
</tr>
<tr>
<td>58% Instructions for full case/pallet returns.</td>
<td></td>
</tr>
<tr>
<td>67% Language about disposition methods which are NOT permitted (e.g., salvage sales).</td>
<td></td>
</tr>
<tr>
<td>75% Descriptions of the product conditions for which you are responsible (e.g., damaged).</td>
<td></td>
</tr>
<tr>
<td>25% Description of the product conditions for which customers are responsible.</td>
<td></td>
</tr>
<tr>
<td>75% Instructions for disposition of your products (e.g., donation, destruction, salvage, etc.).</td>
<td></td>
</tr>
<tr>
<td>0 Language requiring compliance with the bioterrorism act’s record keeping provision for product disposition or with any portion of the Sarbanes-Oxley Act.</td>
<td></td>
</tr>
<tr>
<td>33% Other “legal” sections.</td>
<td></td>
</tr>
<tr>
<td>0 A Non-Disclosure Agreement or Confidentiality Clause.</td>
<td></td>
</tr>
<tr>
<td>25% An acknowledgement of receipt, signatory section.</td>
<td></td>
</tr>
</tbody>
</table>

Multiple responses possible

n=12
Most of these manufacturers said that they reimburse customers for handling costs associated with unsaleable damaged and expired products, according to their policies.

### Handling Cost Reimbursement

<table>
<thead>
<tr>
<th>Method used to determine handling cost reimbursement</th>
<th>Unsaleable Damaged</th>
<th>Unsaleable Expired</th>
<th>Mfr Disc</th>
<th>Rtlr Disc</th>
<th>Recalled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cents/package based on JIR*</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Percent of product value</td>
<td>6</td>
<td>7</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Customer claim or deduction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Percent of total expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case by case basis</td>
<td></td>
<td></td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>ARP program includes this</td>
<td>2</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of companies in above</td>
<td>11</td>
<td>10</td>
<td>6</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Markdown program used instead</td>
<td></td>
<td></td>
<td>5</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>No reimbursement for handling costs</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Sample size (n)</td>
<td>12</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>8</td>
</tr>
</tbody>
</table>

Multiple responses possible.

*No companies chose "cents/package based on another method."

Sample size is the total number of companies that answered any part of the question.

Regarding the type of handling cost reimbursement used by these companies, most of the nine companies that reported data use either a cents per package or a percentage of product value.

### Handling Cost Reimbursement

<table>
<thead>
<tr>
<th>Type of handling cost reimbursement</th>
<th>Unsaleable Damaged</th>
<th>Unsaleable Expired</th>
<th>Mfr Disc</th>
<th>Rtlr Disc</th>
<th>Recall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cents per item</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Percentage of product value</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Depends on situation</td>
<td></td>
<td></td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Includes a maximum</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

n=9

Note: Companies were asked to provide this information, regardless of how many policies were involved.
Some manufacturers indicated that handling costs, based on percent of product value, were included in their ARP rates for products discontinued by themselves and by their customers. Half of the surveyed manufacturers’ policies define **reimbursable product value** as list cost; the others use similar list cost reduction methods.

No companies chose the following answers offered in the survey: best bracket list cost, whatever the customer defines or customer retail. No companies chose more than one answer.

Regarding **customer policies for recalled products**, the twelve surveyed manufacturers believe, based on their experiences, the following:

- All or most customers have their own recall policies (n=8).
- Most customer policies have generally similar operating practices (n=7).
- Customer fees for recalls are not similar, they vary widely (n=9).

**Conclusion:** The absence of information in some manufacturer policies such as who to contact for questions, indicates that a standardized template of recommended sections (not content) might improve communications between trading partners regarding unsaleables.
Incentives and Efficiencies Interviews
INCENTIVES AND EFFICIENCIES INTERVIEWS

Incentives and Efficiencies Interviews

The final step in the information gathering activities for this project involved personal telephone interviews with 25 companies, all of which had participated in the project’s previous stages. Interview participants include representatives from the following:

- 14 Manufacturers
- 5 Wholesalers
- 2 Retailers
- 4 Service Providers

Interview comments are not identified by company or person in this report. (See Appendix B for a list of the companies that participated in the interviews).

All of the interviewees are recognized experts in the CPG Reverse Supply Chain. They provided their candid observations and opinions about:

- Incentives currently influencing practices that affect the reverse supply chain.
- Efficiencies that might be possible from changes in current practices.

Their responses include both strategic and tactical issues and opportunities. They also cover a wide range of topics including financial incentives, operational practices, merchandising practices and more.

The verbatim comments from the 25 interviews are reported here in aggregated form, i.e., summarized by common theme for each of the questions asked. The detailed verbatim are reported in Appendix E. The reader is encouraged to read the verbatim responses to better understand the meaning of the aggregated comments reported in this section.

As is common with this type of qualitative information gathering, some individual comments could easily be included in more than one summary group. Additionally, the language used includes frequent use of terms of art which are commonly used in the reverse and forward supply chain.
Finding 1: **Promotions and pricing practices** (i.e., bracket pricing, volume discounts) are cited as the top reason that buyers “over-buy” products. Buyer performance measures are number two.

Q1 Please describe several practices that you think encourage or economically incent retailers/wholesalers to “over-buy” (i.e., purchase more than normal quantities, promote more than usual, take-on unproven new items). Please rank order these practices. Which has the greatest effect on unsaleables (rank as #1)?

<table>
<thead>
<tr>
<th>Practice</th>
<th>W</th>
<th>R</th>
<th>M</th>
<th>S</th>
<th>1, 2 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotions &amp; Pricing</td>
<td>7</td>
<td>22</td>
<td>5</td>
<td>18</td>
<td>34</td>
</tr>
<tr>
<td>Buyer Performance Measures</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>New Items &amp; Slotting Allowances</td>
<td>2</td>
<td>7</td>
<td>3</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Forward Buying</td>
<td>3</td>
<td>6</td>
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<td>Competitive Pressure</td>
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</table>

*W, R = Wholesaler, Retailer (n=7)  M = Manufacturer (n=14)  S = Service Provider (n=4)  1, 2 = Ranked as 1 or 2*

Characteristic verbatim from this question are as follows:

**Promotions & Pricing**
- Tiered promotional allowances - higher allowances, more cases, without limits.
- Truck load bracket pricing especially at end of period.
- Promotions that are the same across and ineffective in all stores, "C items in C stores".

**Buyer performance measures**
- Period or year end need to make budget goals.
- Lack of importance of unsaleables to category managers. More important to avoid out of stocks.
- Trying to exceed sales from last year.
Finding 2: **Corporate sales goals or quotas** (i.e., “making a number”) are mentioned as the top reason that sales people “over-sell” products. Personal compensation and bonus incentives which are based on gross sales rather than net sales (i.e., minus unsaleables, discontinueds) are number two.

Q2 Please describe several practices that you think encourage or economically incent manufacturers to “over-sell” (i.e., sell more than normal quantities, promote more than usual, develop more new items than usual). Please rank order these practices. Which has the greatest effect on unsaleables (rank as #1)?

<table>
<thead>
<tr>
<th>W, R M S</th>
<th>1, 2 Total</th>
<th>Practices that encourage manufacturers to over-sell</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 17 3 15 25</td>
<td>Corporate sales goals/quotas</td>
<td></td>
</tr>
<tr>
<td>2 7 6 10 15</td>
<td>Personal incentives based on gross sales</td>
<td></td>
</tr>
<tr>
<td>4 6 2 6 12</td>
<td>New items</td>
<td></td>
</tr>
<tr>
<td>3 4 1 5 8</td>
<td>Promotions</td>
<td></td>
</tr>
<tr>
<td>0 8 0 3 8</td>
<td>Competitive pressure</td>
<td></td>
</tr>
<tr>
<td>3 2 1 1 6</td>
<td>Poor forecasting</td>
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<tr>
<td>1 2 1 3 4</td>
<td>Excess inventory</td>
<td></td>
</tr>
<tr>
<td>1 3 0 2 4</td>
<td>Customer pressure</td>
<td></td>
</tr>
<tr>
<td>1 2 0 2 4</td>
<td>No penalty for mistakes</td>
<td></td>
</tr>
</tbody>
</table>

W, R = Wholesaler, Retailer (n=7)  M = Manufacturer (n=14)  S = Service Provider (n=4)  1, 2 = Ranked as 1 or 2

Characteristic verbatim from this question are as follows:

**Corporate sales goals/quotas**
- Corporate growth rate expectations.
- Making quarterly or year end sales goals.
- Set aside funds for incremental performance.

**Personal incentives based on gross sales**
- Gross sales or top-line-based bonus plans.
- Cash incentives to hit quarterly goal.
- Sales incentives based on full distribution, etc., without regard to performance.
Finding 3: The pressure of Adjustable Rate Programs and trading partner collaborative improvement initiatives were mentioned as the top reasons why retailers and wholesalers reduce unsaleables. However, no retailers and wholesalers mentioned the pressure of ARP programs as motivational.

Q3 Please describe several practices that you think encourage or economically incent retailers/wholesalers to reduce unsaleables. Please rank order these practices. Which has the greatest effect on unsaleables (rank as #1)?

| Practices that encourage retailer/wholesalers to reduce unsaleables |
|--------------------|-----|-----|-----|-----|-----------------|
| ARP program pressure | 17  | 15  | 5   | 0   | W, R M S 1, 2 Total |
| Trade partner collaboration | 16  | 10  | 6   | 3   | W, R M S 1, 2 Total |
| Total organization focus & accountability | 10  | 6   | 0   | W, R M S 1, 2 Total |
| Gain-share cost reductions | 9   | 6   | 1   | W, R M S 1, 2 Total |
| Markdown programs | 7   | 4   | 1   | W, R M S 1, 2 Total |
| Improved freshness | 5   | 2   | 1   | W, R M S 1, 2 Total |
| Increased costs of unsaleables | 5   | 3   | 1   | W, R M S 1, 2 Total |
| Store returns controls | 4   | 2   | 1   | W, R M S 1, 2 Total |

W, R = Wholesaler, Retailer (n=7)  M = Manufacturer (n=14)  S = Service Provider (n=4)  1, 2 = Ranked as 1 or 2

Characteristic verbatim from this question are as follows:

**ARP program pressure**
- Financial pressure of APR programs. Manufacturer for retailer or retailer to store.
- Difference in definition of unsaleables which causes a gap in reimbursement.
- ARP programs that include improvement opportunities based on valid supply chain data.

**Trade partner collaboration**
- Cooperative involvement by suppliers to identify root causes and solve problems.
- Using a fully loaded supplier scorecard to understand true SKU profitability including unsaleables.
- Collaborative work with suppliers, includes store, DC, reclaim centers, open to any suggestion.
Finding 4: **Sales force performance and compensation based on sales net of unsaleables** and opportunities to improve profits were cited as the **top motivators for manufacturers to reduce unsaleables**.

Q4 Please describe several practices that you think encourage or economically incent manufacturers to reduce unsaleables. Please rank order these practices. Which has the greatest effect on unsaleables (rank as #1)?

<table>
<thead>
<tr>
<th>W, R</th>
<th>M</th>
<th>S</th>
<th>1, 2</th>
<th>Total</th>
<th>Practices that encourage manufacturers to reduce unsaleables</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>7</td>
<td>7</td>
<td>14</td>
<td>18</td>
<td>Sales force performance and compensation based on net sales</td>
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<tr>
<td>5</td>
<td>11</td>
<td>1</td>
<td>10</td>
<td>17</td>
<td>Profit improvement opportunities</td>
</tr>
<tr>
<td>2</td>
<td>11</td>
<td>4</td>
<td>7</td>
<td>17</td>
<td>Continuous improvement focus</td>
</tr>
<tr>
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<td>5</td>
<td>2</td>
<td>8</td>
<td>11</td>
<td>Pain of costs from customers</td>
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<tr>
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<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>Senior executive commitment</td>
</tr>
<tr>
<td>0</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>Consumer satisfaction</td>
</tr>
</tbody>
</table>

*W, R = Wholesaler, Retailer (n=7)  M = Manufacturer (n=14)  S = Service Provider (n=4)  1, 2 = Ranked as 1 or 2*

Characteristic verbatim from this question are as follows:

**Sales force performance and compensation based on net sales**
- Sales share in financial ownership, example: line built into the commission calculation.
- Promotional analysis to ensure accountability & include unsaleables in the calculations.
- Key performance measures include unsaleables at multiple levels.

**Profit improvement opportunities**
- Need to reduce costs and waste and preserve quality.
- Cost savings from paying actuals and reducing quantity.
- Opportunity to use unsaleables funds to promote - better way to spend money.
Finding 5: High visibility to unsaleables expenses and customer requests, demands and penalties are the top reasons why manufacturers change practices which affect unsaleables.

Q5 What have you seen that has motivated a manufacturer to change practices which can affect unsaleables? (Not ranked)

<table>
<thead>
<tr>
<th>W, R</th>
<th>M</th>
<th>S</th>
<th>Total</th>
<th>Motivated a manufacturer to change practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>11</td>
<td>3</td>
<td>17</td>
<td>High visibility to unsaleables expenses</td>
</tr>
<tr>
<td>5</td>
<td>7</td>
<td>3</td>
<td>15</td>
<td>Customer requests, demands and penalties</td>
</tr>
<tr>
<td>2</td>
<td>9</td>
<td>3</td>
<td>14</td>
<td>Corporate focus on unsaleables</td>
</tr>
<tr>
<td>2</td>
<td>5</td>
<td>3</td>
<td>10</td>
<td>Opportunity to reduce rising costs</td>
</tr>
<tr>
<td>2</td>
<td>6</td>
<td>1</td>
<td>9</td>
<td>Collaboration on root causes with trade partners</td>
</tr>
<tr>
<td>0</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>Consumer reactions</td>
</tr>
</tbody>
</table>

W, R = Wholesaler, Retailer (n=7)   M = Manufacturer (n=14)   S = Service Provider (n=4)   1, 2 = Ranked as 1 or 2

Characteristic verbatim from this question are as follows:

**High visibility to unsaleables expenses**
- High unsaleables to revenue data by customer, UPC and time.
- ARP accountability for unsaleables from merchandising funds, encourages trade partner joint solutions.
- Budget for markdown expenses, having the unsaleables manager delegate the funds.

**Customer requests, demands and penalties**
- Customer deductions for unsaleables costs.
- Inability to get new items placed.
- Performance score-carding of unsaleables versus other manufacturers.
Finding 6: The pain of ARP programs and trading partner collaboration top the list of reasons why retailers and wholesalers change practices which affect unsaleables.

Q6 What have you seen that has motivated a retailer/wholesaler to change practices which can affect unsaleables? (Not ranked)

<table>
<thead>
<tr>
<th>W, R M S</th>
<th>Total</th>
<th>Motivated a retailer or wholesaler to change practices</th>
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<tr>
<td>2 9 4</td>
<td>15</td>
<td>ARP program pain</td>
</tr>
<tr>
<td>5 5 4</td>
<td>14</td>
<td>Trade partner collaboration</td>
</tr>
<tr>
<td>1 8 2</td>
<td>11</td>
<td>Total organization focus &amp; accountability</td>
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<tr>
<td>3 3 2</td>
<td>8</td>
<td>Gain-share cost reductions</td>
</tr>
<tr>
<td>0 6 0</td>
<td>6</td>
<td>Increased costs of unsaleables</td>
</tr>
<tr>
<td>0 5 0</td>
<td>5</td>
<td>Improved freshness</td>
</tr>
</tbody>
</table>

W, R = Wholesaler, Retailer (n=7)  M = Manufacturer (n=14)  S = Service Provider (n=4)  1, 2 = Ranked as 1 or 2

Characteristic verbatim from this question are as follows:

ARP program pain
- Reduction in trade promotion funds.
- Overcharge bill backs by manufacturers.
- Pain associated with fixed/capped rate programs.

Trade partner collaboration
- ARP type swell programs focus on improvement opportunities.
- Knowledge of issues and opportunities for improvement through use of robust data. Especially store-level.
- Collaborate with suppliers on working capital, inventory expenses, inventory turns, service levels, out of stocks.
Finding 7: When asked for practices which could be changed to reduce total supply chain costs of unsaleables, product shelf life, trading partner collaboration and several category management tactics were mentioned.

Q7 What practices can be changed to reduce the costs of unsaleables in the total supply chain (i.e., not simply cost-shifting)? (Not ranked)

<table>
<thead>
<tr>
<th>W, R</th>
<th>M</th>
<th>S</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
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<td>8</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>1</td>
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<td>1</td>
<td>4</td>
<td>1</td>
<td>6</td>
</tr>
</tbody>
</table>

**Practices to change to reduce costs of unsaleables in total supply chain**

Shelf life
- Manufacturer DC residency time.
- Percent of shelf life available concept.
- Dated product rotation.

Collaboration
- Planning meetings where unsaleables is just venting.
- Ignoring opportunity for unsaleables improvement goals.
- Arguing about unsaleables quantities and rates.

Category Management
- Selling practices that only focus on forward supply chain and exclude reverse.
- Planograms based on something other than store demand.

Interviewees were also asked to suggest things that must be done to make each practice change that they suggested occur. Those comments are summarized in a separate internal working document for the project and were used as starting points or “thought-starters” for the Senior Executive Roundtable Summit on January 12, 2011.
Case Studies
CASE STUDIES

Case Studies in Reverse Supply Chain Improvement

This section of the report contains case study testimonials from twenty companies that have done something to improve conditions affecting the reverse supply chain for food and non-prescription health and beauty care products.

Background

During September and October 2010, Raftery Resource Network conducted individual telephone interviews with twenty companies – 12 manufacturers and 8 retailer/wholesalers in the grocery and chain drug channels. The purpose of the interviews was to collect information about how and why these companies have been successful – as defined in various ways – in improving unsaleables, which also has several definitions among these companies.

Participants were selected from responses to questions asked earlier in 2010 in which:

- Companies identified trading partners that had made some improvement in unsaleables.
- Companies described their own successes at improvement in unsaleables.

In the end, 12 companies were “nominated” by trading partners and 8 companies were “self-nominated.” All companies were given the option of remaining confidential and 8 chose to be anonymous. A total of 33 companies were invited to participate in the interviews. Part of the selection and interview process involved screening for repetitive themes, in order to provide a variety of themes for this report.

As a result, some case studies describe only part of those companies’ full spectrum of initiatives, programs or practices that relative to unsaleables control and related issues. Also, several additional cases could be documented which could be equally or more successful than those reported here.

Conclusion: Since these case studies describe improvements in the Reverse Supply Chain which are currently being experienced by some companies, they can be considered valid starting points in a description of a future and improved state.
CASE STUDIES

General Learnings from the Case Studies

The following summary represents a top-level synthesis across the twenty case studies. The reader is encouraged to read the individual studies for more detail and for clearer insights into how these companies achieved the results that they reported.

1. Most of these companies started their individual initiatives or programs within the last 5 years. Several started very recently.

2. The most common incentive cited for starting an unsaleables initiative is reaching a critical level of financial burden or “crossing the pain tolerance threshold.” Various thresholds are cited, but all relate to cost for the incented company.

3. The most often-mentioned reasons for success mentioned by companies with some history are:
   - Adequate investment in resources and data.
   - C-level support, endorsement and sponsorship.
   - A long-term, process-improvement philosophy and approach.
   - Widespread, retained and applied knowledge about risks, rewards and processes.
   - Trading partner involvement and collaboration.

4. There is no consistency across companies regarding which department is involved in managing these initiatives. However, among the companies in these case studies:
   - Retailers and wholesalers have made – or will soon make – stores financially accountable for unsaleables. Most of these companies include unsaleables losses with other “shrink” components, but make it a point to track separately.
   - Manufacturers have made – or will soon make – specific departments financially accountable. These manufacturers are likely to “share the pain” across multiple departments.

5. Several cost management and process improvement concepts are used by these companies (e.g., Six Sigma, Total Quality Management, Activity-Based Costing). What maybe more important than the specific methodology, is the use of a disciplined cost management approach which can be communicated, used and retained within an organization.

6. All of these companies use performance benchmarks that involve some type of data about unsaleables or supply chain product conditions and that combine these data with internal dynamic data such as sales or shipments. A few are deploying more sophisticated analytical techniques, such as forecasting, previously not used with unsaleables.

7. The number of resources dedicated to unsaleables initiatives at these companies is directly proportional to the size of the company and the complexity of the program. However, most companies have at least 2 Full Time Equivalents involved with unsaleables management. Several companies – mostly manufacturer – also contract with outside service providers to provide data and other services.

Note: data-specific results were voluntarily released by some interviewees.
# CASE STUDIES

<table>
<thead>
<tr>
<th>Page</th>
<th>Case Study Title</th>
<th>CS ID</th>
<th>CS Type</th>
<th>Company Type</th>
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<td>Involving Sales People to Solve Problems</td>
<td>A</td>
<td>TP</td>
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<td>C</td>
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<td>Remote Scanning of Returns</td>
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<td>Succeeding with Limited Resources</td>
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</table>

**Key for Case Study Type**

- **S** = Store focus
- **CM** = Cat man focus
- **TP** = Trade partner collaboration
- **SC** = Supply Chain focus
Case Study A – Retailer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Involving Sales People to Solve Problems

Company: Confidential. Name not released by request.
Year Started: 2006

Results: Reduction in gap between ARP receipts and unsaleables costs for several large manufacturers.
Company’s overall unsaleables rate reduced by 40%.

Metrics: Unsaleables percentage of sales, at product acquisition cost.
Analyses conducted by SKU, aggregated by manufacturer.
Average units reclaimed per store per SKU.

Resources: Program manager and one FTE analyst.
External service provider (Inmar) for reclamation center process data.

Success Factors: Senior executive awareness of current and future financial liabilities from unsaleables.
Accountability across entire company, beginning with stores.
Focus on actions to fix problems found.

Summary: After working with manufacturer supply chain executives to reduce unsaleables costs for several years, this retailer began also involving sales force personnel during regular performance reviews. Unsaleables reports are reviewed for improvement opportunities at these meetings.

All products are processed through reclamation, even ARP and swell allowance products. Stores are fined for excessive returns. Stores sort “transportation damage” from other unsaleables. These products are processed separately at the reclamation center and reported separately to manufacturers. Several manufacturers use these data to identify opportunities to reduce damage.

Advice: Prepare for discussions with manufacturers by collecting solid data.
Invest in enough resources to provide data and analytics.
Focus on problem solving, not arguing about policy.
Case Study B – Wholesaler

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Problem-Solving Collaboration

Company: Wakefern Food Corp.
Year Started: 2010

Results: Creation of full-time unsaleables manager position. Distribution and purchasing changes to reduce damage. Improved relations with manufacturers who use this type of data to reduce unsaleables.

Metrics: Manufacturer reimbursement dollars. Cost to process unsaleables, percentage of cost reimbursed, by SKU. Comparisons by manufacturer, by store. Benchmark by advertising zone and banner. Warehouse shipment data and POS data utilizing Nielsen tools.

Resources: Approximately 4.4 FTEs including manager. External data provided by reclamation center.

Success Factors: Robust item-level data, accessible in a timely manner – “closer to the fact vs. after the fact” – to improve ability to make progress. Focused and analytical resources.

Summary: This wholesaler was able to reduce the “manufacturer reimbursement shortfall” by about 50% between 2004 and 2009, but found further improvements elusive. Recognizing industry tensions existed, they created a special management position to focus on working with manufacturers to address tension points. The unsaleables manager also works with individual stores and retail divisions in a problem-solving approach that often involves trading partner collaboration.

Example area of focus: supply chain investigations, involving manufacturer packaging experts and logistics professionals in the wholesaler’s warehouses and retail stores. Goal: find where and how products are damaged, in order to determine if and how packaging changes could help. Future applications are expected to include remaining shelf-life requirements and SKU rationalization.

Advice: Build awareness across company divisions regarding the importance and opportunity for improvement. Collect package condition (type of unsaleable or causal) data. Approach as a long-term process for improvement, not a one-time fix, involving all trading partners – retailers, wholesalers and manufacturers.
Case Study C – Retailer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Shelf Life Management

Company: Confidential. Name not released by request

Year Started: 2007

Results: Noticeable reduction in gap between unsaleables expenses and manufacturers’ unsaleables reimbursements. Higher percentage of manufactured shelf life remaining upon receipt at retailer. Lower quantity of expired products.

Metrics: Net product profitability, including unsaleables reimbursement gap. Comparisons by category, by supplier, by category manager/buyer on quarterly basis.

Resources: A program manager and 2 FTEs with other responsibilities. Several manufacturers and one service provider.

Success Factors: Provide category managers/buyers with easy-to-use reports on net product profitability. Manufacturers engaged through supply chain audits and quarterly meetings.

Summary: This retailer analyzed returns data for one manufacturer’s products and found that a high percentage were expired products, a condition which was included in the manufacturer’s unsaleables ARP program. Stores were instructed to return all unsaleables for several additional manufacturers with ARP or swell allowance policies to the reclamation center for processing and data collection. Stores had previously been instructed to dispose of these products at the store.

Quarterly reports are now given to category managers, showing unsaleables by condition (e.g., damaged, expired) and purchases for each SKU. Data are summarized by supplier and are used in tactical discussions, such as which items to carry and in strategic discussions, such as category performance versus benchmarks.

Advice: Capture data about all unsaleable products. Avoid the temptation to stop processing SKUs covered under ARP programs. Consider unique characteristics of products along with data performance analyses during SKU rationalization. Maintain internal knowledge and alignment around goals during personnel changes.
Case Study D – Retailer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Sales Potential Planograms

Company: Confidential. Name not released by request.

Year Started: 2008

Results: Reduced unsaleables 24% in 2009. Running another 14% lower in 2010 (first half).
For some suppliers, unsaleables $ are 40-50% lower versus last year.
Increased store profitability.

Metrics: Unsaleables percentage of retail sales.
Unsaleables percentage of product costs.
Unsaleable dollar costs.
Inventory turns. Weeks of supply.
SKU specific data aggregated by company and by store cluster
Compared by individual store and by store cluster.

Resources: Program manager plus 5 FTEs for non-pharmaceuticals.
Separate team for pharmaceuticals.

Success Factors: Senior management vision and support to engage multiple departments.
Focus on increasing inventory turns as key driver for reducing unsaleables.
Regular internal communication.
Trading partner involvement in inventory management.

Summary: Ignited by intensified corporate vision of the importance of inventory management, this retailer changed shelf planogramming philosophy, moving from space management to managing the shelf for sales potential. Some slow-movers are de-listed in all stores; others are removed from low-volume stores only. Rather than filling all of the shelf space with product inventory, this retailer now uses signage, space fillers and product “fronting” techniques to reduce some on-shelf inventory.

This “SKU rationalization” initiative runs in parallel to this retailer’s routine planogram cycle, where visibility to upcoming product discontinuations is advanced to 4-5 months prior to the change-over. The goal is to reduce inventory by turning off store replenishment and increasing markdown support. For example, markdowns can be tailored to each store’s specific inventory levels. Discontinued product inventory is relocated to a special area of the store where shoppers can buy clearance inventory for up to 60 days after the on-shelf clearance period.
CASE STUDIES

Store-level operations were improved and store inventory management system was upgraded to include a scan-based physical inventory process, improving the accuracy of perpetual inventory data. Advertised item orders are now forecast at headquarters, using store perpetual inventory data and sales history.

Advice: Be sure to invest adequate time, resources and capital in system changes needed to support program. Make people throughout the organization aware of the opportunities. Work with all suppliers to improve inventory management.
Case Study E – Retailer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Remote Scanning of Returns

Company: Confidential. Name not released by request.

Year Started: 2009

Results:
- Lower reclamation costs due to lower processing volume.
- Increased store sales and margin.
- Store-specific SKU rationalization using unsaleable data.
- Less residual inventory in store after category resets.
- Improved promotion evaluation using unsaleables data.

Metrics:
- Unsaleables cost percentage of manufacturer purchases.
- Comparisons by manufacturer, category, store and banner.

Resources:
- A full-time manager plus 1.5 full-time equivalents on staff.

Success Factors:
- Upper management support.
- Adequate funding for information technology investment.
- Support and involvement from store and warehouse operations.
- Trading partner engagement and support.

Summary:
Recognizing how difficult it had become to use reclamation center “scan” reports in discussions with manufacturers, this retailer targeted a touch point earlier in the reverse logistics supply chain where scan data could be collected. Store banners which already used hand-held scanners for inventory applications were chosen for initial tests of new software. A new application was developed which was similar to what was used in the reclamation center system to identify the type of unsaleables policy for each SKU.

Store personnel scan each item as they pack return containers. Products covered by ARP or “swell allowance” policies are packed separate from products covered by JIR type policies. ARP/swell SKUs go directly to salvage dealers under contract with this retailer. All other products go to the reclamation center for processing.

Store-level data (UPS, date, store#) are shared with manufacturers quarterly. Stores use the system to identify potential inventory issues, while they still have time to adjust retail and promote.
Advice: Build a solid business case to justify financial investments for new IT applications and support, and to justify why operations executives should support adding process steps to returned goods. Retain senior executive awareness by sharing the results.

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**Case Study F – Retailer**

**FMI/GMA/NACDS Reverse Supply Chain Improvement Project**

**Supply Chain Improvement**

Company: Delhaize America (Food Lion)

Year Started: 2008

Results: Reduced unsaleables reimbursement gap for several manufacturers. Reduced level of residual inventory after discontinuation of items.

Metrics: Total supply chain measures including unsaleables dollars, days-of-supply by store and DC, plus more.

Resources: Program manager with cost efficiency, store operations, category management and supply chain experience and 2 FTEs. One FTE from Inmar on-site. External resource for creating and maintaining dashboards fed by Delhaize data daily.

Success Factors: Robust database that supports perpetual inventory tracking and computer assisted ordering. Trade partner use of dashboards to identify follow-up actions.

Summary: Manufacturers are invited to use Delhaize’s “Vendor Pulse” system to identify areas of opportunity for improvements across the total supply chain. Regarding the unsaleables opportunities, some improvements have resulted in standard practices involving suppliers, category managers and store operations who implement store-specific markdown programs to clear out discontinued items prior to the planogram change. Data are provided in real time, allowing manufacturers the ability to find and fix problems quickly. For example, a standard report highlights discontinued SKUs which are processed in the reclamation in quantities above five units prior to the discontinuation, indicating lack of participation by that store in the markdown program.

Advice: Be sure to invest in a robust perpetual inventory management system. Engage trading partners in the data analytics.
Case Study G – Retailer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Engaging the Store Leaders

Company: Confidential. Name not released by request.

Year Started: 2006

Results: Reduced volume of product processed in reclamation center by 95%.
Closed the gap between unsaleables costs and reimbursement.

Metrics: Unsaleables gap.
Unsaleables costs percentage of product acquisition costs.
Item-level data aggregated by store, department and supplier.

Resources: Program manager and one FTE.
Loss Prevention Department
External service provider (Inmar) for data reports from reclamation center.

Success Factors: Focus on stores as the source of the product flow that can be reduced.
Senior level commitment to the process and investment.
Involvement of Loss Prevention Department to reinforce shrink control.

Summary: After developing a projection for the future losses from the unsaleables reimbursement gap, this retailer developed a store-level program that increased awareness of the opportunities and the potential risks. All stores receive a standard credit for unsaleables and are charged for what they return. Stores that return excessive levels are penalized; below average stores are rewarded. Incentives include a bonus component for all store department heads and management. Store leadership teams review reports generated each period and discuss ways to improve this and other factors contributing to shrink.

Advice: Focus on the store for accountability and solutions.
Include Loss Prevention Department for their expertise in shrink control.
Recognize that measurable results will take time.
Be prepared to address the negative implications for product donations or salvage revenue from the reduction in unsaleables volume.
CASE STUDIES

Case Study H – Retailer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Six Sigma Reclamation Optimization

Company: Confidential. Name not released by request.

Year Started: 2009

Results: Less discontinued product processed though reclamation centers. Improved operating controls at store level. Re-directed donations to local food banks and pantries. Reduced reclamation center expenses.

Metrics: Store shipments, store sales from POS, store-specific reclamation claims and store markdowns. Cost (not retail) billing system. Dollars tracked, not units.

Resources: Approximately 4 FETs, including IT project manager. External resources from 5-6 manufacturers in pilot mode and early stages.

Success Factors: Involvement of store operations experts. Dedicated internal resources, such as IT, for new tools and support development. Persistence and a willingness to discover.

Summary: After years of accepting the status quo, this retailer adopted Six Sigma methodology to a pilot test in one division. Goal of the test: find better ways to handle and process discontinued items.

Evaluation techniques included Activity-Based Cost analyses of the various in-store options and analyses of lead times, price points and discount levels for markdowns. Targets initially included food and non-food consumables which were discontinued. General merchandise was added later.

Step 1 in the process: liquidate store inventory while items remain on the shelf (minimal store labor). Detailed analytics used to determine best discount by category to encourage shopper pull.

Step 2: move residual close-out inventory to a designated merchandising area for an additional period. A special process was also tested for GM products, involving an on-line auction service.
CASE STUDIES

Store handheld scanners enhanced to include manufacturer policy type (JIR/ARP) for store-level disposition. Local food bank donations are one option.

Web-based reporting planned for multiple business users (e.g., category managers, operation managers, shrink control managers). Options from various reclamation service providers also being explored.

Advice: Involve store operations as a driver of a project that is likely to involve store-level procedure changes. Be sure to allocate IT resources for new analytics and systems support tools. Mine data to find root causes of unsaleables.

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**Case Study I – Manufacturer**

**FMI/GMA/NACDS Reverse Supply Chain Improvement Project**

**Keeping Good Product Out of Reclaim**

Company: Ocean Spray Cranberries, Inc.

Year Started: 2005

Results: Reduced unsaleables by about $1 million per year. Reduced unsaleables cost percentage of sales 48%.

Metrics: Unsaleables dollars and percentage of sales. Compared at UPC level by $ and quantity. Analyses by customer quarterly.

Resources: One FTE. External services provided by DRS.

Success Factors: UPC-level data including product condition. Awareness of issues and opportunities and cooperation among all departments.

Summary: After building a database of UPC-level data, monthly meetings are held with all departments reporting on improvements. One successful action: sales people call on customers after promotions and may follow up with markdown funds or return authorizations where residual inventory is excessive. Another: DRS picks up reclamation products at high volume customers, scans and captures product condition data. Sales people work with customers to reduce volume of product returned undamaged and in-date.

Advice: Start data analyses with one customer, then progress to others. Pick a large customer, for larger potential savings. Analyze data monthly.
Case Study J – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Keeping Products Out of Landfills

Company: Confidential. Name not released by request.

Year Started: 2006

Results: Immediate 8-10% reduction in unsaleables costs.
Increased consumer trial of brands involved in markdowns.
Eventual savings of 20-40% by selling marked down products at retail versus processing through reclamation.
Tons of product are no longer put in landfills.

Metrics: Unsaleables percentage of gross sales.
Total unsaleable dollar expenses.
Separate spoils (reclamation center processed, DC destructions), swell allowance costs and markdown funds.

Resources: Program manager and 1 FTE.

Success Factors: Top-level support from senior executives.
Ability to tie into corporate sustainability initiatives.
Earlier communication about customer discontinuations to change ordering patterns.

Summary: Recognizing that using “trade funds” to off-set extraneous unsaleable deductions by customers was not promotion-related, this manufacturer identified a P&L line item that was more appropriate and that was aligned with other distribution expenses. A new policy was developed for manufacturer and retailer discontinued products which include an earlier alert about pending discontinuations from either trade partner.

The sales force and brokers now tell this manufacturer as soon as they know about a customer discontinuation. Regular meetings with marketing, packaging and category development executives provide the internal early warning about pending changes or discontinuations by this manufacturer that could impact unsaleables.

Advice: Be sure to format data so that it is sustainable, usable and reportable.
Address employee turnover (at customer, in sales force and at broker) through over-communication.
Use your consistent control point person for communications.
Involve supply chain managers and store operations to ensure that markdown clearance procedures are followed.
Case Study K – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Partnership Studies

Company: Clorox
Year Started: 2003

Results: About 20% reduction in unsaleables costs and damages. Improved handling practices and packaging. Reduced damages by reducing pallet overhang. Stronger relations between customers and company teams. Reduced or eliminated ARP reimbursement “gap” with several customers.

Metrics: Unsaleables dollar percentage of sales. Damaged percentage of consumer units sold. Analyses by type of damage per SKU. Comparisons to peer sets by channel.

Resources: Approximately 8-10 FTEs across corporate departments, including quality control, sales and administration. External services (Inmar) for supply chain hidden damage audits.

Success Factors: Long-term commitment in time, resources and financial support. Full cooperation and follow-up actions by both partners for improvements.

Summary: Initially driven by increases in reclamation center claims, Clorox began investigating claims data and conducting supply chain audits to find improvement opportunities. Resources were added to conduct partnership studies. Once a customer agrees to participate in the program, Clorox and the customer develop a scope-of-work plan which outlines the touch points and the companies that will be involved. For example, if a retailer contracts with a service provider for outside dock labor (“lumpers”), that company would be involved in the receiving dock audit portion of the full supply chain study.

All participants evaluate the audit reports and identify actions that can be taken to reduce damage. Some examples: Clorox reduced case headspace, which reduced top crushing; a logistics company changed stretch-wrapping practices, which reduced side crushing; and a retailer changed unloading practices, which reduced dock damage.

Advice: Approach partnership studies as a long-term commitment for long-term gains. Anticipate personnel transition/attraction, especially in Supply Chain and Sales divisions – protect your intellectual capital and preserve corporate momentum.
Case Study L – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Demand Sales Forecasting

Company: Kraft Foods Global, Inc.

Year Started: 2008

Results: Significantly reduced ARP “gap” with first customer. Decreased inventory days-of-supply in customer’s warehouse and stores. Additional sales-related improvements such as reduced out-of-stock levels.

Metrics: Daily sales by store per SKU. Inventory days-of-supply on-hand at store and DC.

Resources: One FT program manager and 2 FTEs. External data provider is AC Nielsen.

Success Factors: Active involvement by supply chain executives, sales, corporate. Commitment by customers to share data (POS and reclaim).

Summary: Customer data assembled by AC Nielsen is reviewed by Kraft personnel in Kraft Integrated Data Systems (KIDS) program. Goal of using daily store-level POS data is to improve product flow and forecasting. Inventory levels of promoted products targeted to match anticipated demand by each store cluster versus corporate sales goals.

Advice: Be sure to share results and recommendations for change with senior management early in process. Recognize that distribution will not be 100% for slow-movers and that some pack sizes may need to be reduced. Engage marketing in promotion rationalization discussions. Recognize this is a new way to forecast sales – training and communication will be needed.
CASE STUDIES

Case Study M – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Increasing Available Shelf Life

Company: Confidential. Name not released by request.

Year Started: 2009

Results: Lower inventory days-of-supply on-hand.
Reduced quantity of expired products.

Metrics: Unsaleables dollars and percentage of sales.
Product condition, post reclamation.
Days-of-supply in manufacturer facilities.
Amount of product destroyed internally.

Resources: Two FTEs internally, with additional responsibilities.
External service provider (DRS) for product condition analyses.

Success Factors: Involvement of service provider to collect data not otherwise available.

Summary: Alerted by a large increase in unsaleables at a major retailer, this manufacturer contracted with DRS to pick-up reclamation center processed product at that customer and to collect data about product conditions. Over 80% of the product was found to be expired. Another 10-15% was failed innovations which had been discontinued by the customer. Consumer research is being conducted around product age and quality. Research is being conducted to identify acceptable methods for extending shelf life.

Advice: Be aware that measurable results will not be noticed immediately, as internal inventory controls are improved over time.
Raise visibility of this improvement initiative above simply reducing unsaleable expenses.
Involve quality control and supply chain executives early in the research.
Case Study N – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

New Item Exit Strategy

Company: Confidential. Name not released by request.

Year Started: 2008

Results: Decline in total cost of unsaleables.
Less product sent to reclamation centers.

Metrics: Unsaleables % of sales, categorized by type (damage, discontinued, planogram changes, quality issues).
Trend data by SKU, by customer for 12 years.
ACNielsen syndicated POS data.

Resources: Manager (80%), plus 1 FTE across several departments.
External services (DRS) pick-up and analyze reclamation product to validate.

Success Factors: Robust database of historical company trends and market-level sales.
Manager’s knowledge of industry trends through participation in several networking events.

Summary: This company went through a protracted period of aggressive product line expansion. The unsaleables manager used a robust historical database and current sales levels through POS to project future risk from failures of some SKUs.

Senior management created a new exit strategy for products with declining sales and increasing unsaleables claims. The goal: keep these products out of reclamation centers. The means: closeout programs involving deep discounts, BOGO promotions, other incentives to sell products while still in stores. Quarterly reports are used by sales force in dialogue with retailers to evaluate opportunities for improvement.

Advice: Be prepared with solid data analytics to support recommendation to invest in a markdown exit strategy.
Develop a program that supports corporate agendas and that can be endorsed by senior management.
Publish information weekly which can be used by the sales force in customer dialogues.
Case Study O – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Succeeding with Limited Resources

Company: Alberto Culver

Year Started: 2009

Results: Decline in total unsaleables claims dollars and unsaleables percentage of sales at initial customers involved in program.
Decline in % of products on claims, but not found in pick-up.
Fewer hazardous materials in landfills.

Metrics: Unsaleables claims dollars and percentage of sales.
Percentage of claimed products not found in pick-ups.

Resources: Approximately .5 FTE across several people, including manager.
External service provider (DRS) picks up and scans product, matches with reclamation center claims.

Success Factors: Networking with peers to learn about their successes. (Trial and error not an option with limited resources.)
External service provider data.

Summary: Driven by large volume increases through reclamation centers immediately following planogram changes, Alberto Culver wanted to develop a reporting and auditing capability, but was without adequate internal resources. Using a matrix of two measures (unsaleables claims dollars and percentage of sales), customers were selected, based on the expectation of greatest return on investment. New markdown programs were developed to coincide with category events such as new planograms. Continued pick up analyses validate level of success with programs.

Advice: Learn from peers in industry rather than waste limited resources on trial and error.
Approach customer dialogues in spirit of joint problem-solving rather than negotiation.
Be aware of all of the reporting capabilities of your service provider and use them.
Case Study P – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Applying Sales Management Concepts

Company: Coca-Cola North America

Year Started: 2008

Results: Unsaleables reduced by 50% since 2008.
Increased interactions with engaged customers on problem-solving initiatives.

Metrics: Unsaleables dollars, sales dollars.
Sales and unsaleables share of total by SKU, by store, by customer.
Change in sales and unsaleables shares vs. year ago.
Several store-level metrics, as provided by some retailers.
Promotion-related spikes in reclamation center claims.
Customer compliance with unsaleables policy (ARP) for program eligibility.

Resources: About 1.3 FTEs among 3 people with other duties.
Field sales teams, including category managers and analysts.
External services (Genco) for supply chain audits: routine for ARP rate; ad hoc projects for special problems.

Success Factors: Extensive data and sophisticated analytical tools.
Cooperative efforts of retailers.
Commitment and direct involvement by sales team.

Summary: Motivated by increasing costs of unsaleables, especially noticeable in refrigerated beverages, Coca-Cola North America engaged the field sales force in a program designed to focus sales management techniques on unsaleables. Fueled by robust data feeds from retailers with that capability, the sales team studies sophisticated analyses to find opportunities for improved inventory control and flow-through. Targets for the analytics include individual stores, specific promotions and pricing tactics. Opportunities for improvement are found in merchandising changes, assortment adjustments, pricing and internal process improvements.

One example: Low-volume stores at one retailers received a smaller-sized planogram (less inventory and fewer SKUs) than higher-volume stores.
Another example: Excessive store orders (as defined jointly with the retailer) during a promotion were flagged for personal contact and possible adjustment.

Coca-Cola now also tracks store-specific sales of new items, using retailer-provided POS data. By comparing POS data to warehouse shipment data, the
CASE STUDIES

sales force can see which stores have not “cut-in” the new item and can alert the retailer’s operations supervisors before these products expire.

Advice: Recognize that some data analyses could reveal corrective actions which may be difficult for your company or your customer to accept. Acquire and analyze store-specific data from as many customers as possible. Find acceptable ways to account for variations across customers.
Case Study Q – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Process Improvement Program

Company: Kellogg Company

Year Started: 1999

Results: Large reduction in damaged products.
Optimized shelf life at retail.
Improved efficiencies at multiple departments within Kellogg.

Metrics: Overall cost of unsaleables, policy compliance level.

Resources: A twelve person staff that also has other responsibilities.
Two full-time program managers.
External support for supply chain audits (Inmar and Genco).

Success Factors: Long-term focus and commitment to failure analysis and continuous improvement.
Alignment with sales team for customer communications.
Application of quality control concepts.

Summary: Since beginning the Returns Management program, Kellogg USA has remained committed to supporting it with adequate, dedicated resources and to communicating and implementing improvement opportunities. The foundation of the program is a supply chain audit conducted by independent service providers for one week per month, over a six month period, with participating customers in each distribution center orbit. Audits are conducted in customer warehouses, stores and sometimes reclamation centers. Audit points include the customer receiving dock, the order pick slot and the retail shelf. Auditors record damage observations and remaining shelf life.

Data are assembled into reports shared across Kellogg departments and with customers. Rating “grades” are published for various functions, such as inbound damage from the Kellogg Company distribution center. Rewards are given to outstanding performers. Failure analysis is used to identify opportunities to improve packaging, for example. Each Kellogg facility team knows the dollar amount they contribute to the overall company cost of unsaleables.

Advice: Invest enough resources with appropriate skills.
Commit to this program as a new way of doing business for the long term.
Continuously improve audit program, measurement methods, and holding the appropriate areas accountable for unsaleables.
Case Study R – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Reducing Hidden Damage

Company: Campbell Sales Company

Year Started: 2000

Results: Less damage to products due to improved warehouse handling procedures and packaging, case and pallet improvements. New policies for returns and discontinued products. Followed by customers.

Metrics: Unsaleables, including returns, as a percentage of sales. Damages by SKU by package type. Hidden damage percentages at Customer DCs and at Campbell facilities.

Resources: Two program co-managers plus 3 FTEs with other responsibilities. Multi-functional task force (Supply Chain, Sales, Packaging and R&D) Strategic Solutions International (SSI) for hidden damage audits.


Summary: Hidden damage audits are conducted annually at each Campbell facility, which includes both a manufacturing plant and warehouse. Internal audit results are verified by external auditors, SSI, who also inspect customer DCs.

Applying a Total Quality management approach, best practices are shared among Campbell’s plant/DC facilities. Customers involved in design stage of TQM program. Internal unsaleables causes addressed first. Employee education includes: what is unsaleable, how to control and reduce unsaleables.

ARP program developed jointly by sales and supply chain departments. Rate calculations based on audits. Methodology shared with customers.

Campbell’s multi-functional unsaleables support teams will also visit customer facilities to share expertise in improving operations. Customer teams reciprocate with visits to Campbell facilities and offer suggestions.
**CASE STUDIES**

Advice: Don’t assume everything is being done internally to address unsaleables. Even small opportunities can yield big rewards. Use external resources to assist in discovery and verify that all opportunities have been uncovered. Regularly communicate, both internally and externally, the process improvements and accomplishments.

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**Case Study S – Manufacturer**

**FMI/GMA/NACDS Reverse Supply Chain Improvement Project**

**Reducing Crushed and Defective Products**

Company: Nestle USA, Inc.

Year Started: 2008

Results: Fewer damaged products.
Different planograms for lower volume stores (SKU rationalization).
Higher scores on customer scorecards.

Metrics: Damaged and expired products by customers.
Customer shipment refusals (indicates below standard product conditions).

Resources: Program manager, 8 supply chain managers using data to work with customers on these and other issues.
External service providers: Inmar for hidden damage audits and Wesley Associates for reclamation data trends.

Success Factors: Retailer data from service providers.
Improvements help retailers too.

Summary: Through supply chain audits conducted as part of their ARP program, Nestle identified some products that were being crushed in distribution. After investing about $100,000 in new corrugated, these “over-engineered” cases now survive. In another situation, flaps on consumer packages were found to be loose and changes were made to the packaging process. Follow-up audits in both cases verified solutions.

Now Nestle USA has a new procedure whenever a packaging technology change is proposed. The unsaleables management team evaluates the potential impact of the change on damages.

Advice: Focus on identifying problems that can be fixed through minor process or materials changes.
Start with problems that are also big issues for retail customers.
Case Study T – Manufacturer

FMI/GMA/NACDS Reverse Supply Chain Improvement Project

Focus on Reducing Defects

Company: Pfizer Consumer Healthcare

Year Started: 2005

Results: Reduced unsaleables expenses 14% in first two years. Expects another 14% reduction in second two years. Fewer defects and fresher product shipped to customers. Improved processes introduced to the end to end supply chain.

Metrics: Damage and remaining shelf life at their DCs, at customer DCs and on shelf.

Resources: Program manager with other responsibilities and one dedicated FTE. A cross-functional task force. External service provider (Genco) for supply chain audits and reports.

Success Factors: Senior management alignment and support. Ability to measure financial benefits of proposed changes. Total program focus on long-term improvements, with recognition that some specific changes may not be profitable. Trading partner collaboration.

Summary: In addition to using supply chain audits to review their reimbursement rate annually, Pfizer regularly uses these reports with a cross functional task force to look for opportunities for improvement. In one example, a new item was found to have a defect in the consumer package. Customers who provide access to their warehouses for the audits also receive special comparative reports that often show opportunities for improvements in their facilities or practices.

Advice: Progress is data-driven so be sure to invest adequately in analytics. Involve multiple disciplines in problem definition and solutions.
APPENDIX A

Project Approach

The project involved two phases.

**Phase I – Defining the Current State.** Major activities include:

- Enlistment of retailers, wholesalers, manufacturers, service providers for the Project Task Force. FMI lead this activity and secured participation by GMA and NACDS.
- Survey Design – The Project Task Force reviewed surveys proposed by R2N. Final versions were approved by FMI and GMA legal counsel.
- Perspectives and Practices Survey – R2N managed an Internet survey to identify reasons why the current state exists, opportunities change and what is currently being done well.
- Policy Survey – Attributes of current published unsaleables policies for manufacturers were collected by R2N for use in this project.
- Data Survey – R2N collected data from the distributors, manufacturers and service providers.
- Report – R2N analyzed the data and developed best practice case studies. A draft report is reviewed by the project team and revised by R2N.
- Communication – Dan Raftery presents on-going results of the project to industry audiences.

**Phase II – Defining the Future State.** Major activities include:

- Interview Design – The project team reviews the survey proposed by R2N. Final version is approved by FMI and GMA legal counsel.
- Incentives and Efficiencies Interview – R2N conducts a second telephone survey to obtain qualitative descriptions of the economic incentives currently in place and of the economic efficiencies possible from a future state.
- Senior Executive Roundtable Summit – R2N facilitates a total supply chain (involving all four stakeholders) discussion of the findings from Phase I. The outcome of the meeting is a set of draft recommendations to improve reverse supply chain issues.
- Future State White Paper – R2N develops a view of the “best case scenario” for the future state. Best practices from phase I are included in a case study format.

Communication – Dan Raftery presents the results of the second phase of the project to an industry audience of FMI’s choice.
**Project Participants**

The Food Marketing Institute, National Association of Chain Drug Stores and Grocery Manufacturers Association wish to thank all of the companies who participated in this project’s various surveys and interviews. A total of 58 companies contributed to the information provided in this report.

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**P&P** = Perspectives and Practices Survey  **Data** = Data Survey  **MPoI** = Manufacturer Policy Survey  
**Case** = Case Studies Interview  **I&E** = Incentives and Efficiency Interview
## APPENDIX B

<table>
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<th>Company</th>
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**P&P** = Perspectives and Practices Survey  
**Data** = Data Survey  
**MPoI** = Manufacturer Policy Survey  
**Case** = Case Studies Interview  
**I&E** = Incentives and Efficiency Interview

**Perspectives & Practices survey**
Opened: November 2009  
Closed: June 2010  
Participants: 20 Manufacturers; 21 Retailers/Wholesales; 7 Service Providers  
Results presented July 21 at Unsaleables Management Conference

**Data Survey**
Opened: April  
Closed: November  
Participants: 17 Manufacturers (12 provided complete data); 13 Wholesalers/Retailers (6 provided complete data); 4 Service Providers

**Manufacturer Policy survey**
Opened: August  
Closed: November 6  
Participants: 12 Manufacturers

**Case Study interviews**
Began: September  
Completed: October  
Participants: 12 manufacturers; 8 retailers/wholesalers (nine requested to be anonymous)  
Invitations sent to companies cited by trading partners in Perspectives & Practices Survey.

**Incentives & Efficiencies interviews**
Began: October  
Completed: December  
Participants: 14 manufacturers; 6 retailers/wholesalers; 5 service providers  
Invitations sent to all 58 companies participating in the project.
Senior Executive Roundtable Summit on Reverse Supply Chain Improvement
Chicago, Illinois - January 12, 2011
Attendees – In Person and via Conference Call

Joe Sheridan, Co-Chair
Executive Vice President
Wakefern Food Corporation

Frank Tataseo, Co-Chair
Executive Vice President- Strategy & Growth
The Clorox Company

Chris Michael
Chief Executive Officer
Associated Wholesalers, Inc.

Bob Ripley
Executive Vice President, Logistics
Associated Wholesalers, Inc.

Michael Papaleo
Senior Vice President, Perishable Procurement & Merchandising
C & S Wholesale Grocers

Don LaChance
Senior Director Product Recovery
C & S Wholesale Grocers

Bob Richardson
Director of Sales, Customer & Industry Development
The Clorox Company

Carmen Chavez
Corporate Supply Chain Manager
The Clorox Company

Gene Bodenheimer
Executive VP/ Business Development
GENCO Damage Research

David Wurm
Vice President, Integrated Customer Service and Solutions
General Mills, Inc.

Mark Wilhite
Vice President, Industry Initiatives and Zone Sales
General Mills, Inc.

George Thrower
Manager of Unsaleables
Harris Teeter, Inc.

Michael Graham
Vice President of Transportation
H-E-B Company

Ted Lechner
Reverse Logistics Manager
H-E-B Company

Jeff Pepperworth
President, Reverse Logistics
Inmar Inc.

Mike Umbach
Director, Strategy and Product Marketing
Inmar Inc.

Dave Jones
Vice President, Industry Initiatives
Kellogg Company

Gary Piwko
Director, Remarketing and Returns Management
Kellogg Company

Kim Tyler
Director, Snacks Sales
Kellogg Company

Regenia Stein
Vice President, Business Performance, Industry Development and Communications
Kraft Foods, Inc.

Joe Scaccia
Director Operations/Strategy
Kraft Foods, Inc.

Oscar Fussenegger
Corporate Reclamation Manager, Retail Operations
Kroger

Ron Schone
Vice President Consumer Field Sales
## APPENDIX C

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### FMI Staff
- Pat Walsh  
  Senior Vice President, Industry Relations, Education & Research

### GMA Staff
- Denny Belcastro  
  Executive Vice President, Industry Affairs & Membership Services
- Logan Kastner  
  Senior Manager, Sales and Sales Promotion

### NACDS Staff
- Steve Perlowski  
  Vice President, Industry Affairs

### Facilitators
- Dan Raftery  
  Raftery Resource Network
- Michael A. Gorshe  
  Accenture
- Steven B. Baumberger  
  Accenture
- Christopher Fink, CMC  
  RetailGrowth
- Donna Jean D. Simon  
  Quest International, LLC
- Judy Kehoe  
  Kehoe Consulting International LLC
- Carol E. Sommer  
  Sommer Solution
FMI provides leadership to retailers and wholesalers of food and consumer products, as well as to their supplier partners, by fostering their growth and promoting their role in feeding families and enriching the lives of their customers.

FMI provides leadership to retailers and wholesalers of food and consumer products, as well as to their supplier partners, by fostering their growth and promoting their role in feeding families and enriching the lives of their customers. FMI represents food retailers and wholesalers and develops and promotes policies, programs and forums supporting its members, their customers and supplier partners, and other industry stakeholders in the areas of:

- government relations
- food and product safety and defense
- education
- industry collaboration and networking
- research
- health and wellness
- social, environmental and sustainability programs
- communications

By pursuing these activities, FMI provides leadership and advocacy for the food and consumer product industry worldwide as the industry innovates to meet the changing needs of its customers.

Founded in 1933 by six chain executives, the National Association of Chain Drug Stores worked to provide the chain drug industry with a unified voice necessary for growth and success. More than 75 years later, NACDS is still dedicated to its original vision, representing the nation's leading retail chain pharmacies and suppliers--today, a markedly different industry.

Every day, NACDS works to enable and support its members to better meet the ever-changing needs of their patients and customers, while representing the practical, legislative and regulatory needs of community pharmacies across the nation. To continually meet these demands, our Association regularly launched new programs, created new organizations, and expanded our critical functions in communications, government affairs and member programs and services.

Today, NACDS membership consists of over 170 chain community pharmacy companies. Collectively, chain community pharmacy comprises the largest component of pharmacy practice with about 118,000 pharmacists. Today, the chain community pharmacy industry is comprised of 22,029 traditional chain drug stores, 9,287 supermarket pharmacies, and 7,662 mass merchant pharmacies.

The NACDS membership base operates more than 39,000 retail community pharmacies with annual sales totaling over $750 billion, including $250 billion in sales for prescription medicines, over-the-counter (OTC) medications and health and beauty aids (HBA). Chain-operated community retail pharmacies fill over 70% of the more than 3.5 billion prescriptions dispensed annually in the United States. Additionally, NACDS membership includes nearly 1,000 suppliers of goods and services to chain community pharmacies.
As we continue to grow and look toward the future, we are pleased that NACDS has expanded globally with international membership growing to include about 100 members from 30 countries. And, as we enjoy our 75th Anniversary, we look forward to even greater accomplishment and service to our members.

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. Based in Washington, D.C., GMA’s member organizations include internationally recognized brands as well as steadily growing, localized brands.

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 our founding principles, GMA helps its members produce safe products through a strong and ongoing commitment to scientific research, testing and evaluation. We ensure that our members have the very best and latest scientific knowledge available so they can provide consumers with the products, tools and information they need to achieve a healthy diet and an active lifestyle.

A vital role of GMA is to serve as a central resource for our members, providing industry model practices and a means for collaboration between members, retailers and service providers on important challenges and opportunities facing the industry.

The $2.1 trillion food, beverage and consumer packaged goods industry employs 14 million U.S. workers, and contributes over $1 trillion in added value to the nation's economy.

Raftery Resource Network, Inc.
800 North Main St., Antioch, IL 60002
phone: 847.838.1177

Dan Raftery, president of Raftery Resource Network, has over 25 years experience as a management and research consultant for the consumer food, drug and housewares industries. His assignments cover a range of topics from supply chain operations to strategic business and industry issues.

Dan has authored over 40 industry reports on a variety of subjects - 20 on the subject of returned goods and unsaleables for industry associations including: FMI, GMA, HDMA, NACDS, NFBA and FDI. He was contributing author and research project manager for the 1990 “Product Reclamation Centers: A Joint Industry Report” (aka the JIR). He launched the Unsaleables Management Conference as a joint venture with GMA in 1995.

For individual companies, Dan leads the development and implementation of unsaleables cost control programs. He can be reached at Dan@RafteryNet.com.
APPENDIX E

Bibliography

The following reports contain information that can provide additional insight into unsaleables, damaged goods, expired products, discontinued items and recalled products.


**APPENDIX F**

**Glossary**

**Adjustable Rate Policy** - A monetary cap on the amount a manufacturer pays distributors for unsaleables. These caps can be adjusted, up or down, based on the manufacturer’s own audit process and findings.

**Feeding America** - The national network of local food banks that administers operating standards and guidelines while assisting in the distribution of products to the needy. Previously named America’s Second Harvest.

**Cause of Damage** - How a product came to be damaged. Often confused with the type of damage (product condition). For example, “razor-cut” describes the visible damage – not why or how it happened. Some causes of razor cuts have been found to be poor case design and improper opening techniques.

**Damaged Goods** - Unsaleables products that are physically damaged, e.g., broken, cut, crushed, dented, etc.

**Discontinued products** – Products that a manufacturer has decided to stop producing and/or selling (manufacturer discontinued); or products that a retailer or wholesaler has decided to stop buying and merchandising (retailer, wholesaler or customer discontinued).

**Disposition** - The path taken by unsaleable, e.g., donate, destroy, salvage, hold for pick-up or return to supplier, to name a few.

**Expired Products** - Products for which the date code printed on the package or case has been passed. “Open-coded” means readable by consumers; “closed-coded” means unreadable by consumers. Manufacturers determine the code date based on quality and production parameters.

**Food Banks** - Non-profit organizations that accept unsaleables from a reclamation center and process them along with other donated products for distribution to local feeding agencies, such as soup kitchens and food pantries.

**Policy** - A written document that states a company’s position and practices with trading partners. An unsaleable policy guides discussions and practices with trading partners on the handling and disposition of unsaleables and on the reimbursement practices.

**Reclamation Center** - A collection point for damaged goods and other unsaleables, often affiliated with one or more warehouse distribution centers. In these facilities, physical processing occurs, invoices are created, data are captured and disposition is managed.
APPENDIX F

**Reimbursement** - Generally refers to the manufacturer’s payment to a retailer or wholesaler for an invoice for unsaleables.

**Returned Goods** - Generally saleable products that are removed from the primary distribution channel and returned to the manufacturer. Examples include seasonal products, such as insecticides or garden seeds; cosmetics; and seasonal packs with guaranteed sales contracts. Prescription drugs and other controlled distribution products can be returned to the manufacturer for proper disposition.

**Swell Allowance** - A fixed percentage applied to all products invoiced by the manufacturer and delivered to the distributor’s warehouse.

**Third Party (Service Provider)** - A company that provides unsaleable management services for one of the two trading partners. For example, a manufacturer could use a third party to collect unsaleable product or data; a distributor could use another third party to manage a reclamation center.

**Type of Damage (Product Condition)** - Condition of an unsaleable product such as crushed, dented, soiled. Standard industry definitions were first published in the 1990 Joint Industry Report: Product Reclamation Centers. Third-party auditors have more extensive categorizations, frequently called “casual factors.”

**Unsaleables** - Product removed from the primary channel of distribution, regardless of the reason for removal. This includes product discontinuations, damaged, seasonal or out-of-code products.

**Unsaleables Rate** - The dollar amount of unsaleables as a percentage of gross sales or cost of goods incurred for or by the same entity during the same period. Rates can be determined for a total company, division, brand, SKU, customer, store, etc.