Reverse Supply Chain Improvement Project
Discontinued Products Work Groups

Presenters:

Manufacturer Initiated
Tom Breiten, Energizer Personal Care
Carmen Chavez, The Clorox Company
Tom Conoscenti, DRS Product Returns LLC

Retailer/Wholesaler Initiated
Steve Henig, Wakefern Food Corp
Oscar Fussenegger, The Kroger Co.
Joe Scaccia, Kraft Foods, Inc.
Discontinued Work Groups

Manufacturer Initiated

Jim Spaight (Lead), Land O’Lakes, Inc.
Christine Taber, Church & Dwight Co., Inc.
Bob Richardson, The Clorox Company
Thomas Conoscenti, DRS Product Returns LLC
Tom Breiten, Energizer Personal Care
Oscar Fussenegger, The Kroger Co.
Bill Downs, Mars Chocolate
Scott Knapp, SC Johnson
Neville Fenton, Wakefern Food Corp
Pat Fischer, Walgreen Company
Gary Regina, Winn Dixie Stores, Inc.

Retailer/Wholesaler Initiated

Steve Henig (Lead), Wakefern Food Corp.
Carmen Chavez, The Clorox Company
Sharon Petrarca, Coca-Cola North America
Ron Fingers, Del Monte Foods Company
Tom Breiten, Energizer Personal Care
Michael Graham, HEB Grocery Company
Joe Scaccia, Kraft Foods, Inc.
Oscar Fussenegger, The Kroger Company
Gary Spinazze, Nash Finch Company, Inc.
Michael Mills, Pharmavite, LLC
Neville Fenton, Wakefern Food Corp.
Desiree Paoli, Walgreen Company
Dave Aukstikalisns, Welch Foods, Inc.
Consensus of Two Groups

1. Greater transparency in your decision process is needed.
2. Lead time – longer is better. Or is it?
3. Much similarity, but different process elements for each type of discontinuation.
4. Best practices = less residual inventory.
5. This is work-in-progress. Consensus has not been reached in the Work Groups about adequate lead times.
Most companies have defined procedures to manage discontinued product inventory. Many used the 2001 white paper as a starting point.

Recommendations

1. Review published industry recommendations for manufacturer-initiated and retailer/wholesaler initiated discontinuations.

2. Evaluate and adjust your processes if needed.
Starting Point from 2001

Decision and Communication Path for Retailer-originated Decision to Discontinue (Delist) a Product

Discontinue? → Notify Manufacturer → Develop Sell Thru Plan → Stop or Change Ads

Review Store Inventory
- Continue Sell Thru
  - Yes: Sell to Consumer?
    - Yes: Notify Manufacturer → Remove from Store → Stop Shipping
    - No: Stop or Change Ads
  - No: Stop Shipping

Review Retailer DC Inventory
- Continue Shipping
  - Yes: Ship to Stores?
    - Yes: Notify Manufacturer → Remove from Retailer DC → Destroy → Liquidator
    - No: Stop Shipping
  - No: Stop Shipping

= Retailer
Wholesaler Post-decision Example

Goal: Clean out inventory

Start: Discontinue?
- Yes: Notify Retailer/Wholesaler
  - Lead Time: 12-16 Weeks

- No: Develop Exit Strategy with manufacturer
  - Evaluate Manufacturer inventory
  - Evaluate Distributor warehouse inventory

- Yes: Evaluate Store Inventory
  - Ship to Stores?
    - Yes: Continue
    - No: Initiate markdown program
      - Lead Time: ??
        - Notify Manufacturer
          - Unauthorize Item for Reclamation
          - Systematically Remove Item From Future Discounts, promotions, Ads Etc.
          - Generate New Shelf Tags For the Stores

- No: Remove excess inventory
  - Donate
  - Reclaim Center?
    - Yes: Destroy?
    - No: Manufacturer

R/W Disc

Best Practice

Special label: “While Supplies Last”
Major Issue #1

Lack of agreement about appropriate lead time for notice of discontinuation.

Recommendations

1. Collaborate with trade partners to maximize sales and minimize amount of inventory removed from stores.

2. Synchronize discontinuation planning with retailer planogram review cycles where possible.

   • Engage brokers or service merchandisers with knowledge of retailer cycles to help develop discontinuation plan.

3. Use computer replenishment systems to prevent unplanned shipments/orders.

Best Practice

M Disc
Major Issue #2

How to minimize lost margin for retailers, wholesalers and manufacturers.

Recommendations

1. Minimize amount of inventory marked down by managing regular price sell down.

2. Pick up full cases from customer DCs if practical.

3. During markdown period and prior to remerchandising the shelf, keep product at normal shelf location. Moving to a “close-out” section may lose perception of markdown value.

4. Use attention-getting signage for a markdown. Indicate time sensitivity.
Major Issue #3

Some retailers will immediately remove discontinued inventory from stores upon notification by manufacturer.

Recommendations

1. Treat “early-mover” retailers individually.

2. Identify retailer(s) who might be open to finish selling manufacturer inventory, including secondary market retailers.

3. Distribute residual DC inventory to stores with capability to sell product during sell-down period.
Major Issue #4

Getting stores to sell through all old inventory rather than send it to reclamation.

Recommendations

1. Operate from premise: We all made mistake and can all share in the pain of moving product out of system.

2. Collaborate with trade partners to develop graduated markdown schedule driven by product sales potential and store capability.

3. Provide adequate markdown funds to incent stores to sell through.

4. Use in-store inventory systems to prevent return to reclamation.
Pre-decision Process Variables

Retailer/Wholesaler Initiated Discontinuation

• Product velocity – slow-movers are different.
• Product uniqueness – may be slow-mover.
• Seasonal products.
• In & out promotions, shippers, etc.
• Temperature class.
Metrics for Pre-decision Process

Retailer/Wholesaler Initiated Discontinuation

- Item profitability.
- Item velocity.
  - DC shipments.
  - Average store sales.
  - Vs. category sales.
- Level of brand marketing support or merchandising support.
- Unsaleables rate and dollars.
- Overall category trends, e.g., growth, new item activity.
Post-decision Variables

- Amount of inventory in DCs, stores.
- Costs of decisions.
- Timing/milestone requirements by wholesalers/retailers.
- VMI partnerships.
Post-decision Metrics

- Amount of unsold inventory in DCs, stores.
- Days of supply in DCs, stores.
- Post Mortem evaluation of costs.
Kingsford Double Down Transition Plan
Customer Service Protection Plan (run out plan 2009)

Objectives

• Minimize cost of transition to new SKUs as
  • Transportation costs
  • Inventory costs

• Minimize impact to retailer/consumer
  • Service levels
  • Out of stocks

• Maximize launch opportunity with customers
  • Ensure supply of Kingsford Double Down in season
  • Eliminate legacy product in stores by March
  • Ensure retailer support to enhance strength of consumption
Manufacturer Pre-decision Example

High Level Roadmap for Discontinuation or Conversion

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|          |      |          | July Sales Mtg |      |          |          |
|          |      |          | Cust Calls |      |          |          |
|          |      |          | Roll/0t Plns Dev |      |          |          |
|          |      |          | 100 Day Plan beg |      |          |          |
|          |      |          | Run out Plans engaged |      |          |          |
|          |      |          | Disc remnant |      |          |          |
|          |      |          | Transition Core Team Engaged |      |          |          |
|          |      |          | Product supply update |      |          |          |
SCENARIO
A confection products manufacturer increased the size of the “pills” in its small plastic dispensers. This manufacturer wanted to allow retailers to get the new product version onto retail shelves as quickly as possible, without having to work through DC inventory or to have a discounted scan down program.

ACTION
The manufacturer encouraged retailers to return all full cases of the original versions for full credit. Depending on the remaining quantities, the manufacturer’s product returns service provider recovered the cases, either through a pickup of pallets or by issuing prepaid call tags to the retailer. These cases were then sold through the service provider’s secondary market network, with the manufacturer realizing cost recovery from the product transition project.
Case Study #2

The Rolling Packaging Change

SCENARIO
A consumer goods manufacturer of storage bags redesigned the contents of approximately three dozen SKUs to be packed more tightly. The new package was also redesigned to be significantly shorter and narrower. The manufacturer needed to continue supplying the original version being discontinued even as it phased in shipments of the new version over a period of several months.

ACTION
As the manufacturer started shipping the new version, their product returns service provider picked up all remaining pallet and case quantities of the original version from each distributor’s warehouses and DCs. Each of these three dozen SKUs were re-palletized into the manufacturer’s original ti-hi configurations and returned to their DC inventory for order fulfillment to those customers that had not yet transitioned to the new version.
Recommended References

• “Improving Efficiencies in Product Discontinuation: An Industry White Paper” (2001)

• “Reverse Supply Chain Improvement: A Joint Industry Report” (2011)