Reducing Damage, Unsaleables and Returns

Excerpts from:
Reverse Supply Chain Improvement Project
Building a Future State: Recommendations for Improvement
Today’s Presenters

Dan Raftery, *Raftery Resource Network*

Jim Schumacher, *Pfizer Consumer Healthcare*

Ted Lechner, *HEB Grocery Company*

Bob Rippley, *Associated Wholesalers Inc.*

Pete Bannochie, *DRS Product Returns*
  *Formerly with General Mills*
Today’s Topics

- Top-level summary of the project
- Damaged Products Learnings
- Expired Products Learnings
Project Goals

- Develop recommendations for improving the reverse supply chain that include distribution, business and financial practices.

- Develop recommendations for increasing the likelihood that retailers, wholesalers, manufacturers and service providers will implement the improvement recommendations.
58 companies participated in this project.
Industry Report Contents

- Executive Summary
  Industry conditions & major issues
- Perspectives & Practices Survey
  Qualitative findings & conclusions
- Data Survey
  Quantitative information
- Policy Survey
  “Snapshot” of damaged & expired policies
- Incentives & Efficiencies Interviews
  Opinions & ideas for improvement
- “Best Practice” Case Studies
  Real world successes in reducing costs

http://www.fmi.org/docs/supply/fmi_reverse_sc_improvement.pdf#search="reverse supply chain improvement"
General Recommendations - selected

1. Keep the five topics separate

Internal and trading partner discussions will be more productive.

- Across the five topics, issues and opportunities vary by company, by product category and often by brand.
- The current level of industry discord on the combined subject of unsaleables is driven, in part, by these variations.
- By focusing on the conditions individually, companies can be more successful in identifying and making improvements.

Source: Senior Executive Roundtable Summit
2. Enhance scorecards and internal performance reports

Add metrics and Key Performance Indicators (KPIs) for each condition.

- Scorecards can be used internally among corporate divisions and with trading partners.
- KPIs can be used in internal performance incentive programs and in industry-level comparative assessments such as “best-in-class” publications.

Source: Senior Executive Roundtable Summit
Case Studies

**Category Management Focus**
- Shelf Life Management
- Sales Potential Planograms
- Demand Sales Forecasting
- Increasing Available Shelf Life
- New Item Exit Strategy
- Succeeding with Limited Resources
- Applying Sales Management Concepts

**Supply Chain Focus**
- Remote Scanning of Returns
- Supply Chain Improvement
- Process Improvement Program
- Reducing Hidden Damage
- Reducing Crushed and Defective Products
- Focus Reducing Defect

**Trade Partner Focus**
- Involving Sales People to Solve Problems
- Problem-Solving Collaboration
- Keeping Good Product Out of Reclaim
- Keeping Products Out of Landfills
- Partnership Studies

**Store Focus**
- Engaging the Store Leaders
- Six Sigma Reclamations
RSCI Implementation Work Groups

54 people

Alberto-Culver Company
Associated Wholesalers, Inc.
Bozzuto’s, Inc.
C&S Wholesale Grocers, Inc.
Campbell Soup Company
Church & Dwight Co., Inc.
The Clorox Company
Coca-Cola North America
ConAgra Foods
Del Monte Foods Company
Delhaize America
DRS Product Returns LLC
Energizer Personal Care
Feeding America

41 companies

GENCO ATC
General Mills, Inc.
Harris Teeter, Inc.
HEB Grocery Company
Heinz North America
Inmar
Kellogg Company
Kraft Foods, Inc.
The Kroger Company
Land O’Lakes, Inc.
Mars Chocolate North America
Nash Finch Company, Inc.
Nestle Purina PetCare Co
Nestle USA, Inc.
Pfizer Consumer Healthcare
Pharmavite, LLC
The Procter & Gamble Co.
Rite Aid Corp.
S.C. Johnson & Son, Inc.
Spartan Stores, Inc.
Stericycle Pharmaceutical Services
Strategic Solutions, Inc.
Unilever US
Wakefern Food Corp.
Walgreen Company
Welch Foods, Inc.
Winn-Dixie Stores, Inc.
Reverse Supply Chain Improvement Project

Damaged Products Work Group

The What, Where, How and When of Reducing Damage Within Your Supply Chain

Presenters:

Jim Schumacher, Pfizer Consumer Healthcare
Ted Lechner, HEB Grocery Company
Damaged Products Work Group

Jim Schumacher (Lead), Pfizer Consumer Healthcare
Tom Prestridge, Alberto-Culver Company
Jace Swartzendruber, ConAgra Foods
Eric Davis, Feeding America
Ted Lechner, HEB Food Company, LP
Sue Bentel, Nestle Purina PetCare Co
Jim Flannery, The Procter & Gamble Co.
Donald Aday, Strategic Solutions, Inc.
Today’s Topics

• Manufacturer supply chain investigation.
  – Touch points and measures.
  – Collaborating with data.
  – Case studies

• Retailer/wholesaler supply chain investigations.
  – Touch points and measures.
  – Case studies.

• Your Call to Action - Best practices for controlling damage.
Forward Supply Chain Audit-Points

Production Orders → MFG Plant Operations (production Lines)

- Audit Product at MFG Plant
- Audit Product at MFG DC (3rd Party)
- Audit Product at Retail/WS DC
- Audit Product at Retail/Club/Drug

Damage Product Identified → Data to MFG

Data to Customers/MFG

Major Audit Supply Chain Points
Full Pallets of Product Audited at DC's (Includes Out-Bound and In-Bound Loads)
What Should be Measured

- Examples include defective parts per million, units per thousand, % of sales, ..etc..
- Choose a measurement that is easily understood and shows the impact of damage reduction efforts
Manufacturer Case Study #1

- Pfizer Consumer Healthcare’s (PCH) first study of 2010 showed a spike in case damage rates
- PCH used Pareto analysis and the corresponding “80/20 rule” to quantify and prioritize what needed to be addressed
- After looking at damage conditions found, we wanted to drill down even further to focus on which plant and product were the drivers

The first 4 conditions cover 83.1% of the total count
Manufacturer Case Study #1

Plant “A” assumed production of the product in question from another plant.

Root cause of damage – fit of cases was not compatible with Plant A’s pallet specification.

Specification was updated to provide more deck coverage.

As a result Plant “A” went from “worst to first” in one year by shipping the least amount of damages in our 2011 study year.
Manufacturer Case Study #2

ConAgra Foods discovered that the board weight of some of their corrugate could not withstand the rigors of the entire supply chain.

Investment was made to add corrugate and increase board weight.

Resulted in 70% decrease in damage over 1 year.
Manufacturer Case Study #3

Nestle Purina pursued options to paper bags which are subject to tears.

Investment made to migrate packaging on large bags to “Tough” Bag (woven).

Significant damage reduction was realized throughout the supply chain.

Tough Bag is now used for 100% of Conventional Litter and >95% of Dry Pet.
Retailer/Wholesaler Touch Points

1. Product is manufactured at the plant
2. CPU Backhaul
3. Vendor Ship
4. Product received at the DC
5. Product placed in reserve slots
6. Product placed in pick slots
7. Store pallets are built
8. Load pallets onto the trailer
9. Trailer delivers to the store
10. Pallets are unloaded off the trailer
11. Pallets are downloaded to Skids
12. Stockers stock product to the shelf
13. Product is on the shelf for purchase
14. Sold to customer
15. Customer Return
16. Unsaleables
17. Sent to DC
18. Sent to RGC

- Less than full Case shipping
Retailer/Wholesaler Case Study #1

Perfect Pallet Program

Purpose: A Systematic Approach To Ensure That We Consistently Deliver Fresh, Damage Free, Quality Product To Our Customers At The Lowest Possible Cost

- Develop Clear Expectations Of The Perfect Pallet
- Improve Training And Coaching For Order Selectors And Loaders
- Measure Individual And Facility Performance
- Reward Partners Who Create Quality Pallets and Loads
- Improve Store Efficiency By Delivering The Most Cost Efficient Shipping Platform
- Select The Most Efficient Flow Path For The Product
Retailer/Wholesaler Case Study #1

Elements Of The Perfect Pallet

- Right Product
- Right Time – On Time Delivery
- Damage Free
- Fresh, Quality Product
- Lowest Cost ..........
Retailer/Wholesaler Case Study #1
Elements of a Perfect Pallet

- Stacked Properly
- No Pallet Overhang
- Damage Free
- Wrapped: Top to Bottom
- Slip-Sheets for Bagged Product
- Labeled Properly
Retailer/Wholesaler Case Study #2

Creating a Focus

• Branded the program with a catchy theme
• Identified High Shrink Categories
• Developed cross functional team
• Group attack
  – Warehouse
  – Store
  – Transportation
• Report out findings and actions
  – 30, 60 & 90 Day
Retailer/Wholesaler Case Study #2

Store Ownership

- Store identifies damaged product as
  - Damage
  - Refresh/Discontinued
  - Recall/Merchandise Return
- Product is scanned at store level and removed from inventory, SRS is adjusted
- Product returned in banana box to RGC
- Apply Manufacturers policy (Donate, Return, Destroy, Hazardous Waste, Salvage)
- Third Party Generates Vendor invoices for HEB
- Data is transmitted to HEB
- HEB deducts for non swell vendors
- Swell Vendors & Write off’s are not collected
Retailer/Wholesaler Case Study #2

Store Ownership

- Credit to stores based on Swell allowance
  - Defective allowance by Sub Department
- Stores scan product at store-
  - Dollars calculated against swell allowance
  - Dollars scanned over allowance will show up as excess RGC- Reduce gross profit
  - Dollars scanned under allowance difference will show up as extra credit/increased gross profit
Retailer Case Study #2

Partner/Education Awareness

- RGC Store Meeting
- Include RGC responsibilities in new hire orientation.
- Train Center Store Mgrs. to print RGC data.
  - Share data with partners to communicate progress and opportunity areas.
- Manager’s Role:
  - Communicate program to all partners in their respective departments
  - Set clear goals and expectations for the program
  - Execute the program 100%
  - Be the RGC champion in your store
Retailer/Wholesaler Case Study #2
Damage Reduction Plan

- **Banana Box Program**
  
  Every overnight stocker will secure a banana box and write their name on it. All damages are to be placed in box and they will not be released until audited by Center Store Mgr. or MIC.

- **Stocker tool belt**
  
  Every center store partner [daytime and overnight] will be required to carry a tool belt while on duty. It should be considered part of the uniform policy. Contents include: cutter, blades, tape, black marker, peg hole tabs.

- **Receiver tool box**
  
  Each wareroom and receiving area will be equipped with tool box to assist in repairing RGC. Every MIC will audit 5 RGC boxes weekly.

- **Utilization of RGC for in-store supplies**
  
  Use potential RGC [paper towels, toilet paper, etc. for in-store supplies. Transfer of product must be completed daily and to the correct department 1A (supplies.
# Your Call to Action

<table>
<thead>
<tr>
<th>Best Practice</th>
<th>Process</th>
<th>Manufacturers</th>
<th>Retailers / Wholesalers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designate an Unsaleables champion or owner</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Ensure continuity with changes in personnel, responsibilities, shift changes, etc.</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Provide on-going training on proper product handling at each stage in the supply chain</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Utilize proper load stabilization techniques (i.e. stretch wrap, dunnage, etc)</td>
<td></td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Garner C-Level support for Unsaleables management within your organization</td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Form Warehouse based teams that monitor, investigate and develop best in class product handling procedures</td>
<td></td>
<td>√</td>
<td></td>
</tr>
</tbody>
</table>

The right mix of processes, metrics & collaboration can reduce your damages.
The right mix of processes, metrics & collaboration can reduce your damages.

<table>
<thead>
<tr>
<th>Best Practice</th>
<th>Manufacturers</th>
<th>Retailers / Wholesalers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain and post in a prominent location standard Unsaleable performance metrics and reports (i.e. scorecards)</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Establish and incent against goals for improvement in Unsaleables ensuring that you tie accountability and incentive to a desired goal or outcome</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Publish internal quarterly updates (i.e. newsletter) that highlights Unsaleables</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Utilize &quot;graveyard data&quot; where available to supplement your understanding of root causes for Unsaleables</td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>

Your Call to Action

Measurements & Metrics
### Your Call to Action

#### Collaboration

<table>
<thead>
<tr>
<th>Best Practice</th>
<th>Manufacturers</th>
<th>Retailers / Wholesalers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Invest in those business planning capabilities and practices that support on-going Unsaleables management collaboration</strong></td>
<td>✓</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td>Establish a formal process that promotes the gathering and sharing of Unsaleables data via regularly scheduled meetings</td>
<td>✓</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td>Don't offset any sustainability gains with unintended consequences in the area of Unsaleables</td>
<td>✓</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td>Incorporate the subject of Unsaleables into regular joint business planning meetings including top to top meetings</td>
<td>✓ ✓</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td>Share supply chain study / audit findings with your trading partners</td>
<td>✓</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>Create an Unsaleables Management task force</td>
<td>✓</td>
<td>✓ ✓</td>
</tr>
</tbody>
</table>

The right mix of processes, metrics & collaboration can reduce your damages.
Reverse Supply Chain Improvement Project
Expired Products Work Group

Presenters:

Bob Rippley, Associated Wholesalers Inc.
Pete Bannochie, DRS Product Returns
Formerly with General Mills
Expired Products Work Group

Gary M. Piwko (Lead), Kellogg Company
Joy Sgro (Lead), Bozzuto’s
Chris Michael, AWI
Bob Rippley, AWI
Don LaChance, C&S Wholesale Grocers
Sharon Petrarca, Coca-Cola Refreshment
Rob England, Delhaize America
Gene Bodenheimer, GENCO ATC
Pete Bannochie, General Mills, Inc.
George Thrower, Harris Teeter, Inc.
Gene Schachte, Heinz North America
Mike Umbach, Inmar
Bert Kibbler, Kraft Foods, Inc.
Rob Shifter, Nestle USA, Inc.
Rob Davis, Pfizer Consumer Healthcare
Jim Flannery, Procter & Gamble
Neil Meischeid, Rite Aid Corp.
Francis Wong, Spartan Stores
Gary Snyder, Strategic Solutions, Inc.
Why This is Important

What Is At Reclamation

- Saleable/Disco: 22%
- Expired: 33%
- Damaged: 45%

12 months ending April 2011

Source: Inmar

Amount of Expired Inventory
In DCs and Stores

- DCs: 0.14%
- Stores: 1.02%

2010 Supply Chain Audit Data for 13 manufacturers with combined U.S. sales of over $100 billion.
Why This is Important

<table>
<thead>
<tr>
<th>Amount of Expired Inventory by Department</th>
<th>DC</th>
<th>Store</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chilled</td>
<td>0.03%</td>
<td>1.10%</td>
</tr>
<tr>
<td>Food/Beverage</td>
<td>0.26%</td>
<td>1.58%</td>
</tr>
<tr>
<td>Frozen</td>
<td>0.09%</td>
<td>0.87%</td>
</tr>
<tr>
<td>OTC/Personal</td>
<td>0.05%</td>
<td>0.62%</td>
</tr>
<tr>
<td>Other</td>
<td>0.13%</td>
<td>0.72%</td>
</tr>
<tr>
<td>Total</td>
<td>0.14%</td>
<td>1.02%</td>
</tr>
</tbody>
</table>

*Source: Inmar Supply Chain Audit Data for 13 manufacturer clients with combined U.S. sales of over $100 billion.*
Expired Hot Button #1
What is the product life at the time of production, what is guaranteed to retailers/wholesalers and why?

“Not knowing is worse than not liking.” – Joy Sgro

Recommendations
1. Discuss, plan and manage DAYs – not percentages.
2. Open communication on all dating information that is not confidential.
3. Reduce gap between production days and guaranteed days. Real examples:
   • Produced with 1,460 days, guarantee 90 days
   • Produced with 1,825 days, guarantee 90 days
4. Collaborate on delivering to consumer days remaining needed for consumer.
5. Read the 2011 GENCO ATC Product Lifecycle Logistics white paper: “Winning the Expired Products Battle.”
Expired Hot Button #2

How can we better sell short-coded inventory prior to expiration?

Recommendations
1. Don’t try to sell into your primary market.
   • Donate
   • Secondary markets
2. Offer a “hot” price to primary customers with capacity to move product.
3. Fund outside of ARP programs and trade marketing programs.
Expired Hot Button #3

How can we reconcile product life cycle with supply chain throughput?

**Recommendations**

1. Understand all facets of this complex issue

2. Reverse engineer the process. How many days are needed at:
   - Consumer pantry
   - Store
   - Retailer/wholesaler DC
   - Manufacturer DC

3. Measure your performance

4. Communicate results with trading partners

5. Continually improve the process
Expired Hot Button #4

How can a manufacturer manage multiple shelf life requirements across customers? Across channels?

Recommendations

1. Deliver the maximum shelf life available to all customers.

2. Discuss, plan and manage DAYs – not percentages.

3. Collaborate with customers routinely to manage this complex issue. Can sales department play a more active role in getting customer needs into manufacturer systems?
Expired Hot Button #5

What is the right verbiage to accompany the expiration date?

Verbiage and dates are confusing to all concerned:

- Best By, Best if Consumed By, Enjoy By, Sell By, etc, etc.
- Produced On, Born On
- Just a date, Is this produced on, sell by, use by?
- Any sequence you can think of MMM DD YYY, YYYY M D, DD M YYYY…..etc

Recommendations
1. Go for clean and simple on package versus artistic.
Score Cards for Days Remaining

Goal: Increase the number of Days Remaining for consumers at purchase.

By:
Increasing Days Remaining at upstream entry points 1 – 3.
Decreasing the number of Days of Supply at points 1 – 3.
### Top 5 Things That You Can Do To Increase Days Remaining

#### Manufacturer Scorecard

<table>
<thead>
<tr>
<th></th>
<th>Do These to Increase Days Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Re-evaluate current shelf lives of products and increase where the science makes possible. Consider both packaging and ingredient opportunities.</td>
</tr>
<tr>
<td>2</td>
<td>Investigate supply chain improvements that deliver longer shelf life to customers.</td>
</tr>
<tr>
<td>3</td>
<td>Follow published guidelines for expiration date marking.</td>
</tr>
<tr>
<td>4</td>
<td>Reduce gap between production days and ship days. Increase % of production life shipped.</td>
</tr>
<tr>
<td>5</td>
<td>Collaborate with trade partners to improve forecasts and to apply SKU rationalization principles at the DC and store on items consistently at risk of expiring.</td>
</tr>
</tbody>
</table>
Top 5 Things That You Can Do To Increase Fresh Days

Retailer/Wholesaler Scorecard

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Communicate to manufacturer the shelf life needs of the category/item and why. Consider two requirements for each category: the shorter shelf life products and all others.</td>
</tr>
<tr>
<td>2</td>
<td>Monitor days remaining upon receipt at DC and upon shipment to stores.</td>
</tr>
<tr>
<td>3</td>
<td>Monitor internal rotation processes.</td>
</tr>
<tr>
<td>4</td>
<td>Analyze unit movement versus expired units by SKU.</td>
</tr>
<tr>
<td>5</td>
<td>Collaborate with trade partners to improve forecasts and to apply SKU rationalization principles at the DC and store on items consistently at risk of expiring.</td>
</tr>
</tbody>
</table>
Why you should use these scorecards

1. The common language of “Days Remaining” will be easier to understand and put into systems.

2. A greater focus on Days of Supply will improve inventory turnover.

3. Increasing industry knowledge about Pantry Life will benefit all, including consumers.
Thank You