2006 Unsaleables Benchmark Report

GMA
The Association of Food, Beverage and Consumer Products Companies

FMI
FOOD MARKETING INSTITUTE

R2N Raftery Resource Network, Inc.

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INTRODUCTION

Description of Report

This report contains the results of the twelfth annual Joint Industry Unsaleables Benchmark Survey, sponsored by the Grocery Manufacturers Association (GMA) and Food Marketing Institute (FMI) through the Joint Industry Unsaleables Steering Committee (the steering committee).

This report contains:

- Aggregated company data that represent the statistical industry benchmarks for manufacturers, wholesalers and retailers in the consumer goods supply chain.
- Summaries of qualitative input by supply chain participants on key issues and challenges relevant to unsaleables management.
- Case study descriptions of best practitioner companies, nominated during the survey for their success in managing unsaleables.

For the purpose of this report, unsaleables are defined as products removed from their normal channel of distribution, regardless of the reason for removal. The term "distributors" is used in this report to describe both retailers and wholesalers who participated in this survey.

Intent

The intent of the steering committee in publishing this report is to provide the consumer packaged goods (CPG) industry with valuable tools to manage and reduce the costs of unsaleables in the total supply chain. The benchmark data are expected to be useful to individual companies interested in comparing their own similar metrics as one method of evaluating their efforts to reduce unsaleables costs.

The steering committee recommends that individual companies use internal benchmarks to measure progress and develop collaborative benchmarks with trading partners. Industry-level data are important in understanding an individual company's position in the context of the total supply chain. However, actual progress by an individual company can only be measured by that company's accomplishments relative to its own specific goals.

This year's report excludes data published in prior years' reports. The steering committee decided to focus on current data and conditions rather than historical information. Where prior year data are reported, they represent answers to questions asked in this year's survey and may differ from data published previously.

This year, as in years past, the steering committee continues to refine the definitions of unsaleables costs for distributors and manufacturers. They observe that this is a difficult task given the variety of individual information systems and reporting methodologies used in the industry. As a result, the steering committee concludes that the benchmarks and averages in this report are as representative of industry costs as possible at this time.

Methodology

This report was developed by Raftery Resource Network (R2N), an independent consultant with subject matter experience. On behalf of the steering committee, R2N analyzed questionnaire responses from 51 manufacturers, 20 distributors (wholesalers and retailers) and five companies that provide services in the unsaleables or reverse distribution supply chain.

Individual company responses remain confidential. This report contains data aggregated (averaged or summed) among the individual responses. Questions that yielded inadequate sample sizes are not reported.

Survey participants provided annual data for 2005, or their most recent fiscal year, and for 2004. They were instructed to include data for warehouse-delivered product and exclude data about direct store delivery (DSD) products, fresh meat, bakery, produce and deli products. Manufacturers and service providers were instructed to include only U.S. customer data; distributors were asked to include only U.S. sales and other U.S. data.

R2N conducted a special analysis of data supplied by 40 manufacturers who participated in both the 2006 and 2005 surveys. General industry data included in this report were replicated in this subset, indicating that the manufacturer sample is consistently representative in both years. A similar analysis was conducted for 15 distributors who participated in both the 2006 and 2005 surveys. The relationship between general industry data included in this report and the averages from this sub-set is consistent, indicating that the distributor sample is also representative in both years.

Surveyed manufacturers (46 of 51) reported more than $152 billion in gross U.S. sales in 2005. Surveyed distributors (17 of 20) reported more than $147 billion in gross U.S. sales in 2005. In both samples, 53 percent had sales of $1 billion to $10 billion.

About the Survey Responses

The manufacturer benchmarks in this report measure payments to customers for unsaleables, which are not defined consistently among manufacturers. The distributor benchmarks measure costs of products processed through reclamation centers, which are also not defined consistently among distributors and some unsaleables are not so processed. In addition, the benchmarks exclude certain cost components including, but not limited to: administration costs, costs associated with root cause determination initiatives, some service provider costs and some reclamation center costs. Therefore, neither benchmark measures the full cost of unsaleables to the CPG industry.

While the survey sample is representative of the associations' memberships, respondents may be more aware of the unsaleables issues and facts than the industry at large. In addition, the survey sample excludes companies with limited unsaleables management activity and companies without adequate information to complete the survey. Both conditions could result from unsaleables costs being currently acceptable to these companies. As a result, the responses to this survey should be considered representative of, but not average for, that portion of the industry actively managing unsaleables.

The steering committee concludes that companies with an objective of improving unsaleables management can learn from the data and information in this report.

EXECUTIVE SUMMARY

The manufacturer top-line results are as follows:

- Unsaleables payments declined in 2005 to 1.05 percent of gross sales for the average CPG manufacturer.
- The total industry manufacturer benchmark rate also declined to .81 percent (i.e., the weighted average of all manufacturer reported data for customer payments).
- The total industry cost of unsaleables is projected to have been $2.05 billion.
- Seventy-two percent of manufacturers reported lower or equal payments versus last year.

The distributor survey shows mixed year-to-year rates, but is based on a smaller sample size compared to the manufacturer survey sample.

- Unsaleables costs increased from 1.13 percent to 1.17 percent of sales between 2004 and 2005 for the average distributor. The industry-weighted average held steady at 0.97 percent.
- Ten distributors submitted data showing that, in total, the "gap" between unsaleables receipts from manufacturers and their actual costs of unsaleables decreased slightly from 6.8 percent to 5.9 percent of costs between 2004 and 2005.
- Fifty-six percent of distributors reported higher costs versus last year.

Surveyed companies add the following information to the industry dialogue about swell allowances and adjustable rate policies (ARP):

- Manufacturers with ARP or swell allowances report lower average unsaleables payment rates and a larger rate decrease in 2005 versus manufacturers without ARP or swell allowances.
- Distributors who instruct stores to send ARP and swell-covered products to reclamation report lower average unsaleables costs versus distributors who instruct stores to keep those products.

This information cannot be interpreted as indicative of successful practices at this time because trading partners are not in agreement on that interpretation. However, surveyed distributors agree that the number of categories covered by ARP policies has increased in the last few years.

Common industry challenges are reported to be receiving increased attention by many participants in both surveys. Trading partners are giving top priority focus on managing discontinued products, new item failures and expired products as key to controlling unsaleables.

This report contains several examples of successes provided by surveyed manufacturers and distributors. They are offered in the spirit of process improvement for unsaleables found in the CPG supply chain.

Note: The unsaleables costs benchmarked in this report are derived from individual company records, which are not maintained following a standard method across the industry, and which do not include all costs associated with unsaleables.

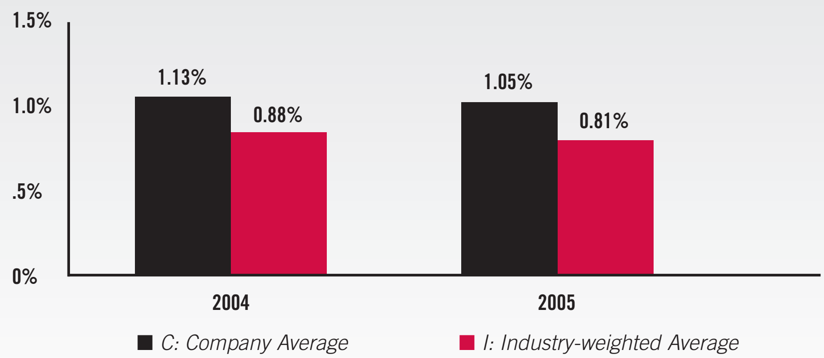
KEY FINDINGS

MANUFACTURER RATES

1. Manufacturer unsaleables payments declined in 2005 to 1.05 percent of sales.

Data provided by this year's survey participants shows declines in payments to their customers as a percentage of sales. The weighted industry average also declined versus last year to .81 percent of gross sales to U.S. customers.

Manufacturer Unsaleables Payments Percentage of Gross U.S. Sales



Using the weighted average rate of .81 percent, this total industry expense is projected at $2.05 billion in 2005.

Seventy-two percent of the manufacturers in this year's survey reported a lower unsaleables payment rate versus the previous year. Distributors on the Joint Industry Unsaleables Steering committee pose that one reason for cost declines may be a decrease in the percent of total unsaleables volume covered by "JIR" policies and sent to reclamation centers for processing and data collection.

Surveyed manufacturers with ARP or swell allowances (13) averaged unsaleables of 0.72 percent versus 0.92 percent for others (38) and 0.81 percent for all manufacturers reporting data (46) in 2005. The 2004 averages were 0.81 percent, 0.96 percent and 0.88 percent, respectively. Some manufacturers reported multiple payment methods and are included in all averages.

Company average – the mean of all company rates. Large and small companies contribute equally to this average. This rate is most useful for companies to benchmark their own unsaleable rate to that of the industry as a whole.

Industry-weighted average – the average of total unsaleables costs from all companies divided by their total sales. Larger companies contribute more to this average than smaller companies. This rate is useful for determining the total cost of unsaleables to the industry.

Manufacturer sales used in these calculations are "at wholesale," whereas distributor sales used in the distributor benchmark are "at retail." If comparable denominators could be used – which would be difficult to execute at an industry level - the distributor rate would be higher or the manufacturer rate would be lower.

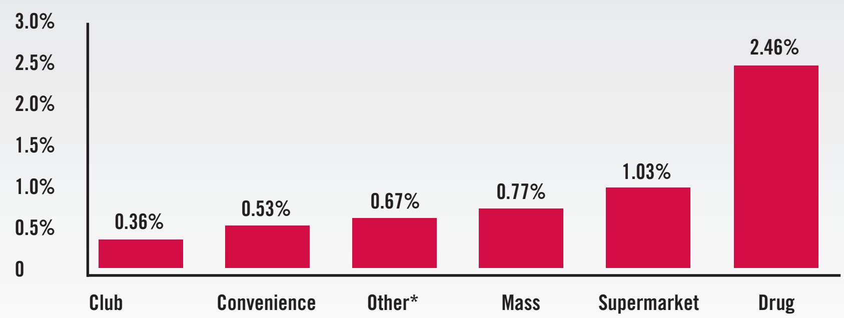
The **total industry expense** projection is developed from the following sources:

Total retail sales from Progressive Grocer 73rd Annual Report of the Grocery Industry, April 15, 2006 (supermarkets, club stores, mass merchandisers), NACS 2006 State of the Industry Report (convenience stores) and NACDS (drug stores) is estimated to be $689.1 billion, a 5.8 percent increase over the estimate used last year. Warehouse-delivered center store sales from the Progressive Grocer Consumer Expenditures Study, Sept. 15, 2005, are estimated at 36.7 percent of all purchases [36.7 percent of $689.1 billion is $253 billion and 0.81 percent of $253 billion is $2.05 billion].

2. The chain drug store and supermarket channels show the highest manufacturer unsaleables payment rate.

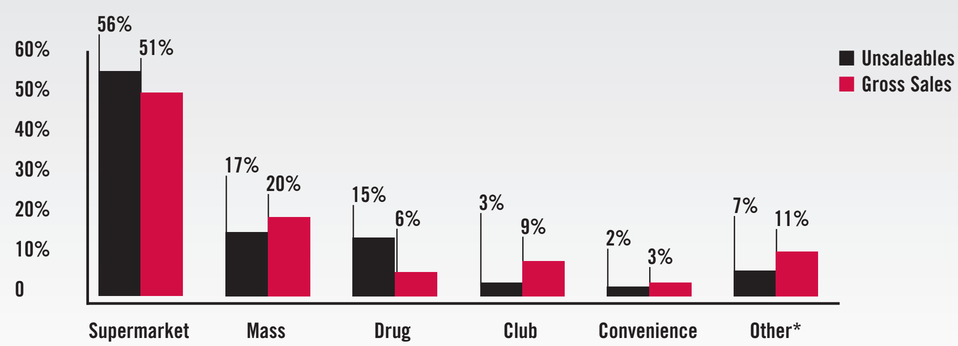
Most manufacturers (75 percent) in this survey provided data about specific channel unsaleables payments and gross sales for 2005. The channel averages are calculated using all data reported (i.e., weighted industry averages). Sales and unsaleables payment data at the channel level match company totals reported elsewhere in the survey.

Manufacturer Unsaleables Payments by Channel Percentage of Gross U.S. Sales



Relative to the percentage of gross sales by channel, surveyed manufacturers reported disproportionate amounts of unsaleables payments for some channels.

Distribution of 2005 Manufacturer Unsaleables Payments and Gross Sales by Retail Channel



From this perspective, it appears that manufacturer efforts to reduce the incidence of unsaleables would most likely yield the greatest supply chain improvements when focused on the supermarket and chain drug store channels.

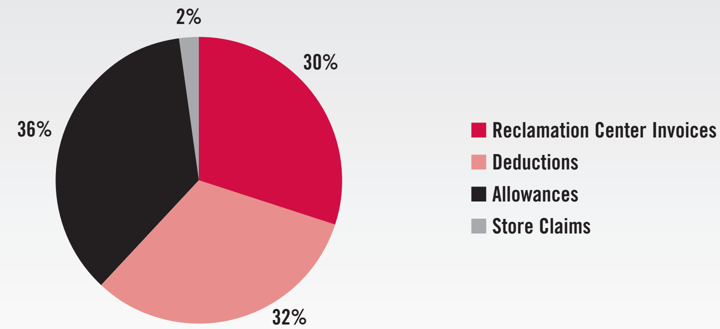
Nearly one-fourth of survey respondents said that channel-specific data are unknown in their companies.

***Other includes: military, pet channel, telesales, hardware, etc.**

3. Allowances and invoice deductions are the most often used financial transactions for manufacturer unsaleables payments.

Swell allowances and ARP allowances were reported to be a combined 36 percent of the total payments; invoice deductions were 32 percent.

Types of Unsaleables Financial Transactions



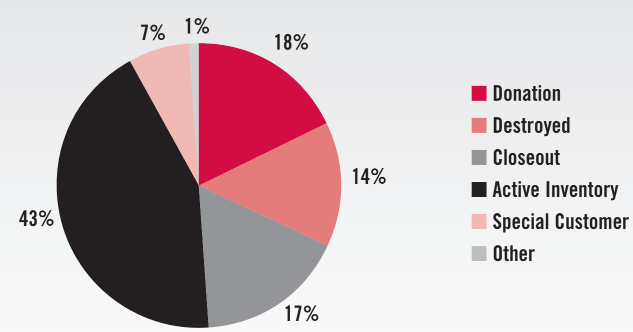
Since many companies practice only one or two of these techniques, the industry measure is aggregated across all companies reporting data. More than one-third of the participating manufacturers indicated that one or more of these data are unknown.

4. Most manufacturers (82 percent) have a return authorization process for full cases of merchandise returned by customers.

More than one-fifth of surveyed manufacturers published their return authorization (RA) process in 2005. All products are included by two-thirds of the survey. Among companies with no RA process, two accept all customer returns and eight handle on a case-by-case basis.

Nearly half of surveyed manufacturers reported data about full case returns from distributors. The largest percentage (43 percent) is returned to active inventory. Closeout liquidators received 17 percent of this volume in 2005.

Disposition of Full Case Returns to Manufacturers



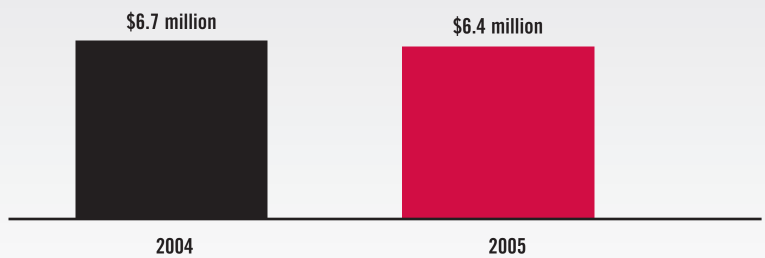
These manufacturers reported an average of $9.3 million in payments for full case returns in 2005, down from $12.1 million in 2004.

5. More than half (61 percent) of manufacturers have a policy for handling product discontinuations.

Out of those companies, 74 percent published their policies in 2002-2005. Among companies without a policy, 37 percent handle discontinueds on a case-by-case basis and eight percent include discontinueds in their terms of sale.

More than half (55 percent) of surveyed manufacturers provided data about funds for markdown programs.

Average Annual Markdown Funds



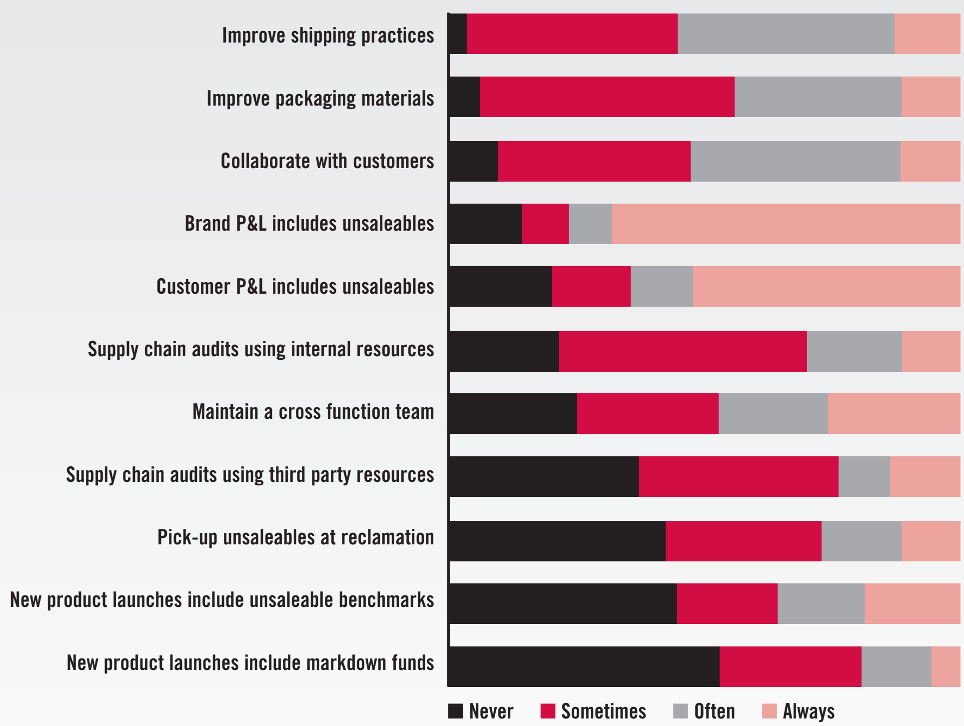
Excludes companies answering "0"

Although the per-company average declined slightly, the total amount spent by surveyed companies increased from $100 million to $122 million. Fewer companies reported zero markdown funds in 2005 (9) than in 2004 (12).

6. Improving shipping practices and packaging materials are the unsaleables management practices cited by the largest number of manufacturers.

Including markdown funds in new product launches is the practice used by the fewest manufacturers.

Unsaleables Management Practices — Breadth of Use by Manufacturers



Looking only at the 33 manufacturers reporting declining or equal unsaleables payment rates between 2004 and 2005, the general sequence of management practices is the same as the total sample. However, the following practices have stronger representation on the "always" and "often" end of the scale:

- Brand P&L includes unsaleables;
- Customer P&L includes unsaleables; and
- Maintain a cross-functional team.

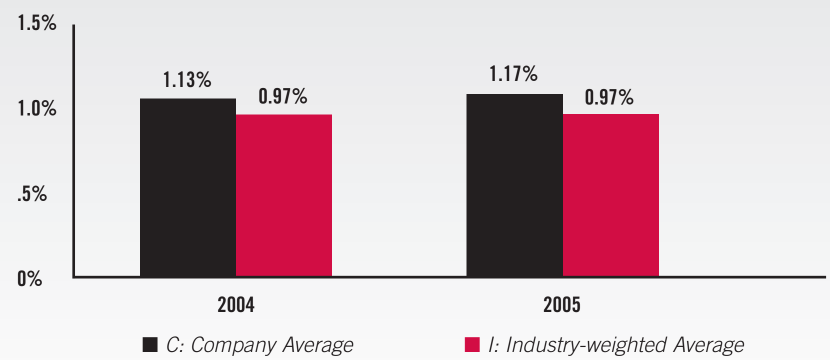
Since manufacturers were asked about the specific practices listed here, other practices may also be in use.

DISTRIBUTOR RATES

1. Distributor unsaleables costs as a percent of sales increased to 1.17 percent in 2005.

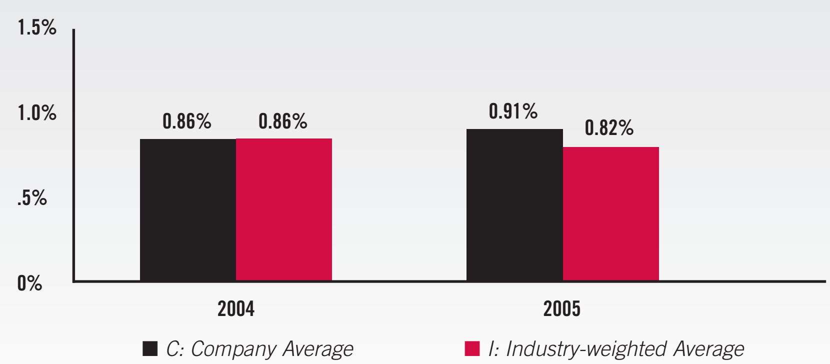
Using the largest sample sizes possible, the weighted averages for surveyed distributors shows no changes in percentage of sales between 2004 and 2005.

Distributor Unsaleables Costs
Percentage of U.S. Sales



Looking at receipts from manufacturers, surveyed distributors reported diverging averages over the two years.

Distributor Unsaleables Receipts
Percentage of U.S. Sales



Company average – the mean of all company rates. Large and small companies contribute equally to this average. This rate is most useful for companies to benchmark their own unsaleable rate to that of the industry as a whole.

Industry-weighted average – the average of total unsaleables costs from all companies divided by their total sales. Larger companies contribute more to this average than smaller companies. This rate is useful for determining the total cost of unsaleables to the industry.

Distributor sales used in these calculations are "at retail," whereas manufacturer sales used in the manufacturer benchmark are "at wholesale." If comparable denominators could be used – which would be difficult, to execute at an industry level - the distributor rate would be higher or the manufacturer rate would be lower.

It is important to note that most (15 of 20) of the surveyed distributors provided these data points. Company and industry averages for receipts from manufacturers were equal in 2004, but diverged in 2005. These data imply that the larger distributors in the sample may have not experienced a cost increase as a percentage of sales and likely experienced a revenue decline as a percentage of sales.

The difference between unsaleables receipts from manufacturers' and the distributors' average total annual costs for unsaleables is colloquially referred to as the "reimbursement gap." This year, 12 companies reported the six data points (costs, receipts and sales for 2004 and 2005). For these companies, unsaleables costs were 0.94 percent in 2004 and 0.91 percent in 2005; receipts from manufacturers were 0.88 percent and 0.86 percent, respectively. As a percentage of sales, then, these companies report a "reimbursement gap" of 0.06 percent to 0.05 percent over both years. While this sample size is even smaller than the total distributor sample, it reflects the complete experiences of these companies as reported by them for 2005.

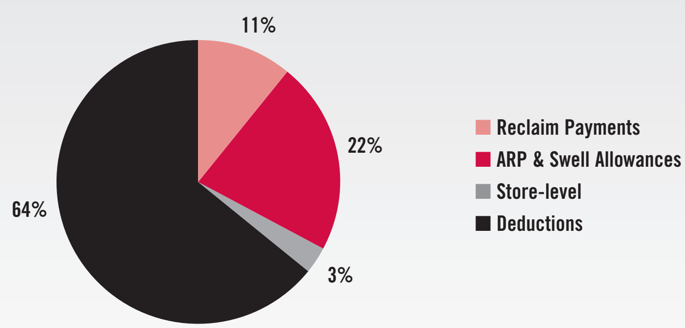
Distributors on the Joint Industry Unsaleables Steering Committee pose that one reason for this condition may be a decrease in the percent of total unsaleables volume covered by JIR policies and sent to reclamation centers for processing and data collection.

2. Some distributors reported that their total receipts for unsaleables from manufacturers were 5.9 percent below their total costs for unsaleables in 2005.

The total "gap" decreased from 6.8 percent to 5.9 percent of their unsaleables costs between 2004 and 2005 for these distributors, which represent three-fourths of the survey sample. Nine of these companies reported 2005 unsaleables receipts from manufacturers increased between 2004 and 2005.

According to five of the distributors experiencing a reimbursement gap, nearly all of it (98 percent) was from adjustable rate or swell allowance payments. About half of the surveyed distributors do not record payments by type (e.g., deductions, ARP allowances etc.).

Unsaleables Receipts by Type of Financial Transaction



Sample Size: 10 Distributors

As a group, these distributors reported receiving payments from manufacturers that were less than their unsaleables costs. Distributors on the Joint Industry Unsaleables Steering Committee pose that one reason for cost and receipts declines may be a decrease in the percent of total unsaleables volume covered by “JIR” policies and sent to reclamation centers for processing and data collection.

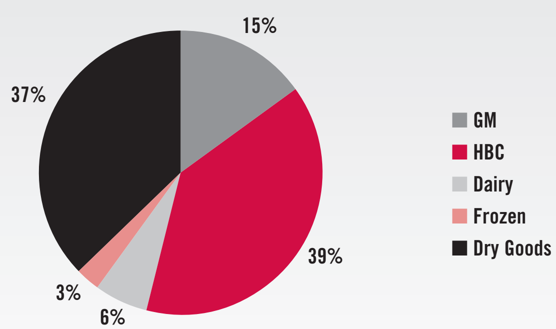
Among this year’s surveyed distributors, four companies reported instructing stores to keep swell and ARP products rather than send them through reclamation. Their average unsaleables cost for 2005 was 1.70 percent. The 12 distributors who process ARP and swell products through reclamation centers averaged 0.95 percent in 2005. It is important to note that the four companies referenced here represent a different mix of retail channels than the total survey sample.

Eight companies reported that private label products accounted for an average of 6 percent of their unsaleables costs, 1.3 percent of their unsaleables receipts from manufacturers and 11.8 percent of their total gross sales from 2005.

3. Health and Beauty Care products accounted for 39 percent of the distributor cost of unsaleables in 2005.

Dry grocery products are reported to be 37 percent of distributors’ costs. Among surveyed distributors, the breakout of their unsaleables by major department is dependent on their merchandising strategy and retail channel. Ten participants primarily from the grocery and drug channels provided department level unsaleables cost data.

Unsaleables Costs by Major Department

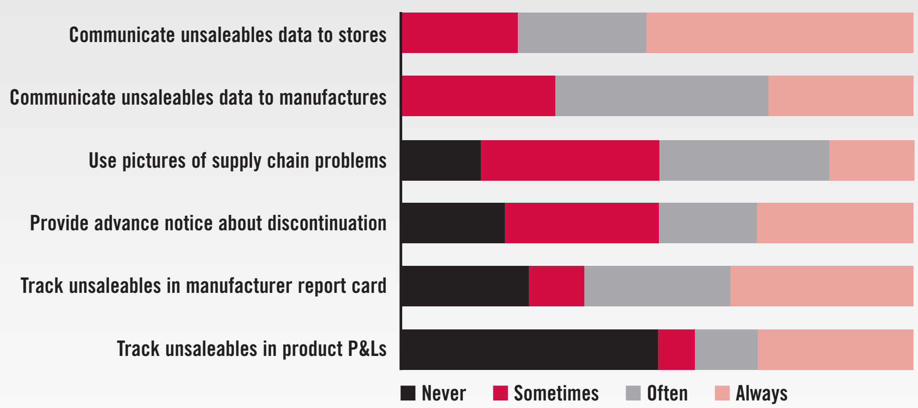


Sample Size: 10 Distributors

Distributors on the Joint Industry Unsaleables Steering Committee verified that these proportions are reasonable given the increased participation in the survey by chain drug store operators and given the extraordinary events associated with Pseudoephedrine (PSE) legislation, inventory reductions and recalls. The survey consultant observes that these 10 distributors represent a similar merchandise mix to the manufacturer survey.

4. Communicating with stores and manufacturers are the unsaleables management practices cited by the largest number of distributors.

Unsaleables Management Pratices Breadth of Use by Distributors

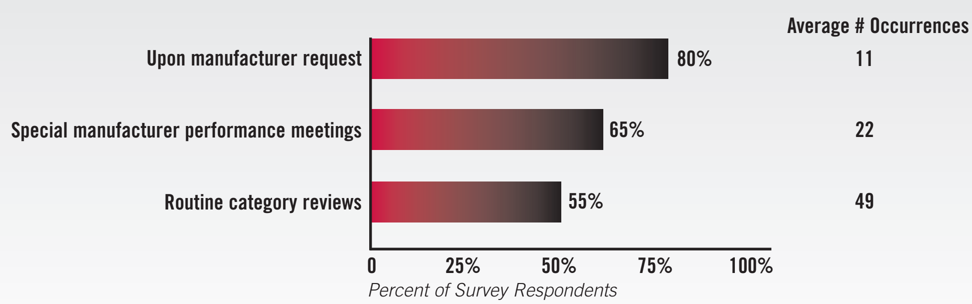


The average number of days of advance notice given by seven of these distributors before discontinuing a product is 50 days. Since distributors were asked about the specific practices listed here, other practices may also be in use.

5. Distributors more often shared unsaleables data with manufacturers in 2005 than in 2004.

While those engaged in unsaleables data dialogues with suppliers reported increased activity, only about half of surveyed companies include unsaleables data in routine category reviews.

When Distributors Shared Unsaleables Data in 2005



Regarding the type of unsaleables data available to distributors:

- All surveyed distributors report unsaleables data are available to them by manufacturer and by store; most report using that data.
- Three of four distributors use unsaleables data by department; half use it by category.

Only two surveyed distributors report “no interest” by manufacturers in unsaleables data.

Most distributors (85 percent) have a policy for product discontinuation procedures. The majority of those policies have been published since 2000, with the largest number released in 2005.

Manufacturer Key Issues

Nearly three-fourths of the surveyed manufacturers (33 of 46 providing data) reported lower unsaleables rates in 2005 versus 2004. Answers to one open-ended question were segmented by that condition. As expected, companies reported very different answers, depending on their experience with unsaleables rate changes. Several new answers were offered to these questions versus the answers to last year's benchmark survey.

Among companies experiencing a ***decreasing unsaleables rate***, the major ***forces driving change*** were reported as follows:

- Improvements in packaging and other changes to reduce damage
- Increased management focus on unsaleables data
- Introduction/implementation of a swell allowance or adjustable rate
- Product discontinuations, SKU rationalization initiatives (new)
- Customer inventory management initiatives
- Audits: internal, customer DC, reclamation, claims (new)
- Dialogue and collaboration with customers

Among companies experiencing an ***increasing unsaleables rate***, the major ***forces driving change*** were reported as follows:

- Product discontinuations, new item failures/delistings
- PSE legislation (new)
- New product introductions, packaging changes

Among all manufacturers, the ***major challenges*** expected in 2005 are weighted toward issues with new products and with trading partners.

- New product introductions/changes/discontinuations
- Keeping focus on total supply chain improvements (new)
- Consolidation: retailer, manufacturer or service provider (new)
- Customer resistance to manufacturer policy
- Reducing unsaleables costs/reclamation center fees
- Keeping undamaged product out of reclamation (new)
- Lack of actionable data
- Customer acceptance of markdowns vs. reclamation (new)

Answers are listed in order of frequency of mention. The most frequently cited answers appear at the top of each list.

The ***top unsaleables issues*** according to all surveyed manufacturers are as follows:

- New product introductions/product changes/SKU proliferation/discontinuations*
- Lack of focus, agreement on shared financial responsibility, accountability and collaboration
- Excessive customer claims/high cost of reclamation/customer policies
- Pressure to reduce costs/lower packaging strength/packaging problems
- Customer resets/closings/discontinuations
- Securing customer involvement in reducing unsaleables/collaboration
- Consolidation: retailer, manufacturer or service provider (new)
- Store returns of saleable product
- Customer distribution center stock rotation, handling practices
- Acceptance of ARP
- Safe disposal/control of disposition/customer salvage sales

* This issue was also reported by distributors.

Answers are listed in order of frequency of mention. The most frequently cited answers appear at the top of each list.

Distributor Key Issues

Unlike the manufacturer responses, distributor responses to the open-ended questions contained no discernable differences between those with declining costs versus all others. Several new answers were offered to these questions versus the answers to last year's benchmark survey.

According to surveyed distributors, the major ***forces driving change*** are the same as their ***major challenges*** in 2006.

- Manufacturer swell allowances/ARP, moving away from JIR
- Lower reimbursements by manufacturers for unsaleables
- Expired products
- Store-level accountability
- Mergers and acquisitions
- Managing product discontinuation/new item failures
- Internal awareness, communication, education

A number of additional challenges and forces generated single mentions, indicating that across the industry, distributors are individually concerned with a diverse set of challenges related to unsaleables.

The ***top unsaleables issues*** according to surveyed distributors are as follows:

- Manufacturer swell allowance/ARP, moving away from JIR
- Lack of manufacturer actions to reduce damage/lack of retail support/reduced research by manufacturers
- Expired/damaged product remaining on the store shelf
- Managing product discontinuations/new item failures/resets*
- Store-level accountability
- Lack of collaboration between trading partners (new)
- Bioterrorism Act and hazardous materials handling (new)

Regarding changes brought on by the Bioterrorism Act, most surveyed distributors report closer tracking of salvage sales, using third party processor documentation to comply, and disposing of waste differently. A few report changes are in progress.

* This issue was also reported by manufacturers.

Answers are listed in order of frequency of mention. The most frequently cited answers appear at the top of each list.

BENCHMARKS

Manufacturers

The following benchmarks are provided as references to companies interested in learning how their measures compare to industry averages. Individual companies must decide what levels are acceptable in their own situations and in consideration for several market factors, including trading partner relations.

These aggregates were calculated from data provided on separate questions and from several companies. All companies did not answer all questions.

Manufacturer Benchmarks as a Percentage of Gross U.S. Sales

0.52 percent	Invoice deductions for unsaleables.
0.20 percent	Adjustable rate allowance/swell allowance.
0.06 percent	Payments for reclamation center claims.
0.18 percent	Promotional funds for markdown programs.

Additional facts from the 2006 manufacturer survey are as follows:

- Nearly all (96 percent) surveyed manufacturers report unsaleables data are available to them by customer and used in their companies.
- About four of five manufacturers have and use unsaleables data by brand; 70 percent have and use data by SKU.
- Most (72 percent) manufacturers report about the same amount of resources (people, time, dollars) available to them for managing unsaleables this year versus last year.
- One-fourth of surveyed manufacturers report more resources this year. Two companies report fewer resources this year.

While two-thirds of surveyed manufacturers indicated that they produce private label (store brand) items, nearly one-quarter do not separately track unsaleables payments for those products. More than one quarter report no unsaleables payments for private label. Among the few reporting payments, the average is 1.8 percent of sales. Compared to the prior year, nearly all companies reported no change in this cost.

Distributors

The following benchmarks are provided as references to companies interested in learning how their measures compare to industry averages. Individual companies must decide what levels are acceptable in their own situations and in consideration for several market factors including trading partner relations.

These aggregates were calculated from data provided on separate questions and from several companies. All companies did not answer all questions.

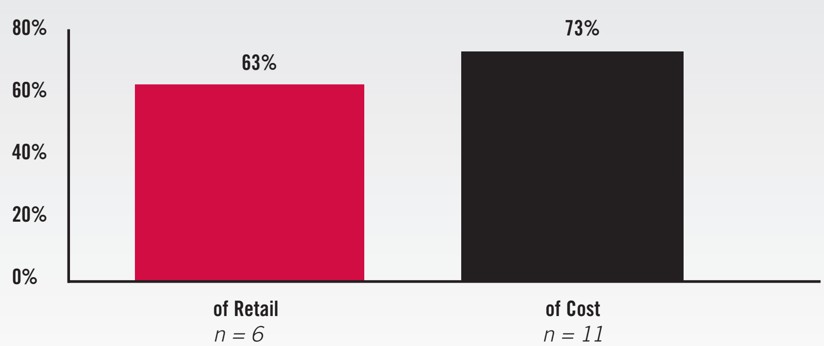
Distributor Benchmarks as a Percentage of U.S. Sales

0.45 percent	Invoice deduction receipts for unsaleables.
0.22 percent	Reclamation payments for unsaleables.
0.27 percent	Swell and adjustable rate allowance receipts for unsaleables.

Additional facts from the 2006 distributor survey are as follows:

- Half of surveyed distributors say that the amount of minor damage remaining on shelves has changed in recent years. Among those observing an increase, manufacturer swell allowances and ARPs are given as the reason. Those with decreases in credit increased focus on store-level operations.
- Most (75 percent) distributors report about the same amount of resources (people, time, dollars) available to them for managing unsaleables this year versus last year. One-fifth report more resources this year.
- Most (62) surveyed distributors use days-of-life-remaining and category standards to determine if inbound merchandise has adequate shelf life. Five use sales velocity.
- About one-fourth of surveyed distributors said that their stores marked down and sold more damaged goods to shoppers in the past year. None report selling less. Most said this practice did not change from 2004.
- Thirty percent of surveyed distributors reimburse stores at full cost for unsaleables; 20 percent use full retail. Others use a percentage.

Average Store Reimbursement for Unsaleables



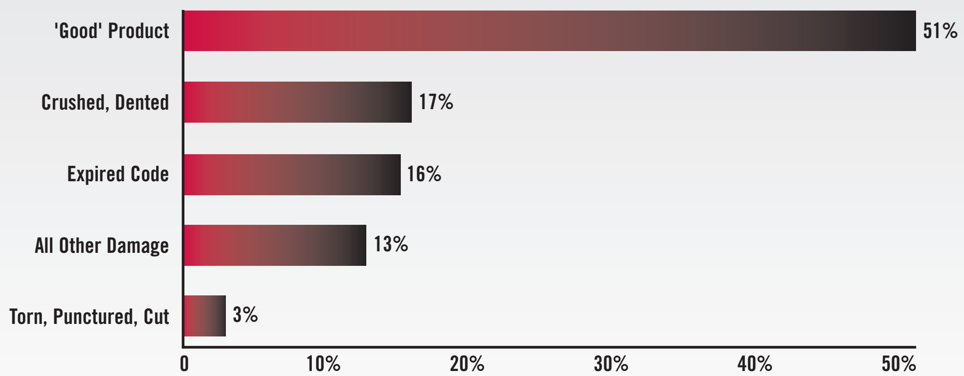
Note: Multiple answers

Service Providers

Five companies who provide unsaleables services to manufacturers participated in an adjunct survey. The goal of their participation was to expand the body of knowledge about unsaleables and to identify specific data benchmarks to which they could contribute. Service providers that contract with distributors were not included because that information was included in the distributor survey.

The Joint Industry Unsaleables Steering Committee observes that "good product" likely includes products discontinued by manufacturers, seasonal items and products delisted by distributors. Other "causes" of this condition are also likely. The steering committee also observes that the increase in the proportion of "good" product in the unsaleables supply chain reinforces several key issues reported earlier in this report. Manufacturers and distributors alike referenced as major challenges many of the "causes" believed to be behind this increase, including, but not limited to: Discontinued products, new item failures, PSE withdrawals, planogram changes, etc.

Reclaimed Product Condition
(% of all units processed in 2005)



Sources: CSCS — a CLS Company, Damage Recovery Systems, Genco Damage Research.

The sample size of five respondents is robust because each service provider's data represents several manufacturers. In total, these companies process about one-fifth of the projected total industry volume of unsaleables payments/claims. They also provide other services, for a smaller percentage of the total industry volume of unsaleables. While their responses are tempered by their individual client bases, they represent a broad slice across the reverse logistics supply chain. Individual clients define specifications that these companies use to accumulate these data.

It is important to note that without additional services these companies are not able to determine "causal" information such as where in the supply chain these products became crushed, dented or when they expired. Also, they cannot determine why some product is in good or saleable condition.

The five service providers submitted category-level data from their claims processing service data systems, based on category definitions developed for this survey. Each service provider aggregated item-level data into these broadly defined categories. The following table includes averages for categories where more than one service provider submitted data.

Totals and table averages are developed from all data submitted. Categories are excluded where less than two companies' data were submitted. These averages are representative of category-level data but should not be considered industry averages or benchmarks due to the limited sample of manufacturers.

Selected Category Averages from 2005 Unsaleables Claims

Category	# Mfrs	Claims $/unit	Percent Claims	Percent Units
Health and Beauty Care	26	$4.65	41.6 %	19.1 %
Soups, Sauces and Condiments	21	$1.45	6.4 %	9.4 %
Shelf Stable Beverages	18	$1.06	6.3 %	12.6 %
Other Dry Grocery	14	$2.23	5.6 %	5.4 %
Cookies, Crackers, Snacks, Candy	12	$0.88	4.8 %	11.5 %
Nutrition/Snack Bars	13	$2.03	4.8 %	5.0 %
Shelf Stable Vegetables & Fruits	13	$0.90	4.3 %	10.0 %
Household Cleaners, Soaps	7	$2.58	3.8 %	3.2 %
Vitamins and Supplements	6	$4.18	3.5 %	1.8 %
Frozen Entrees, Sides	10	$1.47	2.9 %	4.1 %
Cheese, Butter, Spreads	3	$1.43	1.7 %	2.6 %
Shelf Stable Mixes, Noodles, Rice	13	$1.06	1.5 %	3.0 %
Other Refrigerated	3	$1.89	1.0 %	1.1 %
Jams, Jellies, Peanut Butter	6	$1.98	0.7 %	0.8 %
Pet Food	5	$1.45	0.7 %	1.1 %
Shelf Stable Dressings	4	$1.73	0.6 %	0.8 %
Frozen Pizza	4	$1.71	0.5 %	0.7 %
Shelf Stable (Prepared) Meats	9	$1.08	0.5 %	0.9 %
Baking Products	9	$1.44	0.4 %	0.7 %
Frozen Vegetables, Fruits	2	$1.12	nm	nm
Total	**211**			
Mean		**$1.80**		
Wt Avg		**$2.13**		
Median		**$1.46**		

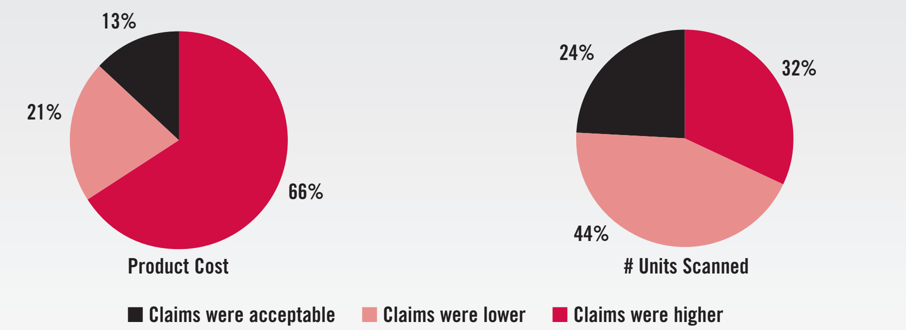
Sources: CSCS — a CLS Company, Damage Recovery Systems, Genco Damage Research, Strategic Solutions International, Wesley Associates.

Regarding the claims processing services performed by these companies for their clients, two questions were asked:

1. What were the variances against manufacturer policy cost for products versus what was on the claim?

2. What were the variances in the number of products scanned versus what was on the claim?

Total Claim Variances as a Percent of All 2005 Claims Processed



Sources: CSCS — a CLS Company, Damage Recovery Systems, Genco Damage Research, Strategic Solutions International, Wesley Associates.

Sources: CSCS — a CLS Company, Damage Recovery Systems, Genco Damage Research.

On average, these companies reported that 90 percent of the total dollars claimed on invoices they processed in 2005 was for the cost of the product (i.e., 10 percent was for various handling fees).

On open-ended questions, service providers echoed the observations of manufacturers and distributors regarding major industry issues surrounding unsaleables (i.e., new product introductions, discontinuations, slow movers, inventory management, disagreement on shared responsibility and policies). They also report increased attention to supply chain investigations of root causes and to documentation requirements for new state and federal regulations, including Sarbanes Oxley. Finally, they indicated increased tensions between trading partners around unsaleables handling cost recovery issues.

SUCCESSFUL PRACTICES

Summary of Practices from Surveys

In a continuing effort to provide new information that can be acted upon by companies interested in reducing the incidence and quantities of unsaleable products in the supply chain, the Joint Industry Unsaleables Steering Committee launched the Innovation Awards at the 2004 Joint Industry Unsaleables Management Conference. Individual companies, often in tandem with a trading partner, receive industry recognition for their actions that improve unsaleables management.

This year's Unsaleables Benchmark Survey included questions aimed at the same objective – to identify best practices in unsaleables management. Distributors were each asked to identify a manufacturer who has made progress reducing unsaleables costs and to describe what the manufacturer has done. Manufacturers were asked similar questions about distributors.

The following thumbnail descriptions are taken from the survey responses. Some overlap is expected with the Innovation Awards which will be determined after the publication of this report. The distributor and manufacturer lists are ranked by frequency of mention. The most frequently cited companies appear first.

Manufacturers described the following ***retailers' successful practices***. All of these retailers received multiple mentions.

Retailer A	Collaborates directly with manufacturers to improve packaging, case design, pallet configuration, loading practices. Has a full-time unsaleable manager/liaison with manufacturers. Made operational changes and increased store accountability.
Retailer B	Committed to markdown programs to sell through stores versus send to reclamation. Reimburses stores at less than full retail. Shares unsaleables data. Follows manufacturers policies.
Retailer C	Senior executives are focused on unsaleables. Uses store markdowns versus reclamation for warehouse discontinueds. Retail operations actively engaged in managing returns and discontinueds.
Retailer D	Established store-level metrics for unsaleables. Ties compensation to goal achievement.
Retailer E	Shares responsibility for discontinueds. Improved markdown program and tracking system capabilities.

All five of these retailers are supermarket operators. In addition, one wholesaler, one discounter, one chain drug and one supermarket operator were each mentioned by one manufacturer.

Distributors and service providers described the following ***manufacturers' successful practices***.

Manufacturer A	Maintains a continuous focus on packaging improvements to reduce damage. Ships with sufficient shelf life. Conducts supply chain audits, stays in-touch with real world distribution issues.
Manufacturer B	Collaborates with retailers, manages discontinuation and improves packaging.
Manufacturer C	Focuses on packaging and case design improvements.
Manufacturer D	Testing new packaging to reduce pilferage and other forms of inventory shrink.
Manufacturer E	Conducts supply chain reviews. Developed ARP program with separate program for discontinueds.

Case Studies

The following case studies were assembled through confidential interviews with companies. Survey respondents recommended the case study examples for their work to reduce the incidence of unsaleable products.

Case Study 1 — Manufacturer
This manufacturer uses a closed-loop return authorization process to manage all unsaleables. The loop includes the customer, a service provider (who maintains the database and supporting systems) and a less-than-truckload (LTL) carrier when small quantities are involved. For most returns, the service provider picks up the product, scans the returns and matches the data to a return authorization form sent by the customer. The manufacturer reports greater compliance with the policy and improved accuracy of claims. Most customer claims are settled within 30 days.

Case Study 2 — Retailer
This retailer has been actively managing unsaleables root causes for several years. One reason for the retailer's success is a dedicated person responsible for unsaleables, who is the contact both internally and externally. Working with a service provider who operates the reclamation center, maintains the scan database and provides management reports, the unsaleables coordinator applies the techniques of continuous process improvement. One example is a change in store reimbursement from full retail to a percentage. As a result, store-level unsaleables were cut in half.

Another example of process change implemented by this retailer was in the warehouse. Damaged packages are removed from cases in the warehouse and tracked separately. The undamaged packages are repacked and shipped to stores. In turn, annual reductions in warehouse damage are well into six figures.

Case Study 3 — Manufacturer
This manufacturer's production division spearheads a cross-functional damage reduction initiative that focuses on package type. The investment in time and resources began five years ago with an extensive data enhancement project. All products were categorized by package type and databases were modified to accommodate extra descriptive fields. An outside service provider conducts supply chain inspections for damage and loads their observations into the database. A cross-functional team meets regularly to evaluate new observations and to follow the path to root cause. Annual double-digit percentage declines have been posted since the program began. Another benefit involves the ability to cost-justify equipment purchases on a broader basis by including forecasts for further damage reduction.

Case Study 4 — Retailer
This retailer focuses on inventory management improvements to reduce the quantity of expired products. Ordering parameters have been adjusted for stores and certain products have been discontinued; others have had space reductions. Metrics used by this retailer include inventory turns, unsaleables percent-of-sales and unsaleables percent-of-purchases. A cross-functional team is central to the corporate focus on inventory and unsaleables management. It is led by an unsaleables manager. Data mining and analysis are extensively used by the team and are shared with manufacturers.

Case Study 5 — Manufacturer
This manufacturer has been using customer P&Ls for several years. Unsaleables is one of the biggest impact line-items on the P&L. A customer incentive program includes unsaleables and returns goals in ranges. Savings are based on where the customer's results fall in the range. Savings are shared with customers. Other criteria-based programs also use the unsaleables efficiency measures.

Case Study 6 — Retailer
This retailer tracks warehouse-level allowances and credits stores for some of that revenue at the beginning of each period. No effort is made to remove damaged packages from partially damaged cases shipped to stores. Extremely damaged cases are not shipped. Store inventory shrink measurements include unsaleables. Stores who do not "spend" all of their credits often elect to run additional advertising events.

RELATED INITIATIVES AND RESOURCES

The "JIR Revisited" Project

At the January 2005 mutual meeting of their boards of directors, FMI and GMA were instructed to charge their Joint Industry Unsaleables Steering Committee with revising existing guidelines for industry practices influencing the products that become unsaleable in the supply chain.

The Unsaleables Leadership Task Force was formed to work on this project. Their report was delivered at the mutual meeting of FMI and GMA boards of directors in January 2006. *Improving Unsaleables Management Business Practices – Joint Industry Recommendations* contains the following:

- An assessment of the 1990 JIR by the current Unsaleables Leadership Task Force;
- A summery of the significant changes in industry practices and conditions since 1990;
- The task force's perspectives on the implications and consequences if reclamation centers ceased operations and the impact of industry consolidation;
- An in-depth assessment of the relatively new ARP method of unsaleables management with detailed voluntary recommendations for developing and maintaining an ARP; and
- Focused evaluations of five key issues surrounding unsaleables management and trading partner relations along with recommendation for resolution.

For a copy of the report, contact Pat Walsh, Director, Industry Relations, Food Marketing Institute, 655 15th Street, NW, Suite 700, Washington, DC 20005 or Karin Croft, Senior Director, Industry Affairs, Grocery Manufacturers Association, 2401 Pennsylvania Ave., NW, 2nd Floor, Washington, DC 20037.

Unsaleables Update

A newsletter for unsaleables managers has been offered since 2000 by GMA. It is published periodically and is available free by email at: www.gmabrands.com or by calling the Industry Affairs Department at 202-337-9400.

Joint Industry Unsaleables Management Conference

Mid-July marks the time when manufacturers, distributors and service providers gather to hear and share new information about unsaleables costs and controls. The event changes venue each year and is sponsored by the Joint Industry Unsaleables Steering Committee representing GMA and FMI, in partnership with National Association of Chain Drug Stores and Consumer Healthcare Products Association. For more information, contact one of the associations.

Unsaleables Service Providers

The following companies provide various services in unsaleables and returned goods management in the U.S. for distributors or manufacturers.

American Processing, Inc.
3813-A Forrestgate Drive
Winston-Salem, NC 27103
(336) 659-8828

Carolina Logistics, Inc.
2601 Pilgrim Court
Winston-Salem, NC 27106
(800) 765-1277

Carolina Supply Chain Services -
a CLS Company
2601 Pilgrim Court
Winston-Salem, NC 27106
(336) 631-7663

Damage Recovery Systems, Inc.
31 Robinson Street
Pottstown, PA 19464
(610) 327-1133

Gelco Information Network
10700 Prairie Lakes Drive
Eden Prairie, MN 55344
(800) 707-5793

GENCO Distribution Systems
100 Papercraft Park
Pittsburgh, PA 15238
(800) 677-3110

Guaranteed Returns
100 Colin Drive
Holbrook, NY 11741
(800) 473-2138

ReTurn Inc.
100 West Lake Street
Wayzata, MN 55391
(952) 475-0242

Stericycle Inc.
28161 N. Keith Drive
Lake Forest, IL 60045
(847) 367-5910

Strategic Solutions International, Inc.
3075 Citrus Circle, Suite 135
Walnut Creek, CA 94598
(925) 979-1233

Wesley Associates Business Consultants, Inc.
28 South Broad Street
Nazareth, PA 18064
(610) 759-6502/6690

APPENDICES

Acknowledgements

The following companies participated in the 2006 Unsaleables Benchmark Survey.

Manufacturers
Alberto-Culver Company
Birds Eye Foods, Inc.
Bush Brothers & Company
C.H. Guenther & Son, Inc.
Campbell Soup Company
Chicken of the Sea International
Church & Dwight Company, Inc.
The Clorox Company
CNS Inc.
Coca-Cola North America
Colgate-Palmolive Company
ConAgra Foods Inc.
Del Monte Foods Company
The Dial Corporation
Faultless Starch / Bon Ami Company
General Mills, Inc.
Georgia-Pacific Corporation
Gerber Products Company
GlaxoSmithKline Consumer Healthcare
H.J. Heinz Company, North America
The Hershey Company
Hormel Foods Corporation
The J.M. Smucker Company
Kellogg Company
Kimberly-Clark Corporation
Kraft Foods Inc.
Land O'Lakes, Inc.
Masterfoods USA
McCormick & Company, Inc.
Mead Johnson Nutritionals
Nature's Earth Products, Inc.
Nestlé Purina PetCare Co.
Nestlé USA, Inc.
Novartis Consumer Health
Ocean Spray Cranberries Inc.
Oregon Fruit Products Co.
PepsiCo Beverages & Foods
Pharmavite LLC
Playtex Products, Inc.
The Procter & Gamble Dist. Company
Reckitt Benckiser Inc.
Reily Foods Company
Ross Products Division, Abbott Laboratories
S.C. Johnson & Son, Inc.
Sun-Maid Growers of California
Tree Top, Inc.
Unilever Foods North America
Unilever Home and Personal Care, USA
Welch Foods, Inc.
Wm. Wrigley Jr.Company
Wyeth Consumer Healthcare

Distributors
Albertsons, Inc.
Associated Food Stores, Inc.
Bozzuto's, Inc.
Brookshire Grocery Company
CVS Corporation
Food Lion, LLC
Hannaford Bros. Company
Harris Teeter. Inc.
H-E-B Grocery Company
Kash n' Karry/Sweet Bay
K-VA-T Food Stores, Inc.
Merchants Distributors, Inc.
Nash Finch Company
Publix Super Markets, Inc.
Rite Aid Corporation
Safeway Inc.
Spartan Stores, Inc.
SUPERVALU, Inc.
Walgreen Co.
Winn-Dixie Stores, Inc.

Service Providers
Carolina Supply Chain Services, a CLS Company
Damage Recovery Systems, Inc.
GENCO Damage Research
Strategic Solutions International, Inc.
Wesley Associates Business Consultants, Inc.

QUESTIONNAIRES

2006 UNSALEABLES BENCHMARK SURVEY — MANUFACTURERS

Sponsored by Grocery Manufacturers Association and Food Marketing Institute

Please return to Raftery Resource Network via U.S. mail or fax by February 24, 2006 (see page 4).

GMA and FMI members on the Joint Industry Unsaleables Steering Committee request your support in the annual industry unsaleables benchmark survey. The purpose of the survey is to provide meaningful information to companies interested in reducing the quantity of unsaleables in the supply chain. All data collected in this survey are reported as aggregates; individual company data are held confidential by Raftery Resource Network, the independent consulting firm conducting the survey. No individual company data will be published.

Participants receive a complimentary copy of the final report in July.

Company Name: ______________________________

Address: ______________________________

____

Your Name: ______________________________

Your Title: ______________________________

Your Phone: (   ) ______________________________

Your e-mail: ______________________________

Instructions

Please use the following definition **for all questions about unsaleables and sales data.**

Unsaleables Data Definition

Include	Exclude
Warehouse delivered products	Full case returns DSD products, fresh meat, bakery, produce, deli.
Deductions (cleared)	Payments for markdown programs
Payments for reclamation claims	Open deductions (not cleared).
Store claims or credits	
Swell and adjustable rate allowances	
U.S. customers	Non-U.S. customers

Use data from your most recent fiscal year, if you do not maintain calendar year data.

Please answer all the questions to the best of your ability but do not estimate your answers. Answer as many questions as you can. Call Dan Raftery directly (847-838-1177) if you have questions.

1. What were your **total annual payments** to customers f**or unsaleables**? *See definition above.*
   2005 Unsaleables payments $A______________ ❑ C Check here if unknown.
   2004 Unsaleables payments $B______________ ❑ D Check here if unknown.

2a. Please indicate **which components are included** in your total 2005 payments to customers and the amount, if known.

Check all that apply

2b. Versus last year this is:

❑A Deductions	$________________	❑ F Check here if unknown.	1	❑ Higher	❑ Lower	❑ Same
❑B Reclamation payments	$________________	❑ G Check here if unknown.	2	❑ Higher	❑ Lower	❑ Same
❑C Store claims	$________________	❑ H Check here if unknown.	3	❑ Higher	❑ Lower	❑ Same
❑D Swell	$________________	❑ I Check here if unknown.	4	❑ Higher	❑ Lower	❑ Same
❑E Adjustable rate allowances	$________________	❑ J Check here if unknown.	5	❑ Higher	❑ Lower	❑ Same

3. What were your **total annual gross sales** to U.S. customers for the same time period? (Warehouse delivered products only, exclude DSD. Also exclude fresh meat, bakery, produce and deli.)

2005 Gross sales $A__________________

2004 Gross sales $B__________________

4a. What percentages of your 2005 unsaleables and sales were for private label (store brand) products?

4b. Versus last year this is:

A__________% of 2005 total unsaleables payments (from Question 1A)	❑ A Higher	❑ B Lower	❑ C Same	❑ D Check here if unknown.
B__________% of total U.S. 2005 gross sales (from Question 3A)	❑ D Higher	❑ E Lower	❑ F Same	❑ E Check here if unknown.

❑ C Check here if you do not manufacture private label (store brand) products.

5. Do you have a **Return Authorization process** for full case returns?

❑ A Yes -> When was it published? C __________(year) Which products? ❑ D All ❑ E Some

❑ B No -> Why not? (check all that apply).

- ❑ F We accept all customer returns.
- ❑ G Returns are handled on a case-by-case basis.
- ❑ Other H ____

6a. What were your **total annual payments for full case returns** from customers?

2005 Returns payments $A__________________ ❑ C Check here if unknown.

2004 Returns payments $B__________________ ❑ D Check here if unknown.

6b. Where did these products go? *Check all that apply*

❑ A Salvage/closeout	H__________%	❑ O Check here if unknown.
❑ B Special customers	I__________%	❑ P Check here if unknown.
❑ C Donation	J__________%	❑ Q Check here if unknown.
❑ D Destroyed	K__________%	❑ R Check here if unknown.
❑ F Active inventory	L__________%	❑ S Check here if unknown.
❑ Other G______________	M__________%	❑ T Check here if unknown.
	Total: 100 %	

7. Do you have a policy for **product discontinuation** procedures?

❑ A Yes -> When was it published? C __________(year)

❑ B No -> Why not? (check all that apply).

- ❑ D Discontinueds are covered in our terms of sale.
- ❑ E Discontinueds are handled on a case-by-case basis.
- ❑ F Discontinueds are included in new product offerings.
- ❑ Other G ____

8. What was your **total annual cost of promotional funds for markdown programs?**
2005 Markdown payments $A____________ ❑ C Check if unknown.
2004 Markdown payments $B____________ ❑ D Check if unknown.

9. Please provide **channel specific unsaleables payments** and **gross sales** for 2005.
(See Data Definition, page 1.)

Retail Channel	Unsaleables Payments $	Gross Sales $
Supermarket *	A	H
Drug Store	B	I
Mass Merchandiser	C	J
Convenience Store*	D	K
Club Store	F	L
Other:	G	M

* Include retailers and wholesalers
Totals (must match Q1 and Q3) TU_________________ TS_________________

10. Please indicate all levels of **unsaleables data** that are available and that are actively used in your company.

Data available
❑ A by customer
❑ B by brand
❑ C by SKU
❑ D None of the above

Data used
❑ E by customer
❑ F by brand
❑ G by SKU
❑ H None of the above

11. How do your current **resources for managing unsaleables** compare to what they were a year ago? (Include people, time, dollars available to manage unsaleables).

❑A We have more resources ❑ B We have fewer resources ❑ C Resources are about the same

11b. Across all departments and including yourself, how many **Full Time Equivalents** (40 hrs/week) are involved in unsaleables processes, procedures and management? (Include accounting, sales, quality, distribution, etc).
__________ FTEs.

12. To what degree do you use each of the following **unsaleables management practices**? *Check one box for each practice.*

Always	Often	Sometimes	Never	
❑ A	❑ B	❑ C	❑ D	Conduct supply chain inspections using internal resources. Number of times in 2005 E __________
❑ F	❑ G	❑ H	❑ I	Conduct supply chain inspections using third party service providers. Number of times in 2005 J ___________
❑ K	❑ L	❑ M	❑ N	Collaborate with customers.
❑ O	❑ P	❑ Q	❑ R	Improve shipping practices.
❑ S	❑ T	❑ U	❑ V	Improve packaging materials.
❑ W	❑ X	❑ Y	❑ Z	Maintain a cross-functional team.
❑ AA	❑ BB	❑ CC	❑ DD	Pick-up unsaleables at reclamation.
❑ EE	❑ FF	❑ GG	❑ HH	Customer P&L includes unsaleables.
❑ II	❑ JJ	❑ KK	❑ LL	Brand P&L includes unsaleables.
❑ MM	❑ NN	❑ OO	❑ PP	New product launches include markdown funds.
❑ QQ	❑ RR	❑ SS	❑ TT	New product launches include unsaleables benchmarks.

13. What do you believe was the **major force driving change** in unsaleables costs between 2004 and 2005 **for your company?**

____

____

14. What do you believe is the **major unsaleables challenge facing your company** in 2006?

____

____

15. What do you believe are the **top three issues in unsaleables** facing the industry today?
    1. ____
    2. ____
    3. ____

Please name a customer who you believe has made progress reducing unsaleables costs and briefly describe what the customer has done. (This information will be used to conduct further research into "best practice" case studies).

Customer: A____
How this customer reduces unsaleables costs: B____

____

Thank you for taking the time to answer this important questionnaire.
Your responses will be held in strictest confidence by Raftery Resource Network.

2006 UNSALEABLES BENCHMARK SURVEY — DISTRIBUTORS

Sponsored by Food Marketing Institute and Grocery Manufacturers Association.

Please return to Raftery Resource Network via U.S. mail or fax by February 24, 2006 (see page 5).

FMI and GMA members on the Joint Industry Unsaleables Steering Committee request your support in the annual industry unsaleables benchmark survey. The purpose of the survey is to provide meaningful information to companies interested in reducing the quantity of unsaleables in the supply chain. All data collected in this survey are reported as aggregates; individual company data are held confidential by Raftery Resource Network, the independent consulting firm conducting the survey. No individual company data will be published.

Participants receive a complimentary copy of the final report in July.

Company Name: ______________________________

Address: ______________________________

____

Your Name: ______________________________

Your Title: ______________________________

Your Phone: (   ) ______________________________

Your email: ______________________________

Instructions

Please use the following definition **for all questions about unsaleables and sales data.**

Unsaleables Data Definition

Include	Exclude
Warehouse delivered products	Full case returns DSD products, fresh meat, bakery, produce, deli
Deductions	Payments for markdown programs
Payments for reclamation claims	
Store claims or credits	
Swell and adjustable rate allowances	
U.S. sales	Sales outside of the U.S.

Use data from your most recent fiscal year, if you do not maintain calendar year data.

Please answer all the questions to the best of your ability but do not estimate your answers. Answer as many questions as you can. Call Dan Raftery directly (847-838-1177) if you have questions.

2. What were your **total annual gross costs for unsaleables?** (Include store, warehouse, reclamation and salvage expenses)
See the Unsaleables Data Definition box above.
2005 Unsaleables costs $A______________ or C_______% ❑ F Check here if unknown.
2004 Unsaleables costs $B______________ or D_______% ❑ G Check here if unknown.

3. What were your **total annual receipts** from manufacturers **for unsaleables**?
See the Unsaleables Data Definition box above.
2005 Unsaleables receipts $A__________________ ❑ C Check here if unknown.
2004 Unsaleables receipts $B__________________ ❑ D Check here if unknown.

3a. Please indicate **which components are included** in your total 2005 receipts from manufacturers and the amount, if known.

Check all that apply.	*Fill in where possible*	
❑ A Deductions	$F________________	❑ K Check here if unknown.
❑ B Reclamation payments	$G________________	❑ L Check here if unknown.
❑ C Store claims	$H________________	❑ M Check here if unknown.
❑ D Swell allowances	$I________________	❑ N Check here if unknown.
❑ E Adjustable rate allowances	$J________________	❑ O Check here if unknown.

3b. What was your 2005 **payment gap** (receipts vs. cost) for each component?

	Fill in where possible		
Deductions	$A_______________	or F______%	❑ K Check here if unknown.
Reclamation payments	$B_______________	or G______%	❑ L Check here if unknown.
Store claims	$C_______________	or H______%	❑ M Check here if unknown.
Swell allowances	$D_______________	or I______%	❑ N Check here if unknown.
Adjustable rate allowances	$E_______________	or J______%	❑ O Check here if unknown.

4. What were your **total annual gross U.S. sales** for the same time period? (Warehouse delivered products only, exclude DSD if possible Also exclude fresh meat, bakery, produce and deli). ❑ O Check if this includes DSD.
2005 Gross sales $A_______________ ❑ C Check if you cannot provide this data.
2004 Gross sales $B_______________ ❑ D Check if you cannot provide this data.

5a. What percentages of your 2005 unsaleables and sales were for **private label** (store brand) products?
5b. Versus last year this is :
A_______% of total 2005 gross costs for unsaleables (from Question 1A) ❑ A Higher ❑ B Lower ❑ C Same
❑ D Check here if unknown.
B_______% of total 2005receipts from manufacturers for unsaleables (from Ques 2A) ❑ A Higher ❑ B Lower ❑ C Same
❑ D Check here if unknown.
C_______% of total 2005 gross sales (from Question 4A) ❑ A Higher ❑ B Lower ❑ C Same
❑ D Check here if unknown.

6. Please provide **department specific unsaleables receipts** for 2005. Provide data in dollars, if possible. *(See Unsaleables Data Definition on page 1).*

Retail Department	Unsaleables Costs $ or %
Edible Shelf-Stable Dry Grocery*	A
Non-Edible Shelf-Stable Dry Gro	B
Refrigerated Grocery (Dairy)	C
Frozen Grocery	D
General Merchandise	E
Health and Beauty Aids	F
	❑ G Check here if department data are unknown.

7. Do you have a policy for product discontinuation procedures?
❑ A Yes -> When was it published? C __________(year)
❑ B No -> Why not? (check all that apply).
❑ D Discontinueds are handled on a case-by-case basis.
❑ Other E ____

8. How do you **reimburse stores** for unsaleables? *Check all that apply.*
❑ A Full retail or C ________% of retail ❑ B Full cost or D ________% of cost

9. In the past year, have your store practices changed for marking down and selling damaged goods to shoppers?
❑ A No
❑ B Yes -> How? ❑ C Stores *sell more* damaged goods to shoppers ❑ D Stores *sell less* damaged goods to shoppers

10. Do your stores **keep or send to reclamation** products that are covered under ARP or swell allowances? *Check one only.*
❑ A Stores keep most or all ARP/swell products.
❑ B Stores send most or all ARP/swell products to reclaim.

11a. Which statement best describes how your **standards for shelf conditions** may have changed over the last few years?
Check one only. ❑ C Check here if the amount of minor damage on the shelf is about the same.
❑ A Less minor damage remains on the shelf now.
❑ B More minor damage remains on the shelf now.

11b. Why has this changed? ____

12. Over the last few years, have you seen a change in the **number of categories covered by ARP or swell allowance** vendor policies?
❑ A No
❑ B Yes -> How has this changed? ❑ C Check if number increased. ❑ D Check if number decreased.

13. Which methods do you use to determine if an inbound product has adequate shelf life? *Check all that apply.*
❑ A Number of days of life remaining. ❑ B Sales velocity. ❑ C Category receiving standards.
❑ Other D ______________________________

14. Please indicate all levels of **unsaleables data** that are available and that are actively used in your company.

Data available
- ❑ A by vendor
- ❑ B by department
- ❑ C by category
- ❑ D by store
- ❑ E None of the above

Data used
- ❑ F by vendor
- ❑ G by department
- ❑ H by category
- ❑ I by store
- ❑ J None of the above

15a. How do you share unsaleables data with vendors? *Check all that apply.* How often does this occur?

	15b. Number of occurrences in 2005	15c. Versus last year this is:
❑ A During routine category reviews.	A ________	❑ A Higher ❑ B Lower ❑ C Same
❑ B During special vendor performance meetings	B ________	❑ D Higher ❑ E Lower ❑ F Same
❑ C Upon request by vendor.	C ________	❑ G Higher ❑ H Lower ❑ I Same
❑ D We choose to not share this data with vendors.		
❑ E No vendors have expressed an interest in this data.		

16. To what degree do you use each of the following **unsaleables management practices**: *Check one box for each practice.*

Always	*Often*	*Sometimes*	*Never*	
❑ A	❑ B	❑ C	❑ D	Use pictures of supply chain problems.
❑ E	❑ F	❑ G	❑ H	Communicate unsaleables data to stores.
❑ I	❑ J	❑ K	❑ L	Communicate unsaleables data to vendors.
❑ M	❑ N	❑ O	❑ P	Provide advance notice to vendors ______ days before discontinuing products.
❑ Q	❑ R	❑ S	❑ T	Track unsaleables in vendor report cards.
❑ U	❑ V	❑ W	❑ X	Track unsaleables in product P & Ls.

17a. How do your current **resources for managing unsaleables** compare to what they were a year ago? (Include people, time, dollars available to manage unsaleables).

❑ A We have more resources ❑ B We have fewer resources ❑ C Resources are about the same

17b. Across all departments and including yourself, how many **Full Time Equivalents** (40 hrs/week) are involved in unsaleables processes, procedures and management? (Include accounting, reclamation, third parties)

__________ FTEs.

18. Has the **"Bioterrorism Act"** changed anything that your company does with unsaleables? *Check one only.*
- ❑ A No
- ❑ B Yes -> Describe D ____
- ❑ C Check here if unknown.

19. What do you believe was the **major force driving change** in unsaleables costs between 2004 and 2005 **for your company?**

____

20. What do you believe is the **major unsaleables challenge facing your company** in 2006?

____

21. What do you believe are the **top three issues in unsaleables** facing the industry today?

1. ____

2. ____

3. ____

Please name a manufacturer who you believe has made **progress reducing unsaleables costs** and briefly describe what the manufacturer has done. (This information will be used to conduct further research into "best practice" case studies).

Manufacturer: A_______________________________

How this manufacturer reduces unsaleables costs: B_______________________________

____

____

____

Thank you for taking the time to answer this important questionnaire.

Your responses will be held in strictest confidence by Raftery Resource Network.

2006 UNSALEABLES BENCHMARK SURVEY — SERVICE PROVIDERS

Sponsored by Grocery Manufacturers Association and Food Marketing Institute

Please return to Raftery Resource Network via U.S. mail or fax by February 24, 2006 (see page 3).

GMA and FMI members on the Joint Industry Unsaleables Steering Committee request your support in the annual industry unsaleables benchmark survey. The purpose of the survey is to provide meaningful information to companies interested in reducing the quantity of unsaleables in the supply chain. All data collected in this survey are reported as aggregates; individual company data are held confidential by Raftery Resource Network, the independent consulting firm conducting the survey. No individual company data will be published.

Participants receive a complimentary copy of the final report in July.

Company Name: ______________________________

Address: ______________________________

____

Your Name: ______________________________

Your Title: ______________________________

Your Phone: (   ) ______________________________

Your email: ______________________________

Instructions

Please use the following definition for all questions about unsaleables data.

Unsaleables Data Definition

Include	Exclude
Warehouse delivered products	All DSD products, full case returns
Deductions	Payments for markdown programs
Payments for reclamation claims	
Store claims or credits	
Swell and adjustable rate allowances	
U.S. customers	Non-U.S. customers

Use data from calendar year 2005.

Please answer all the questions to the best of your ability but do not estimate your answers. Answer as many questions as you can. Call Dan Raftery directly (847-838-1177) if you have questions.

Using data from your **claims processing** service, please provide total annual dollars and units for as many of the following categories as possible. Also include total annual gross sales provided by your clients that match the claims data. Finally, please enter two sample sizes for each category: the number of manufacturers and the number of products in your data.

Note: Include only those claims data for which you report grosses sales data. Remember, your data will be used in aggregate to create category level industry benchmarks. Accuracy is required.

Category	Total Claims $	Total Claims Units	Total Gross Sales $	# Mfrs	# Products
Breakfast Cereal (Hot and Cold)	B2	C2	D2	E2	F2
Nutrition/Snack Bars	B3	C3	D3	E3	F3
Shelf Stable Beverages	B4	C4	D4	E4	F4
Shelf Stable Vegetables and Fruits	B5	C5	D5	E5	F5
Soups, Sauces and Condiments	B6	C6	D6	E6	F6
Jams, Jellies, Peanut Butter	B7	C7	D7	E7	F7
Shelf Stable Dressings	B8	C8	D8	E8	F8
Shelf Stable (Prepared) Meats	B9	C9	D9	E9	F9
Baking Products	B10	C10	D10	E10	F10
Shelf Stable Mixes, Noodles, Rice	B11	C11	D11	E11	F11
Cookies, Crackers, Snacks, Candy	B12	C12	D12	E12	F12
Paper Products	B13	C13	D13	E13	F13
Pet Food	B14	C14	D14	E14	F14
Household Cleaners, Soaps	B15	C15	D15	E15	F15
Other Dry Grocery	B16	C16	D16	E16	F16
Health and Beauty Care	B17	C17	D17	E17	F17
Vitamins and Supplements	B18	C18	D18	E18	F18
Refrigerated Beverages	B19	C19	D19	E19	F19
Yogurt	B20	C20	D20	E20	F20
Cheese, Butter, Spreads	B21	C21	D21	E21	F21
Refrigerated dough, pastries	B22	C22	D22	E22	F22
Other Refrigerated	B23	C23	D23	E23	F23
Frozen Entrees, Sides	B24	C24	D24	E24	F24
Frozen Pizza	B25	C25	D25	E25	F25
Frozen Vegetables, Fruits	B26	C26	D26	E26	F26
Frozen Desserts	B27	C27	D27	E27	F27
Other Frozen	B28	C28	D28	E28	F28

2. For **all claims** that you **verified against manufacturer policy** in 2005, what were the average **dollar** variances?

For product cost verification:

A______% higher than policy cost (# claims D________)
B______% lower than policy cost (# claims E________)
C______% within acceptable limits (# claims F________)

3. For **all claims** that you processed in 2004, please provide the following breakout of the total dollars claimed.

Total $ for product cost $A________________.
Total $ for "JIR" type (cents) handling fee $B________________.
Total $ for percent type handling fee $C________________.
Other D______________________________ $E________________.

4. Using data from your **product scanning service** (excluding hidden damage supply chain audits), please provide total annual dollars and units for the following major conditions. Please aggregate all of your detailed conditions data into these major categories.

Product Condition	Total 2004 $	Total 2004 Units
Crushed or dented	A	F
Torn, punctured or cut	B	G
All other damage	C	H
Out-of-date (expired)	D	I
No apparent damage	E	J

5. For all of the **products that you scanned** in 2005 and **validated against claims**, what were the average variances?

A___________________% higher than claims (Number of claims D__________)
B___________________% lower than claims (Number of claims E__________)
C___________________% within acceptable tolerance (Number of claims F__________)

6. What do you believe was the **major force driving change** in unsaleables costs between 2004 and 2005 for your clients?

____

____

7. Please name a client who you believe has made **progress reducing unsaleables costs** and briefly describe what the client has done.

Client: A ____

How this client reduces unsaleables costs: B ________________________________

____

8. What do you believe are the t**op three issues in unsaleables** facing the industry today?

1.____
2.____
3.____

Thank you for taking the time to answer this important questionnaire.
Your responses will be held in strictest confidence by Raftery Resource Network.

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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.

America's Second Harvest — The national network of local food banks that administers operating standards and guidelines while assisting in the distribution of products to the needy.

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.

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

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.

Out-of-Code (Date) — Product that has "expired" based on the date code printed on the package or case. "Open—coded" means readable by consumers; "closed—coded" means unreadable by consumers. Manufacturers determine the code date based on quality and production parameters.

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.

Pre-Damage Direct Product Cost — These handling and storage costs occur before damage is identified as an item moves through retail distribution. They include costs incurred at the warehouse, during transportation to the store, and at the store itself. Store costs for retail shelf space, checkout and bagging are excluded.

Post-Damage Handling Costs — These costs typically occur after damage to the item has been identified in the store and before it arrives at the reclamation center if it is sent there.

Reclamation Center — A collection point for damaged goods and other unsaleables, often affiliated with a warehouse distribution center. In these facilities, physical processing occurs, invoices are created, data are captured and disposition is managed.

Reimbursement — Generally refers to the manufacturer's payment to a distributor or sales agent for an invoice for unsaleables. Sales agents may also reimburse stores 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 distributors' 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 unsaleables product such as crushed, dented, soiled, out-of-date. Standard industry definitions are 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 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.

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