Food Distributors International is a trade association comprised of food distribution companies that supply and service independent grocers and foodservice operations throughout the United States, Canada, and 19 other countries. The association and its foodservice partner, the International Foodservice Distributors Association (IFDA), have 227 member companies that operate 1244 distribution centers with a combined annual sales volume of $170 billion. IFDA represents member firms that annually sell $48 billion in food and related products to restaurants, hospitals, and other institutional foodservice operations.

The Food Marketing Institute (FMI) is a nonprofit association conducting programs in research, education, industry relations, and public affairs on behalf of its 1,500 members including their subsidiaries — food retailers and wholesalers and their customers in the United States and around the world. FMI’s domestic member companies operate approximately 21,000 retail food stores with a combined annual sales volume of $300 billion — three-quarters of all grocery store sales in the United States. FMI’s retail membership is composed of large multi-store chains, small regional firms, and independent supermarkets. Its international membership includes 200 members from 60 countries.

GMA is the world’s largest association of food, beverage, and consumer product companies. With U.S. sales of more than $460 billion, GMA members employ more than 2.5 million workers in all 50 states. The organization applies legal, scientific, and political expertise from its member companies to vital food, nutrition, and public policy issues affecting the industry. Led by a board of 42 Chief Executive Officers, GMA speaks for food and consumer product manufacturers at the state, federal and international levels on legislative and regulatory issues. The association also leads efforts to increase productivity, efficiency, and growth in the food, beverage, and consumer products industry.

Price
$20   FDI, FMI, GMA members
$40   Non-members

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This white paper is written for marketing executives, unsaleables managers and all disciplines in the food retailing and consumer packaged goods industry supply chain that make decisions about or take action on discontinued products.

For those readers unfamiliar with industry terminology relating to discontinued products, definitions used in this white paper are on page 4.

Case studies of key terms in this white paper describe how some companies have successfully managed product discontinuation or at least markedly improved the process. They are offered as suggestions for other companies to consider.
INTRODUCTION

In December 2000, the Joint Industry Unsaleables Steering Committee (JIUSC) turned its attention to the product discontinuation process as part of its mandate to provide the food industry with information that can be used to reduce the incidence and costs of unsaleables.

The JIUSC recognized that developing an efficient process for handling discontinued items is extremely important for all segments of the industry. Discontinued items take up precious shelf and warehouse space for all companies in the supply chain. They also present other, more complex challenges. For example, a retailer operating stores of various sizes may have out-of-stock conditions in some stores and overstock conditions in other stores for the same discontinued item. In another example, a manufacturer may have high inventory levels of raw materials and packaging for some items, but not others, in a line of products being discontinued in an effort to improve efficiencies in this part of the supply chain.

In view of these challenges, the JIUSC concluded that the industry could benefit from a white paper on the product discontinuation process. The result is this report, which defines the major problems in the existing product discontinuation process and offers potential solutions and recommendations for making that process more efficient.

On March 1, 2001, member companies of Food Distributors International (FDI), Food Marketing Institute (FMI) and Grocery Manufacturers of America (GMA) met to begin this industry white paper. Collectively formed as a Working Group derived from the Joint Industry Unsaleables Steering Committee, the three associations thank the following people for their contributions:

- Mr. Bob Cristofono, *The Pillsbury Company (Chair)*
- Mr. Bob Altfest, *Adams, Division of Pfizer*
- Mr. Bruce Bagnell, *Nestlé USA*
- Mr. Jim Hicks, *The Quaker Oats Company*
- Mr. Ted Lechner, *H.E. Butt Grocery Company*
- Mr. Bob Lounsbery, *Mid Mountain Foods*
- Mr. Gary Regina, *Winn-Dixie Stores, Inc.*

The development of this white paper was supported by Ms. Aileen Dullaghan, FMI, Ms. Erin Harcourt, GMA and Mr. Mike McCarthy, FDI. Legal counsel was provided by Pillsbury Winthrop LLP. Mr. Dan Raftery, Prime Consulting Group, inc., was the white paper consultant.
The main reasons why products enter the “reverse logistics” distribution chain were defined publicly in the 1999 report *The Root Causes of Unsaleables*. They have also been identified privately by individual companies who have invested resources into focused investigations in recent years.

Product discontinuation is generally recognized as a decision that can initiate a chain of events resulting in products being sent to reclamation centers. As a result, costs associated with product discontinuation are imbedded in unsaleables costs, which in turn become part of the cost of doing business.

Consumers eventually pay these imbedded costs. It is the view of the Joint Industry Unsaleables Steering Committee that improved efficiencies in the discontinuation process could lower costs to benefit consumers.

No industry-wide data quantifying the total cost of product discontinuation have been formally collected. However, companies involved in this white paper estimate that 10 percent to 40 percent of an individual company’s total unsaleables volume can be attributed to discontinued products. Furthermore, they estimate that this percentage can vary significantly from company to company, because it is driven by several variables such as total volume of unsaleables experienced by a given company.

The JIUSC believes that discontinued product costs are additive, with the highest level occurring when items are removed at the end of supply chain, i.e., the reclamation center.

The following diagram illustrates the JIUSC view that removal of discontinued products earlier in the supply chain may be less costly than processing through reclamation centers.
This white paper is not limited to discussing the effects of product discontinuation on the end of the supply chain, i.e., the reclamation center. Rather, it addresses all segments of the supply chain where the products reside, including manufacturer warehouses.

While this white paper does not quantify actual costs, the general categories of costs associated with discontinued products are shown in the following table.

<table>
<thead>
<tr>
<th>Category</th>
<th>Manufacturer</th>
<th>Wholesaler</th>
<th>Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-department communications</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Sales rep communications</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partner communications</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Database maintenance</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Special promotion administration</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Special promotion allowance</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Unused raw materials and packaging</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shelf reset costs</td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>Special handling costs</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Pick-up transportation costs</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Disposal costs</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Inventory carrying costs</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

In addition to a lack of industry-level statistics on product discontinuation, the JIUSC further believes that knowledge about these costs is limited and often resides only in certain divisions within a given company. Other divisions within that company that can impact these costs have little or no understanding of them.

For example, a category manager in a retailer’s merchandising department may conduct a category review and decide to delist some slow-moving items. Warehouse replenishment specialists will re-order these items until told of the decision. If this communication is delayed, some of these items could be re-ordered during the delay period.

In a second example, the marketing department may know about the decision to discontinue a certain flavor of a product before other parts of the manufacturing company know about it. They may withhold the information from the purchasing department for
a variety of reasons. Purchasing may continue to order packaging materials for production. When the decision is finally communicated, the manufacturer will be faced with the decision about materials inventory that is no longer needed.

Therefore, inadequate communication about discontinued products is one of the core issues driving inefficiencies and adding costs to the total supply chain.

The core issue of what happens to the value of a product when it is discontinued depends on a number of factors. Products may quickly drop in value after a trading partner learns of their discontinuation. The elements of this “value equation” are:

- Which trading partner originates the decision to discontinue.
- Who holds product inventory.
- Sales contract obligations.

Further complicating this “value equation” is the fact that under general industry practices companies often simply shift cost burdens from one supply chain segment to another. Here, the company originating the decision to discontinue a product holds an advantage, at least until the other trading partners learn of the decision. Some companies are working diligently to avoid these situations, but many others remain focused on minimizing their own costs, regardless of the effect on the total supply chain.

The JIUSC concludes that:

- Common current discontinuation practices can cause problems and incremental costs for both manufacturers and retailers.
- The general industry practice of sending discontinued products to reclamation centers does not automatically minimize total supply chain costs.
- Communication gaps in discontinuation practices both within the originating company and among trading partners are a major problem, causing distributors, suppliers and sales agencies to miss cost-savings opportunities for one or all of these supply chain segments.
- Communication gaps exist across divisions within the originating company and across trading partners within the supply chain.

The opportunity for the industry, therefore, is to define a process for discontinuing products that would fill existing communication gaps, reduce associated costs for both trading partners and improve total supply chain efficiencies.
According to JIUSC, an “ideal” product discontinuation process would:

- Lower costs to the total supply chain and consumers.
- Reduce waste.
- Maximize product value.
- Reinforce new item introduction objectives.

This white paper contains information intended to help trading partners improve the product discontinuation process. The information is drawn from the collective experiences of the JIUSC working group. No attempt is made in this report to quantify the effects on associated costs resulting from application of the concepts and actions described here. However, the JIUSC believes that an improved product discontinuation process that effectively deals with the issues described here will benefit trading partners and consumers.

DEFINING THE ISSUES

The JIUSC defines the key terms used in this report as follows:

- **Product discontinuation** – The removal of a product from distribution to wholesalers or retailers by manufacturers or sales agencies; or the removal of a product from stores and warehouses by a distributor (also known as delisting).

- **Discontinuation process** – The steps taken within the originating company and with trading partners to stop selling or buying new quantities of the product.

- **Type of discontinuation** – The reason the product is discontinued, i.e., the “cause” of the discontinuation.

- **Originating company** – The trading partner who first decides to discontinue a product. This decision could be made jointly.

- **Discontinued product disposition process** – The steps taken by trading partners to handle residual inventory of discontinued product.

- **Total supply chain** – All steps and costs associated with the production and
distribution of consumer packaged goods. This includes manufacturers, independent sales agencies, wholesalers, and retailers.

The terminology used in this white paper builds on several published industry documents describing unsaleable products, returned goods and reverse logistics. The first such industry report Product Reclamation Centers — A Joint Industry Report (1990), is recommended background reading for this white paper. See the bibliography on page 22 in this white paper for additional resources.

### Case Study — Risk-Taker Stores

One retailer uses a product discontinuation process that focuses on the merchandising department.

- The re-order buyer and category manager review inventory for items pending discontinuation, compare that to current movement and determine whether or not to liquidate them.
- Products are sold through to stores based on weeks supply on hand and the introduction of the new (replacement) item ship date.
- Vendors are notified to pick up full cases at the warehouse whenever possible.
- Product is picked up by the manufacturer or donated to a food bank.
- Some products are sold to “risk-taker” stores (defined by the retailer as stores that can sell through a significant amount of product in a short time).
- New shelf tags are generated once the item is discontinued. The replacement tag does not include a re-order bar code. The tags contain an X or R. X representing a straight discontinued item and R signifying that the item has a replacement item.

The retailer uses this process to minimize the amount of product returned to the reclamation center. One year after the new shelf tag program was instituted, the retailer saw a 25% decline in the dollar amount of discontinued product sent to the reclamation center.
The decision to discontinue a product can be made for several reasons. In some cases, the resulting effects on the supply chain can be quite different, depending on the reason.

Where the decision is made to discontinue a product, i.e., at the manufacturer, wholesaler, or retailer can also impact the supply chain in varying ways. Following is a look at the most common reasons why each segment of the industry might make a decision to discontinue an item.

Manufacturer-Originated Decisions

1. *New item introduction* – A manufacturer develops a completely new product or line of products. Trading partners often must decide which existing item to delist, effectively swapping “one out for one in.”

2. *Package or size change or product reformulation* – A manufacturer develops a replacement for an existing item. In this case, it is clear which item is replaced. The new product requires a new UPC.

**Case Study — Three-Month Planning**

One manufacturer has developed a comprehensive communication process for discontinued products that covers all planned discontinuations for the next three months. At the beginning of each three-month cycle, retailers are told which SKUs will be discontinued or changed during the upcoming cycle. The manufacturer's sales representatives work with individual retailers to develop specific sell-through plans based on the retailer’s inventory and three-month sales forecast. The manufacturer offers all customers the same basic plan, which may vary somewhat from product to product. Retailers are given funds at the beginning of the three months to cover promotions and disposition costs associated with the discontinued products.
3. **SKU rationalization** – A manufacturer may decide to stop producing slow-moving items. Often conducted at the brand, division, or even total company level, this process of “trimming dead wood” may be conducted routinely at some companies or more sporadically at others. Demand-driven analyses are used to choose which products to discontinue. In some cases, discontinuation is applied regionally, based on product demand.

4. **Product failure** – Products reach the end of their life cycles when sales fall below expectations. Unlike products discontinued through the SKU rationalization process, these items may have suffered from inadequate marketing support, poor consumer research, or bad formulation. Identifying these products is relatively easy and can be done by monitoring reclamation center data and warehouse inventory turns.

---

**Case Study — America’s Second Harvest Store Pickup**

A manufacturer needed to discontinue a shelf-stable food item in two large national customers due to lower than expected sales. To quickly and efficiently redistribute product, the manufacturer authorized America’s Second Harvest National Food Bank network to pick up the discontinued items from the stores. The manufacturer supplied Second Harvest with information to generate receipts for each store, which were verified by store management. These receipts were used to reimburse the customer and to document a tax deduction for the manufacturer. Because Second Harvest went directly to the stores using its own trucks, the manufacturer did not incur any transportation or shipping costs for product return – one of the largest program benefits, according to the manufacturer. The program took only two weeks, exceeding the manufacturer’s expectations. The manufacturer uses this method for other discontinued products.

---

5. **Seasonal item expiration** – Special products developed for specific holidays or seasons are removed from the supply chain after the holiday or season has passed. This decision is generally considered important for preserving the consumer’s perception of freshness and quality at retail stores.

6. **“In and out” item expiration** – Special packaging, displays, or even special products can be manufactured for limited-time distribution. These items are
often called “in and out” because they are generally not given a permanent slot in a wholesaler or retailer warehouse. These products may be cross-docked for rapid distribution to stores. Trading partners may agree upon an ending date, after which the residual inventory is removed from stores.

7. Brand ownership change – This occurs when the manufacturing sector consolidates or when a line of products is acquired by a new manufacturer. The UPC must be changed because part of the bar code numbering system identifies the product manufacturer. If the new manufacturer decides to use the same packaging, identification of the prior manufacturer’s inventory can be difficult.

---

**Case Study — Marketing and Sales Coordination**

When the marketing and sales team at this manufacturer determines a product should be discontinued, a timetable is established. The process is summarized as follows:

- Production planning associates are notified so they can balance inventories and plan production changes.
- Packaging associates are told to discontinue purchasing packaging.
- The sales force is notified of the last date the product will be shipped and communication is sent to gain distribution of another product to fill the warehouse slot.
- The sales force advises retailers of the discontinue date and introduces a plan to pick up warehouse inventory of the discontinued product.
- A scan-down program is also offered so the retailer can sell existing quantities remaining at the store to avoid reclamation, which affects the customers’ promotional allowances.

Return cases of discontinued products are quality checked at the manufacturer’s distribution center. Sub-standard product is destroyed. Good product is sold to an authorized closeout retailer who meets the manufacturer’s requirements. No product is sold to closeout wholesalers or barter houses.
8. *Sales agency change* – Sales agents who call on retailers and wholesalers may represent several manufacturers and their product lines. As a result of agency or manufacturer consolidation, certain product lines may shift representatives for a given retailer. Since products themselves undergo no changes, the discontinuation is simply administrative. Retailers and wholesalers must accurately track a product’s source – in this case, the sales agent. The new agent must be identified and the old one deleted as the source.

**Retailer and Wholesaler-Originated Decisions**

1. *New item introduction* – Retailers and wholesalers often develop new store brand products following similar procedures used by national brand manufacturers. To make room for the new product at the store and the warehouse, distributors may decide to delist a product or products. Also, product may need to be delisted if a distributor decides to begin carrying an available product it hadn’t been carrying.

2. *Category review* – Category management analyses of individual categories are conducted by a distributor often in partnership with one or two manufacturers or sales agents. These analyses can result in new shelf layouts and product assortments, with decisions about which products to discontinue (delist) an integral part of the process. In general, delisted items open space for new products (see above) or provide incremental space for high-velocity items.

3. *SKU rationalization* – In addition to the routine review process, wholesalers and retailers may initiate a special analysis process to open warehouse and store space by trimming out slow movers or non-unique products. Choosing which items to delist needs to be done with the distributor’s strategic variety objectives in mind.

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**Case Study — Communicating with Spreadsheets**

A self-distributing retailer has built a discontinued products process that uses Excel spreadsheets as cornerstones. The process is used for retailer- or manufacturer-originated product discontinuations. Once a week a spreadsheet is created containing all items discontinued since the last cycle.

*continued*
4. **Total store reset** – Sometimes it is necessary for a retailer to review item assortment and category planograms for an entire store. This process can be caused by significant changes in shopper demographics or by a remodel. The objective may be to bring the store “in-line” with its shopper base or with other stores in the chain. As with SKU rationalization and category review, discontinued items are removed from the store.
5. **Change in order quantity minimum** – Occasionally, the distributor’s decision to delist an item follows the manufacturer’s decision to increase the minimum order quantity. If the minimum quantity results in excessive days of supply at the warehouse, the distributor may decide to delist it.

6. **Store ownership change** – A retailer purchasing a store or a group of stores often purchases the product inventory as well. Some of the acquired products may not be carried by the new owner and may be removed from the acquired store’s inventory. This decision is not universally applied, however, because national chains often try to retain at least some portion of the acquired operator’s regional variety offering.

<table>
<thead>
<tr>
<th>Case Study — Shopper-Friendly Shelf Tag</th>
</tr>
</thead>
<tbody>
<tr>
<td>A wholesaler has developed a program for discontinued products that involves a unique new shelf tag. When notified of the discontinuation, this wholesaler prints the new tag for the item and sends it to all the independent retailers. The tag has no bar code and no item number, which prevents re-order. Consumer research showed that to keep sales momentum, the word ‘discontinued’ should not appear on the tag. Often, a 40-50% retail markdown takes place for four weeks to move residual store inventory. To determine which items retailers should discontinue, the wholesaler sends them ‘zero movement’ reports every 13 weeks. Retailers can select items to add to the tag and markdown program.</td>
</tr>
</tbody>
</table>

7. **Store closing** – When a retailer goes out of business or shutters some stores, the residual inventory requires special attention. Closeout management companies may be involved in the liquidation process. Alternatively, store inventory may be sent to the retailer’s reclamation center if it is still in operation.

8. **Wholesaler change** – When a retailer changes its wholesaler, some of the products that had been available from the former wholesale supplier may not be available through the new wholesaler. The retailer might then change the product mix to one degree or another in multiple categories, removing the unavailable products and replacing them with other items.
Discontinuing a product can cause several kinds of problems, depending on the reason for the discontinuation and where in the supply chain the decision to discontinue was made. Examples of general problems are described below, along with general solutions recommended by the JIUSC.

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory of discontinued item exists in the supply chain.</td>
<td>Trading partners work together to move inventory in manufacturer, wholesaler, and retailer locations at minimal cost.</td>
</tr>
<tr>
<td>A company delays communication of its decision to discontinue a product to protect its investment in finished goods or raw materials.</td>
<td>Increase communication lead-time and plan for investment sell-through and liquidation.</td>
</tr>
<tr>
<td>A retailer or wholesaler neglects to notify its supplier in a timely manner of a product delisting.</td>
<td>Notify supplier when category management analysis and decision is finalized.</td>
</tr>
<tr>
<td>Lack of data about discontinued products.</td>
<td>Track discontinued items separately from and more frequently than normal items.</td>
</tr>
<tr>
<td>Downstream entities stop ordering when notified of product discontinuation.</td>
<td>Continue ordering through an agreed-upon date.</td>
</tr>
<tr>
<td>Deciding which item to discontinue.</td>
<td>Conduct analyses (sales, market, consumer, variety, profit) to support decision. Discontinue products with same space usage as incoming products.</td>
</tr>
<tr>
<td>Abandonment of discontinued items.</td>
<td>Develop, communicate and implement a plan to directly address discontinued items.</td>
</tr>
<tr>
<td>Lack of attention for discontinued products after a new item is introduced.</td>
<td>Include discontinued product in discussions of new item.</td>
</tr>
<tr>
<td>Variations in lead-time notification across manufacturers and by type of discontinuation.</td>
<td>Consider using suggested communication lead-times in this white paper (See page 14).</td>
</tr>
<tr>
<td>How to efficiently and safely dispose of discontinued products.</td>
<td>Follow the recommendations in the industry publication <em>Unsaleable Product Disposition Practices and the Salvage Market</em> (see Bibliography).</td>
</tr>
</tbody>
</table>

An improved, successful discontinuation process involves all segments of the supply chain. In general, current practices that have evolved to minimize costs for one segment may cause problems for another segment and do not consider the impact on the total supply chain.
Case Study — Eight-Week Markdown Program

A retailer has recently established a closeout program for discontinued products that begins when category managers alert manufacturers of their decision.

Manufacturers quickly alert their sales staff and shipping staff to cancel any inbound loads and orders for the items targeted for discontinuation. Manufacturers pick up inventory in excess of a two-week supply for any given distribution center.

Individual manufacturers and category managers institute a markdown program funded by the manufacturer. This runs for eight weeks or until the store-level inventory is depleted. At the end of the markdown period, residual product is sent to reclaim.

As this new program matures, the retailer expects to see a reduction in reclaimation center volume. This is expected to lower costs to the retailer and manufacturers.

ADDRESSING THE ISSUES

Any effective product discontinuation process must begin with timely communication within a company and among trading partners. In an ideal process, a company would communicate its decision to discontinue an item sooner and more completely than is generally the norm now. Rather than focusing on minimizing the risk to themselves, companies would take a broader perspective and work together to minimize risks throughout the supply chain. This would involve such things as agreeing on schedules and reasonable lead-times, as well as other activities aimed at making the process as efficient as possible for all companies involved.

When the decision to discontinue a product is made by a manufacturer, several internal communications are made first. Packaging materials, raw product materials and possibly marketing programs can be affected. Lead-time for ordering packaging materials can be 120-180 days.
The company’s position in finished goods must be evaluated to determine the most economical disposition plan. At this point, retailers and wholesalers should be notified about the decision and about the disposition plan for inventory that they carry. The general consensus of the companies who developed this white paper is that a 90-day lead-time for notification is ideal before manufacturers stop shipping the discontinued products to retailers and wholesalers.

### Case Study — Scan-Down Promotion

One manufacturer’s process for removing discontinued product from the distribution channel includes a scan-down promotion, used on all items where scan data is available. When a decision is made to discontinue a product, whether by the manufacturer or a retailer, a 50%-off retail scan-down promotion is enacted on all items remaining in the store. Although how the items are marked down is left to the retailers’ discretion, the manufacturer reports that the items usually remain in their regular shelf placement but are marked with clearance tags. Some retailers also include markdown items in a special section of the store. The manufacturer reimburses the retailer based on the scan data and requests at least four weeks to achieve maximum sell-through. After this time, product is sent to the reclamation center. The manufacturer believes this process, introduced three years ago, has been a major component of reducing its overall unsaleables costs by 20-25%.

If they haven’t yet done so, at this point manufacturers should decide when to stop producing the discontinued items. This determination is based on inventory levels of finished goods and packaging and raw materials, as well as the scheduled stop date for shipping the product to distributors.

When the manufacturer originates the decision to discontinue products, retailers and wholesalers should notify manufacturers about 30-60 days before they stop buying the discontinued products. If the decision to discontinue is made by the retailer, lead-time should be 60-90 days, because this is the first communication to the manufacturer about the discontinuation decision.

In general, full-case inventory pulled from warehouses holds higher value than store-level inventory. Therefore, the sell-through program developed by trading
partners should include the best disposition for all full cases at manufacturer, wholesaler and retailer locations. Some options include food bank donation, sale to liquidators or destruction of the inventory. An additional option for retailers is pickup by manufacturers. Full cases can be removed from any distribution center with excessive supply at any time during the program, based on the expected sell-through rate and the amount of time remaining in the disposition plan.

Because discontinued products are often slow-movers, the sell-through program developed by trading partners will probably require a retail price mark-down to encourage consumer takeaway. Trading partners should agree on the extent of the markdown and set a time limit; a four-week period is generally considered reasonable.

Residual inventory is removed from the store, usually by shipping it to the retailer’s product reclamation center. In some situations, food banks or manufacturers may pick up store-level inventory. The store can also be instructed to destroy the product as part of the overall discontinuation agreement between trading partners.

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**Case Study — The Hard Cutoff Date**

As part of a new unsaleables policy, a manufacturer standardized discontinuation practices across all brands. The goal of the new practice is to release information about discontinuation sooner and with consistent lead times across brands. To encourage participation, an internal analysis was conducted which found that withholding information was costing the company a significant amount of money.

The new practice includes:

- Retailer notification 60 to 90 days in advance of discontinuation.
- Information about why the product will be discontinued and what action steps will be taken.
- Communication to retailers of a hard cutoff date, after which no product is shipped by the manufacturer, regardless of the amount of inventory still on hand.

The manufacturer also manages excess inventory of packaging and raw materials differently now. Instead of trying to maintain production, the materials are sold to alternative markets when possible. Finished goods inventory is shipped to secondary markets after the hard cutoff date.
The process described in this section is intended to address the major issues surrounding the discontinuation of shelf-stable, non-perishable product. Products with limited shelf life, such as refrigerated juice, can also be included in improved communications about discontinued product programs, but will require shorter lead-times and special disposition actions.

The above suggestions may indicate less lead-time than some companies currently use. The JIUSC does not recommend shortening any lead-times in the communications about product discontinuation. Rather, they believe that the general rule of thumb is “longer lead-times are better” for total supply chain efficiencies and costs.

In summary, the key elements of a suggested discontinuation process are as follows:

- A clear focus on reducing total supply chain inventory costs.

- Increased lead-time compared with current practices.

- Coordination across divisions among trading partners.

- Internal coordination across divisions within manufacturer and retailer companies.

- Several types of analyses – sales, market, consumer, variety, profit – to support discontinuation-related decisions.

- Specific plans to facilitate transition from old to new products.

- Accountability for cost of discontinuation included in new item introductions.

- Specific disposition plans for product in all warehouses and stores.

- Special action steps for residual inventory of seasonal items at end of season or holiday.
Case Study — Markdown Funds Accounting

A manufacturer uses a new procedure to remove discontinued products from distribution, allocating costs based on who made the decision to discontinue.

When this manufacturer originates the decision, it communicates the decision to the sales force so that it can begin a markdown process. The division head determines the markdown amount and, if permitted, the field sales team marks down product at the retailer's warehouse and in the stores.

The manufacturer's goal is to minimize the amount of product sent to reclamation centers. Costs associated with discontinued products originated by the manufacturer are accounted for separately from unsaleables, so the sales division and the retailer do not incur this cost as part of their total unsaleables.

If a retailer discontinues a product, this manufacturer's field sales team also marks down the items. In these instances, however, the product discontinuation costs are included in the retailer's total unsaleables allowance. This manufacturer also combines unsaleables payments with marketing funds. If a retailer goes over the unsaleables budget, marketing dollars are reduced.

Case Study — Ninety-days to Sell-through

One self-distributing retailer has experienced advance notices of product discontinuation from several manufacturers.

In one instance, the retailer received notice that a manufacturer was discontinuing one size in its product line without replacing it. This advance notice gave the retailer time to evaluate the entire category and generate new planograms, with a new item in the discontinued one's place. The communication also helped the retailer sell through the products at the regular retail price. As a result, very little inventory was sent to reclamation. continued
No standard discontinuation process can cover all the variations in products and companies in the food-and-drug supply chain. However, the developers of this white paper suggest that interested companies consider using the process and key elements described here to evaluate current practices and improve supply chain efficiencies.
APPENDIX

Process Flowcharts

The following flowcharts show product discontinuation decision points and communication paths for those decisions. The suggested process flowcharts remove the “cloaks of secrecy” about product discontinuation that currently exist in the supply chain by providing total supply chain communication paths. Open and timely communication is a critical element in minimizing costs associated with product discontinuation for manufacturers and distributors.

Each chart describes a full set of decision points and communication paths. The first chart applies to a manufacturer-originated decision to discontinue a product; the second to a retailer or wholesaler-originated decision. Retailer or wholesaler communications to manufacturers are shown in thin lines; manufacturer communications to retailers or wholesalers are shown in thick lines.

In general, the communication paths involve decisions about when to stop the normal business processes. In the suggested discontinuation process, both trading partners are aware of the other’s inventory position on the discontinued item. Although this awareness is not generally practiced in the industry today, the case studies contained in this white paper show that awareness could be achieved.

Both trading partners must commit to following the entire communication path in order for benefits to be realized by both. Shortcutting the path will be detrimental to the trading partner holding inventory of the discontinued product.

The Joint Industry Unsaleables Steering Committee suggests that trading partners conduct pilot tests of the ideal processes and communication paths described above to reduce discontinued product costs in the total supply chain.
Decisions and Communication Path for Manufacturer-Originated Decision to Discontinue a Product

- Discontinue? Yes → Stop Marketing → Develop Sell Through Plan
- Stop or Change Ads → Notify Retailers

- Review Manufacturer Inventory
- Review Retailer DC Inventory

- Yes → Continue Producing → Continue Sell Through → Continue Buying → Continue Shipping
- No → Ship to Stores? Yes → Notify Manufacturers

- Yes → Notify Sales → Stop Producing → Notify Retailers → Stop Shipping
- No → Stop Receiving → Stop Shipping

- Yes → Notify Manufacturers → Review Store Inventory
- No → Sell To Consumer? Yes → Continue Sell Through

= Manufacturer
= Retailer/Wholesaler
Decisions and Communication Path for Retailer-Originated Decision to Discontinue (Delist) a Product

1. Discontinue? → Notify Manufacturer
2. Notify Manufacturer → Develop Sell Through Plan
3. Develop Sell Through Plan → Stop or Change Ads
4. Stop or Change Ads → Notify Manufacturer
5. Notify Manufacturer → Manufacturer
6. Manufacturer → Food Bank
7. Food Bank → Remove from Retailer DC
8. Remove from Retailer DC → Destroy
9. Destroy → Liquidator
10. Liquidator → Notify Manufacturer

R = Retailer/Wholesaler
APPENDIX

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- Product Reclamation Centers – A Joint Industry Report, 1990. Food Marketing Institute, Grocery Manufacturers of America, et. al.,