NEW WAYS OF WORKING TOGETHER

Common Goals, Common Measures
Pilot Results

19 November 2008
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The Coca-Cola Company’s enduring mission is: To Refresh the World...in body, mind, and spirit. To Inspire Moments of Optimism...through our brands and our actions. To Create Value and Make a Difference...everywhere we engage.

Wegmans Food Markets, Inc. is a 72-store supermarket chain with stores in New York, Pennsylvania, New Jersey, Virginia, and Maryland. The family-owned company, founded in 1916, is recognized as an industry leader and innovator. Wegmans has been named one of the ‘100 Best Companies to Work For’ by FORTUNE magazine for ten consecutive years. In 2007, Wegmans ranked #3 on the list. Visit www.wegmans.com

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EXECUTIVE SUMMARY

Corporations know they cannot operate effectively without measuring their own performance. The same should apply to joint retailer/manufacturer initiatives, but unfortunately adequate measures have proved elusive. Retailers and manufacturers often have different ways of measuring their performance; formula variations, jargon and the inability to assess performance on a real time basis result in retailers and manufacturers working towards different goals with no visibility of each others’ performance. As a result, trading partners spend too much time dealing with the problems they can see, such as supply chain disruptions, and not enough time working together to optimize their strategy to benefit consumers.

Wegmans Food Markets, the J.M. Smucker Company, Procter & Gamble, Coca-Cola and Oracle have recently concluded a pilot project to use common goals and common measures to improve trading partner relationships. The companies:

1. Selected a set of core measures that assess the performance of the trading relationship across the dimensions of sales, supply chain, operations and data accuracy
2. Agreed upon common measure names, definitions and calculation approaches
3. Established shared goals for performance against each measure
4. Launched strategic initiatives to enhance performance in key areas
5. Monitored progress through an Oracle on-line scorecard solution
6. Met periodically to review results, adjust goals to changing business conditions and consider future initiatives.

This “Common Goals, Common Measures” pilot supports the Connect our Business Information component of the “New Ways of Working Together” industry initiative, as shown in Figure 1.

Figure 1 – New Ways of Working Together Framework
The pilot has been a major success. The initial participants published a first set of results in 2007 which demonstrated consistent improvements in sales, inventory performance, invoice accuracy and data synchronization. Based upon the strength of these results, the pilot team agreed to extend the pilot into 2008 and open the opportunity up to additional trading partners. Coca-Cola joined in May 2007, and Kraft and Frito-Lay were added in 2008.

More importantly, the team built upon the insights gained through the pilot to drive the development of a global standard for trading partner performance measures. The resulting draft standard measures are already being used by manufacturers and retailers around the globe. The team is now turning its attention to the “Prepare our People for the New World” component of the New Ways of Working Together program as “Common Goals, Common Measures” becomes standard business practice.

**PILOT BACKGROUND**

The pilot began with a kickoff meeting on November 6, 2006, attended by Chairman, CEO and President-level executives, along with the leaders of the merchandising, sales and supply chain organizations from all parties.

The team selected a total of sixteen joint performance measures in December 2006 across four business areas, drawing on the GCI Scorecard KPIs and GS1 GDSN standards wherever possible.

![Figure 2 – Pilot Measure Selections](image)
• **Market/Consumer** measures identify the best category growth and profit strategy (sales, margin, supplier penetration, and retailer share of the market)

• **Operational Efficiency** measures reduce costs by highlighting unnecessary overhead and waste (order cycle time, days of supply, unsaleables, timely payment)

• **Information Accuracy** measures indicate whether the companies are sharing data and working in a synchronized manner (percentages for item data synchronization, item data accuracy, invoice accuracy, deduction incidents & balance)

• **Execution Effectiveness** measures prevent consumer out-of-stocks by revealing supply chain issues (percentages of order change, supplier service level, on time delivery, and store service level)

The individual trading partner pairs set goals for these measures in early February 2007, and over fifty people from the three initial participating companies (Wegmans, Procter & Gamble and J.M. Smucker) were trained on the Oracle Retail Value Chain Collaboration application in February. The companies held their first joint sales call sessions supported by the scorecard in the first week of March. Oracle distributed updated scorecards on a weekly basis until the pilot’s completion.

The executives reconvened in May 2007 to assess progress and recommend 2nd-half initiatives. Phase 1 results were tallied in September 2007. The pilot was extended until June 2008, and then again to September 2008 to gather and summarize lessons learned.

**BENEFITS ACHIEVED**

The pilot team published results from Phase 1 in the New Ways of Working Together industry framework document. Highlights of the reported quantitative benefits included the following:

• Annualized sales growth for both P&G and Smucker’s significantly outpaced category and store growth

• Days of supply dropped dramatically (2-4 day reductions) for all but one pilot category

• Invoice accuracy improved across the board by an average of 17%.

Pilot participants also reported several qualitative benefits:

1) Realistic, well-aligned objectives between Wegmans and its suppliers

2) Shared accountability for trading partner performance - from sales to supply chain to payment

3) Greater efficiency - less time uncovering, researching and sorting out conflicting data about issues, more time working on exceeding goals

4) Deeper working relationships with suppliers across functional areas

5) Enhanced trust and willingness to take on future initiatives

1 Appendix A contains the complete set of reported results.
As a result, Wegmans and its partners increased their business growth and reduced supply chain disruptions. This effort has subsequently taken on a global scale, with manufacturers and retailers trying to duplicate the "New Ways of Working Together" process.

**STANDARDS IMPACT**

In mid-2007, the pilot team worked to launch a new GS1 Work Group to create a global standard for joint performance measures. The GS1 Trading Partner Performance Management (TPPM) Work Group subsequently attracted membership from over twenty retailers, manufacturers and other organizations.

The TPPM work group published its draft business requirements analysis document (BRAD) in May 2008. The BRAD then went through a 60-day public review period, in which 77 comments were received from around the world. The measures will be balloted in October/November 2008, when they will become a standard.

The Common Goals, Common Measures pilot has had a major influence on the TPPM standard. Table 1 compares the measures in the pilot with the TPPM measures. Only one measure – deductions – is not represented in the standard, as there are other existing standards for exchanging deductions information.

<table>
<thead>
<tr>
<th>CPCM Pilot Measure</th>
<th>TPPM Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar Sales</td>
<td>Sales Growth (%)</td>
</tr>
<tr>
<td>Unit Sales</td>
<td>Sales Growth (%)</td>
</tr>
<tr>
<td>Category Sales</td>
<td>Sales Growth (%)</td>
</tr>
<tr>
<td>Supplier Penetration</td>
<td>Share (%)</td>
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<tr>
<td>Retailer Share of Market</td>
<td>Share (%)</td>
</tr>
<tr>
<td>Margin</td>
<td>Retail Item Gross Margin (%)</td>
</tr>
<tr>
<td>N/A</td>
<td>Retail Gross Profit Margin (%)</td>
</tr>
<tr>
<td>Invoice Accuracy</td>
<td>Invoice Accuracy (%)</td>
</tr>
<tr>
<td>Item Data Accuracy</td>
<td>Item Data Accuracy (%)</td>
</tr>
<tr>
<td>Item Synchronization</td>
<td>Item Data Synchronization (%)</td>
</tr>
<tr>
<td>Order Changes</td>
<td>Order Change (%)</td>
</tr>
<tr>
<td>Supplier Service Level</td>
<td>Service Level/ Fill Rate (%)</td>
</tr>
<tr>
<td>Store Service Level</td>
<td>Service Level/ Fill Rate (%)</td>
</tr>
<tr>
<td>Order Cycle Time</td>
<td>Order to Delivery Cycle Time (hours)</td>
</tr>
<tr>
<td>On-Time Delivery</td>
<td>On Time Delivery (%)</td>
</tr>
<tr>
<td>Days of Supply</td>
<td>Finished Goods Inventory Cover (days)</td>
</tr>
<tr>
<td>N/A</td>
<td>Sales/ Consumption Forecast Accuracy (%)</td>
</tr>
<tr>
<td>In Stock Percentage</td>
<td>Out of Stock (%)</td>
</tr>
<tr>
<td>Unsaleables</td>
<td>Unsaleables (%)</td>
</tr>
<tr>
<td>Deductions</td>
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</tr>
<tr>
<td>Timely Payment</td>
<td>On Time Payment (%)</td>
</tr>
</tbody>
</table>
SOFTWARE PRODUCT DEVELOPMENTS

As the Common Goals, Common Measures pilot progressed, Oracle identified an opportunity to develop a new application for manufacturers to complement the Oracle Retail Value Chain Collaboration application for retailers. In May 2008, Oracle released the Demand Signal Repository (DSR) product, which collects detailed retail data, provides analytics to determine root causes of sales and supply chain issues and integrates with enterprise applications to respond to changes in demand, execution problems and market developments.

The Oracle DSR incorporates a trading partner scorecard built upon the draft GS1 Trading Partner Performance Management (TPPM) measures. It also offers a direct connection with Oracle Retail merchandising to transfer retail sales data. Both retailers and manufacturers now have production software available for their Common Goals, Common Measures initiatives.

LESSONS LEARNED

Trading partner scorecards highlight areas that need attention, but other factors must come into play so that common goals and common measures can drive sustainable performance improvements.

MEASURE SELECTION

Instead of just highlighting areas of failure, a scorecard that uses a range of Key Performance Indicators (KPIs) from the retailer/manufacturer relationship is more likely to be successful. Wegmans invited its suppliers to suggest KPIs that would help the relationship. They were open to a scorecarding approach that would not only indicate supplier issues, but retailer issues as well. This more enlightened view of scorecarding enhances overall performance rather than assigning blame, and has been reflected in the GS1 standards that grew out of this pilot.

MEASURES TAILORED TO THE RELATIONSHIP

Many components of the Common Goals, Common Measures scorecards varied by trading partner. Some measures were more important to some relationships than others, and data was sometimes captured at different levels of detail. For example, the Coca-Cola team found that some of the measures used for other supplier relationships – such as order cycle time – did not apply to the direct store delivery (DSD) beverages business. Other measures, such as fill rate and item data accuracy required different calculation methods or data sources in a DSD environment.

Table 2 summarizes the measures, goals and levels of detail that were represented in the system. It becomes clear that any scorecard must be configurable to respond to the
trading relationship’s importance, data availability, delivery model (distribution center replenishment vs. direct store delivery) and other factors.

All of the teams found that it was essential to review the definitions of the measures in detail to gain agreement on the results.

**FREQUENCY OF ASSESSMENT**

Some performance measures, such as sales, can change quickly and are important to both retailers and manufacturers. It is necessary to take this measurement frequently. A weekly scorecard gives rapid feedback on sales, measuring the success of promotions, product introductions and other initiatives.

Other measures, such as item data synchronization and item data accuracy, reflect long-term initiatives. They do not need to be assessed as frequently, as their values change only gradually. A monthly or quarterly review is sufficient.
Wegmans found that its share-of-market results were very stable, even at category level. This, combined with an average two-week lag in getting the data from the syndicated data provider, reduced the impact of share-of-market data on the pilot.

There is a trade-off between short-term results and long-term performance; both should be represented to give a clear picture of the business. The beverages category added a 13-week rolling average to their sales measures to better understand long-term trends. The P&G team suggested tracking year-to-date values, along with a metric that calculates the run rate needed for the remaining period in order to achieve each goal. These measures proved popular: other groups requested to add them to their scorecards, potentially supplemented with a rolling four-week average to highlight mid-term results. This was especially desired for supply-chain measures, which can fluctuate dramatically.

**MANAGING CONSISTENTLY HIGH OR LOW PERFORMANCE**

In some cases, the pilot identified areas where performance was consistently good. For example, scorecard showed that Wegmans paid its invoices within a day or two of the discount date every week, with suppliers attributing any overage to bank processing delays. Clearly, Wegmans follows good payment practices. Nonetheless, the team felt that it was useful to continue monitoring payment performance in the event that a system issue or some other event might affect it.

Other measures highlighted persistent issues. For example, on-time delivery performance for vendor 70061 only achieved “green” status during nine out of 80 weeks. This raised the question of whether the team’s expectations for this vendor’s deliveries were too high, or whether they were simply unable to influence the vendor to deliver more promptly. Reviewing week after week of red results eventually served little purpose.

There were also cases in which trading partners set unrealistic goals. For example, Coca-Cola’s sales of energy drinks fell far short of the goals set for them – achieving “green” status during only two weeks in 2008. Participants could soon take it for granted that the performance of Coca-Cola Energy drinks would be “red” week after week, so the scorecard did not communicate anything related to that category.

Finally, changes in consumer behavior sometimes rendered previously established goals obsolete. The entire bottled water category has contracted over the past year due to environmental concerns, negative publicity and a downturn in the economy. The scorecard illustrated this, but over time, it became difficult to tell whether erosion was continuing, or demand had stabilized at a lower level. Either way, the scorecard would show a “red” status relative to the original plan. The Coca-Cola team wanted an easier way to evaluate variances in the scorecard (which showed only colors, not numbers for simplicity) to determine which results were actionable.

A debate arose over whether to change the scorecards according to changing business conditions. Some felt that scorecards should be consistently reevaluated or objectives would prove to be unrealistic, prompting participants to dismiss the reported results. P&G participants, on the contrary, felt that to enable sales growth, there must be the
very highest level of goal accountability on both sides, with the goals integrated into the
rewards structure. Goals should not be adjusted once established or it becomes very
difficult to create a sense of accountability and urgency.

If the goal proved unreachable, the P&G team believed that the Common Goals,
Common Measures framework should support the creation of an ‘issue resolution’
process to create intervention plans, rather than support mid-year adjustments. They
recommended that the rewards and recognition structure support the creation of action
plans that mitigate the effects of unforeseen events without changing the goal.

TIMELINESS OF DATA

One challenge of the pilot was that some data, such as sales and days of supply,
became available within hours after a given week ended, while other values, such as
Wegmans store service level and share of market, could be delayed by up to a month.
For the scorecard, this raised the quandary of mixing data for different time frames on
the same scorecard, holding the scorecard until all data was available or retroactively
updating scorecards with the delayed results. All three options are problematic. The only
practical recommendation is to collect all of the data as rapidly as possible, so that each
scorecard is timely and reflects results from the same period.

Some results proved to be difficult to collect on a consistent basis – especially those that
originated from outside sources (such as the store ordering pilot system). When results
are intermittent, it is difficult to monitor or address ongoing issues.

Another challenge is the granularity of data that is available. Some measures were only
available in monthly buckets, making them difficult to align with weekly measures. The
team found that scorecards were easier to interpret when the time buckets were uniform.

MANAGING WEEKLY PERFORMANCE

Setting goals for a weekly scorecard presents special challenges. Retail merchandising
personnel are comfortable setting quarterly and annual goals for sales and margin, but
they are less prepared to project performance on a weekly basis. Seasonality, holidays,
promotions, competitive activity and adjustments in product mix can all have heavy
impact on a given week. If they are not accounted for, the weekly scorecard result will
not reflect the true health of the business.

The approach the pilot team used in Phase 1 was to set weekly sales and margin goals
in terms of percentage growth relative to the prior year’s sales for the same week. This
addressed seasonality and most holidays, as well as any promotions that ran on a
regular annual schedule. However, it did not account for “movable feasts” such as
Easter, one-time promotions and other events that were not aligned with the calendar.
As a result, food category sales looked poor in the 2008 week that coincided with Easter
2007, and appeared strong in the week of Easter 2008 when compared with the
corresponding week in 2007 that had no holiday.

The beverages team took a more sophisticated approach for the highly-promoted
carbonated beverages category. They projected sales for specific promotional weeks,
yielding more realistic results. They were also able to set tighter scorecard thresholds as a result of having goals that better matched the rhythms of the business.

The challenge of this approach is how to sustain it. The team was only able to make this extra effort at the beginning of the pilot. Given how pressed for time category merchants are in the grocery business, it is unlikely that explicit weekly goal setting can be recommended as a general approach.

The ultimate approach to goal setting at the weekly level is to start with a statistical forecast of sales that incorporates seasonality and trend, and overlay the impacts of holidays, promotions and other events. Trading partner discussions and estimates of one-time impacts are a good basis for collaboration, because each party has unique insight. This approach also focuses the attention on the activities that are likely to have a real affect on demand, as opposed to the baseline component that should occur as long as there are no execution issues. The Oracle VCC solution can support this workflow, but those modules were not used in the pilot.

**THE IMPORTANCE OF A MULTIDISCIPLINARY APPROACH**

The J.M. Smucker team found during the second phase of the pilot that that they couldn’t succeed by implementing Common Goals and Common Measures alone. They needed to Focus on the Consumer by aligning our strategies to meet the consumer’s needs – specifically through overall category development and growth. The team also needed to align the right people internally and externally to work towards the same objectives (Prepare our People).

Finding new kinds of transport and sharing could increase the team’s collaborative efforts even more, especially given volatile fuel costs (Share our Supply Chain). In effect, any Common Goals, Common Measures initiative really needs to be expanded into a New Ways of Working Together initiative to generate long term benefits.

The pilot motivated the creation of the Diamond Team and the ongoing communication, alignment and constancy it required. This is a big investment in human resources, but when executed properly, the Diamond Team approach provides efficiencies that offset the investment. The Diamond Team relationship has to exist not only between companies but also internally. Alignment and internal communication is just as important as the alignment and communication with trading partner Diamond Teams.

It is important to have joint visibility of measures and goals – but it is just as important to have permission to do the right things. This requires empowerment, working with counterparts and making informed decisions to achieve strategic objectives.

**CONCLUSION**

It is important to recognize that the greatest achievement of the Common Goals, Common Measures pilot was mobilizing people to work to shared objectives. From a technology perspective, the data was readily available; the calculations just had to be harmonized, and the results had to be pulled together into a single location.
It was a relatively minor challenge to implement an online system. A bigger challenge was agreeing to common definitions, selecting the minimum set of measures to assess the business effectively, and setting a realistic, balanced set of goals at category, ship point and company level to meet program objectives. But the biggest challenge has been overcoming the siloed structure of retailers and manufacturers - making this a full business-to-business opportunity (merchandising, supply chain and enabling systems owners) to achieve a true "diamond" multi-dimensional partnership.