GMA Thought Leadership Session:
Capitalizing on Retailer Data
Within the CPG Organization
Chicago, IL  •  12 April 2011
Based in Washington, D.C., the **Grocery Manufacturers Association (GMA)** is the voice of more than 300 leading food, beverage and consumer product companies that sustain and enhance the quality of life for hundreds of millions of people in the United States and around the globe.

Founded in 1908, GMA is an active, vocal advocate for its member companies and a trusted source of information about the industry and the products consumers rely on and enjoy every day. The association and its member companies are committed to meeting the needs of consumers through product innovation, responsible business practices and effective public policy solutions developed through a genuine partnership with policymakers and other stakeholders.

In keeping with its founding principles, GMA helps its members produce safe products through a strong and ongoing commitment to scientific research, testing and evaluation and to providing consumers with the products, tools and information they need to achieve a healthy diet and an active lifestyle.

The food, beverage and consumer packaged goods industry in the United States generates sales of $2.1 trillion annually, employs 14 million workers and contributes $1 trillion in added value to the economy every year. For more information, please visit [www.gmaonline.org](http://www.gmaonline.org).

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INTRODUCTION

The Grocery Manufacturers Association (GMA) thought leadership session, “Capitalizing on Retailer Data within the CPG Organization,” focused on what is working and what needs work when it comes to retailer data for consumer packaged goods (CPG) companies. Participants included guests from A.T. Kearney and members of GMA, including more than 30 value chain executives from functional areas such as sales and marketing, supply chain, and information technology.

While the topic of data and collaboration is not new to retailers, retailer behavior as a collaborative data opportunity is only now emerging. Point-of-sale (POS), customer loyalty and inventory are prime examples of data that can deliver mutual benefits for all trading partners. As technology evolves at head-spinning speeds, CPG organizations need to seize the moment and harness the power of retailer data.

The session began with a keynote address highlighting marketplace forces that are affecting CPG manufacturers, retailers and shoppers. The session concluded with an open discussion on how to capitalize on retailer data, develop collaborative approaches, enable organizational analytical capabilities, and build IT and systems capabilities.

This paper highlights the keynote address and group discussions.
CONSUMER FORCES AT PLAY TODAY

It’s hard to miss the amount of change happening in the marketplace. Consumers are connecting with retailers and products in new and innovative ways and, as a result, dramatically changing how and where they make their purchases. However, while CPG companies have access to huge amounts of valuable data, efforts at analytics are failing to deliver the insight needed to make the best use of the data and drive change in the ways that retailers and consumers connect. Unsurprisingly, frustration is brewing internally as CPG companies struggle to use and manage the data they collect to conduct business with their retailer partners.

Participants at the thought leadership session felt that all CPG companies could do a better job of leveraging data to collaborate more effectively with retailer partners. Many said they were excited about identifying ways to navigate the sea of information together. However, a key challenge for CPG companies lies in how to best structure their internal analytics and insights efforts to align their organization on decision making and action plans. The strategic analytical and insights capability is critical, both to enable effective operations of CPG companies and achieve effective collaboration.

Consumer Sophistication and Purchasing

The world today is amassing an amazing amount of data, and pundits are tossing around terms such as “zettabytes” and “yottabytes.” As recently as 2005, we are told, the world generated “50 petabytes,” and now we generate that much every 70 minutes. Regardless of the terminology, there is no doubt the amount of data and information we are generating is growing at a furious pace.

Retailers and CPG companies have the opportunity to interact with consumers who have varying levels of sophistication and a wider range of purchasing habits than ever before. A variety of factors is driving the change, including increased levels of network bandwidth, enhanced mobile devices and smartphones, and value-conscious consumers still reeling from the recession (see Figure 1).

These factors are impacting consumers, retailers and CPG companies in a variety of ways:

**Consumer mobility.** The use of mobile devices, especially smartphones and tablets, continues to skyrocket, giving more consumers 24-7 access to the Internet, at speeds nearly identical to those available on their computers at home or work. Mary Meeker of Morgan Stanley predicts that by the end of 2013, mobile Internet users will exceed desktop Internet users. Location-based services, push notifications, transparent pricing and instant mobile delivery of content will drive mobile commerce, continue to change the “where” of shopping purchases and customer interactions, and impact the use of POS promotions and product placement strategies for CPG companies and retailers.

**Social media.** Consumers in a physical store need no longer rely solely on a salesperson’s assistance or in-store information. Now they can look for recommendations and “likes” from a vast circle of social media sites. Such advocacy-based feedback is extremely powerful and session participants identified this as a valuable opportunity to capture and leverage data. Establishing a set of standards and a framework for sharing and leveraging social media-related information greatly enhances the impact of the information.
An “app” culture. The use of “apps” as a user-friendly interface for mobile content has greatly increased the appeal of mobile devices; today, 25 percent of adults who download apps use them for shopping. More than 30 percent of all Internet consumers use printable coupons to purchase goods, and apps such as Yowza and Shopkick are only increasing those numbers.

Crowd aggregation. Brand-owning companies and retail organizations are reaching out to capitalize on the collective insights of their shoppers and consumers. Starbucks, Mountain Dew and Procter & Gamble all have highly-referenced examples of capturing consumers’ ideas and insights to increase their products’ attractiveness. Crowds also play a key role in aggregating purchases and promotions, with sites such as Groupon, Gilt Groupe and Vente-Privee combining technology with the value-conscious consumer to offer significant savings while allowing retailers and brands to engage with customers in fresh ways. General Mills became the first CPG company to partner with Groupon in offering customers a sampler pack of goods.

Location virtualization. Shopping in a physical store is becoming less necessary. Capabilities such as Macy’s Virtual Fitting Room and Tesco’s Billboard Grocery Store in South Korea highlight the merger of traditional offline channels with online access.
CONSUMER FORCES
AT PLAY TODAY
(cont.)

Mobile scan and pay. Handheld devices bring greater convenience and price transparency to consumers. A shopper can now be in your store, check a price and order from another retailer while still standing in your store. Pricing and inventory strategy is more critical than ever.

All of these options, combined with the recent recession and its aftermath, are shaping shopper expectations and behavior. However, while value is critical, it does not mean that everyone is simply hunting down the lowest prices. People are still buying plenty of full-priced iPads, for instance, even if they do then use them to search for electronic coupons. Shoppers are also balancing privacy with personalization—many of today’s younger generation are quite comfortable with sharing significant amounts of information about themselves. Allstate Insurance is one insurer that took advantage of this trend by offering customers auto insurance discounts in exchange for driving information relayed by telematics devices.

CPG Manufacturer Challenges and Opportunities

Technology advancement and savvier consumers make it even more critical for CPG companies and retailers to understand shopper behavior and tailor solutions to meet their needs. The proliferation of consumer technology and information shares many parallels with the challenges faced by CPG companies as they attempt to harness ever-increasing amounts of data from both syndicated sources and retailers. Even with the more traditional POS information, CPG companies are looking to do a better job of harnessing insights to drive their network and operations. CPG companies and their retailer partners have the opportunity to take the data and run with it—across their supply chains, sales, marketing and merchandising initiatives.
Open Discussion

Retailers and CPG companies are feeling the pressure to leverage data to drive change. A sampling of quotes highlights the pain points at play:

We generate many insights, but I do not know what to do with them! How can we ensure that every insight is useful and actionable?”

— Marketing Director, Food Manufacturer

Our vendors created 300 insights this year, but most of them are trivial…How can we increase the quality of insights”

— Vice President, Insight Organization, CPG Company

Shopper insights, social media…what next? What are we chasing all the time and why?”

— Chief Marketing Officer, Global Retailer

Even allowing for the pain points, significant opportunities for collaboration clearly exist for CPG manufacturers and retailers. But the change is not easy, and leveraging the ever-growing amount of downstream data and additional sources of information will require more than just adding data tables and running additional reports. It will require rewiring the organization to take full advantage of the resulting insights and translate them into action. Small-scale projects by many companies show that collaboration can work, but genuine transformation will require more than just pockets of investment here and there.

With these opportunities in mind, the group discussed four key components needed to capitalize on retailer data:

- Collaboration
- Retailer data
- Analytical capabilities
- IT and system capabilities
i) Collaboration

**KEY MESSAGE**: How today’s collaboration efforts merely scratch at the surface of true potential

All session participants are in some form of collaboration with their trading partners, from vendor managed inventory (VMI) to joint business planning. Participants consistently acknowledged that today’s collaborative efforts merely scratch at the surface of the true potential across the value chain. Whether limited in scope or not managed systematically across the organization, they fall short of dramatically addressing operating cost and working capital while lifting the top line.

Aligning the joint objectives of the programs and defining and prioritizing various sources of data are critical.

Success rests on leveraging the unique insights of many different sources of information—combining traditional data sources on retail shelf performance with inputs from social media efforts. Syndicated data, retailer supply chain information, downstream retailer POS information and customer loyalty data provide many, and often varied, views of customer performance and shopper and consumer behavior.

CPG companies should seek to understand how the data is used within their retailer partner’s organization, including key terms, metrics, operational structures and segmentation approach. If a CPG company comes with insights that are not aligned with the retailer’s view, the insights may be overlooked and the opportunity lost.

Participants highlighted the compelling need for CPG companies to align their data warehouses and insight efforts with the way the retailers segment. Effective retailer collaboration begins with effective internal collaboration. If the CPG manufacturer has not established internal cross-silo interactions, it will be hard to develop effective collaboration with sustainable and scalable benefits for retail partners. For instance, demand forecasts built using POS and store inventory data are found to be a better predictor of demand than traditional sales and operations planning efforts (*See Del Monte Foods Case Study in Appendix*).

Participants discussed the need to segment and identify the “right” partner. Data quality and timeliness are critical to driving actionable feedback, so involving retailers early in the process ensures they will be engaged and become part of the solution. CPG manufacturing companies should not just review insights; they should partner with retailers throughout the whole process. Identifying retailers willing to partner in this manner is critical.

Additionally, participants highlighted the need to continue evaluating the manufacturer-retailer collaboration as e-tailers emerge and play a bigger role. Segment share, category management and other activities will center on CPG manufacturing companies asking, “Am I getting my fair share?”
ii) Retailer Data

**KEY MESSAGE:** Clear definitions for data and usage will improve overall effectiveness

One problem organizations do not have is coming up with ways to obtain information—data warehouses are proliferating. Simply amassing data is not the goal, nor the answer, of course. The real challenge lies in dealing with the variety of data sources and integrating and synchronizing them to mine true insights. Incorporating syndicated and retailer-supplied data to leverage the information requires harmonization and data cleansing.

While CPG companies must maximize the return from data already collected, most organizations do not actually know what information is already collected. So their first task will be to assess what data they need. Having a clear grasp of the usefulness of the existing data and the expected return on investment will enable sound decisions to be made regarding what benefits will come from purchasing or securing additional data sources.
CPG companies should seek to understand how the data is used within their retailer’s organization, including key terms, metrics, operational structures and segmentation approach. If a CPG company comes with insights that are at odds with the retailer’s views, the chances are the insights may not be sufficiently understood, and the opportunity to drive the desired action lost.

An additional challenge is creating an integrated view of the customer, considering the significant increase in social media and collection of its data. The opportunity awaits for establishing standards for data collection and sharing of social media data.
iii) Analytical Capabilities

KEY MESSAGE: Functional silos create challenges for developing and acting on effective insights

Driving insights and creating change requires more than just analyzing retailer data. The organization must be aligned and committed to change. Most organizations still have functional silos and key groups, such as sales and operations, that fall short in collaborating with, for example, supply chain or manufacturing. Analytics have been found to meet the needs of some functional areas, but cross-functional analytics pose a problem. Participants agreed that in most cases they need to focus the organization on developing a strategic approach to data.

Model-practice organizations use focused collaboration teams to analyze cross-enterprise information and identify insights to drive change. The team often includes a data steward whose job is to ensure data accuracy and timeliness so that insights are as accurate and actionable as possible. This does not mean pursuing a single view of the truth; rather the intention is to understand the diversity of views and the one that is chosen to take action.

The opportunity here lies in establishing cross-functional teams and identifying the right talent to drive the efforts. In assembling the team it is important to appoint members who are at a sufficiently high level to understand the needs of the organization and the challenges presented, and have the ability to take charge of the change required.
iv) IT and System Capabilities

**KEY MESSAGE:** Existing IT systems will likely need to be supplemented to provide new analytical capabilities, including downstream data and real-time notifications.

IT departments for CPG manufacturers are under strain as they scramble to collect, analyze and disseminate multiple streams of data in a timely and consistent manner. If they are delayed, silos in the organization tend to seek out their own sources and repositories of information—which only complicates matters. A structured and disciplined approach is needed to harness the multiple streams of existing and emerging sources of information. To this end, a centralized master data warehouse or Demand Signal Repository (DSR) is seen as critical.

**Legacy systems.** As new data sources and retailer reporting requirements continue to be introduced, relying on home-grown solutions will typically create challenges.

**Enterprise resource planning (ERP).** For many companies, existing ERP solutions are employed to house data. However, these tools may not provide the necessary level of functionality and capability.

**Commercial off-the-shelf (COTS).** Leveraging COTS solutions may also play a role in setting and managing expectations across the enterprise regarding what is feasible from a data analysis standpoint. This does not mean that large ERP solutions should be implemented.

**Software-as-a-service (SaaS).** Companies such as Del Monte have employed SaaS-based solutions effectively and rapidly to leverage downstream data and store-level demand signals, drive supply chain execution in real time.¹

Companies should review their overall data and application architecture to evaluate overall needs, and to make the necessary investments in solutions that will provide them the capabilities they need across the organization, as opposed to within departmental silos. There are numerous providers in the space now that specialize in processing downstream data and other emerging data sources. They provide an opportunity to validate the effectiveness of retailer data without having to make a significant fixed-cost investment.

Overall, while IT investments will be needed to support the collection and analysis of retailer data, organizations should not view this part of the process as a silver bullet. Participants agreed that addressing organizational alignment and overall operating processes are critical. As Del Monte shared with the audience, it estimates that process change drove 90 percent of the benefit of its retailer collaboration activities. The message: While tools are critical, organizations must ensure their operating practices and processes are sufficiently enhanced and aligned to deliver the full benefits of collaboration.

¹ See Del Monte Foods Case Study in Appendix.
APPENDIX:
Del Monte Foods
Case Study
Using Demand Driven Data for Supply Chain Execution

Bill Pollard
Del Monte Foods
February 9, 2011
What do High Impact Results Look Like?

**For Del Monte**

- Improved customer order fill rate to 99+%
- Decreased inventory by 27%
- Invested in strategic projects with 2 year payback
- Received Supplier of Year awards and Gold status from multiple retail customers

**For Our Customers**

- Improved store in stocks to 99+%
- Decreased inventory for Del Monte products by 30+%
- Achieved negative working capital

*Game changing service levels – WHILE lowering cost and improving balance sheet*
• Del Monte at a Glance
• Program Evolution – Three Transformations
• Demand Driven – Myth v. Del Monte Realities
• Guiding Principals & Key Takeaways
• Q&A
Del Monte - Nourishing Families, Enriching Lives, Every Day

PET PRODUCTS

- ~$1.7B Sales
- ~20% OI Margin
- High Margin
- Earnings Accelerator
- High Growth

CONSUMER PRODUCTS

- ~$2.0B Sales
- ~11% OI Margin
- Dependable Margin
- Cash Flow Generator
- Steady Growth

Integrated Supply Chain/Sales Force

Source: Reflects F10 Data
Over 1300 growers supply Del Monte Fruits, Vegetables and Tomatoes
Meat proteins and grains are the inputs to pet food

41 Manufacturing and Co-Manufacturing locations in the US

10 strategically located DCs
Over 5,500 ship-to locations.
2,500 SKUs.
Del Monte Supply Chain Vision

• Become a **VITAL** Supplier by providing value for our customers not available from any competitor
  – Put the customer first and deliver best in class customer service
  – Work with each Retailer the way they want – driven by their metrics and scorecards

• Use downstream data and store level demand signal to *directly drive supply chain execution in real time*
  – Objective is to achieve high store in-stocks (99%+) *while targeting negative cash conversion for our retail customers*
  – Reduce lead times and increase responsiveness

BUY 1  ←  MAKE 1  ←  REPLENISH 1  ←  SELL 1
Customer Awards and Accolades

- **Multinational Retailer**: Pet Supplier of the Year
- **National Club Retailer**: 100% rating on 2010 vendor scorecard
- **National Mass Merchandiser**: #1 Supply Chain Vendor two consecutive years
- **National Grocery Retailer**: VIP Supply Chain Vendor
- **National Grocery Retailer**: Gold Supply Chain Vendor and #1 vendor in November
- **National Mass Merchandiser**: Top 5 Supply Chain Vendor two consecutive years
- **Regional Grocery Retailer**: Gold Standard Vendor
- **National Pet Specialty Retailer**: VIP Vendor
Agenda

- Del Monte at a Glance
- Program Evolution – Three Transformations
- Demand Driven – Myth v. Del Monte Realities
- Guiding Principals & Key Takeaways
- Q&A
What Do We Mean By “Demand Driven”

• Traditional approach to replenishment relies on a monthly or weekly forecast and **reacts** to customer orders.
• Del Monte uses store level demand signal to **directly drive supply chain execution in real time to**:
  • **Increase sales** by focusing on the “Ulti-metric” of store in-stocks
  • **Reduce working capital** by eliminating redundant inventory between DCs and Stores.
  • **Improve return on assets** by increasing utilization in DCs from reduced pallet storage requirements
Old Replenishment Model

**SELL**

Retailer Stores

**REPLENISH**

Retailer DC’s

**MAKE**

Del Monte DC’s

Del Monte Plants

Demand Signal
Demand Driven Replenishment Model

SELL
Retailer Stores

REPLENISH
Retailer DC’s

MAKE
Del Monte DC’s
Del Monte Plants

Demand Signal
First Transformation

Internal to the Enterprise

Supply Side

Demand Side
1. Demand Driven Internal Improvements

• Objective: Improve service to customers AND generate working capital from reduced DOS
• Approach: Use store level demand data from retailers to:
  – Build factory to DC replenishment orders
  – Reduce safety stock and free working capital
Two key platforms that helped us get here

- Starts with an *Enterprise Volume Forecast* (EVF)
- Focus on drivers of volume
- Identifies supply/demand imbalances
- Monthly process

- Starts with POS demand signals
  - *Directly* drives item-store execution
  - Daily process
  - Corrects for order level variations to forecast

Traditional S&OP falls short without integrated demand driven operating model
Demand Driven Results

Before
- Inconsistent fill rates
- High Inventories
- Low forecast accuracy - Product Segment, Item and Item DC

Today
- 99%+ case fill rates
- 98% to >99% in store in stock at key customers
- Inventory reduced 27% in 2 years
- Forecast accuracy improved 400bp at product group level and >20% at item-DC level.
- Awards from some of the largest retail customers for supply chain excellence.

Case Fill

Average fill rate improved >100 bp.
Std dev reduced > 60%
Second Transformation

External with Customer

Supply Side

Demand Side
2. Demand Driven Collaboration with Customer

**Objective:** Utilize store level demand data to improve store in-stocks and reduce inventory

**Scope:** Two DCs and approximately 300 stores of one of Del Monte’s major customers. All Del Monte pet food items.

**Approach:** Del Monte VMI analyst and Retail replenishment manager view daily exception reports for potential out-of-stocks and for excess inventory

Adjust VMI orders to protect store in-stocks and lower total system inventory
OLD OBJECTIVES

- DC Service to Store
  - Does not account for store over or under ordering
  - Does not assure store in-stock
- DC Days of Supply
  - Can duplicate store inventory

NEW OBJECTIVES

- Store in-stock
  - Places inventory at the shopper “moment of truth”
  - Aligns functional objectives
- Total system inventory
  - Uses DC as a “shock absorber”
Demand Driven Inventory Results

Reduced DC DOS by 44% and variability by 50%.

DC DOS - Retailer Test DC 2

- Std Dev+  
- Avg Days of supply (DC)  
- Std Dev-
Industry vs. Best In-Class

Source:
- Industry Average Store In-Stock %: ARC Advisory Group, Shelf-Level Collaboration Article, March 2010.
- Industry Average DC DOS: Average of Del Monte VMI Customers.
- Industry Average Store DOS: Assumes same as demand-driven replenishment pilot case.
- Baseline data: Average values before inception of demand-driven replenishment pilot.
Reduced retailer DC pallet space by 65%
Third Transformation

End to End: Customers and Suppliers

Supply Side

Demand Side
3. Link Customer Demand to Supplier Forecast

• Objective: Utilize Customer Demand data to reduce working capital in the form of raw material inventory and production downtime due to material shortages

• Scope: 600+ key suppliers, all Del Monte production facilities

• Approach: Provide customer demand visibility to our suppliers and CoMFG partners in REAL TIME. Manage inventory and orders across enterprises
  – Enable supplier visibility to their inventories in Del Monte locations and the production schedules to consume that inventory
  – Enable suppliers to place their own replenishment orders to maintain in-stocks with lower total system inventory
  – Maximize adoption: Del Monte is investing in the capability. Suppliers are only responsible for integration costs and process change.
Demand Driven Replenishment Model

SELL  →  REPLLENISH  →  MAKE

Retailer Stores  Retailer DC’s  Del Monte DC’s  Del Monte Plants  Suppliers

Demand Signal
Demand Driven Supply Management

- Supplier CPFR
- Automated Contract Management
- Demand Driven VMI
- Replenishment Execution
- Inventory Visibility
- Demand Visibility
- Supplier On-boarding
- Process Change

Del Monte Foods
Agenda

• Del Monte at a Glance
• Program Evolution – Three Transformations
  • Demand Driven – Myth v. Del Monte Realities
• Guiding Principals & Key Takeaways
• Q&A
## Demand Driven – Our Findings

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<th>Del Monte Reality</th>
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<tr>
<td>1. To deliver results, we will need an ERP, an army of external resources, and a big bang implementation</td>
<td>1. Capabilities were delivered using best of breed SaaS by internal resources over phased roadmap</td>
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<tr>
<td>2. Results will take years to reach full scale and we will pilot all projects</td>
<td>2. Results were designed to deliver payback in same fiscal year and scaled to network</td>
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<tr>
<td>3. Benefits to using downstream data for Del Monte and trading partners will be difficult to measure and track</td>
<td>3. Benefits of using downstream data have been significant to Del Monte and our retailers</td>
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<tr>
<td>4. New tool will drive majority of benefits</td>
<td>4. Process change drove 90+% of benefit</td>
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Agenda

• Del Monte at a Glance
• Program Evolution – Three Transformations
• Results

- Guiding Principals & Key Takeaways

• Q&A
Our Guiding Principals

• Take 360 degree view of your enterprise to find opportunities
  – We are both a consumer and a producer of downstream data
  – Deploy capabilities with both retailers and suppliers

• Define program goals and objectives – and measure them frequently

• Drive adoption – it is key to program success
  – If your internal and external practitioners adopt and stay engaged, the other fundamentals are working

• Costs must be market driven and align with benefit realization
  – Del Monte does not charge our suppliers for demand driven tools

• Focus on USING the data – not simply capturing it
  – Amount of data (# stores, items, frequency, etc.) is astronomical
  – BUT the real differentiator is that we are using it to drive supply chain
Thank you and Questions