



# Unsaleables 101





Food Marketing Institute (FMI) conducts programs in research, education, industry relations and public affairs on behalf of its 1,500 member companies — food retailers and wholesalers — in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores with a combined annual sales volume of \$340 billion — three-quarters of all food retail store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from 50 countries. For more information, visit the FMI Web site at [www.fmi.org](http://www.fmi.org).



The Trading Partner Alliance (TPA) is a joint industry affairs/industry relations leadership group that was formed by GMA and FMI in January 2009. The TPA exists to develop a shared retailer-manufacturer agenda on supply chain efficiency issues, the application of information technology, the adoption of environmentally-friendly business practices and other issues. This common agenda is executed jointly by the FMI and GMA staffs and is overseen by the boards of directors of both organizations.



The Grocery Manufacturers Association (GMA) is the trade organization representing the world's leading food, beverage and consumer products companies and associated partners. The U.S. food, beverage and consumer packaged goods industry plays a unique role as the single largest U.S. manufacturing employment sector, with 2.1 million jobs in 30,000 communities across the country that deliver products vital to the wellbeing of people in our nation and around world. Founded in 1908, GMA has a primary focus on product safety, science-based public policies and industry initiatives that seek to empower people with the tools and information they need to make informed choices and lead healthier lives. For more information, visit [gmaonline.org](http://gmaonline.org).



A Brambles Company

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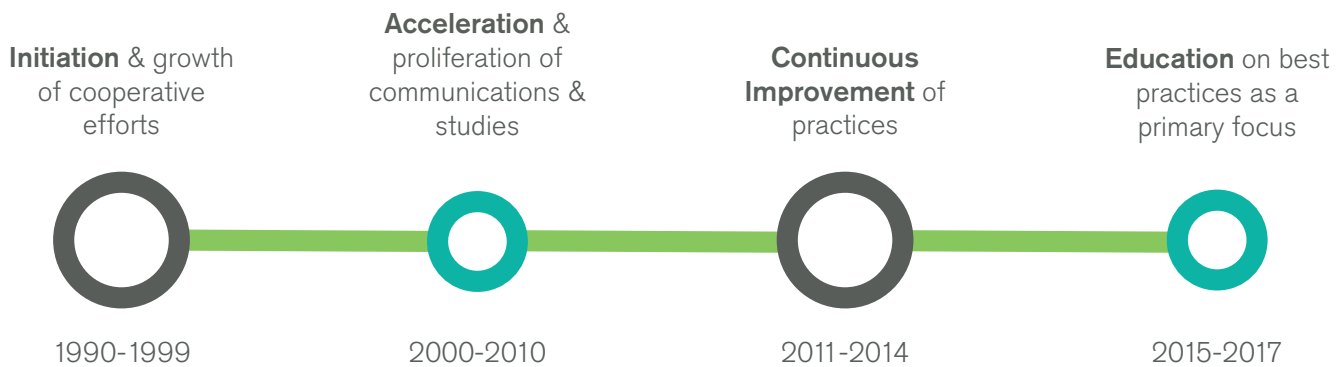
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# **A Brief History of Unsaleables**

## A Brief History of Unsaleables

The purpose of a supply chain is to profitably produce goods and distribute them to consumers. In the US marketplace, about 1.2% of consumer packaged goods (CPG) consistently fail to reach the intended end users because the products are either damaged, expired, or discontinued (1). Allowing product to become unsaleable is obviously wasteful and costly (the exact cost is difficult to determine, but \$15 billion annually is an accepted approximation (1)). In 1990, the CPG industry began a concerted effort to mitigate these losses by bringing manufacturers and distributors together to share responsibility for reducing unsaleables (2). This endeavour marked the beginning of an evolution in unsaleables management that can be viewed in four phases:



The exact cost of unsaleables is difficult to determine, but **\$15 billion** annually is an accepted approximation.



## PHASE I: INITIATION

Up until the early 1980s, manufacturer sales reps picked up unsaleable product directly from stores. At that time, the vast majority of unsaleables was damaged product, for which the manufacturer fully reimbursed the retailer. As the industry grew, it was recognized that damaged product could be managed more efficiently if the items were consolidated in central locations.

As reclamation centers grew rapidly in the 1980s, to over 500 centers, some manufacturers began to think retailers were taking advantage of the situation by charging for damage caused by the retailer, or processing excess product to generate additional revenue.

In order to ensure an equitable and efficient system for processing unsaleables, a joint industry project was initiated with the cooperation of the Food Marketing Institute (FMI), the Grocery Manufacturers of America (the precursor to the Grocery Manufacturers Association), the National Association of Chain Drug Stores (NACDS), the National Grocers Association (NGA), Food Distributors International (FDI), and the National Food Brokers Association (NFBA). The mission statement of this project highlighted reducing unsaleables by identifying causes of product damage and removing unsaleables from distribution quickly and efficiently. The project emphasized shared responsibility between manufacturers and distributors. It was explicitly stated that “the intent of the reclamation process was not to enhance profitability for either the manufacturer or the distributor” but to “create a level playing field for all” (2).

In 1990, the **Joint Industry Report (JIR)** became the industry’s unsaleables standard.

This 1990 joint industry report (JIR) became the industry’s unsaleables standard and laid the foundation for the reclamation process we know today. It provided guidelines for the handling and disposition of damaged products, and for reimbursement. According to the guidelines, if the damaged product was the manufacturer’s responsibility, the manufacturer reclaimed possession and reimbursed the distributor.

In order to track the progress of the industry’s efforts on unsaleables, the Joint Industry Unsaleables Leadership Team (JIULT) was formed in 1992.

The mission of the JIULT was and still is to provide strategies, educational content and tools to help retailers, distributors and manufacturers reduce the volume of unsaleable goods within

the CPG value chain by:

- Developing strategic management applications
- Identifying and sharing successful practices and recommendations
- Acting internally on root cause drivers
- Creating educational platforms
- Collecting and disseminating industry intelligence on emerging trends and developments

One of the early efforts by the JIULT was to initiate a series of annual benchmark reports that began in 1995 and continued up to 2008. These reports provided recurring updates on the state of the industry and unsalable rates by means of regular surveys of manufacturers and distributors. Most of the benchmark reports are available through the GMA website:

[www.gmaonline.org/issues-policy/collaborating-with-retailers/sales-and-marketing/unsaleables](http://www.gmaonline.org/issues-policy/collaborating-with-retailers/sales-and-marketing/unsaleables)



## PHASE II: ACCELERATION

The benchmark reports provided increased scrutiny of unsaleables, and it became apparent that rates were steadily rising. From 1995 to 2001 the level of unsaleables rose from 0.75% to 1.14% (4). Manufacturers again felt that they were paying more than their fair share of the cost, partly because retailers had little incentive to reduce the flow of goods into reclamation centers.

As stated by Baskak and Ford of Harvard Business School: “It was against this backdrop that manufacturers developed a new approach to reduce their cost of unsaleables and further the principle of shared responsibility by implementing adjustable rate policies” (4).



The adjustable rate policy (ARP) was a new concept, first introduced in 1997, through which manufacturers reimbursed distributors not by taking back title to damaged product, but by prepaying set amounts based on recurring unsaleables audits.

These audits were usually conducted by 3rd party service providers at plants, distribution centers, and stores. In addition to guiding reimbursement rates, the data could be used to identify root causes and strategies for reducing unsaleables. Using a predetermined level of reimbursement theoretically provided distributors with more incentive to improve their practices and reduce flows into reclamation centers because they now had more “skin in the game”.

In addition to the introduction of ARPs, and their rapid adoption by a majority of large manufacturers, other changes became apparent during the 2000s:

- In many cases, the amount of materials used in consumer packaging shrank in response to sustainability efforts, leading some to be concerned about the potential for increased product damage
- Despite the point above, the amount of expired and discontinued product in reclamation centers increased relative to damaged product
- Open code dating expanded, allowing consumers to read more product expiration dates, which contributed to an increase in expired product
- The proportion of reclamation centers run by third parties increased
- There was a growing belief that more cooperation was required in order to effectively manage unsaleables

It became clear that multiple variables were contributing to unsaleables, and that trading partners would have to take a broader view of the supply chain in order to reduce the problem.

GMA and FMI published several reports on specific topics around unsaleables, including white papers on Product Discontinuation in 2001 (5), Adjustable Rate Policies in 2002 (4), Expired Products in 2003 (6), and the Impact of Sales and Procurement on Reverse

Logistics in 2010 (7). There were also two updates of the Joint Industry Recommendations in 2005 (8) and 2008 (1).

After 10 years of publications and conferences, much had been learned about how to reduce unsaleables. Many practices were identified that made use of auditing, data sharing, package improvement, incentives for gentler handling practices, and cooperation between supply chain partners.

The unique challenge of unsaleables management, however, is that employees must work to maximize the benefits for their own organizations while simultaneously striving to improve the supply chain as a whole. Even if both parties agree on the concept of shared responsibility, there is the potential for tension between trading partners who are trying to obtain the best outcomes for their own companies.



## PHASE III: CONTINUOUS IMPROVEMENT

As the impacts of unsaleables are far ranging (from food waste and landfill usage, to diminished product availability for consumers, strained trading partner relationships, and financial burden for everybody) retailers, wholesalers and manufacturers have continued to test and improve their best practices. There has been a general agreement that alignment and collaboration between trading partners, coupled with a willingness to act on improvement opportunities, are key to reducing the overall incidence of unsaleables.

In the spirit of collaboration, the FMI-GMA Trading Partner Alliance (TPA) was created with a comprehensive focus on supply chain efficiency and adoption of environmentally-friendly business practices.

In 2015 the JIULT agreed to reinvigorate the conversation and make new progress by redoubling its efforts on best practices and creating an educational platform to help companies manage unsaleables and reduce overall supply chain expenses.



## PHASE IV: EDUCATION

From the earliest efforts of unsaleables management, there have been two parallel streams of activity: the development of practices to reduce unsaleables, and the establishment of policies to assign accountability for unsaleables. These two streams have historically been addressed simultaneously as two aspects of the same problem. Good handling practices, however, don't necessarily have to be connected to specific reimbursement programs. That is the perspective in which the present educational platform has been developed.

The key to education is to **publicize** the industry's best practices and **share** the **knowledge** that has been developed over the last 25 years.

Policies, financial terms, or other trade arrangements are outside the scope of this document. The intent is rather to publicize the industry's best practices and share the knowledge that has been developed over the last 25 years, while allowing trading partners to privately negotiate their reimbursement transactions. In the spirit of joint effort and shared responsibility, it is hoped that the best practices described in this platform continue to develop through input from the users. The sharing of new findings and methods will help all trading partners.

# **An Introduction to the Best Practices for Reducing Unsaleables**

## An Introduction to the Best Practices

The detailed descriptions of the best practices are contained in the accompanying portion of the educational platform. The best practices in the educational platform are presented in seven modules broken into three groups.

### I. Collaborative Practices

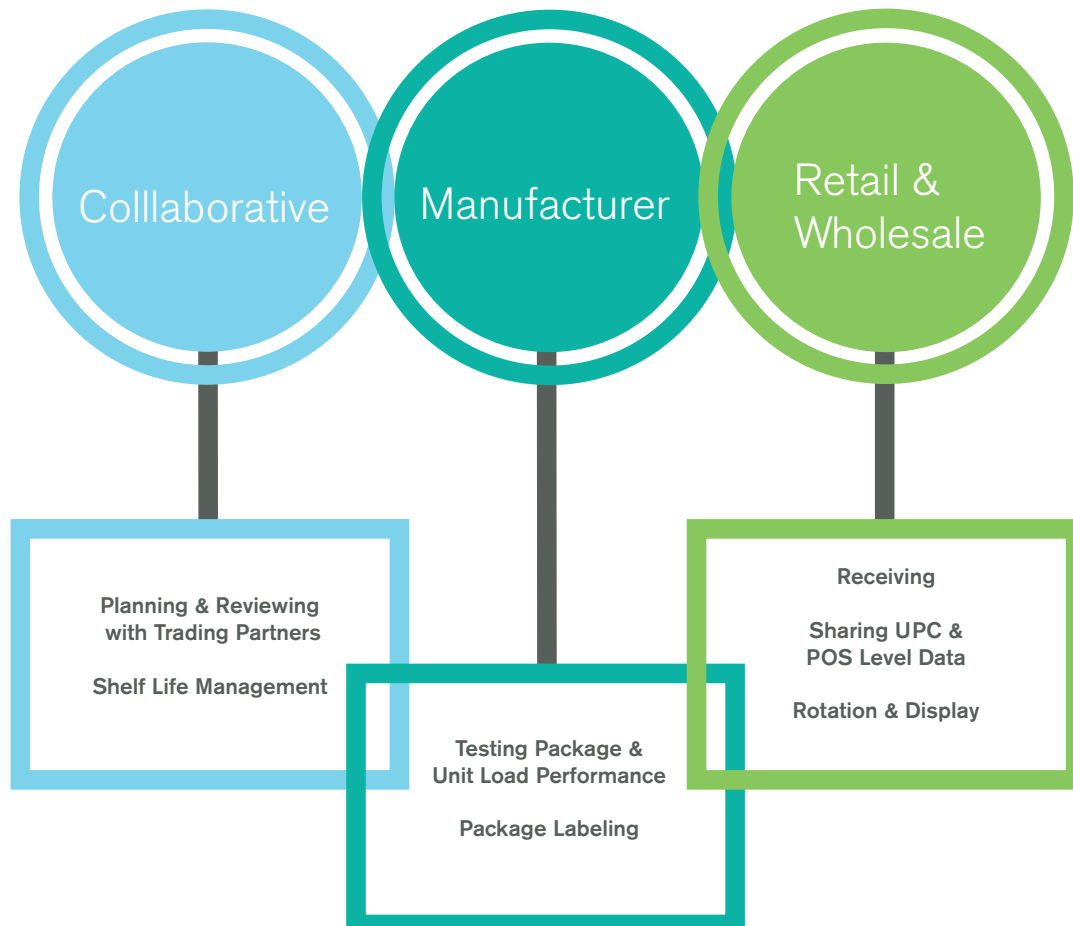
1. Planning and Reviewing with Trading Partners
2. Shelf Life Management

### II. Manufacturer Practices

1. Testing Package and Unit Load Performance
2. Package Labeling

### III. Retail and Wholesale Practices

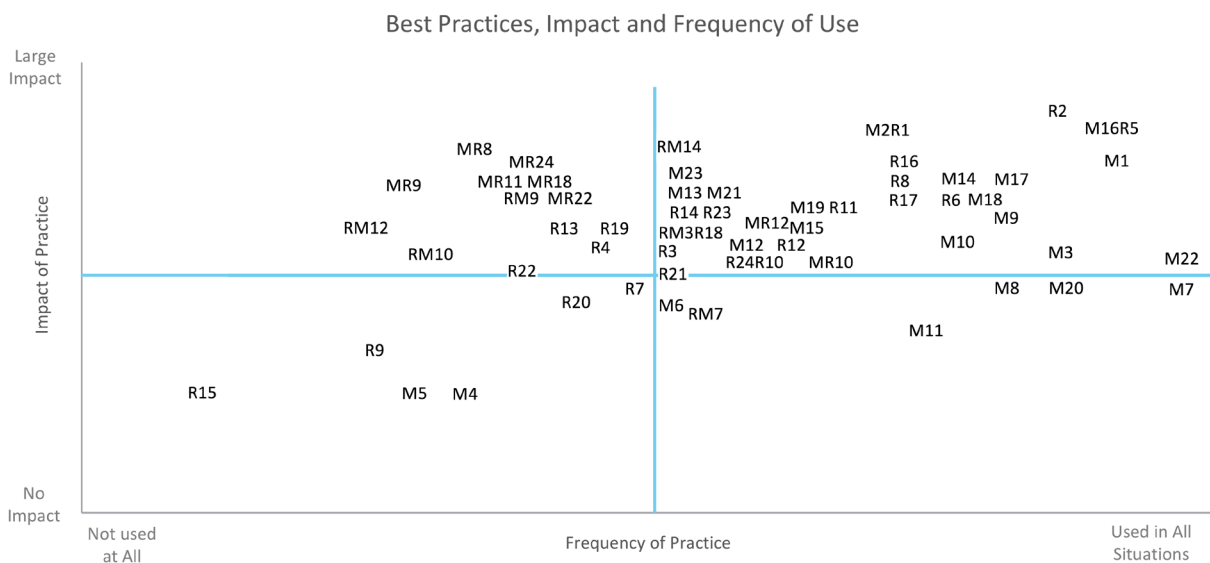
1. Receiving
2. Sharing UPC and POS Level Data
3. Rotation and Display



JIULT committee members defined these practices and elaborated on their relevance and implementation as detailed in the “Best Practices” portion of the educational platform. The JIULT engaged CHEP to utilize their expertise in supply chain operations to assist with quantifying and prioritizing the best practices. A survey of 26 manufacturers and distributors was conducted in early 2017.

The survey was designed to **prioritize** the various practices based on **impact and frequency** of use.

The survey results are shown in the figure below. The purpose of this graph is to show the relative importance of each practice based on the opinions of industry practitioners. The practice associated with each data point is identified in Appendix 1. Symbols in the graph beginning with the letter “M” show manufacturer opinions about manufacturer practices; “R” denotes retailer and wholesaler opinions about retailer and wholesaler practices. “MR” refers to manufacturer opinions about retailer or wholesaler practices. “RM” refers to retailer and wholesaler opinions about manufacturer practices.



The X axis, shows the **frequency of use** with a numerical scale of 1 (not used at all) to 5 (used in all situations). The Y axis, shows the **impact of each practice** using a numerical scale of 1 (no impact) to 4 (large impact). The upper right quadrant contains the high impact practices that are currently in frequent use. These are the best practices that the industry should be encouraged to continue. The upper left contains the practices that are potentially high impact, but could be used more. It's notable that most data points in the upper left quadrant were either retailers' opinions about manufacturers or vice versa. This illustrates differences in perspective between the two parties and may represent good areas to target for more collaboration and increased communication. The lower half of the graph contains practices that were recommended as potentially important by the JIULT Team, but were judged to have relatively low impact by those surveyed. All of the practices are grouped, described, and elaborated on in the "Best Practices" portion of the educational platform.

## **Conclusion**

At a cost of approximately \$15B annually, unsaleables is both a massive opportunity and at the same time a challenge. Many organizations are already reducing unsaleables and have shared their experiences by quantifying the best practices outlined in this report. If process improvement efforts can eliminate as little as 1% of the unsaleables problem, the potential savings is greater than \$100M.

The first recommended step to reducing unsaleables is to conduct an assessment of any supply chain processes currently in place that impact unsaleables in the organization. The assessment should focus on measuring the effectiveness and efficiency of each process and should span the supply chain end-to-end. Once the assessment quantifies the processes, build an action plan that determines which current processes should be improved and which new processes should be implemented to achieve the biggest reward. Identify process owners. Implement success measures and develop ways to monitor them over time. By learning from others' efforts and implementing some of the more impactful best practices outlined in this report, a portion of that \$15B can be saved in each organization.

# Appendix I:

M= Manufacturer Practices

R= Retail and Wholesale Practices

It is understood that there is overlap in many of the practices.

The committee determined that the following topics would be outside the scope of this project:

- Fresh produce
- Fresh meats
- Direct store delivery
- Hazardous waste
- Reimbursement policies
- Financial terms
- Other trade arrangements



## Best Practice Identification

**M1:** Thoroughly test the total shelf life of new products during development

**M2:** Test packaging throughout the supply chain; evaluate how it will perform during movement on pallets, in different layers or in different shipper cases

**M3:** Clearly mark “best if used by” dates on the outside of case packaging (shippers)

**M4:** Indicate on the case which way the product is designed to be clamped

**M5:** Provide customers with instruction on how to interpret handling symbols on packaging

**M6:** Build redundancy into manufacturing lines - print date and identification codes on both sides of cases

**M7:** Follow industry guidelines (GS1 recommendations) for case labeling

**M8:** Require approval for deviations from industry standards

**M9:** Factor in shelf life at time of sale - i.e. set a practical minimum shelf life for all customers

**M10:** Allow flexibility in minimum buy volumes for new products at different customer distribution locations

**M11:** Provide customers with clear instructions on how to set up new promotional displays

**M12:** Conduct post promotion audits and share results with trade partners

**M13:** Conduct regular collaborative spoil reviews, either monthly, quarterly, or twice per year

**M14:** Have an agreed upon strategy and lead-time to communicate discontinued items; give retailers and sales teams adequate time to adjust ordering patterns

**M15:** Factor in product shelf life and velocity when planning product case counts and order increments

**M16:** Ship products using FIFO (First In First Out) method

**M17:** Periodically evaluate and update methods of palletizing, loading, and bracing

**M18:** Provide ongoing training for warehouse personnel on palletizing, load stabilization (stretch wrap), loading, and bracing

**M19:** Audit unit load stability and handling practices

**M20:** Record product code date at time of shipment

**M21:** Monitor inbound damage at select customers

**M22:** Provide customer credit for products that arrive damaged

**M23:** Work with select customers to audit inbound loads at their distribution centers

**R1:** Check and record date code (shelf life) at time of receipt at DC

**R2:** Remove damaged product at receipt

- R3:** Hold third party distribution centers accountable for their distribution damage performance
- R4:** Ensure that the receiving process incentivizes damage reduction
- R5:** Employ a process to review aging product in the warehouse
- R6:** Use a set date range of remaining shelf life to trigger expedition of product to stores
- R7:** Employ a process that informs stores when they are receiving short coded product
- R8:** Have a separate accounting of damage caused in the distribution facility as opposed to damage coming from manufacturers
- R9:** Use a third party to measure unsaleables and develop actions to improve processes
- R10:** Ensure product is merchandised according to manufacturer's standards
- R11:** Employ a process to verify that appropriate quantities of promotional items are displayed at store level; ensure promotional quantities are not sitting in a back room, or being displayed too late for an ad
- R12:** Have a set cadence for reviewing the introduction of new items to forecast the replenishment of new items both at warehouses and stores
- R13:** Use financial incentives (with measurements) to manage unsaleables at DCs and stores
- R14:** Use point of sales data, not previous orders, to determine promotional quantities
- R15:** Solicit consumer feedback on product or packaging issues that may drive unsaleables
- R16:** Use proper rotation based on expiration dates, i.e. Utilize a set schedule for rotation within different sections of the store
- R17:** Audit product rotation practices
- R18:** Mark down near expired product to sell through
- R19:** Do not pull unexpired product prematurely
- R20:** Evaluate suitability of dump bins and other display devices
- R21:** Ensure proper stocking behavior and handling of displays/(razor cuts, crushed corners, etc.)
- R22:** Review product assortments prior to display transition to identify high unsaleables items
- R22.1:** Have an agreed upon strategy and lead-time to communicate discontinued items; give manufacturers and sales teams adequate time to adjust ordering patterns
- R23:** Know product velocity at different stores and manage accordingly
- R24:** Analyze damage and expiration by SKU and share data with manufacturer

# Appendix II:

A Note on Extrapolating Unsaleables Costs

## **A Note on Extrapolating Unsaleables Costs**

Historical publications have shown some discrepancy in estimating the overall cost of unsaleables nationwide. Variability in the measurement of unsaleables is to be expected due to sampling error and actual fluctuations in the factors being measured. The large discrepancies in historical unsaleables publications, however, are a result of using different variables for extrapolation.

For example, in the 2003 publication on expired product, the unsaleables rate was estimated to be 0.95% based on the survey data from the 2002 Benchmark Report. The associated cost nationwide was estimated at \$2.5 Billion based on a total US product cash value of \$585 Billion, and an estimated 45% of the products being delivered via warehouses.

$$\$585 \text{ Billion} \times 0.95\% \times 45\% = \$2.5 \text{ Billion}$$

In contrast to this estimate, in the 2008 Joint Industry Unsaleables Report, the unsaleables rate was estimated to be 1.21% based on that year's survey data. The extrapolated cost was estimated at \$15 Billion based on 2006 Food and Beverage and Health and Beauty sales of \$1.23 Trillion. No proportional factor was used to limit the product to that delivered through warehouses.

$$\$1.23 \text{ Trillion} \times 1.21\% = \$15 \text{ Billion}$$

The ratio between the two unsaleable rates is  $1.21/0.95 = 1.27$   
The ratio between estimated costs is  $15/2.5 = 6$   
The cumulative inflation rate from 2002 to 2008 was 19.7%, so the \$2.5 Billion would have risen to \$2.99 Billion based on inflation.

It is debatable which value is more appropriate, but it's important to understand why the discrepancy exists. It is also laudable that both authors provided enough background information so that the discrepancy could be explained.

# Appendix III:

Glossary of Terms and Acroynms

## Glossary of Terms and Acronyms

**Adjustable Rate Policy** — A monetary cap on the amount a manufacturer pays distributors for unsaleables. These caps can be adjusted, up or down, based on statistically relevant sampling of supply chain touch points to establish the portion of unsaleables that are the manufacturer's responsibility.

**CPG** — Acronym for Consumer Packaged Goods.

**Cause of Damage** — How a product came to be damaged. Often confused with the type of damage (product condition). For example, "razor cut" describes the visible damage — not why or how it happened. Some causes of razor cuts have been found to be poor case design and improper opening techniques.

**Closed Coded** — Date stamp where the expired date is unreadable without knowing how to decipher the code. Contrasted with "Open Coded" - A date stamp where the expired date is easily understandable.

**DC** — Acronym for Distribution Center.

**Damaged Goods** — Unsaleables products that are physically damaged, e.g., broken, cut, crushed, dented, etc.

### Discontinuation Sub-Glossary:

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

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

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

**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.)

**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.

**Type of discontinuation** — The reason the product is discontinued, i.e., the "cause" of the discontinuation.

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

**Expired Product** — Product that is removed from distribution based on the date code printed on the package or case. Manufacturers determine the code date based on quality parameters.

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

**FEFO** — Acronym for First Expired First Out.

**FIFO** — Acronym for First in First Out.

**FMI** — Acronym for the Food Marketing Institute.

**Food Banks** — Non-profit organizations that accept unsaleables from a reclamation center and process them along with other donated products for distribution to local feeding agencies, such as soup kitchens and food pantries.

**GMA** — Acronym for Grocery Manufacturers Association.

**GS1** — The not for profit international organization that develops and administers business communication standards, e.g. universal product codes (barcodes).

**Joint Industry Report (JIR)** — The first in a series of reports on unsaleables. The 1990 JIR set out guidelines for using reclamation centers and established the first joint industry reimbursement policy recommendations.

**JIULT** — Acronym for Joint Industry Unsaleables Leadership Team.

**Open Coded** — Date stamp where the expired date is easily understandable. Contrasted with "Closed Coded" - Date stamp where the expired date is unreadable without knowing how to decipher the code.

**Platens** — A flat plate on a forklift, one that exerts or receives pressure.

**Policy** — A written document that states a company's position and practices with trading partners. An unsaleable policy guides discussions and practices with trading partners on the handling and disposition of unsaleables and on the reimbursement practices.

**POS** — Acronym for Point of Sale.

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

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

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

**Reimbursement** — Generally refers to the manufacturer's payment to a distributor or sales agent for unsaleables. Sales agents may also reimburse stores for unsaleables.

**Returned Goods** — Generally saleable products that are removed from the primary distribution channel and returned to the manufacturer. Examples include seasonal products, such as insecticides or garden seeds; cosmetics; and seasonal packs with guaranteed sales contracts. Prescription drugs and other controlled distribution products can be returned to the manufacturer for proper disposition.

**Shippers or Cases** — Secondary packaging that usually contains and protects consumer unit packaging, which in turn contains product. A group of shippers or cases are usually stacked in layers on a unit load.

**SKU** — Stock Keeping Unit. A number assigned to a product by a manufacturer or distributor for stock keeping purposes. SKUs are alpha-numeric and can vary in length. Each company assigns its own SKU to an item for internal inventory management. Each SKU can be embedded with various types of information such as size, color, etc. which is determined by the company assigning the SKU. (also see UPC)



**Swell Allowance** — A fixed percentage applied to all products invoiced by the manufacturer and delivered to the distributors' warehouse. Sometime referred to as "spoils allowance."

**Third Party (Service Provider)** — A company that provides unsaleable management services for one of the two trading partners. For example, a manufacturer could use a third party to collect unsaleable product or data. A distributor could use a third party to manage a reclamation center.

**TPA** — Acronym for Trading Partner Alliance.

**Type of Damage (Product Condition)** — Condition of an unsaleables product such as crushed, dented, soiled, out-of-date. Standard industry definitions are published in the 1990 Joint Industry Report: Product Reclamation Centers. Third-party auditors have more extensive categorizations, frequently called "causal factors."

**Unit Load** — A collective arrangement of unitized packages such as shippers stacked in layers, usually on a pallet or slipsheet. Unit loads are transported via truck, rail, ship, or intermodal container, and can be stored on the floor or in racks.

**Unsaleables** — Product removed from the primary channel of distribution, regardless of the reason for removal. This includes product discontinuations, damaged, seasonal or expired products.

**Unsaleables Rate** — Unsaleables, expressed in dollars, divided by gross sales. Rates can be determined for a total company, division, brand, SKU, customer, store, etc.

**UPC** — Universal Product Code. A twelve digit numeric code assigned to a product in order to track that product through the supply chain. Each product has one UPC code, which is used universally across all retailers. UPC codes are issued by GS1, the not for profit organization that administers the global use of bar codes. (also see SKU)

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● Retailer      ● Manufacturer

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## For Further Contact

For support and questions regarding Unsaleables best practices, contact CHEP at **(800) 243-7255 ext. 1**

To become an active member of the TPA or to express interest in joining the JIULT, contact Daniel Triot at **[dtriot@gmaonline.org](mailto:dtriot@gmaonline.org)**

