From Beginning to End: Collaborative Value Chain Strategies to Reduce Unsaleables

An Introduction to Our New Educational Platform
Collaborative Value Chain Strategies to Reduce Unsaleables

INTRODUCTION & BACKGROUND
We bring a diverse and robust range of experience
Unsaleables continues to be a massive opportunity

$12-15 Billion per year*

or...

If it were soda cans...

*Estimated from TPA 2017 survey; Deloitte 2008 Joint Industry Unsaleables Report; Inmar Benchmark Application 2017
The industry needs to focus on reducing unsaleables instead of accounting for them.
The TPA Joint Industry Unsaleables Leadership Team collaborated with CHEP to document best practices.
The scope of our effort was broad with few exceptions

In Scope
- All Types of Unsaleables
- Most Products

Out of Scope
- Trading Partner Relationships
- Fresh produce, fresh meats, direct store delivery
We conducted surveys and interviews to generate a holistic view of supply chain best practices

Interviews:
26 surveys with 18 in-depth interviews:
• Manufacturers (42%)
• Retails (46%)
• Wholesalers (12%)

Industries:
• Dry Foods
• Refrigerated / Frozen Foods
• Non-Food CPG
• Mass Retailers
• Grocery Retailers

Functions:
• Unsaleables & Reclamation
• Supply Chain
• Sales Operations
• Remarketing
• Distribution
We identified and prioritized 48 best practices

Results of the survey were quantified and helped the team prioritize and identify “Best in Class” practices for unsaleables reductions

<table>
<thead>
<tr>
<th>Impact</th>
<th>Frequency</th>
<th>Best Practice</th>
<th>Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium</td>
<td>Used in most situations</td>
<td>Adopt a company practice that requires approval for case markings or unit load designs that deviate from industry standards.</td>
<td>Manufacturer</td>
</tr>
<tr>
<td>Medium</td>
<td>Used consistently in parts of the business</td>
<td>Allow flexibility in minimum buy volumes for new products at different customer distributor locations.</td>
<td>Manufacturer &amp; Retail</td>
</tr>
<tr>
<td>Medium</td>
<td>Used consistently in parts of the business</td>
<td>Analyze damage and expiration by SKU and share data with manufacturer.</td>
<td>Manufacturer &amp; Retail</td>
</tr>
<tr>
<td>Medium</td>
<td>Used in most situations</td>
<td>Audit product rotation practices.</td>
<td>Retailer</td>
</tr>
<tr>
<td>Medium</td>
<td>Used in most situations</td>
<td>Audit unit load stability and handling practices.</td>
<td>Manufacturer</td>
</tr>
<tr>
<td>Small</td>
<td>Used consistently in parts of the business</td>
<td>Build redundancy into manufacturing lines - print date and identification codes on both sides of cases.</td>
<td>Manufacturer</td>
</tr>
<tr>
<td>Large</td>
<td>Used in most situations</td>
<td>Check and record date code (shelf life) at time of receipt at DC.</td>
<td>Retailer</td>
</tr>
<tr>
<td>Large</td>
<td>Used it in all situations</td>
<td>Employ a process to review aging product in the warehouse.</td>
<td>Retailer</td>
</tr>
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BEST PRACTICES OVERVIEW
Each best practice is defined by a set of measured variables, processes, and improvement strategies.
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Impact and frequency were used to categorize practices into 4 quadrants.

- **Large Impact**: Increase or Continue
- **No Impact**: Ignore or Monitor

Not Used at All | Frequency of Practice | Used in All Situations
Unsaleables practices have a wide range of impact and frequency of use

Best Practices, Impact and Frequency of Use

- Have a separate accounting for damage
- Ship using FIFO
- Solicit consumer feedback
- Provide clear display instructions
We chose 3 high impact practices with wide variance in response for today’s examples

- Communication on Discontinued
- UPC Level Data
- Shelf Life Management
MANAGE SHELF LIFE THROUGHOUT THE SUPPLY CHAIN
Shelf life management drives business results

- Annual industry impact of ~ $6-7B*
- Protects brand equity & consumer satisfaction
- Impacts downstream customers and consumers
- Improved by upstream and downstream planning

*Estimated from TPA 2017 survey; Deloitte 2008 Joint Industry Unsaleables Report; Inmar Benchmark Application 2017
Implementing shelf life management requires information and planning

<table>
<thead>
<tr>
<th>Manufacturer Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Know each product’s shelf life</td>
</tr>
<tr>
<td>• Common language recommendation</td>
</tr>
<tr>
<td>- BEST if Used By</td>
</tr>
<tr>
<td>• Track each product’s shelf life</td>
</tr>
<tr>
<td>• Flag items near thresholds</td>
</tr>
<tr>
<td>• Have action plans to manage aging product</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retailer Actions</th>
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<tbody>
<tr>
<td>• Flag items near thresholds</td>
</tr>
<tr>
<td>• Have action plans to manage aging product</td>
</tr>
<tr>
<td>• Product rotation at stores &amp; product velocity is critical</td>
</tr>
<tr>
<td>• Be prepared to mark down aging items</td>
</tr>
<tr>
<td>• Use historical data to adjust order quantities</td>
</tr>
<tr>
<td>• Review residual promotional inventory at warehouse or store</td>
</tr>
</tbody>
</table>
Standard processes & constant vigilance deliver results

- Implement weekly planning reviews
- Develop internal system guidelines
- Enable shelf-life based disposition rules
- Establish monthly metrics for senior leadership
STRATEGIZE & ALLOW LEAD TIME FOR DISCONTINUED ITEMS
Discontinued items are initiated by manufacturers and/or retailers

- Unsaleables impact is estimated at roughly $3-4B per year*
- It can result in disorderly transactions
- The effects begin in mid to downstream supply chain
- Accumulation of upstream inventory is influenced
- Reclamation and other disposition centers are impacted
- It can impact trading partner relationships and overall communication is key among all trading partners

*Estimated from TPA 2017 survey; Deloitte 2008 Joint Industry Unsaleables Report; Inmar Benchmark Application 2017
Implementation of a strategy for discontinued products requires communication

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<th>Manufacturer Actions</th>
<th>Retailer Actions</th>
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<tr>
<td>• Minimum 16 week lead time of communication to partners</td>
<td>• Use Inventory Management Best Practices</td>
</tr>
<tr>
<td>• Work with partners to evaluate partners current inventory level</td>
<td>• Make adjustments to orders</td>
</tr>
<tr>
<td>• When possible, utilize monetary funds to either buy back inventory from partners if there is an excess amount of inventory or utilize funds to help move item(s) through retail</td>
<td>• Utilize Markdowns</td>
</tr>
<tr>
<td>• Utilize and allocate to other retail outlets</td>
<td>• Create a markdown schedule</td>
</tr>
<tr>
<td></td>
<td>• Utilize and allocate to other secondary markets</td>
</tr>
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Decisions on product disposition will influence the cost & timing of discontinuation
Strategically manage discontinued items more effectively

- Ensure all systems are updated to reflect discontinuation change
- Utilize a Markdown Schedule with Discounts
- Getting ahead can ensure distribution on items while still within the current Plan-O-Gram set
SHARE UPC LEVEL DATA WITH MANUFACTURER
Ted Lechner

- Sr. Reverse Logistics Leader
UPC level data provides the granularity necessary for process enhancement

• Measurement at the UPC level provides feedback for improvement
• Data can flow upstream from retail to all partners
• These product characteristics are UPC level specific
Using UPC level data requires a systematic approach

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<tr>
<td>• Seek out UPC level data from Retailer</td>
<td>• Utilize robust system to collect UPC level unsaleables</td>
</tr>
<tr>
<td>• Reimbursement level should not determine use of UPC level data to reduce Unsaleable</td>
<td>• In house or third party providers</td>
</tr>
<tr>
<td>• Review retailer data against other retailers to identify issues</td>
<td>• Collect UPC unsalable data</td>
</tr>
<tr>
<td>• Request reclaim to hold high unsaleables drivers for review</td>
<td>• Item, package</td>
</tr>
<tr>
<td>• Provide follow up actions/resolution on findings and corrections</td>
<td>• Store, Region,</td>
</tr>
<tr>
<td></td>
<td>• Share data with supplier</td>
</tr>
<tr>
<td></td>
<td>• Hold high damage items for review by</td>
</tr>
<tr>
<td></td>
<td>• Supplier</td>
</tr>
<tr>
<td></td>
<td>• Packaging team</td>
</tr>
<tr>
<td></td>
<td>• Support Reclaim Audits,</td>
</tr>
<tr>
<td></td>
<td>• Review internal handling practices</td>
</tr>
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</table>
Using UPC level data at a granular level is a routine improvement strategy to reduce unsaleables.

Start at the commodity level

Find UPCs with high returns

Check for promotions or holiday impacts

Look regionally for any location issues

Then look at store level data
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SO WHAT’S NEXT...
We will develop an Unsaleables Educational Platform

The Platform will include the broad range of best practices that will overlap and interact

1. An introduction to unsaleables
2. A glossary of terms
3. A compendium of best practices
The Educational Platform will help the industry maintain focus on reducing unsaleables
The Best Practice repository should evolve along with the industry and our talent

• We need your help
  – This will be a crowd sourced document, so you will be improving this resource into the future
  – Become an active member of the committee – play a leadership role
You can play a part in the TPA Joint Industry Unsaleables Leadership Team

• Current JIULT
  – Bumble Bee, Clorox, General Mills, Kellogg's, Land O’Lakes, Mondelez, Nestle, Nestle Purina, PepsiCo, SC Johnson
  – Ahold Delhaize, Albertsons, HEB, Kroger, Southeastern Grocers, SpartanNash, Target, Wakefern
  – CHEP

• Best Practice Project Core Team
  – CHEP
  – General Mills, Land O’Lakes, Mondelez
  – HEB, SpartanNash, Target

• Interested in joining the JIULT
  – Contact Daniel Triot at dtriot@gmaonline.org
Supply Chain Solutions
$1 Million dollars

Source: The Hustle, “Proof that a million dollars isn’t as much as you think”, December 29, 2015
Adjusted from $100 bills to $1 bills stacked on pallets
What if we could save 1%...
...we could save over $100 million