

2008 Joint Industry Unsaleables Report:

The Real Causes and Actionable Solutions



The Grocery Manufacturers Association (GMA)

represents the world's leading food, beverage and consumer products companies. The Association promotes sound public policy, champions initiatives that increase productivity and growth and helps to protect the safety and security of the food supply through scientific excellence. The GMA board of directors is comprised of chief executive officers from the Association's member companies. The \$2.1 trillion food, beverage and consumer packaged goods industry employs 14 million workers and contributes over \$1 trillion in added value to the nation's economy. For more information, visit the GMA Web site at www.gmaonline.org.

Food Marketing Institute (FMI)

conducts programs in public affairs, food safety, research, education and industry relations 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, plus 14,000 pharmacies, with a combined annual sales volume of \$680 billion — three-quarters of all retail food 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 more than 50 countries.

Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Copyright © 2008 by the Grocery Manufacturers Association (GMA) and Deloitte Consulting LLP. All rights reserved. No part of this publication may be reprinted or reproduced in any way without written consent from GMA or Deloitte Consulting.

Copyright © 2008 Deloitte Development LLC. All rights reserved.

Member of
Deloitte Touche Tohmatsu

| | |
|---|-----------|
| Introduction | 2 |
| Objectives and methodology | 2 |
| Acknowledgements | 3 |
| Background: The contentious nature of unsaleables | 3 |
| Section One: | 6 |
| Unsaleables: A call to action | 6 |
| Section Two: | 7 |
| The state of unsaleables management | 7 |
| Key Findings: | 7 |
| Finding 1: | |
| Root causes driven by the same fundamentals | 7 |
| Finding 2: | |
| Damages are only half the problem | 11 |
| Finding 3: | |
| It's time to bring planning to unsaleables management | 13 |
| Finding 4: | |
| Unsaleables reduction requires balanced incentives | 17 |
| Finding 5: | |
| Unsaleables is now a "C" level agenda item | 23 |
| Section Three: | 26 |
| Recommendations | 26 |
| Section Four: | 27 |
| Bibliography | 27 |
| Appendix | 28 |

INTRODUCTION: **Objectives and methodology**

In this study, we want to discover and analyze the underlying causes of unsaleables throughout the value chain and identify actionable solutions companies can adopt and customize. This study identifies and measures unsaleables costs providing insight to opportunities that have a direct impact on the bottom line.

The approach to this project consisted of two phases:

1. *Data collection and analysis:* In depth surveys and interviews with manufacturers, retailers and service provider companies were conducted. Analyses were based on collected data and supplemented with published materials. Please note that detailed charts and graphs are included in the appendix to this document and are referenced throughout the paper with "Exhibit #"
2. *Validate and synthesize findings:* Industry findings were validated through interviews and discussions with survey respondents, the Joint Industry Unsaleables Leadership Team and third party service provider companies

The scope of this study is U.S., hence all content in this report is reflective of the U.S. business environment.

Survey participant profile

The analysis is based on survey responses from 73 companies, representing \$335.3 billion in retailer 2007 annual sales and \$170.2 billion in manufacturer sales.

- Data collection included 36 industry interviews (15 manufacturers, 15 retailers, 6 service provider companies)
- Retailer survey respondents represent 65 percent of Super 50 all-commodity volume (ACV)¹
- Geographic representation of retailers spans all 48 contiguous U.S. states

| Retailers | Manufacturers | |
|---|---|--|
| A&P Associated Food Stores, Inc. Bozzuto's Inc. Brookshire Grocery Co. C&S Wholesale Grocers, Inc. Costco Wholesale Corporation CVS Caremark Corp Food Lion, LLC Hannaford Bros. Co. Harris Teeter, Inc. Laurel Grocery Company, LLC Longs Drug Stores Corporation Meijer, Inc. Merchants Distributors, Inc. Nash Finch Company Publix Super Markets, Inc. Roundy's Supermarkets, Inc. Safeway Inc. Smart & Final Inc. Stop & Shop Supermarket Company SUPERVALU INC. Walgreens Co. Wal-Mart Stores, Inc. Wawa, Inc. Winn-Dixie Stores, Inc. Wegman's Food Markets Inc. WinCo Foods, Inc. | Abbott Nutrition B&G Foods, Inc. Barilla America, Inc. Bumble Bee Foods, LLC Campbell Soup Company CH Guenther & Son, Inc. Chicken of the Sea International Church and Dwight Co., Inc. Coca-Cola North America (Minute Maid) Colgate-Palmolive Company ConAgra Foods, Inc. Del Monte Foods Company Domino Foods, Inc. Faultless Starch /Bon Ami Company Furmano Foods, Inc. General Mills, Inc. Georgia-Pacific LLC Gerber Products Company Glaxo Smith Kline Consumer Healthcare H.J. Heinz Company Inventure Group, Inc. Hormel Foods Corporation Kellogg Company | Kimberly-Clark Corporation Kraft Foods Inc. Land O'Lakes, Inc. McCain Foods Limited Nestlé Purina PetCare Company Ocean Spray Cranberries, Inc. PepsiCo Inc. (QTG) Pharmavite LLC Playtex Products, Inc. Reckitt Benckiser Inc. Reily Foods Company Rich Products Corporation S.C. Johnson & Son, Inc. Sunny Delight Beverages Co. The Dannon Company, Inc. The Dial Corporation The Hershey Company The J.M. Smucker Company The Procter & Gamble Company Tree Top, Inc. Unilever Wm. Wrigley Jr. Company Wyeth |

¹Progressive Grocer, Transformative Times for the Top 50 Supermarket Chains, May 2007

The report is organized into the following four sections:

Section 1: Call to action: This section focuses on why the unsaleables game is changing and how you need to become engaged to keep up with industry trends.

Section 2: The state of unsaleables management: This section outlines the key findings of the study. It describes the major insights using a fact based approach and includes industry best practice case studies.

Section 3: Recommendations

Section 4: Bibliography

Acknowledgements

Deloitte Consulting LLP (Deloitte Consulting) would like to thank the GMA and FMI for providing us the opportunity to assist in developing this in-depth report on such an important and increasingly strategic topic to the industry. We would like to recognize the GMA and FMI Unsaleables Leadership Team for their time and contributions to this effort. Specifically, the input of the Unsaleables Project Team has played an important role in the depth and quality of insights contained in this report.

Deloitte Consulting, GMA and FMI would like to recognize the many individuals from consumer products manufacturers, retailers and distributors who supported this research by providing interviews and/or completing the survey. In addition, we would like to thank the service provider companies that have contributed to this study by providing facility tours, data, interviews and case studies.

Carolina Logistics Services
Genco Damage Research
Strategic Global Connections
Strategic Solutions International, Inc.
Wesley Associates Business Consultants, Inc.

Finally, we extend our special thanks to the GMA and FMI, specifically Stephen Sibert, Brian Lynch, Troy Beeler and Pat Walsh who provided project oversight and facilitated the study for the past several months.

Background: The contentious nature of unsaleables

Classically, unsaleables have been defined as products that are removed from the primary channel of distribution for any reason, e.g., damaged, discontinued, or expired items. (This definition excludes product recalls and returns as those items are managed outside of unsaleables policy.) In our study, we augmented the definition of unsaleables to also include discontinued and aged items with little or no demand that ultimately become unsaleables.

How are unsaleables costs determined? The choice between JIR, ARP and Swell

Unsaleables costs are largely determined by the negotiated policy for reimbursement. In 1990, the GMA and FMI proposed a system of shared responsibility in managing unsaleables and their related costs in the value chain. According to this Joint Industry Report (JIR), "The manufacturer's responsibility is to devise a system of compensation recognizing the need for universally credible, equitable, non-discriminating treatment of all customers regardless of size, store format, or geographic location. For the distributor or retailer, this means, billing only for unsaleables which is the agreed responsibility of the manufacturer, operating the most efficient reclaim center(s) and seeking only to recover reasonable off-sets for operating expenses and not to generate a profit."

Despite the intent, reimbursement policies are a point of contention in the industry. Currently, three predominant policies JIR, ARP and Swell exist. It is important to note that these policies have been constructed to reimburse for damaged and expired items only. There is no industry standard policy to reimburse for discontinued or seasonal items.

- Under Joint Industry Report (JIR), manufacturers cover pre- and post-handling and reclamation center costs for products returned from retailers. The title for the product is returned to the manufacturer as the product enters the reverse value chain
- An older policy, Swell, is still used in the industry. It provides a fixed reimbursement rate across all product categories. Originally, a 6 percent direct product cost (DPC) was the swell allowance paid to retailers. This was a viable policy as products were lower in price and the unsaleables costs were close to a cent per item. However, in recent years these flat DPC rates had to be revised since high priced product categories were incurring unfairly high unsaleables rates
- Adjustable Rate Policy (ARP) is the latest policy to enter the industry and, according to our survey, has quickly become the most widely used policy. Under ARP, product category-specific reimbursement rates are set based on value chain audits and re-evaluated periodically. This reimbursement rate provided retailers an up-front payment for their expected unsaleables costs based on the product list price less promotional funds

How much do unsaleables cost?

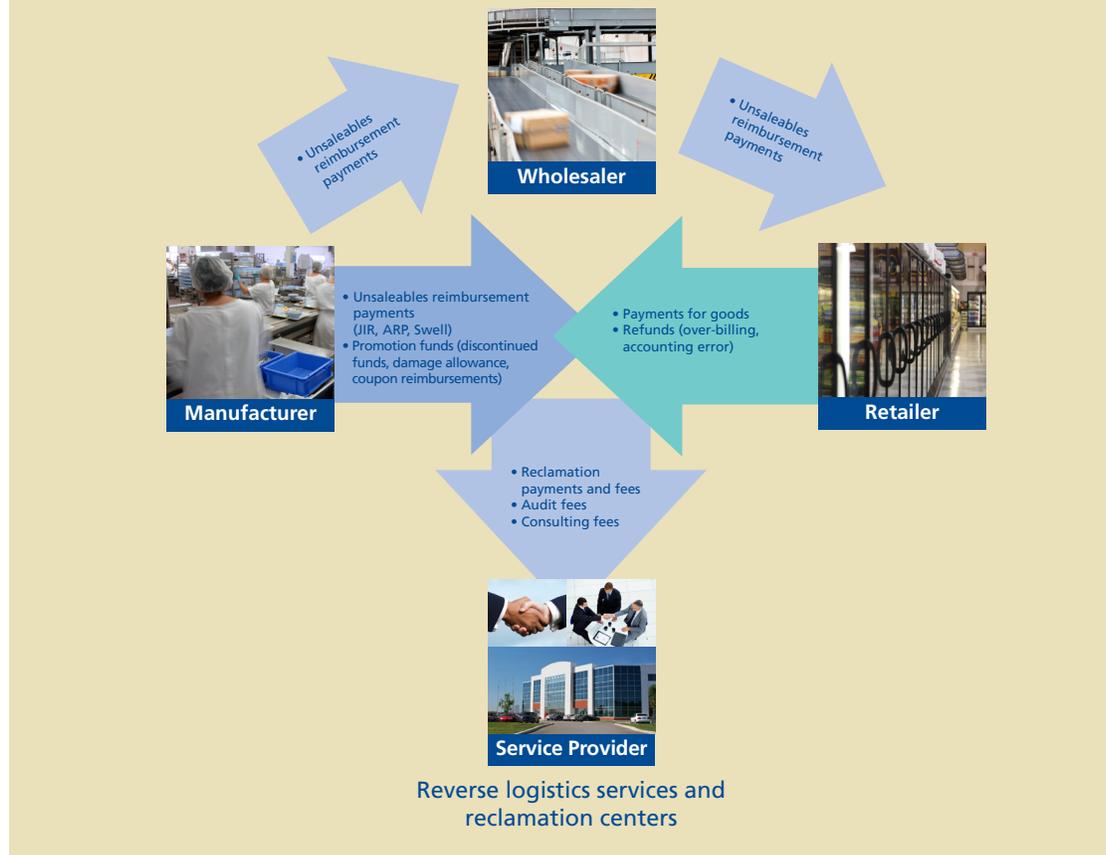
Based on 2007 industry survey data manufacturers' unsaleables rates range from 0.4 percent to 2.64 percent, averaging 0.83 percent of gross sales. Retailers' and distributors' unsaleables rates range from 0.24 percent to 2.78 percent, averaging 1.21 percent of gross sales. This means that for a \$5 billion manufacturer, unsaleables represents a cost of \$41 million a year on average. Reduction of these costs would have a significant impact to the bottom line to increase profit². For a \$5 billion retailer, the unsaleables cost before reimbursement is \$60.5 million on average. (Manufacturers reimburse retailers for the portion of the cost they are responsible for; however, there is still a sizeable impact to a retailer's total company profit).

Methods and rigor of tracking unsaleables vary across the industry. The cost of unsaleables should include the cost of the unsaleables product as well as the cost of managing, handling, transporting and reclaiming. There are several reasons why the methods and rigor vary across the industry:

1. **There is not total consensus on the definition:** There is no consistent practice for the inclusion or exclusion of discontinued items. In some cases, discontinued products are considered unsaleables and sent to reclaim yet in other cases they are sold in markdown programs are not tracked as unsaleables
2. **There are various types of reimbursements:** Payment types include JIR, ARP, swell allowance and other funds
3. **The exchange of funds is convoluted:** Reimbursement funds can be paid on or off invoice and monthly or quarterly. Invoiced amounts are also commonly disputed creating an incredibly complex paper trail to audit or trace
4. **Some reimbursement policies do not require cost tracking:** Unsaleables data is increasingly "lost" as there is no requirement to track items removed from the value chain from ARP and swell vendors (comprise 63 percent of market share)

²Initial Investments can be required to reduce costs.

Unsaleables payments are exchanged across multiple parties in the value chain



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

The problem?

Based on the survey results, it is clear that retailers and manufacturers do not agree that this approach results in equitable cost sharing. Some retailers believe that adjustable rate policies push an unfair portion of the costs on to them and contend that in some cases the adjustable rates are not developed with appropriate rigor or specificity. Manufacturers believe that they should not bear all the burden for unsaleables and retailers should be expected to actively contribute to reducing unsaleables with some "skin in the game". In fact we have found that without active participation from both sides the cost of unsaleables will increase and complex issues driving unsaleables cannot be resolved.

SECTION ONE: Unsaleables: A call to action

Giving money away to unsaleables

Simply put, unsaleables products represent avoidable costs that affect the entire value chain. Estimated to be a \$15 billion³ annual cost to the industry (or 1 percent to 2 percent of gross sales on average), this requires the industry's attention not only because it is largely avoidable, but also because the root causes of these costs are often misunderstood leading to incremental profit leakage.

A new approach to unsaleables is required

The traditional approach to unsaleables management is not keeping pace with the evolving consumer products industry. Consider the following trends affecting and changing the industry in the U.S.:

1. The accelerating pace of new product introductions
 - New consumer products and product extensions increased eighty percent between 2002 and 2005⁴ yet less than 25 percent of new products generate \$7.5 million in year one sales and 53 percent of manufacturers do not have robust processes post-launch to aggressively bring down inventory of failed launches
2. The expiration date of many products is now visible to the consumer
 - As more products are marked with visible and intuitive expiration dates, manufacturers become more conservative in determining shelf life and the effective shelf life is reduced
3. Companies are increasing the use of eco-friendly packaging
 - Potential for increased waste if the eco-friendly packaging cannot sustain handling and more damages result
4. Companies continue to focus on growing the health and wellness platform, exacerbating the first trend as product formulations are changed and new products to capitalize on this trend are introduced

Each of these broad industry trends has direct impact on unsaleables and leaves today's environment of unsaleables management at a tipping point. The simple fact is that these trends—all of which amount to an ever increasing attempt to be consumer focused – are creating unsaleables. As detailed later in this report, although the unsaleables rate has held constant over time, the composition of the rate has changed dramatically and now discontinued, expired, seasonal and other non-damaged products account for over 50 percent of all unsaleables. In other words, we contend that unsaleables have been and in many cases, still are, a hidden cost of doing business in today's dynamic consumer products environment.

The good news is there is now increased executive attention to and awareness of the challenge. And, with the emergence of adjustable rate policies, there is more impetus than ever for trading partners to share root cause information. Companies are also bringing more sophisticated resources to bear to address unsaleables.

All of this is very exciting, but this energy needs to be focused in the right direction. As this report will show, there is quite a bit of improvement to be made – and profit associated with that improvement. Progressive companies should invest in their organizational incentives, collaborative practices and supply chain planning capabilities to address unsaleables root causes. Said differently, we can only expect the unsaleables challenge to worsen unless retailers/manufacturers, adapt their value chains and their associated processes to the dynamics of this industry.

³Extrapolated based on 2006 Food and Beverage and Health and Beauty sales of \$1.23 trillion and the survey retailer weighted average unsaleables rate of 1.21%

⁴Deloitte, *The Future of Consumer Product Companies: Products Staying a Step Ahead, 2007*

SECTION TWO: The state of unsaleables management

Key findings

Finding 1: Root causes driven by the same fundamentals

While at first glance it appears as though retailers and manufacturers are experiencing vastly different issues, a deeper look reveals that root causes are common across trading partners.

Finding 2: Damages are only half the problem

Non-damaged items such as expired and discontinued items have become the greatest and fastest growing contributors to industry unsaleables. Focusing on the root causes driving these conditions is the key to creating a competitive advantage.

Finding 3: It's time to bring planning to unsaleables management

Improved planning (e.g., collaboration on product discontinuation and launch, inventory planning, trade promotions management and SKU rationalization) will have the most positive impact on unsaleables. With the emergence of new industry trends and diversity of causes driving unsaleables at different points in the value chain, companies must develop a mature foundation of business planning capabilities rather than invest in reactive "quick fixes". Investing in the right unsaleables management practices is the key to realizing your bottom line.

Finding 4: Unsaleables reduction requires balanced incentives

Construct and enforce policies that provide incentives to both trading partners to collaborate on solving unsaleables root causes. Transition the relationship from debate over reimbursement rates to collaborative decision making among trading partners.

Finding 5: Unsaleables is now a "C" level agenda item

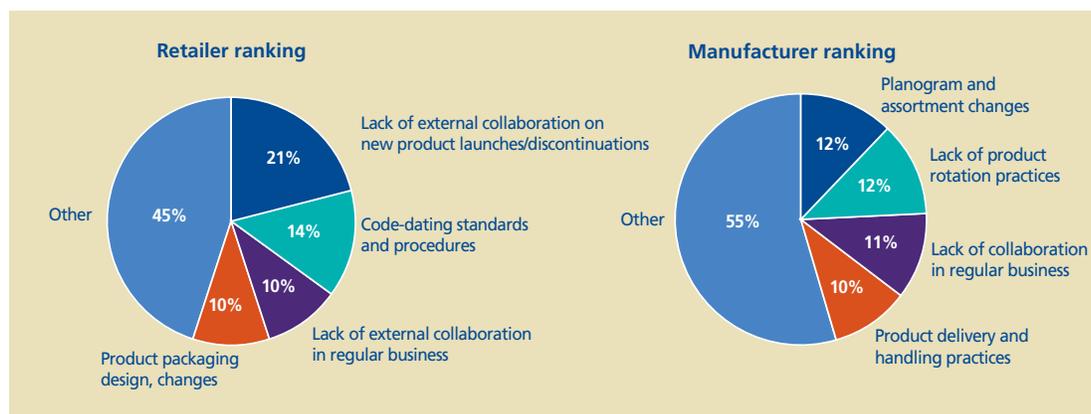
Provide your company's unsaleables champion support from executive leadership and invest in information management to enable unsaleables analyses. Improving organizational awareness by gaining leadership buy-in and encouraging involvement of key departments can be associated with significant reduction in your unsaleables rate.

Finding 1: Root causes driven by the same fundamentals

A bird's eye view of the industry reveals four top pain points

While at first glance it appears as though retailers and manufacturers are experiencing vastly different issues, a deeper look reveals that root causes are common across trading partners. The four most common root causes account for approximately 50 percent of the total cause of unsaleables across the value chain and can be significantly and effectively mitigated through improved planning practices. Reducing the impact of these root causes can lead to a cost reduction of 0.3 percent - 0.6 percent of sales⁵. For a \$5 billion company, this would translate into \$15 - \$30 million of savings per year and that only considers the reduction in unsaleables costs. Various other significant positive impacts can result from improved planning.

Leading Causes Chart



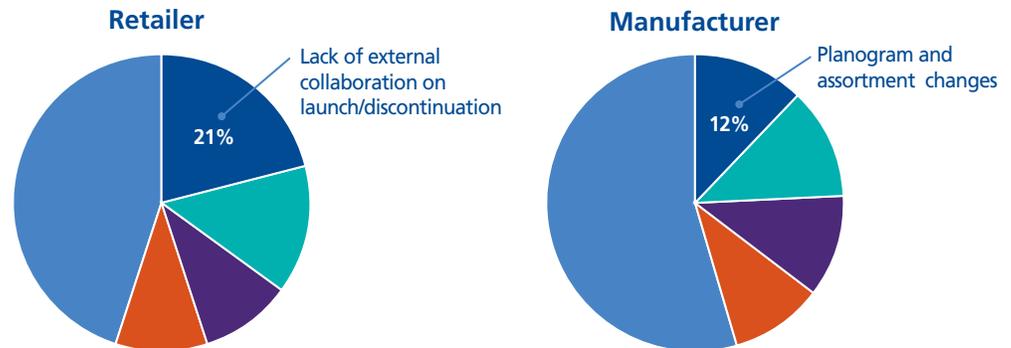
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

⁵Range based on maturity assessment difference between novice and best practice in select planning areas

A more in-depth review of these root causes highlights the intricacies and commonalities.

Lack of trading partner collaboration on discontinuations/launches

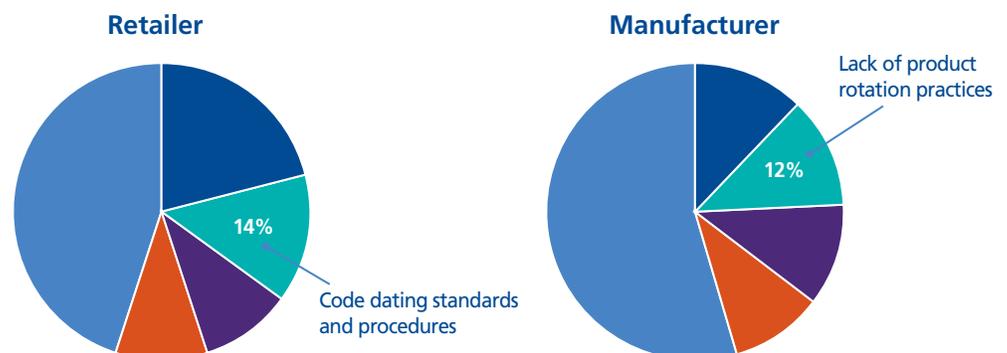
Retailers cite discontinuations as a major driver of unsaleables while manufacturers note plan-o-gram and assortment changes as a leading cause. These two causes are closely related as plan-o-gram changes reflect retailer decisions around discontinuations/launches. Because plan-o-gram changes happen relatively frequently and changes are not communicated effectively across the value chain, inventory is at risk of becoming unsaleable. Similarly, manufacturer-initiated product discontinuations can affect category assortments and plan-o-grams.



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Insufficient information and process to effectively manage product shelf life

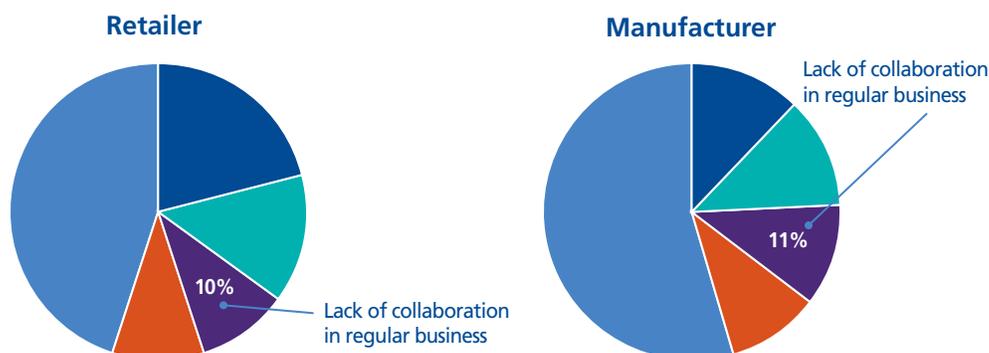
Code dating and product rotation are similar because both are measures taken to manage product shelf life and lessen the occurrence of expired product (which can lead to consumer unhappiness and loss of brand equity). Retailers contend that without 'best by' dates on products that are well understood by consumers (a practice known as open code dating) it is very difficult to effectively manage rotation. Retailers also note that as the visibility to shelf life has increased the effective shelf life has been reduced by manufacturers (to be more conservative). Manufacturers agree that they have responsibility to deliver products with sufficient shelf life to travel through the supply chain. Yet they feel retailers do not allocate sufficient resources to product rotation and product expires on the back of the shelf; hence the priority on product rotation.



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Poor external collaboration to support planning and executing in regular business

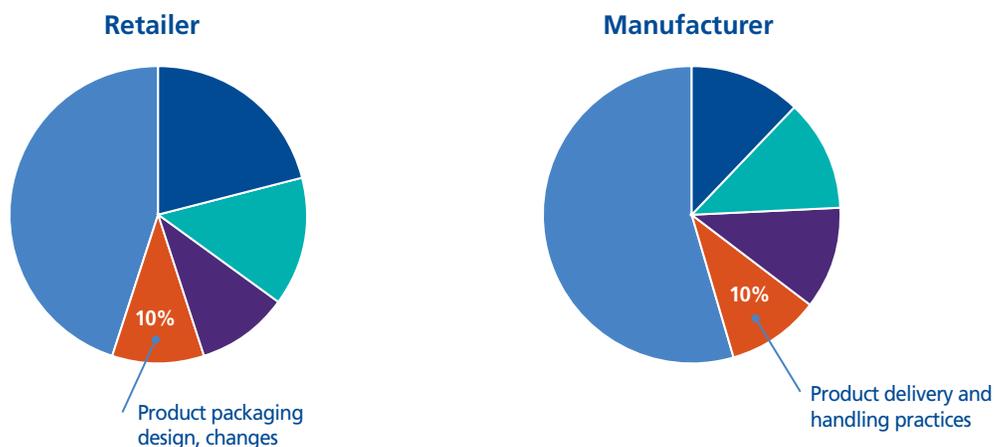
Both retailers and manufacturers agree there is a lack of effective communication across trading partners on a day-to-day basis. This includes limited coordination in forecasting and planning inventory targets to meet future demand, lack of data sharing to understand root causes driving spikes in volume at reclamation and limited visibility into current inventory levels at individual stores and warehouses.



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Poor distributor material handling processes are compounded by ineffective packaging design

Product that doesn't make it to the store shelf intact defeats the point of producing and shipping the product in the first place. Manufacturers contend that damages are caused while en route from retailer warehouse to store to shelf. Retailers feel that while damages may happen when sorting and moving product, the root cause is package design. Retailers report that certain packaging designs simply cannot withstand the stress of the supply chain, resulting in increased damage rates.



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Looking under the microscope: varying degrees of common causes by channel

Once the industry recognizes that challenges faced by trading partners are more similar than different, it is necessary to further examine the degree to which these leading causes affect size and channel segments. See appendix Exhibit G for complete details of manufacturer root causes by size and Exhibit H retailer root causes by retail channel.

The drug channel may require a unique prescription: Manufacturer data reveals that the drug channel has the highest unsaleables rate (1.7 percent) as compared to other retailer channels (Exhibit D). This fact is no surprise to the industry since the drug channel has consistently experienced the highest unsaleables rates since 2001. Leading causes cited by the channel include code-dating, plan-o-gram changes, external collaboration on launch/discontinuation and product packaging and design.

The wholesale channel adds an additional layer of complexity to value chain: Wholesalers are required to carry a wide SKU base to meet the needs of a diverse customer set. In addition, wholesalers are often the last to be made aware of trading partner discontinuation decisions. As a result, wholesalers are forced to reduce remaining inventory relatively quickly, often selling product through salvage/closeout (represents 54 percent of unsaleables disposal within channel) (Exhibit J).

The following two case studies provide some examples of how manufacturers and retailers collaborate to address common root causes.

An industry case study: improving product handling and packaging practices

Experiencing annual unsaleables costs of nearly \$27 million, a large over-the-counter (OTC) healthcare products manufacturer decided to collaborate with a mid-sized regional supermarket customer to identify root causes of product damage and shrink incurred during the “break pack” and tote shipping process with the assistance of a third-party service provider⁶.

The service provider examined 57 UPCs at one of the retail distribution centers and visited 10 store locations to examine over 3,400 items that were unpacked from totes. Results of the effort indicated both the manufacturer and retailer needed to make modifications. Recommendations to the retailer included organizing its picking/packing stations by like items and offering training on product handling to prevent damages in totes. Manufacturer was recommended to improve its packaging materials and design. Actions were taken by both parties including the manufacturer’s investment in heat seal equipment, which was estimated to bring \$2 million of savings annually.

An industry case study: internal collaboration and measurement create continuous improvement

This small HBC manufacturer experienced frequent retailer resets in a slow-moving category resulting in high volumes of ‘good’ product at reclaim. Sales managers, incented based on account-specific net sales, proactively managed category resets by engaging trading partners to implement markdown plans to increase sales and reduce returns exposure. Mark down plans were individually customized based on retailer and inventory characteristics and the types of programs were constantly reviewed based on previous performance.

Internal collaboration drove improvement in this process. This manufacturer elicited input from key departments to get a holistic perspective across the organization using an excel tool that estimated weeks of inventory on hand at “pull date”. Estimated ending inventory and reclaim costs are now used to project the net savings impact from the mark down program. Customer marketing now evaluates mark down program effectiveness by monitoring POS data, pre and post inventory levels and reclaim volume. The feedback from this review process was communicated to the sales group for future action/improvement.

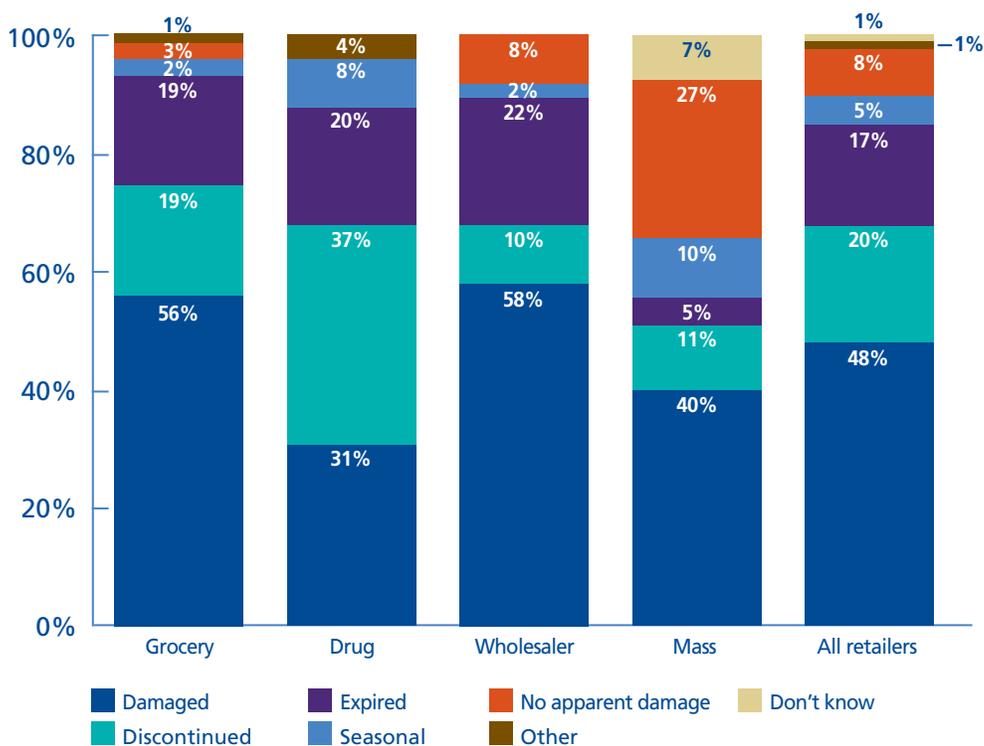
⁶Carolina Logistics Services

Finding 2: Damages are only half the problem

Although the average unsaleables rate has remained relatively constant, the proportion of unsaleables due to damages is noticeably declining. In fact, the portion of unsaleables represented by damages has decreased from 58 percent to 48 percent since 2003, accounting for less than half of all unsaleables. Further 85 percent of all survey respondents indicated that damages have decreased or remained the same over the past three years. The drug channel is an extreme example where damages only account for 31 percent of unsaleables.

Historically, damages were the primary cause of the unsaleables problem. In fact, the original unsaleables allowance, called the swell allowance, was so named because it was meant to reimburse retailers for damages caused by cans “swelling” due to temperature and humidity changes. The industry initially addressed unsaleables by focusing on damage root causes and made strides to tackle them which include poor product handling, delivery practices in warehouses and stores and product packaging. This tactical approach to unsaleables is not sufficient for the future.

Retailer – weighted average breakdown of unsaleables types

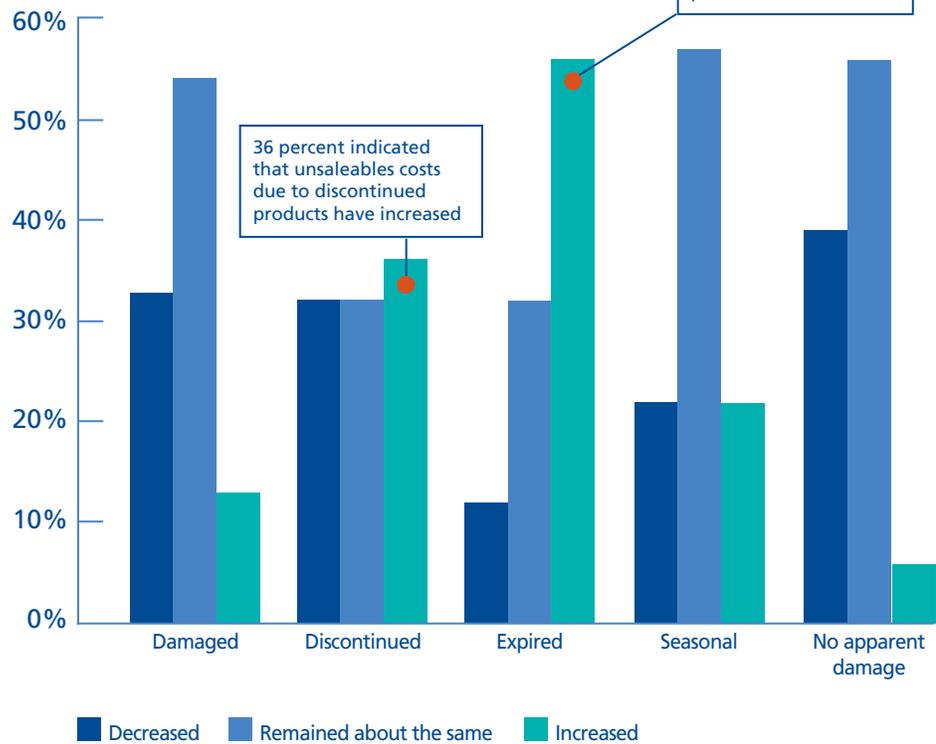


Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

The trend becomes even more compelling as you examine the growing conditions of unsaleables. About 56 percent of retailer/distributors indicated that expired unsaleables are increasing and of that, 28 percent said the increase is significant. There are several key causes for this; most notable is the trend of providing open code dating. Prior to this practice, the expiration date was not obvious so expired products could have been sold to the consumer without any awareness.

Approximately 36 percent of retailers/distributors indicated that discontinued unsaleables are increasing and of that, 14 percent indicated the increase is significant. The key driver of the increase in product discontinuations is the proliferation of new product introductions. Given that new consumer products and product extensions increased 80 percent between 2002 and 2005 and less than 25 percent of new products reach \$7.5 million in year one sales, discontinued products are expected to continue to grow. This is a key issue for the industry because there is no clear standard for where responsibility for discontinued products lies (sales and marketing vs. unsaleables management) and whether or not discontinued items should go through the reclamation process.

Product condition increase/decrease - 2005 to 2007



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Finding 3: It's time to bring planning to unsaleables management

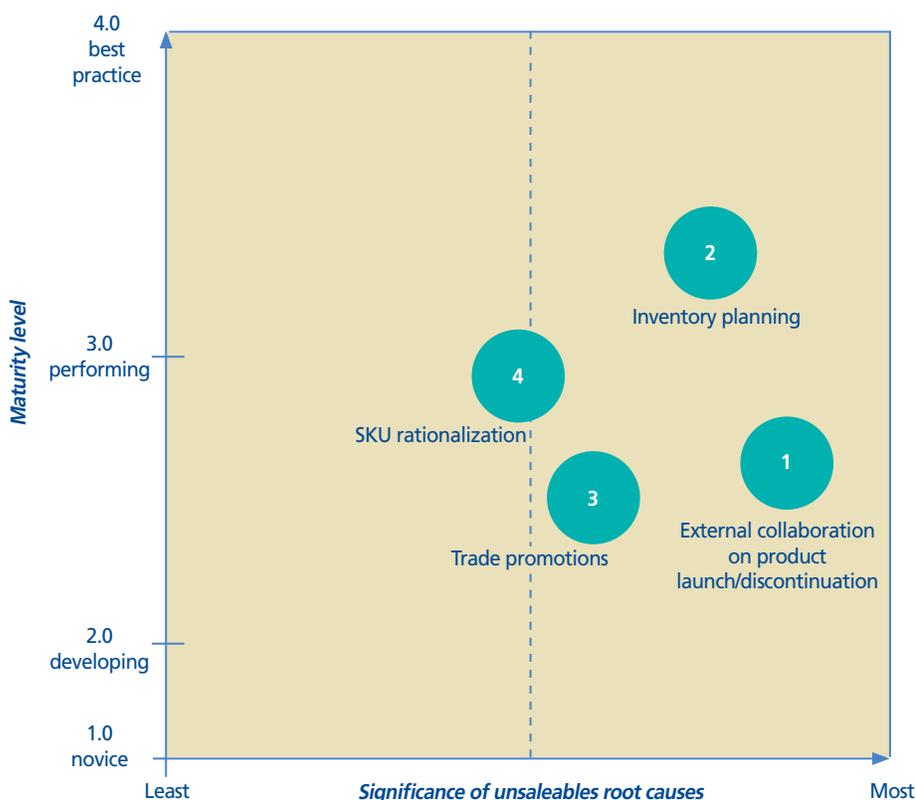
Historically, when unsaleables were the result of damages, management focus was on executional supply chain tasks: identifying damages, improving handling and packaging, shipping to the point of disposal, etc. This executional focus alone will not lead to reduced unsaleables because the story is no longer just about damages and the industry complexity is increasing at a rate that is outpacing most companies' capability to cope with the changing environment.

Planning for future trends is required to compete because reducing the growing types of unsaleables (discontinued and expired) requires sophisticated planning capabilities. Industry leaders are already in the process of developing competitive advantages through cutting-edge enterprise forecasting, end-to-end planning techniques and best-in-class inventory management processes. Laggards who fail to prepare for what is ahead will have a distinct competitive disadvantage.

The planning areas of the future are traditionally the most difficult to execute. To determine where to invest in building planning capability, companies should prioritize based on the importance of the cause or issue and the current levels of maturity in that area. The diagram below illustrates the relative root cause significance and current maturity of planning capabilities based on industry surveys and interviews.

| Executional tactics | Planning focus areas of the future |
|--|--|
| <ul style="list-style-type: none"> Product handling Product packaging & packaging design Product rotation Policy enforcement | <ul style="list-style-type: none"> Collaboration on product discontinuation and launch Inventory planning Trade promotion and mark-down planning SKU rationalization |

Prioritization of planning focus areas of the future



Prioritization is based on survey and interview results

1. External collaboration on product launch/discontinuation

Collaborating with trading partners on product launch and discontinuation can be daunting and many times ignored because of perceived difficulty. Yet, industry analysis indicates that collaborating with trading partners on product launch and discontinuation can decrease unsaleables cost by as much as 0.3 percent of sales which represents \$15 million dollars a year for a \$5 billion company. Unsaleables cost reduction is just one benefit of external collaboration on launch and discontinuation and does not include even more substantial inventory and service benefits that will result from improved forward value chain planning and improved trading partner relationships.

One simple way to collaborate is to provide more lead time to trading partners prior to discontinuation. This supports development of action plans, such as creating markdown programs and arranging returns of excess inventory from retail distribution centers or stores. Selling discontinued items with markdown funds can help reduce processing costs and drive sales from short-term price reductions. Returning excess inventory also allows for redistribution of products if other retail outlets are in demand. Both of these simple practices can be good ways to reduce costs after the fact, but this is just a first step. A highly effective solution includes an end-to-end planning system that will proactively reduce the opportunity for inventory to become unsaleables.

An industry case study: Planning ahead for discontinuations

A multi-billion HBC manufacturer recently identified an increase in discontinued items at reclaim, accounting for nearly 50 percent of unsaleables. One of the root causes behind this trend was the lack of sufficient lead time to sell-through store inventory and limited recourse to prevent discontinued products from going to reclamation.

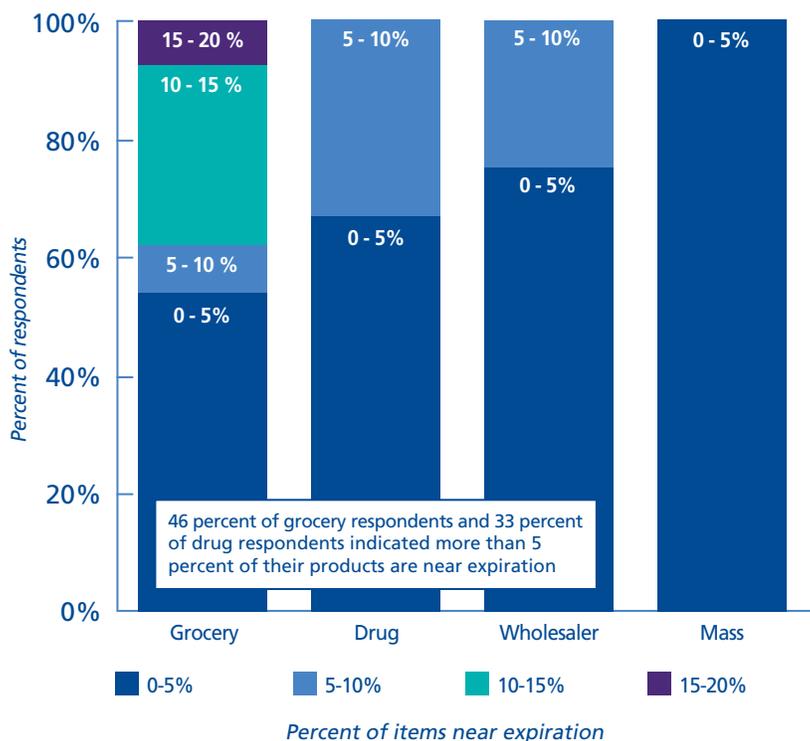
The manufacturer instituted a program where its sales team meets with customers' merchandising teams approximately two months preceding all store resets. During these meetings, the trading partners review SKU lists to identify product launches and discontinuations. The sales team also creates markdown contracts based on inventory projections and anticipated pricing when readily available. Markdown expense and actual reclaim expense are evaluated and compared to targets on a monthly basis. With one customer, this manufacturer was able to avoid 40 percent of reimbursement costs for a particular discontinued SKU by selling products at retail through markdowns as opposed to incurring full list price plus handling at reclaim.

2. Inventory planning

Inventory expiration and stock-outs are real-time indicators that adjustments should be made in (or to) the planning system. Lost sales from stock-outs cost manufacturers, on average, \$23 million for every \$1 billion in sales⁷ and we found that very few companies adjust inventory targets based on unsaleables metrics.

Inventory planning capabilities ranked high in 2008 unsaleables study maturity assessment survey. However, based on inventory expiration data and industry interviews, we contend that a new and more sophisticated approach to inventory management is required. This approach should base inventory targets on desired customer service levels, demand variability, supply variability and material lead time. For example, half of grocery retailers indicated that more than 5 percent of the inventory is near expiration at any given time. Further, more than one-third of grocery retailers indicated more than 10 percent of the inventory is near expiration at any given time. Inventory targets should factor in the amount of inventory that will ultimately expire or end up discontinued. The inventory management approach of the future will integrate optimized inventory targets with business processes enabling companies to meet customer demands based on known variability in the supply chain.

Retailer – Percent of items near expiration by channel



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

⁷Deloitte Consulting, LLP

3. Trade promotions

Trade expenditures represent 20 percent of average manufacturer gross sales. Those that do well in trade promotions management see sales and margin lift. However, promotions are often ineffective, leading to unmet retailer commitments and an oversupply of products.

While traditional measures of promotional effectiveness have considered the sales uplift net of the cost to promote product, it is now necessary to factor unsaleables into the equation. In fact, we have found evidence that increased trade promotions at times lead directly to increases in unsaleables. Developing programs with an understanding of all potential costs and impacts allows companies to better evaluate the effectiveness of trade investments.

The industry faces the challenge of a zero-sum game philosophy on trade promotions. Namely, manufacturers want more “bang for the buck” while retailers want more funds and better planning. Forward-thinking manufacturers and retailers are collaborating to track the cost of the product at every stage of the product life cycle. This type of integrated approach can help reduce costs across the value chain (e.g., slotting fees, innovation and unsaleables). Combining sophisticated trade promotions management with better forecasting, inventory management and promotions planning over the life of the product can lead to revenue growth and cost reductions, including lower unsaleables costs.

Industry case study: Questioning the value of trade promotions - proactively measuring the impact of promotional activity

A multi-billion manufacturer tested its time honored view of trade dollars as a way to grow the business by evaluating promotional spend with a mindset on the hidden impacts (e.g. unsaleables).

With the assistance of a third party service provider⁸ this ARP manufacturer measured sales uplift from promotional activity versus the increase in unsaleables volume for a beverage and a cereal product. As expected, the rate of unsaleables increased in both cases as a result of promotional activity. In one case, two years of data were studied to assess the sales and unsaleables before, during and after the promotional activity with a select retailer. Before the promotion, the average unsaleables rate was 0.2 percent. During the promotion in 2007, a 31 percent sales lift was achieved; however the unsaleables rate ballooned to six times the average rate to 1.2 percent. Despite the fact that promotional spend can drive top-line growth, these back-end costs can negate some or all of the gained benefit.

4. SKU Rationalization

SKU rationalization is a related process to external collaboration on product discontinuation since the rationalization decision is the trigger. Those companies that do not follow a formalized process of rationalizing products will not only develop inventory management and working capital nightmares, but will also be unable to proactively collaborate and plan with trading partners. The most effective SKU rationalization programs occur on a quarterly basis with sales, marketing, finance and operations all coming together to evaluate the economic contribution of high priority items where all parties have aligned incentives. According to results from this unsaleables study, there is an interesting disparity in the industry. On a scale of 1 to 4, retailers rate themselves a 3.2 while manufacturers rate themselves a 2.6.

⁸Wesley Associates Business Consultants, Inc.

Planning process breakdowns are rapidly replacing executional process breakdowns as the primary driver of unsaleables. This means that improvements in these executional processes will have a diminishing impact on unsaleables rates over the coming years. As a result, companies will need to rethink their strategies and approaches for driving down unsaleables rates and begin to shift focus towards developing end to end planning capabilities. The solution is made more challenging due to the numerous processes involved and the fact these processes extend across retailer and manufacturer. Leading companies in unsaleables management will need to combine solid, executional processes with planning capabilities that not only synchronize internal “functions” but extend into key trading partners as well.

Finding 4: Unsaleables reduction requires balanced incentives

There are two reasons for this finding. As already stated, the majority of energy in the unsaleables space is focused on determining an equitable method or rate of sharing the cost of unsaleables, as opposed to reducing them. Next, the method agreed upon or at least employed is generally disputed by trading partners, which tends to cause trading partners to create unsaleables practices and policies that have unintended and unwanted consequences.

Where is the beef... between retailers and manufacturers?

The widespread move of manufacturers toward ARP and greater cost sharing has made the reimbursement policy selection, development and enforcement a point of contention between trading partners.

The industry policy landscape reveals that larger manufacturers use ARP policies while smaller manufacturers remain on JIR. This is evidenced by the fact that ARP/swell companies are outnumbered by JIR companies almost 2:1, yet they represent 60 percent of the market share. Further, ARP share is expected to rise given more medium and large JIR manufacturers are considering the policy shift.

Manufacturers by unsaleables policy type

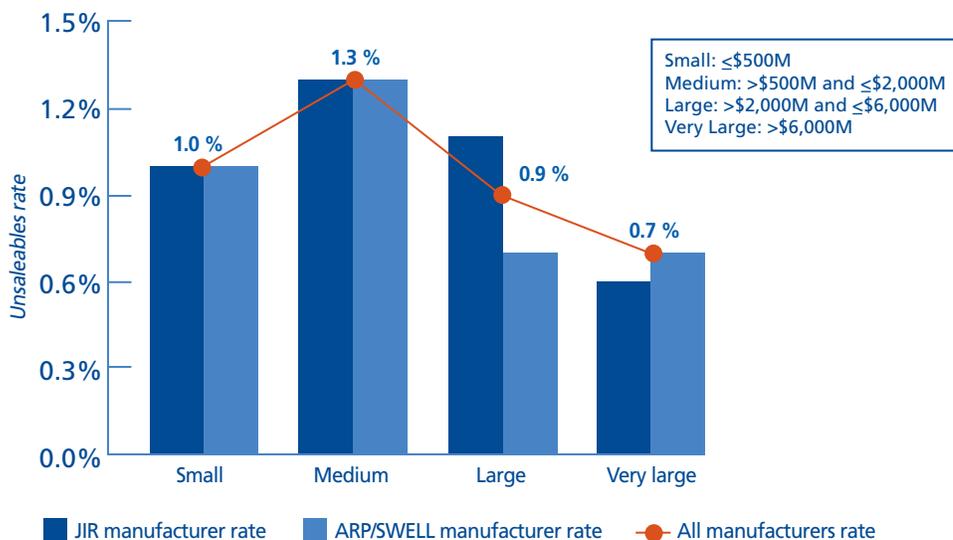


Other includes store payments, reclamation payments, store level warehouse claims, or N/A

Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Analysis shows that manufacturer company size, irrespective of policy type, is positively correlated with unsaleables rates (the larger the company, the lower the rate).

Manufacturers weighted unsaleables rates by company size and policy



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

A need for more granularity

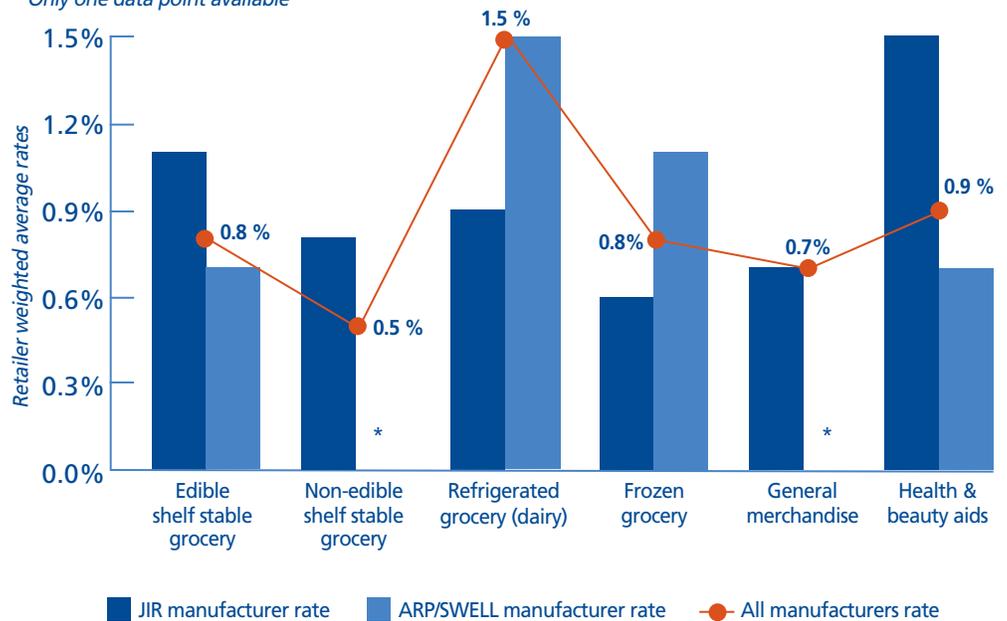
Unsaleables costs are driven by a multitude of factors across multiple organizations and functions within those organizations. This complexity means that a static “one size fits all” approach to applying a reimbursement policy cannot work. A fact based approach must be deployed to assess the drivers of true unsaleables costs and to determine fair cost sharing between trading partners for different product categories and channels.

Product category rates

Costs are shared between trading partners in most product categories, but there are notable differences by reimbursement policy on average. Companies on JIR policies experience different rates than those on ARP policies within the same product categories. In the edible shelf-stable grocery and health and beauty aids categories, JIR rates are 1.6 to 2.1 times higher than ARP and those categories represent 68 percent of total manufacturer unsaleables costs (Exhibit E). In contrast, ARP rates were 1.7 and 1.8 times higher than JIR rates in the refrigerated and frozen grocery categories where those categories represent 20 percent of total manufacturer unsaleables cost (Exhibit E). The higher ARP rate in these two categories is attributed to extensive data collection in supply chain audits.

Product category rates across manufacturers by policy

* Only one data point available

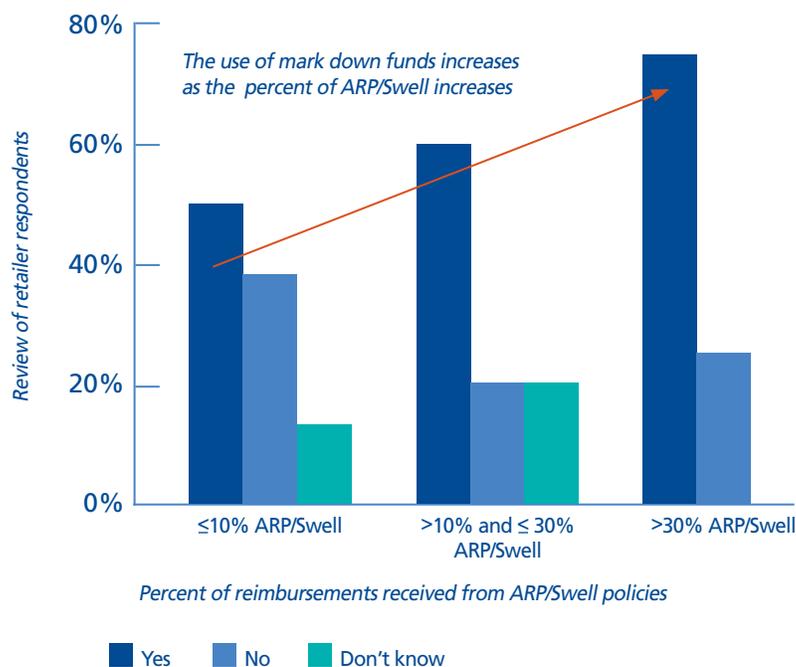


Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

There are some good reasons for the difference in policy rates. For example, classic JIR rates are based on assumptions that are dated relative to today's supply chain environment and ARP rates do not include the costs of funds provided by manufacturers to sell through discontinued items.

Our analysis shows that companies on ARP or Swell policies have a higher propensity to use markdown funds to sell through discontinued product. Notably, for those retailers who receive more than 30 percent of reimbursements through ARP or Swell, 75 percent utilize markdown funds. Also, costs incurred to support supply chain audits are not reflected in ARP rates.

Use of markdown funds

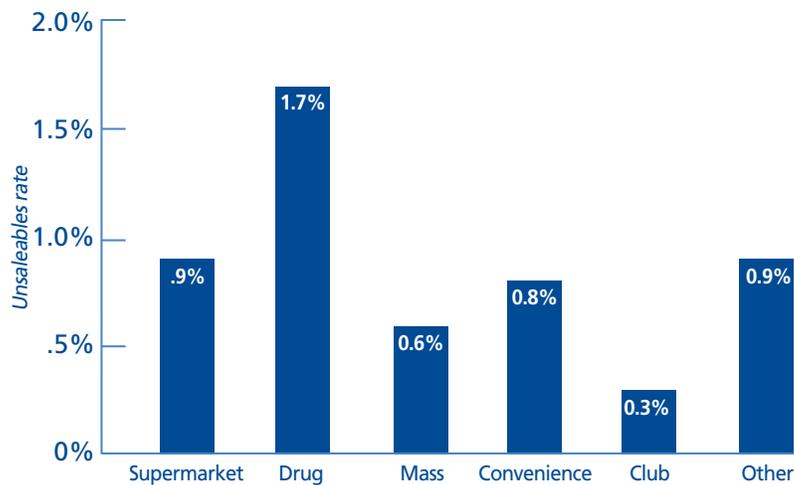


Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Channel rates

Adding a layer of complexity to the 'rate' story, each channel of distribution operates under different dynamics and hence experiences different unsaleables rates. For example, the rate in the drug channel is twice the average manufacturers' unsaleables rate of 0.83 percent. Product discontinuations across large assortments of SKUs and split-pick operations are two major factors driving the rates up in the drug channel. The industry typically utilizes nationally blended reimbursement rates across all channels so it is important these differences by channel are understood.

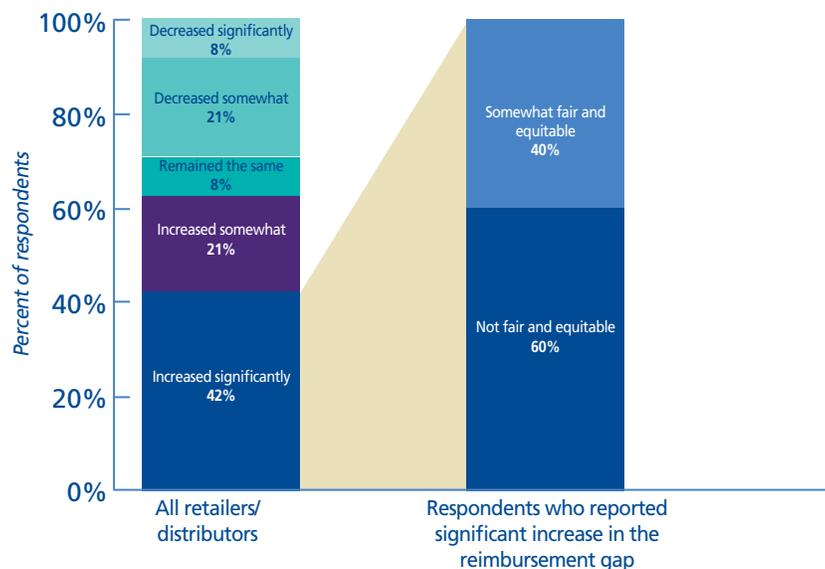
Manufacturers unsaleables rates by retail channel



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Retailer perception of policy fairness is gauged based on rate specificity by channel and category. Some retailers feel that the lack of specificity removes manufacturers' incentives to address unsaleables issues specific to each retail channel and product category. Retailers state that ARP rates are not inherently unfair; however, the rates must be supported by data and updated on an appropriate frequency in order to reflect the true shared responsibility for unsaleables. As the percentage of sales reimbursed through ARP increases, the

Retailers/distributors reported reimbursement gap trend and level of fairness



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

reimbursement gap has also increased. For example, 42 percent of all retailers/distributors indicated that the gap has increased significantly and 60 percent of that group deems the gap to be 'not fair or equitable'. Isolating grocery retailers, 69 percent indicated that the gap has increased significantly and approximately one-third deem the gap to be 'not fair or equitable'.

There is another issue affecting the perception of fairness comparing JIR and ARP manufacturers. Since ARP policies expressly do not require transfer of title back to the manufacturer, JIR companies will fund the lion's share of reclamation costs. However, the trade-off for those JIR manufacturers is the benefit gained from the data collected through the process. This data can arm companies with insight into the effectiveness of trade promotions, performance of SKUs and problems at the retail store.

Unintended consequences

Because current rates do not adequately cover costs and unsaleables continue to be a challenge, companies are reactively putting in place practices and policies that can be counter-productive. Two examples follow.

"Blanket" damage policies are increasing price to the consumer

Retailers are increasingly stringent at the receiving dock hedging unsaleables risks by instituting more rigorous damage and shelf-life standards. But these stringent standards often cause retailers to refuse full case packages despite the fact that there is salvageable product within the case. The high costs associated with these returned products is first felt by manufacturers, but is ultimately shouldered by the consumer. Removing 'good' product from the value chain causes an imbalance between supply and demand which drives price increases at stores. Given recent rises in commodity costs for food products, it is increasingly important to address product waste through policies that incent all players to capitalize on good product.

Efforts to recoup costs impact consumer experience, brands and corporate goodwill

Retailers attempt to recoup unsaleables costs by increasing labor productivity. Often, to increase labor productivity and reduce costs, store operations will shift labor resources to focus on activities that generate immediate top line sales. But this in turn causes practices, such as product rotation, to lose attention and close-to-expiration items remain hidden on store shelves turning into unsaleables. This also means expired product can create a poor consumer shopping experience as it sits on the shelf and creates a situation in which a brand cannot deliver on its brand promise.

As manufacturers look to share costs by moving to adjustable rate policies there is less incentive for retailers to send product through reclamation. Over 22 percent of surveyed manufacturers are not aware of the disposal methods used at retail for unsaleables products, a troubling figure given that consumer business industry is the largest contributor to U.S. solid waste⁹ and the industry is recouping from some of the largest product recalls in history. Further, the shift to salvage unsaleables products may have even greater consequences on corporate goodwill. One food bank has cited a decline in reclamation donations from 51 million pounds to 31.5 million pounds in the past three years (38 percent reduction) as companies defer to salvage/close-out methods. The expectation is that this trend will continue.

⁹*Sustainability: Balancing Opportunity and Risk in the Consumer Products Industry, Deloitte and GMA/FPA, 2007*

Walking the talk: Collaborative policy development and policy enforcement can lead to lower unsaleables cost

When trading partners open up the lines of communication, mutually agreeable policies that lead to strengthened business relationships and lower unsaleables costs can be developed.

An industry case study: Effective trading partner collaboration on policy development

A medium-sized beverage manufacturer embarked on an initiative to develop a more custom tailored reimbursement policy to support their eventual evolution from JIR to ARP. This initiative included a five step process. 1) Identify top priority customer accounts that experience unsaleables rates exceeding the company average. 2) Initiate contact with the right person at each retailer to begin dialogue. 3) Collaboratively develop mutually agreeable reimbursement policies supported by supply chain audits. 4) Incorporate feedback from audits to take action and eliminate root causes of unsaleables. 5) Measure and track results.

This effort was effective with many key accounts resulting in a better understanding of unsaleables root causes. One such key account, a very large grocery chain, expressed interest in working collaboratively to develop the policy and participate in supply chain audits. With the assistance of a third party service provider¹⁰, the partners collectively evaluated unsaleables and developed a mutually agreeable policy. During what could have been a contentious transition from JIR to ARP the relationship between these two partners has thrived.

Effective policy enforcement is essential regardless of which policy type is chosen. To sustain policy enforcement over time, a structured data-driven approach must be in place to support corrective actions.

An industry case study: Policy enforcement pays off

A medium-sized regional manufacturer lacked a defined reclamation policy, validation process and data to measure the accuracy of customer unsaleables claims. Exorbitant unsaleables costs began to significantly impact overall profitability, prompting management to introduce measures, controls and analyses to better understand costs.

With the assistance of a third party service provider¹¹, the company developed a six-step unsaleables cost reduction plan. 1) Gain policy compliance from customers. 2) Develop optimal disposal methods considering tax benefits. 3) Enhance reclamation product files with SKU level data. 4) Perform weekly audits of invoices. 5) Implement corrective actions processes. 6) Develop customized management reporting of key trends and audit results. The data-driven methodology to support audit and reconciliation processes resulted in:

- 50 percent reduction in unsaleables
- More than 80 percent of customers were in policy compliance within a year of implementation
- Increased visibility into root causes and decreased damages related to packaging

¹⁰Strategic Solutions International, Inc.

¹¹Wesley Associates Business Consultants, Inc.

Finding 5: Unsaleables is now a “C” level agenda item

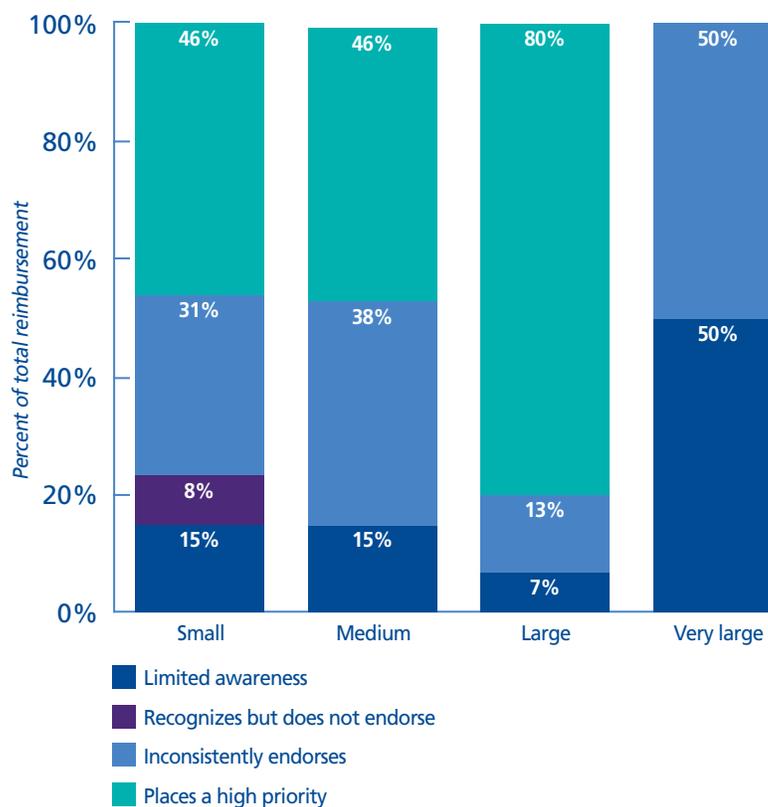
Historically, unsaleables management has not received CEO, CFO, or COO (“C” level) executive focus, but this can no longer be the case. There are two critical reasons unsaleables require the attention of senior leadership:

- The impact of unsaleables on companies’ bottom line is growing as the industry faces rising cost pressures
- Drivers of unsaleables are becoming increasingly complex. Companies require cross-functional solutions that require senior executive ownership and sponsorship

Bottom line, our study shows that when senior executives get involved, unsaleables costs go down. Companies with senior executive attention on unsaleables experienced unsaleables rates about 0.5 percent of sales lower than those with limited to no executive attention. For a \$5 billion dollar company, that represents \$25 million of opportunity to increase profit annually.

Increasingly, executives are paying attention to unsaleables. About 60 percent of our respondents cited that executive leadership in their organization places a high priority on unsaleables management.

Level of executive awareness by company size¹²



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

¹²A small-sized company is defined as ≤ \$500 million for manufacturers and ≤ \$3 billion for retailers; a medium sized company is identified as >\$500 million and ≤\$2 billion for manufacturers only.

Unsaleables management not only requires leadership support, it also needs cross-functional involvement, with the four most important functions being sales, warehousing and logistics, store operations and finance.

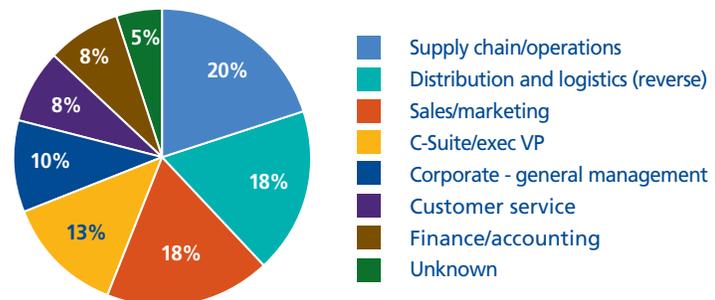
Departments that are highly influential in unsaleables management



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

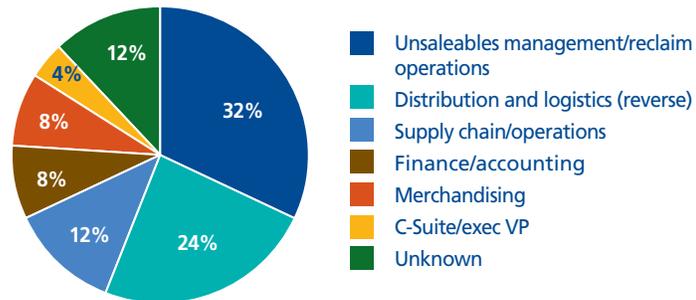
We found that typically the unsaleables manager reports into supply chain or reverse logistics, but neither can significantly impact unsaleables. This current organization structure means that to affect the unsaleables rate, unsaleables managers must form relationships with colleagues in more impactful functions, gain visibility to drivers of the unsaleables rate and influence behavior across these functions. That is a difficult proposition at best.

Manufacturer survey respondent reporting structure



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Retailer/distributor survey respondent reporting structure



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Executives can further support unsaleables management by investing in training and tools that facilitate better analytics. Survey results indicate that root causes are not well understood because analyses were not shared or performed on a regular basis by most companies (Exhibit K) and about 56 percent of manufacturer respondents did not actively use data at SKU level (Exhibit M).

An industry case study: Effective cross-functional collaboration

The unsaleables manager of a multi-billion grocery retailer identified a vendor of refrigerated grocery items experiencing an unsaleables rate of 5.5 percent or higher in select stores.

As part of logistics and distribution, the unsaleables manager and his leadership had visibility into supply chain and logistics requirements. To further enhance the effort, a cross-functional unsaleables team including senior management, systems analysts and representatives from store operations, merchandising, shelf-management and warehousing was formed to facilitate internal collaboration. The unsaleables manager took three important actions. 1) He used a fact based approach to communicate important findings to key internal owners. 2) He shared data with the vendor. 3) He provided feedback to the vendor regarding the need of an experienced resource with cross-functional visibility to manage unsaleables.

Discussions with the vendor were held every four to six weeks. After four months, the trading partners made gradual improvements to the supply chain. The amount of shelf-life out of warehouse was extended from seven days to 14 days. They also decided to discontinue slow-moving SKUs and develop an action plan to sell-through products. This collaborative effort resulted in unsaleables rates decreasing from 5.5 percent in this category to range of 2.5 percent to 4.5 percent at most retail stores.

The trend is that more senior executives are getting more involved in unsaleables management. This trend must continue to help reduce unsaleables rates.

SECTION THREE

Recommendations

The game in unsaleables management is changing. Forward-thinking organizations are getting past the squabbles over cost sharing and focusing on reducing the total pie. In this study we've brought forth five major findings: 1) Root causes are driven by the same fundamentals, 2) Damages are only half the problem, 3) It's time to bring planning to unsaleables management, 4) Unsaleables reduction requires balanced incentives and 5) Unsaleables is now a "C"-level agenda item. Based on study findings and our industry experience, we have summarized the recommendations into three categories: organizational, process and metrics and reporting. We propose that adopting these practices will help companies better prepare their businesses for the future.

| | | |
|------------------------------|---|---|
| Organizational | Align incentives to drive the right behaviors | <ul style="list-style-type: none"> • Measure influential departments on their ability to reduce unsaleables (e.g. net sales) • Set corporate unsaleables reduction goals • Develop a policy enforcement system that can be applied consistently |
| | Get senior leadership "in" on the issues | <ul style="list-style-type: none"> • Use senior leadership to champion cross functional and collaborative changes • Report and communicate structured metrics to senior leadership on a regular basis |
| Process | Foster collaboration with influential departments and with trading partners | <ul style="list-style-type: none"> • Synchronize forward and reverse value chains • Share information (e.g. root cause analysis, inventory positions, POS data) regularly • Formalize cross-functional team meetings and communication with trading partners • Make inventory management a strategic priority |
| | Proactively develop exit strategies for discontinued products and failed product launches | <ul style="list-style-type: none"> • Provide 30+ day lead time to trading partners prior to a discontinuation • Make it a prerequisite to proactively develop inventory ramp down plans with partners • Involve influential departments (e.g. sales and marketing) in discussions • Formalize a SKU rationalization process |
| | Develop code-dating and rotation standard procedures | <ul style="list-style-type: none"> • Use open code dating • Communicate shelf-life requirements with trading partners • Provide enough shelf life for products to move through the supply chain to the consumer • Enforce FIFO rotation practices in the warehouse and on the shelf |
| | Don't lose sight of the basics: Handling and packaging | <ul style="list-style-type: none"> • Share planned packaging changes with trading partners • Provide damage root causes to product development/packaging cross-functional teams • Provide continuous training and feedback loop to product handlers |
| Metrics and Reporting | Develop more rigorous measuring and tracking systems | <ul style="list-style-type: none"> • Track and measure unsaleables costs • Use data to identify and address root causes (ex. impact of sustainable packaging) • Deploy fact based approach to develop reimbursement policies • Share standard metrics on a regular basis |

BIBLIOGRAPHY

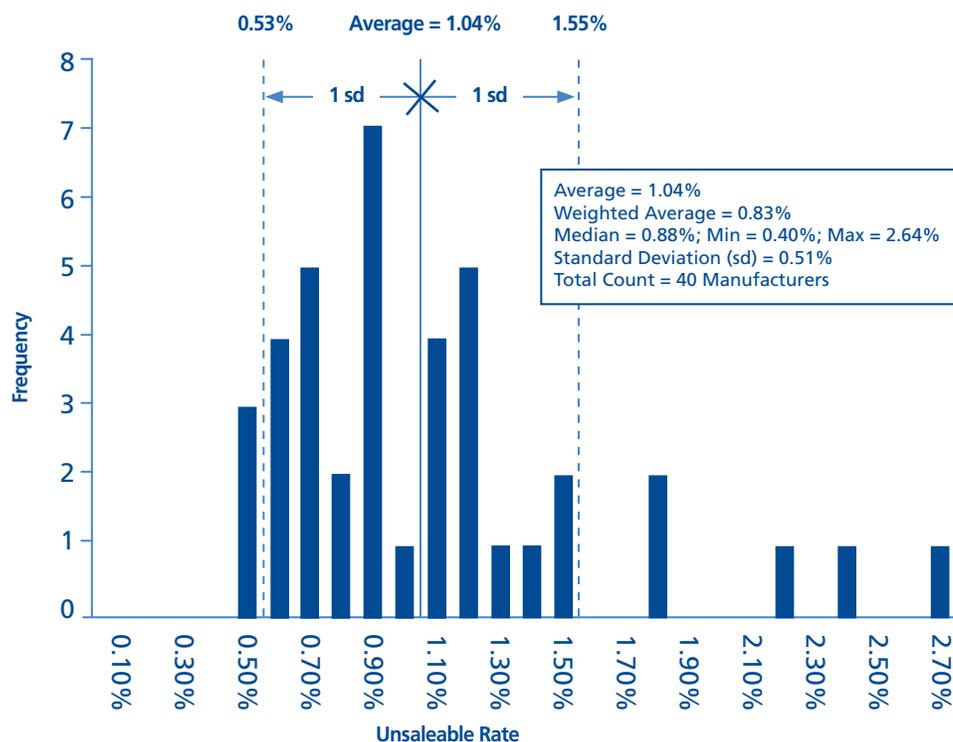
- 2007 New Product Pacesetters: Innovative New CPG Brand Leaders. Information Resources, Inc., 2008.
- Adjustable Rate Policies: An Unsaleables White Paper. Food Distributors International, FMI and GMA, 2002.
- Adjustable Rate Policies, The History, The Controversy and The Bottom Line, Industry study. Carolina Logistics Services, 2004.
- Collaborative Unsaleables Management Scorecard – A Joint Assessment Tool for Distributors / Manufacturers’ Action Plans. GMA and FDI, 1997.
- CPG 2007 Year in Review: Emerging Trends Shaping 2008 Opportunity. Information Resources, Inc., 2008.
- Efficient Unsaleables Management Scorecard: A Self-assessment Tool for Use by a Manufacturer. GMA, 1997.
- Improving Efficiencies in Product Discontinuation: A Grocery Industry White Paper. Food Distributors International, FMI and GMA, 2001.
- Improving Supply Chain Practices for Open Dated Products: Guideline for Manufacturers and Distributors, FMI, FPA and GMA, 2007.
- Improving Unsaleables Management Practices – Joint Industry Recommendations. FMI, GMA and Raftery Resource Network, Inc, 2005.
- Industry Report on Health and Wellness. GMA, 2007.
- Product Reclamation Centers: A Joint Industry Report. FMI, GMA, NADS, NAWGA, NFBA and NGA, 1990.
- Shopper Marketing: Capturing a Shopper’s Mind, Heart and Wallet. Deloitte and GMA, 2007.
- “Survey Finds Inventory Improvements Stalled Among Consumer Packaged Goods Companies”, Reuters, 25 Feb. 2008 <www.reuters.com>
- Sustainability: Balancing Opportunity and Risk in the Consumer Products Industry. Deloitte and GMA/FPA, 2007.
- The Future of Consumer Product Companies: Products Staying a Step Ahead. Deloitte, 2007.
- The Root Causes of Unsaleables: A Joint Industry Study. FMI and GMA, 1999.
- Transformative Times for the Top 50 Supermarket Chains. Progressive Grocers, 2007.
- Unsaleables Benchmark Report. FMI and GMA, 2004.
- Unsaleables Benchmark Report. FMI, GMA and Raftery Resource Network, Inc, 2005.
- Unsaleables Benchmark Report. FMI, GMA and Raftery Resource Network, Inc, 2006.
- “Wal-Mart’s Growth Opportunities in Food and Fashion Explored in New Retail Forward Reports”, Market Wire, Sep. 2003 www.findarticles.com

This publication contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, “Deloitte” means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

APPENDIX

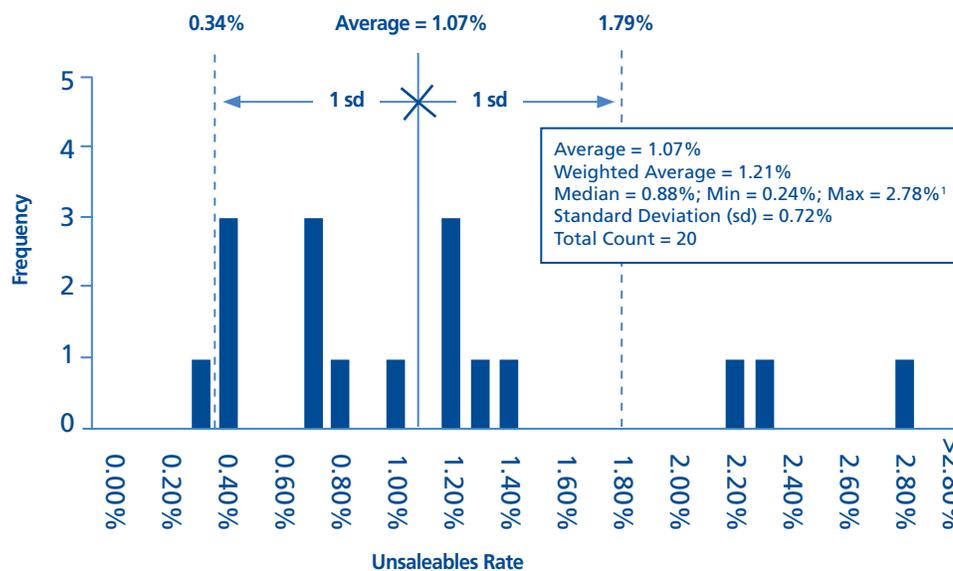
Exhibit A: Manufacturer distribution unsaleables rates



Rates were validated through interviews.

Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

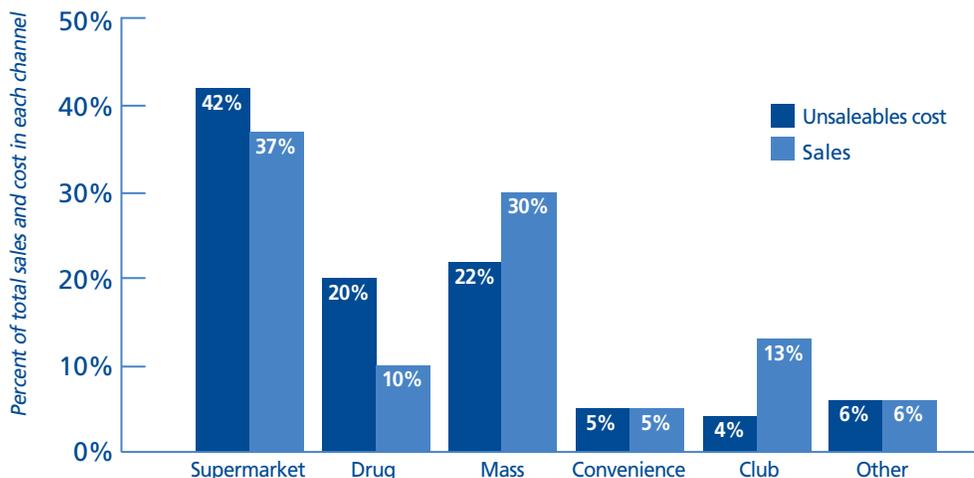
Exhibit B: Retailer distribution and profile of unsaleables rates



Outliers were determined per channel and defined as rates outside 2σ (sd) and excluded for this analysis.

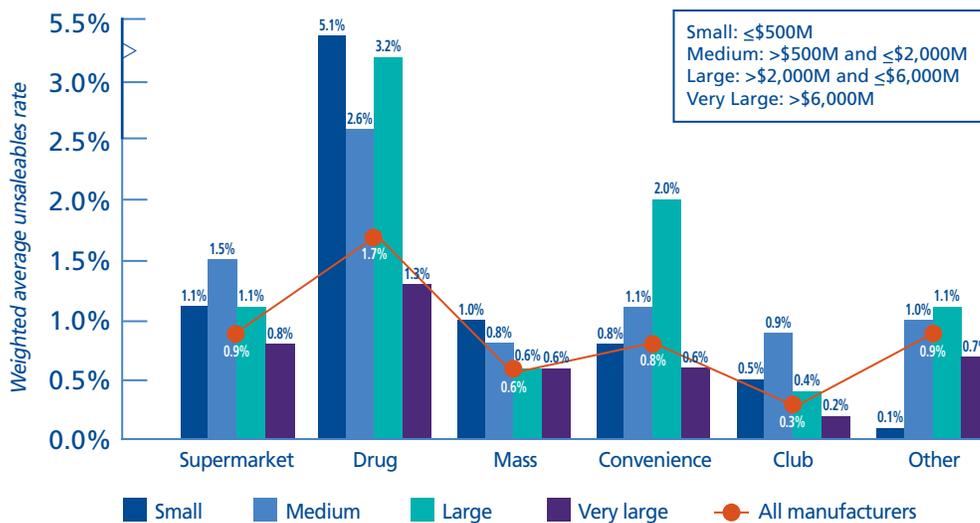
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Exhibit C: Manufacturer sales and unsaleables cost by retail



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

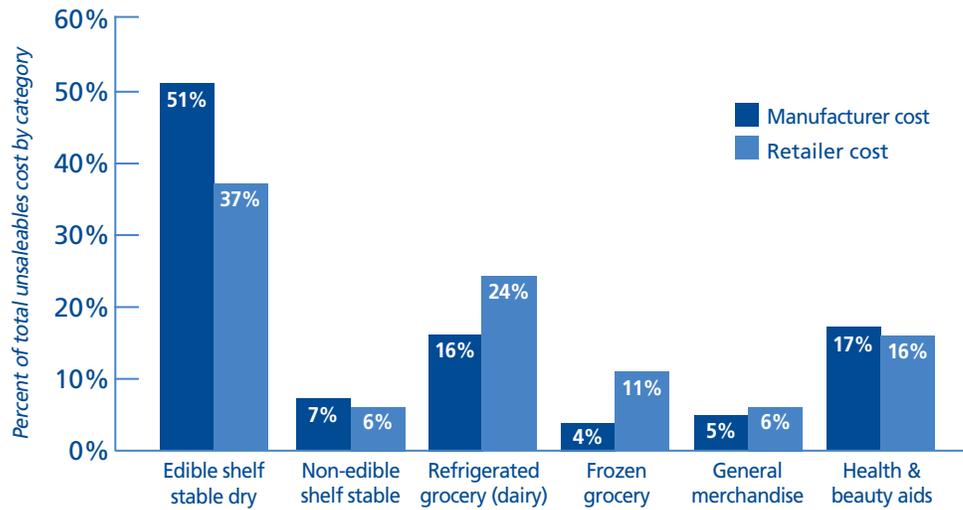
Exhibit D: Manufacturer unsaleables rates by channel across size segments



* Other includes: military, food service, pet speciality, wholesalers, dollar stores

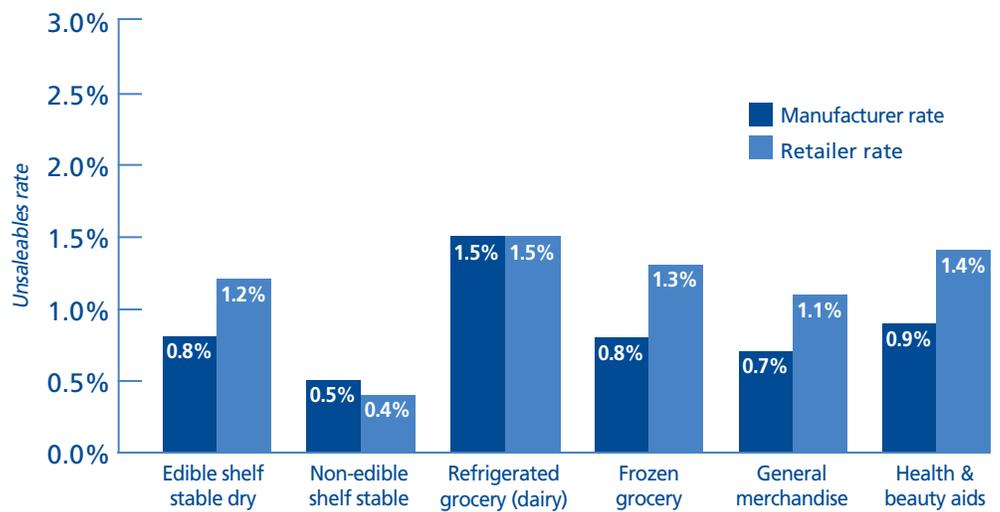
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Exhibit E: Manufacturer and retailer unsaleables cost by product category



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

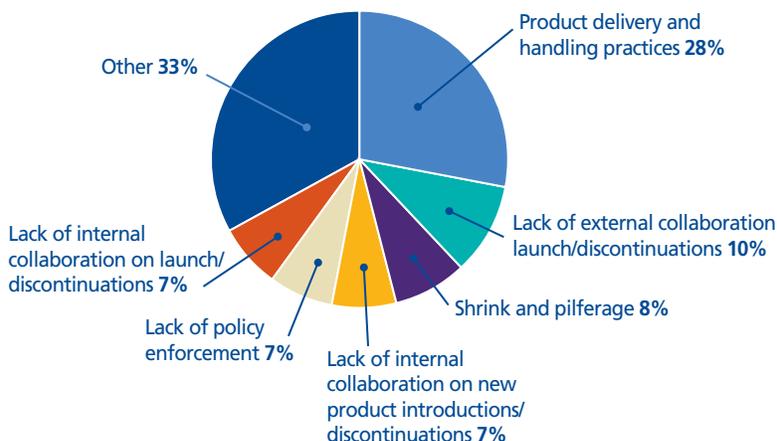
Exhibit F: Manufacturer and retailer unsaleables rates by product category



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

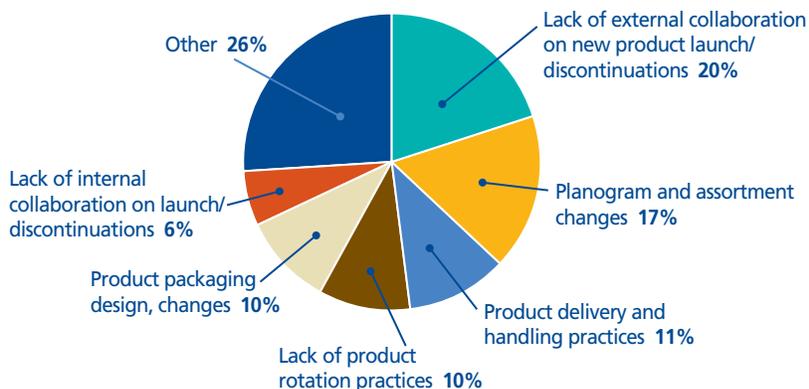
Exhibit G: Manufacturer leading causes by size

Small manufacturers (< \$500M gross sales)



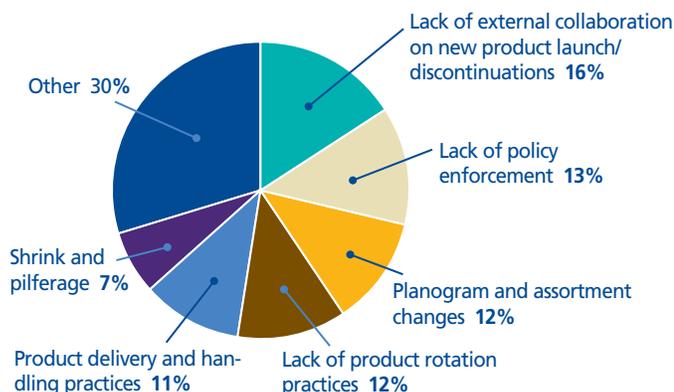
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Large manufacturers (\$2B > X ≤ \$6B gross sales)



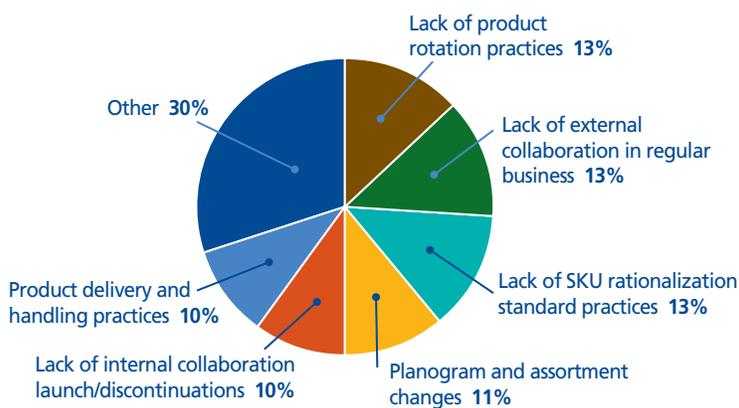
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Medium manufacturers (\$500M > X ≤ \$2B gross sales)



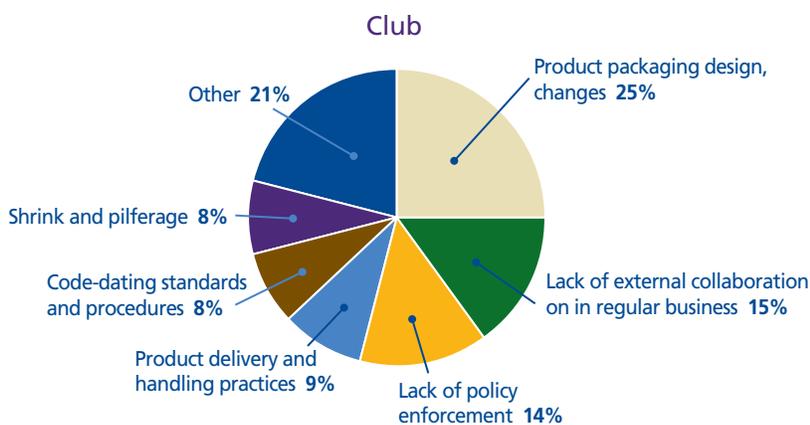
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Very large manufacturers (> \$6B gross sales) leading causes

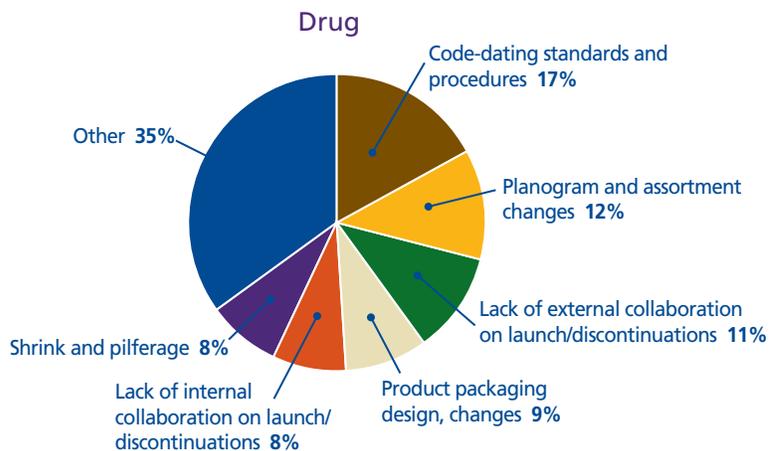


Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Exhibit H: Distributor leading causes by channel

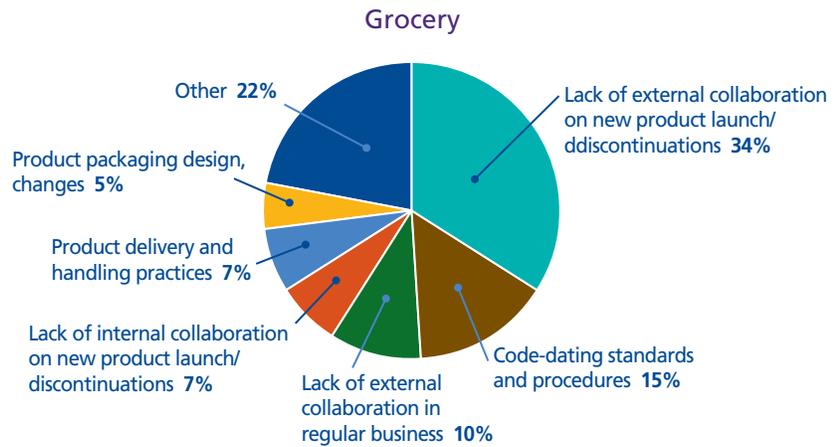


Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

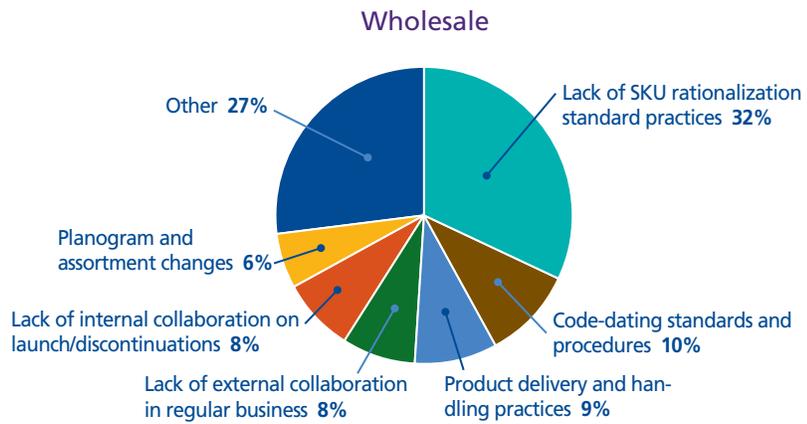


Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Exhibit H: Distributor leading causes by channel (continued)

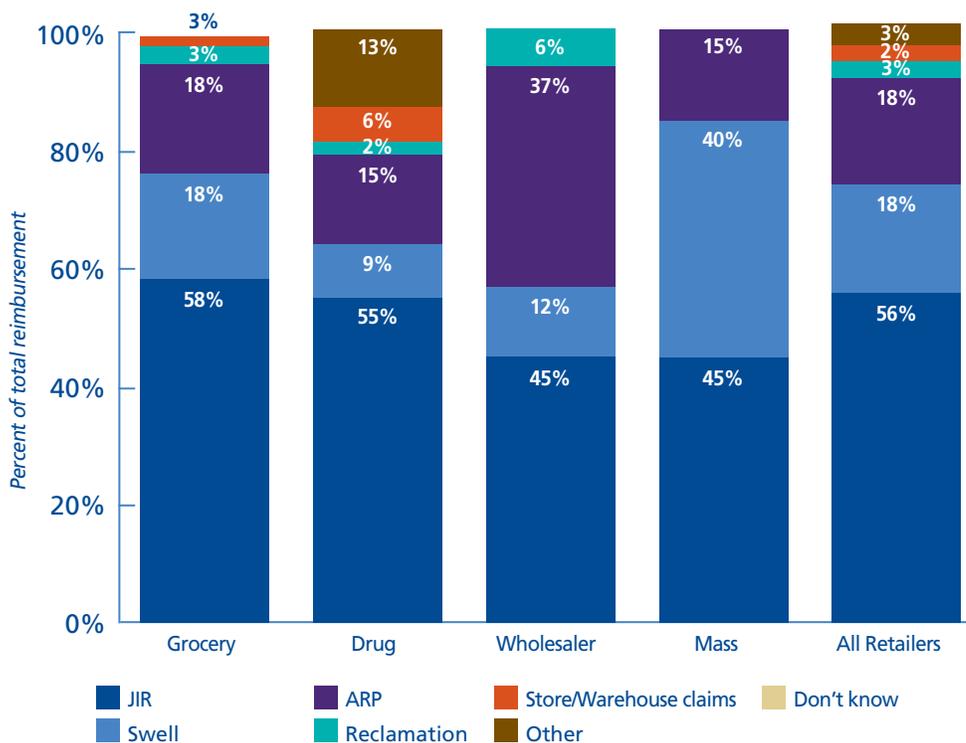


Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results



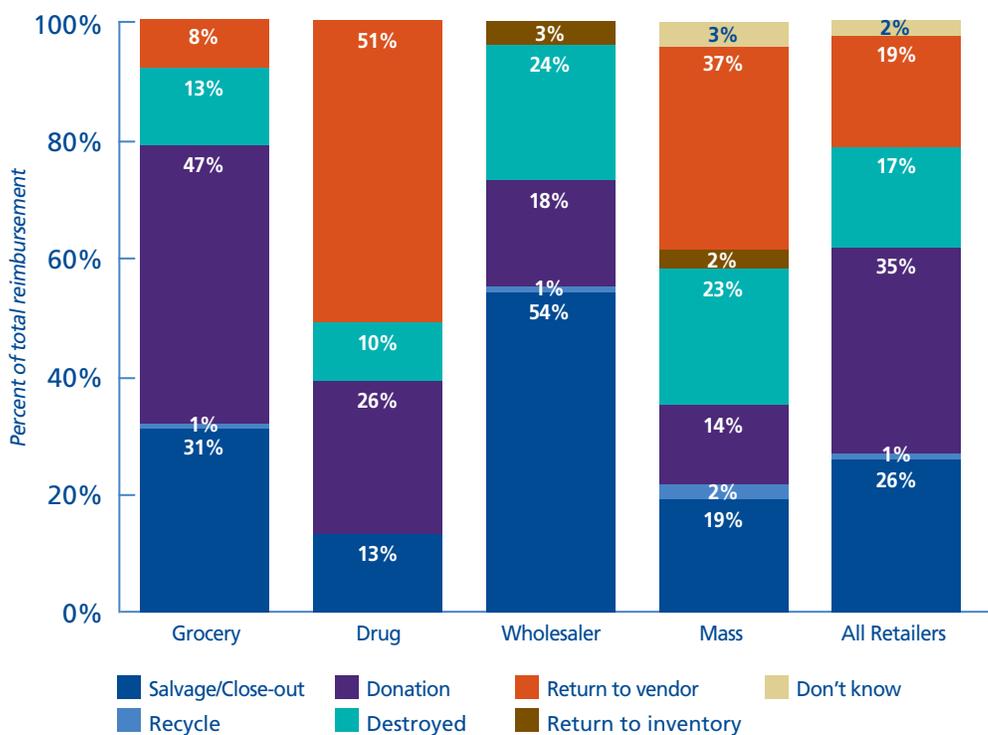
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Exhibit I: Reimbursement types in each channel (weighted average)



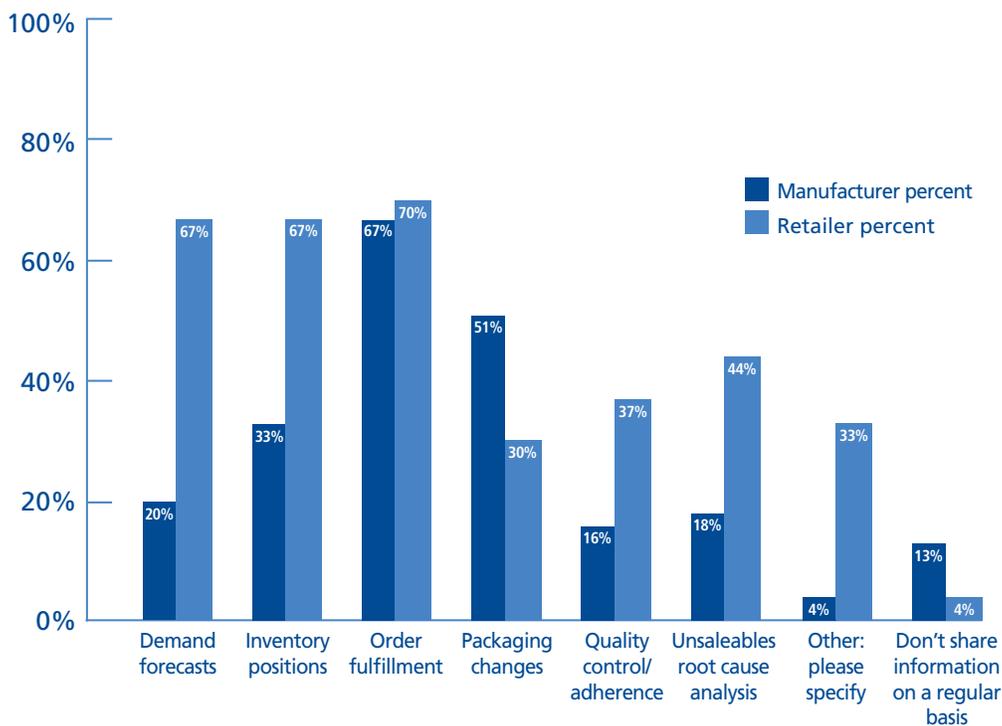
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Exhibit J: Retailer unsaleables profiled by method of disposal



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

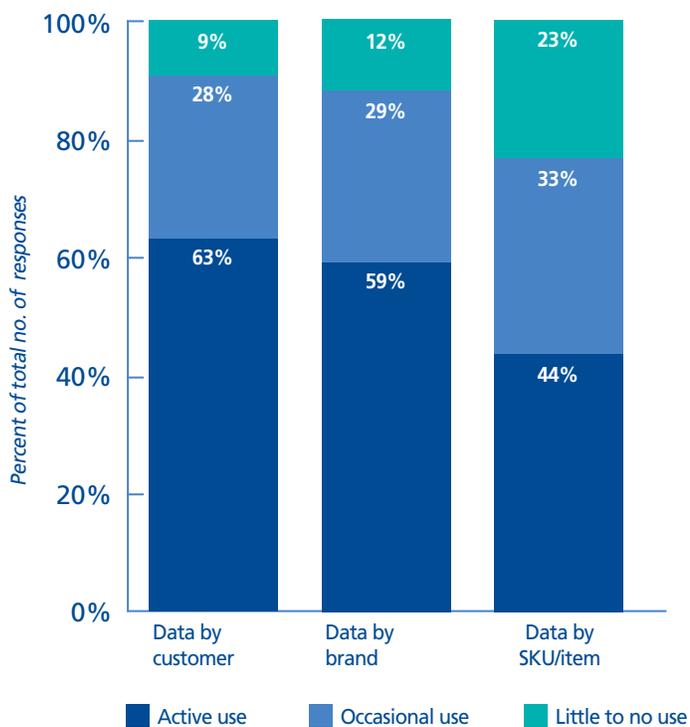
Exhibit K: Types of information shared on a regular basis with trading partners (manufacturers and retailers/distributors)



• Other include: reclamation data, POS data, vendor damage claims and service provider data

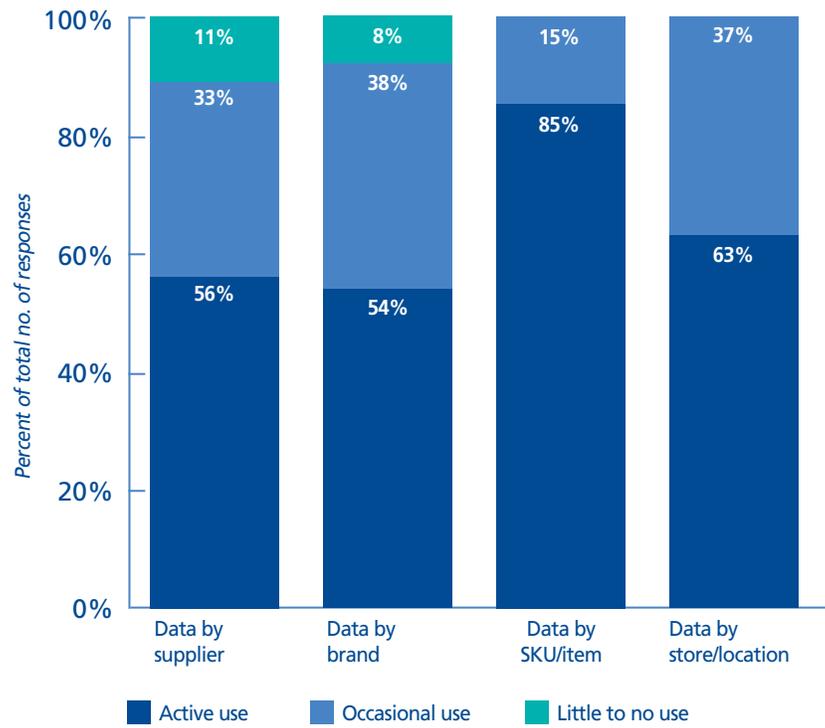
Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Exhibit L: Manufacturer frequency of data usage



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

Exhibit M: Retailer/distributor frequency of data usage



Source: GMA, FMI and Deloitte Consulting LLP 2008 Unsaleables Study Results

For more information:

Adam Mussomeli

Principal and US Operations Leader, Consumer Products
Deloitte Consulting LLP
Email: amussomeli@deloitte.com
Phone: 203-905-2646

Gretchen Mitchell

Manager
Deloitte Consulting LLP
Email: gremitchell@deloitte.com
Phone: 469-417-5174

Troy Beeler

Senior Manager, Sales & Sales Promotion
Grocery Manufacturers Association
Email: tbeeler@gmaonline.org
Phone: 202-295-3962

Patrick Walsh

Vice President, Industry and Trade Development
Food Marketing Institute (FMI)
Email: pwalsh@fmi.org
Phone: 202-452-8444



The Association of Food, Beverage
and Consumer Products Companies