

**CSM** Developments

## PRG-Schultz Says Retailers Fearful of Accounting Probes

Atlanta, GA – PRG-Schultz International, Inc. posted a \$1.7 million net loss for its third quarter ended September 30, which it attributed in part to "extreme caution" on the part of its biggest U.S. retail clients, which has slowed the process of approving PRG's claim findings.

The company, which audits accounts for retailers and other organizations to look for overpayments, said its net loss included a \$2.4 million charge related to strategic business initiatives (the initiatives, announced in July, include evolving its service model through more consistent audit tools, methodologies and best practices; developing new business opportunities; and growing the international business). Revenues for the quarter were \$92.6 million, down from \$116.1 million the prior year. For the nine months ended September 30, net income was \$7.3 million, compared to \$8 million the year before. Sales for the nine months were \$292.5 million, down from \$344.7 million the prior year.

(Continued On Page 2)

## Wal-Mart Meets With Top Vendors To Discuss its RFID Requirements

### A.T. Kearney Report Weighs RFID Cost Factor

Bentonville, AR – In response to vendor uncertainty about what its RFID requirements will entail, Wal-Mart Stores, Inc. held a meeting on November 4 with about 120 of its suppliers to answer questions and provide information.

Wal-Mart has given the company's top 100 vendors until January 1, 2005 to place RFID tags on all cases and pallets shipped to its distribution centers. The company said all other vendors have until January 1, 2006 to comply.

Wal-Mart's deadlines are part of the giant retailer's plan to implement RFID in its inventory management system worldwide. RFID technology carries descriptive information of a product in a tag embedded with a chip. Devices such as handheld computers or sensors located in a warehouse can read the product data, helping businesses

streamline inventory management and the supply chain. The RFID tags provide exact information about where products are as they move through the supply chain.

Tom Williams, a spokesman for Wal-Mart, said the meeting was productive and that all of the vendors in attendance expect to meet its RFID requirements.

"We don't do anything if it isn't advantageous to cost [for retailer and vendor]," Williams said. "RFID is only going to work if it benefits all trading partners. It's the future and we're moving ahead with it."

Williams added that the expected savings and benefits from RFID will far outweigh the costs of implementation, for both vendor and Wal-Mart. He said that if RFID technology can improve a company's in-stock position from 99% to 100% it would

(Continued on Page 3)

*"RFID is only going to work if it benefits all trading partners. It's the future and we're moving ahead with it."*

**– Tom Williams – Spokesman for Wal-Mart Stores**

## CSM % of Grocery Vendors & Retailers Engaged in Practices That Can Lower Unsaleables

Source: GMA 2003 Unsaleables Benchmarking Report

	Percentage of Manufacturers	Percentage of Retailers
Utilize sales/buying practices linked to unsaleables	65%	31%
Item forecasting of consumer demand used for determining order quantities and inventory	67%	67%
Have a policy/philosophy to minimize forward buying	71%	31%
Use promotion planning to minimize excess post-promotion volume	73%	61%
Use category management principles for assortment decisions	83%	72%
Buyer/Category Manager's compensation and incentives are tied to curbing unsaleables	35%	6%
Use Continuous Replenishment Programs and/or Vendor Managed Inventory programs	83%	53%
Use Collaborative Planning, Forecasting and Replenishment (CPFR) programs.	48%	17%

Multiple Responses Allowed

# Wegmans Offers Data Synchronization Immersion Day

In an effort to educate its trading partners about the workings and benefits of data synchronization, grocery retailer Wegmans Food Markets has teamed up with the Grocery Manufacturers of America (GMA) to offer immersion day seminars. The first seminar was held November 12 in Chicago and the second is

scheduled for December 10 at the Fairmont Hotel in San Francisco, CA.

The immersion day classes are designed to provide suppliers with information about deploying data synchronization programs with Wegmans. Attendees will meet UCCnet member companies, the Wegman' implementation team

and other suppliers with implementations underway. For more information, call GMA at 202-337-9400.

## ... PRG-Schultz Says Retailers Fearful of Accounting Probes

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Concerning the third quarter, John Cook, chairman and CEO of PRG, said "On the domestic front, we continued to be impacted by the challenges we faced during the first two quarters of 2003. These include ongoing extreme caution displayed by some of our largest U.S. retail accounts payable clients in light of numerous and highly publicized inquiries by the Securities and Exchange Commission into the overall accounting for vendor-supplied promotional allowances. As a result, there was negligible improvement, if any, during the quarter with respect to several of our largest U.S. retail clients, who continued with more deliberate procedures for approving and processing our claim findings and continued to subject them to additional levels of internal review. We remain steadfast in our belief that this climate of unprecedented caution by some of our largest U.S. retail accounts payable clients is temporary in nature, but it is now clear to us that it will extend into 2004."

For the fourth quarter, PRG said it expects to post revenue of \$95 million to \$97 million (\$82 million to \$84 million from accounts payable services and \$13 million from ancillary services). Earnings are expected to be between breakeven and a loss of \$0.02 a share, which includes a reduction of about \$0.06 a share to reflect its strategic business initiatives.

## Grainger Selects Genco's Reverse Logistics Software

Genco Distribution System has been chosen to provide reverse logistics software and services for Grainger, a maker of facilities maintenance products in North America.

Under the arrangement, Genco will operate a return center for Grainger to support the movement of returned goods and discontinued merchandise back to Grainger suppliers. Genco will utilize its R-Log reverse logistics software.

The agreement followed a six-month pilot program. Going forward, Genco said it will provide sorting and inventory control through the reverse pipeline that supports Grainger's multiple product categories and various supplier destinations.

## Vendor Compliance Updates\*

### Retailer: J.C. Penney

Updated Information	Update	Date	Download Info
4 new stores added to various SSCs'	RG	11/10/03	viewnewsitem.asp?id=451
J.C. Penney Company Supplier Relations and Legal Compliance Policies	Other	11/5/03	viewnewsitem.asp?id=449
Retail UCC-128 Carton Shipping Labels - 'Division Clarification	Other	10/31/03	viewnewsitem.asp?id=448
JCP Direct (catalog/Internet) Weekend Order Processing Delays as of Oct. 21, purchase orders and net needs for lot numbers 732-5073 and below have been communicated to our suppliers via EDI.	Other	10/21/03	viewnewsitem.asp?id=443
Catalog Outlet Store Merchandise Via PEPS	RG	10/20/03	viewnewsitem.asp?id=440

### Retailer: Meijer

Updated Information	Update	Date	Download Info
10/17 from UCCNet Retailer Community: Joint Retailer Reminder Letter	Other	10/17/03	N/A

### Retailer: Saks

Updated Information	Type of Update	Date	Download Info
EDI Mapping Specifications 4010 - October Revision	EDI	10/24/03	FLOW%204010%20SFA%20EDI%20Comm%20Sys%2010-03.pdf
Updated Assigned Number/Abbreviation for all Stores and DCs by Operating Company	Other	10/24/03	N/A

### Retailer: Kohl's

Updated Information	Type of Update	Date	Download Info
Executive Mgt. Letter outlining Kohl's EDI requirements and AS2 guidelines	EDI	11/1/03	toc.htm
Kohl's no longer supplying tickets to vendors beginning Dec. 1. Vendors will need to convert to 3rd party supplier or print in-house	RG	10/21/03	toc.htm
The Transportation Section (section 6) has important updates to clarify understanding of the routing timing guidelines. Please review this section.	RG	10/21/03	toc.htm

\*To obtain access to download information on these and other retailers, go to [www.tradingpartner.info](http://www.tradingpartner.info)

## ... Wal-Mart Meets With Top Vendors to Discuss RFID

*Continued from Page 1*

improve sales by approximately \$1 billion, benefitting vendors and the retailer.

Williams said he "couldn't say" whether Wal-Mart will resort to chargebacks against companies who fail to meet its RFID deadline. He stressed

that Wal-Mart wants to achieve its RFID goals in partnership with its vendors and will work with them toward meeting the compliance requirements

### The Cost Factor

Management consulting firm A.T. Kearney noted in a recent report that while retailers can expect inventory and labor cost savings from the adoption of RFID

technology, suppliers face higher costs and delayed benefits.

A.T. Kearney said retailers will benefit in three areas: reduced inventory, a 7.5% reduction in store and warehouse labor and a reduction in out-of-stock items. This will result in a recurring annual benefit of \$700,000 per \$1 billion in annual sales for retailers. It said the estimated cost of Electronic Product Code (EPC) and RFID adoption for retailers is about \$400,000 per distribution center and \$100,000 per store, with an additional \$35 million to \$40 million for systems integration across the entire organization.

"While these are very significant amounts, the upside is that most of the costs to retailers are fixed," said Dave Donnan, an A.T. Kearney analyst. "The story for manufacturers, on the other hand, is quite different depending on the type of product they make."

The report said vendors will incur the same one-time charges for RFID readers and systems integration as retailers. But they also face the recurring charge of placing RFID tags on their pallets and cases (as required by Wal-Mart).

The report breaks manufacturers into two categories – high impact manufacturers who sell lower volumes of expensive products and experience significant out-of-stocks and shrinkage (mostly drug, electronics and general merchandise vendors) and low impact manufacturers who sell high volumes of less expensive goods and experience limited shrinkage (food and grocery vendors).

A.T. Kearney compared two suppliers with \$5 billion in sales – a low impact grocery vendor and a high impact drug vendor. The report said the grocery products vendor will require about 221 million tags for all pallets and cases. At a price of \$0.15 a tag, the company incurs an annual outlay of \$33 million. If tags drop to \$0.05 apiece, the cost will be \$11 million.

The drug manufacturer, which ships far fewer cases only has to shell out \$2.2 million a year for product tagging, or \$700,000 if the tag price drops to \$0.05.

"The hit on manufacturers' cash flow is not something that can be made up by volume," Donnan said.

The report says manufacturers will experience benefits from increased tracking and inventory visibility, greater labor efficiency and improved fulfillment.

### RFID Test Center

Sun Microsystems said it will unveil a radio frequency identification (RFID) test center in December where Wal-Mart sup-

*(Continued on Page 5)*

# Vendor Compliance Updates\*

## Retailer: Kohl's (cont)

Updated Information	Type of Update	Date	Download Info
Vendor Compliance Updates (section 9)	VM	10/21/03	toc.htm
All vendors required to request shipments through the Transportation Mgt. System	RG	10/21/03	toc.htm
Current store/DC association list	RG	10/15/03	toc.htm

## Retailer: Federated

Updated Information	Update	Date	Download Info
Burdines-Macy's Jewelry Change of Ship to Location	RG	11/10/03	03_BUjewelry.pdf

## Retailer: May Dept. Stores

Updated Information	Type of Update	Date	Download Info
Routing Instruction Updates	RG	10/15/03	routingGuide.pdf
Updated Contact List	Other	10/15/03	N/A
May invites new trading partners and existing partners making changes to their EDI profile to visit its new on-line "Vendor Profile"	Other	10/15/03	index.jsp

## Retailer: Goody's

Updated Information	Update	Date	Download Info
Updated Routing Guide	RG	11/12/03	N/A

## Retailer: Sears

Updated Information	Update	Date	Download Info
Quality Assurance Steps for Preventing Label Printing Problems	Other	11/6/03	pdfprinter.html
Updated EDI Information	EDI	10/31/03	N/A
Change in Debit Memo Notification for Operational and Fashion PO Compliance	VM	10/20/03	business.sears.com

## Retailer: Target

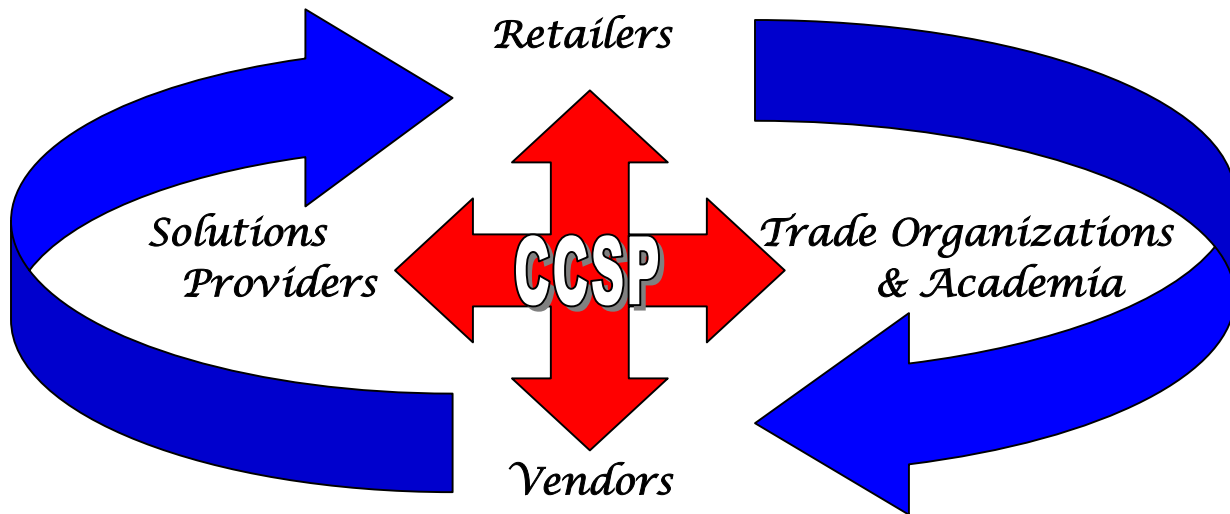
Updated Information	Update	Date	Download Info
Scheduled Outage on 11/8 to Affect POL and AS2	Other	9/30/03	recentNews.jsp_A&_DAV=home

## Retailer: Academy

Updated Information	Update	Date	Download Info
Updated Routing Guide	RG	11/5/03	9ff78ed461cd57e886256be90056515e! OpenDocument

\*To obtain access to download information on these and other retailers, go to [www.tradingpartner.info](http://www.tradingpartner.info).



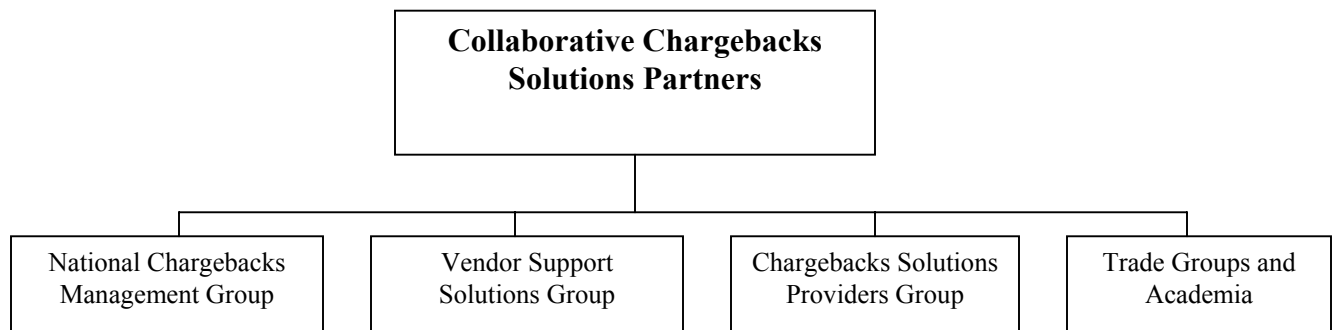


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**Chargebacks Management Conference XX  
Harrah's Las Vegas  
January 21, 2004**



Groups of equals working collaboratively to drive down costs via:

- Supply Chain Efficiency • Compliance • Streamlined Reverse Logistics
- Trade Funds Management • Chargebacks Prevention • Profit Recovery

Yet each group also has distinct capabilities, limitations and concerns requiring dedicated agendas.

Therefore CSM organizes both Joint and Separate Programs to meet the needs of all parties.

Presenters Hospitality - **Parlor B** - Tuesday, January 20, 2004 - 8:00-to-10:00 PM

## **Chargebacks Management Conference XX Harrah's Las Vegas, January 21, 2004**

### **Wednesday, January 21, 2004**

- Foyer C** 8:00 AM - **Registration/Continental Breakfast**
- Elko & Ely Room** 8:30 AM - **Welcome** - *Expediting Deductions & Supply Chain Processes To Lower Costs* -  
Ralph H. Sullivan, President of CSM Communications Co., Inc.
- 8:40 AM - **Expediting Deductions Clearance**- Returns: Retailer Presentation; Compliance: Vendor  
Presentation; Allowances: Vendor; Post Audits: Solutions Provider
- 10:15AM - Coffee Break
- 10:30AM -**Expediting Supply Chain Processes** - Implementing UCCnet; GTINs; RFID; AS2  
Data synchronization and how these standards intersect  
Presented by The Kodiak Group
- Andreotti's** 12:00PM- **Luncheon**
- Elko & Ely Room** 1:15 PM - **Logistics Roundtables Session 1** - Attendees Participate in Table of Choice  
Routing; Reverse Logistics; Product Registry & ID; Compliance Training; Shortages
- Parlor BCDEF** 1:15 PM - **Retailer Presentations on Expediting Deductions Clearance Session 1** - Vendors Only  
Mass Merchandiser; Drug Chain; Department Store; Home Improvement; Specialty Chain
- Elko & Ely Room** 2:15 PM - **Logistics Roundtables Session 2** - Attendees Move to Second Table of Choice
- 2:15 PM - **Retailer Presentations Session 2** - Attendees Move to Second Retailer Presentation
- Foyer C** 3:30 PM - Afternoon Break -
- 4:00 PM - Open Discussion on Day's Topics; Completion of Conference Evaluation Sheets
- Copper Room** 5-to-7PM - **CMC Reception & Gallery of Solutions Providers Tabletop Exhibition**

## **National Chargebacks Management Group Meeting (NCMG)**

### **Thursday, January 22, 2004**

- Studio 1** 7:30 AM - NCMG Advisory Board Meeting
- Elko & Ely Room** 8:15 AM - Continental Breakfast
- 8:30 AM - NCMG General Session
- 8:35 AM - Study to Standardize Post Audit Best Practices , Twila Sullivan, Dir Vdr Rel, PRG-Schultz
- 8:45 AM - Deductions Interchange
- Foyer C** 9:45 AM - Coffee Break
- 10:00AM -Resume Deductions Interchange
- 11:00AM -Member Presentation: *Why we Challenge All Deductions*

## **National Accounts Credit Group Meeting (NACG)**

### **Thursday January 22, 2004**

- Studio 1** 1:30 PM NACG Advisory Board Meeting
- Elko & Ely Room** 2:30 PM NACG General Meeting
- 2:35 PM Account Interchange
- 4:30 PM Critical Elements in Establishing Reserves
- Copper Room** 5:30 PM NACG Reception
- 6:45 PM Dinner at **Grand Lux Cafe-Venetian** - Bring Cash/Bill Divided Equally

### **Friday, January 23, 2004**

- Foyer C** 7:45 AM Continental Breakfast
- Goldfield &  
Tonopath Rm** 8:00 AM Resume Account Interchange
- 9:00 AM **Presentation: KM VP Treasurer**
- Foyer C** 9:45 AM Coffee Break
- 10:00AM Update on Retail Bankruptcies; Michael Fox, Esq. TB&F
- 11:00 AM Conclude Interchange
- Parlor B** 11:30 AM Luncheon
- 12:00 PM Golf Outing Sponsored by TB&F

# Chargebacks Management Conference **XX** - January 21, 2004 - Harrah's LV

**Cut Costs: Expedite Deductions Clearance & Supply Chain Processes**



Collaborative Chargebacks Solutions Partners

Register by check payable to: CSM Communications Co., Inc.  
 11520 N. Community House Rd., Suite 150 Box 5, Charlotte, NC 28277  
 Phone: 704-759-9996 Fax: 704-759-9942 Eml: MPTesm@aol.com

## Event # 1: Dress: Business Casual Chargebacks Management Conference **XX**

Wednesday - January 21, 2004 - 8:15 am > 5:00p.m.  
 Harrah's Las Vegas *Cutoff Date 1/5/04*  
 Rms: \$135 sgl/dbl. Call hotel @ 1-888-458-8471 ask for code: SOICSM4  
 Please register \_\_\_\_\_ Title \_\_\_\_\_  
 \_\_\_\_\_ Title \_\_\_\_\_  
 and \_\_\_\_\_ Title \_\_\_\_\_

for the chargebacks management conference.  
**Conference Fee: \$400 per person\***  
*\*\$75 discount for NACG & NCMG Group Members*

*Space for the  
 Chargebacks Management  
 Conference is limited.  
 Registration  
 is first-come, first-served  
 by receipt of check.*

Fee: \$400 each \$ \_\_\_\_\_  
 Mbrs: \$325 each \$ \_\_\_\_\_

## Event # 2: Dress: Business Casual National Chargebacks Mgt. Group Meeting

Thursday - January 22, 2004 - 8:30 am until Noon  
 Harrah's Las Vegas *Cutoff Date 1/5/04*  
 Rms: \$135 sgl/dbl. Call hotel @ 1-888-458-8471 ask for code: SOICSM4  
 Please register: \_\_\_\_\_ Title \_\_\_\_\_  
 \_\_\_\_\_ Title \_\_\_\_\_ for the National Chargebacks  
 Management Group Meeting. *Restricted to NCMG Members  
 and 1-time guests - Attendees with Chargebacks Responsibility Only.*

\_\_\_\_ We are members of the National Chargebacks Management Group  
 \_\_\_\_ We are Conference attendees considering membership.  
*\*\$25 discount for NCMG Group Members*

Fee: \$100 each \$ \_\_\_\_\_  
 Mbrs: \$75 each \$ \_\_\_\_\_

## Event # 3: Dress: Business Casual National Accounts Credit Group Meeting

January 22-23, 2004 - Thursday Afternoon > Friday Lunch  
 Harrah's Las Vegas *Cutoff Date 1/5/04*  
 Rms: \$135 sgl/dbl. Call hotel @ 1-888-458-8471 ask for code: SOICSM4  
 \_\_\_\_ We are members of the National Accounts Credit Group  
 \_\_\_\_ We would like to attend as guests to consider membership.  
 Please register \_\_\_\_\_ Title \_\_\_\_\_; and  
 \_\_\_\_\_ Title \_\_\_\_\_ for the National Accounts

Credit Group Meeting. *Restricted to NACG Members & 1-time guests -  
 Open to Credit Managers Only. \*\$25 discount for NACG Group Members*

Fee: \$175 each \$ \_\_\_\_\_  
 Mbrs: \$150 each \$ \_\_\_\_\_

**Grand Total:** \$ \_\_\_\_\_

*Please register us for the events we have selected. Send check to:*

CSM Communications Co., Inc. 11520 N. Community House Rd., Ste 150 Box 5, Charlotte, NC 28277  
 Signed \_\_\_\_\_ Print Name \_\_\_\_\_  
 Company \_\_\_\_\_ Title \_\_\_\_\_  
 Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_  
 Phone \_\_\_\_\_ Fax \_\_\_\_\_ Email \_\_\_\_\_

Harrah's Las Vegas is on the Strip at 3475 Las Vegas Blvd., South, Las Vegas, NV 89109. Local Telephone is 702-369-5000  
 Bell Trans Airport Shuttle is outside door 11 at McCarran International Apt. One way to Harrah's is \$4.25; roundtrip is \$8.00.

## Belk Extends Contract for QRS Exchange/Catalogue

Belk, Inc., the Charlotte, NC-based department store retailer, said it extended its contract with QRS Corp. for three years, making QRS Exchange its solution for networking services and QRS Catalogue its data synchronization solution.

QRS Exchange is a suite of electronic commerce solutions that enable trading partners to exchange information – such as purchase orders, invoices and forecasts – regardless of the standard (EDI, XML, Web, phone, fax, etc.).

QRS Catalogue operates as a product data synchronization application, enabling more than 3,500 marketers, manufacturers, suppliers and retailers to share product information, such as price, color, size and more than 450 additional attributes. QRS Catalogue supports the latest EAN.UCC global standards and initiatives.

Belk currently uses QRS Exchange to exchange business-to-business documents with more than 600 suppliers. It said the switch to electronic data

interchange from manual data interchange has significantly reduced expenses. It plans to utilize QRS Exchange to expand electronic communication with more of its trading partners, which include general merchandise, apparel, hardlines and health & beauty aid suppliers.

Belk uses QRS Catalogue to centralize product data and automate internal business processes. It enables Belk's Merchandise Support Group to utilize UPC codes and related product information for better order accuracy and improved flow of product information into the merchandising system. Belk said it has reduced expenses and boosted staff productivity by mandating the use of QRS Catalogue within its entire trading community.

Liz Fetter, president and CEO of Richmond, CA-based QRS, said the company's collaborative commerce solutions will improve Belk's ability to "connect and transact with trading partners, which drives benefits across the retail trading community."

## QRS Debuts New Web Forms for Smaller Suppliers

QRS announced the availability of QRS Web Forms 7.0, which it said offers new features that help retailers and their suppliers conduct business more efficiently.

QRS Web Forms is an Internet-based application designed to enable small to mid-sized vendors to transact electronically with retailers and achieve 100% compliance with retailer requirements, QRS said. It allows suppliers to use the Internet to receive and send EDI or e-commerce documents without re-keying information and handles all data translation so documents will comply with trading partners' EDI or e-commerce specifications. QRS said that Web Forms reduces errors and streamlines the transaction process by automatically generating invoices and ship notices from purchase orders – enabling pre-pack packaging and shipment – and generating reports and labels.

Enhancements included in Web Forms 7.0 are:

- Email Notification – suppliers are now notified via email when inbound documents (purchase orders or PO changes) arrive, allowing them to respond immediately.

- Updated Manufacturer ID Field – to help trading partners comply with latest UCC requirements, the ID field can now hold up to ten digits. The manufacturer ID and sequence number are components used to identify the UCC-128 carton for the shipping labels and on the advance ship notice. This ensures accuracy of the information sent from a supplier's QRS Web Forms system.

"Vendors and suppliers are under increasing pressure to reach compliance with retail industry requirements and to do so they need a way to be able to communicate and transact efficiently," said Renee d'Ouville, VP of product strategy at QRS.

## SPS Commerce Adds 10 Supermarkets to its Network

SPS Commerce, a supply chain services provider, said ten grocery retailers have been added to its network during the third quarter, following the addition of 500 new suppliers in the second quarter.

The new retailers are Kroger Co; Meijer; Costco; Roundy's; C&S Wholesale Grocers; HEB Grocery; Winn-Dixie Stores; Associated Food Stores; Affiliated Foods; and Bruno's.

SPS said that grocery retailers and distributors

have encountered difficulty in establishing electronic relationships with suppliers due to cost and technology barriers of traditional EDI solutions. Its online service, SPS Commerce.net, is designed to enable small to mid-sized companies to outsource their entire electronic transaction operation – be it EDI or XML – for data translation with their retail customers, resulting in improved order accuracy and better electronic invoice management.

## ... Wal-Mart Meets With Top Vendors to Discuss RFID

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pliers can test their RFID solutions to ensure compliance with the discounter's standard.

"RFID is a game change for retailers, manufacturers and pharmaceutical companies to name just

a few," said Jonathan Schwartz, executive vice president of Sun software.

It said the test center will be in Dallas, TX and will be powered by the Solaris Operating System using Sun Java Enterprise Software. The center will be built with the same technology as Wal-Mart's Test Center, allowing suppliers to first test with Sun and know they are in compliance with Wal-Mart

*Chargebacks Solutions Monitor*

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# Joint Perspective Lacking in Fight to Reduce Unsaleables

## Report Notes That Multifunctional Teams May Be the Answer

The misalignment between trading partners in how they manage unsaleables and what they believe are the root causes of unsaleables, as reported in the 2003 *Unsaleables Benchmark Report*, may shed light on why the rate of unsaleables continues to rise.

For this reason, the report "highly recommended" that vendors, retailers and wholesalers adopt multifunctional teams

60%) and accounting/finance (about 25%). But, retailers/distributors largely (nearly 80%) rely on distribution/logistics departments to handle unsaleables.

The report notes that this misalignment in functional reporting areas between trading partners can result in different perspectives about what is important and how unsaleables should best be managed.

in the supply chain and their degree of involvement in the downstream handling of products. Also, it noted that retailers/distributors handle all products, whereas a vendor only has experience with its own items and their unique attributes. (Therefore, a vendor that doesn't have a canned product will never find lack of can nesting a problem, while a retailer/distributor might). On the other hand, all vendors

have experience with store-level issues and, therefore, emphasize them more when discussing root causes of unsaleables.

Nevertheless, the report states that trading partners need to better understand each other's perspectives on root causes.

The leading root causes of unsaleables among manufacturers in the survey was store resets, product discontinuation and lack of proper product rotation. Among retailers/distributors, the leading causes were quality of case-pack materials, lack of proper product rotation at retail and tray packs. It should be noted, however, that retailers/distributors did list store resets and product discontinuation as frequent causes of unsaleables. And manufacturers did cite poor unloading practices as a frequent cause. This suggests that while perspectives differ, there is common ground.

Logistics Practices Adopted by Companies		
Percentage of Manufacturers	Logistics Practice	Percentage of Retailers
65%	Have policy of no pallet overhang and/or minimum underhang	61%
96%	Use/request shrink-wrap pallets or other load stabilizing methods	72%
71%	Have quality control program for pallets	53%
52%	Provide/require leased pallets from point of manufacturing	25%
58%	Provide/require leased pallets from point of distribution	17%
67%	Ship/order in full layer	47%
42%	Have new technology in place at distribution centers	36%
13%	Give/receive performance fund/pricing for inbound efficiencies	56%
56%	Engage in cross-dock receiving	58%
13%	Provide/receive funds for handling slip sheets on the receiving dock	42%
69%	Provide training to educate workers how to load/build pallets	78%
44%	Have warehouse review of facility layout	42%
29%	Have frequent review of slotting practices	44%
56%	Use top caps	NA
40%	Use pallet trays	NA
54%	Use corners	NA
75%	Improved trailer loading practices	NA
4%	Provide employees as lumpers on trading partners' receiving dock	17%
NA	Use "outside" lumpers on receiving dock	67%
60%	Use interlocking cases with alternate tier pattern or chimney stack	NA
48%	Ship on slip-sheets	NA
23%	Ship on rail cars	NA
NA	Have a receiving process to evaluate condition of inbound product/pallet	39%
10%	Other*	3%

\*Manufacturer Other: Use trailer dunnage, air bags, ASN, grade B pallets and full-load incentives  
 \*Retailer/Distributor Other: New standards for receiving and case integrity  
 NA= Not Asked

to spur trading partner collaboration.

The report – recently released by the Grocery Manufacturers of America (GMA), The Food Marketing Institute (FMI), and Food Distributors International (FDI) – surveyed 42 grocery manufacturers, 19 retailers and seven wholesalers and covered the 2002 year.

As in previous surveys, manufacturers and retailers/distributors indicated that they use different functional areas to manage unsaleables. Vendors rely mostly on sales and customer service (more than

The report also revealed another type of misalignment between trading partners. When asked what are the root causes of unsaleables, manufacturers and retailers/distributors showed widely different perspectives and opinions.

Most manufacturers said behavioral issues are primarily responsible for unsaleables, while retailers/distributors tended to place far greater emphasis on the physical root causes. The report notes that the different perspectives are, in part, due to each industry segment's position

### Unsaleables Policies & Organizational Structure

As in previous years, almost all vendors (96%) stated that they have an unsaleables policy as do the majority of retailers/distributors (82%).

Within the manufacturing segment, many companies said they implement multiple payment options tailored to specific product classes, divisions and/or

*(Continued on Next Page)*

## ... Joint Perspective Lacking in Fight to Reduce Unsaleables

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brands. The vast majority of vendors with written unsaleables policies said they use the JIR (*Joint Industry Report Guidelines for Reclamation Center Unsaleables*) for unsaleables payments, which were established by the GMA, FMI and FDI in 1990 for determining handling fees and reclamation centers.

This year's report saw an increase in the percentage of vendors utilizing adjustable rate allowances – up to 29% in 2002 from 21% in 2001. The percentage of manufacturers utilizing swell allowances stayed at 52% and the percentage of those with written policies for product pick-up declined to 72% from 81%.

The report states that retailers have been consistent for the past several years in saying deductions are their preferred method of reimbursement for unsaleables. This is followed by quarterly pre-payment programs, regular processing of invoices, store-level pick-up reimbursement and off-invoice allowances. None of the retailers preferred trade dollar incentives as a form of reimbursement.

The report points out that one of the most significant factors learned from the survey is that companies do not measure unsaleables costs uniformly – either within the same industry segment or between trading partners. Because of this variability, the report states that it is crucial that trading partners try to better understand how costs are measured within their companies and within the companies with whom they conduct business. It is vital because no uniform industry recommendations exist on how to measure unsaleables costs or which costs should be included in unsaleables estimates.

### Product Disposition

Disposition of unsaleables is a complex and often contentious issue facing trading partners, the report says. These include financial and liability issues. Products may be damaged, near expiration, expired, seasonal leftovers, discontinued, excess volume or recalled. On average, the report

notes, one out of every 100 cases sold and shipped into the supply chain goes through the reclamation or return process.

The report noted that fewer manufacturers in 2002 monitored the disposition of goods by retailers/distributors than in 2001 – 38% vs. 50%. Additionally, fewer than one-third of the manufacturers said they changed their policies regarding disposition.

notes, one out of every 100 cases sold and shipped into the supply chain goes through the reclamation or return process. Another company said it will switch to an adjustable rate policy for 2003.

Among disposition process changes, one company said it discontinued product pick-up at trading partner reclamation centers and now specifies product destruction or donation; Another company said it implemented a new program for excess inventory disposition at trading partners' DCs; Another changed to a

## The Root Causes of Unsaleables

Frequency of Causing Unsaleables	Manufacturer Perspective	Retailer/Distributor Perspective
Most Often Causes Unsaleables	Store Resets Product Discontinuation Lack of Proper Product Rotation at Retail	Quality of Case-Pack Materials Lack of Proper Product Rotation at Retail Tray Packs
Often Causes Unsaleables	Unloading Practices Excess Seasonal-Product Returns	Store Resets Pallet Overhang Product Discontinuation
Least Often Causes Unsaleables	Pallet Overhang Poor Trailer Load Stability Poor Assembly of Store Orders Quality of Case-Pack Materials Lack of Load Dunnage	Lack of Can Nesting Poor Assembly of Palletized Store Orders Lack of Load Dunnage Excess Seasonal Product Returns Poor Use of Shrink Wrap
Rarely Causes Unsaleables	Poor Use of Shrink Wrap Poor Pallet Condition Tray Packs Lack of Can Nesting	Poor Pallet Condition Unloading Practices Poor Trailer Load Stability

For the first time, survey analysts asked vendors what changes they have seen in trading partners' disposition practices. Of those responding, 25% said they saw no change in 2002 vs. 2001. Those that did see changes said that:

- More trading partners are selecting charitable and food bank donations for product disposal.
- Some products were returned to them from reclamation center to avoid product being salvaged.
- Some trading partners were not using company disposition options correctly. Problems were rectified, however.
- Compliance with company policies had increased as a result of monitoring.

The report said that 29% of manufacturers did make policy changes on unsaleable product disposition – with many allowing the retailer/distributor to choose the disposition option.

One company began a new policy under which unsaleables are returned to the company's third party reclamation center for reimbursement. Another made policy changes to return authorizations, disposition instructions and what quali-

ties as damaged product and one company said it will switch to an adjustable rate policy for 2003. Another developed a new warehouse inventory process to retrieve product and avoid reclamation.

For the first time, survey analysts asked vendors how they felt about granting permission for return and/or disposal of unopened case, display modules and pallets at trading partner facilities. They found:

- That more vendors are allowing return of product that can be resold, particularly when SKUs are being discontinued or retailers/distributors are holding significant amounts of excess inventory.
- That almost all – 91% of vendors – allow for the return of unopened cases, display modules and pallets from trading partner facilities. But, a far lower (57%) number permit trading partners to dispose of these products at their facilities, especially if the product is damaged, expired or not suitable for resale.

Retailers/distributors were again asked to report the disposition percentages for unsaleables. Once again, donation was the leading disposition option

*(Continued on Page 8)*

## ... Joint Perspective Lacking in Fight to Reduce Unsaleables

*Continued from Page 7*

(42%), followed by salvage (28%), destroy (14%), return (13%) and other (4%).

Returns showed a decline for the third straight year.

## Trading Partner Relationships & Sales/Buying Practices

Since 42% of unsaleables are not damaged, which costs the industry an estimated \$1.1 billion each year, the report notes that they can be reduced through better inventory management – which marks the behavior/practice side of unsaleables management. Sales and buying practices that create bloated inventories are part of the problem, the report noted, because they lead to product expiration, seasonal leftovers, products being handled too often and discontinuation.

While the survey does indicate that many companies are engaging in sales/buying practices conducive to better inventory management, many more still need to get involved. Survey analysts also noted that the effectiveness of current practices could be improved.

The most widely used practice on the manufacturers' side to limit unsaleables is the use of continuous replenishment programs (CRP) and/or vendor managed

inventory (VMI) programs (83%). Other widely used programs include use of promotional planning to minimize excess post-promotion volume and a program to minimize forward buying.

The most widely-used practice on the retailers/distributors side was the use of category management principles for assorted decisions (72%), followed by item forecasting of consumer demand and use of promotional planning to minimize excess post-promotion volume.

While the report indicates a growing emphasis on trading partner collaboration at some companies, survey analysts found that companies representing more than 60% of the industry have no or few trading partner relationships to manage unsaleables. This is unfortunate since companies that have developed collaborative relationships said they have helped reduce unsaleables. Given the \$2.6 billion cost that unsaleables burdens the industry with, more activity aimed at preventing unsaleables would be expected, the report stated.

Another troubling disclosure was the percentage of vendors (41%) and retailers/distributors (25%) who said they are unsure that inclusion of unsaleables in their annual business meetings has any real impact. The report said this degree of uncertainty reflects a need for companies to better measure and monitor unsaleables.

## Unsaleables Data – Sources, Exchanges & Uses

Although respondents agreed unanimously that a key to better industry management of unsaleables is actionable data that can be manipulated and shared between trading partners, survey results indicate little progress in the percentage of companies sharing data over the prior year.

Fewer than one-third of companies said they receive unsaleables data from trading partners. In fact, a greater percentage said they receive unsaleables data from third parties than from their trading partners. Retailers/distributors said they find unsaleables data most helpful for internal operations, including distribution centers, store-level and transportation practices. Manufacturers said they find the data most helpful in collaboration with trading partners, packaging, sourcing decisions and distribution center practices.

## Distribution/Logistics Practices

The report showed a significant rise in the percentage of vendors engaged in cross-docking in 2002 vs. 2001 – 56% to 38%. Also, 96% of vendors said they use shrink wrap pallets or other load stabilization methods, while 72% of retailers/distributors said they do this. A large percentage of retailers/distributors (78%) said they train workers in how to load and build pallets.

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*Deduction Prevention/Compliance/Recovery*

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