

Industry Recommendations on the Management of Unsaleables

National User's Guide and Toolbox

Prepared by: Industry Unsaleables Committee
Changes Effective May 1, 2011

TABLE OF CONTENTS

Purpose of this Document	1
Executive Summary	2
ECR Unsaleables Program Details	6
Frequently Asked Questions.....	10
Next Steps/Outstanding Issues	14
Tool Kit I	15
Best Practices	16
Contacts/Resources	24
Tool Kit II	25
The Unsaleables Protocol.....	26

PURPOSE OF THIS DOCUMENT

At the most fundamental level this document aims to bring clarity to the complex and controversial issue of unsaleables management and to provide you with a starting point from which you can improve your company's ongoing management of this issue.

What you will find in this document?

This guide contains the information you need to know to participate in the Industry Unsaleables Program and to improve your company's unsaleable practices.

Specifically, this guide:

- explains the benchmark system,
- outlines which products are eligible for the program,
- lists the damage types and which ones are creditable,
- details how distributors can qualify for the program,
- describes the billing/invoice process flow,
- shows how a distributor's Unsaleables "Performance Factor" is calculated,
- answers some questions you may have about the program,
- lists both Best Practices and Common Sense tips for reducing unsaleables.

Who should read this User's Guide?

This guide is for anyone directly involved with unsaleables – manufacturers, distributors, brokers and reclamation service providers.

EXECUTIVE SUMMARY

Context

Unsaleables have been a bone of contention in trading partner relationships for many years. The issue was significant enough to cause irritation, but not significant enough to drive a concerted effort to deal with it. Sporadic focus against unsaleables centred on the accounting issues of “who pays for what” and not on the fundamental issue of “how can we reduce the incidence and cost of unsaleables”?

In 1989 the industry came together under the leadership of the former CCGD and FCPC (formerly GPMC) to develop and implement the Industry Unsaleables Protocol.

The protocol will continue to be jointly managed by FCPC, the Canadian Federation of Independent Grocers (CFIG) and the Grocery Division of the Retail Council of Canada (RCC)

Fundamentals

The joint industry unsaleables program is based on four fundamentals:

1. A set of jointly agreed principles
2. A consistent management and measurement approach based on two core elements:
 - A handling rate
 - An incidence benchmark
3. A philosophy of pragmatic continuous improvement
4. Recognition that this is a joint problem that can only be solved jointly

The executive summary provides an overview of these fundamentals. The balance of the document provides additional detail as well as examples and illustrations of the implications of these fundamentals.

1. A set of jointly agreed principles

These recommendations meet the key principles which state that any recommendations must be aimed at:

- Reducing the absolute incidence of unsaleables.
- Reducing the cost of unsaleables.
- Creating a sense of accountability around unsaleables, both individually and jointly.
- Increasing the use of fact based decision-making.
- Increasing visibility/understanding of the true costs of handling unsaleables.
- Building trust in the process via visibility and auditing.
- Neither manufacturers nor distributors should profit from handling unsaleables.

2. A consistent management and measurement approach

This approach, which aims to both provide equitable compensation as well as a meaningful incentive to reduce unsaleables incidence, has two core elements:

- i) A handling rate i.e. a cost that reflects the distributor's actual costs of handling an unsaleable product within their system, over and above the cost of the product itself. For example, this cost includes both the costs of getting a product to a store prior to it becoming unsaleable and the costs of removing it from the system once it has become unsaleable. It is extremely important to understand that these costs are quite independent of the value of the damaged item as they reflect costs of the activities required to deal with the damaged product. Said another way, it costs no more to handle a damaged item with a retail value of \$9.99 than it does for an item with a retail value of \$0.99.

As of May 1, 2011, the handling rates are as follows:

All Damaged Products (dry grocery/ frozen/GM/HABA)	
1) Store-identified damage:	\$0.45/item
2) Warehouse-identified damage:	\$0.34/item

Frozen products were included in the protocol effective August 2002.

The handling rate for all damaged product at warehouse level remains at \$0.34/item.

The chart below reflects changes in the handling rate.

Effective Date	Store Level	Warehouse
1998	\$0.61	\$0.37
1999	\$0.56	\$0.37
2000	\$0.52	\$0.37
May 1, 2010	\$0.43	\$0.34
May 1, 2011	\$0.45	\$0.34

- ii) An incidence benchmark defines the target level of unsaleables incidence across the distributors in the program. In order to maintain confidentiality, this benchmark is expressed in terms of the number of unsaleable items per \$10,000 in retail sales.

Effective **May 1, 2010** the incidence benchmark was reduced to 9.75 items/\$10,000 retail sales. The chart below indicates the decline in the benchmark since 1998.

Effective Date	Industry Benchmark
1998	15
1999	12
2000	10.5
May 1, 2010	9.75

It should be noted reviews were conducted to analyze both the incidence level and the benchmark in the fall of 2001, and there was no change to the existing level recommended.

Distributor compensation is directly driven by their actual performance vs. the incidence benchmark. Specifically:

- Distributors at or below the industry benchmark receive 100% of the unsaleables reimbursement rate, made up of the handling rate described above and the **net cost** of the damaged product, from all manufacturers in the program.
- Distributors with a higher level of incidence than the industry benchmark receive only a proportion of the unsaleables reimbursement rate. This proportion is directly correlated to their relative performance vs. the benchmark i.e. if the incidence of unsaleables is 13 items per \$10,000 in sales vs. the benchmark of 9.75 the distributor will only be compensated at 75% (9.75/13) of the unsaleables reimbursement rate.

The balance of this document provides more details and examples of how this calculation works.

3. Philosophy of pragmatic continuous improvement

It would be excruciatingly easy for trading partners to revert to a “finger pointing” mentality. It is clearly impossible to determine with 100% accuracy how the damage occurred to any given damaged product. No study, no matter how large or expensive, can adequately replicate the complexity, and occasional chaos, of moving tens of thousands of SKU's through a distribution channel with multiple warehouses and stores across the geography of Canada, every single day.

The protocol adopts a common sense approach based on collecting, creating and using facts and then supplementing those with judgement and the will to get something done.

An example of this approach is the decision to use a single handling rate irrespective of package type. In theory, creating a matrix of different handling rates based on product type (can vs. bottle vs. box etc.) and product velocity (fast moving vs. slow moving etc.) would deliver a more accurate and equitable handling rate. In practice, this level of complexity would make the management and measurement of the unsaleables protocol extraordinarily difficult to implement and, therefore, would likely slow down the implementation process dramatically.

The joint committee has also shown commitment to consistently reassess the program. This commitment remains in force going forward and further reassessments of both are planned within the next 12 months.

Furthermore, the committee is eager to identify and share best practices on an ongoing basis to work against the fundamental objective of reducing the absolute incidence of unsaleable items.

4. Joint problem requiring joint solutions

Lastly, there is a deeply held belief that there is no “silver bullet” out there that can “cure unsaleables”. Progress has been made, and will continue to be made, on the basis of trading partners working together to identify an issue and then coming up with solutions, and most importantly, changing their practices to include those solutions.

Partnerships between suppliers and distributors aimed at addressing high incidence unsaleable items are good examples of joint efforts. A list of these common sense practices is provided in the attached tool kit, along with other useful contact names and resources.

Please use this guide as an aid to proactively manage the unsaleables issue in your company. In addition, if you have comments, suggestions or questions please contact either FCPC,CFIG or RCC.

INDUSTRY UNSALEABLES PROGRAM DETAILS

What is the Industry Unsaleables Program?

The Industry Unsaleables Program is a joint industry approach to dealing with unsaleables, comprising a revised compensation formula to more fairly pay for the cost of handling unsaleables, and a benchmarking system that will provide the incentive to reduce the incidence of unsaleables.

Industry Principles for Handling Unsaleables

These recommendations meet the key principles which state that any recommendations must be aimed at:

- Reducing the absolute incidence of unsaleables.
- Reducing the cost of unsaleables.
- Creating a sense of accountability around unsaleables, both individually and jointly.
- Increasing the use of fact based decision-making.
- Increasing visibility/understanding of the true costs of handling unsaleables.
- Building trust in the process via visibility and auditing.
- Neither manufacturers nor distributors should profit from handling unsaleables.

The Unsaleables Handling Rates

The recommended unsaleables handling rates as of May 1, 2011, are as follows:

All Damaged Products (dry grocery/ frozen/GM/HABA)

1) Store-identified damage:	\$0.45 per item
2) Warehouse-identified damage:	\$0.34 per item

The Unsaleables Benchmark

The need to compare and track performance of many distributors and their stores requires a common system of measuring unsaleables, as well as a common standard which can be used as a basis for comparison and compensation.

This standard, known as a “benchmark”, meets three basic requirements:

- It can be applied to any type of distributor or store – chain or independent, large or small volume, rural or urban.
- It allows distributors and stores to maintain the confidentiality of their sales volumes and levels of unsaleables.
- It can be easily tracked and reported.

The formula for determining the unsaleables benchmark is:

of unsaleable items per \$10,000 in retail sales

Note: For the Industry Unsaleables Program, retail sales are for dry grocery, frozen, health and beauty aids and general merchandise only. Distributors must separate these items from the total store sales.

Current Industry Benchmarks

To ensure that this benchmark will not institutionalize unsaleables at an unacceptable level, the benchmark will be periodically reassessed with an expectation that it will decline over the long run as industry efforts to reduce incidence pay off. The chart below indicates changes to the benchmark since the protocol began.

Effective Date	Industry Benchmark
1998	15
1999	12
2000	10.5
May 1, 2010	9.75

Further reassessments of the industry benchmark will be determined by the Joint Industry Unsaleables Committee.

How the Benchmark is Applied to Distributors' and Suppliers' Invoices

The Joint Industry Unsaleables Committee recommends that all distributor reimbursement for unsaleables be based on the established industry benchmark. In other words, a distributor will receive reimbursement from manufacturers based on how their own level of unsaleables, known as their "performance factor", compares to the benchmark.

If a distributor's performance factor is lower than or equal to the industry benchmark, then that distributor will receive 100% of the unsaleables reimbursement rate, made up of the handling rate and the net cost product cost.

For example, if the industry benchmark is 9.75 and an individual distributor's performance factor is 9 then that distributor will receive 100% of the unsaleables reimbursement rate from all manufacturers.

If a distributor's performance factor is higher than the industry benchmark, then that distributor will receive only a percentage (less than 100%) of the handling rate, and a percentage of the net cost product cost from all manufacturers. How much of the rate they will receive is determined by how much "over" the industry benchmark that distributor's performance factor is.

For example, the following table shows how the compensation rate would be calculated using the industry benchmark of 9.75 items per \$10,000 retail sales, an average net cost product cost of \$1.60, and a handling rate of \$0.45 per item.

Incidence of unsaleables per \$10,000 in retail sales*	Industry Benchmark	Distributor's Performance Factor vs the Industry Benchmark	Estimated Item Cost + Handling Fee	Billed Item Cost + Handling Fee
8.0	9.75	100%	\$2.03	\$2.03
9.75	9.75	100%	\$2.03	\$2.03
12.0	9.75	81% (9.75 ÷ 12)	\$2.03	\$1.64
15	9.75	65% (9.75 ÷ 15)	\$2.03	\$1.32

* For the Industry Unsaleables Program, retail sales are for dry grocery, frozen, health and beauty aids, and general merchandise only.

Which Products are Eligible for the Program?

All Dry Grocery, General Merchandise (GM), Health and Beauty Aids (HABA) and Frozen products (effective - August, 2002) are eligible for the Industry Unsaleables Program.

Which Products are not Eligible?

The following products are excluded from the unsaleables program:

- slow moving (outdated) product
- infested or contaminated product
- refrigerated
- cigarettes
- seasonal product
- box tops
- unidentified product
- direct delivered product

In addition to these items, these recommendations specifically exclude discontinued products from both the benchmark and handling rate process. However, the reclamation system operator will include discontinued products as a separate line item on the management report to capture this data, to enable distributors to negotiate irregular occurrences directly with their trading partners, on a one-on-one basis.

Creditable Damaged Types

The following table lists the damage types approved by the Industry Unsaleables Committee, and indicates how they may be disposed of.

Damage Type	Creditable?		Store Level Reclamation	Reclamation Centre
	Yes	No		
Dented	✓		Donate or dispose	Donate or dispose
Ripped	✓		Donate or dispose	Donate or dispose
Crushed	✓		Donate or dispose	Donate or dispose
Soiled	✓		Donate or dispose	Donate or dispose
Broken	✓		Dispose	Dispose
Pilfered	*		Donate or dispose	Donate or dispose
Damaged label	✓		Donate	Donate

*** Pilfered Products**

Pilfered products are those in which the packaging has been broken open and some part of the product has been removed. The 1991 Joint Industry Guideline states that "pilfered products are the retailers' responsibility" and are not credited.

However, because the incidence of pilferage is small (1% during the first three months of the pilot), the Industry Unsaleables Committee recommended that pilfered items should be credited as legitimate damage. If a manufacturer chooses to use a package or promotion that is susceptible to pilferage, then that is considered a cost of doing business.

Non-Creditable Damage Types

The following table lists non-creditable damage and product types, and indicates how they may be disposed of.

Damage or Product Type	Creditable?		Store Level Reclamation	Reclamation Centre
	Yes	No		
Razor cut		X	Leave for the store manager	Donate
Shiner (no U.P.C.)		X		Donate
No damage (recall, open code, discontinued)		X		Donate
Unauthorized product (listed on the previous page)		X		Donate
Product recall		*	Will only be processed with documentation from the manufacturer.	

*** Product Recalls**

Product recalls are not credited as unsaleables.

The Industry Unsaleables Committee recommends that credit for product recalls should be handled directly between trading partners.

FREQUENTLY ASKED QUESTIONS

- Q** *What is the compensation rate for distributors who do not participate in the program?*
- A** The current recommended compensation rates for unsaleables handled outside of the Industry Unsaleables Program are 23 cents per item for dry grocery/frozen, and 30 cents per item for GM/HABA (as per the 1991 Joint Industry Report).
- Q** *How does the program deal with non-creditable items that may come back through the system?*
- A** In a store level reclamation system, non-creditable items will be refused at the store and brought to the store manager's attention.
- Non-creditable items, which are returned to the reclamation center, will be scanned and reported as reclaim abuse. This will add incidence to the store and distributor's performances, negatively affecting the performance factor. The distributor will not receive a credit and will be invoiced by the reclamation centre for handling the item. Penalties for reclaim abuse may be negotiated between the distributor and the individual store.
- Q** *How does the program deal with stores who do not provide retail sale information?*
- A** To calculate the performance factor, an independent store must report its sales information to its designated distributor or to an independent third party specified by the distributor.
- If a store is unwilling to report its sales information, it cannot participate in the program.
- Q** *How will unsaleables for distribution centres be used in calculating the distributor's performance factor?*
- A** The Industry Unsaleables Committee recognizes that the current industry recommendations do not include an incentive to reduce unsaleables at the distribution centre level.

Q *How will I know where the damage was caused (i.e., at the store or at some other point in the supply chain)?*

A Without conducting extensive supply chain trace audit studies with surveillance at every point in the supply chain (e.g., in the warehouses, in the trucks, in the stores, etc.), we can't know where, specifically, the damage was caused. Of course, the fact that damage occurs at store level does not mean that the manufacturer should assume that this damage is the store's fault. This could be the result of poor packaging. The intent of this approach is to drive the level of incidence down wherever it occurs.

Q *Why should I pay all of the associated costs if I don't have any assurance that store personnel or customers did not damage the product?*

A Manufacturers will only pay all the costs to distributors who are at or below the negotiated benchmark. Distributors with higher levels of damage incidence will only receive partial reimbursement. This partial reimbursement applies to both the handling rate and the net product cost.

Q *What was the methodology for calculating the handling rate and the incidence benchmark?*

A The handling rate is based on cost analysis of the specific activities required to move an item through the supply chain. Distributors provide their costs on a confidential basis to an outside third party which audited the figures and recommended the handling rate to be used on an industry basis.

The incidence benchmark is based on an audit of actual incidence across several hundred stores. Stores were placed into quartiles depending on their unsaleables incidence and the benchmark was set based on stores being able to replicate the performance of the stores in the quartile above them. This "concertina approach" ensures that stores are always setting improvement targets.

Q *My company's products have a low handling cost (i.e., high volume, low cube, non-spillable). Am I paying for those companies whose products have higher handling costs (i.e., low volume, high cube, spillable)?*

A The handling cost was calculated on an industry average basis. The Industry Unsaleables Committee considered and rejected the concept of having multiple handling rates (for different package types, volumes, etc.) as being both too costly to calculate precisely and too difficult to implement in a practical manner.

Q *Are all of the distributors in Canada, going to sign on to this program?*

A This is a voluntary program. However, only those distributors who commit to the declining benchmarks will have a commitment from participating manufacturers to pay the handling rate.

Q *Does this mean that all unsaleables will now be handled by store level reclamation? What happens to the reclamation centres?*

A No. Store level reclamation has been recommended as a viable option. Longer-term reclamation centres will, in effect, compete with store level reclamation systems to provide the “best” reclamation process - both in terms of cost effectiveness and ability to drive incidence down.

Q *What happens to my cost at the reclamation centre?*

A The new handling rate (45¢ dry grocery/frozen/GM/HABA as of May 1, 2011) applies to any distributor who has committed to the benchmark irrespective of whether they use the reclamation centre or the store level system.

Q *Can I opt out of this? I think I could negotiate a better deal where I pay a portion of the cost on a by-distributor basis. Why shouldn't I go that route?*

A As stated previously, this program is optional for distributors. Similarly, if you are able to negotiate a different rate and compensation approach with your distributor customers, you are entitled to do so. Recognize that the distributors are supporting this recommendation.

Q *Who is running this program?*

A There is an ongoing committee of both distributors and manufacturers to oversee the transition to the recommended approach. FCPC, CFG and RCC have joint responsibility for overseeing the program. The Recommendation will be subject to third party audits to review both the handling rate and benchmark levels, as well as maintain the integrity of the program.

Q *Are private label items included?*

A Yes they are. Private Label items are included in the audit and therefore the incidence benchmark. There is no reason to believe that private label items will have relatively more or less incidence than their sales importance.

Q *Can I get store specific unsaleables incidence numbers?*

A The protocol does not provide for the release of store specific numbers. However, trading partners clearly may agree to look at data at that level within their individual relationships.

Q *What other information is available to help me manage unsaleables more effectively?*

A A number of reports are available at the supplier specific level from the third party service providers.

Q *What is the auditing procedure in the incidence benchmark process?*

A Participating distributors are required to submit their incidence numbers to an external audit (i.e. done by a third party auditor) on an annual basis. Since the inception of the protocol, the audits have resulted in compensation adjustments in several cases, providing evidence of the integrity of the program.

NEXT STEPS

This initiative to reduce unsaleables incidence and to improve the management of those unsaleables that do occur is clearly a journey rather than an event.

During the first half of 2010 the Joint Industry Unsaleables Committee undertook a thorough review of the Industry Unsaleables Protocol. This review focussed on ensuring both the Protocol's original principals and structure of the benchmark and handling rate continue to meet industry objectives.

Going forward the Committee will continue to review the handling rate and benchmark to ensure they continue to achieve the goals of the Protocol.

TOOL KIT I

This tool kit includes:

- i) A list of unsaleables best practices identified in the U.S. and then validated here in Canada
- ii) Common sense practices/tips on managing unsaleables for all stakeholders that have emerged from all the work and effort to date
- iii) Contact names

Unsaleables Best Practices

The following is a list of 25 recommended best practices for handling unsaleables. Designed for manufacturers, distributors and retailers, they are appropriate for both store level reclamation and reclamation centre processes.

The Industry Unsaleables Committee believes strongly that the implementation of all or part of these best practices will lead to a noticeable reduction in the level of unsaleables.

Each best practice has been marked (✓) to indicate where it is applicable within both a manufacturer's and distributor's organization.

Best Practice	Manufacturers	Distributors		
	Corporate	Corporate	Warehouse	Store
1. Designate an Unsaleables owner.	✓	✓	✓	✓
2. Flowchart the process of managing and administering unsaleable products and information.	✓	✓		
3. Form an Unsaleables Best Practices task force.	✓	✓		
4. Publish a quarterly document or newsletter detailing Unsaleables.	✓	✓	✓	
5. Develop and post standard measurements and reports on Unsaleables performance.	✓	✓	✓	✓
6. Publish a quarterly standardized Product List detailing all products (current & new).	✓	✓		
7. Post an Unsaleables Return Policy in a prominent location.		✓	✓	✓
8. Provide on-going training on proper product handling at each stage of the supply chain (from plant to store shelf).			✓	✓
9. Set aggressive goals for Unsaleables improvement and reward those who achieve them.	✓	✓	✓	✓
10. Implement incentives tied to the reduction of Unsaleables.	✓	✓	✓	✓
11. Develop warehouse teams to investigate and propose efficient product handling procedures.	✓		✓	
12. Stretch-wrap every pallet or at least those which are more prone to damage e.g., tray packs.	✓		✓	
13. Establish clear communication links and encourage employees to provide feedback on unsaleables.	✓	✓	✓	✓
14. Recoup as much product as possible.			✓	✓
15. Create an Unsaleables Improvement Team to discuss improvement opportunities, results.	✓	✓	✓	

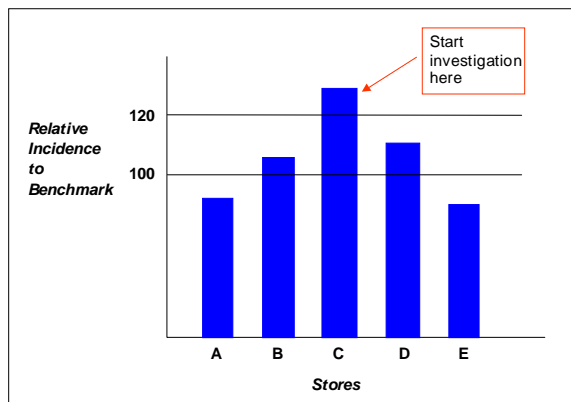
Best Practice	Manufacturers	Distributors		
	Corporate	Corporate	Warehouse	Store
16. Implement ECR principles and practices such as Continuous Replenishment, Category Management.	✓	✓	✓	
17. Discontinue slower moving items.	✓	✓		
18. Audit store locations to ensure proper product handling, rotation, administration.	✓	✓		✓
19. Set standards for maximum stacking height of pallets, cases.	✓	✓	✓	
20. Implement policies and programs that encourage volume based on consumption vs. shipments (pull vs. push).	✓	✓		
21. Design and implement an Unsaleables Scorecard into on-going discussions on unsaleables.	✓	✓		
22. Incorporate an unsaleables dialogue into regular business planning and review meetings.	✓	✓	✓	
23. Use preferred carriers and educate them on reducing unsaleables through their operations.	✓	✓	✓	
24. Use display-ready packaging whenever appropriate.	✓			
25. Conduct cross-training with key suppliers and customers. For example, have suppliers' Sales and Operations personnel spend time in the customer's warehouse or store operations and vice versa.	✓	✓	✓	✓



Common Sense Practices for Distributor Head Office Managers

1. Identify a resource accountable for monitoring and analyzing performance vs. the benchmark.
2. Track and analyze unsaleables incidence at **a minimum of** two levels – product and store. All analysis done in the context of the industry work to date strongly suggests the 80/20 rule is definitely relevant to the unsaleables issue, so use it to focus analysis.

i) Store level performance

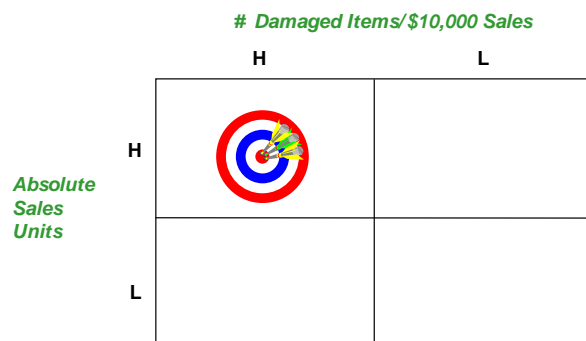


1. Key Questions to Analyze

- Is store performance consistently above the target?
- Is high incidence a leading indicator of other store management issues?
- Has store received adequate communication/training on policy and handling practices?
- Are there unique geographic or demographic factors at high incidence stores

ii) Product specific performance

Assess both the **absolute** and **relative** incidence of damage in targeting improvement from suppliers.



2. Key Questions to Analyze

- Is high incidence of damage consistent across all stores and periods (if yes, most likely related to packaging integrity; if no, may be driven by handling practices as specific stores/types of stores)?
- Are store employees aware of any special handling practices required for this item?
- Has supplier recently made changes to the packaging that might impact package integrity?



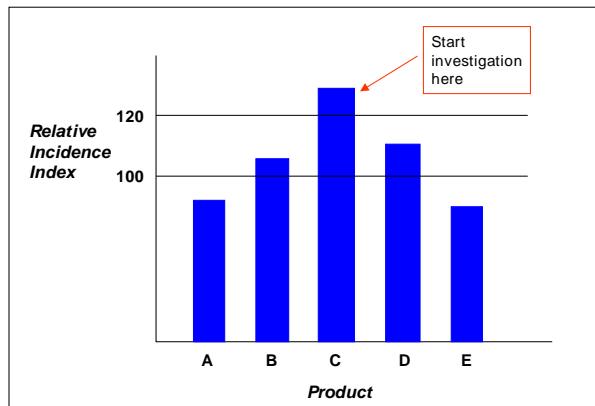
3. Practice fact based communication:
 - a) Internally on store handling issues – ensure banner and store operations managers understand the importance of this issue to your company.
 - b) With suppliers of high incidence items – identify variance vs. other suppliers and recommend specific actions to reduce.
 - c) With all suppliers – make a discussion of unsaleables part of the ongoing business dialogue.
 - d) With other distributors – what information on handling best practices can you share?
4. Create consequences for stores that consistently have incidence levels significantly above the benchmark (e.g. 50% higher), for example,
 - Reduce or eliminate the compensation they receive
 - Post “black list” of highest incidence stores
5. Continue to operate with the mindset of:
 - Joint accountability and responsibility for unsaleables
 - Ultimate goal is to reduce incidence



Common Sense Practices for Manufacturers

1. Reduce the risk of unsaleables due to lack of package integrity right from the start by testing packaging under real world handling/shipping conditions, particularly for:
 - Brand new package formats
 - Packaging that has just been altered for cost reduction reasons
 - Special packaging e.g. display ready cases

2. Track and analyze unsaleables incidence at **a minimum of** two levels – product and customer. All analysis done in the context of the industry work to date strongly suggests the 80/20 rule is definitely relevant to the unsaleables issue, so use it to focus analysis. In addition, initial customer analysis suggests that, versus the benchmark of 9.75 items/\$10,000 sales, the highest incidence items have damage levels as much as 20–30 times higher than that benchmark.
 - i) Relative incidence by product i.e. incidence of damaged items to total items sold.

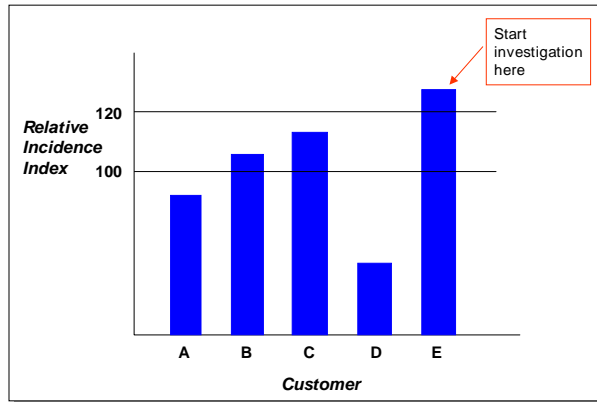


3. Key Questions to Analyze

- Is higher incidence of damage consistent across all customers/geographies (if yes, most likely related to packaging integrity; if no, most likely related to specific shipping/handling by individual customer)
- Is more durable packaging a consumer benefit that might permit higher pricing?
- Are your damage levels consistent with those of other manufacturers with similar packaging?



ii) Relative incidence by customer i.e. incidence of damage relative to total sales



4. Key Questions to Analyze

- Is product mix sold to customer with higher damage incidence significantly different than at other customers?
- Are shipping/handling practices significantly different than to other customers?
- Are customers (most importantly at store level) aware of any special handling practices that your products require i.e. have you defined and communicated best practices for handling?

Assign responsibility to an individual to create a scorecard and to execute the tracking/analysis on a consistent (quarterly, if not monthly) basis and to signal red flags. This does **not** imply the necessity of assigning a substantial cross-functional team to this issue – it may not warrant that. However, without someone who cares about this on an ongoing basis and without clear goals and incentives to change, meaningful action steps are unlikely to take place.

3. Practice fact based communication:

- a) Internally on package design issues – internal packaging experts frequently understand the potential implications for damages in a packaging change but are not asked to contribute their expertise.
- b) For customers with abnormally high incidence levels - identify variance vs. other customers and recommend changes in handling practice.
- c) With all customers – make a discussion of unsaleables part of the ongoing business dialogue.
- d) For other manufacturers with similar package type – what information on incidence and practices can you share?

4. Continue to operate with the mindset of:

- Joint accountability and responsibility for unsaleables
- Ultimate goal is to reduce incidence



Common Sense Practices for Warehouse Teams

1. Post performance and set realistic targets for reduction. Compare performance with that of other warehouses.

2. Set, post and implement policies that will minimize incidence of unsaleables, for example:
 - Set standards for maximum stacking heights for pallets and cases
 - Stretch wrap at risk pallets
 - Use high quality pallets



Common Sense Practices for Store Employees

1. Designate an unsaleables owner who becomes familiar with the process and is incented to ensure the store performs at a minimum in line with the target benchmark.
 - Post store performance vs. target and average of other stores in the banner
2. Do not let “orphaned” but undamaged items end up in the unsaleables area
 - Sweep back area daily to collect loose items and half cases and stock these items on shelves
 - Have a cashier sweep through the check out lanes collecting loose items and restocking them on shelves
 - Banish buggies from back area – they become dumping grounds
3. Do not let ignorance be an excuse for inappropriate inclusion of items.
 - Post clearly the unsaleables policy
 - Remind all staff including the night crew frequently of policy
 - Ensure new employees understand the policy
4. Set standards for maximum stacking heights for pallets and cases.

Contact Details

1. Industry Association Contacts

Name	Organization	Contact Details		
		Tel	Fax	Email
Lesley McKeever	FCPC	416.510.8024 ext. 2231	416.510.8043	lesleym@fcpc.ca
David Wilkes	RCC	416.922.0553 ext. 251	416.922.8011	dwilkes@retailcouncil.org
Ward Hanlon	CFIG	4216 492 2311 ext 225	416 492 2347	whanlong@cfg.ca

2. Third Party Organizations

Name	Organization	Contact Details		
		Tel	Fax	Email
Karl Brown	APS (store level reclamation operator)	416.256.2010	416.256.2022	kbrown@altprosys.com
Mr. T. Berkel	Allied (operates both store level and Canada wide reclamation centers)	416.787.9953 ext 226	416.787.6044	toby@alliedrec.com

TOOL KIT II

- How do distributors qualify for the Industry Unsaleables Program?
- The Unsaleables Accounting Process
- Calculating the Distributor's Performance Factor
- Protocol for Enrollment in the Food Industry Unsaleables Program
- List of Participating Distributors

How do Distributors Qualify for the Industry Unsaleables Program?

To participate in the Industry Unsaleables Program, distributors must declare their commitment to the Unsaleables recommendations developed by the Joint Industry Committee on Unsaleables.

The text of the Protocol for Enrollment is reproduced here. The complete form is included on the last page of this guide for you to cut out or copy, sign and submit to the Industry Committee on Unsaleables, c/o the Canadian Council of Grocery Distributors.

Protocol for Enrollment in the Food Industry Unsaleables Program

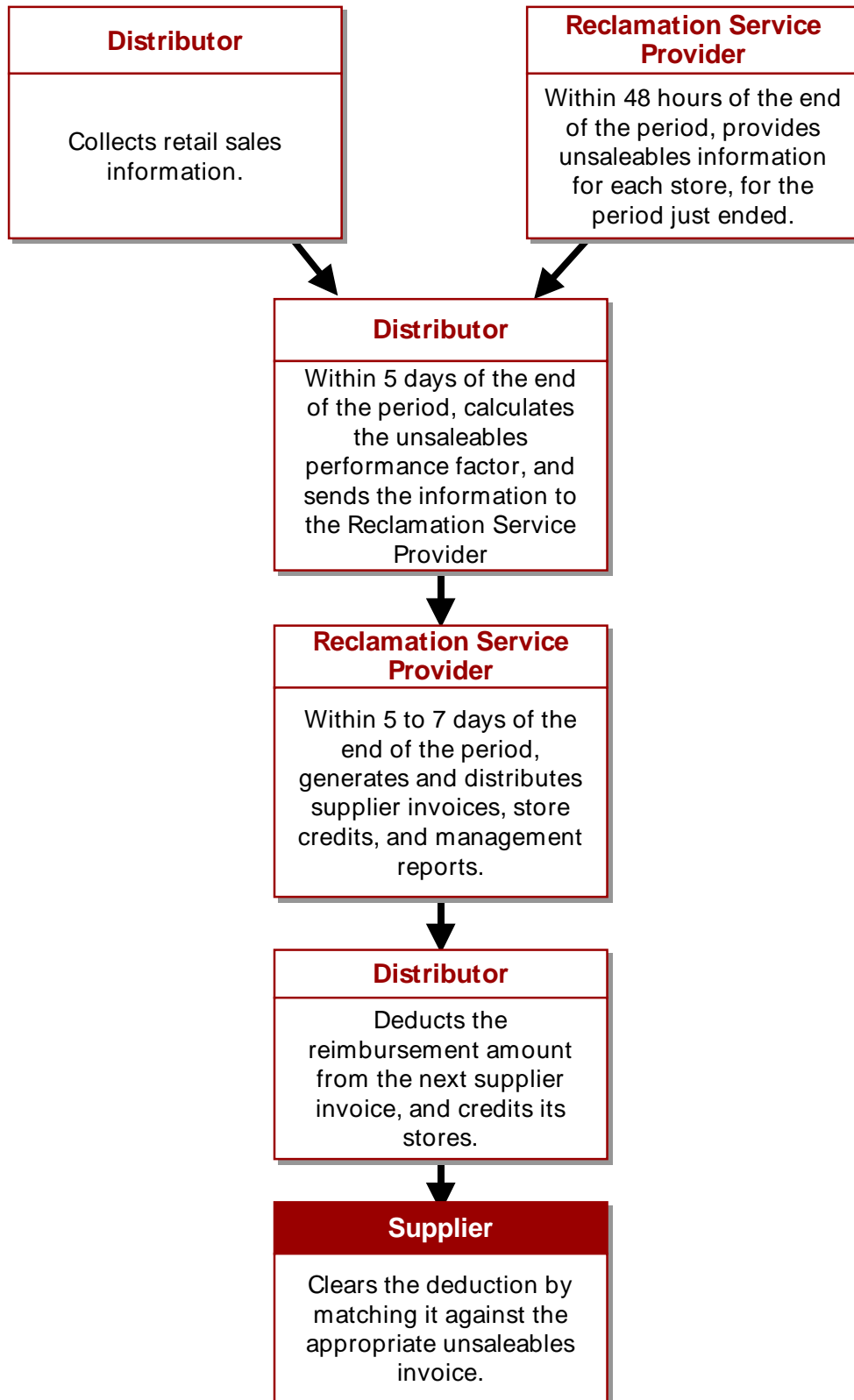
Declaration of commitment to Joint Industry Unsaleables Committee recommendations for dealing with unsaleables.

- a) Compliance with respective accountabilities for unsaleables as published by the Industry Unsaleables Committee (the "Committee").
- b) Commitment to the industry benchmark of 9.75 items per \$10,000 of retail sales.
- c) Commitment to accepting payment for unsaleables based on a distributor's performance factor versus the industry benchmark.
Distributors performing at or below the industry benchmark will receive 100% of claims for product and handling cost.
Distributors performing above the industry benchmark will receive less than 100% of claims for product and handling cost, at a rate based on their performance factor versus the industry benchmark.
- d) Commitment to follow recommended industry Best Practices for reducing unsaleables.
- e) Commitment to calculate or have calculated by an independent third party, a performance factor versus the industry benchmark by distributor on a period-by-period basis, and to accept the requirements of an audit if requested.
- f) Commitment to use the Committee's recommended method of calculation of the performance factor. This calculation method is subject to review and revision by the Committee.
- g) Commitment to use a reclamation service provider that is willing and able to provide the information to meet the requirements of the industry recommendations for unsaleables.
- h) Providing that all of the requirements of the industry recommendations for unsaleables are met, distributors committing to the industry recommendations for unsaleables will be paid a handling rate of 45 cents per item for dry grocery/frozen/HABA/general merchandise per item, regardless of the type of reclamation service provider used. Distributors will be compensated 34 cents per item for dry grocery/frozen/HABA/general merchandise per item for product reclaimed from the distribution centre.
- i) Commitment to abide by the Committee's review of handling costs and revised handling rates which will be effective on the dates recommended by the Committee.
 - i) Commitment to provide signed audited statements annually to the Committee. The auditor will use the User's Guide as a template for the audit.
 - ii) Commitment to provide reasonable unrestricted access to the data by an independent third-party in order for the Committee to review the industry benchmark and to set new benchmarks.
- j) Commitment to follow the Committee's recommendations regarding charities that will be the recipients of the unsaleables.

Updated: May 1, 2011

The Unsaleables Accounting Process

The following illustrates the process flow of the Industry Unsaleables program



Calculating the Distributor's Performance Factor

A distributor's unsaleables performance factor is expressed as:

of unsaleable items per \$10,000 in retail sales vs the industry benchmark

Note: For the Industry Unsaleables Program, retail sales are for dry grocery, frozen, health and beauty aids, and general merchandise only. Distributors must separate these items from their total store sales.

The Calculation

To calculate the distributor's performance factor, do the following:

1. Calculate the number of unsaleable items per \$10,000 in retail sales (dry grocery, frozen, HABA and General Merchandise only) using the following formula:

$$\frac{\text{\# of unsaleable items from the previous 3 months}}{(\text{value of retail sales from the previous 3 months} \div \$10,000)}$$

For example:

$$\frac{63,000 \text{ unsaleable items}}{(\$45,000,000 \text{ retail sales} \div \$10,000)} = 14 \text{ items per } \$10,000 \text{ retail sales}$$

2. Divide the number of unsaleable items per \$10,000 in retail sales by the industry benchmark, using the following formula:

$$\frac{\text{Industry Benchmark} \times 100}{\text{\# of unsaleable items per } \$10,000 \text{ retail sales}} = \text{Distributor's Performance Factor vs the Industry Benchmark (\%)}$$

For example, if a distributor's incidence of unsaleable items is 14 items per \$10,000 retail sales, and the industry benchmark is 9.75 items, the distributor's performance factor vs the industry benchmark is:

$$\frac{9.75 \times 100}{14} = 69.7\%$$

This formula provides a performance factor for a Distributor. Distributors can determine individual store performance factors using the same formula.

Note: Distribution Centre damage is not part of the performance factor calculation.

Using a rolling three months of data

As shown on the previous page, the performance factor to be used in the current month's invoices is based on a rolling previous three months of data (sales and incidence).

For new distributors entering the system who do not have three previous months of data, the following will apply:

- During the first two months, the performance factor for the current month will be based on the actual month's data for sales and incidence.
- During the third month, the performance factor for the current month will be based on the previous two months of data.
- During the fourth month, the performance factor for the current month will be based on the previous three months of data.
- During the fifth and subsequent months, the performance factor for the current month will be based on a rolling previous three months of data.

All unsaleables information must be auditable

All unsaleables information must be auditable. Annual audits will be conducted in December and companies are required to provide confirmation by their auditors that the unsaleables information has been audited and found to be correct. The auditors will use this User's Guide as a template for the audit.

Those companies, that do not conduct annual audits, may be called upon to perform or be subject to an audit of its accounting practices as they relate to the unsaleables recommendations.

The letter of confirmation submitted to the Industry Unsaleables Committee will be held as "proof of integrity" from the December audit, of the system should any participant inquire.

The auditor's letter should be sent to

**Industry Unsaleables Committee
c/o
Retail Council of Canada
1255 Bay Street, Suite 800
Toronto, Ontario
M5R 2A9**

Protocol for Enrollment in the Food Industry Unsaleables Program

Declaration of commitment to the Industry Unsaleables Committee recommendations for dealing with unsaleables:

- a) Compliance with respective accountabilities for unsaleables as published by the Industry Unsaleables Committee (the "Committee").
- b) Commitment to the industry recommendation on benchmarks:
 - i) 9.75 items per \$10,000 of dry grocery department sales (including HABA and GM) effective May 1, 2010.
- c) Commitment to accepting payment for unsaleables based on a distributor's performance factor versus the industry benchmark.

Distributors performing at or below the industry benchmark will receive 100% of claims for product and handling cost.

Distributors performing above the industry benchmark will receive less than 100% of claims for product and handling cost, at a rate based on their performance factor versus the industry benchmark.
- d) Commitment to follow recommended industry Best Practices for reducing unsaleables.
- e) Commitment to calculate or have calculated by an independent third party, a performance factor versus the industry benchmark by distributor on a period-by-period basis, and to accept the requirements of an audit if requested.
- f) Commitment to use the Committee's recommended method of calculation of the performance factor. This calculation method is subject to review and revision by the Committee.
- g) Commitment to use a reclamation service provider that is willing and able to provide the information to meet the requirements of the industry recommendations for unsaleables.
- h) Providing that all of the requirements of the industry recommendations for unsaleables are met, distributors committing to the industry recommendations for unsaleables will be paid a handling rate of 45 cents per item for dry grocery/frozen/HABA/general merchandise items, effective May 2011, regardless of the type of reclamation service provider used. Distributors will be compensated 34 cents per item for dry grocery/frozen/HABA/general merchandise items for product reclaimed from the distribution centre.
- i) Commitment to abide by the Committee's review of handling costs and revised handling rates which will be effective on the dates recommended by the Committee.
 - i) Commitment to provide signed audited statements annually to the Committee. The auditor will use the User's Guide as a template for the audit.
 - ii) Commitment to provide reasonable unrestricted access to the data by an independent third party in order for the Committee to review the industry benchmark and to set new benchmarks.
- j) Commitment to follow the Committee's recommendations regarding charities that will be the recipients of the unsaleables.

**Acceptance of the above principles herein indicated
by the signature of the Chief Executive Officer or Officer of the Corporation**

(Organization)

Chief Executive Officer or Officer of the Corporation (please print, name and title)

Signature

Date

To enroll in the Industry Unsaleables Program, indicate your commitment to the Program by signing the Protocol for Enrollment in the Food Industry Unsaleables Program, and send it to:

**Industry Unsaleables Committee
c/o
Retail Council of Canada
1255 Bay Street Suite 800
Toronto Ontario
M5R 2A9**

and copied to

**Food & Consumer Products of Canada
Attn: Industry Affairs Department
885 Don Mills Road, Suite 301
Toronto, Ontario M3C 1V9**

List of Participating Distributors as of May 1, 2011

- Canada Safeway Limited
- Co-op Atlantic
- Federated Co-Operatives Limited
- Loblaw Companies Limited (Ontario, Quebec and Atlantic Canada)
- Longo Brothers Fruit Markets Inc.
- Sobeys Inc.
- Walmart Canada Corporate