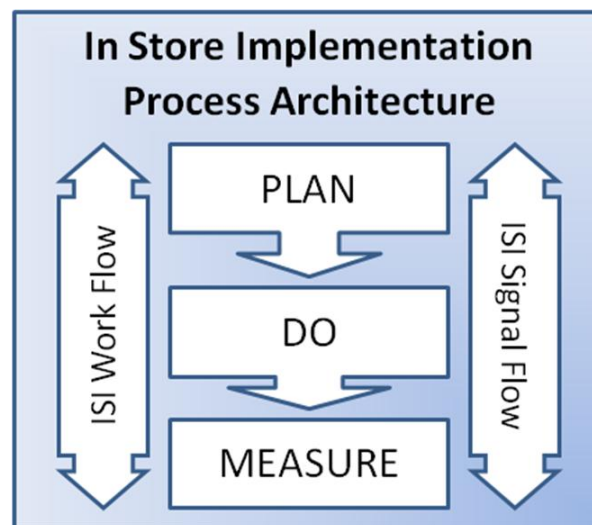


In-Store Implementation Sharegroup

EXECUTIVE SUMMARY

IN-STORE IMPLEMENTATION: Current Status and Future Solutions

AN ISI SHAREGROUP WORKING PAPER



In-Store Implementation Sharegroup

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1. Understanding In-Store Implementation

At-retail performance of Category Management, shelf management, promotion, and Shopper Marketing is limited by entrenched business behaviors in ways that cry out for change. Analytic capabilities and insights are advancing rapidly. Post-ECR progress in supply chain efficiency has been very significant in the past 15 years, driving billions of dollars worth of inventory from the pipeline. Yet gaps in the retail implementation of merchandise plans, promotions and the new shopper media continue to limit consumer product industry success.

The costs of ineffective implementation to the retail consumer products (RCP) industry are broad based and substantial. The ISI Sharegroup estimates that the total cost to the U.S. RCP industry of sub-optimal merchandising performance (actual and opportunity costs) is approximately 1% of gross product sales, or \$10 - \$15 billion of the \$1.5 trillion total annual sales across the food drug and mass channels.

ISI Defined. In-Store Implementation, or ISI, refers to the collective physical and informational tasks performed at retail to actualize merchandising, marketing and media plans in the store. The ISI Sharegroup members collectively conclude that under optimal circumstance:

- ISI encompasses compliance, measurement and communications activities.
- ISI is every-day, embedded and continuous in nature.
- ISI methods are enabled by communications and database tools, but it is not a technology in and of itself.
- ISI is defined by a Plan-Do-Measure process cycle that controls implementation plans and work and communicates implementation signals.

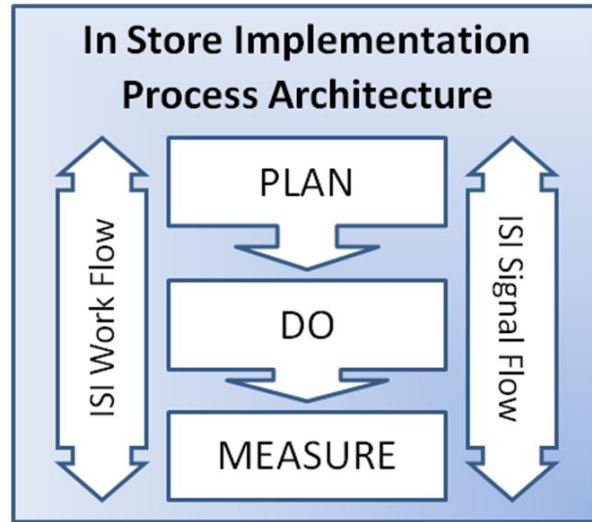


Figure 1. High-level ISI Architecture defines a “Plan-Do-Measure” process cycle.

The Plan-Do-Measure cycle [Fig. 1] occupies the heart of the In-Store Implementation process. “*Plan*” in this context refers to planning of implementation actions, not category or promotional plans, per se. “*Do*” refers to the carrying out of store-level tasks required to maintain compliance and monitor conditions on the selling floor. “*Measure*” refers to the ongoing evaluation of the data flows emanating from the ISI process in near-real-time so they may be accessed by decision-makers at headquarters and in the stores in a timely manner.

Culture of Compliance. The ISI Sharegroup members believe it is incumbent upon retailers, manufacturers and third-party merchandising services organizations to cultivate an industry-wide *culture of compliance*, in which the performance levels of the past are no longer deemed sufficient and the industry adopts and attains greater expectations in five primary areas of In-Store Implementation, in rough order of priority:

1. Planogram compliance
2. Assortment rationalization
3. Center store space allocation
4. Display and promotion compliance
5. New items speed to shelf

Areas of future interest for In-Store Implementation may include shelf pricing and price optimization, shopper media delivery, and any retail activities that depend on an accurate demand signal to function optimally.

Principles. The ISI Sharegroup identifies the following principles with regard to understanding the In-Store Implementation challenge and opportunity.

- The ongoing shift toward an even more granular, localized approach to consumer insights and category and promotion planning will make managing present implementation problems exponentially more complex.
- The pursuit of desirable supply chain efficiencies may sub-optimize In-Store Implementation performance by shifting some of the inventory burden to the shelf.

- Shopper satisfaction and brand equity are negatively impacted where ineffective implementation performance sub-optimizes the shopping experience.
- The retail consumer products industry needs to better coordinate its collective efforts to improve compliance, allocate resources, and provide a more consistently satisfying shopper experience.
- Successful In-Store Implementation practices must be embedded, real-time, every-day, technology-enabled and transparent to all compliance partners – retailers, manufacturers and merchandising service organizations

2. ISI Issues

Disconnects. The retail consumer products industry suffers from a major disconnect between *local consumer demand* and the endpoint of the overall *supply chain*. This persistent challenge originates *in the store*:

- Product visibility is lost at the back door (items received are checked in, stored and moved around to various locations within the store and then reappear later at the check-stand as a POS demand signal).
- Store change requirements introduce variables that make tracking in-store conditions and planning more difficult.
- Demand signals are distorted and thus incomplete or unreliable from this perspective.
- Shopping experience is poor too often relative to consumer expectation.
- Compliance is largely unmonitored and therefore unmeasured or *ad hoc* at best.

The oft-cited “banes” of our industry – out of stocks, inconsistent store conditions, over-inventory and poor promotion compliance – are just the most visible symptoms of this entrenched set of problems. The RCP industry suffers from:

- Disconnect between Category Management and store operations
- Disconnect between category plans and implementation
- High store labor costs
- Inability to measure ROI on in-store activities
- Lack of timely information or visibility into actual in-store conditions

These persistent circumstances bring undesired results:

- Out-of-stocks and upstream inventory voids
- Sub-optimal promotion performance
- Sub-optimal ROI on category planning activities
- New items speed-to-shelf is not consistently adequate
- Resets are unreliably implemented
- Shopper Marketing (media and promotion) programs are limited in effectiveness of

Implementation Gaps. The ISI Sharegroup members identify five main performance “gaps” in retail implementation of merchandise plans and promotions that demand attention from the industry:

GAP 1: Out-of-stocks and overstocks still occur on a regular basis.

GAP 2: Speed-to-shelf remains inadequate for many new items

GAP 3: In-store support is insufficient to meet merchandising commitments

GAP 4: Stores are slow to implement reset commitments

GAP 5: In-store support is insufficient to meet Shopper Marketing/media commitments

The members are of the firm conviction that the abovementioned five “gaps” limit RCP industry success.

Root Causes. ISI Sharegroup members observe that inconsistent implementation makes accurate forecasting a near impossibility because the causes of outcomes cannot be known. Less accurate forecasts lead to more frequent and severe over- and under-stocks, tying up capital and requiring more costly in-store work that should not be necessary.

PLAN: Deficiencies in ISI Planning. Many issues and deficiencies in In-Store Implementation originate from the inadequacy of implementation planning discipline across the industry. This is separate and decoupled from the category planning process and it does not assume in-store tasks will get done. Ideally, ISI Planning would leverage the implementation and compliance systems in place and assign only work that can be completed within the required time frames.

DO: Deficiencies in ISI Task Performance. An In-Store Implementation plan’s primary purpose is to provide a framework to ensure compliance; that is, to ensure planned tasks get done. A framework must be in place to prioritize, organize, and assign work to available resources. It must communicate those requirements to every concerned individual, and provide them with the necessary tools and incentives to complete assigned tasks on time. It must incorporate a feedback mechanism that permits capture of shelf status and work completion in real time. In the absence of these capabilities (this fairly well describes the industry’s present status), great sums and greater efforts may be invested in merchandising and promotion activities that cannot be completed and may never be adequately monitored.

MEASURE: Deficiencies in ISI Measurement. In general the industry has no systematic process in place to measure store-level compliance *per se*. While we look at program outcomes primarily based on after-the-fact metrics (such as POS sales and syndicated data, coupon redemption data, etc.), there is an opportunity to track and measure in-store actions as they occur, in real time and to more closely relate consumer response to store conditions and implementation effectiveness.

Current Costs. The costs of ineffective implementation to the retail consumer products (RCP) industry are broad based and substantial:

- The ISI Sharegroup estimates that the total cost to the U.S. RCP industry of sub-optimal merchandising performance (actual and opportunity costs) is approximately 1% of gross product sales, or \$10 - \$15 billion of the \$1.5 trillion total annual sales across the food, drug and mass channels.

Sharegroup members identify several important contributing factors to this number:

- Sharegroup members estimate that approximately 50% of authorized retail promotional displays are not erected or erected late, amounting to an estimated \$25 billion of ineffective spending annually by CPG manufacturers.

- Sharegroup members estimate that 86% of merchandise on hand in food stores reflects quantities in excess of seven days of supply – this oversupply accounts for approximately \$46 billion in stagnant capital industry wide. [Actual net cost to the grocery industry may approach \$3.3 billion at a discount rate of 5% per year.]
- Paradoxically, this shelf-level oversupply condition coexists with an intractable out-of-stock problem amounting to 8.3% overall, and 10% or higher on the fastest moving items. 70 to 75% of these are a direct result of retail store practices, and these cost the typical retailer approximately 4% of net sales (Gruen, et al, *Retail Out-of-stocks* report, GMA 2002). This works out to a revenue loss or displacement of \$20 - 25 billion.

These costs are reflected in lower corporate profits and shareholder equity and higher prices to the consumer, in addition to sub-optimal customer experiences in stores on a daily basis and resultant harm to brand equity and store loyalty. The value of these losses is not yet precisely known.

3. Available and Potential ISI Remedies.

Certain remedies are available today to address the retail implementation challenge. These include tools, tactics, business methods, etc. Each has advantages and limitations in terms of costs, effectiveness, complexity, and industry readiness. The ISI Sharegroup believes the set of solutions will begin with existing know-how and expand with the development of new tools and methods.

Refine Current Practices. The ISI Sharegroup identifies several areas where current practices may be identified, documented and refined to support improved ISI practices. These include:

1. Intelligent Allocation of Resources
2. Establish ISI Scorecards
3. Redesign or Replace Home Store Programs
4. Retailer Tracking and Evaluation of In-Store Work
5. Systematic Approach

Proposed Remedies. The ISI Sharegroup also identifies several areas where new best practices may be developed from “whole cloth” through the concerted efforts of many interested parties in the Retail Consumer Products industry.

6. Courage to Say NO (Intelligent loss or reallocation of work)
7. Enabling and Measurement System
8. Collaborate on New Methods

Because these areas are very broad and encompassing, the ISI Sharegroup has developed an approach to identifying potential action areas for the industry and targeting those which may be most immediately fruitful.

4. Proposed ISI Actions.

ISI Case Study Identification and Development. A primary goal of the ISI Sharegroup will be to identify current best practices in In-Store Implementation and other aspects of store-level compliance. Sharegroup members have agreed to contribute case studies based on their own projects. Other firms will be invited and encouraged to write and submit case studies toward the assembly of a library of best practices.

ISI Best Practice Development Priorities. The Sharegroup members considered that development of improved In-Store Implementation processes and standards should begin with any/all of the following major areas:

1. Processes to enable “One-touch” merchandising (by which, to the extent possible, merchandise should never be handled again after it arrives on shelf or display)
2. Processes for managing work flow and signal flow for new and discontinued items
3. Processes for managing routine planogram maintenance and replenishment
4. Processes for managing total category planogram rework/resets
5. Processes for managing promotion implementation, including post-promotion practices

ISI Best Practice Development Priorities. A “ranking survey” of Sharegroup members was conducted in which numerous areas were considered relative to their importance, universality and whether they were “foundational” in nature. Based on the collective responses, two areas were identified as the top priorities for the group’s focus in developing best practices for improving In-Store Implementation. These two areas are considered to be “foundational” to the goal of achieving significant levels of improvement in ISI processes and outcomes:

Priority #1: Development of improved processes and standards for Shelf Management

Priority #2: Development of improved processes for “Store Capacity-based Planning”

Detailed descriptions of these two initiative areas are included within the present paper.

5. Conclusions and Call to Action

Path to Success. This paper argues in favor of a collaborative, industry-wide initiative aimed at closing the implementation gap. It proposes a path toward greater cooperation between retailers, manufacturers and third parties that would ultimately enhance the customer experience and industry profitability.

It proposes several areas where ISI best practices are needed, and outlines the Plan-Do-Measure solution structure developed by the ISI Sharegroup. It is a simple, yet important and valuable organizing principle.

Finally, this paper incorporates a call to action for the entire retail consumer products industry, including retailers, manufacturers, third party merchandising organizations, marketers, technologists and consulting firms. The mandate is this: New industry best practices for In-Store Implementation must be developed, tested, enabled and promulgated. Winners will incorporate these In-Store Implementation best practices into their business processes.

ISI Benefits. Establishment of new industry implementation best practices as routine, embedded business processes would ultimately bring benefits on three strategically vital fronts:

(1) It would result in both improved ROI on activities and elimination of unnecessary, even counterproductive, activities. (2) Improved implementation would bring greater discipline to new product initiatives and promotions. (3) Better implementation would improve our ability to measure outcomes of Shopper Marketing activities.

Collaborative Approach. Today the plain facts are that In-Store Implementation and compliance issues are emerging as the greatest common factor limiting further progress in all three of the above areas. Tackling them will require a *new collaborative industry initiative* centered on shelf-level compliance and In-Store Implementation. The ISI Sharegroup members call upon our trading partners, collaborators and competitors, industry associations and thought leaders to join us in our pursuit of this vision.

About This Working Paper. The members of the ISI Sharegroup conceived of this document in the interest of promoting a *culture of compliance* for retailers, manufacturers and all other participants in the go-to-market system. It is intended as a launch pad that would begin to draw attention to the issue, elevate the dialog and stimulate decisive action. We do not claim exclusive ownership of these ideas. We do not claim that they are absolute or immune to criticism or amendment. Rather, we urge our colleagues, collaborators and competitors to debate them, extend them, and adopt those that show promise.

With this document we are promulgating a shared industry vision for a more compliant, and therefore more effective, future. If we are persuasive, the beneficial outcomes to follow will be the result of many individual efforts in parallel. Ultimately our consumers will gain most – in terms of better value and a superior shopping experience.

– *In-Store Implementation Sharegroup, April 14, 2008*

IN-STORE IMPLEMENTATION: Current Status and Future Solutions

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OBJECTIVES OF THIS PAPER

This working paper is intended as both a thought leadership document and a progress report on the work of the In-Store Implementation (ISI) Sharegroup. From our efforts to date, the Sharegroup members have attained a preliminary consensus in several areas, including:

1. Existence and scope of the In-Store Implementation *opportunity*
2. Hypotheses regarding *underlying causes* and persistent sub-optimal practices that lead to ineffective In-Store Implementation
3. Estimate of current *benefits available* to the industry (actual and opportunity) should we devise practices to address these issues effectively
4. Priority areas for *best practice development*, i.e. areas that we regard as *foundational* to the development of a larger set of beneficial ISI Practices
5. Goals and process of the ISI Sharegroup itself, including how it might serve as a catalyst for a broad-based *industry initiative* focused on improving In-Store Implementation

The purpose of this paper is to raise awareness, stimulate action and begin to *crack the code* on In-Store Implementation, a critical set of business practices that have received too little recognition and attention from the retail consumer products industry. In the process we intend to:

1. Raise awareness of the cost of poor In-Store Implementation, on a micro level (individual companies) and a macro level (industry-wide)
2. Define relevant issues affecting retail implementation
3. Identify existing practices which may contribute to resolving present insufficiencies in In-Store Implementation and improve and disseminate them for potential industry-wide adoption.
4. Identify potential breakthrough best practices for In-Store Implementation, prioritize these in terms of urgency, and develop them for potential industry-wide adoption
5. Document areas of progress to date by the ISI Sharegroup and promulgate these findings and ideas to the industry as a stimulus for broader discussion and action

The contents of this paper reflect the progress made to date by the members of the In-Store Implementation Sharegroup toward the above objectives.

ABOUT THE ISI SHAREGROUP

The In-Store Implementation Sharegroup came together in 2007 as a collaborative effort aimed at improving performance at retail of category plans, merchandising plans, promotion plans and Shopper Marketing and media.

Sharegroup member companies include: Anheuser-Busch; Driveline; General Mills; Giant Eagle; Nestlé Purina; Pepsico; Procter & Gamble; Retail Tactics; Schnuck's; The Partnering Group; and VSN Strategies.

Primary Purpose. At its formative meeting in March 2007, the group stated its primary purpose is “to provide innovation In-Store Implementation and compliance management with a positive impact on retailer / supplier understanding and actions.”

Core Values. Its core values were identified as:

- Provide industry leadership in raising industry awareness of the need for improvement in In-Store Implementation
- Provide valuable and measurable improvements In-Store Implementation and compliance management capabilities for our industry partners
- Advance clear action steps that provide a positive impact on business

Mission Statement. The mission of the In-Store Implementation (ISI) Sharegroup is to provide a platform for executives from all sectors of the industry, including retailers, manufacturers, trade associations, in-store service providers, and brokers to define best practice, procedures and technology required to efficiently execute category plans, displays, and other in-store sales and merchandising activities.