

Winning in January

2009/2010 Review



Contents

Introduction	3
January 2010 Results	3
Commentary on January 2010	9
Next Steps	10
Background and Key Activities	11
Step 1 – March 2009 Workshop.....	11
Step 2 – August 2009 Workshop	13
Appendix 1 – Retailer Results Summer 2010	14
Appendix 2 – Supplier Results Summer 2010	21

Introduction

Product availability in January has been a challenge for the fast moving consumer goods industry for many years for both retailers and suppliers. For many, January service levels have suffered in comparison to Christmas, and as a result have seen poor product availability; lost sales; stock outs on shelf and a less than satisfactory offering for the consumer. Certainly in 2009 this was true at an industry level.

In early 2009, the Board of Efficient Consumer Response Australasia (ECRA) identified improving January service levels between suppliers and retailers and between retailers and their stores as a major opportunity for the industry players to collaborate under the banner of *Winning in January*.

The following ECRA report is the culmination of the industry focus providing a fact based set of key industry results, findings and next steps. The industry came together in February to review the outcomes from January 2010: presentations can be accessed by visiting www.ecraustralasia.org.au.

January 2010 Results

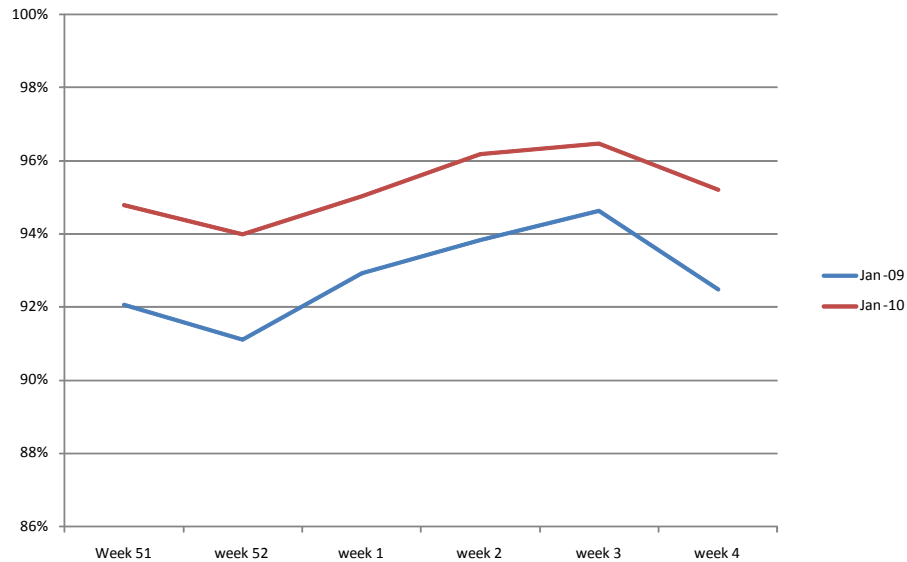
To determine the impact of the work undertaken in 2009 and to understand which key issues had improved and where gaps still lay for increased focus in future, ECRA undertook a data based approach to reviewing performance levels for the period encapsulating Christmas and New Year weeks in 2009 and the month of January 2010.

This was done with the collaborative support of retailers; Coles Group, Metcash Trading and Woolworths Limited, and with a representative group of fast moving consumer goods (FMCG) suppliers across a broad range of product categories.

The retailers tracked outbound service levels (OBSL) from their distribution centres to their stores for both 2008/09 and 2009/10 to facilitate performance comparisons. This data was provided for both high level business splits (Ambient Grocery, General Merchandise, and Perishables) as well as for several specific categories which were of particular interest through the summer period.

Whilst results varied by retailer and by category the consolidated data provides insight into the top-line results and industry trends.

All Retailers / All Products



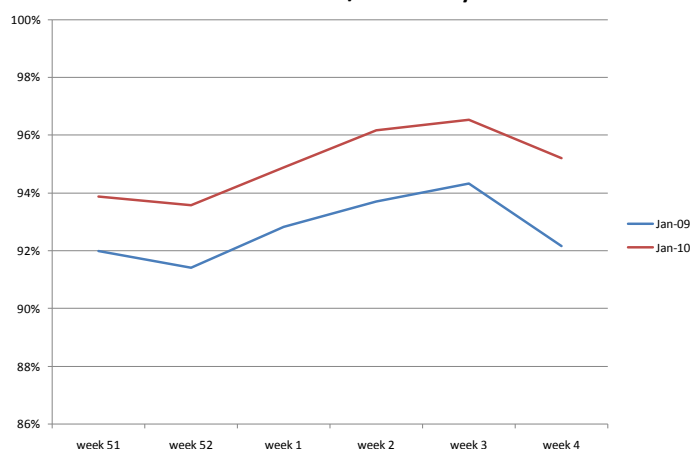
Key Results

- Across all categories retailer outbound service level to store increased by 2-3% in comparison to January 2009.
- Across all categories tracked, suppliers achieved 93.1% service level on requested day of delivery.
- Store demand flat versus 2009, but shipments to stores increased



AMBIENT GROCERY

All Retailers / All Grocery



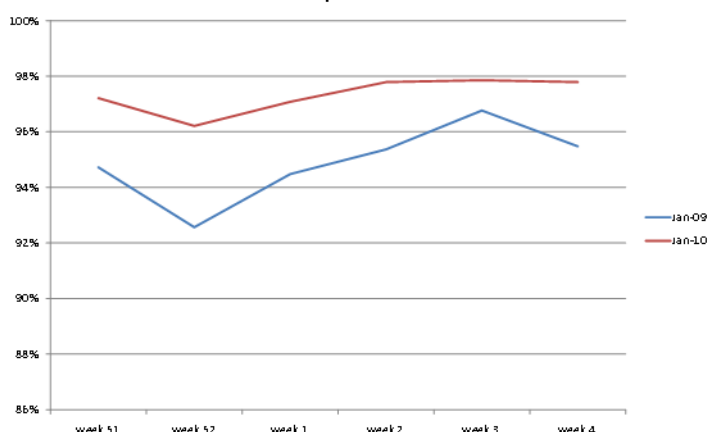
Key Results

- Ambient grocery mirrored whole of business OBSL up 2 to 3%.
- Less pronounced drop in the short weeks vs. 2009.



GENERAL MERCHANDISE & TOBACCO

All Retailers / All GM + Tobacco



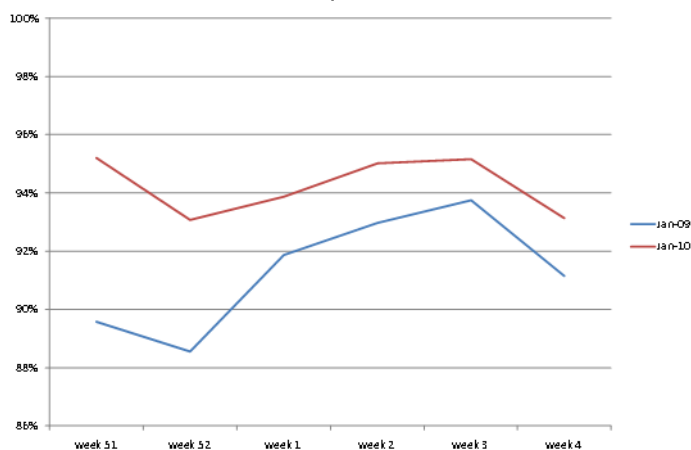
Key Results

- Generally high OBSL throughout this summer.
- Significantly stronger OBSL over short weeks vs. 2009.



PERISHABLES

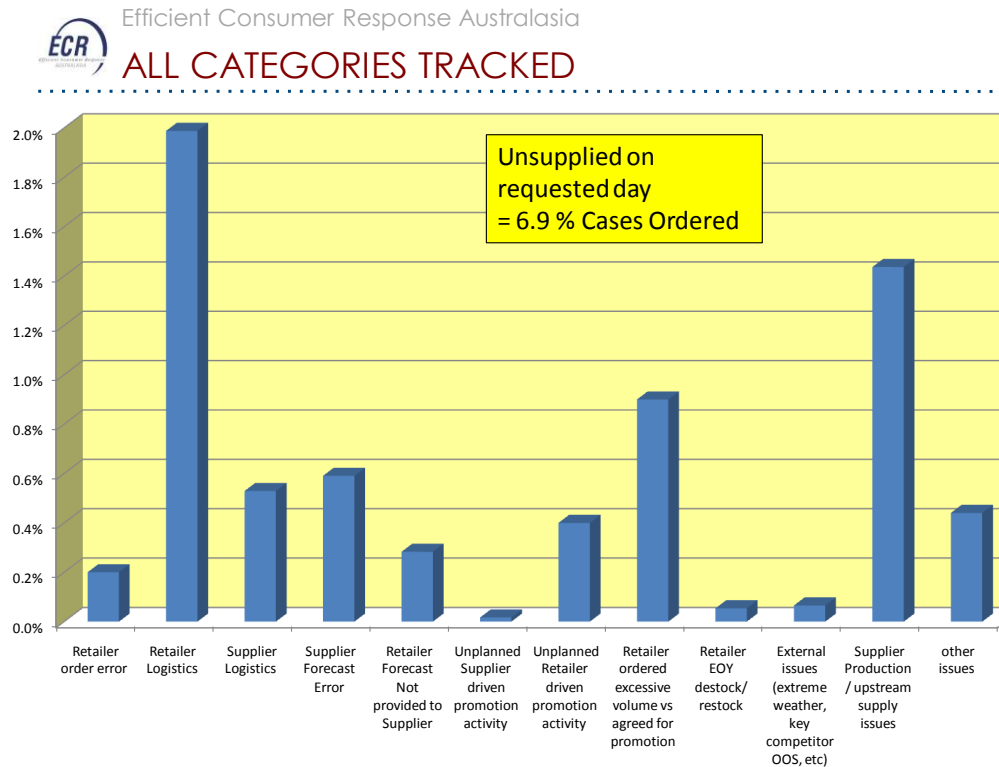
All Retailers / All Perishables



Key Results

- Major improvement in OBSL vs. 2009.
- Greater opportunity to be realised.

Suppliers tracked their service levels to retailer distribution centres on the basis of the percentage of cases of product being delivered on the requested day. All cases not delivered on the requested day were assigned to various causes for non supply facilitating data based study of the most impactful reasons – both operational and availability driven.



Key Results

- A total of 6.9% of cases ordered were unsupplied on the day.
- The top three reasons were
 - Retail Logistics
 - Supplier upstream supply chain / production
 - Retail ordered excessive volume vs. agreed promotional volume.

A full suite of charts depicting the outcomes of the study, as well as methodology used are attached as appendices to this report

Retailer results were presented at the February 2010 seminar and perspectives shared with delegates. Some of the key takeaway messages from the retailers have been captured in the following table:

Woolworths	
Positives experienced in January 2010	Improvements needed in future
<p>Where business partners were actively committed to following the 7 steps highlighted in the ECRA Winning in January 'blue book' performance improved this year. This saw the largest improvement in DC OBSL for the year occur in January with good improvement in the key categories where collaboration took place. Woolworths noted that the 7 steps can be applied all year round!</p> <p>Woolworths found that there was correlation between improvement in supply from its supplier base and this translating to improved in-stock position in its stores.</p> <p>Woolworths recognised that even where committed collaboration took place, there were still mutual forecast errors for promotions on some occasions, but that this was overcome through the additional operational flexibility built in with partners who committed to the <i>Winning in January</i> process as they were able to recover more quickly.</p>	<p>Whilst noting that many suppliers were on board with improving January service performance, Woolworths felt some suppliers still didn't really get the message.</p> <p>Whilst Woolworths felt it embraced the changes it needed to make, some suppliers did not and suffered poor service levels accordingly. This will be followed up by Woolworths with those suppliers concerned.</p>
Coles	
Positives experienced in January 2010	Improvements needed in future
<p>Engagement and collaboration, sharing forecasts over a longer horizon, inbound flow management and focus on continuity of supply were areas where Coles felt there was improvement in January 2010.</p> <p>These helped Coles achieve significantly higher OBSL to stores than in previous years which in turn drove much higher in store availability levels for shoppers. This received positive feedback from store managers and from shoppers.</p> <p>Whilst not specific to January, Coles also highlighted the benefits experienced through its VRP program, which was credited with providing participating suppliers a significantly improved OBSL versus non-participants.</p>	<p>Coles noted the need to start the engagement process with suppliers earlier in the year and for suppliers to be more open with Coles about potential issues they faced in supplying Coles in the Christmas and January period.</p> <p>Promotions were another area highlighted for improvement with Coles noting opportunities to utilise standardised templates for sharing promotional forecasts and increasing the forecast horizon time with suppliers.</p> <p>Coles noted its dissatisfaction with the number and length of production facility shut downs by suppliers in January and the impact it felt this had on service levels and sales. This was seen by Coles as a key area for improvement in the future.</p>

Metcash	
Positives experienced in January 2010	Improvements needed in future
<p>Metcash was able to increase its service performance to stores through Christmas 2009 and January 2010 compared to the previous summer.</p> <p>Whilst not achieving Metcash's target service level, the gap in OBSL versus target had closed significantly in comparison to prior year performance.</p>	<p>Metcash noted that it can improve both its planning and communication of plans for January with its supplier base in the future.</p> <p>Metcash are looking for suppliers to communicate any non delivery issues with key warehouse contacts and ensure any delivery booking changes are managed with transport companies.</p> <p>Metcash believes more supplier focus needs to be given in planning, forecasting and communication for seasonal lines leading into January 2011.</p>

Commentary on January 2010

Whilst the majority of suppliers heard and responded to this issue, retailers actively engaged at industry and trading partner level, and a 2 to 3% improvement to OBSL's was recorded, there still remains a significant dip in performance over this period.

The industry improved but a step change in performance was not delivered.

The 2009 focus on improving availability for January should be seen as a first step in a longer term strategy. The results provide a compelling argument to engage and drive further progress with wins for the shopper, supplier and retailer to be had. To truly change the paradigm many of the issues faced by suppliers will require long term strategies and decision making such as the impact to enterprise bargaining agreements. Such changes can not be affected in the short term and will require a structured approach.

The industry fact base, coupled with individual performance, should form the basis of the dialogue between trading partners. Each company will have specific concerns and they are encouraged to examine their own data in detail and engage with trading partners on areas where improvements can be made. The industry wide data provides a starting point for these discussions as it highlights several key areas that could deliver further increases to service level. The industry issues are detailed in the text above and include: operational excellence at retail and wholesale organisations; production capacity at peak periods; engagement with upstream supply chain; and improved communication and responsiveness around forecasting and promotion.

Whilst the 2 to 3% improvement to OBSL was noteworthy it needs to be balanced against the impact to inventory levels; additional operational costs; and commercial objectives. For example increasing the days of supply in distribution centres or in-store are strategies that should be seen as short term, analysis of the impact on January and February service levels will determine the viability of their long term success. Equally, having factories at the ready but idle or shipping raw materials / packaging from overseas are both expensive options if orders do not eventuate.

The industry fact base does not tell us the extent of provisional activities that occurred during this period. Trading partners should table such activities as part of their review of January performance and determine potential improvement opportunities relevant to their specific situation.

Improvement in supply does translate to improved in-stock position in retail stores and ultimately retailers and suppliers are all working towards the goals of - **right stock, right place, right time**.

Next Steps

The industry is now well positioned to deliver greater benefit and an improved availability during January 2011. Indeed the key learnings from this initiative can be equally applied to the other eleven months of the year.

The key focus areas as identified in *How to Win in January* provide a broad framework on which to focus activities both within an organisation and between trading partners.

The '7 Steps' – Key focus Areas

1. Plan, plan, plan and plan again.
2. Focus on one number.
3. Daily responsiveness.
4. Understand your trading partner.
5. Operational flexibility.
6. Communication plan.
7. Contingency planning.

Retailers and manufacturers will continue to pursue improved availability, both within their own organisations and with each other. The following are several areas to consider during the review process and in preparation for the future.



Next steps for your business - Retail and Supply

- Review the industry data against specific company information
- Retail specific 'report cards' should provide guidance specific for each retailer.
- Complete a *Winning in January* review.
- Identify internal weaknesses
- Breakdown functional boundaries.
- Recognise the power of early engagement.
- Collaborate before, during and after.
- Use the 7 steps in planning.

If industry partners are to be truly responsive to shoppers demands they need to work together to promote the removal of costs whilst delivering improved efficiencies.

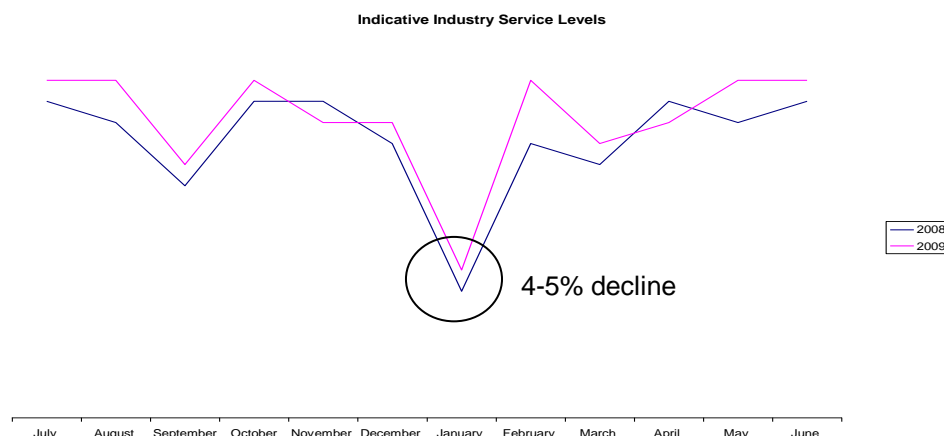
Background and Key Activities

Step 1 – March 2009 Workshop

In March 2009, ECRA hosted a one day workshop that provided industry practitioners an opportunity to discuss first hand the issues impacting January performance from retailers, wholesalers and suppliers perspectives. The delegates identified that the month of January has typically been under pressure from a number of independent and significant factors including:

- The number of public holidays through late December and January,
- a change in season / weather,
- a high proportion of annual leave taken,
- production facility shutdowns,
- unreliable transport offerings,
- financial year end for many companies,
- stock reductions throughout the supply chain, and
- in 2009 in particular, extreme weather conditions and volatility.

Whilst there has always been a major focus on planning and preparing for Christmas, January has traditionally been the 'poor cousin' which has been reflected in a decline in service levels to retail distribution centres of approximately 4 to 5 percent across the industry as shown in the following chart compiled by ECRA from retailer data:



This drop in service levels to retailers then rippled through the value chain with reduced service levels to stores and ultimately to increased out of stocks on shelves impacting sales and the shopping experience for consumers.

December 2008



January 2009

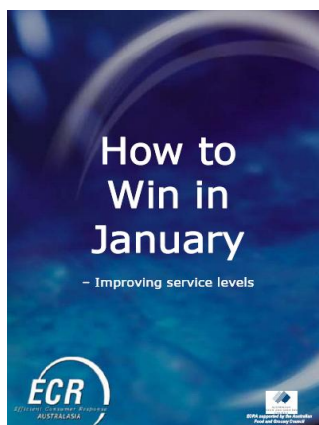


Many ideas and opportunities for improving service levels and product availability in January for future years were raised in joint retailer/supplier discussion sessions at the March 2009 workshop. These were collated by ECRA and grouped into 'seven steps' as key focus areas between trading partners when planning for a successful January 2010.

The '7 Steps' – Key focus Areas

1. Plan, plan, plan and plan again.
2. Focus on one number.
3. Daily responsiveness.
4. Understand your trading partner.
5. Operational flexibility.
6. Communication plan.
7. Contingency planning.

These focus areas are explored in detail in the resulting ECRA publication *How to Win in January*, which is freely available at www.ecraustralasia.org.au

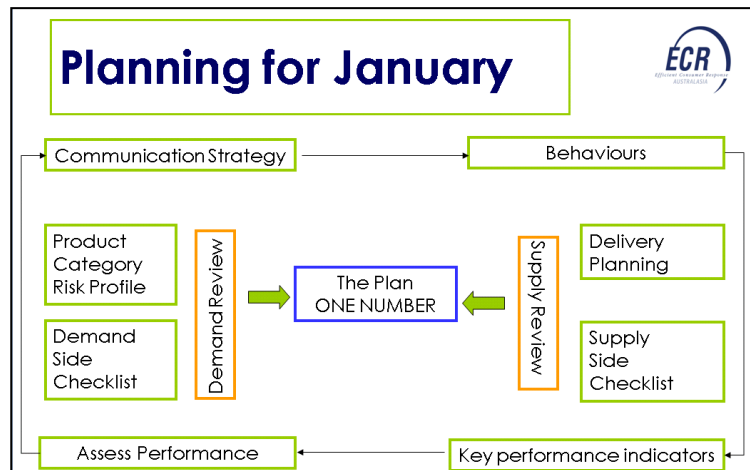


Step 2 – August 2009 Workshop

In August 2009, suppliers and retailers again came together to determine specific tools that could be developed which would support business partners in their engagement and planning for a successful January 2010.

Three significant outputs were realised from this workshop.

Firstly a roadmap was developed highlighting the key steps to be undertaken between internal business functions and between business partners in preparing for success in January.



Secondly, a series of tools were developed for use by companies to assist in planning for, and managing, January 2010 performance. These included checklists, scheduling documents, contacts lists and a series of templates for capturing and tracking key business metrics and information.

Finally, the key metrics to be captured in January 2010 by both retailers and suppliers were identified, such that a data based review of January 2010 performance, as well as determination of underlying reasons for service performance issues could be facilitated.

These workshop outputs were compiled by ECRA and made available to industry as a *Winning in January 2010 Toolkit*, which can be downloaded from the ECRA website at www.ecraustralia.org.au



Appendix 1 – Retailer Results Summer 2010

Coles, Woolworths and Metcash provided data depicting their OBSL from DCs to stores for the last two weeks of 2009 (weeks 51 and 52) plus the four weeks of January 2010 (weeks 1 to 4). In addition the retailers provided their data for the same weeks the prior year to facilitate the comparisons shown in the following charts.

The information was provided to ECRA in weekly buckets identifying the number of cases (i.e. cartons of product) delivered to stores nationally against the number of cases requested. ECRA consolidated the data to protect confidentiality as displayed in the charts below.

The legend for the charts is as follows:

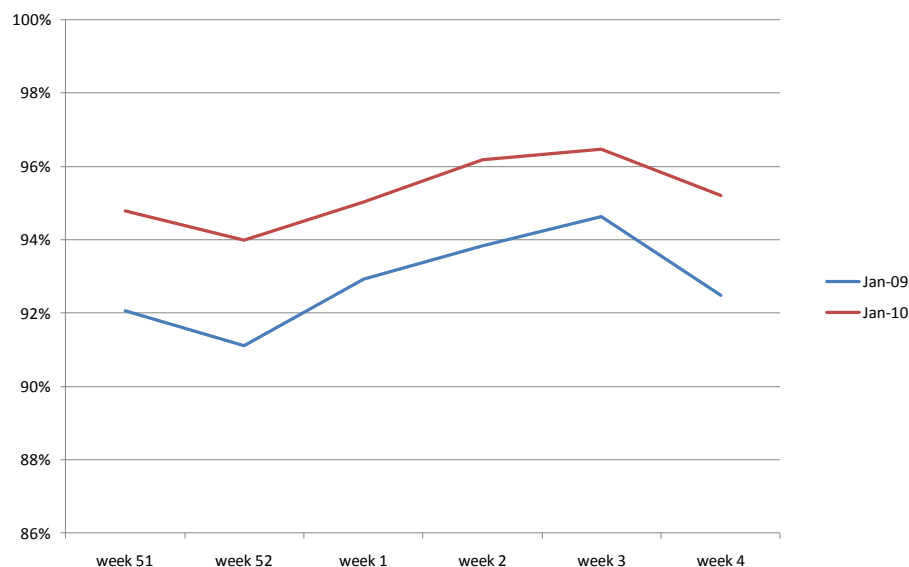
- Horizontal axis = week of year. Week 51 aligns to Christmas week, 52 to New Year week and 4 to Australia Day week.
- Vertical axis = percentage of cases ordered by stores which the retailers were able to supply for the week in question.
- Red line = January 2010, Blue line = January 2009



Efficient Consumer Response Australasia

WHOLE OF BUSINESS

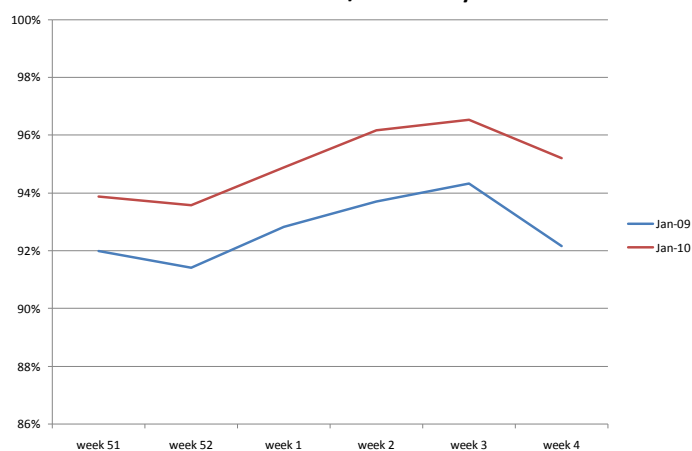
All Retailers / All Products





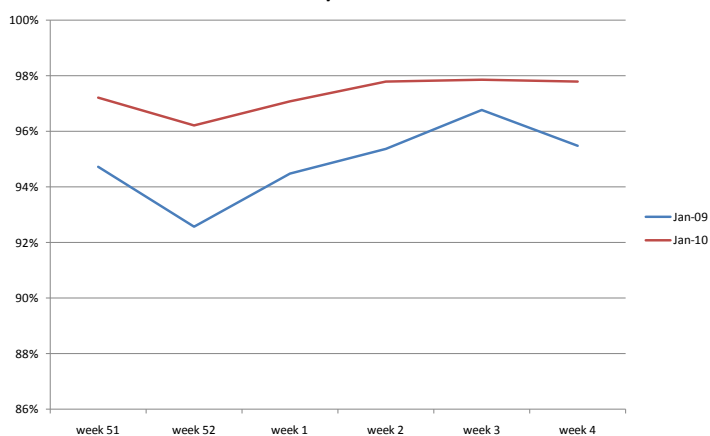
AMBIENT GROCERY

All Retailers / All Grocery



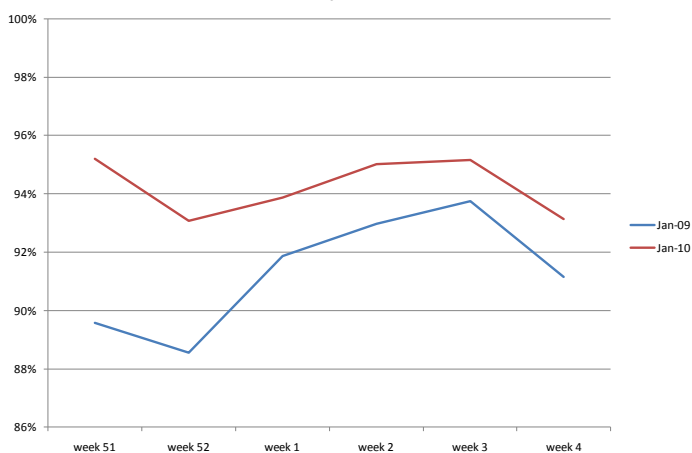
GENERAL MERCHANDISE & TOBACCO

All Retailers / All GM + Tobacco



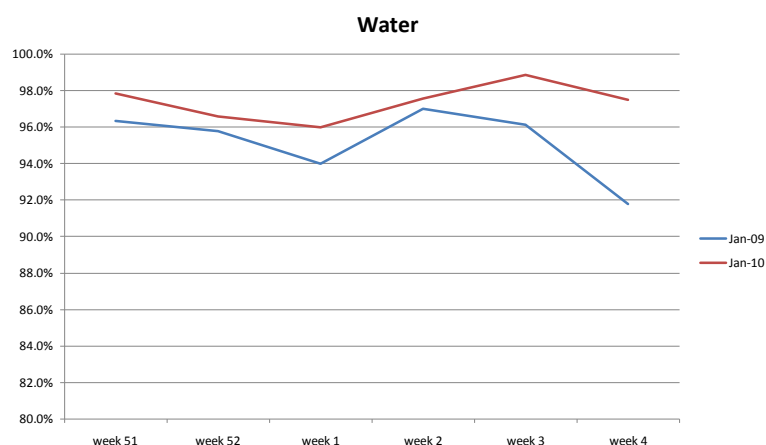
PERISHABLES

All Retailers / All Perishables

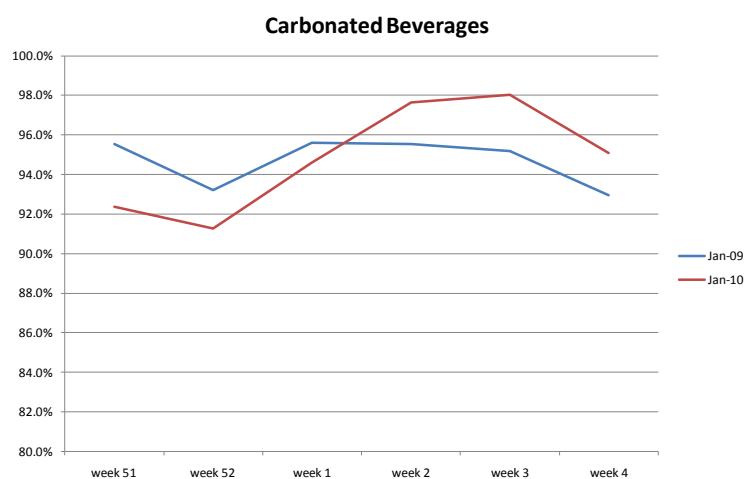




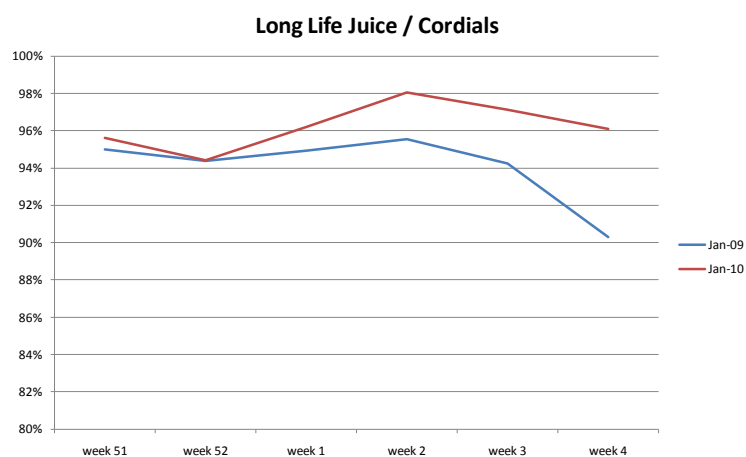
WATER



CARBONATED SOFT DRINKS

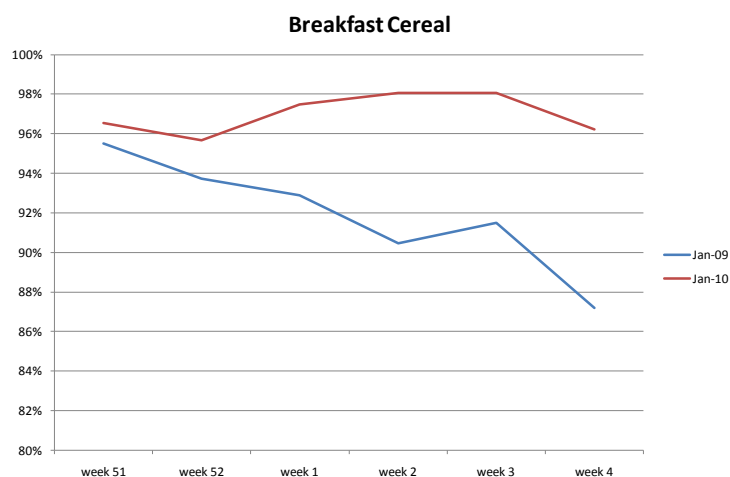


LONG LIFE JUICE/CORDIAL

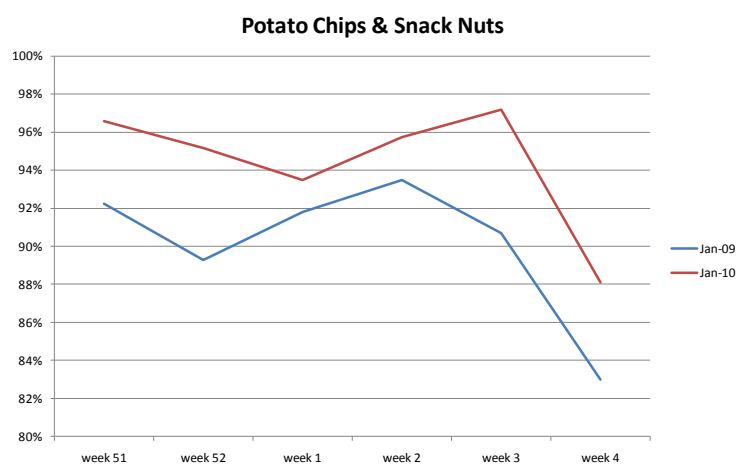




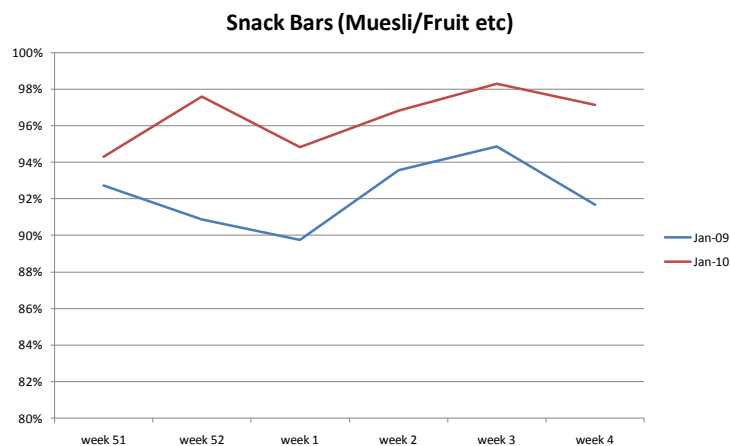
BREAKFAST CEREAL



POTATO CHIPS + SNACK NUTS

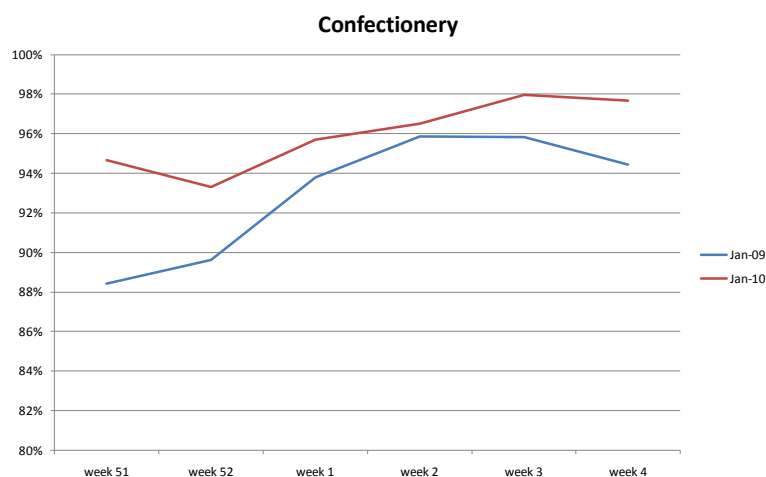


SNACK BARS (MUESLI/FRUIT ETC)

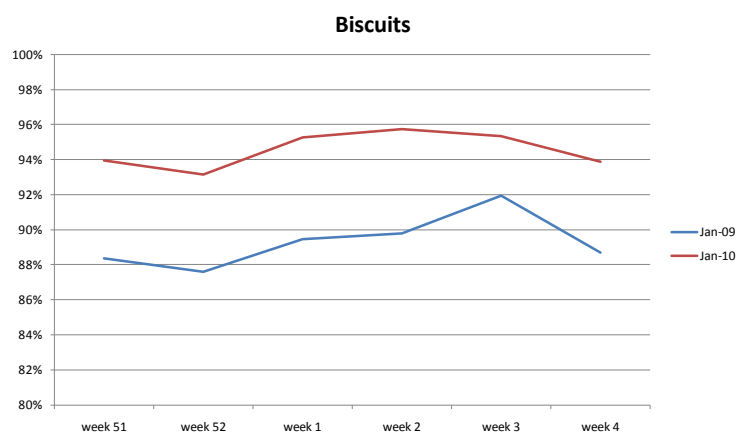




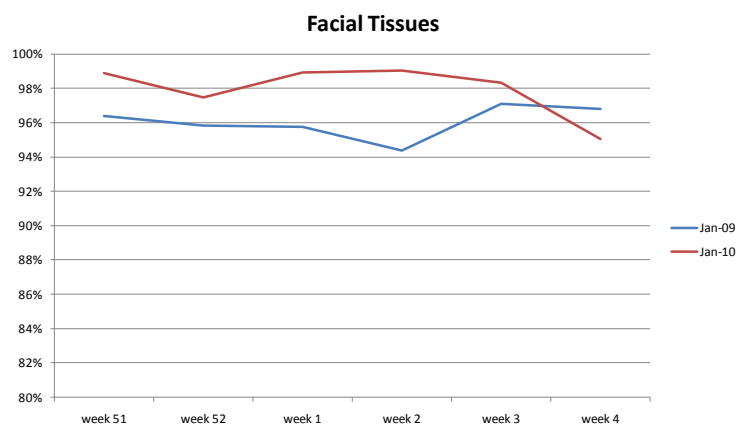
CONFECTIONERY



BISCUITS

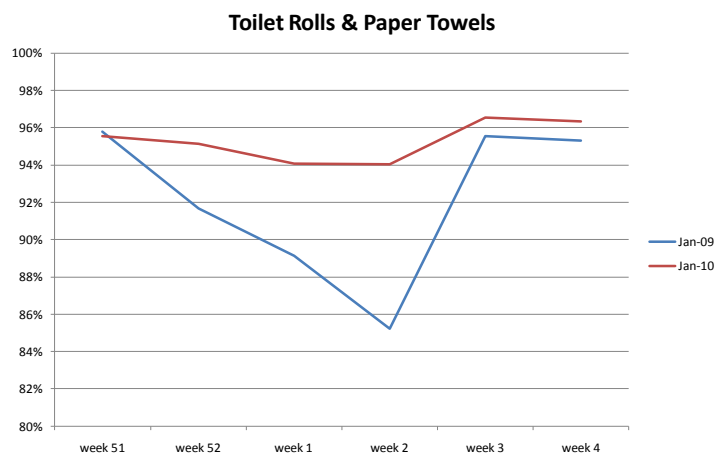


FACIAL TISSUES

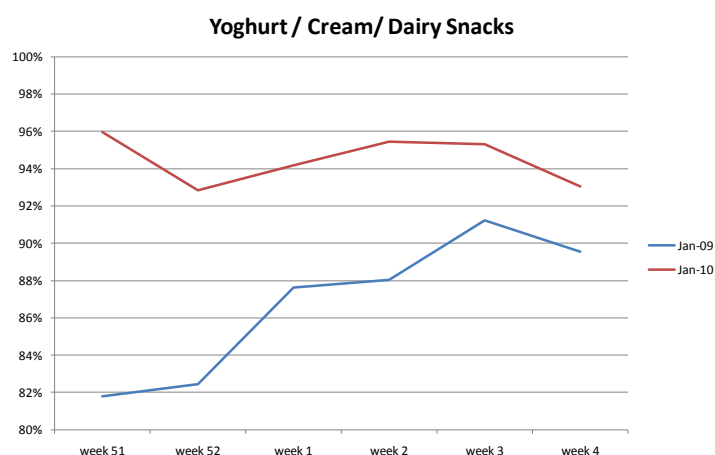




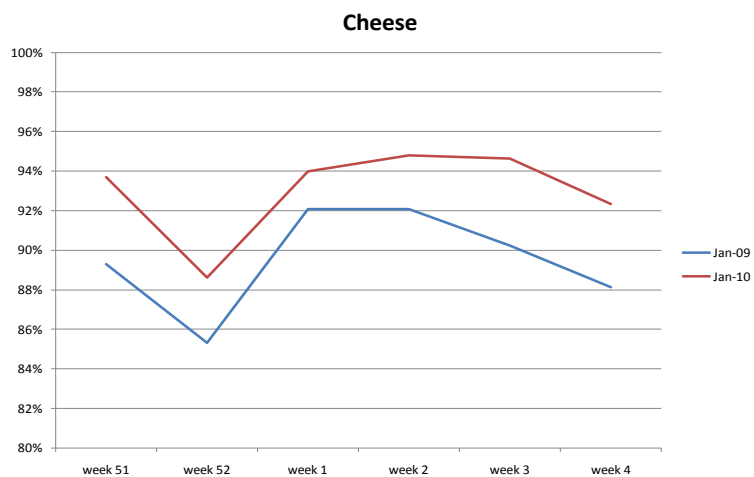
TOILET ROLLS + PAPER TOWELS



YOGHURT/CREAM/DAIRY SNACKS

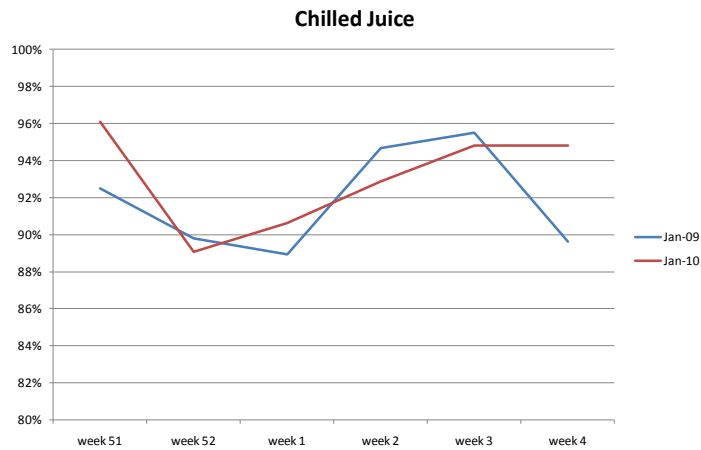


CHEESE

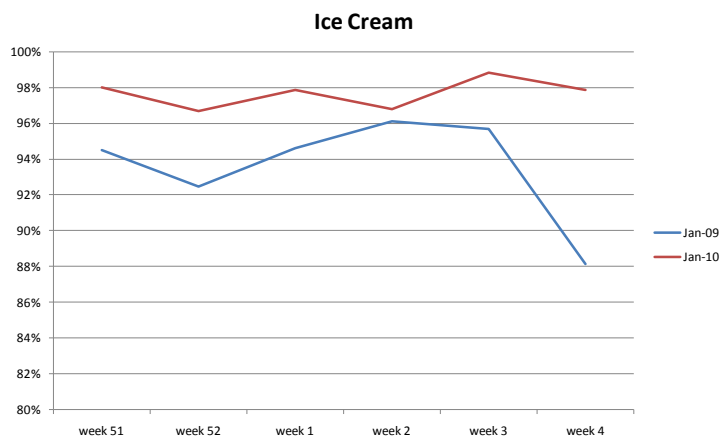




CHILLED JUICE



ICE CREAM



Appendix 2 – Supplier Results Summer 2010

Suppliers were asked to track all cases ordered and cases supplied by category by retailer, and then to assign reasons against all cases that were not supplied on the requested delivery day. The specific directions provided to suppliers for allocating reasons to unsupplied cases were:

Timing Issues:

Volumes unsupplied - Retailer order error (Cases) = for example where retailer orders a deleted line or a new or temporary promotional / seasonal item that has not yet been released for delivery. The order has no chance of being delivered as the item effectively does not exist (as opposed to being out of stock, see below).

Volumes Unsupplied - Retailer Logistics Issues (cases) = include both pick up & delivery issues for primary freight operations run by retailers, and also for where supplier is unable to deliver as retailer has no delivery slots available on due day, has a full DC and is turning away deliveries, or has other issues precluding receipting goods from supplier on due date.

Volumes unsupplied - Supplier Logistics Issues (Cases) = where no trucks are available for your business to use for delivery, or your DC does not pick in time, or your carrier does not deliver in time, etc.

No Stock Available to supply against orders:

No Stock available - Supplier Forecast Error (cases) = your sales forecasts have not been sufficient to meet customer demand and an OOS in your DC has occurred. Even though retailer forecast may be an input, the overall error lies with your planning

No Stock available - Retailer Forecast Not provided to Supplier (cases) = where the principal reason for the out of stock was that the retailer did not provide a forecast. This must be the major reason for the out of stock, if it is only a partial contribution then attribute as supplier forecast error (above) or spread the cases across the two reasons as appropriate. May be the retailer in question or another retailer that does this.

No Stock available - Unplanned Supplier driven promotion activity (cases) = your sales department scheduled late notice promotions. Supply chain cannot react to build extra stock in time and an out of stock at DC follows. May be the retailer in question or another retailer where promo was run.

No Stock available - Unplanned Retailer driven promotion activity (cases) = retailers schedule a last minute promotion, or make significant changes to a promotion's dynamics too close to the promo for you to react to large volume increase that follows. Result is out of stock at your DC. May be the retailer in question or another retailer that does.

No Stock available - Retailer ordered excessive volume vs. agreed volumes for promotion activity (cases) = where promotional volume is agreed, promo dynamics are not changed, but retailer orders greatly in excess of agreed volumes for no apparent reason, resulting in out of stock at your DC. May be the retailer in question or another retailer that does.

No Stock available - Retailer end of year destock/restock (cases) = where a retailer reduces stocks in its DC at year end, the supplier system is unaware and recalculates stock production requirements accordingly, then retailer orders up to replenish in early January and supplier cannot supply. May be the retailer in question or another retailer that does this.

No Stock available - External issues (extreme weather, key competitor OOS, etc) (cases) = where a significant external anomaly has occurred. For example, extreme weather conditions in a region, or a products only competitor suffering prolonged OOS. This should be commented on.

No Stock available - Supplier Production / upstream supply issues (cases) = unplanned outages, for example where suppliers factory is experiencing issues, where upstream suppliers cannot supply raw & packaging materials, where international or co-pack shipments are delayed etc, leading to OOS.

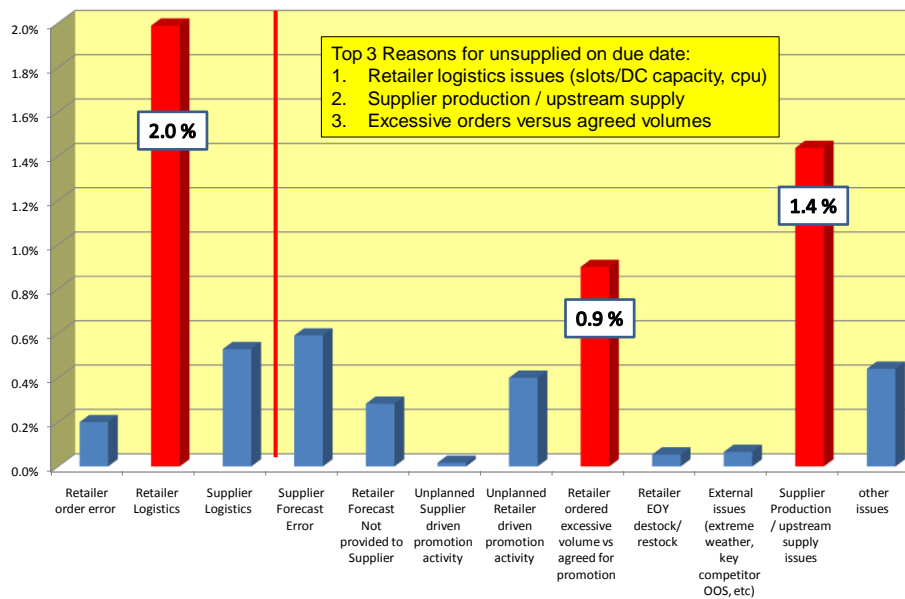
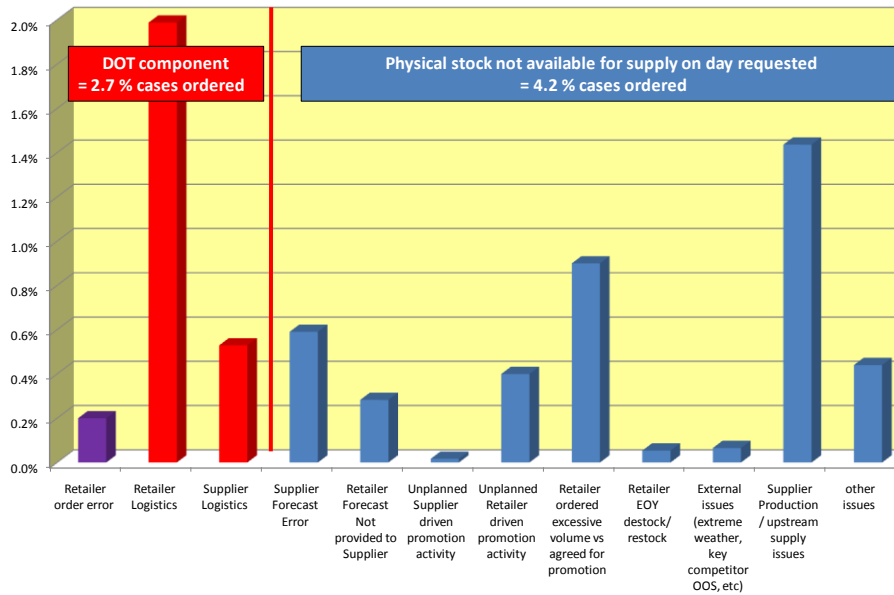
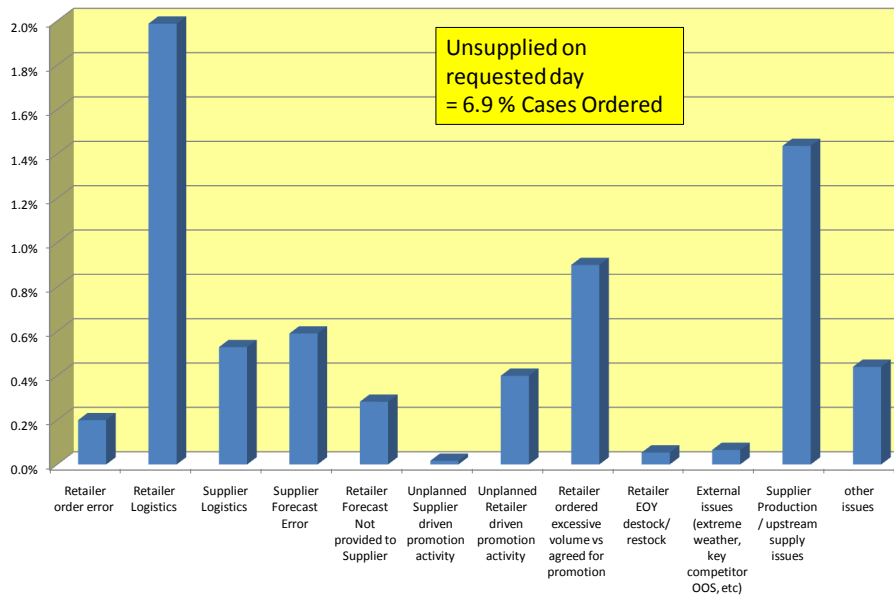
No Stock available - other issues (cases) = respondents should comment on these if significant.

Results:

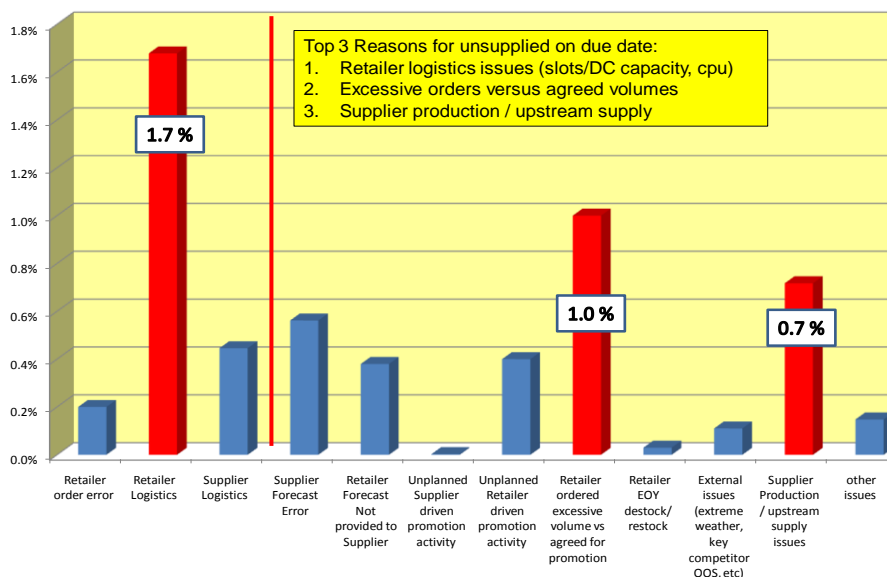
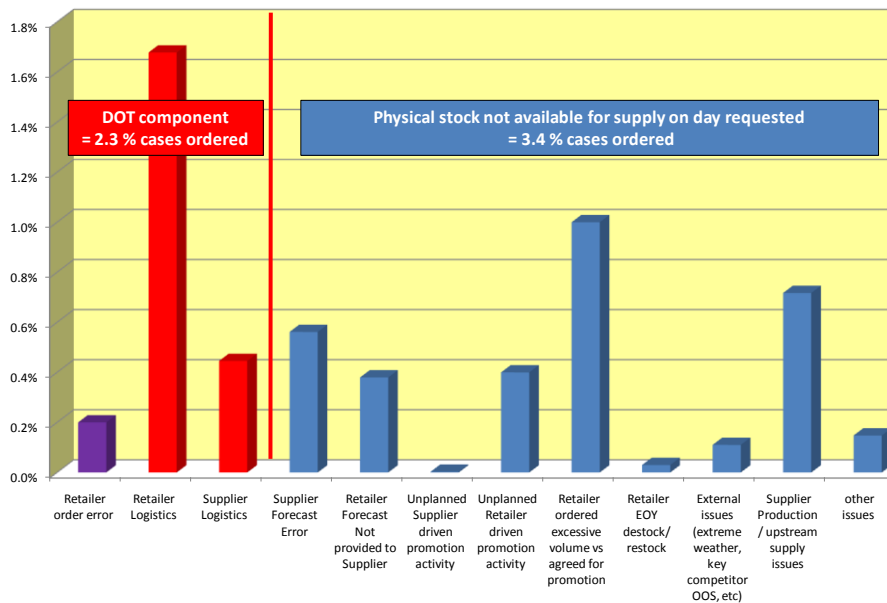
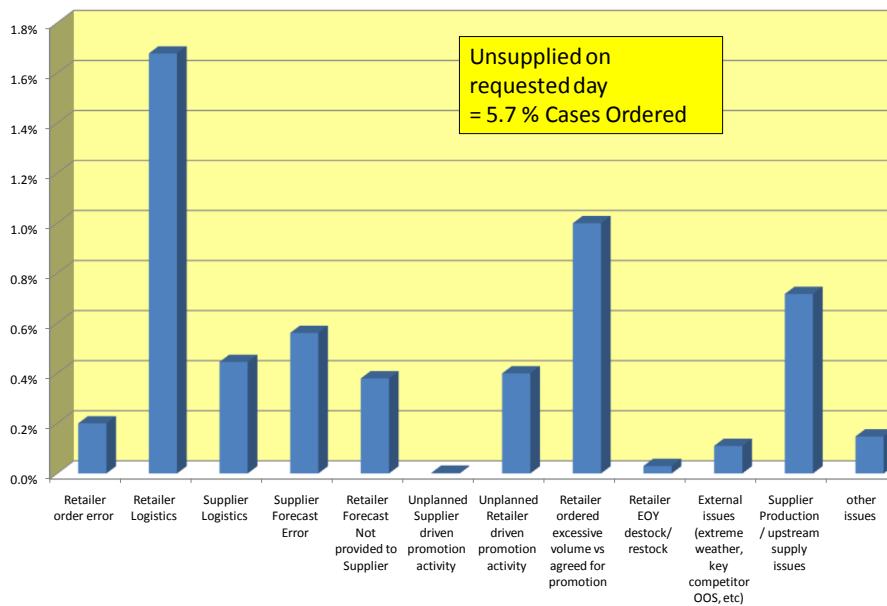
ECRA consolidated the data to maintain confidentiality. The results against the supplier survey are captured in charts below. The categories are noted at the top of each page. The legend for the charts is as follows:

- Horizontal axis = reason for non-supply (as above)
- Vertical axis = percentage of cases ordered by retailers not delivered on due date

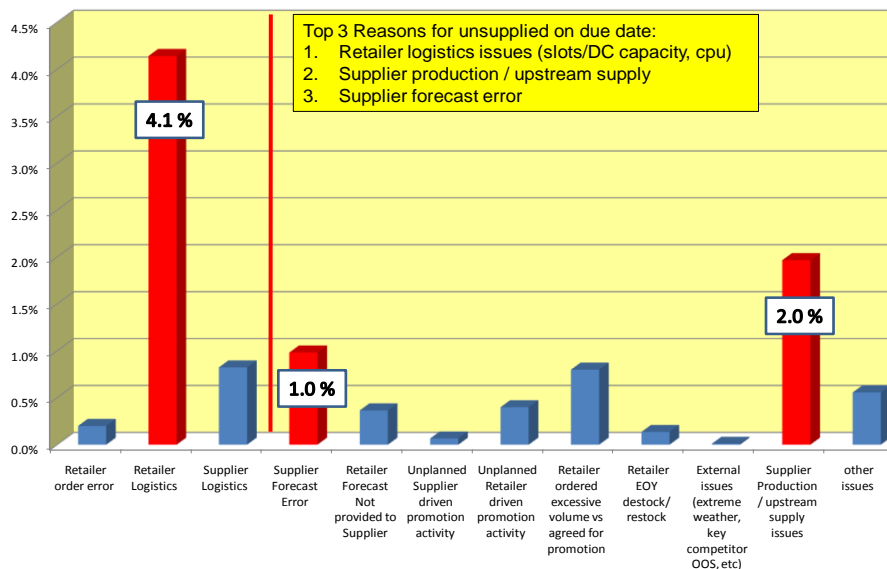
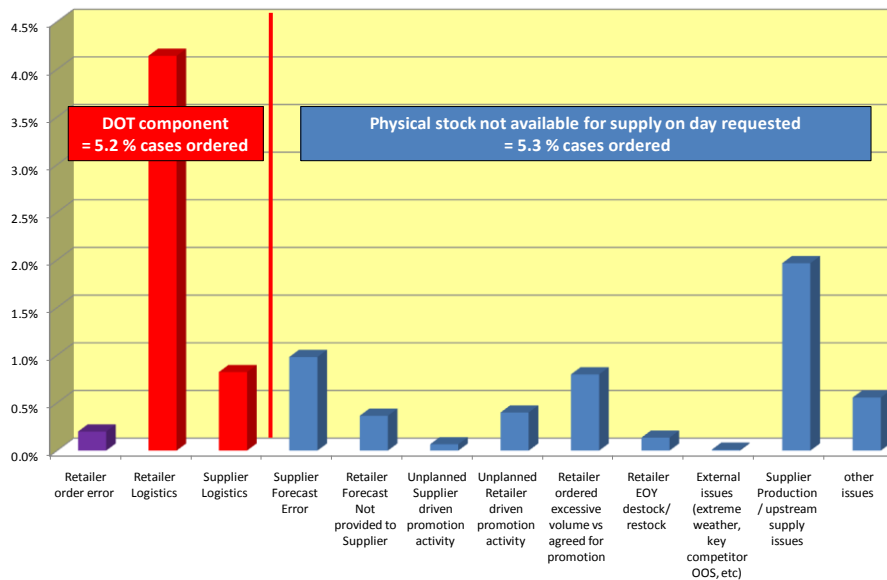
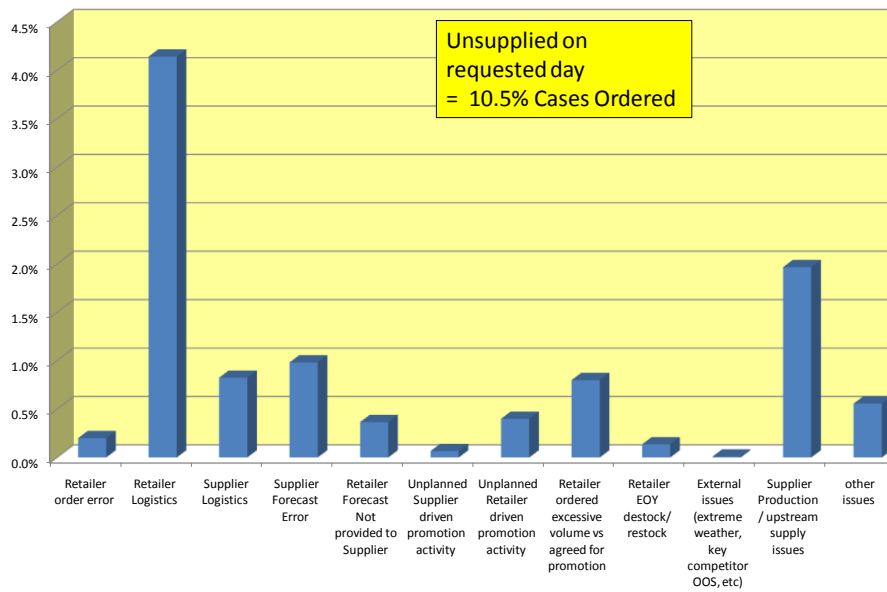
ALL CATEGORIES TRACKED



AMBIENT FOOD AND BEVERAGE



CHILLED/FROZEN FOODS



NON FOODS

