Improving Alignment Around DSD

ECRM Snack & Dry Grocery EPPS
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iControl DATA | PAYMENTS | ANALYTICS

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- What are the key challenges of DSD
  - For Vendors
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- Closing Thoughts

About Your Speaker

- Over 20 years of DSD Supply Chain experience

- *Born into the business!*

- Ran a 33-state, 20,000+ customer doors wholesale operation for nearly a decade

- Co-Founded **iControl**, a data, payment and analytics collaboration platform for the grocery, drug and convenience retail value chain

- iControl technology is now deployed by over 150 retailers, including 8 of the top 10 grocers in the U.S., and thousands of CPG companies and brokers, including two-thirds of the 100 largest

- iControl cut its teeth on DSD and continues to be a leader in the field

Tal J. Zlotnitsky

Biography

2009-Now	Co-founder and Co-CEO of iControl Data Solutions
2001-2009	CEO of The Current Companies, LLC
2004-2009	Co-CEO of NewsOne, LLC
1994-2001	Various leadership roles at Current Companies
B.A.	University of Maryland
Exec Edu	Harvard Business School

Why DSD Matters

- In the DSD replenishment model, vendors own all upstream inventory and are responsible to deliver the product to each store and perform merchandising functions

- Key Facts from GMA on the significance of DSD to the grocery channel:

24%	**52%**	**30%**	**3x**
Of Grocery Sales Volume	Of Grocery Store Profits	Improvement in Working Capital	Faster Shelf Sensing

25%	**62%**	**5x**
In Store Labor for Merch	Of New Product Launches	Faster Replenishment

* Data and Excerpt from *Powering Growth Through DSD (GMA, AMR)*

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Why DSD Matters

*"DSD unleashes an **unparalleled opportunity** to drive growth, power innovation, and improve cash flow. Together, as a trading partner network, DSD is the path to deliver a unique shopper experience. In the face of changing lifestyles and rising demands of today's shopper, it is the most effective supply chain design to deliver what customers want at the shelf where it counts most. It also **forms the basis of a true collaborative relationship between the retailer and the supplier**."*

Excerpt from Powering Growth through DSD (GMA, AMR)

Key DSD Benefits by Trade Partner

Retailers

- Time to Market (Faster product movement)
- Perishability
- Less working capital tied up in inventory (multiple turns before payment = positive cash flow)
- Merchandising expertise
- Subsidized in-store labor

Vendor Community

- Opportunity to react more rapidly to performance
- Exert greater control over presentation to consumer
- Innovate at the store
- Ensure proper execution of promotions
- Visibility to planogram integrity

If DSD is so great, what's the problem?

DSD: Challenges

- Backdoor traffic jams

- Receiving hour limits/costs

- Backroom clutter/waste/shrink

- Lack of shared visibility to inventory

- Lack of shared visibility to POS data

- Problems with data accuracy

  - Pricebook
  - Item Catalog
  - Invoices/Credits

The Impact of Lacking Shared Visibility

- Increasing DSD product availability on the store shelf can boost retail sales by **3% or $200,000 annually** per average supermarket, according to a study by GMA's DSD committee

- The study, conducted by Roland Berger Strategy Consultants, revealed that consumers couldn't find the product they want to buy **7.4 percent of the time** they shop.

- **40%** of shoppers confronted with an out-of-stock product situation either postpone their purchase or shop elsewhere

- **$6 billion** in annual retail sales are at risk in the top 25 grocery categories due to out-of-stock.

OOS for DSD items is 7.4% ...and 13.1% for promotional items!

DSD and Data Synchronization Challenges

10-17% of DSD invoices result in discrepancies[1]

81% of DSD invoice errors are due to data synch inaccuracies[2]

The Average invoice error costs companies $53.50 to rectify[3]
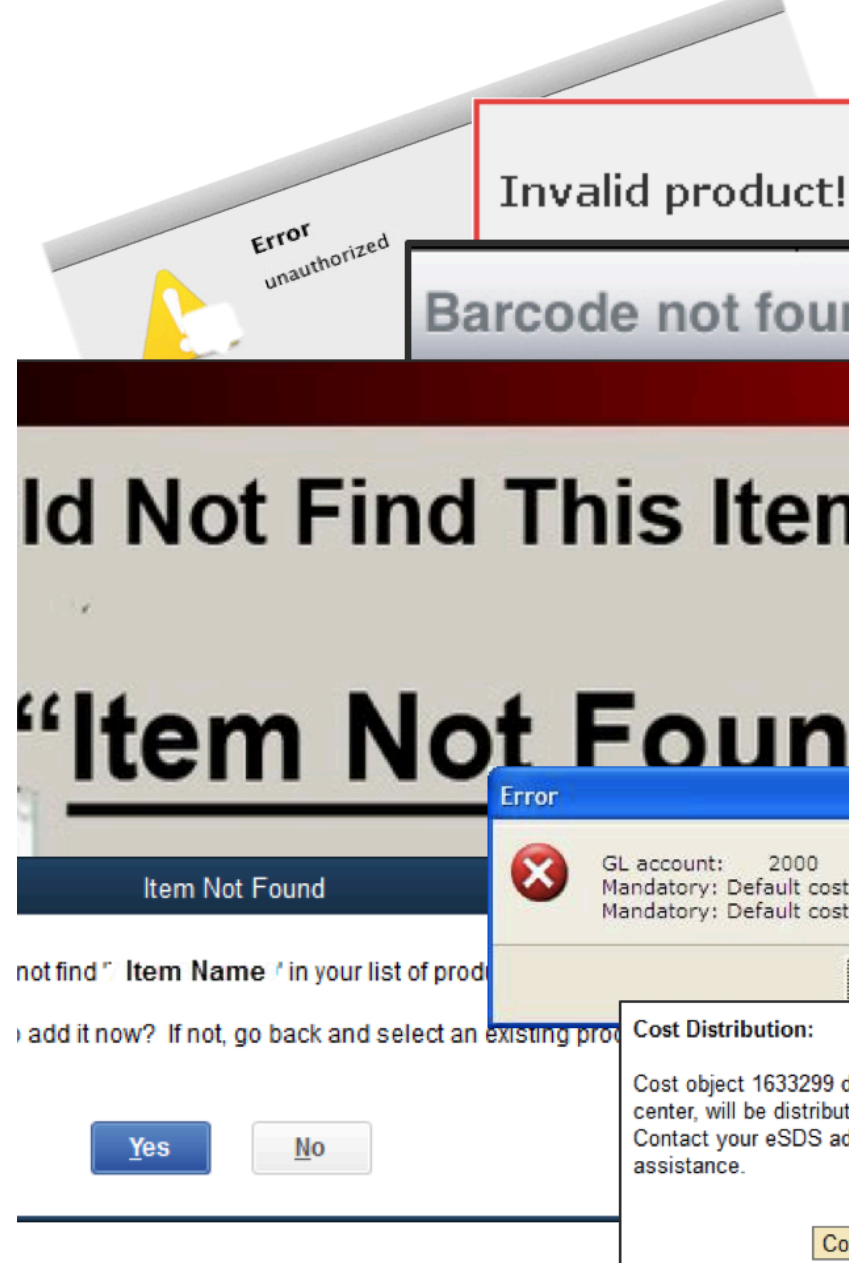
[1] Source: GMA: Driving Supply Chain Efficiencies & Profitability 2008; GMA: Powering Growth through DSD 2011
[2] National Supermarket Research Group 2011
[3] Sterling Commerce/Industry Week 2010

How Leading Companies Are Solving DSD Challenges

DSD Solutions Deployed by Leading Performers

The Challenge	The Challenge	The Challenge
Backdoor traffic jam Limited receiving hours Reduce receiving/delivery costs Reduce backroom clutter/shrink	Pricebook errors Item Catalog errors Promotional errors Invoice & credit errors	Lack of visibility to inventory Lack of visibility to POS Missing Sales/OOS Uneven Promotional Results
The Solution	The Solution	The Solution
Collaborative Scan Based Trading	Collaborative Data Exchange	Collaborative Performance Analytics

Solutions: Scan Based Trading

- Scan Based Trading is a process whereby the vendor owns the inventory right up until the point of sale

- Because the retailer doesn't take ownership of the inventory, receiving is not necessary

- Benefits to vendors include expanding delivery windows, eliminating wait times, and sometimes faster payment terms

- Benefits to retailers include savings on inventory carrying costs, relieving backdoor congestion, reducing backroom clutter and shrink
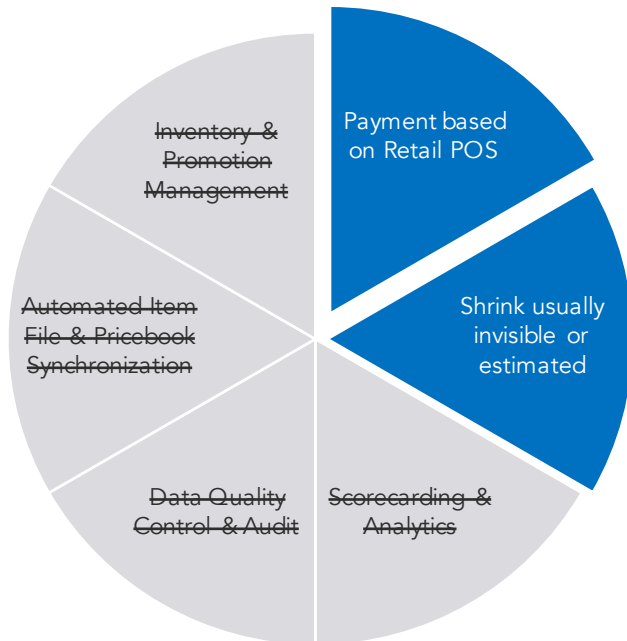
Challenges

- Requires very high data integrity and on-going collaboration on data exchange

- Requires day/item level visibility to POS activity

- Requires automated invoicing that can tie-back to both the retailer's AP system and the vendor's AR system

Problems Solved

Backdoor traffic jam
Limited receiving hours
Reduce receiving/delivery costs
Reduce backroom clutter/shrink

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Pay on Scan Best Practices

Typical In-House SBT Model

- Inventory & Promotion Management
- Payment based on Retail POS
- Shrink usually invisible or estimated
- Automated Item File & Pricebook Synchronization
- Data Quality Control & Audit
- Scorecarding & Analytics

The Right Model

- Inventory & Promotion Management
- Payment based on Retail POS with Audit Trail
- Shrink by Store & By Item with full audit trail
- Automated Item File & Pricebook Synchronization
- Data Quality Control & Audit
- Scorecarding & Analytics

A comprehensive solution that solves more than just enabling SBT financial settlement but also ensure data integrity and provides an avenue for evaluating and improving performance

BEST PRACTICE

Solutions: Data Exchange

- Data Exchange refers to a practice where the retailer and its vendors are exchanging data such as item setup, price updates, new items, and promotions through a **one-to-many collaborative portal** that represents a single version of the truth

- Benefits to both parties include significant reduction in invoice discrepancies, a clear record of what, when and who, better use of resources, better execution of promotions, and less conflict

Challenges

- In order to scale, a solution needs to support very sophisticated vendors as well as very unsophisticated vendors

- Retailers need to make a commitment to ending "back channel" alternatives

Problems Solved

Pricebook errors
Item Catalog errors
Promotional errors
Invoice & credit errors

Data Exchange Best Practices

Minimum

- Web-based access to the portal for the vendors

- Ability for vendors to upload information manually, via template, through FTP or EDI

- Daily synchronization to retailer catalog & pricebook

Optimum

- Automated email alerts prompting or confirming action

- Ability to subscribe to reports on key activities with user-defined criteria and frequency

- Tools to automatically correct errors

- Integration with AP and AR

BEST PRACTICE

Solutions: Collaborative Analytics

- Integrate data and focused analytics to facilitate collaboration among retailers, vendors and brokers to evaluate performance in real-time

- Integration of multiple key data sets:

  - Point of Sale

  - Pricebook/Catalog/Planogram

  - Delivery Activities/Invoice/Credits

  - Purchase Orders/ASN

  - Inventory

  - Promotions

  - Market basket/affinity

  - Loyalty (if available)

Challenges

- Requires the courage to know that transparency is the best strategy!

- Requires a commitment to require adoption and user engagement, the breaking of old habits

Problems Solved

Lack of visibility to inventory
Lack of visibility to POS
Missing Sales/OOS
Uneven Promotional Results

Collaborative Analytics Best Practices

Minimum

- POS data by store, by vendor and by item

- At least 24 months of history

- Ability for user to define date ranges

- Ability to export data to Excel

Optimum

- Include inventory, delivery, planogram and invoice data

- Ability to compare user-defined different promotions

- Ability to look at category-level

- Ability to share information with other users

BEST PRACTICE

An Example: iControl and PDI

PDI is the leading ERP solution for the convenience store class of trade, and has leveraged iControl technology to make all three DSD components available to its 350+ retailers and their thousands of suppliers

An Example: iControl and PDI
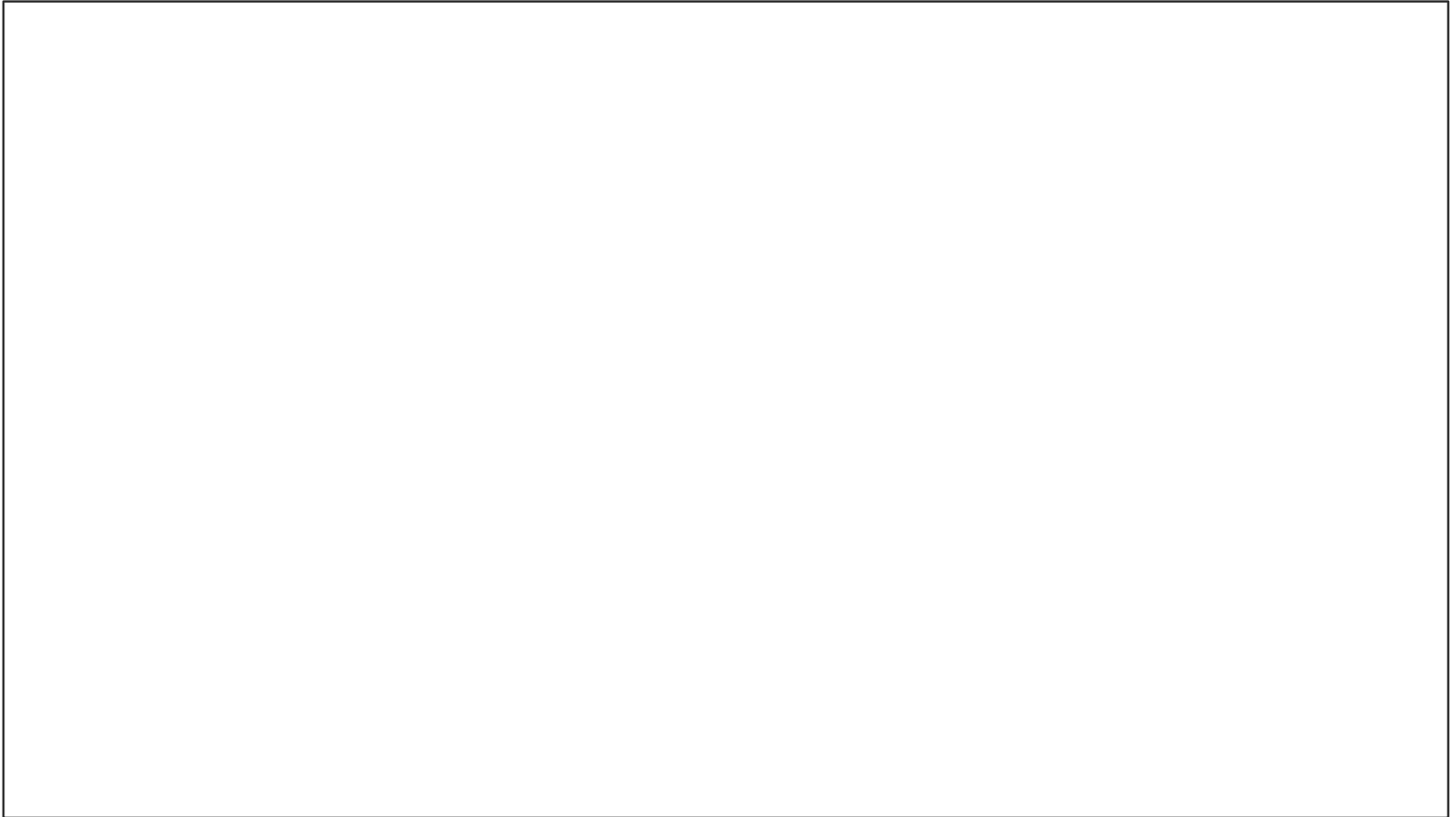
Conclusion

- DSD is and will remain a vibrant and critical aspect of the grocery supply chain

- For vendors looking to gain market share, partnering with a third-party facilitator and embracing Scan Based Trading especially represents a great opportunity to make a mark

- Leveraging DSD in a <u>collaborative way</u> will increasingly separate winners from the pack. Vendors and retailers who embrace change the quickest have the opportunity to gain significant advantage.

- Those who don't...

Thank you for your time!

Q&A

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