

Powering Growth Through Direct Store Delivery

September 2008 - Version 1.1



Powering Growth Through DSD

Grocery Manufacturers Association (GMA)

Grocery Manufacturers Association (GMA) represents the world's largest food, beverage and consumer products companies. The Association promotes sound public policy, champions initiatives that increase productivity and growth and helps to protect the safety and security of the food supply chain through scientific excellence. The GMA board of directors is comprised of chief executive officers from the Association's member companies. The \$2.1 trillion food, beverage and consumer packaged goods industry employs 14 million workers and contributes over \$1 trillion in added value to the nation's economy. For more information, visit the GMA website at www.gmaonline.org.

The GMA DSD Committee

Mission Statement of the GMA DSD Committee

Focus on emerging opportunities to drive growth, profitability and productivity for CPG companies and their customers through the use of the DSD companies that supplied critical data, insights and guidance for this report.

Members of the GMA DSD Committee

The GMA DSD Committee is open for membership to GMA members. Currently, there are 20 active companies participating on the committee:

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Senior Vice President, Sales
Bimbo Bakeries USA

Dale Brockwell
Customer Vice President,
Global Supply Chain
Kraft Foods North America, Inc.

Clay Broussard
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Methodology

The methodology comprised both quantitative and qualitative research of DSD and non-DSD company environments. Over the course of 2007, Clarkston Consulting conducted more than 41 interviews with suppliers, retailers, technology and data providers and examined more than 100 sources of research to gain insights into current state and perceptions on the evolution of DSD. In addition, Clarkston analyzed syndicated data provided by The Nielsen Company and IRI to formulate quantitative observations on the performance of DSD in today's retail and CPG supply chains. Also, late in 2007, AMR Research partnered with GMA to conduct an online survey to better understand suppliers' and retailers' current perceptions of the DSD model. Thirty-seven retailers and 42 North American suppliers responded to the GMA/AMR Research survey. This report combines research from these sources to present insights to position DSD in today's market.

Contributing Authors

This study was written by the GMA DSD committee in collaboration with representatives from AMR Research and Clarkston Consulting.

AMR Research

Founded in 1986, AMR Research is a research company focused on providing advisory services and peer networking for supply chain processes and information technology. AMR has daily interaction with the most comprehensive community of practitioners on supply chain in manufacturing and retail industries.

Clarkston Consulting

Founded in 1991, Clarkston Consulting is a management and technology consulting firm serving global life sciences and consumer products companies. Considering professionalism, expertise and value as prerequisites, Clarkston takes service a step further through an unyielding commitment to the success of people as individuals, both clients and employees. Clarkston has achieved a client satisfaction rating of 97 percent over the past five years as measured by The Conference Board.

Data in this report was provided by The Nielsen Company.

Table of Contents

Executive Overview	2
Unleash the Power of DSD	3
Drive Innovation at the Shelf	7
Rev Up the DSD Growth Engine	9
Shape the Shopper Experience	12
Improve Retail Effectiveness Through Collaboration	13
Ignite the Power of DSD	15
References	19



Executive Overview

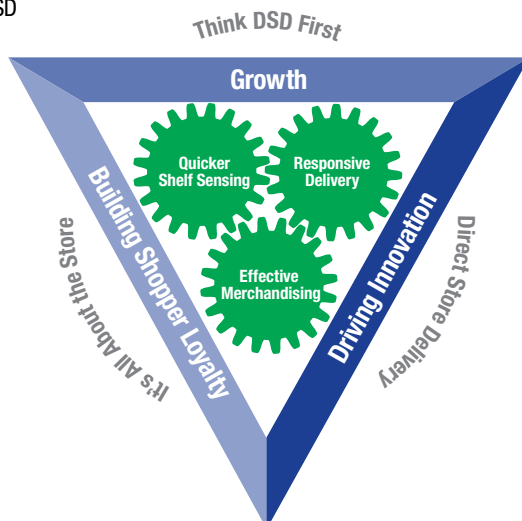
What do Budweiser®, Cheez-It®, Coca-Cola®, Dean's® Milk, Dr Pepper®, Dreyers Grand Ice Cream®, Doritos®, Entenmann's®, Hallmark Cards, Oreos®, Pepperidge Farm® Whole Grain, Pepsi-Cola®, and Red-Baron® Pizza have in common? Each of these products is managed by Direct Store Delivery Processes (DSD). In DSD, products are delivered directly to the store and merchandised by consumer products manufacturers. Based on a compelling value proposition, in a web-based study for this report, 77 percent of US-based retailers responded that DSD will either increase or remain constant in 2008.¹

As retailers become more advanced in store execution, DSD is uniquely positioned to power growth. Today, DSD represents 24 percent of unit sales and 52 percent of retail profits in the grocery channel.² With growth for the store coming from five areas—higher revenue, greater contribution margin, accelerated working capital, better returns on trade deals, and improvements in shopper loyalty—DSD is poised to become even more important to the retail trade in future years.

DSD also plays a major role in store execution. It is an opportunity to standardize and improve execution at the shelf. Knowledgeable representatives of suppliers of DSD products are in stores multiple times a week merchandising products. The labor contribution from DSD suppliers represents 25 percent of total store labor in the North American market.

For suppliers, DSD is a commitment by suppliers to deliver to shoppers what is needed, when it is needed on an individual store basis. For retailers, 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.

Figure 1: Power of DSD



Think DSD first and often to drive and sustain growth.

Unleash the Power of DSD

When you think growth, think DSD. In today's retail environment, with an increasing number of product choices and the inherent difficulty in managing store-specific assortments, DSD offers a unique opportunity for a retailer to power growth. This growth takes five forms:

- increase in volume at the store which translates to more sales
- improvement in margin on products sold
- acceleration in working capital
- improved trade effectiveness of promotional activities
- capabilities to better shape shopper experience to build shopper loyalty

In short, DSD drives an improved balance sheet for the retailer; and a better shopper experience for the customer.

Increase Volume:

Sales of DSD products are significant. DSD products represent 24 percent of unit volume sold in a store. However, there is much more to the story than pure volume. DSD products represent some of the most significant selling categories, with some of the strongest brand loyalty in the store. As outlined in *Table 1*, seven of the top ten largest grocery categories (by unit sales volume) are managed through DSD processes.

Table 1: Top 10 Food Categories by Dollar Volume (Category)

Category	Use of DSD Processes (*)	\$ Sales in Billions
Total Carbonated Beverages	✓	\$14.3
Total Bread and Baked Goods	✓	\$13.5
Total Fresh Produce	✓	\$13.2
Total Milk	✓	\$12.9
Total Salty Snacks	✓	\$10.6
Total Packaged Meat		\$10.1
Total Cheese		\$9.5
Total Beer	✓	\$9.2
Total Prepared Foods—Frozen	✓	\$8.4
Total Candy		\$7.4

Source: Nielsen data, 52 weeks ending 12/29/2007, total U.S. Grocery/Drug/Mass Merchant Channels excluding Wal-Mart. Clarkston Consulting Analysis.

* Note: Some products may also utilize a small percentage of traditional warehouse delivery.

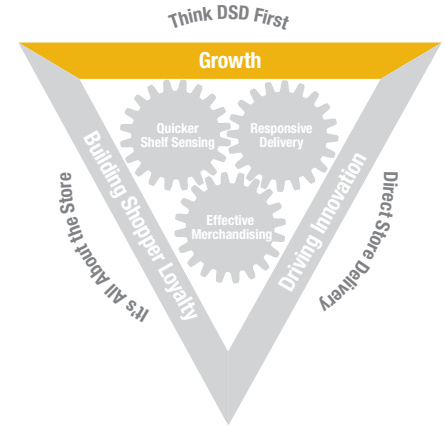
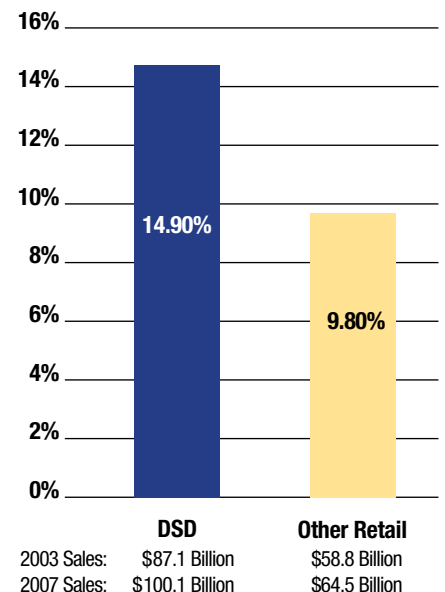


Figure 2: Relative Growth Rates of Top 10 Product Categories (2007 vs 2003)



Sales in billions of US dollars based on Nielsen volume ranking of a 52-week sales period ending 12/29/2007. Clarkston Consulting Analysis.

DSD categories are also the fastest growing. Between 2003 and 2007, products delivered by DSD processes achieved a 14.9 percent growth rate, outpacing other retail delivery methods by 52 percent. Based on the analysis of the market for this study, and the focus on consumer demands for fresh products, it seems clear that this trend will continue to accelerate.

DSD categories also have more frequent trip types per buyer and a higher absolute dollar volume sold by category than other retail products. In fact, many DSD categories—bread, milk and carbonated soft drinks—are so significant that they drive shopper trips to the store. Furthermore, it is also significant that five of the top seven most frequently shopped brands are managed by DSD processes.

Table 2: Top 7 Annual Trips/Shopper by Category

Category	Use of DSD Processes (*)	Annual Trips/Shopper to Store/Year
Bread and Baked Goods	✓	30.5
Milk	✓	27.8
Carbonated Soft Drinks	✓	27.2
Salty Snacks	✓	23.6
Fresh Produce	✓	20.9
Candy		19.3
Packaged Meat-Deli		17.3

Source: Nielsen data, 52 weeks ending 12/29/2006, total U.S. Grocery/Drug/Mass Merchant Channel excluding Wal-Mart. Clarkston Consulting Analysis.

*Note: Some products may also utilize a small percentage of traditional warehouse delivery.

The Nielsen Company

With the rise in gasoline prices, the number of shopping trips per month is declining. It is down 15 percent from 2001 to 2007.⁴ As a result, it is even more important to have strong brands—like those from DSD—on the shelf to drive shopper loyalty for a retail store banner.

Improve Contribution Margin:

DSD products represent up to 52 percent of the contribution margin of sales at the store. Why? For the retailer, they represent some of the most profitable items crossing the scanner. The reason: the supplier assumes the costs for delivery, inventory management and merchandising. So not only are these products higher in velocity, and higher in brand loyalty; but they are also higher in contribution margin. Each incremental DSD unit that crosses the scanner represents an opportunity for the store to make more money.

This strong contribution margin potential is coupled with strong brand power. Seven of the top ten brands are distributed through DSD processes.

Table 3: Food Brand Ranking by Sales Volume

Brand	Use of DSD Processes (*)	US Supermarket Sales in Billions \$
Coca-Cola Classic Regular	✓	\$1.9
Campbell Soup Cans		\$1.8
Bud Light	✓	\$1.5
Pepsi Regular	✓	\$1.5
Coca-Cola Diet	✓	\$1.2
Fresh Express Salad Mix	✓	\$1.1
Tropicana Orange Juice		\$1.1
Lay's Potato Chips	✓	\$0.8
Pepsi Diet	✓	\$0.8
Enfamil Lipil		\$0.8

Source: Nielsen data, 52 weeks ending 12/29/2007, total U.S. Grocery/Drug/Mass Merchant Channel excluding Wal-Mart. Clarkston Consulting Analysis.

* Note: Some products may also utilize a small percentage of traditional warehouse delivery.

In the face of spiraling oil and labor costs, we expect the contribution margin of DSD products to escalate even more through 2009. The power of DSD is poised to become an even more compelling value proposition to the retailer in the next five years.

Accelerate Working Capital and Cash Flow:

DSD helps you to get your money faster. The replenishment and payment cycles of DSD processes are faster than traditional retail. With representatives in the store multiple times a week, and automation of store-level replenishment by the supplier, the average supplier can sense and replenish products in DSD processes within two days. This is five times faster than traditional grocery retail processes; and in most cases, the supplier owns the cost of the upstream warehouse inventory. For a retailer's working capital this is a win/win. Not only do products get to the shelf faster, but they require less working capital support to get to the store and onto the shelf.

The impact on working capital is even more magnified when payment terms are considered. In many cases, a DSD product will turn multiple times at the shelf before payment is expected from the retailer to the supplier. As a result, DSD relationships significantly improve retailer cash flow. DSD offers the retailer the ability to have rapid response, with no capital outlay.

Promotional Effectiveness:

The average consumer products manufacturer spends 14 percent of revenue on trade deals with retailers.³ While the effectiveness of these trade promotions varies by category and by channel, trade funds for DSD products in grocery retail

have a 30–50 percent higher lift than other retail products.² The reason is that many DSD products are impulse buys with category elasticity—the average shopper does not leave salted snacks in the pantry or beer in the refrigerator very long—with increased promotional lift leading to an increase in sales.

This factor becomes even more significant when spending on trade deals is coupled with new product launch. The strongest promotion spending for a supplier is in concert with new product launch promotions. In 2007, 62.1 percent of the top ten new product introductions (reference *Table 4*) in the grocery channel were managed by DSD processes.

Table 4: Top 10 New Product Introductions by Sales Volume

Brand	Use of DSD Processes (*)	\$ Volume in Millions
Alli Diet Program		\$94
Spring Bottled Water	✓	\$71
Healthy Choice Complete Selections		\$61
Coca-Cola Cherry Zero	✓	\$48
Miller Chill	✓	\$45
Dreyers/Edy's Loaded	✓	\$41
Baked Tostitos Scoops	✓	\$40
Miralax Laxative		\$36
Pepsi Max - Diet	✓	\$36
Diet Coke Plus	✓	\$33

Source: Nielsen Strategic Planner, 52 Weeks Ending 12/29/07, Total U.S. Grocery/Drug/Mass

* Note: Some products may also utilize a small percentage of traditional warehouse delivery.

The store-specific processes of DSD enables the customization of promotions to drive new product introductions to maximize the value of trade dollars at the shelf where it counts most. For the retailer, DSD offers an opportunity to better use trade funds to drive volume and store traffic.

Power of DSD:

- 24% of volume
- 52% of store profits
- Fastest growing categories
- Drives a 30% improvement in working capital
- Up to two times higher promotional lift with trade funds
- Five times faster replenishment to the shelf

*DSD can be summed up
in two words: profitable growth.*

Drive Innovation at the Shelf

DSD plays a major role in bringing new products to market providing excitement and variety to the store to shape the shopper experience. In 2007, 48 percent of the 1,700 new products launched were introduced using DSD processes.⁴ With growth through new products as the number-one business strategy of consumer product suppliers, and a focus on growing the number of products introduced to market in 2008 by 40 percent, the use of DSD will grow in importance.⁵

DSD is important not only to bring new products to market, but to define Pacesetter performance. A Pacesetter is a product with at least \$7.5 million in year-one sales in food, drug and mass merchant channels (excluding Wal-Mart)⁴. Due to higher demand error associated with new product launch, the capabilities of DSD—to sense demand quickly and to rapidly replenish to the shelf—become even more important. As a result, in 2007, DSD was a major factor in the successful commercialization of 50 percent of the top ten Pacesetter products including Coke Zero Cherry™, DiGiorno Ultimate™, Diet Pepsi Max™, Dreyer's Loaded Ice Cream™ and Healthy Choice™ Café Steamers. Due to the impact of DSD on improving new product commercialization, in 2008, even non-DSD suppliers are partnering with companies with DSD capabilities to bring new products to market.

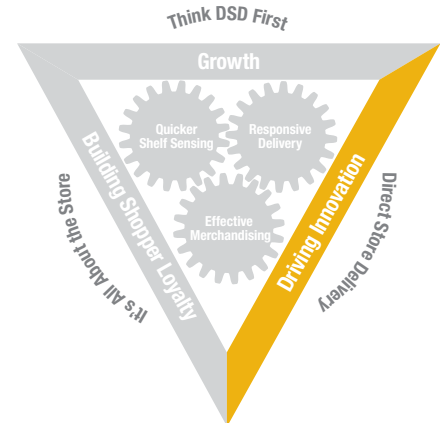
In the past year, as outlined in *Table 5*, DSD was responsible for the delivery of nine of the top 10 Pacesetter categories of innovation in food and beverage.

Table 5: 2007 Food and Beverage New Product Pacesetters by Category, Top 10 Most Active Categories

Category	Use of DSD Processes	Number of New Product Pacesetters by Product Category for 2007	Average Number of Pacesetters in the Category for 2002–2007
Snack Bars/Granola Bars	✓	16	16
Cold Cereal		13	13
Salted Snacks	✓	9	6
Beer	✓	9	6
Carbonated Beverages	✓	8	9
Crackers	✓	8	8
Yogurt	✓	8	7
Ready-to-Drink Tea/Coffee	✓	8	3
Refrigerated Juices	✓	7	4
Bottled Water	✓	7	3

Source: IRI New Product Profiler; New Products Launched February 2006-January 2007

Note: Some products may also utilize a small percentage of traditional warehouse delivery.



DSD to drive innovation:

- 62% of new products launched were brought to market using DSD processes
- DSD brought 50% of the top 10 Pacesetters to market
- Used to support nine out of the top 10 Pacesetter categories

New products drive excitement at the shelf and carry a disproportionate amount of trade spend. In 2008, suppliers plan to spend on average 14 percent of revenues on trade promotion spending with 40 percent focused on the support of new products.³ The high velocity of DSD products coupled with strong category performance makes this a win/win value proposition for both the retailer and the supplier.

For the retailer, this continued level of innovation improves variety, builds shopper excitement and provides trade funds to create unique shopper experiences. For both the shopper and the retailer, the power of DSD ensures better in-stock positions and more effective merchandising during a new product launch. As product life cycles become shorter, market demographics become more fragmented and there is greater emphasis on fresh, DSD will continue to play a major role in bringing new products to market.



Rev Up the DSD Growth Engine

The engine for growth is the DSD process itself. As a part of the DSD process, the supplier visits each store multiple times per week. In these store visits, trained personnel evaluate shelf stock levels and backroom inventory to determine the right order, replenish the order, and merchandise products based on local preferences. This streamlines the order-to-delivery cycle for products that have high velocities and strong category performance.

In many supply chains, last mile delivery—getting the product to the shopper—is the biggest challenge. For retailers, DSD is the answer. It not only enables a tailored response for each store; but it does so quickly and with minimal costs to the retailer. DSD as the last mile delivery system for retailing enables quicker sensing of customer preferences at the shelf, streamlines order-to-delivery processes for more responsive delivery and ensures that what is delivered to the store is put on the shelf to minimize store out-of-stock conditions.

Quicker Sensing of True Demand

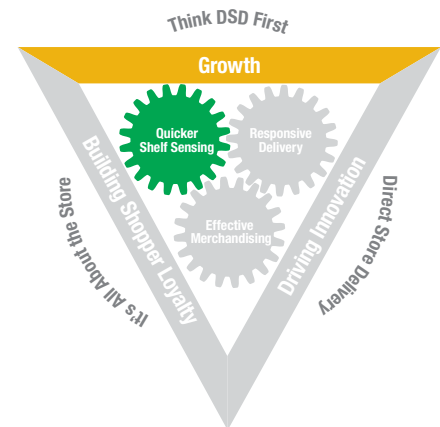
In today's fast-moving world, the battle for the heart of shoppers—for both retailers and the suppliers—is won or lost at the shelf. Through the use of wireless technologies, routing optimization, and shared Point of Sales (POS) data, the DSD supplier can more quickly sense what is moving through the store. This process of store sensing to place an order is three times faster with DSD processes than traditional retail delivery systems.³

The time to sense shelf movement and translate this true demand to an order is where DSD processes excel. With changing demographics and localized assortments, for the retailer, this capability grows in importance as they execute programs to customize the shopper experience—new store banners, localized assortments, and specialized display programs—to shape demand with minimal out-of-stocks at the shelf.

Shelf sensing is also important for the supplier. As consumer products companies focus on the execution of growth programs—new product launch, in-store shelf customization, and market basket promotions—faster sensing of what customers are actually buying with minimal latency ensures better execution. When it comes down to serving the customer at the shelf, DSD is the answer.

DSD, the Growth Engine:

- Three times faster shelf sensing
- Five times faster replenishment
- 25% of in-store labor for merchandising



Responsive Delivery

With the majority of shopping occurring on the weekends, responsive delivery has never been more important. While traditional delivery processes may take up to 10 days from order placement to the delivery of product to the store. DSD processes are much quicker. In the web-based survey for this report, 26 percent responded that they had capabilities to deliver product to the store within a day, and 74 percent responded that they had capabilities to deliver product to the store within 48 hours. Contrast this to the 9- to 10-day cycle time (from order to store delivery) of traditional retail delivery systems as reported in the summary of Radio Frequency Identification (RFID) pilots by AMR Research in 2007.³ In these studies, the average traditional retail process took 3.5 days to process an order by the supplier, 2.0 days to deliver the order to the retailer’s distribution center, 2.5 days for put-away and order picking, and 2.0 days for delivery to the store shelf (including backroom processing). This is a stark contrast to the speed of DSD processes. In short, if you want to get products to the shelf quicker based on true shopper demand, DSD is the answer.

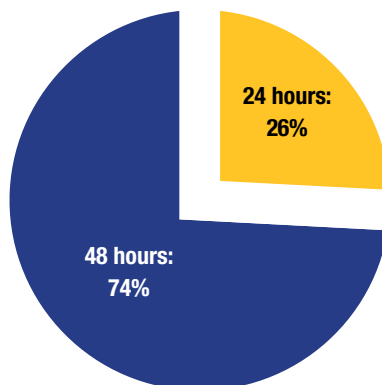
Effective Merchandising

To deal with the frequent changes in shopper demographics and lifestyle, retailers are transitioning from standardized formats and store templates to customized layouts based on demographics and trip types. In creating these distinctive experiences, the merchandising in DSD programs helps to ensure variety in assortments to deliver the right shopper experience by store.

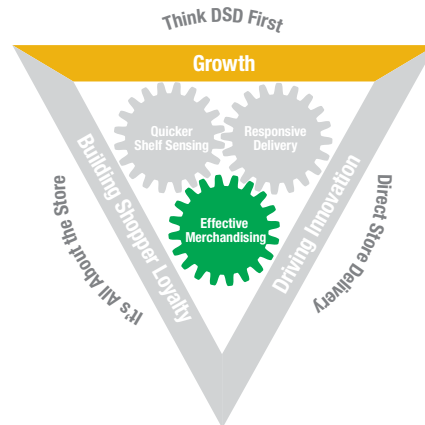
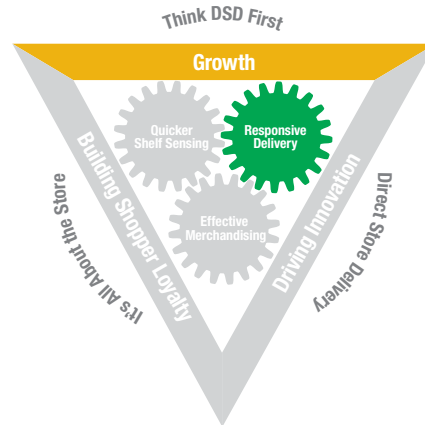
It also helps to address one of the major conundrums of store execution: the impending labor shortage. Today, it is very difficult for a retailer to find and train motivated employees for in-store merchandising. DSD helps the retailer to solve this problem. For the typical large-format store, DSD frees up nearly 17,000 labor hours per year per retail outlet allowing the retailer to focus on other volume-driving activities.⁵ As part of the DSD process, there are motivated and trained employees in DSD categories in the store multiple times per week. In turn, this drives sales growth, reduces out-of-stocks and optimizes assortments. With DSD providing as much as 25 percent of the retail store labor necessary for merchandising, the retailer can focus on better serving the shopper.⁵

Figure 4: DSD Order Cycle Time

In dealing with DSD products, what is the average time from order to store delivery?



Source: GMA/AMR Research 2007 Survey.

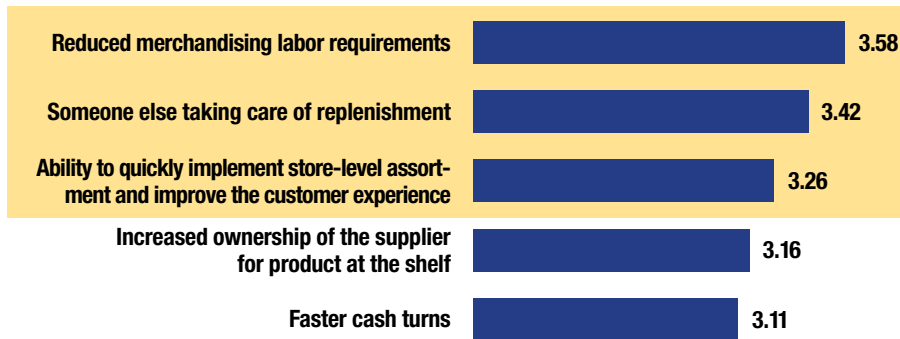


Execution of in-store programs requires the availability of personnel to:

- Stock shelves and displays
- Build displays and custom promotions
- Organize backroom inventory
- Position informational signage
- Identify and communicate store opportunities
- Rotate merchandise
- Test new concepts based on local markets
- Develop in-store category and merchandising expertise

In the recent study for this report, retailers recognized the importance of DSD labor (*Figure 5*) in driving the in-store experience. In the study, the ability of DSD to reduce the labor requirements for merchandising, streamline replenishment and quickly implement store-level assortment were statistically significant.

Figure 5: What is the greatest benefit of DSD processes to your store operations?



1 = no measurable benefit 5 = dramatic benefit

Benefits of labor experienced by retailers through the use of DSD

Source: GMA/AMR Research 2007 Survey.

Shape the Shopper Experience

The shopper experience is the sum of interactions between the shopper, the retailer and the brand. The optimal results are when:

- products are in stock and easily found
- the store is customized to improve the shopper experience, and
- the shopper has high satisfaction with the experience.

For retailers, improving the shopper experience is job #1. Through positive in-store experiences, retailers have the opportunity to deepen relationships with their shoppers to drive higher traffic, increase in repeat purchases, and capture a larger share of the consumer's wallet.

This opportunity is significant. Each year, DSD categories make it into the shopping bags of 97.6 percent of households. With the average grocery shopping bag valued at \$40 per shopper per trip, this represents a tremendous opportunity for both the retailer and the supplier to grow top line sales.¹ As a result, DSD is growing in importance to improve the shopper experience.

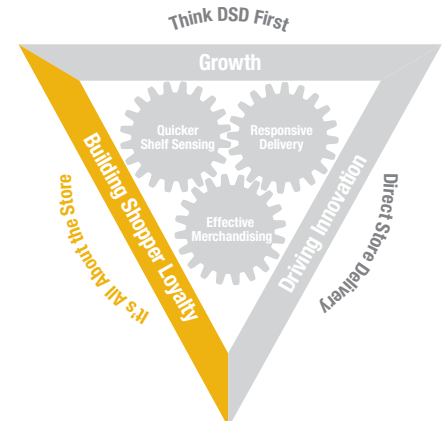
Think DSD when you think about driving the shopper experience for:

Freshness. For today's consumer, fresh and high quality products are "table stakes." DSD maximizes residual shelf life of products through frequent stock rotation, greater control of shelf sets, and timely replenishment.

Shelf Presentation. Shoppers want convenience and the ability to quickly locate products. With DSD suppliers in the store multiple times per week, shelves and displays are reset and faced several times a week. With only 23 percent of retailers claiming to have visibility into planogram compliance at the shelf—how well the shelf matches the agreed plan—merchandising through DSD is a powerful element to ensure high levels of store execution⁵.

Promotional Execution and Point-of-Sale Materials. To complement promotions and drive sales of new DSD products, suppliers work with store personnel to enhance the shopper experience through display and other point-of-sale materials. DSD is the most effective method to ensure that the right look—both aisle and display—is brought to the store.

Tailored Assortments. Retailers are increasingly driving specialized products, packaging and formats for competitive differentiation and advantage. The DSD model provides the resources required to cost-effectively deliver unique assortments and promotions.



Drive Shopper Loyalty:

- DSD products are in the shopping baskets of 97.6% of households
- Strongest categories driving trips to the store
- Innovate at the store

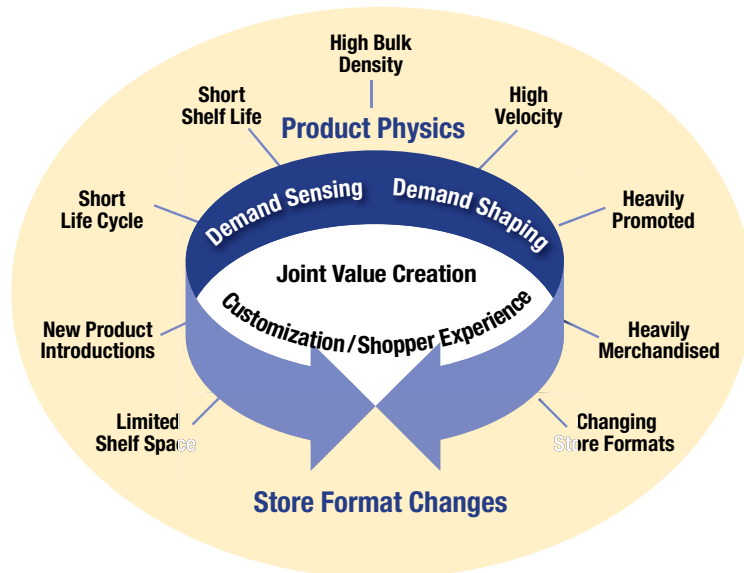
Improve Retail Effectiveness Through Collaboration

Leading retailers are quickly learning that DSD can be used to drive store effectiveness. Its value is much more than just effective store delivery. While DSD processes were initially created to efficiently move products with high volumes, short life-cycles, and quick shelf turns, today, the value proposition has been extended to include shelf-level innovation and shaping the shopper experience. DSD is the best process to support stores with limited shelf space, and with heavily promoted products in changing formats. This capability is paramount to demand-driven retailing.

Suppliers are working to make this vision a reality. The goal is to reduce out-of-stocks, improve the customer experience and accelerate the time to market for new product introductions.

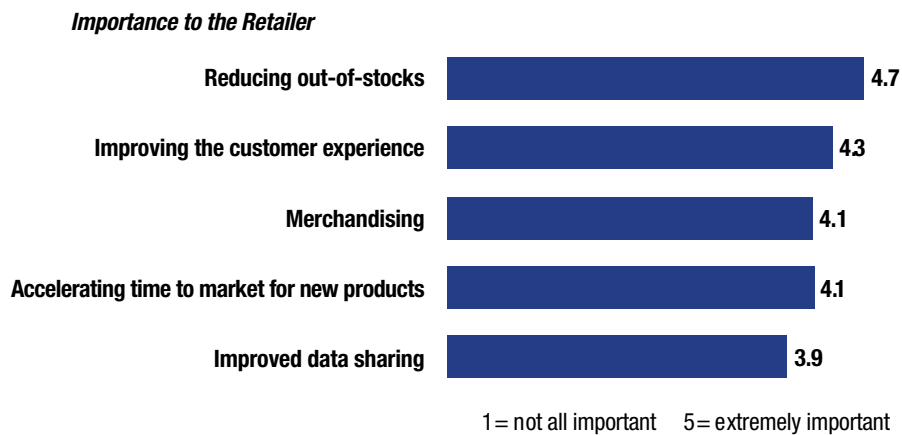
These goals are facing several challenges. Retail stores are shrinking in size and format (due to the rising costs of real estate), shopper trips per week are declining, product categories are proliferating, and in-store labor is becoming more expensive, DSD suppliers are investing in processes and technologies to continue to drive Pacesetter performance in innovation and improve shelf-level performance. However, collaboration has never been more important.

Figure 6: Future Vision of DSD



The good news is that retailers and suppliers are well aligned on what is important. When asked to clarify the power of DSD, retailers rated the top three characteristics as important for their future vision: reducing out-of-stocks, improving the customer experience, and accelerating time to market for new products. This is very well-aligned with DSD suppliers' goals and objectives.

Figure 7: How important is each of the following to your future vision from DSD suppliers?



Source: 2007 GMA/AMR Research Survey.

Enablers to Build Collaborative Relationships

Companies are building collaborative relationships to drive this retail vision. To accomplish this higher level of performance requires the successful implementation of joint value creation sessions, relationship scorecards and processes for effective data sharing. While each of these processes have improved over the last ten years, the change has been more accelerated in the last year leading to even greater value through DSD processes.

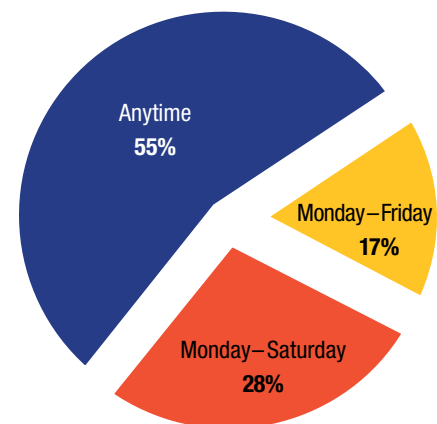
Joint Value Creation Sessions

The most common collaborative practice is joint-value creation meetings. These sessions are top-to-top sessions where the leaders of the DSD supplier organizations meet with leaders of the retail organization to jointly agree on market strategies. These sessions, which typically occur quarterly or bi-annually, include detailed discussions of joint value go-to-market strategies, review of past promotion strategies, changes in shopper behavior and market conditions, the health of the relationship and determination of new opportunities to shape demand at the shelf through innovation and supply chain effectiveness. The foundation of a collaborative DSD relationship, they align retailers and suppliers on common goals, determine the success criteria, and unveil new opportunities.

An example of an opportunity that is being evaluated through joint value creation sessions is determining the right backroom delivery hours and policies. Today, the DSD supplier is constrained in the delivery of products by Monday–Friday backroom receiving hours in many stores. Even though shopper behavior has become more concentrated in weekend periods, these backroom policies are often ingrained, leaving the DSD supplier unable to replenish the shelf during peak hours. In the recent study, when DSD suppliers were asked about their flexibility to deliver any day of the week, 55 percent indicated that they would be willing to deliver as needed and 28 percent responded that they would be willing to add Saturday deliveries to improve in-stock positions. One major DSD supplier moved to a Saturday delivery schedule for a large mass merchant and saw multiple point sale increases while reducing out-of-stocks.

The key to making this change is a joint partnership between the retailer and the supplier to redesign DSD delivery schedules while communicating the benefits of weekend delivery to store operations to gain buy-in and alignment. Together, retailers and suppliers can work to address some of the long-standing issues surrounding customer service and in-stock levels. Based on the heavier concentration of shopping on Saturday and Sunday, the proliferation of new products and growth through increased sales, and the ability to increase margin through successful promotional execution, this change becomes even more important.

Figure 8: If retail backroom receiving hours were not an issue, when would your DSD organization be willing to deliver to retail stores?



Source: GMA/AMR Research 2007 Survey.

Relationship Scorecards

Measurement and customer scorecards are the foundation of healthy relationship to power DSD growth. The most successful relationships are supported by the measurement and sharing of scorecard performance on a monthly or a quarterly basis. These scorecards allow continuous monitoring on key measurements like out-of-stocks, trade promotion effectiveness and compliance, backroom organization, and invoice accuracy. This continuous monitoring and alignment of activities ensures a more successful relationship. It is recommended that partners use standard performance definitions and measures for sales, supply chain, operations, and data accuracy available through GS1 Trade Partner Performance Measures (TPPM).

In the survey for this report, more and more retailers provide customer scorecard measurements to improve DSD performance. The use of customer scorecards is essential to maximizing the growth potential of the DSD relationship. In fact, so important, that some DSD suppliers have developed their own service scorecards to track progress on key metrics.

Data Sharing

Consumer products manufacturers are rapidly changing their processes to take advantage of downstream data—point-of-sale information, shopper loyalty data, and market data. In 2007, 53 percent of consumer product manufacturers had a Demand Signal Repository (DSR) to cleanse and use this data.⁵ In support of DSD processes; this data is used 70 percent of the time by sales and marketing and 48 percent of the time by R&D to improve new product launch processes. In the study for this report, 56 percent of retailers stated that they share daily point-of-sale data with DSD suppliers (*Figure 8*).

As part of demand-driven initiatives, suppliers in the bread and milk categories have worked with retailers in scan-based trading arrangements. Today 72 percent of retailers participate in scan-based trading programs, where the availability of this data allows collaboration on not only delivery; but also on invoicing and the reduction of deductions.

Today, point-of-sale data is used to understand shopper behavior, clarify opportunities through predictive optimization, and better sense demand to reduce out-of-stocks. While these processes are evolving, they will only improve as retailers share cleaner and better data at higher frequencies and granularity.

Likewise, the data synchronization landscape continues to evolve as more retailers subscribe to the standards-based Global Data Synchronization Network (GDSN) to capture efficiencies and to capitalize in the growing attention to data quality and the availability of electronically communicated price and promotional data.

Data sharing is a continued and evolving opportunity for both parties to improve processes to gain even further alignment of end-to-end processes.



Ignite the Power of DSD

The power of DSD can only be ignited through retail and supplier collaboration against joint objectives that drive value for the shopper. While the term collaboration is used extensively in the industry, in DSD processes, there is a unique opportunity to drive rethink value creation for the shopper.

To accomplish this goal, collaborative tactics—the use of one-off opportunistic arrangements—need to be aligned to create collaborative relationships (where parties work together to achieve a common goal to drive joint value). To maximize these benefits, there are five calls to action:

Utilize the capabilities of DSD to design and differentiate the customer experience through innovation.

Today's shopper wants more variety and choice. They want healthy, fresh alternatives that meet the evolving standards of sustainability. The DSD supplier is committed to delivering products to meet these changing needs at the shelf where it matters most. With increasing levels of R&D spending, deep demand insights, and trade funds focused to deliver the customer experience, now is an opportune time for the retailer to partner with the supplier on innovation. **Think DSD first when looking to innovate at the shelf.**

Jointly partner with DSD suppliers to drive joint value and remove barriers to better serve the shopper.

When planning joint value creation strategies with suppliers, retailers should maximize the opportunities of DSD to improve cash flow and store execution. Closing the gap between corporate planning and store execution is difficult in today's world. Partnering with DSD suppliers can improve store merchandising and bring in-store programs quickly to market. **Think DSD first to improve your cash turns and store sales.**

Better leverage information to unleash the power of DSD.

Data has never been more available. The question is how to best use the data. Since this requires a change in technology and process, the challenge is leveraging it to drive value. This work is a new frontier, with high returns to early adopters. It offers promises to take DSD to even higher levels of performance. However, it can only be successful through joint partnership and open sharing of data. **Think DSD first to create value through the sharing of information.**

Design and implement collaborative processes to sustain store performance.

As technologies and processes morph based on the availability of data and insights on store execution, there is an opportunity to partner to drive even greater value. DSD processes should be seen as ever-changing as companies define, redefine, and continuously improve performance at the shelf. These processes are not static. They are evolving and require focus to maximize the opportunity. **Think DSD first to use collaborative processes to improve store operations.**

Use DSD to drive reliability of store operations to drive growth.

Managing store execution in the face of an impending labor shortage is tough. DSD offers a solution. It is a unique opportunity to partner with suppliers to deliver on the promise of demand-driven retailing. DSD suppliers are committed to investing in innovative programs and executing them through targeted merchandising at the shelf. **Think DSD first in designing new initiatives to enhance the shopper experience.**

DSD is the cornerstone of demand-driven retailing, and a unique opportunity to partner to create unparalleled value. By leveraging the opportunities outlined in this report, retailers can power a difference where it counts most: at the shelf for the shopper. **To unleash this power, think DSD first and often.**

References

¹GMA/AMR Research study

²The Nielsen Company data ending 12/30/06 for all Food, Drug and Mass channels (excluding Wal-Mart)

³AMR Research articles published in 2006-2008

⁴IRI New Product Profiler™, Information Resources, Inc.

⁵Driving DSD Supply Chain Efficiencies and Profitability (2005 GMA DSD Study)

For a greater understanding of the DSD supply chain, refer to previous DSD committee publications:

E-Commerce Opportunities in DSD (2002 GMA DSD Study)

Driving DSD Supply Chain Efficiencies and Profitability (2005 GMA DSD Study)



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