



**Chicago
June 2011**

Welcome!

- Housekeeping
- Email access
- Breaks and lunch
- Check out and baggage
- Meeting logistics



Confidentiality and Antitrust

- We are not here to ask anyone to disclose sensitive competitive information
- We are not here to encourage anyone to recommend changes to their company policies or practices – those decisions are up to each of you independently
- If you feel something is proprietary or confidential, do not offer that up to the group
- Do not breach any confidentiality agreements you may have with your customers during these discussions
- All information shared during this session should be considered “public domain”



Agenda for today

8:30 to 10:00	General Session
10:15 to 12:00	Breakouts
12:00 to 1:00	Lunch
1:00 to 2:30	Group Presentations and Discussions
2:30 to 3:00	Prioritization
3:00 to 3:45	Action Items and Follow Ups
3:45 to 4:00	Evaluation and Future Meeting[s]



Why are we here?

- Spending growth continues to outpace volume trends
- Across manufacturers, there are significant yet common challenges to address
- Share groups and peer-level discussions are gaining in popularity, yet often lack action steps or tangible plans
- We believe solutions we define collectively will have greater value than operating independently
- Our goal is to identify potential solutions, prioritize them and select the best of them for “Pilots” whereby the results can be shared back with the participants



The Good Old Days

Distribution

- 3,000 relevant points of distribution
- National brands controlled more than 80% of most categories
- Top 50 = 33%
- Trade programs centrally defined by manufacturers with local house focus
- 3-5 competitors per market area
- ✓ SYSCO
- ✓ Kraft Foodservice
- ✓ Beveco
- ✓ JP Foodservice
- ✓ PYA Monarch
- ✓ Rykoff Sexton
- ✓ White Swan
- ✓ Comsource
- ✓ Ben E. Keith
- ✓ Gordon Food Service

Operators

- Explosive growth of QSR locations opening daily
- National universe booms to 800K locations by late 90s
- Top 400 control 30% of the consumer dollars
- Majority of manufacturer incentives 'rebates' per case
- Deviated pricing controlled for high volume opportunities
- 'Menu clips' and coupon mentality to transactions



Modern Warfare

Distribution

- 500+ relevant points of distribution
 - Private label approaches 60% share led by SYSCO
 - Top 10 = 75% of “street”
 - Corporate direct trade approaches 60% [v. 70% local]
 - Regional RFP’s for “single source” challenge relevant points of difference
 - Distributor as purchasing agent alters historical role
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- ✓ SYSCO
 - ✓ U.S. Foodservice
 - ✓ PFS
 - ✓ Gordon Food Service
 - ✓ UniPro
 - ✓ DOT Foods
 - ✓ 5-10 relevant regional's

Operators

- Store-level growth flattens driving ‘take share’ mentality
- Top 400 Chains control estimated 60% of the consumer dollars and continue to grow overall share
- GPO definitions dissolve as funding supports loose-knit structures absent of purchasing influence and compliance
- Deviated pricing control crashes, now more than 70% of operator-based discounts
- Settlement continues to become more complex relative to gross-to-net, recapture, point-to-point freight and extendibility

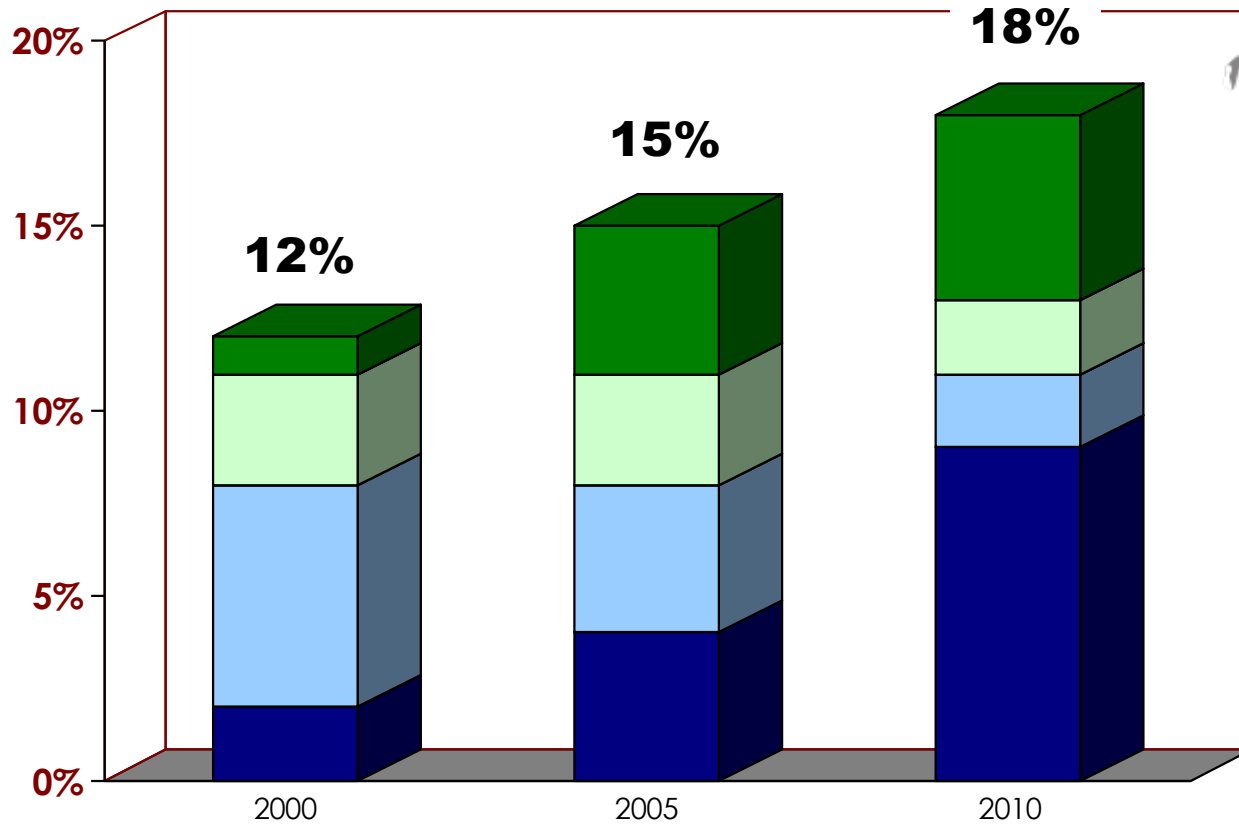


Qualitative Executive Perceptions



1. Trade spend now represents the 2nd largest P&L line item
2. 60% feel they cannot deny distributor requests for incremental funding without risking distribution availability
3. Of those, more than 90% believe the decision to agree is a poor one economically with no correlation to incremental volume
4. 90% are spending 15-20% more on corporate distribution programs against a smaller baseline volume [5 year horizon]
5. 80% believe they can not afford to pay sheltered income on national account and bid volume – but 50% still do
6. 85% do not evaluate events during or after their completion
7. 65% believe deviated pricing discounts 'go right to the bottom line' with no value ever reaching the operator [e.g., operator pays the same price]
8. Brokers and field sales managers estimate that 35-40% of their time is spent administering pricing, trade and deductions

Quantitatively over 10 years



■ Deviated Pricing	1%	4%	5%	Operator-focused
■ Rebates	3%	3%	2%	
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■ Local Marketing	6%	4%	2%	Distributor-focused
■ Corporate Shelter	2%	4%	9%	

Operator Pass Through Value



The traditional sweet spot of “street” business is rapidly disappearing with an alarming amount of the value failing to reach the operator.

- 70%+ of the offers are “Private” [single distributor access] and 50% of manufacturers offer specific distributors different prices for the same operator business
- Less than 20% of operators “know” a special price is available
- Less than 20% of the local POD discounts effect the operators landed into stock price
- When it is passed through, less than 30% is reflected in the “new” operator price from the distributor
- More than 40% of the “wins” are actually straight conversions from a competitive distributor [same item, lower price]
- More than 70% of the distributors view these transactions as an offset to compressed commissions

Headlines

- Discounted operator volume now exceeds 65% and, coupled with increased corporate earned income, the premise of offering “full” rates on gross is becoming untenable [and turning great categories into marginal ones]
- The strength of the operator relationship and the durability of their purchasing commitments are under pressure as distributors narrow inventory options
- Organizations are re-thinking their competitive positioning to identify relevant points of difference to substantiate even marginal premiums
- Settlement processing is rapidly growing more complex, stressing systems and resources to validate the claims
- 29% of all dollars claimed against pricing offers qualify as discrepancies with the majority attributed to the effective claim rate
- The industry now settles more than 80% of all deviated billbacks via deduction, essentially eliminating an efficient means to resolve discrepancies



Paradigm Shift



Manufacturers are struggling to migrate from their historical model into one grounded in analytics and rational decision making ...

Legacy

- Reactive / defensive
- OPM [Other People's Money]
- Cost of doing business [Greens Fees]
- Emotion-based decisions



Modern Paradigm

- Rational and planned
- Accountability
- Investment mentality
- Analytics and visibility

... however, given the direction things are moving, the call to action is strong and the cost of “business as usual” increasingly painful.

Why Smoke Jumpers?

- Highly valuable resources that have taken years to develop
- Without action, those resources are at risk
- Skills and experience are required – not just anyone can help
- There are elements of risk and adventure involved
- High value for a pragmatic problem solving model that delivers results
- Action orientation yet plans and strategies guide the attack



What is on our preliminary agenda?



- A. Establishing metrics for baseline understanding of “Where are we now?”

- B. Delivering tools to sell with to the sales group and reducing their role as “task masters”

- C. Evolving to become truly operator-focused and maximizing pass-through value

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- Group Purchasing Organizations

Why are we focusing on metrics first?

- The current baseline assessment for “Where are we now?” is fuzzy at best ... some feel like they are “flying blind”
- To drive strategic spending and make better decisions going forward, we need a framework grounded in measurement to help distinguish good from bad
- Trade spending, allowances and price discounts represent an enormous amount of money, yet lack performance indicators
- Across the industry, we have access to more data than ever before ... we now have to mine that content for insights
- If we don't know where we are now, it's going to be hard to get where we want to go



Metric Examples – School Grades

- Compares each student to the peer set
- Defines results v. expectations ... how are you doing
- 4.0 scales account for rewarding those who did “Best” within a common peer set scored against the same tasks



Who is the better student?

	<u>Cheryl</u>	<u>Paul</u>
Social Studies	4.0	2.5
History	4.0	3.0
English	4.0	3.0
Mathematics	4.0	3.5
Extra Curricular	Student Government	Billiards Club

Metrics Example - Baseball

- Provides measures for players playing different roles
- Quickly interpreted and rapidly used for comparison



<u>Batting</u>	<u>Player A</u>	<u>Player B</u>
Batting Average	.345	.230
Home Runs	45	8
Runs Batted In [RBI]	150	56

Metrics Example - Baseball

- Provides measures for players playing different roles
- Quickly interpreted and rapidly used for comparison



<u>Pitching</u>	<u>Player A</u>	<u>Player B</u>
Won-Loss Record	18 - 7	8 - 8
Strike Outs	285	92
Earned Run Average	2.24	4.83

Metrics Example – Supply Chain



- Provides measures to determine performance v. goals
- Applicable over time for comparison

	<u>Goal</u>	<u>Q1 2011</u>	<u>Q2 2011</u>
On time deliveries	97%	94%	96%
Order fill rate	98%	92%	87%
Price errors	2%	4%	6%
Facility incidents	0	2	1

The case for trade and discount metrics

- Access to TB's of data [a lot of data]
- Sports analogies are appropriate for various defined roles



Baseball

Hitting

Team Offense

Pitching

Team Pitching

Fielding

Football

Passing

Running

Receiving

Tackling

Our business

Distributors [individual]

Group distribution

Operators [individual]

Operator segments

Today's process

- Case study format
- 3 groups with three different assignments for the same case
- Break out rooms to ideate, brainstorm and problem-solve [~ 2 hours]
- Re-group as a general session after lunch
- 20-30 minute presentation from each group of their best ideas with general discussion and debate
- Break to organize and prioritize
- General discussion to select the best short and long term ideas to pursue
- Volunteers to participate in piloting those best ideas



Your role

- Rely upon your experience and knowledge in the industry
- Try to free yourself of the constraints you may have “back at the ranch” [e.g., disposable vs. F&B, broker v. direct, etc.]
- The case study will ask for [a] short term pragmatic ideas that can be executed immediately and without capital or heavy resource commitments as well as [b] longer term “big ideas”
- While we are working as a group, feel free to throw in challenges you have right now for selfish reasons
- Consider questions you would want answered rather than defining the “ideal number”



Next Steps @ Session 1 Focus

- Pilot focus on partners in building – next week
- Refine pilot and populate with sample values – through mid-August
- Share framework with Smoke Jumpers group – mid to late August
- Socialize more broadly within the pilot companies through early September
- Smoke Jumpers 2 – review framework and pilot reactions
- Refine and commercialize this fall



Next Steps @ Smoke Jumpers

- Feedback survey
- Circulate notes and presentations
- Feedback on September session [location, duration, pre-work, ad-hoc additional meetings]



Earlier this week:

- Chicago a prime location but open to others with easy access
- More time together [2 nights]
- Sub-group meeting on location level data
- Consider add-on session relative to functionality