

BIECC, NBWA & 1SYNC™
Global Data Synchronization Retailer Interview Results
Executive Overview



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April 2007

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Project Overview

In August of 2006, the National Beer Wholesalers Association (NBWA) with the assistance of the Beer Industry Electronic Commerce Coalition (BIECC) contracted 1SYNC, the leading implementer of supply chain data synchronization, to conduct a Beer Industry Readiness Assessment in regards to GDS. The objective of this engagement was to support the proactive planning of GDS solutions by evaluating beer suppliers, importers, distributors, and retailers regarding logistics, item and price/promotion data collection, invoicing, and other relevant business processes, and to provide a prescriptive implementation roadmap that may be used for a Beer Industry GDS pilot.

An important step in this process was to assess the level of understanding of GDS by suppliers, distributors, and retailers in the beer industry. In addition to an electronic technology capabilities survey given to all NBWA members, it was determined that additional information would be acquired through one-on-one interviews with over twenty small, medium, and large suppliers, importers, distributors, and retailers. Those retailers participating in the assessment have active GDS programs underway with other product categories. These interviews were utilized to gather the current state of business processes and practices, and to solicit feedback on recommending future improvements to bring qualitative and quantitative benefits to those in every tier of the supply chain. Post interview, all references to the participant's name and organization were removed from the shared project documents.

This document will explain the participants' responses in four key areas.

1. The importance of item information being introduced correctly and then being maintained efficiently
2. The business process benefits that expect to be recognized from utilizing GDS
3. The infrastructure challenges to be faced while implementing GDS
4. Recommendations for moving forward with GDS

By reviewing these four key areas, we will be able to judge the industry's readiness to moving forward with GDS.

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Importance of Proper Item Introduction and Maintenance

Retailers must collect a large amount of item information regarding the products they carry in order to properly represent them to the end consumer. They invest a substantial amount of time and money to ensure their store associates understand current product offerings, prices and promotions as well as provide a source for customer inquiries. With the large number of retailers that play a part in representing the beer industry's offerings, it is important that they receive timely and accurate item information in order to satisfy the end consumer. Without that accurate information often times items will not be shipped or will not be tracked through a retailer's systems and not be reordered leaving a consumer to look elsewhere for a product.

Commonly Asked Questions

To illustrate the importance of item and price/promotion information to the retailers we can evaluate the common discussions held between them and their trading partners. When the retailers considered the most frequently asked questions by their trading partners, they responded that the most common questions were in regard to retail pricing strategy; preferential treatment for a competitor; and planogram placement. (See Chart 1 below.)

Trading Partner Frequently Asked Questions

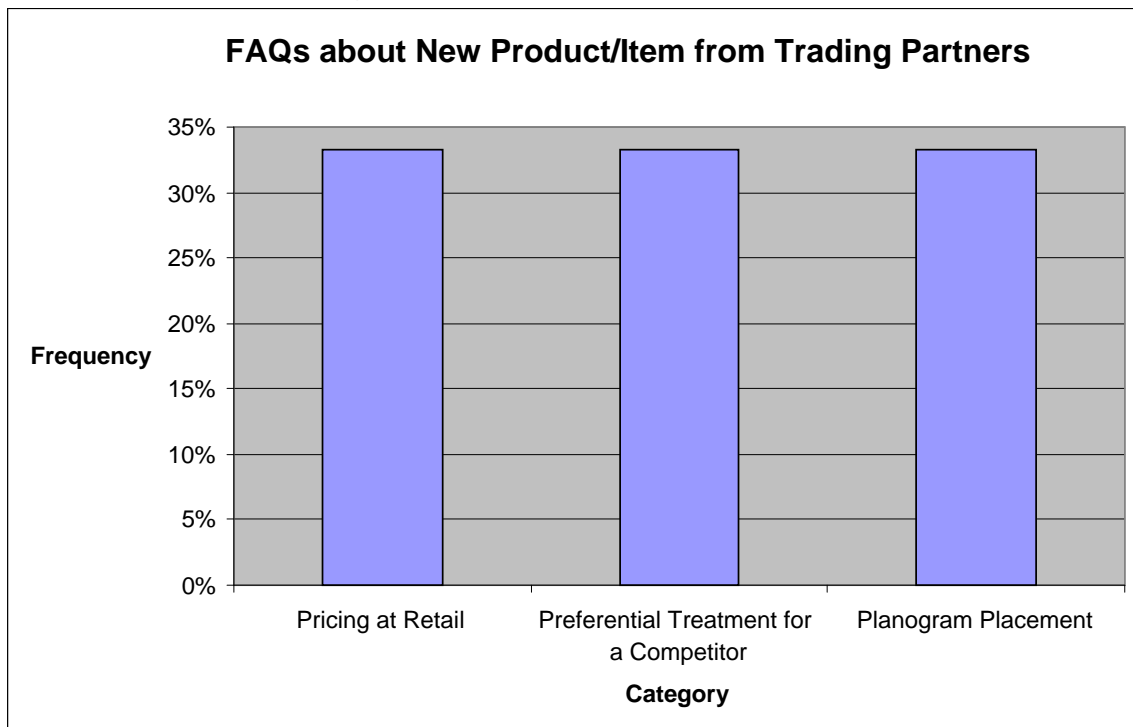


Chart 1

Note: A complete list of the frequently asked questions can be found in the Retailer Interview Summary.

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One of the major reasons distributors are asking for this information is to better understand how their products are being positioned and sold in the retailer's stores. Having this information helps distributors adjust sales and production forecasts and develop new promotions resulting in increased sales. According to our analysis, retailers would rather discuss revenue generating business issues with their trading partners but other administrative issues stand in their way.

Before a product is sold in the store, item setup sheets must be completed and entered into the retailer's information systems. Many of these processes are currently manual intensive and require a large amount of buyer attention to ensure an item is setup correctly. Retailers are also concerned about the accuracy of the data being supplied by their distributors. Entering inaccurate item information will generate incorrect orders, shipments and invoices resulting in additional hours on non-sales generating tasks. To better understand how this information flows to the retailer through the supply chain, we will review their current item introduction and maintenance business processes.

Item Introduction and Maintenance

Our analysis of retailer item introduction and maintenance shows there are similar business processes to introduce new items into their information systems. New items setup sheets are used by all of the retailers interviewed to collect the necessary information about the item from their distributors. The item information on the sheets is then manually entered into their information systems in order to make the item available for purchase. The retailers interviewed are moving to automate this process by providing different methods of collecting item information from their distributors. The Global Data Synchronization Network (GDSN) and retailer-specific internet websites allow distributors two different ways to electronically send item information to the retailers.

While item setup sheets are a common process for the retailers, the information needed by each retailer is somewhat different. However, there are only a few dissimilarities when analyzed in detail. GS1, an internationally recognized leader in the development of supply chain industry standards, has worked with many retailers, distributors and suppliers to develop common item standards. When a retailer implements the current GS1 item standards in its information systems, attribute differences are kept to a minimum.

By receiving this new item information quickly and accurately a retailer has the ability to get an item to the shelf faster and therefore increase the potential sales on that item. As the new item begins to generate sales, the retailer works with the distributors to adjust the terms of their agreements (price/promotion) to meet prevailing market conditions. Additionally, the brewer or importer may introduce and suggest additional product Stock Keeping Units (SKU) to increase sales of their beverage.

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Item Introduction and Maintenance Challenges

The top two challenges facing retailers when introducing a new item are manual processes creating errors and poor data quality. (See Chart 2 below.)

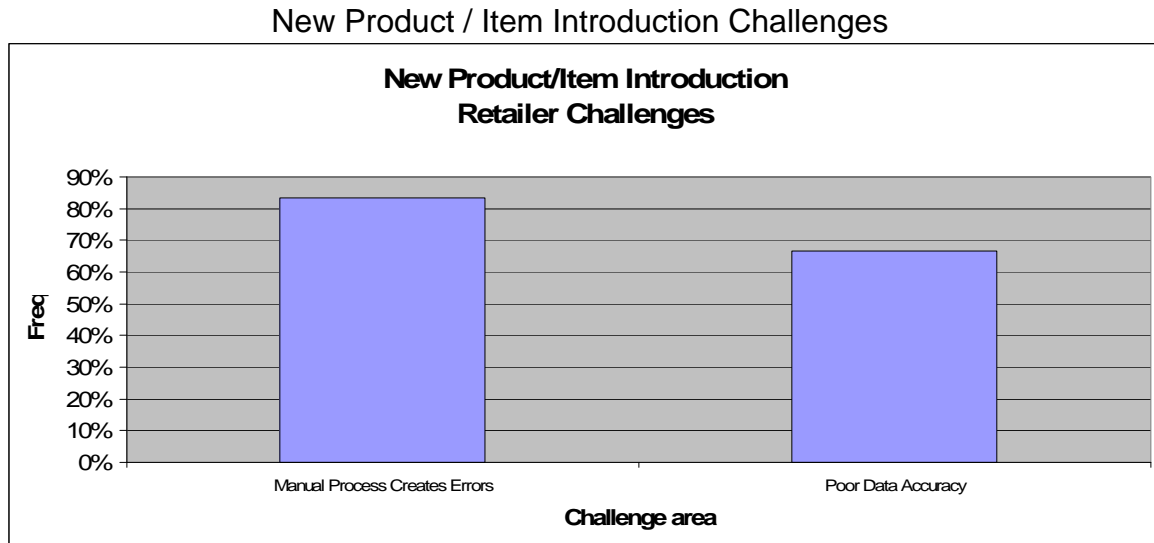


Chart 2

Note: A complete list of challenges can be found in the Retailer Interview Summary.

During our interviews we were surprised to learn how manually intensive the item setup and maintenance process is for the retailers interviewed. Many hours are expended by merchandising and supply chain personnel not only to setup and maintain items but to validate that the information coming from their trading partners is accurate. One of the interviewees commented, “It can never be said too many times – accurate data is critical.”

Other challenges facing retailers include the distributor not presenting new items soon enough for ordering on the first possible shipment date and poor communication with distributors resulting in non-authorized products being sent to the store. Additionally, operating the various manual business processes around item setup and maintenance is expensive due to the added personnel and systems.

Item Introduction and Maintenance Recommendations

Referring to Chart 2 above, a properly implemented GDS project would positively address the top two challenges identified, thereby benefiting the retailers in their ongoing operations. For example, GDS provides a standardized and automated way for retailers to collect and validate their item information from their distributors as well as brewers and importers.

Additionally, retailers were asked for their recommendations to improve item introduction and to address maintenance challenges. Their top responses are contained in Chart 3 below.

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New Product Item Introduction Recommendations

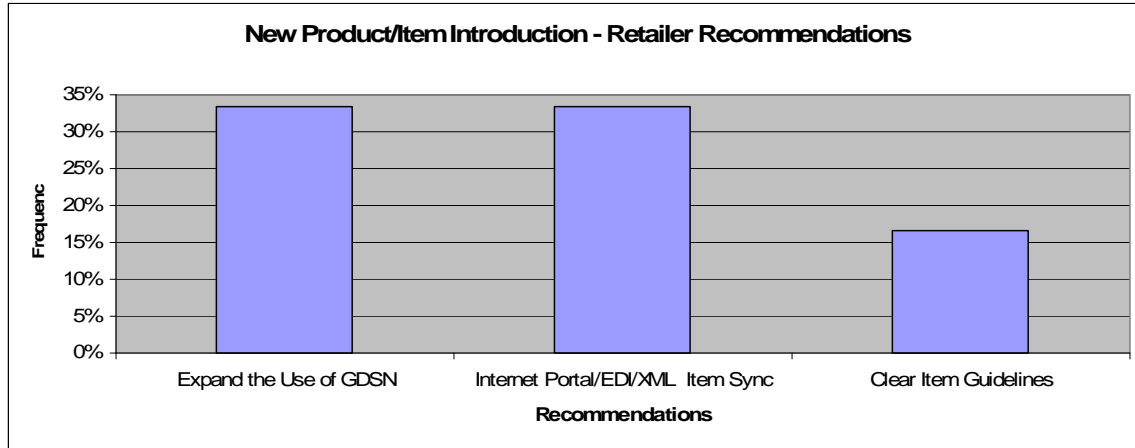


Chart 3

The top recommendations for improvement in this area include expanding the use of the GDSN and temporarily implementing retailer specific internet portals for inputting item information. It is important to note that the retailers interviewed are in various stages of implementing GDSN-based solutions. Therefore, in order to maintain existing store operations, some of the retailers have developed implementation plans that allow distributors to use portals to enter item information. This type of plan allows the retailer and its trading partners the ability to evolve their business processes and information systems with the GDSN as new functionality is delivered.

The retailers agreed that streamlining and eliminating a majority of the manual item setup and maintenance processes will make their operations more efficient. They believe working with their distributors, as well as brewers and importers, to establish industry best practices and standards is the best way for the industry to move forward and eliminate unnecessary administrative costs.

Several of the retailers interviewed have made large investments in GDS to improve their item setup and maintenance processes and have provided instructions to their distributors to participate in GDS. The information collected in the retailer interviews further supports the GDS business case for the distributor tier in that the retailer, as well as the brewers and importers, will need distributor involvement to support this initiative in the near future.

Business Process Benefits from GDS

During our interviews with the retailers we were able to explore several business processes that require quality item information. We reviewed the retailer's current processes, challenges and recommendations in the areas of item shipments, item invoicing, item visibility, and item out-of-stocks to see if GDS

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would provide improvement to these key operational processes. While there are many different ways to address these opportunities, a foundation of high quality item information reduces the amount of time chasing errors and allows distributors as well as brewers and importers more time to spend on business collaboration tasks such as sales and production forecasting and business development

Receipt of Shipments

Retailers do not appear to have common processes for receiving Direct Store Delivery (DSD) products. Some have very manual and simplistic processes while others have invested in complex information systems using Scan Based Trading (SBT) and EDI Advanced Shipment Notices (ASN) principals. Some of the major challenges offered by the respondents included the many discrepancies caused by manual processes, accuracy of product returns, congestion at the back door on deliveries, non-authorized items being shipped to the store and wrong costs on items delivered. Additionally, item information errors at delivery cause shipments to be rejected or refused by the retailers.

Some retailers suggest using more sophisticated DSD systems that leverage ASN and scan based check in for order/quantity verification to reduce the number of manual processes associated with receiving orders in the store. They also suggested using SBT as a way to eliminate invoicing discrepancies. Other potential solutions include general efficiency improvement, better inventory visibility, process automation, supplier dedicated routing for large store concentrations and off peak delivery scheduling.

Increased visibility into delivery schedules and up to date and accurate item information at the store level will lead to products not being refused at the back door, and therefore getting to the shelf for the consumer to purchase. This is one of the key benefits of GDS.

Invoice Accuracy

While a few retailers have moved to EDI invoicing and electronic funds transfer (EFT), the invoicing and payment process remains a largely manual, labor intensive, error prone process. Most retailers first notice price discrepancies at the store receiving level and make adjustments accordingly. If a price discrepancy is not noticed at the store, corporate accounting will catch it and forward the invoice to the category manager for approval to pay. Other retailers pay the lesser of their system price or the price received when the product is delivered at the store.

The major challenges retailers have when handling invoices are the high volume of DSD invoices that contain discrepancies resulting in increased work for the receiver, category manager and supplier and the timeliness of credits issued by the distributors.

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Recommendations include moving towards item and price/promotion synchronization, providing additional training for receivers and leveraging EDI and EFT where practical. GDS should assist in ensuring the correct price has been received by the retailer and is available for use when the DSD purchase order is created in the store.

Product Visibility

There is not a common process for product visibility among the retailers interviewed. While some retailers have visibility into their store level inventories, DSD items are usually not tracked at the same granularity as warehouse items. The biggest challenge facing the retailers is not having complete supply chain visibility into DSD items and therefore they have no way of knowing if they are out of stock. Due to the manual nature and communication process used to verify DSD item movement store associates, buyers and category managers spend a large amount of time tracking down issues. In the opinion of the retailers, this time could be better spent on merchandising activities to drive incremental sales.

Recommendations include increasing the trust and communications with distributors by providing store level POS information, having distributors proactively notify retailers on inventory issues, expanding current GDSN process to include DSD items and build shared score cards to monitor brewer/distributor/retailer performance.

GDS can contribute to product visibility by clearing up the challenges resulting from duplicate UPC item information and allow for clean information to be used when reporting inventory positions and tracking item movement through the POS.

Out-of-Stocks

There are two primary ways that retailers control Out-of-Stocks (OOS) in their stores. For items delivered from the retailer's warehouse there is good visibility to the store level. Inventory levels are kept at the warehouse and stored in order to manage the flow of items to the store. For DSD items, most retailers rely on their distributors to keep them in stock and therefore they track only items sales information and do not track DSD inventory in their information systems. For DSD items, the merchants and category managers are the last to find out that a store has an OOS issue. They also point out that the end consumer is the group most hurt by OOS. One retailer put it this way, "No beer means no sales and unhappy customers."

Retailers surveyed suggested improving the store ordering process by utilizing a computer assisted purchase order modeling. Computer assisted modeling would use store clustering at the category level to group stores with similar product and velocity demands. This would suggest order levels to store managers giving them more responsibility to order the appropriate amount of inventory for their

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specific stores. Radio Frequency Identification (RFID), built on a foundation of synchronized item and price/promotion information, can also play a part in alerting store management to OOS situations commented one retailer.

GDS ensures that the proper UPC numbers are correctly stored at each product hierarchy level within the tree tier distribution system used by the beer industry thereby increasing inventory reporting efficiency and decreasing OOS.

Infrastructure Challenges to Data Quality & Synchronization

Our interviews reveal that there are somewhat consistent business processes for collecting item and price/promotion information from distributors by the retailers. Many of the processes are manual and result in more time being spent in the setup and maintenance of product information than is necessary. Additionally, information is not being received and updated in a timely manner. This causes delays in using the correct product information on invoices, logistical documents and delays in authorizing new items. Retailers interviewed in this study have been able to automate this process for other product categories by employing GDS and are generally eager to work with the beer industry to implement GDS.

Four areas were explored from an infrastructure perspective as we analyzed the answers to our interview questions. Each area plays a key part in understanding the infrastructure challenges in the areas of data quality and synchronization.

Organizational Focus to Item Information

As previously mentioned, many of the business processes used by retailers to support item and price/promotion in the beer categories are manual processes. They indicate that in many cases, too many people are involved in managing item information resulting in a high number of human errors. When the item setup forms are not filled out correctly or if the buyer has questions, e-mail and phone tag often results, delaying the items setup or pricing change. This delay often results in items not being able to be scanned in at the store level.

Participants also mentioned that data accuracy, specifically around the weights and measurements, provided by their suppliers is below an acceptable level in many cases. One retailer commented that maintaining accurate planograms is a tremendous challenge given the current process of manual syncing of item and price/promotion information. Another mentioned that product dimension changes by brewers and importers are not being communicated in many cases and the brewers and importers frequently violate Global Trade Identification Number (GTIN) standards causing a variety of retail problems.

When asked how these challenges can be addressed, the retailers suggested automating the current process using electronic file sharing based on industry standards. This would help them streamline the various manual processes being

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used today in maintaining item and price/promotion information as well as reduce the number of people needed to maintain item information. It was also suggested that third party planogram companies can be brought into the process to keep all parties aware of product changes.

Multiple Copies of Product Information

The retailers interviewed in this study have varying approaches to storing item information in their current production systems. In some cases they do have a single view of a product master file that feeds data to operation systems. Others maintain separate product files with information that is relevant to departmental systems. (e.g. Marketing, Sales, Distribution, Accounting) This information can often find its way to the other tiers in the supply chain via emails, faxes and phone calls.

Suggestions put forward by the retailers included developing a single product master file and a corporate vision for item data management for those retailers that haven't already implemented one. The single product master file can be managed by Product Information Management (PIM) software ensuring that the users of the product master file have the correct product information to use in the creation of their business documents. (e.g. planograms, advertisements and purchase orders)

For the retailers that have a single product master file, implementing electronic communications for item and price/promotion information and improving data accuracy from suppliers are top of mind suggestions for improvement.

New Suppliers, Mergers and Acquisitions

The challenges faced by retailers when adding new distributors or product lines to their operations revolve around the lack of timely information provided by the new distributor or brand owner. If a new distributor is not authorized for deliveries at store level receiving issues will develop. When information is not provided in a timely manner, it only stresses the manual processes employed to make the necessary changes in the retailers systems to continue receiving the item.

Suggestions for improvement include automating this process within the GDSN. Others suggestions include developing web based forms to be filled out by the distributor when this type of change occurs and providing 60 days or more notice by the distributor when the change will take place.

Retailer Current Perceptions

There is an overall perception by the retailers interviewed that they would really like to see the beer industry get engaged and work on GDS solutions. They realize this takes time to plan and implement but it should be started sooner than later. Retailers also feel that much of the information they receive is inaccurate

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and causes increased efforts by their employees to fix item and price/promotion related issues. They also voiced concerns about the lack of collaboration with the distributor's sales force.

The retailer participants suggest increased training and education on the importance of GDS to the Beer Industry as a way to help change current perceptions and move implementations forward. They feel suppliers need to assign someone who has authority over multiple areas (logistics, finance, marketing, etc.) to make sure item and price/promotion information meets GDSN standards and is accurate.

GDS New Realities

Investments in people, processes, and technology will be required by all members of the beer industry supply chain in order to correctly implement GDS. The GDS model has matured over the last five years with many retailers adopting it as the standard way to clearly communicate item and price/promotion information. As the model has matured, growing competition among GDS solution and Data Pool providers, as well as clearer standards around price/promotion transactions, have addressed many of the cost concerns raised by the retailers.

A successful implementation of GDS will benefit retailers by improving data integrity of their most important business transactions thus reducing overall operating costs. Whether it involves improvement in order accuracy and product shipments by having the correct weights and measures synchronized in the supply chain, increasing the visibility of the correct products moving through the supply chain, or reducing the OOS experienced by the consumer at the point of sale, retailers will directly benefit from the implementation of GDS.

Retailers will also benefit through increased efficiency in their core operational infrastructure by having clear responsibilities for receiving and applying product and price/promotion information to their information systems. This increased efficiency will allow them to spend more time on value added merchandising and category management functions that help drive sales and margins.

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Recommendations

The interview approach used for this study allowed us to identify key challenges and pain points of the retailers in several operational areas. These areas were selected for their reliance on quality product information and thereby possibly benefiting from the implementation of GDS. Additionally, the participants were asked for recommendations on how to address the key operational challenges. A summary of their recommendations have been grouped into three areas.

Industry Education and Standards

The retailers clearly see the need for further education on the importance of high quality product and price/promotion information within the beer industry. Common standards for creating and maintaining product information within the beer industry will ensure that there is a solid foundation to build and share value added business transactions, as reflected in Chart 4 below.

The Foundation for More Accurate Business Processes

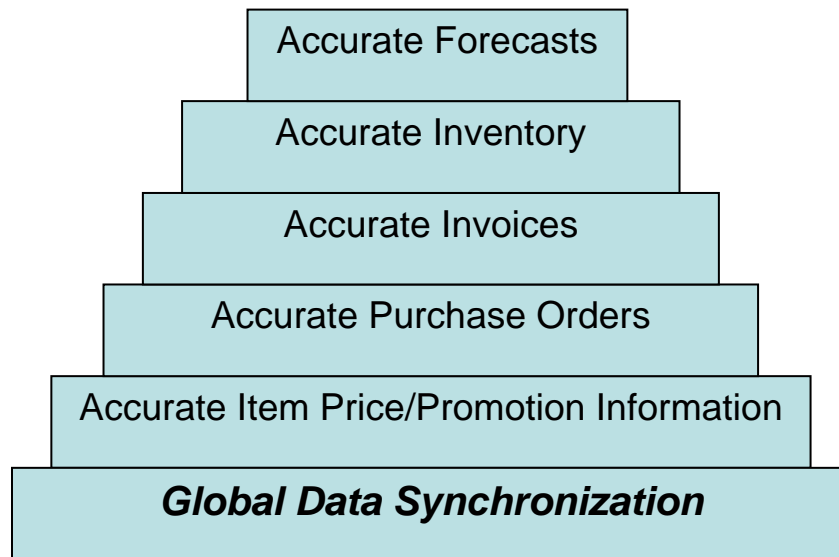


Chart 4

The educational opportunities currently facing the beer industry have been overcome in several other industries by focusing on business process changes that simplify the flow of product and price/promotion information.

Organizational Changes

Retailers commented that too many people are involved with the development and maintenance of item information and in some cases there were multiple item

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repositories and data bases supporting their current business processes. Implementing a single item master file supported by product information management (PIM) software is the primary recommendation offered to automate item maintenance.

Many companies in other retail segments have established dedicated product information departments that focus on trading partner information exchange. These departments have clear roles and responsibilities controlling the flow of information into and out of the companies to ensure they are meeting their trading partners' needs. The departments are also responsible for understanding the current and emerging industry standards that govern the movement of product and price/promotion information. Retailers who haven't already implemented their product information departments can follow lessons learned from other retail segments and tailor them to their specific operational needs.

Data Synchronization Pilot with Key Industry Participants

The beer industry would benefit by moving forward in the development of a shared, high level approach toward implementing GDS. This plan should be developed in conjunction with retailers, distributors, brewers, importers, and solution providers to increase awareness of the industry's commitment to improve the flow of key item and price/promotion information.

By working together, the beer industry can ensure they realize the largest benefit possible in the short term while building a solid foundation to enable new and existing value added electronic transactions. Creating a high level implementation approach will also provide a benchmark for monitoring the progress of key pilot projects - sharing successes and setbacks - as the beer industry embarks on its efforts to implement GDS.

To summarize, the first step would be to educate the industry on the current standards put in place and to develop any additional standards that may be needed. The second step would be to institute the organizational changes within your company in order to make GDS a success as well as a priority. The final step would be to implement a pilot with all levels of the supply chain and companies of all sizes to prove that GDS will work for the industry overall. In closing, this study has shown that the critical business issues that are causing an ineffective and inefficient supply chain in the beer industry today can be solved through the use of the GDS. Through the three recommendations above the industry can successfully implement GDS and begin to recognize the benefits.