THE FOOD INDUSTRY ASSOCIATION

WEBINARS

THE PROACTIVE GROCER:
KEY STEPS TO PREVENTING LOSSES

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As the **food industry association**, FMI works with and on behalf of the entire industry to advance a **safer, healthier and more efficient** consumer food supply.

FMI brings together a wide range of members across the value chain — from **retailers** who sell to **consumers**, to **producers** who supply the food, as well as the wide-variety of companies providing critical services — to **amplify** the collective work of the industry.
FMI is a champion for the food industry and the issues that make a difference to our members’ fundamental mission of feeding and enriching society.

The reach and impact of our work is extensive, ultimately touching the lives of over 100 million households in the United States and representing an $800 billion industry with nearly 6 million employees.
FMI ANTITRUST COMPLIANCE

- It is FMI’s policy to comply in all respects with the antitrust laws.
- All participants in FMI meetings and events are expected to comply with applicable antitrust and competition laws.
- Avoid discussions of sensitive topics that can create antitrust concerns.
  - Agreements to fix prices, allocate markets, engage in product boycotts and to refuse to deal with third parties are illegal.
  - Discussions of prices (including elements of prices such as allowances and credit terms), quality ratings of suppliers, and discussions that may cause a competitor to cease purchasing from a particular supplier, or selling to a particular customer, should be avoided.
  - No discussion that might be interpreted as a dividing up of territories.
- It is important to avoid even the appearance of unlawful activity.
- Questions or concerns? Please consult with FMI staff.
Webinar Overview

The grocery industry is by far one of the most demanding – constant change, new technologies to learn, and complex promotions lead to inevitable mistakes and things slipping through the cracks.

In this webinar, you’ll discover:

1. The top trends in the industry and how you can use them to set your business ahead of the curve
2. How to identify common points of leakage before they occur
3. How to move from a reactive approach to a preventative approach as a proactive grocer

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PRGX Recovery Audit Services

PRGX has been serving the world’s largest buying organizations for over 40 years

<table>
<thead>
<tr>
<th>75%</th>
<th>80%</th>
<th>70</th>
<th>99%</th>
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</thead>
<tbody>
<tr>
<td>OF TOP 20 GLOBAL RETAILERS SERVED*</td>
<td>OF TOP 10 GROCERS SERVED IN US &amp; CANADA</td>
<td>GROCERY AUDITS PERFORMED ANNUALLY</td>
<td>CLIENT RETENTION RATE</td>
</tr>
<tr>
<td>20+ COUNTRIES</td>
<td>$1.2B VALUE RECOVERED</td>
<td>$450M ANNUAL GROCERY RECOVERIES</td>
<td>$2.0T SPEND ANALYZED/YR</td>
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* Source: Deloitte “Global Powers of Retailing 2016
PRGX North American Grocery Center of Excellence

**Clients**
- 25 Grocery Clients
- $400+ Billion in Spend

**Recoveries**
- $267,000,000 produced annually

**Professionals**
- 100+ Staff, Average 14 years grocery experience per Associate; Over 1,000 years combined experience

**Support**
- Local client presence across the U.S.
Trends, Challenges and Key Questions

**TRENDS**
- Click-and-Collect
- Direct-to-Consumer
- Digital / Mobile
- Loyalty Card / Customer-Specific
- Volume Incentives
- Market Basket Promotions

**CHALLENGES**
- Increased volume and complexity of data
- System limitations result in more and more process work arounds and manual intervention
- Tracking processes may be inadequate for billing

**KEY QUESTIONS**
- How do I track and validate these more complex promotional funding models?
- With these new promotional strategies how do I ensure ongoing visibility into promotional funding?
- How do I stop these errors from occurring so I can get the dollars into the COGS?
HOW DO I TRACK AND VALIDATE THESE MORE COMPLEX PROMOTIONAL FUNDING MODELS?
CHALLENGE

- Data required to track promotions is spread across multiple systems
- These systems were not designed to handle some of the newer / more creative promotional programs, especially multi vendor or market basket promotions

RISK

- Grocer is not receiving the agreed upon funding
- Billings not accurately processed

RECOMMENDED BEST PRACTICE

- Put a process in place to capture the required data points and validate those data points against the promotional contracts at the SKU level
WITH THESE NEW PROMOTIONAL STRATEGIES HOW DO I ENSURE ONGOING VISIBILITY INTO PROMOTIONAL FUNDING?
CHALLENGE

• Applying promotional funding at a lower level of detail (consumer) results in a proliferation of funding to accurately track

RISK

• Uncertain if the promotional funding driving the desired results, and how the new funding vehicles are impacting margin

• Less transparency in vendor funding levels and being able to see shifts in vendor funding vehicles

RECOMMENDED BEST PRACTICE

• Develop a process that enables capture, tracking, and reporting of vendor funding and true net margins at the SKU level
HOW DO I STOP THESE ERRORS FROM OCCURRING SO I CAN GET THE DOLLARS INTO THE COGS?
Current Transactional Landscape

Negotiation Finalized
Deals/contracts are agreed upon, captured, and used to drive sales planning & execution

Performance Starts
Funding mechanic begins and yields data that is later analyzed and audited to confirm all agreed upon funding was received

Performance Ends
Accelerated Audit Process (0-6 Months)

Audit Complete
Traditional Post Audit Process (6-24 Months)
The Costs to You and Your Company

Opportunity Costs
• Promotional effectiveness; Vendor funding; Margin forecasting
• Resource to resolve issues

Supplier Abrasion
• Resolutions upfront vs. months later
• Becoming more strategic

Bottom Line Impact
• Time-value of money
• Administrative costs
PRGX Observes a Paradigm Shift in the Grocery Industry

Recovery Audit Continues to Evolve
Current trend of acceleration to improve financial performance and reduce supplier abrasion
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Transaction Errors Continue to Persist
Suppliers are still pushing back; cost is increasing on the back-end to support claims management
PRGX Observes a Paradigm Shift in the Grocery Industry

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Solution: Paradigm Shift in Recovery Audit
Leverage core recovery audit logic to monitor, identify, and correct errors before they happen
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Solution: Paradigm Shift in Recovery Audit
Leverage core recovery audit logic to monitor, identify, and correct errors before they happen

The opportunity for grocers is to position core recovery audit capabilities upstream in the transaction process and conduct a Preventative Review
## Common Promotional Error Types

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## Common Promotional Error Types

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**60%** of findings can be prevented
## Common Promotional Error Types

- **Performance Based - Per Unit**
- **Performance Based - %**
- **Changes into the Cost of Goods**
- **Reclamation Irregularities**
- **Funding via Flat Money**
- **Non-Compliance**
- **Freight | Logistics**
- **Billing Errors**
- **Receiving Errors**

### 60% OF FINDINGS CAN BE PREVENTED

**WHY?**
Common Root Causes

**Omitted Items** – missed family items, new products

**Missing Deals** – promotion in Sales Planner but no contract

**Date Misalignment** – divisional date extensions/adjustments

**Funding Gaps** – identified gap in required funding to support promotion
The Preventative Landscape

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Accelerated Audit Process (0-6 Months)
Accelerated Audit

04 Audit Complete
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Traditional Post Audit

The Preventative Landscape

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Audit Complete
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Remaining Issues Identified and Billed
Reduced Supplier Abrasion
Reduced Administration Costs
Root Cause Identified
The Preventative Landscape

01 Negotiation Finalized
Deals/contracts are agreed upon, captured, and used to drive sales planning & execution

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60% of Issues Fixed
Eliminates Supplier Abrasion
Revenue Moved into COGS
Improved Cash Flow

03 Performance Ends
Accelerated Audit Process (0-6 Months)

Remaining Issues Identified and Billed
Reduced Supplier Abrasion
Reduced Administration Costs
Root Cause Identified

04 Audit Complete
Traditional Post Audit Process (6-24 Months)

Acceleration Audit
Traditional Post Audit
The Benefit of Getting This Right

CORRECTS

• Vendor Funding, Margin Forecasting, and Promotional Effectiveness
• Process and Controls

REDUCES

• Resources on the Back-End on Claims Administration
• Supplier Abrasion

IMPROVES

• Time Value of Money
• Vendor Funding from Correcting Errors Up Front
Q & A
Thank You

For Future PRGX Clients, please email sales@prgx.com and we will get back to you within 24 hours!

For Current PRGX Clients, please contact your PRGX Audit Director to learn more!
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