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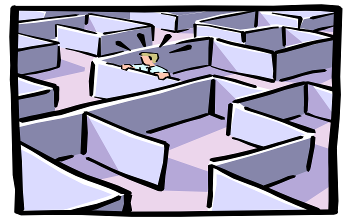

Developing Solutions
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Everyday Low Cost:
A Consumer Package Goods Company Dilemma

Several leading retailers within the United States are evaluating a move to request manufacturers to reflect all trade marketing promotional dollars within the cost of goods, providing net pricing.

On the surface, this form of pricing, and inherent in the scenario is promotion and performance, appears attractive to both retailers and CPG manufacturers.

The truth is the conversion to this method of reflecting allowances poses many management challenges for both parties including the complexity of retailers who purchase through wholesalers.

Several of the benefits of this type of arrangement between direct buying retailers and CPG Manufacturers are:

- Every day low cost will dramatically increase invoice accuracy to retailers. The implication of this is significant cost savings for all parties as pricing and promotional deductions are significantly reduced or eliminated.

- Production peaks and valleys will diminish as deep cut promotions that put strain on the supply chain will be replaced by a more accurate forecast of less volatile sales flow. Again the implication is additional efficiency.

- Inventory management can be more predictable resulting in further supply chain efficiencies.

- Full implementation of EDI can be readily managed through the entire supply chain resulting in a streamlining of the process and costs, from raw material acquisition to the consumer sale. Paperless transactions will become a reality.

Retailers and wholesalers looking at this pricing and trade marketing promotion alternative must realize that there are responsibilities inherent in managing purchasing and promotion in this manner. This is particularly true if the retailer makes the decision to move to an EDLP strategy from Hi-Low.

- Net pricing can put a strain on gross margins as true costs are uncovered and hi-low strategies are changed.

- Driving incremental sales within categories falls more on the shoulders of the retailers as hi-low promotions are reduced or eliminated.

- Penny profit on items and categories can erode as retailers begin to match prices with competitors who historically have factored in lower margins.

- Customer service and perimeter departments may become more important as retailers need to differentiate in areas other than price.

- Wholesalers must be able to impact retail performance, if required, in order to qualify for this type of program.

There are many more implications this strategy implies for retailers and wholesalers. These are just a few you may wish to consider prior to implementing this type of strategy.

For CPG manufacturer and brand marketers, the switching of large retailers to this strategy could provide serious consequences.

- Product quality and consistency becomes much more important as consumers see a steady price/value relationship on items. Does this imply that the product now offers inferior quality? Does the brand value diminish, as it is now compared with products of lesser value?

- Consumer marketing must be more effective as brands need to maintain or gain loyalty with less price promotion.

- Fair and equitable costing may force manufacture marketers to rely less on the promotionally performing retailers to push their brands through to their consumers.

- Shareholder implications must be planned for as "quarterly sales volume closes" become more difficult to implement.

- How do you handle retailer pressure for additional trade marketing promotional dollars that may be needed to meet the need of sales volume short falls versus the plan?

- Diverting can be an issue if proper management controls are not put in place resulting in additional inefficiency.

Retailers are seriously experimenting with this strategy to compete more effectively with Super Centers, Category Killers and the Club stores. CPG manufacturers must address this as an opportunity to reduce waste, optimize production and distribution efficiencies, and continue to build consumer loyalty with their brands.

Deeb MacDonald & Associates, L.L.C. can help you analyze this latest trend and prepare a go-to-market strategy that will maximize sales, share and profit opportunities for your brands.

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