

FEE SCHEDULE FOR UNIFORM GROCERY PRODUCT CODE

COUNCIL MEMBERSHIP

This memorandum outlines the rationale for the fee schedule associated with membership in the Universal Grocery Product Code Council (UGPCC). Two guiding principles were agreed to by the Ad Hoc Committee; first, that the fee should be designed to just cover the cost and secondly, that estimates should be conservative to insure economic stability of the code management function for the industry. Sections that follow will outline the cost and revenue estimates and the cash management procedures adopted to achieve those principles.

COST ESTIMATES

The grocery industry UPC management approach is illustrated in Exhibit I to this memorandum. A Board of Governors (UGPCC principally composed of grocery executives appointed by grocery trade organizations) has contracted with and will guide the activities of Distribution Number Bank, Inc. (DNB). DNB will perform the work according to the duties and responsibilities outlined in Exhibit II. In summary DNB will assign manufacturer identification numbers, issue and maintain item guidelines, and provide an inquiry service for the industry. Of course other peripheral duties include information mailings to UGPCC member companies, validating the code file, handling number assignment changes due to divestment and mergers and coordination with the Canadian grocery industry code and other codes.

It is essential to recognize that DNB will maintain only a listing of manufacturer identification numbers and not a listing of item code numbers assigned by each member company. Thus, the approach adopted by the Ad Hoc Committee is the minimum cost approach and provides the maximum flexibility while maintaining the productivity benefits through the use of a code. Had the Ad Hoc Committee adopted the approach whereby DNB would maintain records of not only the manufacturer identification number but all of the item numbers assignments, annual costs would have increased at least 10 times. Item guidelines are therefore necessary to insure that as companies assign their own item numbers they do so within some boundaries to insure the productivity savings possible through automatic checkout devices.

DNB Costs

Annual costs for Distribution Number Bank, Inc. are estimated at approximately \$290,000 per year. This cost will cover the staff necessary to maintain the inquiry service and item guidelines plus those necessary to issue and maintain control over the manufacturer identification number assignments. In addition,

computer programming and file maintenance costs are included to insure accuracy and timely response to inquiries. It should be recognized that DNB was selected after careful evaluation of other competing firms. Detail cost estimates were provided to the Code Management Subcommittee and were reviewed as one of the criteria for selection. DNB's proposed cost was far less than two other firms and quite competitive with the remaining smaller firm. More details about the selection process are available through UGPCC if necessary.

Administration Costs

In addition to the contractual costs of DNB the UGPCC will be faced with costs of an annual audit by a certified public accountant, cost of meeting rooms, maintaining membership lists and mailings to member companies. Annual meetings will also be required as will legal counsel. Administrative costs are estimated to be approximately \$35,000 in 1972, perhaps slightly lower in succeeding years. In addition, the UGPCC has set up a contingency fund of \$10,000 increasing to \$25,000 in 1973 to cover activities not anticipated.

The total annual costs were estimated to be approximately \$325,000 in 1972 dropping to slightly under \$300,000 in 1973 as a result of the avoidance of startup costs associated with the 1972 schedule and increasing to approximately \$300,000 by 1975.

REVENUE ESTIMATES

Revenue will come from both grocery manufacturers and distributors. It's important to note that the Ad Hoc Committee's fund-raising drive headed by Mr. Bob Wegman included startup costs for code management in the amount of \$250,000. That startup fund was included in the budget for distributors only and was not part of the funds collected from supplier companies through GMA. For that reason and because the individual retailer contributions were based on \$20 million of sales, it was concluded that distributor companies contributing to the original fund-raising drive should be given charter membership in UGPCC for first 3-year period.

The first step in establishing a revenue estimate is to estimate the number of companies that would join UGPCC. Based on the number of supplier companies and their relative size and distributors to the original fund-raising effort, three levels of participation were developed to determine estimated revenue. The conservative participation level resulted in a cumulative number of 210 companies participating in several years. The expected level was 390 companies and the optimistic level 1,450 companies. In accordance with the guiding principle of conservative estimates, the pessimistic level of participation was selected to compute revenues. Several fee schedules were tried before a recommendation

was made to the Ad Hoc Committee. With the fee schedule adopted (see Exhibit III) total income in 1972 is estimated at \$153,000. Revenues in the succeeding 3 years are estimated at \$146,000, \$310,000 and \$323,000 for a cumulative revenue through 1975 of \$932,000. At this point it is extremely difficult to be accurate on the number of companies that will join UGPCC. However, we believe that the actual level of participation will be at least greater than the level used for estimating revenue, thus providing a conservative estimate.

FINALIZING THE FEE SCHEDULE

In order to finalize the fee schedule, a cash flow analysis was undertaken on a quarterly basis in 1972 and a yearly basis through 1975. Cumulative revenues were estimated at \$932,000 and cumulative costs at \$1,182,000. The additional \$250,000 was estimated to be required in the first and third quarters of 1972 and was included in the distributor fund-raising effort conducted by Mr. Wegman. With that \$250,000 startup fund from the Ad Hoc Committee and the \$932,000 membership fees, total cumulative costs equal total cumulative revenues through 1975.

Thus, the fee schedule was in fact the product of testing a number of alternatives and is highly dependent on the number of participating companies. The Ad Hoc Committee has indicated its intention to refund excess money or extend the membership period beyond 3 years if oversubscription actually occurs. In other words, a review of the economics will be in order during late 1972 and early 1973. We fully anticipate that the succeeding 3 year fee will be materially lower than those shown in Exhibit III as many more companies become part of the system, assuming code management costs will not increase significantly.

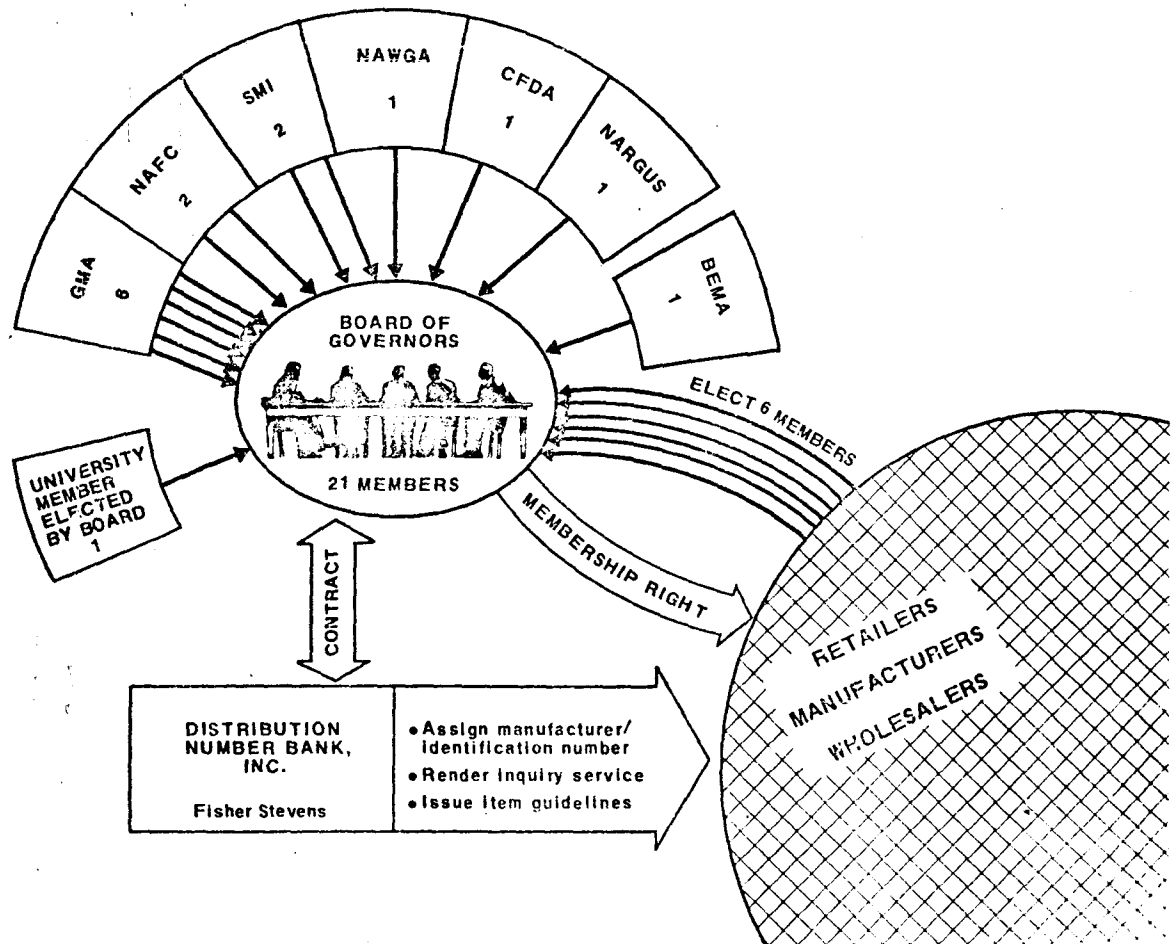
CASH MANAGEMENT PROCEDURES

The UGPCC application form instructs potential members to forward their check and completed application form to the Harris Trust in Chicago. The bank will deposit the check on behalf of UGPCC and send the completed application form and copy of the check to the secretary of UGPCC and eventually to DNB who will assist in the maintenance of membership records. Thus, funds are sent to and controlled by the UGPCC on behalf of the grocery industry. Administrative procedures have been established to insure that the funds are used for the intended purposes. A certified public accountant will be employed to review the procedures, consider tax implications and audit the records on a yearly basis. In order to minimize administrative costs the UGPCC has instructed DNB to accept only completed applications accompanied by full payment of the

membership fee. Some exceptions may be in order for distributor companies who have pledged a substantial amount to the original fund raising effort. Any exception must be authorized in writing by a UGPCC to DNB. In addition fees apply to the 1972/73/74 time period. Any company joining at any time in that period will be faced with the same fee schedule. A new fee schedule will be developed for the 1975/76/77 time period after UGPCC has the benefit of some experience in levels of participation and actual costs.

May 15, 1972

UPC ORGANIZATION STRUCTURE



CODE MANAGEMENTDUTIES AND RESPONSIBILITIES

The purpose of this document is to briefly outline for discussion purposes the scope of work contemplated for the grocery industry Universal Product Code (UPC) management function.

It is fully expected that prospective participants will suggest modification and additions to this list. In fact, an important element of the evaluation process will be the degree to which a participating company analyzes and suggests subsequent changes to this list.

CHARTER

In summary, the task of the grocery industry code management agency will be to:

- ¶ Manage the assignment of manufacturer prefix numbers and administer rules for application of item identifier part of the code
- ¶ Provide inquiry service
- ¶ Coordinate with other code management agencies
- ¶ Publish a directory if required
- ¶ Advise participating companies on guidelines for use of the full code.

The code management function will be commissioned and under the direction of a Board of Governors made up of trade group executives and members of the manufacturing and distribution industry. The Central Code Management Agency will thus be an operating arm of that Board of Governors. (This should not preclude an established company from providing that service.)

MANAGE ASSIGNMENT
OF MANUFACTURERS'
PREFIX NUMBERS

This task will be performed in response to requests from participating companies for manufacturer prefix numbers. Two basic approaches are being considered at this time based on the economics of manual entry systems for smaller volume stores. In the near future, one of the two alternatives will be selected and become the industry approach for code management.

Velocity Coding Approach

Assignment of prefix numbers would be based on volume (expressed in dollars) sold through the grocery distribution channels. Encouragement would also be given to manufacturers to slowly convert to velocity coding within their 5-digit item code. Under this approach, the Code Management Agency would:

1. Develop a list of grocery manufacturers in descending order of sales through the grocery distribution channel based on 1970 figures.
2. Assign numbers to those companies beginning with 10000 adding to the left side rather than sequentially, e. g. , the second largest company would be 20000, and the third largest would be 30000; temporarily issue more than one number to a corporation and their unconsolidated subsidiaries (based on need) up to four members for distinctly different parts of the company with the understanding that only the first number shall come from the velocity list, the remainder shall be sequentially assigned. Those companies using more than one manufacturer prefix number shall be given 3 years to give up the additional numbers, thus, resulting in a single prefix number for every corporate entity. The Code Management Agency shall have the responsibility for verifying the basis of need and corporate ownership only as to publicly known financial interests and data provided by those companies on request. Manufacturer prefix numbers shall also be issued to retailers, however, the code agency shall discourage, to the extent possible, use of prefix numbers by retailers for private label since the code decision has provisions for significant capacity outside the 10-digit configuration.] modified
for
flexibility
3. Administer decision rules (such as where to put assumed zeros in the item code field and time delay before reuse of numbers) on behalf of the governing board. (Proposing companies should list areas where decision rules should be developed.)
4. On request from a company, issue the code number and associated rules of participation. In addition, written agreement to follow those rules of participation would be obtained by the agency.
5. Handle disagreement as to numbers assigned, and, if unable to reach agreement, refer the issue back to the Board of Governors for a final decision. All disagreements and negotiations shall be recorded in writing for review by the Board of Governors.

6. On issuing a code number, record and maintain on file the correct name, address, and telephone number and person(s) to contact in the corporation.
7. Be the complaint bureau for the industry as to the UPC and answer in writing all complaints. Upon receipt of numerous complaints, which suggest the need for change in procedures, the agency shall recommend appropriate changes to the governing board who will make the final decision. In addition, the agency shall have the responsibility to continually monitor the code system and recommend appropriate changes.
8. Handle mergers and divestments to ensure continued benefits without undue confusion and cost.
9. Have the option of using computer facilities. That decision should be guided by the required inquiry service, potential need for code books, and the requirement that up-to-date listings may be requested by any company or trade group or any other company authorized by a trade group executive in the grocery industry at a reasonable cost and in a reasonable time.
10. Verify the listing at least once a year (more often if necessary) to eliminate companies no longer in business and to correct basic information in the listing.
11. Define to the satisfaction of the Board of Governors a "stock-keeping unit" for use by the industry in item code number assignment. That definition shall be subsequently communicated to the industry as part of the decision rules under item #3.

Non-Velocity Coding

Under this alternative the same services would be required except that numbers would be assigned in accordance with the date of receipt of written request or may be assigned in a random manner to ensure equal treatment. Initiation of the request could be through publication by the agency about the commencement of activities.

Special requests for numbers will be honored if possible, and if it is not in conflict with previously assigned numbers or the prescribed methods for number assignment.

PROVIDE INQUIRY SERVICE

Since there is a high probability of considerable error in the administrative use of UPC, at least initially, the Code Agency will be required to maintain an inquiry service to assist in error correction. This implies the following services:

1. A 12-hour, 5-day-week telephone answering service and a 24-hour, 7-day-week message recording service. The staff answering such calls shall be able to advise on use of the code, and answer questions such as the code number assigned to company XYZ or conversely the name of the company assigned to code number 123. Response time is preferred to be immediate; however, complicated requests require a return call.
2. Inquiries may also come in written form. Sufficient staff shall be available to answer inquiries within a reasonable time.

COORDINATE WITH OTHER AGENCIES

The Code Management Agency will need to coordinate with other agencies to develop a complete listing of companies and their respective code numbers and to avoid conflicts with the numbers assigned to other companies. Other agencies include but may not be limited to:

- ¶ The Federal Drug Agency
- ¶ The Grocery Product Manufacturers of Canada
- ¶ The National Association of Electrical Distributors
- ¶ The Distribution Number Bank Inc.

PUBLISH DIRECTORY (OPTIONAL*)

At this point, we are still not certain whether a directory of code numbers versus companies will be required in the grocery industry. However, the Code Agency should be prepared to publish such a directory as needed for use

* - Optional as to successful proposing company; however, each proposing company must have the capability of producing the directory. Cost estimates should be shown separately.

by retailers, wholesalers, grocery manufacturers and other service companies within the grocery industry. The cost for development of and the sale of directories shall be financed from the revenues derived from directory sales. The Board of Governors will request only that the Code Management Agency have the capability to publish such a directory but they will not assume the cost for undertaking such an effort. The Central Code Agency shall have the exclusive right to publish such a directory and charge a reasonable price.

ADVISE ALL PARTICIPATING
COMPANIES ON THE USE
OF UPC (OPTIONAL*)

The Code Agency will become the group best qualified to advise participants on the use of the code. Requests for advice and counsel can be expected in areas such as:

- ¶ How best to avoid errors
- ¶ How to display code numbers on order forms, invoices, shipping containers, and from other locations
- ¶ How to handle deal packs and multiple carton packing, and other complicating factors (see item #3 above)
- ¶ Cost data and degree of velocity coding and other uses of the code numbers within the grocery industry.

Accommodating this requirement will require some limited involvement by members of the code agency in the activities of the grocery industry. This effort shall be carefully managed to maintain it as a small essentially responsive service. Separate cost accounting would be preferred to provide a basis for monitoring by the Board of Governors on a periodic basis.

OTHER CONSIDERATIONS

While it is anticipated that a complete set of contractual requirements will be developed, some overriding considerations may be appropriate to spell out at this time:

1. Exclusive license shall be granted to the Code Management Agency to use the data collected in any reasonable way for other applications. Those other applications shall be subject to prior approval by the Board of Governors. Interested companies are requested

* - Optional as to Board of Governors; proposals should segregate cost estimates.

to propose on the above stated basis and without such license. In addition, interested companies shall indicate what "other applications" are currently anticipated.

2. The Central Code Management Agency may not subcontract activities to other firms or institutions without the express written approval of the Board of Governors.
3. The Central Code Management Agency must give a 6-month notice to terminate. Similarly, the Board of Governors shall not terminate without 6 months' notice the relationship with the Central Code Management Agency.
4. The Code Management Agency shall bear the financial burden of errors and negligence.
5. Administration of any future grocery industry standard symbol shall be a subsequent decision by the Ad Hoc Committee. Proposing companies should indicate their points of view on that prospective service.
6. Proposing companies should indicate their preferred funding approach both as to start-up costs and for a continual service.

June 24, 1971

THREE YEAR MEMBERSHIP FEE SCHEDULEJanuary 1972 through December 1974(Minimum Fee - \$50.00)

| <u>Manufacturers/Processors</u> | | <u>Retailers/Wholesalers</u> |
|---|---------------------------|---|
| <u>U.S. Domestic Grocery \$ Sales</u> | <u>Membership Fee</u> | |
| Under \$10 MM | \$ 200 per MM \$ | \$20 per million \$ of U.S. domestic sales through grocery and related channels |
| \$10-99 MM | \$ 2,000 | |
| \$100-499 MM | \$ 6,000 | |
| \$500 MM & Over | \$10,000 | |