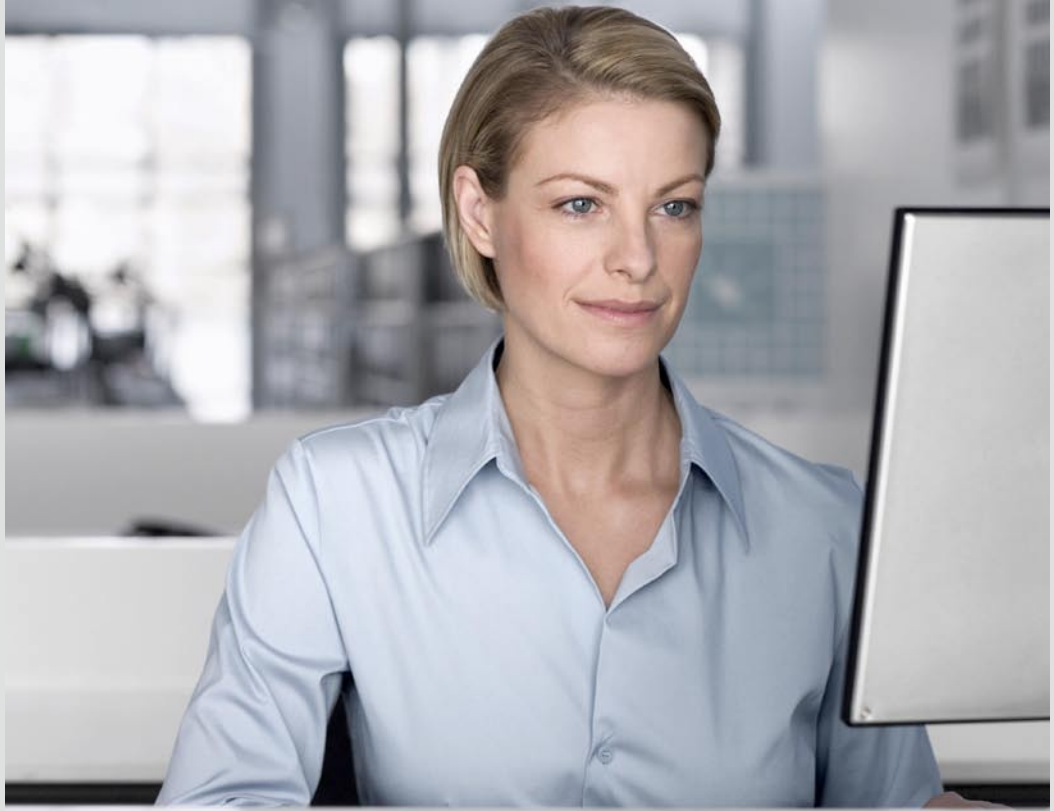


Customer Relationship Management

STRATEGIC VALUE WITH TRADE PROMOTION MANAGEMENT

A CLOSED-LOOP PROCESS FOR QUICK
WINS AND PROFITABLE GROWTH



THE BEST-RUN BUSINESSES RUN SAP™



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OVERVIEW

MEETING INVESTOR OBJECTIVES

We needed to use promotions to build brand awareness, execute trials, and build relationships with our new retail channels.

N-Hair (a fictional high-end hair-care-products company) had achieved tremendous profitability over many years. However, growth rates were slowing. Investors believed that the firm had potential for much greater growth if it sold into channels in broader consumer markets.

Consequently, the CEO mandated that the company expand into these channels, which involved transforming a salon-only brand into a high-end consumer brand. As the company pursued this transition, management

recognized that N-Hair would need to execute trade promotions – a requirement intrinsic to consumer products markets but unfamiliar to N-Hair.

The company focused on implementing trade promotion management (TPM) in a way that built on best practices. At first, however, managers didn't fully appreciate the importance of using an integrated system to support TPM – and the company failed to meet its goals.

After the initial difficulties, the company implemented the SAP® Account and Trade Promotion Management for Consumer Products package. It achieved many quick wins – including better visibility into spending and sharper analyses. Moreover, with the SAP software, the firm has positioned itself well for long-term success as it preserved its brand image and met the objectives of retailers and investors.

THE GROWTH MANDATE

EXPANDING INTO BROADER CONSUMER MARKETS



“Get share,” commanded the CEO. She paused, glanced at her watch, and quickly left the room. The senior staff meeting was thus concluded.

I, as our company’s chief marketing officer (CMO), knew what the CEO meant: the way we would grow now would be to displace competition outside of our core channels. But the mandate to secure much greater market share was daunting – and a bit surprising, given the risks to our brand and profits.

We’d built our high-end hair-care-products business over 12 years – achieving a large share of the U.S. salon market and tremendous profitability. Nonetheless, growth rates across our product lines – shampoos, conditioners, gels, sprays, balms, and lacquers – were flattening. Our investors believed that our company had potential for much greater growth if we sold into broader consumer markets, through supermarkets, drugstores, Web channels, and so forth.

Protecting the Brand

As the person the CEO had assigned to lead our new growth initiative, I faced a dilemma. On the one hand, as the CMO, I’d nurtured our brand from the beginning, working to ensure that our image in the market would enable us to sustain pricing, margins, and dominance in our salon channels. I certainly didn’t want to damage our brand if we sold through mass retailers. On the other hand, our investors wanted profitable growth. I couldn’t fault them for that.

Now, I will tell you a secret. As I worked with my creative staff and many others during the initial months of growth-mandate execution, it turned out that maintaining our brand image wasn’t really that difficult. It was even fun. With the right product formulation, the right positioning, the right pricing, the right advertising, and the right selection of channels, we found out that it is possible to transform a salon-only brand into a high-end consumer brand.

But what was very difficult was a requirement intrinsic to fast-moving consumer products markets that I hadn’t fully considered – and an area where we had zero experience: trade promotions. And that drove me crazy.

PURSUING THE BEST PRACTICES OF TRADE PROMOTION MANAGEMENT

THE NEED FOR CAREFUL PLANNING, EXECUTION, AND EVALUATION

It started out with the best intentions and what we thought was a thorough approach. Early on in the transition, we recognized the need for trade promotions in concert with our marketing campaigns. I accepted the fact that we needed to use promotions to build brand awareness, execute trials, and build relationships with our new retail channels. While the main focus of my team was to ensure that we continued to develop brand equity, the ownership for trade promotion processes lay with the sales team – which had specific responsibility for leveraging trade promotions as a tool for growing share.

In our company, we do things right. Before we started aggressively using promotions, we studied the discipline. We established a task force, led by the vice president of sales, to understand TPM best practices. During this process, we first found that there really are many “best” practices: everyone defines “best” differently. (But for the purposes of my story, I’ll tell you about what we considered best for N-Hair.)

Through our research, we found that most promotions across industries are ineffective. In our relatively small firm, we certainly couldn’t afford invoicing inaccuracies, high-deduction write-offs, “pantry loading,” or excess spending – which are the types of issues faced by other

consumer products companies. Therefore, we knew that careful planning, execution, and evaluation were crucial to changing behaviors over time and advancing profitability. In particular, we needed to ensure that the sales team’s trade promotion activities complemented and coincided with my group’s strategies encompassing pricing, product profitability, advertising, and direct-to-consumer marketing.

Designing a Closed-Loop Process with Measurable Targets

In our view, a TPM best practice is establishing a closed-loop process covering planning, funds allocation, forecasting, claims validation, and analysis. To this end, the sales VP and his team established a process blending top-down and bottom-up approaches. (See Figure 1 for our vision of the fully implemented process.) Our top-down approach covered developing the annual operating plan. Volume expectations and budget decisions would be made for each account and product in the context of a comprehensive program. In this way, account managers could factor in high-level objectives as they negotiated listings, promotion spend, terms, timing, and pricing with the individual retailers that run the actual promotions.

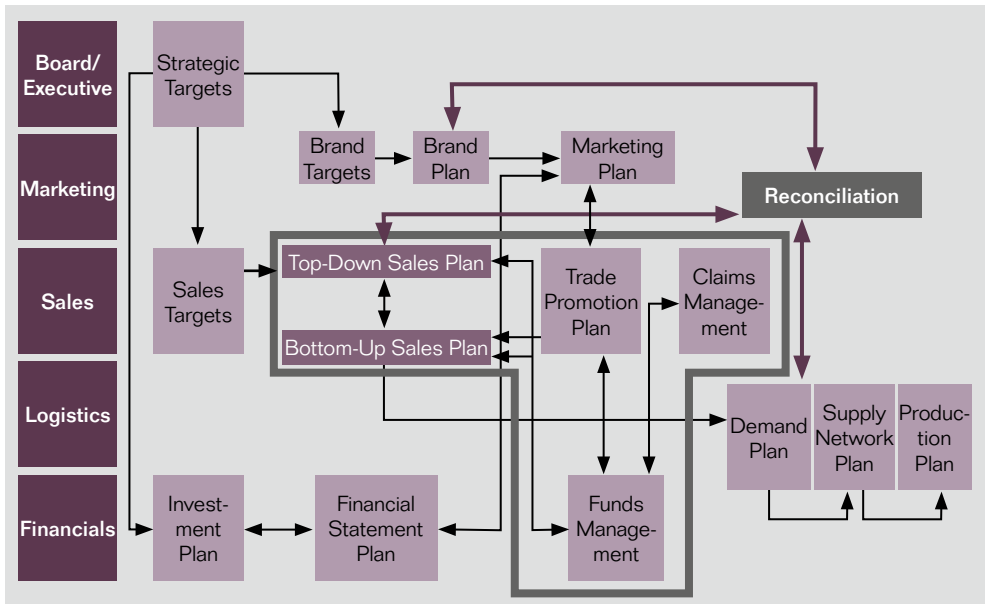


Figure 1: Top-Down and Bottom-Up Planning at N-Hair

We also wanted to take advantage of opportunities as they arise. Thus, the sales group's bottom-up approach enabled account teams to start with agreements with retailers – as well as defined sales-volume objectives, spending goals, and the types of trade promotions that support each brand segment. The sales team would then use these inputs to roll up an overarching strategy covering trade promotions. In this closed-loop process, the top-down and

bottom-up approaches were to meet in the middle, with negotiations taking place to finalize the promotion objectives for a planning cycle.

In our company, we measure. Throughout our business, we establish quantifiable targets which, when achieved, demonstrate that we are properly executing our strategy. We found that this type of approach to using metrics is



considered a best practice of TPM. As the sales team planned the initial promotions, they established measurable targets encompassing revenue, operating costs, inventory levels, and profitability – which could be achieved by leveraging our closed-loop planning process. Moreover, by analyzing data at the account level (sales growth, returns, damages, deductions, and claims), the sales team would be able to coordinate postpromotion follow-up, assess past promotional spend effectiveness and profitability, and understand seasonal effects. This would help ensure management budget control and allow continual refinement of the approach.

Many Systems, Many Interfaces

As the sales team designed and established our processes, we found that we would need to expand our business software solutions

to provide support for TPM, particularly as promotion volume increased. For order handling, accounting, supply chain planning and execution, and other processes, we'd implemented the SAP ERP application, a few other packaged software solutions, and spreadsheet applications. Working with the VP of sales, I learned that we would also need other systems to support the full TPM process, including tracking spending, monitoring promotion performance, and forecasting.

We developed some solutions internally – mostly using spreadsheets – and procured a few others that met many of our needs economically. We were told by our IT group that we could pace our building of additional capabilities. Most important, our IT group informed us that there would be some need to connect the systems, exchanging data among the spreadsheets and applications to support accounting, market planning, and available-to-promise and other processes.

We were told we could simply build interfaces to accomplish the data exchange, which could save money relative to the cost of a single, more comprehensive approach. Even as nontechnical people, my colleague and I could see clearly that this was an eminently reasonable approach. How hard, we thought, could interfaces be?

DISAPPOINTING RESULTS FROM THE INITIAL APPROACH

PROBLEMS WITH A PATCHWORK OF SOFTWARE SOLUTIONS

As it turned out, the software interfaces were extremely difficult to execute. What's more, they often didn't work correctly. And we began to realize that our growing patchwork of interconnected systems was becoming the primary source of a lot of problems.

We had explored TPM best practices thoroughly. We had achieved alignment with our channels as well as our internal staff. We had planned our processes diligently and established the right business targets. But with all that, we were failing to move the needle on revenue, operating expenditures, and inventory reductions. In fact, sometimes company performance relative to these metrics actually deteriorated.

To make matters worse, the new layer of internal and external communication required for TPM was poorly executed as a result of bad data from our patchwork of systems. For example, we experienced difficulty formulating and sharing plans. The sales team had limited visibility into retailers' planned promotions and funds available to support them. We had trouble tracking planned versus actual spending, and we couldn't properly automate allocation of accruals to the financial ledgers.

Moreover, individual salespeople – who are ultimately responsible for driving profitable volume – were facing challenges negotiating with retailers, given a limited understanding of the likelihood of success of any particular promotion strategy.

Our spending was truly inefficient. I could go on and on. The lack of well-integrated systems caused so many other problems, ranging from poorly managed trade claims to imbalanced inventory, with too much of some items and others out of stock. We couldn't validate retail-level execution, we didn't have a 360-degree view of customers, we didn't know results at the store level, and deductions were too high. Everyone was complaining – sales and marketing staff, production and inventory managers, and our new retail customers. Our margins were declining severely. And it all could be traced to our fragmented systems.

QUICK WINS WITH SAP SOFTWARE FOR TRADE PROMOTION MANAGEMENT

ACHIEVING VISIBILITY, PRECISION, MEASURABLE RESULTS

It was clear that we needed a well-integrated platform with specific features to support TPM. After much investigation, we found that SAP offered an excellent TPM package, as well as tight integration with its other solutions, supporting complete end-to-end processes. At that point, we opted to implement the SAP Account and Trade Promotion Management for Consumer Products package, software complementary to our existing SAP solutions. The idea was to enable closed-loop TPM planning processes as well as TPM execution, including trade activity, trade funds, and trade claims management. In addition, we began to fill in our software footprint more broadly with SAP solutions – supporting processes from enabling supply chain management to customer relationship management.

After nine months, we achieved critical mass. We are now starting to realize measurable improvements to revenue and operating expenses – thanks to closed-loop TPM integrated with the broader company processes. In particular, direct-to-consumer marketing and media campaigns are well synchronized with planned promotional activity at the retail level. We've had many quick wins, including:

- Visibility
 - Better insight into spending and volume forecasts to facilitate decision making
 - A clear view of shipment and financial information, improving production planning and customer service
- Better Analyses
 - Ability to analyze which promotions are the most and least effective from a cost and margin point of view – especially in relation to baselines established in non-promotional periods for our product lines
 - Real-time tracking, evaluation, and reporting – including dashboards and traffic lights – allowing us to quickly reinforce good programs and halt bad ones
- Accuracy and Efficiency
 - High invoice accuracy, through integration with billing – resulting in fewer manual interventions to resolve disputes and inaccuracies, and reduced deductions
 - More precise and efficient processes through automated workflow for requests and approvals
 - Better-targeted sales promotions aligned with television, radio, and consumer programs – in an integrated marketing calendar
- Results
 - Improved cash flow, resulting from reduction of outstanding receivables and lower inventory
 - Continuously improving profit from promotions, resulting from better data and analyses – as well as organizational alignment across the board

POSITIONED FOR LONG-TERM SUCCESS

CATEGORY LEADERSHIP, SHAPING THE DEMAND CURVE



Now that we understand the central role of integrated systems to support our processes, we can plan well for the long term and really take advantage of the opportunities that TPM offers. At first I distrusted TPM; I thought it would cheapen our brands. Now I'm growing to appreciate it as a great strategic lever.

For example, we can pursue category leadership with specific promotions and leverage promotions to shape the demand curve for some categories. We can more readily catalyze demand for new products or slow-moving inventory. We can shift from push to pull in our supply chain, collaborating among sales, marketing, finance, and external partners to execute promotions with an understanding of the demand implications. This is helping us move toward more sophisticated demand-driven supply networks. We can enable traditional account executives,

who tend to push volume at all costs, to become more deliberate customer managers, based on new balanced scorecards that include forecast accuracy and profit-based metrics for success.

TPM is truly becoming a win-win-win – for our company, for retailers, and even for end customers, who benefit from lower prices during these promotions. And we have achieved the objectives set out by the management of N-Hair and our investors.

"Skin care!" proclaimed our CEO, as she closed our meeting today on growth through brand extension. So here we go again. But this time, our approach will have a foundation in the wisdom earned through experience with trade promotion management.

Find Out More

To learn more about how SAP can help your company achieve strategic value with trade promotion management software, please visit us on the Web at www.sap.com/usa/solutions/executiveview/marketing/index.epx or contact your sales representative today (please see www.sap.com/usa/contactsap/directory/index.epx).

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