

MAXIMIZING STORE PROFITABILITY WITH SAP FOR RETAIL

LEVERS THAT IMPROVE STORE PERFORMANCE

With the SAP for Retail solutions, you gain visibility and control over the primary levers of profitability – the key to driving store performance. Now you can identify problems, isolate root causes, test what-if scenarios, make decisions with confidence, and operationalize plans down to the store level.



In the current retail market climate – where most retailers face pressure to maintain competitive prices and maximize profitability – managing costs and prices is quickly becoming a key competitive tool. But making decisions that actually improve profit margins isn't always easy. Many retailers lack insight into true store profitability, because data is trapped within a black box of costs allocated back to stores. Without the right analytical and reporting tools, it's hard to know, for example, the true cost to serve each customer or handle returns. And as a result, it's difficult to identify the best opportunities to improve store-level performance.

For example, many retailers struggle to allocate store labor – typically their largest controllable expense – to maximize store profitability. How can you know whether your hourly productivity per store associate by department is too high or too low? (If it's too high, customer service suffers; if it's too low, profitability erodes.) As you enter a period of high demand, such as the holiday season, how can you ensure that you have just the right staffing levels at each store? If you have budget for holiday staff, how do you know which stores need it the most to drive more sales and ensure high service levels? Without the right analytical tools and insight, you have to make these types of decisions based on history, gut instinct, and politics – which usually results in subpar outcomes. The SAP for Retail set of solutions can help you make informed, strategic decisions that drive store profitability.

Proactively Find Ways to Improve Store Performance

The SAP for Retail solutions provide a powerful, new, and proactive way to improve store performance. The software supports real-time dashboards for monitoring performance, as well as activity-based-costing (ABC) analysis that's user-friendly and optimized for retailers. Setup and use of the dashboards is intuitive. When key metrics indicate a potential performance problem, you can gather detailed information on cost and net profit and view it from a process- and activity-based perspective at the store level. Armed with powerful reporting and what-if analytics, you can then identify opportunities to increase profitability, determine root causes, model and test scenarios, and make calculated decisions about how to address performance problems.

Any store activity or procedure, such as store stocking, can be isolated by activity so that costs can be itemized for ABC. As a result, you can clearly see where hidden costs and inefficiencies are and use them as levers to effect change. As shown in the figure, small improvements at the process level can lead to significant improvements in profitability.

Finally, you can operationalize your decisions by updating forecasts, budgets, and operating plans within the SAP® Business Planning and Consolidation application or your existing planning software. The result is a complete life-cycle approach to driving the profitability of your retail stores.



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Drive the Performance Management Life Cycle

With SAP for Retail, you have what you need to drive performance management, right down to the store level. The solution supports the performance management life cycle, offering the sustainable decision support needed to keep costs down and net profit up.

Identify Opportunities

With SAP for Retail, you can analyze operational and financial data to track key metrics and identify opportunities to improve profitability. Role-based dashboards help you monitor performance in real time and compare it with historical data – insight needed to identify performance problems from an

organizational perspective. Alerts with configured parameters enable you to manage by exception.

But identifying performance issues is only the first step in optimizing performance. The real challenge is to determine what to fix at the store level and to provide timely information to store personnel. SAP for Retail enables you to perform ABC analysis to understand a product's net profit and carry out accurate profitability and cost management. Moving beyond broad cost analysis from the general ledger, you can take a process- and activity-based perspective. The software first captures expenses, such as labor, assets, equipment, and IT. It then assigns the cost ratios to internal support functions, operations, and customer-facing activities and to specific customers, products, and other segments. This data is used to calculate net profitability by matching revenue and cost at the level of a customer, product, or other business segment.

This new process view of costs gives you an entirely new perspective from which to make decisions. You can, for instance, determine a product's fully loaded cost and its resulting level of profitability as it passes through your supply chains – from supplier through to consumer via stores or direct delivery. You can also determine the root causes of unexpected behavior in stores, such as why some stores have higher return rates for certain products (and if hidden costs are associated with those returns). Armed with this insight, you can identify the best opportunities to fix problems and take costs out of processes and activities. You can also answer fundamental questions such as:

- Which products generate the greatest – or the least – net margin?
- What is the cost to serve and net margin contribution by product?
- Which activities can you focus on to reduce cost?
- How far can you reduce price and still make a net profit?

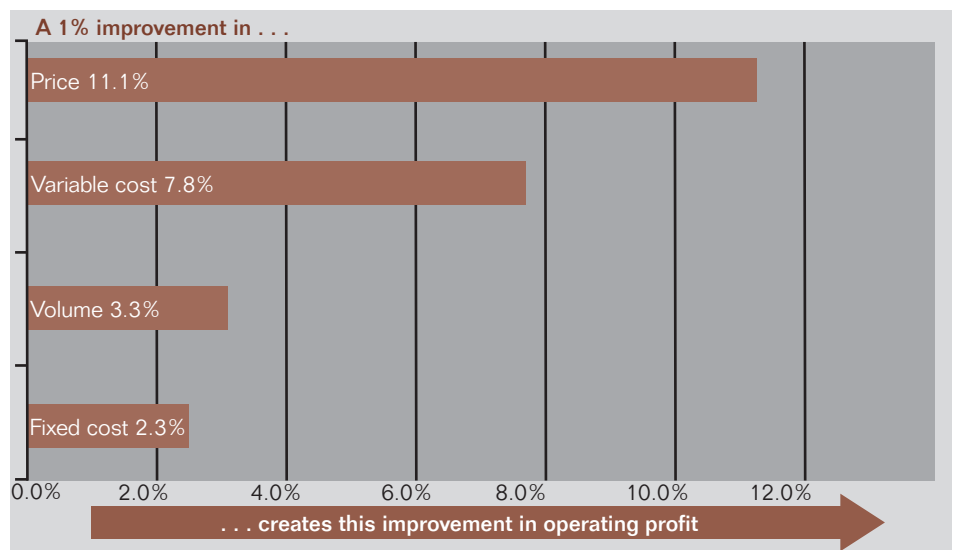


Figure: Process Improvements and Profitability

Determine Root Causes and Test What-If Scenarios

SAP for Retail helps you identify not only what's hurting profitability at the process level but also the best actions you can take to improve it. You can build models and run what-if scenarios to assess the impact of various decisions before you actually implement them. Because you've already broken down the cost drivers and determined root causes using ABC analysis, you simply change the variables you've identified as profitability levers. You can then see the resulting cost and profitability implications in real time. For example, you can simulate changes to resources, costs, and cost assignments and assignment methods – and then instantly calculate the impact on profitability and net margin. All that happens instantly using proprietary in-memory online analytical processing (OLAP) technology. Real-time updates to the results eliminate the need to re-execute or rerun reports after each change.

Armed with these analytical tools, you can answer key strategic and tactical questions such as:

- Which option will boost profitability more: adding labor hours or more promotional events?
- What's the best time of day to receive shipments if you need to minimize costs?
- Which stores need budget for holiday staffing to maintain the right balance between customer service and profitability?

Operationalize Plans

Once you've identified a performance issue and validated the best action plan, the next step is to operationalize your plan. When you deploy the business planning functionality within SAP for Retail, store operations teams can update store plans and tie their updates automatically back into the overall company forecast. The software provides a familiar Microsoft Excel interface and an automated business process flow that guides teams step-by-step. As the

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teams update store forecasts, the budgets, operating plans, and documents are routed to managers for review and approval.

Because all relevant data is stored in a single database, you always have a real-time overview of profitability – both corporately and at the store level. Approved plans are instantly reflected across corporate plans, forecasts, budgets, and dashboards, complete with new targets for key profitability drivers. You can also update the forecast pack-

age for the board of directors' forecast package, which comes with the software.

Key Benefits

With SAP for Retail, you gain greater visibility and control over the key levers of profitability. You can make calculated decisions that:

- Improve net margins
- Maximize the impact of value-added activities and minimize the impact of non-value-added activities
- Increase store efficiency and lower costs by fine-tuning store operations
- Optimize pricing and discounting
- Boost sales by improving assortment mixes, balancing inventories of private labels and national brands, and removing loss-generating products
- Reduce the cost to serve
- Control labor costs and allocate budget to maximize store profitability and maintain the desired customer service levels
- Reduce the risk of operational changes by modeling outcomes, visualizing the impact of pro forma profit and loss, and setting new company-wide targets for a unified approach

For More Information

Only SAP provides the tools to deliver the cost and profitability monitoring, analysis, and reporting needed to achieve superior store performance. For more information about how you can benefit from the profitability management functionality of SAP for Retail, please visit www.sap.com/retail.

Summary

The SAP for Retail set of solutions provides a powerful new way to drive store performance. Using activity-based-costing (ABC) analysis to view operations from a process perspective, you can identify the levers that drive profitability and test scenarios to determine the best course of action. You can also operationalize plans to keep costs down and net profit up.

Business Challenges

- Lack of insight into true store profitability
- Difficulty identifying the best opportunities and actions to improve store performance
- Difficulty updating budgets, forecasts, and plans and executing them at the store level

Supported Business Processes and Software Functions

- **Performance monitoring** – Use dashboards to monitor performance and key performance indicators in real time
- **Profit and cost analysis** – Leverage ABC analysis to uncover costs at process and activity levels and determine true net profit
- **What-if analysis** – Test different scenarios and determine the best course of action
- **Execution of plans** – Update forecasts, budgets, and plans at the store level; roll up plans to update corporate dashboards and targets; and monitor execution and impact on profitability

Business Benefits

- **Maximized profitability** through proactive management of costs, pricing, and net profitability
- **Lower costs** through ABC analysis that supports process- and activity-based views
- **Proactive management of labor costs** that balances store profitability and customer service targets
- **Increased store efficiency** through fine-tuning of store operations

For More Information

Call your SAP representative, or visit us online at www.sap.com/retail.

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