

## SAP Solution Brief

SAP for Wholesale Distribution

SAP Price and Margin Management

# WHOLESALE DISTRIBUTION: DRIVE PROFITS ACROSS THE ENTERPRISE

## WITH SAP® PRICE AND MARGIN MANAGEMENT BY VENDAVO

The SAP® Price and Margin Management application by Vendavo is an enterprise-class application designed to help wholesale distributors significantly increase profitability by driving improvements in average prices at every stage of the pricing process for better pricing decisions – and more money – on every deal.

### Pricing and Profitability – Two Sides of the Same Coin

Wholesale distributors face a unique pricing environment as they play a critical middleman role in the supply chain. Traditionally, they have very thin margins earned across a large number of individual transactions, customers, suppliers, and SKUs. At the same time, because of these characteristics, even small improvements have a dramatic impact on profit margins.

Cutting costs is no longer enough. You have to grow profits, and pricing is your most powerful lever. It's crucial to determine the right price for each product in each deal you negotiate. Solutions for enterprise resource planning (ERP) and customer relationship management (CRM) gather the information you need but fail to yield full value if you don't apply the data to a unified pricing strategy. Without informed control over the prices you charge each customer for each product you sell, you're leaving money on the table in nearly every deal – small amounts, perhaps, but substantial when aggregated over time.

The SAP® Price and Margin Management application by Vendavo gives you true enterprise-wide control of your entire pricing process. With a combination of enterprise-class software based on pricing science, along with documentation for pricing best practices, SAP Price and Margin Management helps you drive improvements in every stage of the pricing process for dramatic improvements in profitability. SAP Price and Margin Management is a proven

application that meets the demands of flexibility, scalability, and functionality for the largest, most demanding distributors in the world. It has been implemented in multinational corporations worldwide in industries such as wholesale distribution, high tech, chemicals, consumer products, and mill products.

### An Enterprise-Wide Problem

Pricing is the most underutilized of all the available profitability levers; it is the last frontier in finding ways to improve the bottom line. A primary reason is that pricing is an enterprise-wide problem, reaching functional areas such as marketing, sales, and finance and impacting many different roles including sales reps, managers, and executives. In large, complex distribution companies, pricing processes often vary by business unit, division, or product line, making it hard to recognize pricing challenges across an entire organization, let alone get a handle on them. In general, distributors face four areas of difficulty in the pricing process.

**One-size-fits-all approach** – Many distributors charge every customer the same price for a particular product regardless of their perceived value of the product or cost to serve, which can vary significantly by customer-segment attributes. During an economic downturn, distributors under pressure tend to cut prices across the board – resulting in deeper price erosion and lost revenue opportunities.



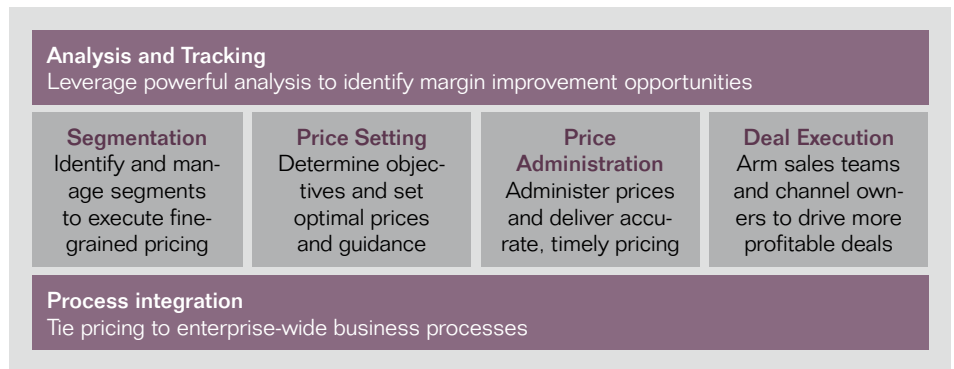
THE BEST-RUN BUSINESSES RUN SAP™



**Ad hoc price setting** – ERP and CRM applications collect information that can help determine pricing. But often this information is ignored in favor of a “gut feeling” or an ad hoc approach, with money lost through ineffective pricing.

**Manual, error-prone processes** – Most companies have highly manual, disconnected processes to manage prices and communicate pricing to customers. This impacts response time to make changes and introduces errors in pricing. These processes are even more limited because they are not integrated with other applications.

**Ineffective deal negotiation** – All these limitations leave salespeople negotiating with inadequate information. Without clear visibility into customer segments and policies, it’s impossible to negotiate with a customer in a way that best serves the bottom line. The result is lost profits and dissatisfied customers.



**Figure 1: Addressing Pricing Problem Areas with SAP® Price and Margin Management**

### An Enterprise-Class Answer

SAP Price and Margin Management is an enterprise-class application that can support your most complex business processes. It helps you make improvements at all stages in the pricing process to maximize your market intelligence, enable your sales force, and get the most out of every deal. At each stage, SAP Price and Margin Management helps you make better-informed decisions and proactively manage profits. Each new deal provides fresh intelligence, which is incorporated into the process to foster even better pricing in the future.

As Figure 1 shows, the application addresses each of the areas of difficulty encountered in the pricing process.

**Segmentation** – SAP Price and Margin Management leverages data across applications, including ERP, CRM, and legacy systems. It uses this data as input for sophisticated data mining and statistics, along with qualitative business analysis, to identify segments that should be grouped together for consis-

tent pricing. As new data becomes available, the application helps refine existing segments and identify new ones.

**Price setting** – A pricing power and risk model provides the basis for setting optimized prices and guidance for each segment. Using sophisticated pricing science, the application enables you to take action by setting segment-specific optimal prices and providing guidance for your sales teams. This forms the basis for consistent and reliable differentiated pricing.

**Deal execution** – Your salespeople will have access to up-to-date contextual information, including segment-specific pricing and guidance, customer transaction history, and peer-group comparisons, enabling them to negotiate profitable deals that maximize customer relationships. An optimized pricing process consistently delivers significantly higher margins.

**Analysis and tracking** – At each stage of the pricing process, the application provides visibility into key performance

indicators for pricing through analysis and tracking. This helps you identify opportunities to improve product mix or reduce margin leakage and monitor on-going performance. For example, the “price waterfall” in Figure 2 is a visualization tool that can help decompose the factors that drive profitability at both the transaction and summary levels. Because the waterfall quantifies the transaction-level impact of various activities and programs, you can focus more readily on the cost components that impact price and margins. Additionally, role-based dashboards provide executives and managers the insight they need to make informed pricing decisions.

**Process integration** – Each stage of the pricing process is integrated with other enterprise-wide business processes and solutions, enabling you to realize the benefits of pricing across the company.

### Begin Where You Need It Most

SAP Price and Margin Management enables you to set your own pricing priorities according to your business strategies, markets, competitive environment, and existing pricing process. You can choose which challenges to address first and expand your focus over time. For example, depending on your business challenges, you can start with segmentation and price setting and optimization or decide to focus initially on price administration. You can develop at your own pace, incorporating the application into your larger business plan to make the most of the resources you have allocated for pricing.

### Focus on Profits

The application helps you orient your entire organization toward maximizing profits through unified pricing goals and gives everyone in the process a view of

the bottom line. It helps you gain more value from your current CRM and ERP applications by making better use of the information they gather. Equipped with a reliable basis for effective differentiated pricing and with tools that support price requests and approvals, your salespeople are better able to negotiate deals with the bottom line in mind.

### For More Information

For more information on SAP Price and Margin Management, contact your SAP representative or visit us online at [www.sap.com/solutions/solutionextensions/pricemarginmgt](http://www.sap.com/solutions/solutionextensions/pricemarginmgt). For more information on SAP for Wholesale Distribution, contact your SAP representative or visit us online at [www.sap.com/wholesale](http://www.sap.com/wholesale).

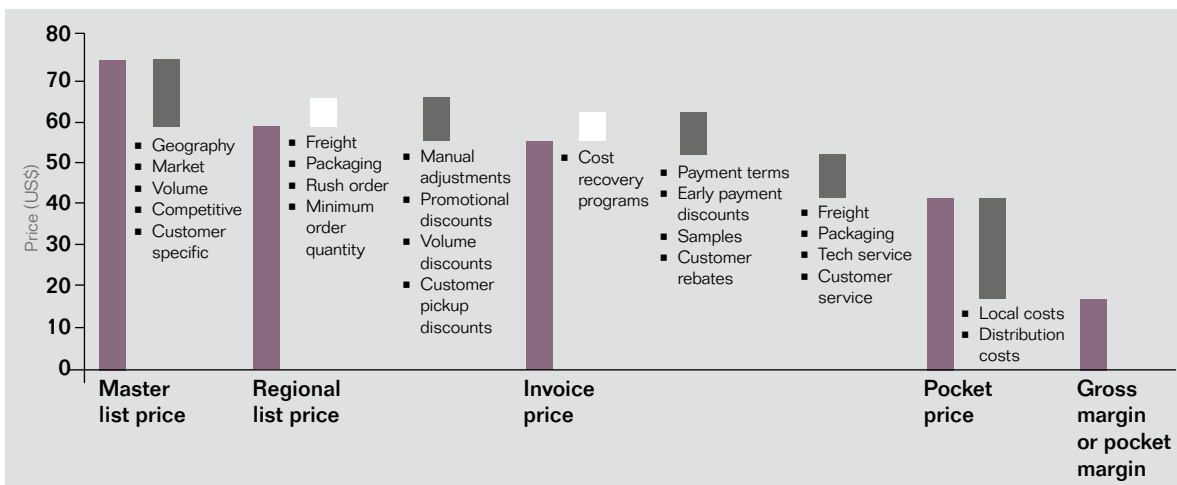


Figure 2: Sample of the “Price Waterfall” Visualization Tool for Wholesale Distributors

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## Summary

The SAP® Price and Margin Management application by Vendavo combines pricing science, best-practices documentation, and enterprise-class software to drive improvements in average prices at every stage of the pricing process. Added up, these improvements deliver big increases in profits. The goal is simple: make better pricing decisions and more money on every deal.

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## Business Challenges

- Make the most of every customer relationship with a segment-specific price-setting approach that doesn't leave money on the table
- Get the most out of available information by taking a systematic approach to price setting that results in effective pricing and higher profits
- Eliminate manual, error-prone processes that can lead to poor communication, wasted labor, and lost sales
- Negotiate every deal more effectively with the bottom line in mind

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## Key Features

- **Segmentation** – Use sophisticated data-mining techniques and qualitative business analysis that help you optimize marketing intelligence and segment customers into groups for more effective pricing
- **Optimized price setting** – Set the right price for each segment and provide the best guidance for your sales teams
- **Price administration** – Respond rapidly to changes in the market and communicate pricing and policy changes quickly across your entire organization
- **Deal negotiation** – Give your sales teams up-to-date pricing information and guidance to help them negotiate profitable deals that maximize customer relationships
- **Analytics** – Gain insight into key pricing metrics to improve margins on an ongoing basis
- **Process integration** – Tie pricing to enterprise-wide business processes

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## Business Benefits

- **Increase revenue** by driving improvements in pricing at every stage of the process
- **Enhance productivity and improve margins** by setting optimal prices and providing guidance for every deal
- **Take advantage of market opportunities** with timely and effective changes to pricing

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## For More Information

Contact your SAP representative, or visit us online at

[www.sap.com/solutions/solutionextensions/pricemarginmgt](http://www.sap.com/solutions/solutionextensions/pricemarginmgt) or at [www.sap.com/wholesale](http://www.sap.com/wholesale).

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