

DEMAND AND SUPPLY MANAGEMENT FOR WHOLESALE DISTRIBUTORS

GETTING YOUR INVENTORY RIGHT

For wholesale distribution companies, keeping customer service levels high and cost of goods sold low hinges on successfully managing their inventory. They can find a full range of tools for doing so in software from the SAP for Wholesale Distribution solution portfolio.

Not long ago, it was standard practice for wholesale distribution companies to stock their warehouses with inventory and then go out into their customer base and try to sell what they had in stock. Today the story is quite different. Faced with ever-more-demanding customers on the one hand and often-dramatic product proliferation from their suppliers on the other, companies need to do all they can to keep their customer service levels high while keeping their inventory levels under control. These practices lead to a lower cost of goods sold.

For wholesale distribution companies like yours, the key to success on both fronts lies in effectively managing your inventory. That means having the right material on hand when a customer needs it, but without having dead stock sitting around costing you money. You have to ensure that you maintain the appropriate amount of seasonally adjusted safety stock. And through it all, you have to be able to take advantage of your suppliers' special offers – while keeping inventory turns as high as possible.

The challenge is not simply to have enough inventory on hand. You need to have the right inventory in the right quantities at the right time and at the right place. Every operational mistake you make in this area goes straight to your bottom line. For starters, you need to have clear visibility into your upcoming demand. And then you need to act on it by making the most economically intelligent buying decisions – which are critical to keeping inventory levels in

line. The proper choices also enable you to keep “stock-out” situations to a minimum, which in turn keeps your customers satisfied and positions you as their supplier who gets things right.

Complete Support for Inventory Management

So how do you go about getting your inventory right? By getting the right software. Based on extensive experience with the wholesale distribution industry, SAP has developed the SAP for Wholesale Distribution solution portfolio, a set of state-of-the-art software solutions for midsize and large wholesale distribution businesses worldwide. Powered by the SAP NetWeaver® technology platform, the portfolio includes software for demand and supply management that gives you the full range of functions and tools you need to manage your inventory – and much more.

SAP's approach to demand and supply management draws on SAP® solutions for supply chain management and inventory collaboration to go far beyond the limits of a traditional inventory management approach. Of course you get an easy-to-use interface that allows you to perform all standard functions such as viewing your inventory levels over time for individual materials or groups of materials. But the software also encompasses partner-facing and internal collaboration processes to help you ensure that you buy what you need and not what you don't. Deep, industry-focused functionality in SAP software for demand and supply management enables you to build strong collaborative





relationships with your customers and suppliers. With these features and strong integrated analytics, the software gives you robust support for forecasting expected sales, making smart buying decisions, and stratifying your inventory.

Forecasting Expected Sales

Forecasting error is the principal reason for inventory issues and a root cause of many customer service shortcomings. Think about it – if you could predict exactly what you will sell and when and where you will sell it, how much lower would your inventory costs be? How much smaller could your warehouses be? And how much more frequently would your customers express total satisfaction with their experience of your company?

The problem is that exact forecasting is impossible, so most distributors resort to a traditional reorder point or “min/max” strategy. This is a satisfactory solution for some, but it has serious limitations. SAP demand-planning solutions offer a better approach. They employ a variety of forecasting techniques that rely on historical sales data and input from various entities both within and external to the enterprise to generate a seasonally adjusted, mathematically accurate forecast at the material level or the material group level. Such an approach allows you to garner valuable input from your key customers and suppliers. Many different forecasting models are available, and the software can even choose the most accurate one automatically.

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Making Smart Buying Decisions

Does your company schedule deliveries from your suppliers according to the calendar, or according to what is most profitable for your business? Are you receiving a partial truckload every two days from a supplier who offers better freight terms for a full load? SAP software provides advanced functionality that reviews upcoming purchase needs based on forecasted demand, reorder points, and other factors and automatically converts them into purchase orders while using integrated analytics to minimize the freight costs you end up paying.

This is done automatically for each of your supplier locations in connection with each of your warehouse or branch locations. You can choose to enable staff review of the results prior to release of the purchase orders, or you can choose to release them automatically, thereby freeing your staff to concentrate on other, value-added activities.

When the end of a financial period approaches, it is very common for suppliers to offer a special price on some of their items. If you can make the right purchase at the special price, you can earn valuable extra margin. But how much should you buy? SAP software for the wholesale distribution industry includes inventory management tools that calculate the optimal purchase amounts to maximize your profits. The calculations take into account your inventory carrying costs, freight charges, and forecasted sales. Using these tools, you can base your decisions on sound analytics and not just on gut feelings or subjective judgments that may be prone to error.

Stratifying Your Inventory

How can you determine which of your products you should stock at each warehouse or branch, which should be available on a special-order basis, and which you should keep at your central distribution center? The best answer is dependent on a detailed inventory stratification analysis. Whether you choose to stratify your inventory based on sales volume, velocity, gross margin return on inventory invested, or a combination of all of these, a proper analysis will allow you to have the appropriate inventory on hand.

According to a basic stratification scheme, for example, items designated as “A” items must never be out of stock, but these items usually demand a lower profit margin. “B” items should have a 90% fill rate and demand a higher margin. “C” items can be consolidated

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at the central distribution center, freeing up cash at the branch, and “D” items can be eliminated from inventory. This practice can allow you to achieve a lower cost of goods sold, fewer stock-outs, and higher margins. Or, if you choose, you can apply a more sophisticated stratification whereby the gross margin return on investment can determine the service level you employ. SAP software tools for inventory stratification analysis give you a powerful but flexible range of options.

Benefits of an Integrated Approach

SAP software for performing demand and supply management allows you to have complete visibility and operational control over your current, incoming, and outgoing inventory up and down the supply chain. As a result, you can:

- Keep cost of goods sold lower by reducing the amount of inventory on hand
- Keep inventory turns high
- Take full advantage of special buying and load-building opportunities by applying analytics to your purchasing decisions
- Reduce the amount of lost sales due to stock-outs and low visibility
- Increase customer satisfaction by having what your customers need, when they need it, and where they need it

SAP for Wholesale Distribution helps you get your inventory right. That makes it easier for your customers and suppliers to do business with you. And it strengthens customer loyalty, increases efficiency, reduces costs, enhances responsiveness, and boosts sales, giving you the edge you need in your competitive industry.

Get the Full Story

To learn more about SAP solutions for the wholesale distribution industry, contact your SAP representative or visit www.sap.com/wholesale.

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Powered by SAP NetWeaver

SAP for Wholesale Distribution is powered by the SAP NetWeaver technology platform. SAP NetWeaver unifies technology components into a single platform, allowing organizations to reduce IT complexity and obtain more business value from their IT investments. It provides the best way to integrate all systems running SAP or non-SAP software.

SAP NetWeaver also helps organizations align IT with their business. With SAP NetWeaver, organizations can compose and enhance business applications rapidly using enterprise services. As the foundation for enterprise service-oriented architecture (enterprise SOA), SAP NetWeaver allows organizations to evolve their current IT landscapes into a strategic environment that drives business change.

Summary

Software for demand and supply management from the SAP for Wholesale Distribution solution portfolio gives your company a full range of forecasting, collaboration, and analytics functionality that you can use to effectively manage your inventory. With SAP® software, you can more accurately forecast customer demand; make intelligent, optimized purchasing decisions; and keep inventory turns high – allowing you to raise your standards for efficiency, responsiveness, and customer service.

Challenges

- Satisfy increasingly demanding customers
- Respond to product proliferation from suppliers
- Boost profits in a highly competitive industry
- Increase inventory turns
- Accurately forecast inventory needs

Supported Business Processes and Software Functions

- **Accurate forecasting of sales levels** – Apply powerful analytics and collaborative processes to your demand planning
- **Strategic purchasing decisions** – Minimize freight costs and take maximum advantage of special pricing offers
- **Sophisticated stratification analysis** – Maintain safety stock levels and maximize margins while reducing cost of goods sold and stock-outs

Business Benefits

- Increase customer satisfaction and loyalty
- Improve efficiency and responsiveness
- Lower costs and improve margins
- Reduce stock-outs and dead stock
- Free up warehouse space and capital

For More Information

Call your SAP representative or visit us on the Web at www.sap.com/wholesale.

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