Sales Order Management Solutions

Perfect Order Fulfillment for Wholesale Distribution

Table of Contents

4 **Executive Summary**

5 **The Ever-Changing World of Wholesale Distribution**

6 **Comprehensive Order Management**

7 **Processes and Challenges**
- Before the Order
- Order to Cash
- After the Order

9 **Fundamental Requirements**
- Collaboration
- Planning
- Business Intelligence

10 **SAP for Wholesale Distribution**
- SAP Integration
- Gaining Insight Through SAP Solutions

11 **Comprehensive Benefits**

12 **Summary**

Superior order management can be a competitive edge, improving customer satisfaction and retention as well as the bottom line. What does it take to achieve streamlined order management performance? To move ever closer to order perfection and a truly happy customer base, you must cost-effectively eliminate virtually all the issues and errors that can stymie on-time, accurate order fulfillment.

Executive Summary

In today's wholesale distribution business climate, order management is crucial to corporate success as customer demands for flexibility increase and tolerance for errors decreases. The customer quest for the perfect order is under way.

Superior order management can be a competitive edge, improving customer satisfaction and retention as well as the bottom line. What does it take to achieve streamlined order management performance? To move ever closer to order perfection and a truly happy customer base, you must cost-effectively eliminate virtually all the issues and errors that can stymie on-time, accurate order fulfillment. This involves every order management process, including planning, acquiring, and creating accurate orders and contracts; handling order changes; and resolving order fulfillment and postdelivery problems. In fact, it is not uncommon for order management processes to cross 5 departments and as many as 10 systems in an organization.

An effective software solution will make your order management strategy, processes, and IT systems customer centric – not product centric. To realize this, you must evaluate your customers' needs and wants, what you can provide, and the areas you can cost-effectively change to improve your performance and retain and grow your customer base.

Superior end-to-end order management performance requires the integration of all relevant processes throughout the enterprise: sales, purchasing, customer service, logistics, and finance. In the wholesale distribution industry today, creating successful, customer-centric order management processes also involves collaboration and process integration with customers, redistributors, and suppliers, including buying groups, transportation carriers, and multiple distribution centers.

Technologically, achieving superior order management performance requires integration across applications for materials management, sales and distribution, and warehouse management.

The challenges are to create adaptive and flexible order management processes built to:

- Eliminate disconnects (manual handoffs, redundant data entry) that lead to delays and errors by integrating, redesigning, and improving processes
- Create a single version of the truth about your customers, orders, and products using centralized enterprise data
- Empower personnel with real-time information, analytics, and automatic workflows that are relevant to their responsibilities
- Adapt to changing requirements and new functionalities by enabling changes to portions of the order management processes without impacting other functions
- Achieve a lower total cost of ownership with a holistic, integrated enterprise order management solution that is specific to wholesale distribution
- Incorporate mobile order-entry options, including the ability for your customers and sales employees to enter orders on any mobile device

The path toward the perfect order equates to taking customer-centric steps toward end-to-end order management, which requires operational excellence, cross-enterprise integration of processes and IT, and accessible enterprise intelligence about customers, products, services, and orders.

Distributor Priorities	Order Management Enablers
Drive revenue	• Customize product and service offers based on customer demographics • Manage the business from a customer-centric perspective • Up-sell and cross-sell at the point of order placement • Identify and substitute products in out-of-stock and product obsolescence situations
Attain operational excellence	• Coordinate internal resources to efficiently deliver quotes, contracts, and orders and allow flexibility for easy updates • Provide consistent communications across interaction channels • Prepare clear and accurate invoices • Schedule shipments from suppliers and distribution centers • Utilize mobile devices to enhance order-entry abilities
Manage profitable growth	• Ensure that inventory is available to meet customer demand • Base pricing on customer and product profitability • Proactively manage customer expectations regarding order status • Quickly and efficiently address customer issues and complaints

The Ever-Changing World of Wholesale Distribution

Many changes in the wholesale distribution industry have major implications for order management and the overall tolerance for mistakes. Some of those changes include:

- Commoditization and the need to differentiate through value-added services
- Nonstock distribution and the ability to improve customer service and lower costs
- Proliferation of suppliers and transportation carriers
- Increasing use of the Internet as a tool to link distributors to suppliers and customers
- Increasing adoption of mobile devices for business transactions

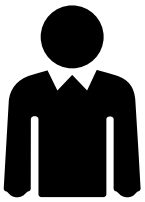
Even as distributors move toward practices to reduce inventory throughout the supply chain, standard stock remains the de facto buffer for correctly filling most customer orders. Industry consolidation has created tremendous competition. To earn higher profit margins and win more customers, distributors are pulling more and more of their suppliers into the planning process and transmitting sales data to them to trigger automatic replenishment.

Customers are demanding more of their distributors. They leverage the Internet to comparison shop. They have discovered online product configuration, rapid order entry, and automatic payment and replenishment processes. Ironically, this has made customer loyalty both more attainable and harder to retain.

All of these changes have uncovered the need for an improved IT infrastructure in many companies: corporate IT landscapes are challenged by disparate and aging applications; different databases lack standard definitions; and sluggish, error-prone manual processes impede high performance. All of these issues are detrimental to the order management resources processes, and customers suffer as a result.

In an ideal customer-centric world, successful order management is an end-to-end process. The front-office and back-office systems are no longer giant individual silos but melded into an integrated, single system with comprehensive, real-time information. Sales, purchasing, logistics, and finance personnel are all empowered to serve the customer.

An effective software solution will make your order management strategy, processes, and IT systems customer centric – not product centric.



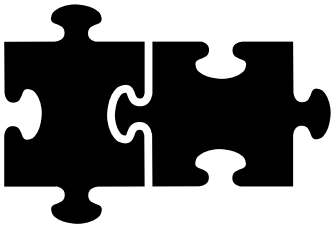
Comprehensive Order Management

End-to-end process management improves overall enterprise performance and minimizes cost. Focusing on comprehensive order management processes compels distributors to understand three scenarios:

- How other processes affect your performance
- How your subprocesses impact your performance
- How your process impacts others

The order process can fail at innumerable points within the order management process. Order management today can get a bad start when estimates are far from actual demand, when the orders themselves are inaccurate, or when orders are not prioritized properly. Order management problems will be exacerbated if supply chain disruptions delay deliveries, sales and customer service are not notified, delivery dates are missed, or customers can't access order status or reach sales personnel or customer service. The subsequent negative response from customers often causes an increase in inventory buffers that lowers profits.

Superior end-to-end order management performance requires integration of all relevant processes throughout the enterprise: sales, purchasing, customer service, logistics, and finance.



Processes and Challenges

BEFORE THE ORDER

Order management begins with planning and forecasting and depends on a host of capabilities and strategies that must be in place to handle inquiries, quotations, and orders.

Pricing Management

Whether it's sales, logistics, or purchasing, each company group has a different mind-set and different incentives. Consequently, conflicting priorities among groups can affect order margins. Often, the actual cost to serve is not considered when setting or changing pricing.

If the relationship between cost and prices is not well understood, margins can quickly erode. Leading distributors build their companies around a low-price, good-service strategy supported by highly efficient cost structures. In the process, they wreak havoc on inefficient competitors who stumble into a price war with them.

Such industry leaders invest a great deal in learning about their customers and their markets and making that information available to personnel across the company. These leaders base price primarily on value, for which several quantitative and qualitative measures can come into play:

- Value of the current order and the cost to fill it
- Value of the customer segment in terms of demand, volume, and buying habits
- Value of the individual customer based on the history of purchases across all categories by product and vendor, volume, revenue, profitability, credit, and returns
- Value of the customer over the customer lifetime, based on history and relationship
- Value of your company to the customer, how you differentiate from other companies, and why they buy from you

At the transaction level, if your enterprise can't see the full cost element of an order across the management process (the cost waterfall), it may lose not only profits but also revenue opportunities.

When determining overall value, it's important to consider your company's relationship with your customer. The few distributors capable of calculating lifetime customer value often focus primarily on profitability, which sales personnel factor heavily into pricing, contracts, and prioritization. While profitability remains critical, in a slow economy, success increasingly depends upon ongoing relationships and customer loyalty.

Value-Added Services Configuration

Because of increasing product complexity and the demand for customization, product, services, and price configuring must be integrated into the quote-to-order process across all channels. For instance, installation, setup, fabrication, kitting, packaging, and financial services often need to be considered when preparing a quote. Distributors who manually prepare complex service fee configurations can have costly errors.

It takes a team of sales, operations, finance, and others to create the business rules and data standards for automated product, service, and price configuring. Once these rules and standards are implemented, exceptional day-to-day results can follow, minimizing order errors and slashing the quote development time for distributors from weeks to hours.

The Saga of Chargeback Management

The industry has seen costly chargeback management failures, primarily because companies have failed to bring together and validate all the order elements in the management of chargeback agreements. As a necessary evil of competition, vendor cost recovery historically has lost millions of dollars, created endless arguments between manufacturer and distributors over the terms, and generated a host of unanswered questions about what sales were achieved against what agreements.

Poorly managed vendor cost recovery can have a major impact on cost of goods sold, particularly when deals are complex, unstructured, and recorded erroneously. They often result in huge claims errors, vendor disputes, and payment delays. Even if they are well managed, the disparate tools and methodologies used by different divisions can hinder visibility into performance and true profitability at the highest level.

The cost recovery saga is about chargeback management gone wildly awry. Distributors typically have thousands of contracts on file. Because they lack visibility into each document, they end up with unnecessary disputes, large open vendor accounts-receivable balances, and losses because of unclaimed recovery opportunities.

ORDER TO CASH

The order-to-cash process is a customer service process that can generate savings and value when supported through enterprise-wide sales order management. Manual processes, poor integration, and lack of collaboration and information can cripple the process. Errors can occur at and affect each step of the order process: inquiry, quotation and order entry, order processing, order fulfillment, billing, and complaints and returns. As the order process progresses, shortcomings in other major processes – finance, purchasing, and distribution – come into play.

The Sales Transactions: Inquiry, Quotation, and Order

The sales transaction can begin with an inquiry from the customer asking for detailed information about the goods and services desired, price and availability, and delivery. The customer receives a quotation, which is a legally binding offer to deliver in a specified time frame at a stated price. The sales order may then be created from the customer's inquiry, the company's quotation, or the sales contract. Distributors strive to shorten the amount of time between the inquiry and order by presenting "one face to the customer." This requires that:

- All customer interaction channels have access, and can share access, to the same complete customer information and products and services from configuration and price to availability
- The necessary sales order information is entered once, whether typed in by data-entry personnel (via e-mail, a Web site, or an intranet), by field sales (for example, from a laptop), or by customer service representatives employed by the distributor
- All order-related information is stored in one place, accessible across the enterprise

If you are lacking this functionality, consider what you are missing. SAP's experience with its own customers has shown that having a single source of customer data helped improve accuracy – including more accurate quotations, orders, and prioritization – by as much as 50% to 60%. A single source of consistent data for products, services, pricing, and contracts resulted in reductions in order-entry errors of 20% to 30%.

Distribution Scheduling and Fulfillment

The fulfillment process is becoming increasingly more complex. Parts of the distribution ordering process may be outside the enterprise, provided by suppliers, buying groups, or redistributors. Fast, accurate fulfillment cannot be accomplished without superior coordination across the company and with its partners. A collaborative sales-order management process is critical. These complexities obviously magnify the types of basic fulfillment problems and errors that can occur across enterprises to prevent the perfect order. When errors and breakdowns impact order deliveries, sales, operations, finance, and other personnel may not be able to quickly respond, because they aren't alerted in real time.

Poor visibility, slower-than-acceptable response times, and other critical problems occur because the purchasing and customer service personnel, logistics execution processes, and business systems are not integrated. Such disconnects extend to partners. Suppliers may negatively impact deliveries because poor delivery performance is often not well tracked or communicated. Transportation carriers may cause delivery delays when the supplier does not share schedules and exceptions quickly enough.

Counter Sales Transactions

Many distributors need to sell to customers directly from their branches and distribution centers. Counter sales and inside sales personnel help customers fulfill their immediate and near-term product needs while providing them with product information, suggestions for product substitutions, application help and expertise, delivery and cost savings information, and much more. Counter sales productivity and the ability to handle requests quickly and efficiently are critical in building customer loyalty and increasing revenue.

AFTER THE ORDER

End-to-end order management is not completed without processing the bill and possible returns. If you are building your strategy and vision around raising the lifetime value of your customers, how you handle postsales services is critical.

Distributors frequently miss an opportunity to reduce days sales outstanding because they do not invest sufficiently to improve service processes or adequately support the IT infrastructure around invoicing and credit memos. Historically, more IT expenditures are made in product pricing information. Consequently, most distributors lack the information infrastructure to realize potential savings with accurate pricing of both sales invoices and return credits.

Industry consolidation has created tremendous competition. To earn higher profit margins and win more customers, distributors are pulling their suppliers into the planning process and transmitting sales data to them to trigger automatic replenishment.

Fundamental Requirements

The fundamental requirements for achieving customer-centric, end-to-end order management are clear and well defined.

COLLABORATION

The most critical collaborative process is sales and operations planning, which translates demand data into a purchasing plan. This requires integration with and access to data from sales, finance, purchasing, and logistics. In demand-driven supply networks in particular, the perfect order is dependent on an excellent balance between forecast accuracy and the operations plans for sourcing, procurement, and distribution.

Software support for sales and operations planning should be tailored to the needs of your industry. Delivering the perfect order requires sharing information and performance metrics on every activity affecting the perfect order, from planning to price and contract management, and from procurement to logistics.

PLANNING

Developing more accurate demand forecasts requires powerful planning and forecasting functionality integrated into core processes for sales, contract and pricing management, and finance. Sales must be able to collaborate with extended teams to generate forecasts that accurately reflect market realities and focus attention on high-value products and target customers.

Pricing

Make sure you have the pricing processes and technology that enable you to execute pricing strategies tailored to each customer and sales channel based on your selected criteria. Pricing rules and data must be maintained centrally, accessible by field sales and telesales professionals. In addition to price lists, your application should be able to handle pricing for deals, specific customers, and contracts, with unique pricing procedures and conditions.

Contract Management

An integrated solution for contract management synchronizes customer information and rule-based contract development and pricing processes to create an accurate contract. From its centralized repository, this solution can make the terms available across the enterprise and throughout the quote-to-cash cycle. For complex configurations and orders, in particular, it should enable you to simulate contract scenarios to determine advantageous terms and help guide you through planning and negotiating. Standard templates facilitate contract development and the ability to handle various pricing and incentive choices correctly as well as indicate their impact on profitability.

Through audits and controls, such a solution should enable you to quickly settle disputes and minimize or stop overpayments, duplicate claims, and unusual return patterns. With a single contract repository, you can quickly analyze contract profitability and general trends, use strategic data for consolidated financial reporting, and ensure compliance with pricing programs.

Order Entry

Through integration with other order management steps, your quotation and order-entry processes and applications should make sure:

- Sales employees understand sales priorities before entering orders
- Contract terms and conditions have been validated against pricing, configuring, credit, and availability information
- The customer has accurate information on all aspects of the order through any of your sales channels
- Personalized product offers and solutions are provided
- Personnel across the enterprise and your channels are provided with a single version of the order

Billing

To ensure optimum billing functionality, you need to tailor invoices to the customer's needs, which includes providing separate totaled and itemized invoices, enabling the customer to access and pay invoices online, and offering links to contracts and returns and claims data to reduce the number of disputes and resolve disputes quickly.

Returns

Returns and claims must be integrated into the mainstream order management process to enable you to monitor promised service- and customer-escalation levels, provide customers with the current processing status of their complaints, and manage substitute deliveries.

BUSINESS INTELLIGENCE

The requirements for business intelligence include information, analytics, workflow, and an intuitive user interface designed to empower your organization and personnel. They need standards-based information sources on customers, products, services, pricing, and orders. Deep performance analysis is required as well as the ability to issue alerts to events and exceptions that may impact the perfect order. The view and the communication should be tailored to individual responsibilities and displayed through role-specific dashboards, reports, and alerts. It is critical to deploy enterprise analytics that measure order management performance across every step of order fulfillment processes, from quote to cash.

SAP for Wholesale Distribution

SAP is a pioneer in developing solutions for comprehensive management of critical business processes. The SAP for Wholesale Distribution solution portfolio offers a comprehensive order management solution that fulfills the fundamental requirements described above while providing specific functionality tailored to the needs of companies operating in the wholesale distribution industry.

SAP® software is designed to unite corporate sales and service strategies with the day-to-day effort to produce the perfect order for the customer. Through integration and empowerment, the solutions provide personnel across all relevant functions with visibility into the order management processes and the business rules and standards driving them.

Order-to-cash functionality from SAP allows you to execute different business transactions based on sales documents defined in an enterprise solution, including customer inquiries and quotations, pricing, sales orders, contract and scheduling agreements, credit and debit memo requests, and returns. This empowers distributors to:

- Close the loop between pricing and delivery to realize profitable revenue
- Provide repeatable savings through ongoing transaction cost reductions
- Support business change through flexible and open business scenarios and better customer service
- Increase customer participation to reduce effort, increase visibility, and manage supply

SAP INTEGRATION

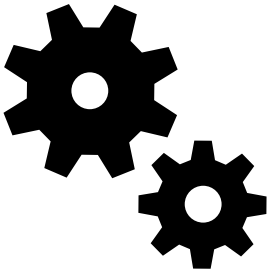
The robust and open SAP NetWeaver® technology platform integrates systems running SAP and non-SAP software, enabling you to exchange information and execute transactions as if they were a single system. Application-to-application and business-to-business processes are connected and managed by SAP NetWeaver. The platform integrates front-end mobile activities with back-end business processes to support online connections. In short, your integration is managed by a single platform, rather than dozens of costly interfaces.

GAINING INSIGHT THROUGH SAP SOLUTIONS

From the simplest report to the most complex data model, SAP software enables you to build a full business intelligence platform, providing necessary analytic tools and functionalities. It helps in the development and operation of enterprise-wide data warehouses containing structured and unstructured information and manages the distribution of data and workflow to applications, dashboards, and personnel in every function.

Because SAP software enables you to aggregate master data into a centralized master data store, your personnel can search across linked applications to create unified analytics and reporting. With SAP BusinessObjects™ business intelligence solutions, you can benefit from a highly effective, 360-degree view into your customer processes, which is designed to be a part of all business processes and dashboards.

In an ideal customer-centric world, successful order management is an end-to-end process. The front-office and back-office systems are no longer giant individual silos but melded into an integrated, single system with comprehensive, real-time information.



Comprehensive Benefits

As we have indicated throughout this paper, end-to-end order management can help you achieve a higher perfect order rate and better customer relationships. This improves your revenues, profitability, operating costs, order quality, and working capital. Based on estimates of time and money saved, individual SAP customers have reported the following results as they improved specific capabilities:

- **Increased revenue and decreased stock-outs**
  - 10% to 20% increase in cross-selling and up-selling rates through holistic views of customer and product knowledge
  - 10% to 30% increase in customer retention through improved personalization functionality, increased interaction consistency, and enhanced ability to resolve issues and view order status
  - 3% to 5% reduction in stock-outs through enhanced demand planning and fulfillment processes
  - Increased margin per product line through improved, integrated pricing processes
- **Reduced operating costs**
  - 10% to 20% reduction in average sales cycle time by automating lead-handling and sales-focused operations
  - 10% to 20% reduction in order-to-delivery cycle time by integrating order management with the supply chain
- **Improved order quality**
  - 20% to 30% reduction in order-entry errors through consistent pricing, contract, and configuration data from a single data source and one-stop order entry
  - 50% to 60% increased accuracy of customer data due to a single data source
- **Higher provision of working capital**
  - 10% to 15% reduction in receivables and 10% to 25% reduction in days sales outstanding through process automation, self-service processes, and better visibility into overall value of customers
  - 1% to 5% increase in inventory turns through enhanced insight into buying habits and trends and, hence, delivery of the right product to the right place at the right price

End-to-end order management can help you achieve a higher perfect order rate and better customer relationships. This improves your revenues, profitability, operating costs, order quality, and working capital.

Summary

End-to-end order management paves the way to the perfect order and better, longer relationships with your customers. Along that path, you are sure to see significantly improved revenues, profits, and operational efficiency. Deploying comprehensive order management solutions, such as one enabled by the SAP for Wholesale Distribution solution portfolio, will generate great value internally. This value is based on the better understanding and improved communication that the solution promotes between executives who set the strategy and personnel throughout the enterprise who execute that strategy.

LEARN MORE

To learn more about how SAP can help your organization with efficient, comprehensive order management, visit us online at: www.sap.com/usa/industries/wholesale-distribution.

www.sap.com/contactsap

CMP2736 (12/09) ©2012 SAP AG. All rights reserved.

SAP, R/3, SAP NetWeaver, Duet, PartnerEdge, ByDesign, SAP BusinessObjects Explorer, StreamWork, SAP HANA, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and other countries.

Business Objects and the Business Objects logo, BusinessObjects, Crystal Reports, Crystal Decisions, Web Intelligence, Xcelsius, and other Business Objects products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of Business Objects Software Ltd. Business Objects is an SAP company.

Sybase and Adaptive Server, iAnywhere, Sybase 365, SQL Anywhere, and other Sybase products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of Sybase Inc. Sybase is an SAP company.

Crossgate, m@gic EDDY, B2B 360°, and B2B 360° Services are registered trademarks of Crossgate AG in Germany and other countries. Crossgate is an SAP company.

All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary.

These materials are subject to change without notice. These materials are provided by SAP AG and its affiliated companies ("SAP Group") for informational purposes only, without representation or warranty of any kind, and SAP Group shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP Group products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.

The Best-Run Businesses Run SAP™