

**SAP Solution Brief**  
**SAP Price and Margin Management by Vendavo**



## **DELIVER HIGHER PROFITS WITH SAP® PRICE AND MARGIN MANAGEMENT BY VENDAVO**

**Make Price and Margin Management a Complete  
Business Process**

Vendavo Inc. and SAP AG offer a comprehensive application to help you improve your pricing and margins with more effective and efficient pricing processes. Powered by the SAP NetWeaver® platform, SAP® Price and Margin Management by Vendavo supplements the price-execution functionalities of the mySAP™ ERP and mySAP Customer Relationship Management solutions with interactive negotiation functionalities, a robust framework for price setting and policy management, and real-time pricing-analysis functionality.

A host of internal and external challenges are driving changes in most companies' pricing strategies. Achieving top-line revenue growth is no longer enough; your company must also deliver profitable growth. To do so, you must adopt sophisticated pricing techniques and ensure that you effectively execute pricing strategies across your company.

Additionally, your marketing executives must determine the best mix of customers and products that your business needs to improve profits – despite having limited visibility into the actual net prices that customers pay for products and services. Your sales executives must structure deals and contracts that contribute to the bottom line – despite having limited access to relevant pricing data such as the past and potential future profitability of customers, products, and geographies. You also must track your customers' compliance with their commitments, reward loyal customers, and avoid losing profits to poor customers.

Externally, increasingly volatile markets affect your input and energy costs. Even as you manage internal issues, you must respond to the increasingly sophisticated procurement practices of your customers, who put pressure on your prices, terms, and services. All of these tasks are daunting if you must rely on one-size-fits-all pricing strategies.

The cost of ineffective price management across your enterprise can be substantial. Operational dysfunctions such as billing errors can cost up to 0.5% of sales. That means your company may lose \$5 million dollars in pure margins for every \$1 billion in sales. What's more, strategic shortcomings such as inconsistent prices for your products and services or poorly negotiated deals can cost up to 3% of sales – or \$30 million in margins per \$1 billion in sales.

For many organizations the price-management dilemma comes down to a simple reality: variability in process equals variability in outcome. Indeed, a large variation often exists in prices and margins for customers with similar volumes and revenues. At the same time, low- and negative-margin transactions result from uncontrolled discounting or combinations of terms and service costs that you do not account for while negotiating prices.

### **Operational and Strategic Challenges**

Many organizations face several operational and strategic impediments to effective price-management efforts. Operational challenges include the following:

#### **Lack of Accuracy**

Late payments and underpayments occur because of pricing errors that result from executing contract prices and terms incorrectly. You always learn about mistakes in your favor; you can only imagine how many unreported mistakes occur in your customers' favor. Both problems can adversely affect your revenue and margins, and increase your days sales outstanding (DSO).

#### **Lack of Consistency**

Inconsistent prices and terms among your customers and a lack of proper controls to ensure the execution of policies result in financial losses and widely variable profitability. Both problems significantly drain revenues and profits. In addition, when good customers believe you treat them unfairly, they can quickly become former customers.

#### **Lack of Visibility**

A limited view into price and margin performance can lead to incorrect business decisions. A lack of real-time, actionable price and margin data can result in ineffective strategic and daily pricing decisions.

Strategic challenges include the following:

#### **Lack of Flexibility**

Slow responses to market changes are missed opportunities to align your company with new market realities and preserve or enhance margins. The inability to structure deals flexibly limits your sales force's ability to balance your customers' needs with pricing and terms that also meet your company's objectives. Such issues often result in poorly structured, money-losing deals, or proposals that don't meet client needs, which can cost you their business.

#### **Lack of Profit Guidelines**

If marketing provides no pricing guidance or sets no segment-specific margin targets and floors, your company is unlikely to achieve its profit margins, which are liable to decline precipitously.

### **Price Management Becomes a Critical Discipline**

You must address price and margin management as a complete business process rather than as discrete, disconnected processes. Most critical to your organization is your sales manager's ability to exercise significant control over customer pricing and market behavior. To remove the variability in your pricing processes, your salespeople must employ what-if analysis techniques on potential options for pricing and contract terms so they can negotiate and configure deals based on margin rather than revenue.

To meet these challenges, you must pursue profitable growth strategies. Deploying a comprehensive solution to manage prices and margins can help you make better pricing decisions on each transaction. You can target customers, products, and segments more effectively; optimize prices; and institutionalize best practices for value-based selling.

Many leading corporations are investing in solutions for managing prices and margins. Some expect to increase margins by 3% by implementing such solutions across their enterprises. They recognize they must do more than focus on growing revenue or cutting costs to improve performance; in an increasingly competitive and volatile environment, they must effectively manage pricing to offset the constant pressures of customer demands and changing market requirements.

### **SAP® Price and Margin Management by Vendavo**

SAP® Price and Margin Management by Vendavo is the first comprehensive application for price and margin management. Powered by the SAP NetWeaver® platform, it enhances the price-execution functionalities of the mySAP™ ERP and mySAP Customer Relationship Management solutions with interactive negotiation functionalities you can use to recommend, negotiate, and evaluate prices and terms on sales agreements. It also provides a powerful framework for price setting and policy management, and real-time, sophisticated, pricing-analysis functionalities.

The SAP Price and Margin Management application lets you access current pricing saved in SAP software for order-to-cash processes. You can combine terms and cost elements with pricing conditions to create a price waterfall that reflects the actual prices and margins you obtain at the order, customer, product, and segment levels. You attain an integrated view into revenue and cost data as well as a real-time, interactive modeling approach your sales and marketing teams can use to evaluate which pricing conditions and terms will yield profitable margins.

### **A Holistic Approach to Price Management**

SAP Price and Margin Management delivers a holistic approach to price management that helps you align strategy, technology, and execution for optimal and sustainable value. The application lets you set and administer prices and policies, negotiate effectively, execute deal-to-cash transactions, and track margin performance.

Your sales team can negotiate more profitable contracts and quotes. Deal-management functionality helps your salespeople do the following:

- Use what-if modeling on contracts and quotes to negotiate flexible prices and terms
- Comply with corporate pricing and profit guidelines
- Gain visibility into relevant pricing histories and peer groups
- Route proposals for evaluation and approval
- Load accurate prices and terms into other SAP software

Price-management functionality provides pricing guidance across the organization, which helps you do the following:

- Manage flexible, detailed price lists and policies
- Delegate business users to manage policies
- Automatically perform mass price updates
- Ensure consistency, compliance with, and accuracy of pricing policies
- Access master data from and update pricing data to other SAP software

Profit-analysis functionality delivers real-time pricing insights to decision makers who can do the following:

- Analyze price, profit, and cost-to-serve elements for any definable segment
- Employ flexible, user-driven analyses
- Track wins, losses, and compliance with pricing and profit guidelines
- Gain immediate visibility into their businesses
- Attain a consistent and accurate single view of pricing and profitability data
- Access billing documents from other SAP software

### **Substantial Business Impact**

SAP Price and Margin Management provides comprehensive functionality so you can meet your margin-enhancement goals and remove the variability from your pricing processes. An integrated approach to price and margin management helps you price products and services correctly, which can yield substantial new revenue and higher margins from existing customers. Increased visibility into your pricing strategies helps your salespeople determine which prices and terms will yield the best margins and dramatically increase your margin performance.

You can improve your customer and product mix to boost overall profitability by segmenting customers; applying consistent pricing, policies, and terms; and proactively tracking compliance with such policies. Model multiple margin scenarios and optimize deals as you negotiate pricing, indexing, and contract terms. Improve the effectiveness of price increases by changing prices for any part of your business in real time.

With SAP Price and Margin Management, you can identify missed pricing opportunities by eliminating negative performers and realigning rebate structures and payment terms. You can increase margins substantially, reduce price-administration costs significantly, and cut DSO and invoice disputes by increasing the accuracy of your invoices. You can improve your gross margins, cash-to-cash cycle, and order-fulfillment processes. The application supports price requests and approvals, price-history reviews, and automated price changes.

What's the bottom line? For every \$1 billion in sales, SAP Price and Margin Management can help you boost margins by \$10 million to \$30 million – an increase to your bottom line of an additional 1% to 3% of sales.

### **Why SAP Price and Margin Management?**

SAP Price and Margin Management delivers the functionality you need to improve your price-management efforts. You require a multiphased approach that matures with your business and that's what the application gives you.

The functionality that the application provides today is only the beginning. SAP is committed to continual enhancement of SAP Price and Margin Management to ensure that the offering remains the ideal choice for organizations seeking to address price-management challenges.

### **Find Out More**

If you would like to know more about SAP Price and Margin Management – and learn what this application can do for your company – visit [www.sap.com](http://www.sap.com).

### **Powered by SAP NetWeaver**

SAP Price and Margin Management is powered by the SAP NetWeaver platform, the open integration and application platform that enables change. SAP NetWeaver helps companies align IT with their business. It allows companies to obtain more business value from existing IT investments and to deploy a service-oriented architecture. SAP NetWeaver reduces total cost of ownership and complexity across the entire IT landscape.

SAP NetWeaver powers mySAP Business Suite solutions, SAP xApps™ composite applications, and partner solutions. It provides the best way to integrate all systems running SAP or non-SAP software. SAP NetWeaver unifies integration technologies into a single platform and is preintegrated with business applications, reducing the need for custom integration.