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# Don't Just Manage Your Trade Promotions — Optimize Them

New Solution Supports Sales and Marketing Teams in Consumer Industries

by Timo Wagenblatt, SAP AG

Leading companies are moving away from traditional business processes and toward more data-driven decision making across the enterprise. Trial and error is no longer an acceptable method of planning a business strategy. Decisions need to be made with minimal risk and predictable outcomes. This holds true for high-level strategic decisions made in the C-suite, as well as tactical decisions made within specific functions.

However, when it comes to customer-facing decisions, many companies have yet to fully leverage the power of data-driven decision making. According to an Accenture study, more than half of the companies surveyed said they do not use analytics to help them target, service, or interact with customers: “When making decisions about what customers want, many organizations are just as likely to rely on personal experience as analysis of data and facts.”<sup>1</sup> Not only can this behavior cause retailers to miss opportunities, it can also cause them to lose consumers.

SAP customers have a unique opportunity to leverage the data in their systems and optimize customer-facing business processes through a more data-driven model. Consider the area of trade promotions in consumer industries. For companies selling products through consumer channels, between 10% and 20% of their revenue is generally spent on promotions, pricing discounts, rebates, and other monetary incentives. This is no small concern for CFOs; this expense represents the second-highest single line item in the corporate budget, after the cost of goods.

Ensuring that this money is spent effectively is often one of the most difficult and frustrating challenges a company encounters. So, the optimization of this spending is paramount, though it remains one of the most elusive of all business practices in the consumer economy.

A key to maximizing the return on trade promotion spending is trade promotion optimization. According to a Gartner report, trade promotion optimization “shifts focus to the incremental revenue and margin that the promotion will drive, as opposed to the trade funds that a retailer will receive to bolster its margins. This has the ability to completely change the dynamics of the manufacturer/retailer relationship during the next few years.”<sup>2</sup>

To help customers reach these goals, SAP has released a new solution — SAP Trade Promotion Optimization. This is a targeted solution for consumer companies seeking to take the guesswork out of promotion planning and move to a more data-driven decision-making process.

## Predictive Guidance

SAP Trade Promotion Optimization doesn't replace trade marketing or sales teams. Rather, it is a decision-guidance tool or reference point. It doesn't dictate; it recommends.

Central to the application are the fully embedded modeling tools and predictive analytic capabilities that integrate easily with existing promotion planning and management processes, ensuring rapid adoption and ease of use. While



**Timo Wagenblatt** ([timo.wagenblatt@sap.com](mailto:timo.wagenblatt@sap.com)) is Director of Innovative Business Solutions at SAP AG. In this role, he is responsible for SAP Trade Promotion Optimization. Timo has been dedicated to software product management for consumer industries for more than 10 years. He has a master's degree in operations research, information systems, and economics.

<sup>1</sup> Accenture, “Customer Analytics Survey” (May 2011).

<sup>2</sup> Gartner, Inc. “Key Issues for Consumer Goods Manufacturers” (March 2011).

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researching promotion optimization, SAP considered the data,<sup>3</sup> statistical science, and technology needed to produce a solution that enables multiple constraints (as do many optimization products today), but also provides a deeper and more robust package of data elements against which the optimization engine performs. As a result, SAP's solution can produce multiple optimized promotion scenarios with higher-quality results. And with Forecast Quality Indexes, statistical quality measures can be delivered for each scenario. This is a better way to produce a result that the trade channel team can use, and it produces the level of realistic and sensible collaborative promotion planning that will determine the future of the relationships between the manufacturer and retail channels.

With SAP Trade Promotion Optimization, users can perform "what-if" simulation for specific promotions and annual promotion plans, and can work with models that take into consideration the effects of factors such as seasonality, holidays, product availability, store closures, cannibalization of products, and price changes. For example, the application can predict the outcome of a planned promotion, including volume levels and timing that accounts for both the manufacturer's and the retailer's constraints and objectives.

A manufacturer may find that instead of a 25% temporary price reduction to a certain retailer in June, it would move more product by offering a 20% reduction in conjunction with a gondola endcap display in May. This scenario might

<sup>3</sup> SAP offers services to help customers integrate and harmonize various data sources (like direct point-of-sale information and market research) with SAP master data.

require a lower investment and produce a higher margin for both the retailer and the supplier.

In addition to supporting improved promotion outcomes, the application also helps boost collaboration between consumer industry companies and their retail channel partners. Historically, retailers have had little incentive to share point-of-sale data with consumer industry companies. But this solution can show retailers that sharing and leveraging such data can help their suppliers plan and improve promotion performance, which is a win-win for both retailers and manufacturers.

### From Decision to Action

Companies can run SAP Trade Promotion Optimization on its own, but implementing it is also a logical next step for those already running SAP Account and Trade Promotion Management. Designed to let users perform pre-event assessment and seamlessly move from decision making to execution, SAP Trade Promotion Optimization can be embedded and integrated with SAP Account and Trade Promotion Management.

Once a user has reviewed the recommendations that SAP Trade Promotion Optimization presents, executing on the proposed promotions is only a click away with SAP Account and Trade Promotion Management. There's no need to rekey customer data or specific time frames into a separate application to begin the promotion's workflow.

For SAP Customer Relationship Management (SAP CRM) customers who are not running SAP Account and Trade Promotion Management, implementing it with the new solution will let them hit the ground running with modeling and analytics capabilities.

### A Targeted Solution to Address Specific Needs

SAP Trade Promotion Optimization is one example of the targeted applications SAP is developing that answer specific business challenges. To ensure that the solution addresses real-world problems, SAP leveraged a co-innovation approach in its development: SAP worked closely with customers in the consumer market to understand their most pressing challenges in trade promotions and to create functionality to solve them. At the end of the day, SAP's goal is to help an enterprise run better, and that means addressing needs at both a high level and a functional level. ■

## 5 Key Capabilities of SAP Trade Promotion Optimization

The new application allows users to:

- Perform what-if analysis based on defined dimensions and objectives to assess and define optimal scenarios
- Assess the best combinations of price and promotion for a given product
- Perform detailed promotion planning, including what-if simulation, integrated with finance and supply chain data
- Predict and promote the best outcomes based on both manufacturer and retailer objectives
- Decompose and explain regular and promoted historic sales