

SAP Solution in Detail
SAP for Consumer Products



FROM IDEA TO MARKET-READY PRODUCT IN RECORD TIME

**New-Product Development and Introduction in the Consumer
Products Industry**

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EXECUTIVE SUMMARY

Innovation is key to market success in the consumer products industry. To speed innovation and bring new products to market quickly, you must link all relevant functions, information, people, and IT support in a fast and cost-effective process. SAP can help. It combines functions from its product life-cycle management, trade promotion management, procurement, and business intelligence solutions into a standardized business process for new-product development and introduction (NPDI), available via the SAP for Consumer Products set of solutions.

These solutions manage the entire innovation process, enabling you to develop new products that meet your customers' requirements and are aligned with your corporate and market strategies. The solutions are integrated with the functions for systematic ideas management, methodical portfolio management, and strategic resource management found in SAP® solutions for product life-cycle management, supply chain management, trade promotion management, procurement, and business intelligence. SAP for Consumer Products creates the best conditions possible for mapping your product development process intelligently and managing it effectively.

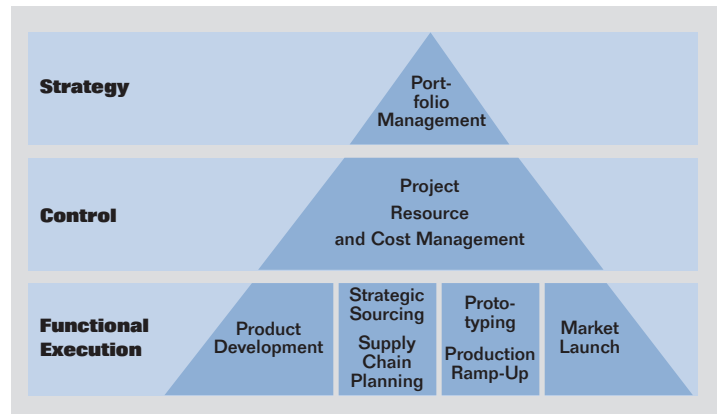


Figure 1: Streamlining NPDI with the SAP for Consumer Products Set of Solutions

DEVELOPING AND INTRODUCING NEW PRODUCTS: NO ROUTINE MATTER

Strong competition in the consumer products market is forcing manufacturers to develop innovative products in increasingly shorter cycles. These products need to win over consumers and convince retailers – a challenging task for many reasons including saturated markets, a growing variety of products and brands, increasing consumer sensitivity to prices, and shorter product life cycles.

The odds against successful product innovation are long. Every year, the consumer products industry enters 25,000 to 30,000 new products in the race to win customer favor. More than 60% of these fail, according to the results of a study by the German market research institute Gesellschaft für Konsumforschung. Why? Companies have less and less time to conquer the market and achieve a return on their investment because ideas are copied quickly and me-too products and store brands infiltrate the market in almost no time.

Faced with the need to go to market faster with new products, consumer products manufacturers rely heavily on optimized development processes. In many companies, the period between product idea and product launch is too long and punctuated by expensive delays. A benchmark study on consumer packaged goods, conducted by AMR Research in 2003, confirmed this. According to the study, the average time to market for a new product in the consumer products industry is approximately 27.5 months. And when McKinsey consultants looked into the effects of delays, they concluded that a six-month delay can reduce total profit by 33%.

To shorten time to market, companies need to closely integrate all development-related areas – research and development, marketing, production, logistics, quality management, sales and distribution, purchasing, and controlling and finance. And integrating interdepartmental processes and information flows is just as essential as integrating external service providers, suppliers, and other partners. In today's tightly networked global economy, these external providers need to be part of the collaboration at an early stage. But even that is not enough. A faster process chain requires system support for handling approval steps and processes. These must also be integrated in the product development process. And compliance with legal requirements at both the national and international level demands additional flexibility. Moreover, companies must create standards for processes, specifications, and materials.

SAP: MEETING INNOVATION CHALLENGES

To respond optimally to such challenges, consumer products manufacturers need an integrated, end-to-end solution for developing and introducing new products. Success depends, ultimately, on controlling the entire innovation process – from the initial product idea to selling the product to the consumer. The SAP for Consumer Products set of solutions plays a critical role in this success with solutions that streamline the new-product development and introduction (NPDI) process. These include functions for portfolio analysis and management, ideas and project management, recipe management, and product cost calculation.

SAP for Consumer Products provides the quality management and promotion and demand planning support needed to integrate production, distribution, and reporting, thus enhancing the range of functions with which SAP helps accelerate NPDI. Its solutions support nine areas of NPDI business process activity: evaluating ideas, developing concepts, managing project portfolios and resources, controlling projects and documents, developing products and packaging, integrating procurement, optimizing the market launch, harmonizing production and distribution, and tracking sales in real time.

Evaluating Ideas

The SAP xApp™ Product Definition (SAP xPD) composite application is one of the SAP® solutions used to enhance the NPDI process. It enables you to systematically collect, consolidate, bundle, and depict ideas. It records proposals from different sources and collects them in a central ideas pool. To enter ideas, the people providing them – sales representatives, consumers, retailers, suppliers – use an entry screen tailored specifically to their role. In this way, a loose collection of ideas becomes an intelligent database for new product concepts.

Sophisticated classification schemas enable different product concepts to be evaluated and prioritized efficiently. Related ideas can be linked on the basis of different parameters such as brand, packaging, and source of supply – even if they are in different functional areas or regions. Discussion forums support the evaluation of ideas within teams. And integrated status report functions enable people to track the progress of their ideas in real time.

Developing Concepts

SAP xPD supports the product ideas that are developed into actual product concepts. To create a solid foundation for this, all concepts pass through a detailed evaluation, agreement, and approval workflow. A phase-based approach is used. Concepts being further developed go through a series of prescribed steps, each of which must be successfully completed before the decision makers release it to the next phase. Each company can decide which concept data to use when evaluating the progress of a project.

Data is stored centrally, and each person involved in the project can access the data needed for his or her role. At the end of the project, the data set, which grows with each phase, forms a solid basis on which to create a business plan. The processes required to develop concepts that are ready for development run on a workflow-controlled basis. Examples include market potential analyses, risk analyses, calculation of potential revenue, technical and operational feasibility studies, market analyses, and consideration of legal requirements.

The product concept itself is the starting point for further development activities such as drawing up schedules, defining further steps, and assigning development tasks to employees and service providers. Status management enables you to monitor all activities and track their progress.

Managing Project Portfolios and Resources

Most companies have multiple development projects in the pipeline at the same time. These form a project portfolio that needs to be monitored and managed with an eye to minimizing risks. This is where the SAP xApp Resource and Portfolio Management (SAP xRPM) composite application comes in. It brings together project-related data from different systems, thus providing you with a comprehensive and up-to-date view of your entire project portfolio. Decision makers can display all of the information relevant to portfolio management on their screens. You can inspect the status, budgets, and schedules of different projects and see which resources are involved. And you can respond to problems and events by drilling down to the project details in the original system. Moreover, SAP xRPM enables you to analyze the potential profit of all development projects and rank them accordingly.

In the product development process, the provision and availability of key resources is crucial to success. Here too, SAP xRPM ensures the necessary transparency. Using a cockpit-like feature, you gain an overview of all relevant resource data: employees' qualifications, availability, and key figures. You can then forecast the demand on project resources and simulate alternatives. In this way, you gain a sound basis on which to decide which projects to support and to what extent, and which to cancel or postpone to a later date. In other words, SAP xRPM enables you to steer the best resources in the direction of the projects that are strategically most important.

Controlling Projects and Documents

To manage projects and the documents related to them, SAP for Consumer Products provides a function of the Collaboration Projects (cProjects) suite in the mySAP™ Product Lifecycle Management (mySAP PLM) solution. Consumer products manufacturers thus have a tool for efficiently managing development

projects within the company and in cooperation with partners and can specifically coordinate development, marketing, sales, and production activities. cProjects helps you do the following:

- Define project scope
- Specify project tasks, including their duration and interrelationship
- Put together project teams and assign resources based on employees' qualifications and availability
- Set checklist items using quality gates
- Set up release and approval processes for monitored phase handover
- Improve the cooperation between project teams
- Track the project's costs, budget, and progress in real time

Developing and introducing new products involves a lot of documents. You can keep track of them and manage them reliably and efficiently using the SAP Easy Document Management application, which is connected to your Microsoft Windows desktop. The application lets you manage documents just as easily as files on your hard disk. Moreover, you can implement workflow-based approval and change processes that document every change in status (user, date, and time). The process for handling the resulting different versions is very user-friendly. Documents are distributed to predefined recipients when this is triggered by particular events or by a workflow process. Automatic conversion to various file formats simplifies electronic communication.

Developing Products and Packaging

The recipe management functions in mySAP PLM are available for product development itself in the consumer products industry. The solution comprises an integrated working environment that provides recipes, specifications, formulas, materials, and production operations. Developers can draw on experience gained in earlier development processes and reuse existing

recipes for new products. Multilevel recipe management supports the company-wide development of general, site, and master recipes.

In addition, product developers can easily calculate ingredients, data for nutritional values, and manufacturing costs. Since quality management is inherent, the product development group can build in quality controls during the processes. As soon as the recipe is ready, a master recipe is created automatically.

If external partners are involved in the development process, the Collaboration Folders (cFolders) application of mySAP PLM supports the collaborative process. Functions in cFolders enable product developers to send the specifications for the packaging materials to the design agency and to develop the concept for the packaging in cooperation with the designer – even if they are located in different places.

If necessary, a particular schema can be used to assign access authorizations. Both “read” and “write” authorizations are available in cFolders. The notification and status functions enable you to track user access to documents and maintain an overview of the valid document versions.

Integrating Procurement

cFolders can also help involve suppliers in the development process from an early stage. The mySAP Supplier Relationship Management (mySAP SRM) solution enables you to carry out bid invitations based on cFolders. This ensures that strategic purchasing and product development groups interact closely and remain fully informed about each other’s activities. mySAP SRM opens up the full range of functions expected from an integrated procurement platform. All phases of the procure-

ment process can be optimized: purchasers can develop a target-oriented procurement strategy for the new product, qualify and select the best suppliers, and automate the operational ordering process right through to the supplier – with complete transparency for everyone involved.

Optimizing the Market Launch

When a product is launched, you can see clearly whether it can meet the expectations and needs of the market and whether it is what retailers had in mind and required. Alongside manufacturers’ sales arguments, there are numerous marketing activities and sales promotions you can use to promote a product’s success on the market – provided they are accurately planned and managed.

That’s why SAP for Consumer Products includes the SAP Trade Promotion Management application. This application enables manufacturers, for example, to plan and manage marketing campaigns and promotions for product launches, make product and pricing information available on mobile devices, and speed the order-handling process. It also enables demand planning using top-down and bottom-up approaches. This lets you take into account additional sales following special promotions and provide reliable forecasts. It also allows the precise analyses of revenue, profit, and yield that ensure you can precisely monitor your success.

SAP Trade Promotion Management is tightly integrated with SAP solutions for supply chain management because carrying out and analyzing sales promotions measures affect multiple departments within a company. This integration enables you to plan processes reliably – without additional effort – before a product is introduced, to coordinate schedules and to concentrate on introducing the new product punctually.

Harmonizing Production and Distribution

In the consumer products industry, the processes for producing and introducing new products are not always sufficiently aligned. For example, expensive TV commercials present a new toothpaste or a new video game and launch it through promotions. But if everything is not aligned along the supply chain as it should be, a stock shortage can result in shortfalls at the point of sale – causing severe disruption to business.

The mySAP Supply Chain Management (mySAP SCM) solution enables consumer products manufacturers to harmonize their processes along the supply chain. In this way, you can avoid the loss of sales caused by out-of-stock situations and prevent a drop in profitability resulting from high stock levels.

Tracking Sales in Real Time

As soon as a new product is on the shelf, manufacturers want to track sales in real time and intervene if necessary. They are interested in market acceptance, consumers' first and subsequent purchases, the number of units per purchase, frequency of purchase, and the effects of this purchasing information on the product category.

Does the price strategy need changing? Would further advertising campaigns increase sales figures? Should production capacity be greater? Thanks to the integration of the mySAP ERP Financials solution and its SAP Strategic Enterprise Management application, you have the necessary overview and decision-making basis to respond quickly. You can use point-of-sale and market data to compare target and actual figures more easily and quickly than ever before. And you can analyze sales figures, costs, and categories.

GOING TO MARKET WITH TOP-CLASS PRODUCTS

With the comprehensive functionality available through SAP for Consumer Products solutions, you can shorten time to market significantly. Easy to use and intuitively structured, these solutions foster product innovation and innovation management. They also improve process efficiency, reduce go-to-market costs, and accelerate production start-up.

The solutions available through SAP for Consumer Products adapt flexibly to your corporate strategies. They support your goal of developing products more quickly and cost-effectively and can be tailored to precise market and customer requirements. The solutions result in a broad range of NPDI benefits; for example, they:

- Offer a better, simpler, and faster overview of all product ideas
- Enable objective decision making regarding ideas and concepts
- Support the concentration of resources in strategically important projects

- Improve the efficiency and flow of information in all areas of the development process
- Facilitate the end-to-end management of product-related data and information
- Enable access from anywhere to all product- and project-relevant data and documents
- Ensure consistency between the recipes used and developed
- Minimize the risk of false starts and flops, thus increasing acceptance among retailers
- Ensure harmonized production and delivery processes
- Speed up response times by monitoring the market launch in real time

For More Information

For comprehensive information on how you can optimize the development and introduction of new products with SAP solutions, visit our Web site at www.sap.com/consumer.

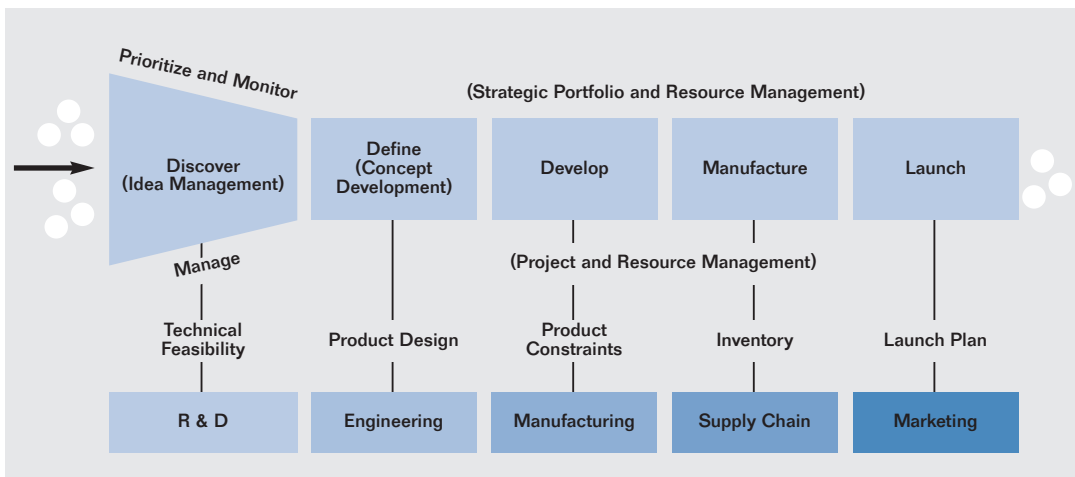


Figure 2:
The NPDI Process as an
Innovation Funnel

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