

SAP White Paper



SAP® FOR **CONSUMER** **PRODUCTS** **SAP TRADE** **PROMOTION** **MANAGEMENT**

© Copyright 2003 SAP AG. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or for any purpose without the express permission of SAP AG. The information contained herein may be changed without prior notice.

Some software products marketed by SAP AG and its distributors contain proprietary software components of other software vendors.

Microsoft®, WINDOWS®, NT®, EXCEL®, Word®, PowerPoint® and SQL Server® are registered trademarks of Microsoft Corporation.

IBM®, DB2®, DB2 Universal Database, OS/2®, Parallel Sysplex®, MVS/ESA, AIX®, S/390®, AS/400®, OS/390®, OS/400®, iSeries, pSeries, xSeries, zSeries, z/OS, AFP, Intelligent Miner, WebSphere®, Netfinity®, Tivoli®, Informix and Informix® Dynamic Server™ are trademarks of IBM Corporation in USA and/or other countries.

ORACLE® is a registered trademark of ORACLE Corporation.

UNIX®, X/Open®, OSF/1®, and Motif® are registered trademarks of the Open Group.

Citrix®, the Citrix logo, ICA®, Program Neighborhood®, MetaFrame®, WinFrame®, VideoFrame®, MultiWin® and other Citrix product names referenced herein are trademarks of Citrix Systems, Inc.

HTML, DHTML, XML, XHTML are trademarks or registered trademarks of W3C®, World Wide Web Consortium, Massachusetts Institute of Technology.

JAVA® is a registered trademark of Sun Microsystems, Inc.

JAVASCRIPT® is a registered trademark of Sun Microsystems, Inc., used under license for technology invented and implemented by Netscape.

MarketSet and Enterprise Buyer are jointly owned trademarks of SAP AG and Commerce One.

SAP, R/3, mySAP, mySAP.com, xApps, xApp, 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 in several other countries all over the world. All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves information purposes only. National product specifications may vary.

CONTENTS

1.	Executive Summary	4
2.	Market Requirements	5
3.	Business Model and Process Flow	7
3.1	Strategic Sales and Promotions Planning	10
3.1.1	Analysis	10
3.1.2	The Marketing Planning Process	12
3.1.3	Definition and Assignment of Target Groups for Consumer Promotions	14
3.1.4	Deal Master	16
3.1.5	Budget Allocations	16
3.1.6	Assignment of Conditions and Products to Promotions	16
3.1.7	Planning and Assigning Budget and Actual Costs	17
3.1.8	Sales Forecast	17
3.1.9	Integration in Purchasing	19
3.1.10	Integration in Material Requirements Planning	19
3.2	Field Planning: Integration of Mobile Sales Applications	19
3.2.1	Field Account Planning	19
3.2.2	Merchandising Event Planning	20
3.2.3	Volume Planning	20
3.3	Account Sell-in and Negotiation	21
3.3.1	Contract Submission	21
3.4	Retail Execution and Validation	22
3.4.1	Execution and Validation	22
3.4.2	Field Sales Representative Presales Activity	22
3.4.3	Account Order Placement and Assignment of Discounts and Funds	23
3.4.4	Performance Validation	23
3.5	Evaluation and Analysis	24
4.	Integration with mySAP Business Suite	25
5.	Arguments in Favor of the Trade Promotion Management Process	26
6.	Would You Like To Learn More?	27

1. EXECUTIVE SUMMARY

In today's highly competitive market, the pressure to generate demand for consumer products (CP) constantly increases. Whether the focus is on maintaining and extending customer relationships, using marketing funds as effectively as possible, achieving increased sales, or introducing new products, the area of marketing expenditure is diverse, complex, and prone to error.

With its new trade promotion management capabilities, SAP for Consumer Products contains all the functions needed to map the whole process and is integrated into the SAP® system landscape. It offers an end-to-end solution for productive operation, an off-line solution with back-end integration, and the ability to analyze data even at the execution stage. The resulting information enables you to plan the next cycle by identifying the type of promotion that works best for each product and account combination.

These trade promotion management capabilities support strategic and tactical marketing; total sales volume planning; and the implementation, validation, and analysis of sales promotion tactics, such as features, displays, and temporarily reduced prices. They also provide a framework that enables the centralized planning, maintenance, tracking, and evaluation of all merchandising activities between the company and retailer. With SAP for Consumer Products, all users within the enterprise have access to customer information that is critical to their job performance.

CRM covers far more than just automatic handling of marketing, service, and sales processes and the step-by-step improvement of process efficiency. Based on high-quality information, it also covers interactions, and aims to provide customers with tailored solutions for their particular requirements. The success of an enterprise depends on its ability to synchronize marketing, sales, finance, operations, logistics, and customer service efforts to generate the maximum benefit from the information available about customers and consumers.

The most important aim of marketing activities in the CP industry is to increase the value of the brand, also known as brand capital. In other words, brand awareness leads to an increase in sales volumes and market share, and enhances the introduction of new products to the market, resulting in increased brand capital. Developing demand for a product in the minds of consumers is the goal of brand marketing.

To achieve these aims, all marketing activities must be included in a cross-enterprise, global marketing and sales strategy. CP companies use three basic marketing components to position products for consumers, and these components work best when synchronized:

- **Media campaigns** – The aim of media campaigns is to improve the image and brand loyalty of products through increased market visibility and brand awareness. Media campaigns are conducted via TV, print media, the Internet, and other communication channels and are directed at anonymous consumers who are grouped by buying or usage behavior.

- **Consumer promotion** – The aim of consumer promotion is to increase product sales by providing incentives directly to the consumer. Programs, such as cents-off coupons, sweepstakes, continuity programs, free goods, and giveaways, all provide the consumer with additional reasons to purchase a specific manufacturer's products.
- **Trade promotions or merchandising event planning** – In some cases, retail outlets offer the only opportunity that a manufacturer has to place a product before consumers. To accomplish this, account managers negotiate with retailers, presenting promotion proposals to feature, display, or reduce the price of the product for a short period of time. This usually results in consumers (both existing and new) purchasing the product on promotion more frequently or in greater quantity (pantry loading) than they ordinarily would without a promotion.

In the CP industry, it is essential to align these three marketing tools strategically and tactically, so consumers see a consistent message. The marketing tools should be synchronized in such a way that they complement and strengthen each other, rather than run independently. The juxtaposition of media and consumer programs or events that draw consumers into stores to purchase particular products, together with price reductions, displays, and advertisements that consumers see upon entering a store, can only accelerate consumer take away.

To drive consumers into their stores to purchase the manufacturer's products, a retailer often expects a manufacturer to offer media and consumer promotions in the same time frame as the trade promotions. This joint marketing effort is the triple-pointed attack that often gives one manufacturer an advantage over its competitors. In many instances, a retailer may decline a manufacturer's trade promotion offer if media and consumer promotion activity does not coincide with trade promotion.

3. BUSINESS MODEL AND PROCESS FLOW

The CP trade promotion process, as understood by SAP and validated by a number of large CP companies, can be illustrated as follows:



Figure 2: TPM Process

Pre-evaluation phase

Conducted at a CP company's headquarters, the pre-evaluation phase focuses on reviewing the historical volume and types of promotional activity that have taken place for a company's own products and for competitive products. Critical to this analysis is an understanding of baseline volume and the impact that various types of merchandising event tactics have on incremental volume. This analysis identifies those types of programs by customer and region, showing which ones should be replicated and which ones should be eliminated from the plan. A review of competitive activity can lead to the implementation of programs once thought to be unproductive.

Strategic sales and promotion planning

This step is also conducted at a CP company's headquarters. During the brand-planning phase of business development, both sales volume and marketing spending objectives are set in place. To support the achievement of these objectives, event-planning structures can be created and delivered to the sales team to allow for bottom-up planning. Once the number and type of trade promotions have been defined within the brand strategy (along with media and consumer events), trade marketing managers must develop both the event planning structure and performance objectives. This information is created and delivered to the account management team within a sales organization for specific merchandising event planning by promotable group and account combination. After the planning concludes, the data is forwarded to the production planning team to coordinate the requirements.

Account planning

The planning information received from headquarters now allows an account manager to create both a tactical merchandising event plan and a total sales forecast. The tactical merchandising event plan is tied to planned media and consumer activities. The total sales forecast (promoted and non-promoted volume) shows the forecast from the bottom up, as follows: promotable group, account, and monthly forecast. This can be done both online and off-line.

Each account manager receives specific account and product information electronically, via a download that includes historical shipments, consumption, pricing, and customer and product master data. In many organizations, remote communications flexibility is a requirement, particularly if an account manager covers a large amount of geography and more than one customer.

Customer sell-in and negotiation

Upon completing the account plan, an account manager sets up meetings with the customer's merchandiser. At these meetings, the account manager presents fact-based proposals for promoting products in the customer's stores during the requested time periods. These meetings normally take place eight to twelve weeks before the suggested date for promotion support – the amount of lead time most customers require when accepting promotional offers from their manufacturers. During these meetings, the account manager shows how promoting the manufacturer's products can support the customer's goal of increasing store traffic, category profitability, and market share.

An account manager does not present all planned promotions to the customer at one time. The account manager may hold back some promotions to see the results of the early promotions and determine what actions might be best for the later portion of the plan cycle. Once the merchandiser agrees to run the suggested promotions, the account manager must submit promotion contracts. The contracts detail the discounts and payments offered, the promotional tactics used, and the price at which the customer agrees to promote the product. The customer then loads this information into its accounting and ordering systems to ensure that appropriate payments take place when promotional orders are entered. If anyone inputs information incorrectly, the basis for many trade promotion deductions is set in motion.

Generally, an account manager uses some electronic method to maintain information for the account planning, customer sell-in, and negotiation parts of the trade promotion process. With the planning tool of SAP Trade Promotion Management, the account manager can change the status of accepted promotion events to committed, which signals the back-office production systems to convert this information to live status. Here, promotion conditions can be applied to orders, invoices, general ledger accounts, and so forth, once an event is market committed by the account manager.

The committed status also indicates that the volume forecasts surrounding the product are now final and can be used as the basis of demand planning activity for the operations team. In addition, committed events become part of the customer's promotional plan, which is communicated to the store managers by the account merchandiser and to the field sales representative by the account manager. It is at this stage that the sales volume and spending forecast becomes the final plan, which is used to compare actual volume and spending performance during the live phase of the planned activities.

This final forecast information is now available to support true demand-planning decisions being made by the operations team. Sales input to the demand-planning cycle is critically important, and the seamless transfer of data from sales to operations can facilitate a much more productive process.

Retail execution and validation

There are three phases to executing events at the account or store level:

1. The field sales representative receives the account promotion plan from the account manager and plans the presales store visits. During these visits, the field sales representative presents the promotions to the store manager, or decision maker, and attempts to sell additional floor stock and sales collateral (shelf talkers, banners, display talkers, and instant coupon holders) to support the promotion.
2. During each store visit, the field sales representative also checks on current promotions and notes if they are, in fact, in place and at the appropriate price. The field representative also checks for distribution, placement, and regular pricing conditions, and sends items that need correction back to the account manager for resolution with the customer. When in an independent retailer's store, the field sales representative can address these issues directly with the store manager. The field representative also gathers information on competitive activities, especially regarding promotion behavior during the manufacturer's promotions.
3. Every week, the customer places orders for the manufacturer and other's products. The customer and the manufacturer systems apply pricing conditions to each order, invoice, and shipment to ensure that funds are being transferred at the appropriate time.

As the customer's stores order product on a week-to-week basis, they receive promotion discounts that have been passed on to the customer in support of the display, feature, and reduced price activity that takes place in the stores. Many of the payments made to customers are based on fixed-fund commitments, which have to be managed within different general

ledger accounts. As shipments are made, the balance within a general ledger account remains whole until the account manager releases the payment upon receiving validation of the performance, either from the field sales representative's or third-party data sources. Payments need to be made and accepted via check, credit memo, electronic funds transfer, invoice deduction, or other methods. Each customer or manufacturer relationship determines what the method of payment is.

Postevaluation and analysis

As promotions are executed, both headquarters and field sales planning teams keep a close eye on the outcome of the activity. A manufacturer can quickly assess which promotions are working and which are not by comparing actuals to plan numbers as they occur.

By gaining quick intelligence on the performance of promotions, an account manager can reapply dollars that are not spent as planned against future promotions. Or, the account manager can determine if future promotions will need to be deleted if current promotions have overspent their forecast without delivering the expected volume. As a plan cycle is completed, the participants conduct a full analysis of all promotions, determining which ones should be added to best practices and which should be thrown on the scrap pile. It is during this phase that users will identify what products perform best in different types of accounts or regions of the country or the world.

To this point, the discussion has centered on analyzing the trade promotions activity; but consumer promotions and media activity also have great influence in determining why a consumer would enter a store and purchase a specific brand. A complete analysis is considered to be extremely difficult to accomplish, given the varied sources of third-party data and sophisticated modeling required for interpreting the data.

SAP Trade Promotion Management focuses on the interaction between a manufacturer and its customers, who purchase products for presentation to the consumers who shop in their stores. A manufacturer's sales organization is traditionally the functional group responsible for trade promotion and sales forecasting processes, because it is accountable for customer interaction. When the sales organization conducts trade promotion planning and negotiating, as well as in-store execution, these processes affect many other areas of a manufacturer's enterprise, such as brand marketing, finance, operations, logistics, brokering, and distribution. SAP Trade Promotion Management provides full integration with business processes that are critical to the success of manufacturers.

It is also important to understand the nature of competition among customers, whose livelihoods depend on the number of consumers who come into their stores to shop. Conversion rate, or gaining a higher share of all shopper activity, is high on the customer's list of business drivers. Based on the conversion rate, customers may ask manufacturers for higher levels of spending to achieve lower retail prices, which may pull more consumers into their stores. Each customer has a market-positioning strategy that drives its behavior when negotiating with manufacturers for new products, promotional spending, and support resources.

3.1 STRATEGIC SALES AND PROMOTIONS PLANNING

The trade marketing manager is responsible for deriving the deal structure and trade spending budgets from the brand-marketing plan, and ensuring that these budgets align with media and consumer promotions that are planned by the teams responsible. Much of the deal structure is based on best practices and key findings about competitive promotions, previously discussed in the analytics segment of this paper.

3.1.1 Analysis

The creation of a brand-marketing plan requires a full historical analysis of all components of the marketing mix, including media, consumer, and trade promotion. Analysis shows the impact these elements have on the volume, share of market, and profitability expectations of the brand. It should aim at determining the volume, share, and margin expectations for the upcoming period.

As more information becomes available to support these analytics, many customers look for advanced modeling capabilities that use multiple sources of data to determine the exact impact a specific activity has on the performance of a product. As promotions are analyzed for effectiveness, the best promotions can be selected for the next cycle. Consumption, shipments, price points, tactics, spending, and consumer response all play into the analysis of the product promotions and their impact on the category.

A comparison of promotion periods versus periods without promotions can lead to an understanding of the uplift created by each promotion. This process takes time and there are many promotions that must be analyzed. The key is to develop a systematic methodology to automatically analyze the promotions for lift impact, as well as create weekly baseline volume forecasts and populate tables to be used in forecasting future promotions.

The ongoing entry and evaluation of actual data makes effective tracking of customer business possible, which in turn leads to more reliable planning for future promotions. This information enables the field force to optimize profitability for both promoted and nonpromoted volume shipped during the plan cycle. Once you have systematically broken the data down to baseline and incremental volume impact, you can truly analyze the return on investment (ROI) of each promotion-promotable group combination. This capability will also allow the analysis of brand profitability and impact on category to be achieved with each customer. A number of analysis tools are available for this purpose.

Manufacturers want the answers to standard product, brand, and category questions, such as:

- What impact did my TV campaign have on volume and share?
- Did consumers respond to the coupon offer as expected?
- Did customers support the promotions to the targeted volume levels?
- How are shoppers shopping via class of trade (COT) customer selection?
- What drives a consumer to purchase my product over a competitor's product?
- Are all regions growing product volume and profit equally?
- Where do best practices occur for my product?
- Where do best practices occur for the customer?

- Are existing consumers purchasing more product per visit or are they purchasing more often?
- Have I met my profit and loss volume goals for shipments, profit, and margin?
- Which accounts are most successful?
- Which brands and products are most successful with which accounts?
- Is customer consolidation affecting my business favorably or not?
- What evolving consumer trends are affecting my current product sales?

On the one hand, there are methods that focus on the customer with the aim of providing better understanding of customer requirements and consumer behavior. On the other hand, there are methods that are geared towards marketing, sales, and service analyses. These aim to provide a better understanding of an enterprise's own processes, and increase the effectiveness and efficiency of the interactions between manufacturer, customer, and consumer.

Keep in mind that many manufacturers have to utilize broker and distributor organizations, such as an indirect sales force, to engage the customer at headquarter and store or outlet levels. A broker or distributor will usually represent 40 to 120 principals (lines of business) and is, therefore, looking for standard methods to manage account and store relationships and business processes.

None of these analysis methods should be considered in isolation. Marketing departments can only achieve real benefits if they use all the tools together to complement and enhance the final results.

Marketing activities should concentrate primarily on consumers, with only a secondary focus on retail customers (advertising expenditure for retailers is a means to address final consumers). In every case, having a complete data warehouse – such as mySAP™ Business Intelligence (mySAP BI), which contains all pertinent metrics on customer and consumer behavior – can provide a tremendous competitive advantage to a manufacturer who knows how to use it to plan and execute strategies. Through the mySAP Business Suite business platform, mySAP BI can support this need, and is connected to the strategic enterprise management functionality of mySAP Financials and to mySAP Customer Relationship Management (mySAP CRM). Together, these solutions are required to move the data from user to user throughout a manufacturer’s enterprise. The capabilities described are provided by SAP for Consumer Products, which also includes analysis functionality that is specific to the trade promotion management process, as discussed below.

3.1.1.1 Trade Promotion Analysis

Historical promotion and campaign analyses are created in the pre-evaluation phase and used to support the decisions that are made during the planning process. Questions that marketing departments and key account managers ask themselves during the pre-evaluation phase are similar to those asked during the post-evaluation phase, as follows:

- Which campaigns and promotions were successful?
- Which campaigns and promotions should you modify?
- Which campaigns and promotions returned the highest profit?
- Which campaigns and promotions returned the highest volume growth?
- Which work better in this market – displays or features?
- How low is low enough for promotion pricing to the consumer?

A more detailed description of these aspects appears in the section on postevaluation.

3.1.2 The Marketing Planning Process

A manufacturer can develop its operative marketing plan using the knowledge garnered during the pre-evaluation phase. The marketing departments, with support from sales and finance, want to structure their activities in a project plan. This structure functions as a kind of brand project plan, which includes all related marketing activities for the plan cycle. As discussed in the chapter on market requirements, a typical CP marketing plan contains these three elements: media advertising, consumer promotions, and trade promotions.

While independently defined in detail, these three elements are often connected by timing to deliver greater impact on sales volume. A marketing organization creates chronological, brand-specific programs aimed at consumers and customers, based on the messaging strategy of each brand. The way in which a marketing team defines each of its brands and products will determine the level and type of support provided by each of the marketing plan elements: media, consumer, and trade. The planning structure and arrangement of elements are extremely flexible and can be adjusted to meet particular organizational requirements (see Figure 3).

Most CP companies use two processes to establish the marketing plan goals and objectives: bottom-up and top-down planning. Bottom-up planning enables an account management team to develop account and promotable group-specific promotion plans, usually within a set of defined volume and spending objectives, that can be rolled up to national, COT totals. Top-down planning involves the establishment of volume and spending forecasts at the account and brand level, without the specifics of the promotion activity. These two processes meet in the middle and final negotiation takes place between the marketing and sales teams to identify the true objectives for the plan cycle.

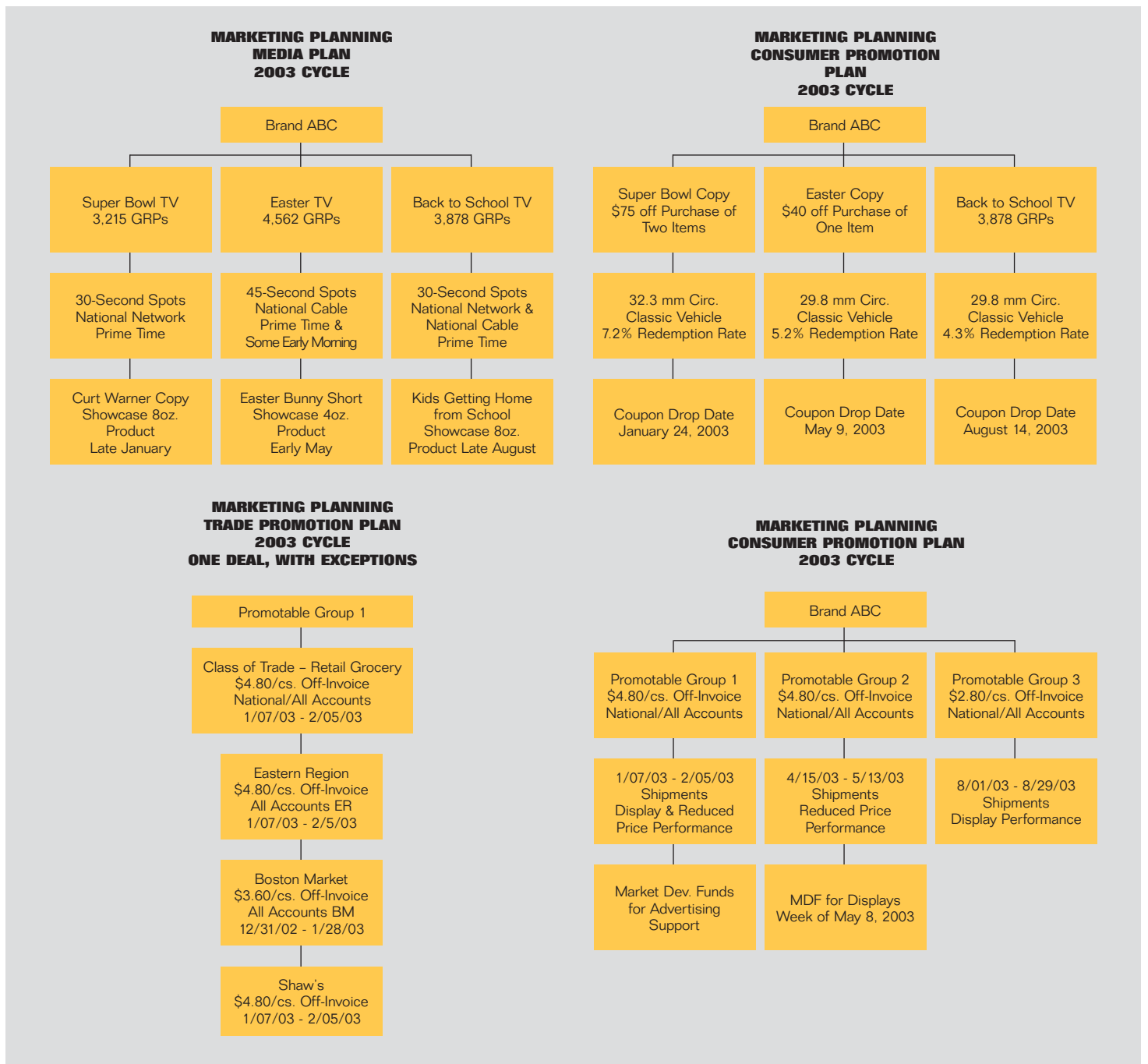


Figure 3: Example of the Components of a Marketing Plan Structure

The flexible structure of this hierarchy makes it possible for the organization to define any number of elements.

A comprehensive marketing plan will contain the following elements, beginning with “product” as the defining criteria:

- **Product** – The first step is to select the brand, promotable group, or individual product you want to promote to drive the marketing element design and plan. This is the first step.
- **COT** – COT, or account hierarchy, is specific to trade promotions, just as media and consumer promotions focus on consumers. Each promotional method has delivery vehicles such as network TV, publications, direct mail, and more.
- **Time** – A media promotion has a start date and an end date. A consumer promotion has a drop date (date of delivery to consumers). A trade promotion can have both shipment dates and performance dates.
- **Conditions** – Media conditions include the number of gross rating points (GRPs), as well as time slots and message. Consumer promotion conditions include coupon value, circulation count, redemption percentage, and message. Trade promotion conditions include the variable and fixed pricing discount rates required to achieve specific retailer performance for in-store merchandising events supporting the product.
- **Resources** – Assignment of the key account management and field sales force.

- **Target group** – This is for consumers only. You cannot target selected customers for trade promotion programs: You must treat all customers fairly and equitably. For each promotion, you can select specific customers using various criteria, such as number of markets, sales in recent years, or profit from the last promotion.
- **Budget** – For media and consumer promotion, program cost is associated with activity, and all promotion costs are added up to meet the budget assignment for the plan cycle for a particular product and brand. Development of copy, media buy, nonworking capital, and more are included in these costs. For trade promotions, budgets are set at the brand and plan cycle level in conjunction with sales volume objectives. Budgets are not assigned by promotion, but promotion cost estimates are calculated and rolled up to see if an entire plan meets budget allocations.

3.1.3 Definition and Assignment of Target Groups for Consumer Promotions

The target groups assigned to promotions depend largely on the consumer behavior you expect to elicit from the promotion. The target group can be a single consumer or group of consumers that fit the profile of the product purchaser. In SAP for Consumer Products, the functionality for creating and assigning a target group of consumers is integrated in the marketing planner campaign management capability, so you do not need to switch applications.

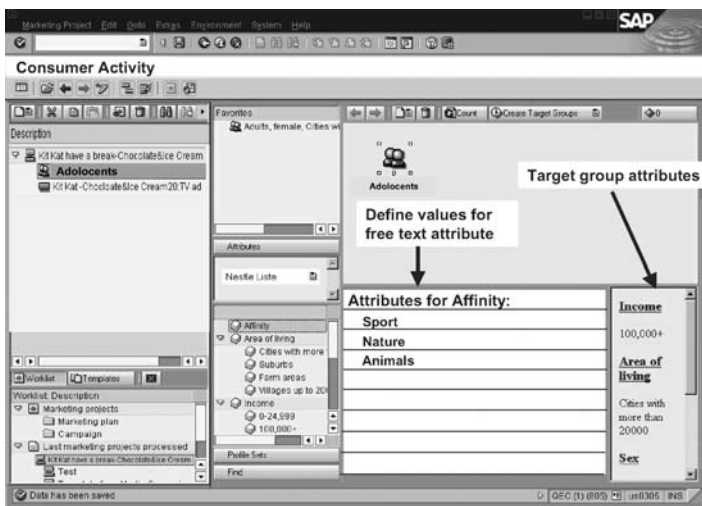


Figure 4: Activity: Edit Target Group in Segment Builder

This means that you can carry out not just the planning, but also the definition of elements that are required for a promotion through one single user interface. The data needed to define the target group can be smoothly and simply determined from many different sources. The selection options for modeling consumer profiles can either be taken from business partner master data or determined from predefined analyses in the business information (data) warehouse. The required data is read from the master data and does not need to be duplicated for CRM marketing.

When you look for new or potential purchasers of your products, there are consumer database providers who can match their lists to your products' profiles and deliver target groups of possible buyers that can interface with your applications. This allows you to deliver the campaign to those potential buyers (consumers) via the channels they use most often, which can be the Internet, telesales, or snail mail.

In SAP for Consumer Products, the segment builder – a capability that can also be used separately – is an interactive tool that provides graphic support for the selection of data and the process of defining target groups. If the consumer databases are large, you can approximate the exact target group and accelerate the process using sampling technology. You can also split target groups up for control purposes or reduce the size of a target group to react to a stipulated budget or other capacity restrictions.

You can use drag and drop and selection attributes to create marketing profiles to map the required target groups to the system. Depending on requirements, various mapping options are available. Target groups can be restricted, split up, or replaced, depending on what you require.

Regardless of the user's level of information technology (IT) knowledge – application software, database, and so on – it is possible to carry out the process of mapping complex consumer selections. Both the number of business partners, filtered using the selected attributes, and the modeling process history are displayed.

The segment builder is a user-friendly capability that goes beyond the requirements of those responsible for marketing and by providing an interface of a logical database. Its new interface provides drag and drop functionality and an intuitive modeling feature for determining target groups, with Web links that provide accelerated graphical evaluation options in the form of pie charts and bar graphs.

3.1.4 Deal Master

The trade marketing manager establishes business rules that account managers must follow as they plan account-specific merchandising event activities. In many CP companies, this is part of the top-down planning process, but not all companies communicate it to the account management team. SAP Trade Promotion Management provides functionality, called the deal master, to help the account management team with this process.

Each promotable group or COT combination has the appropriate number of deals created. A deal identifies the shipment dates, performance dates, spending rates (variable or fixed), targeted pricing, and more. The complexity of a deal depends on the amount of control that the trade marketing manager or team wants to hold over the account manager team.

It is possible to create a merchandising event for an account within the deal master set up, but this is rare. Most CP companies want to provide their account managers with enough flexibility in account promotion planning to achieve their goals and feel accountable to the plan.

The creation of a deal master takes place in the marketing planner and campaign management area within SAP Trade Promotion Management. At this time, deal master information does not go to SAP R/3®, as it is meant to serve as plan parameter. It should be stored in SAP for Consumer Products in anticipation of a commitment from the account (account sell-in and negotiation phase). Then the information should go to SAP R/3 and back-end systems for transaction support.

3.1.5 Budget Allocations

The trade marketing manager is also responsible for assigning budgets for key metrics – normally volume and trade spending – from the national COT level down to the account or team level. These budget objectives serve as the basis to determine account managers' incentives, and are the measures by which account managers monitor their plans as they develop individual merchandising events. You can create this budget information with the strategic enterprise management business planning and simulation functionality in SAP for Consumer Products and store it there, as well. Budget information is delivered to the account planning applications to support the bottom-up planning process when each account manager downloads planning data.

Once these two steps have occurred, the plan is ready for distribution to the account management team within each class of the trade sales organization.

3.1.6 Assignment of Conditions and Products to Promotions

As mentioned above, with SAP Trade Promotion Management, you can assign conditions and products to marketing plans. This takes place in parallel, so that certain conditions can apply to a promotion as a whole, and are not necessarily linked to a particular product. CP manufacturers that use SAP R/3 as a back-end system can transfer existing conditions from SAP R/3 to mySAP CRM.

New conditions created in SAP for Consumer Products during promotion planning, as well as prior conditions that are changed, are replicated in SAP R/3 for the logistics process. The capability to maintain these conditions is also integrated in the user interface.

You can replicate the conditions in the mobile sales area of SAP for Consumer Products, as well as in SAP R/3, and make them available for the field sales representative. Therefore, the key account managers can also be in a position to define promotions and enter sales orders.

Users cannot simulate prices, because organizational data is not available in the solution. The final price for the product at item level can only be determined when an order takes place. However, it is possible to simulate the increase in sales revenue based on existing conditions and historical data.

It is also important to plan the pre- and postdip, which is caused by the promotion. Within a certain period before and after the promotion, the revenue will decrease because the retailer will want to buy during the promotional period.

When you assign products to promotions in SAP Trade Promotion Management, you can link both production catalogs and structured products or single products with the promotion. However, it is only possible to link the products listed for that customer.

3.1.7 Planning and Assigning Budget and Actual Costs

SAP's emphasis on integration makes it possible for the actual costs in SAP R/3 to be associated with the relevant campaign. You can achieve the integration of costs thanks to the connection between the marketing planner of SAP Trade Promotion Management and the marketing planning functionality in SAP R/3.

To simplify cost integration, the software automatically creates a relationship between the SAP R/3 work breakdown structure (WBS) element and the market planning (promotional) element. (Note that this automatic relationship is supported for SAP R/3 4.0B and higher. You can also use the functionality with earlier releases, but the relationship between the planning element and the SAP R/3 WBS element must be created manually in those cases.)

The relationship described above enables you to enter actual costs in SAP R/3 and to update these costs from SAP R/3 to SAP Trade Promotion Management. SAP Trade Promotion Management contains functionality from mySAP CRM and mySAP BI. The planning data that is created in mySAP CRM is also overwritten in mySAP BI, thereby providing a controlling tool for the promotion process. Interfaces to mySAP BI enable you to track, monitor, and analyze all planning data, as compared to actual data and income from the trade promotions.

However, if the back-end system is not SAP R/3, but another legacy system, actual costs can be integrated using a third-party system or entered manually. Integration between back-office costing systems and SAP R/3 is open: SAP's open business application program interfaces (BAPI®) allow companies to hook up their legacy costing systems with SAP for Consumer Products. Alternatively, you can import actual costs directly from mySAP CRM into the SAP BI business information warehouse technical component, SAP BW, for comparison with planning data. If you enter costs manually within mySAP CRM, you can also implement this solution in a stand-alone manner.

3.1.8 Sales Forecast

Supported by an effective, intuitive, and integrated planning process, the sales forecasting capability of SAP for Consumer Products enables you to concentrate your sales efforts on the most profitable customers, customer groups, and products. The integration of functions for corporate planning and strategic goals proactively supports the sales process.

SAP Trade Promotion Management combines these tasks in a process that accounts for various roles, including the chief financial officer (CFO), marketing manager, sales managers, and other staff members. The relevant planning level and associated tasks are assigned to users according to the degree of detail required. For example, a key account manager is responsible for planning at country, key account, and brand levels.

The solution's Web-based user interface simplifies sales planning and provides users with all the information they need to carry out their responsibilities. It offers a tailor-made solution for sales requirements and a planning screen for professional users within the planning process. In addition, versioning tools allow you to start planning and experimenting with various parameters before a final release issuance, when only one of these versions becomes active.

By this point in the process, the trade marketing manager has both defined the specific targets of each key account manager in detail and created a marketing structure for the trade promotions. This structure typically defines the customers for which the key account managers need to create a sales plan. This sales plan should indicate the time frame for planning and the brands that are to be promoted (general product category).

The main parameters that influence the key account managers' targets are:

- The sales target (the total sales revenue and the increase in sales revenue to be achieved by the promotion) that the key account manager must achieve for the customer
- The advertising cost allocation provided to the key account manager to achieve the targets

The parameters described represent only two of the essential figures that SAP provides for the key account manager. However, every CP company is able to define further figures that are relevant to its own specific promotion process. A trade marketing manager determines the relative importance of figures, based on historical data from previous years, and grants advertising costs accordingly.

SAP Trade Promotion Management also provides extensive support for the planning that takes place, on occasion, at the local level. In view of this, SAP has integrated an easy-to-use interface that includes additional calculation options, graphics, and print options. Together with capabilities in SAP for Consumer Products, such as validation and hierarchy assignments, this guarantees that data is always consistent and up-to-date.

SAP for Consumer Products sales planning capability achieves this thanks to the integration of mySAP BI, which is responsible for the consistency and high performance of data maintenance and data reporting. In addition, the technology offered by SAP enables the seamless integration of sales planning in both strategic and cross-company operative planning. This is particularly advantageous, because the sales planning process provides the basis for mapping profit and loss (P and L); resource, marketing, and campaign planning; and, when combined with mySAP Supply Chain Management (mySAP SCM), production planning.

Once the marketing structures, sales revenue, and advertising cost allocation parameters are defined, a key account manager can visit with retail customers. The key account manager then loads the relevant data into a laptop and negotiates with customers about the planned basic sales revenue for the coming year in the given product categories. The key account manager can call up a customer's historical and product category data to provide a basis for negotiations. In addition, a key account manager can call up point-of-sales (POS) data for a particular period – for example, the promotion sales in a particular month of the previous year. This information is accessible because the key account manager's front-end contain syndicated data. Once the parties conclude negotiations satisfactorily, you call up the sales revenue targets that remain open.

For example, suppose the sales revenue target is five million euros, and the basic sales revenue covers only 80% of that. The marketing calendar shows that a cross-enterprise campaign will start for the markets that the key account manager is currently negotiating with the customer. In this case, the key account manager plans a new promotion and attaches this to the enterprise campaign. The solution automatically creates a new promotion identifier for this promotion and the key account manager determines the merchandizing parameters that shape this promotion. These parameters include start and end dates for the promotion, in-store dates, promotional tactics, conditions, and so on.

Once the negotiations are concluded, if it is apparent that the sales targets can be reached, the key account manager sends the sold-in promotions, together with the related parameters, to the trade marketing manager at the CP company's headquarters. To ensure the completion of all promotions, a check takes place on all the input fields that need to contain an entry. If entries are missing, the solution displays a message.

At that point, the headquarters office runs a report that shows which key account managers have fallen below their sales targets by a certain percentage. Those key account managers then receive messages informing them to load the data back into their laptops and reopen negotiations with the customers. During reporting, no one in the marketing department has the authorization to change the key account managers' sales figures or promotions. The only way to access this information is in read-only mode.

While the promotion takes place with the customer, the key account manager can display the data that has accumulated for the account. At that time, the key account manager can check to see if the figures meet planned estimates and can locate any

problems at an early stage. In this way, key account managers can take corrective measures early enough to ensure that the promotion is still successful, rather than wait until it is no longer possible to intervene in the process.

3.1.9 Integration in Purchasing

Some promotional events necessitate advertising media. For trade promotion, this can be in the form of purchased displays to present the products or free advertising items (bonus materials). For promotions that focus on consumers, you can consider purchasing TV and radio, as well as print ad space. You can handle this directly or purchase via an agency.

3.1.10 Integration in Material Requirements Planning

The sales forecast provides the planned sales quantity. Needs for material requirements planning are created based on this data. This takes into account the fact that the requirement is higher during the promotional period and that it is lower in the pre- and postdip.

3.2 FIELD PLANNING: INTEGRATION OF MOBILE SALES APPLICATIONS

3.2.1 Field Account Planning

In field account planning, the account manager downloads planning information; deals; budgets; customer, product and price master data; historical merchandising performance; historical shipments and consumption; and full financials. The account manager must be aware of how promotions affect both his product profitability and the customer's profitability. The customer will not accept promotions that reduce its margin, unless the promotions enable it to reap significant value. For instance, increases in volume that suggest the customer is taking share away from the competition might represent sufficient value to the customer.

The customer considers trade promotion spending to be a pad to its bottom line margins. It often takes the discount and does not perform to the agreement. This leads to deductions being contested and many dollars spent in resource time attempting to clear these deductions.

SAP currently has two approaches under development to support account planning with SAP for Consumer Products:

- Online planning via SAP SEM-BPS, currently a capability of mySAP ERP
- Off-line planning via the trade promotion management capability that is integrated with mobile sales application (MSA) functionality, currently a function of mySAP CRM

3.2.2 Merchandising Event Planning

Within SAP for Consumer Products, the account manager plans merchandising activity for the plan cycle and starts by selecting a customer and a promotable group combination. If headquarters has established a deal, the parameters established there will automatically populate the account manager's planning screen. The account manager then must determine the following:

- Length of promotion (usually one week within the identified performance period)
- Type of merchandising tactic, which can include feature, display, and temporary reduced price
- Targeted promotion price
- Promotion multiple (one, two, three, or more, as in three for \$1.00)
- Type of condition (off-invoice or bill-back per case, variable rates and market development or fixed funds paid after performance)
- Estimated shipments of product to the customer during the identified shipment period of the promotion, which is required to support the promotion and the customer's forward buy behavior

Upon completing the tactical planning, spending assumptions, and volume forecast, the account manager will be able to determine the total spend associated with this single promotion event. The plan absorbs the volume and spending estimates and compares them with the target – in real time – so the account manager can keep track of how the plan is affecting the budget.

Volume estimates appear automatically in the volume planning screen within the planning tool in the correct month. Upon completion of merchandising event planning for all deals associated with this account, brand, and promotable group selection, the account manager must go to the volume-planning screen and complete the sales forecast.

3.2.3 Volume Planning

The trade marketing manager can complete the sales volume forecast for the account, brand, and promotable group combination by filling in the months in which no promotions will take place. These estimates should be somewhat lower than baseline volume for promotions that occur in the month before the nonpromoted time periods.

Once the account manager has completed the two-step planning process for this account and promotable group combination, the account manager can go back to select a new promotable group or account and complete the two-step process. The account manager goes on to complete the planning activity for all of the account-promotable groups.

Even if a promotable group does not have a deal from headquarters, the account manager must still enter the volume-planning phase and estimate baseline volume for the account for the planning cycle. This is a critical step, since all promotable groups must have a sales forecast associated with

the account plan to ensure accurate roll up of all bottom-up planning. In addition, since this forecast will eventually feed demand planning, it is important to create plans for all promotable groups. Upon completion of all the steps, account managers can release their **plans** back to headquarters for approval.

Once headquarters approves the plans, account managers are given the go ahead command and begin scheduling customer visits, at which they will present merchandising event recommendations (the plans) to account merchandisers buyers.

3.3 ACCOUNT SELL-IN AND NEGOTIATION

It is during this phase that the account manager presents promotion recommendations to the customer and gains account agreement to support the planned merchandising tactics.

The trade marketing manager prepares proposals for each merchandising event that requires customer support. The proposal is a packet of information, usually provided in chart and graph form, which shows the positive effect that the promotions will have on the customer's business. The merchandiser (customer) also wants to know about media and consumer promotions that will take place during the proposed in-store – merchandising event. The merchandiser needs to understand what the manufacturer is doing to drive consumers into the customer's stores to buy the promoted product. The merchandiser also looks at the pricing conditions offered with the event to understand how much the manufacturer is willing to help the profitability side of the promotion equation.

In many instances, the merchandiser accepts the promotion proposal and fills out the contracts as written. There are also times that the merchandiser will ask for more money, or a different date, or a different tactic. Requests such as these may result in a change in the volume forecast or spending impact of the promotion. The account manager can predict some scenarios before the meeting to know in advance how certain changes will impact the plan and can authorize a change on the spot. Otherwise, the account manager may need to regroup in the customer's lobby and conduct some revised forecasting activity within the planning tool before committing to the requested changes. This part of the negotiations will depend upon how much authority the manufacturer's headquarters is willing to give to the account manager.

SAP for Consumer Products provides the standard set of charts and graphs that can serve as the basis of this proposal. The event planner of the account planning capability can provide the profitability information, should that be required to support the proposal.

3.3.1 Contract Submission

Upon receiving a commitment that the customer will run the promotion on the suggested date at the offered discounts, the account manager must fill out a different merchandising contract for each account. The contract identifies the key parameters of the promotion agreement, including:

- Products – must disaggregate promotable group to universal product code (UPC) level descriptions and codes
- Performance start date
- Performance duration (number of weeks)
- Performance type (quantities may be agreed on in the case of display)
- Performance quality

- Promotion price
- Promotion multiple
- Variable rates to be paid on shipment (identify shipment period)
- Fixed rates to be paid for performance (validated after the fact)
- Payment method

The account manager may deliver the contract in electronic form; however, the CP industry has been unable to define an acceptable standard for the transfer of this information from the manufacturer to the customer. Today, most manufacturers use multiform paper contracts that the account manager must complete. Once the account manager submits the merchandising contracts, the account manager changes the status of each promotion in the planning tool within SAP Trade Promotion Management to a status of committed. This signals back-office systems that the promotion is ready for assignment to the order entry, demand planning, and financial systems that are dependent on the business rules each manufacturer will want to set up for managing this workflow.

SmartForms, a function within SAP for Consumer Products, provides an electronic template for the capture and delivery of this information from the account manager's laptop to the retailer's system. While this can be done, much behavior change has to occur for this new delivery process to be accepted.

3.4 RETAIL EXECUTION AND VALIDATION

3.4.1 Execution and Validation

To ensure successful execution of all promotions, the merchandiser transfers all the relevant data that the key account manager created off-line to the headquarters office. Once this happens and the promotion begins, the information is transferred back via the off-line MSA function, made available with SAP Trade Promotion Management. The MSA function displays the marketing calendar, which provides the key account manager with an overview of all relevant information. In addition, activities that are automatically created can be displayed through the off-line MSA function. These activities typically cover visits and sales documents, as well as performance checklists, which support performance-related aspects of the promotion's execution. Then, the customer can simply order promoted products and accept delivery as needed according to the schedule.

During this phase, a number of critical transaction activities take place. These support the accurate assignment of payments to programs, based on shipped product and specific store-level performance, as well as a number of presale activities that can determine the real success or failure of a promotion.

3.4.2 Field Sales Representative Presales Activity

Once the account manager has an approved promotion plan for an account, the account manager sends this event plan to all the field sales representatives who call on the customer's stores. The field sales representatives are then able to plan their store contact coverage based on the timing of selected promotional events that drive the sales volume for the account. The field sales representative visits each store and discusses the promotion plan with each store manager. The field representative then attempts to sell additional cases to support the promotion, and orders sales collateral to dress up the store's windows, shelves, and displays.

The field sales representative also communicates any store-level discounts available (should a store manager perform to a predefined level), if this is a component of the offer. For example, the offer could specify that if a store displays forty cases, it gets an additional one hundred dollars.

Using personal digital assistants (PDAs), field sales representatives can connect online to account managers' laptops through mySAP CRM, allowing the information to pass daily – if not in real time, given the growing availability of wireless services.

3.4.3 Account Order Placement and Assignment of Discounts and Funds

In entering the shipment period of a promotion, each order must have the appropriate conditions assigned as it is processed. For variable rates, off-invoice, and bill-backs, this is a straightforward process. For fixed-funds and postperformance payments, this is a more difficult transaction process to systematize, but the integrated solution will deliver this functionality.

It is realistic to expect that customers will take deductions related to promotion programs and contracts due to errors in data entry or timing issues. SAP customers expect management tools that allow account managers to quickly reconcile deductions with promotion contracts and funds, and get deductions off the books. They also expect that a more tightly integrated planning and execution tool will reduce the number of deductions, thereby saving customers (retailers) the handling costs associated with clearing deductions. These are capabilities that SAP Trade Promotion Management provides.

All the promotion event conditions stored in SAP for Consumer Products and noted as committed go into SAP R/3 at the appropriate time for assignment to all shipments concerned. This also initiates the release of payments and balancing of funds against future payments within the general ledger and financial applications.

3.4.4 Performance Validation

The field sales representative is also responsible for collecting important information from each of the stores visited on day-to-day routes. The account manager needs validation information relative to each major promotion, such as:

- Did the display get set up?
- Did the reduced price get set?
- Did the feature run?
- Which competitors promoted during our promotions?
- What price points and tactics did competitors use?

Once this specific information related to the account manager's promotion is aggregated across all the customer's stores, it will assist the account manager in releasing performance funds to the account more quickly than is usual today. If manufacturers can release the payments more quickly, customers most likely will hold off deducting the performance payments and take the credit.

Using their PDA's, the field sales representatives can keep their senior managers up-to-date on all critical activity happening at store level.

3.5 EVALUATION AND ANALYSIS

In SAP for Consumer Products, there are a number of predefined reports, charts, graphs, alerts, and scorecards the manufacturer can access to monitor and track the performance of the total plan or any component of the plan. Sales vice presidents, brand managers, team leaders, and regional sales managers can all be up-to-date on how the plan is performing, as actual orders for shipments and promotions execute. Identification of product and account areas that are overperforming or underperforming can lead to quick resolution, thereby optimizing the plan at every opportunity.

The process of evaluating the existing plan leads to a cycle of planning the next year's promotions. Best practices and changes in behavior support the creation and definition of a new plan that will be more effective than the previous plan. Completing the "measure, learn, change" process leads to greater volume growth, higher profit, improved margins, and preferred customer status with your accounts.

It helps to split the post-evaluation of promotion into two parts: first, look at the performance of earlier campaigns; and second, look at the results that the promotion achieved with customers and end consumers. Use the first type of investigation to measure the success of your campaigns.

The seamless integration of CRM and financial capabilities within SAP Trade Promotion Management generates customer objects (corresponding account assignment objects) in mySAP ERP and assigns all costs and sales revenues to the correct campaign. Use the second type of investigation to measure the result, as perceived by your retail customer and the end consumer.

Historical data for the latter type of investigation comes from two sources: first, the back-end system provides information from past campaigns and deliveries to the customer; and second, syndicated systems provide information about the products and volumes actually sold.

The typical life cycle of a promotion lasts between one week and four months, allowing for both the buy-in and post-promotion periods. The profile and conditions of a promotion's plan and execution are important elements to understand as part of the planning and management process. They provide the foundation for projecting any outturn for a promotion using the data from the initial on-sale days (actual figures compared with planned figures).

A variety of conditions exist and it is important to understand their differences and how they are used to support the trade promotion process:

- **Consumer sales** – Typically based on electronic point of sales (EPOS) data, these reflect the buying behavior of customers during a promotion. This is the most efficient method of comparing promotion performance with the planning data. However, EPOS data is not always available.
- **Historical data** – The time of ordering right through to delivery forms the platform for generating data for analysis. This data is important for both inventory management and production planning and is less important for tracking the progress of the promotion.
- **Warehouse withdrawals** – This is an aggregated set of data based on the deliveries from the CPG delivery centers to the individual markets. It is often preferred, because this data is more commonly available and lower in volume than the EPOS scan data.

4. INTEGRATION WITH mySAP BUSINESS SUITE

Trade promotion management is a closed-loop business process that is embedded in the SAP system landscape.

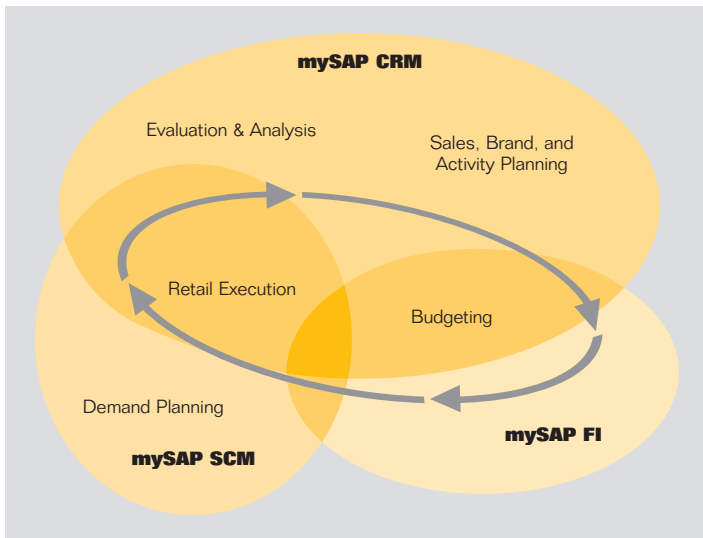


Figure 5: Closed-Loop Trade Promotions

The individual steps of the process come up again in various solutions of the mySAP Business Suite business platform, which contain overlapping functionality. SAP is making the trade promotion management process available through SAP Trade Promotion Management – an industry-specific solution within SAP for Consumer Products. SAP for Consumer Products is designed to create a competitive advantage for consumer products goods companies by providing end-to-end consumer focus.

5. ARGUMENTS IN FAVOR OF THE TRADE PROMOTION MANAGEMENT PROCESS

Trade promotions constitute up to 60% of the total marketing expenditure, and therefore make up the largest financial block of a CP manufacturer's marketing plan. They have a considerable affect on all other marketing activities, which, in turn, influence them.

The ultimate goal of SAP Trade Promotion Management is to increase the profitability of all marketing measures. Trade promotions also influence and form the basis of a network among marketing, sales, and logistics functions and programs.

Today, CP manufacturers take one of two approaches to managing trade promotions:

- Some use homegrown, Microsoft® Excel-based tools that allow users to plan and transfer data in an easy to use format.
- Others use a combination of homegrown and point solutions that require additional interface work to manage the process.

Either type of process requires manual interaction and is extremely slow in pulling together the components of the plan. This results in people spending too much time on the planning and administrative side of promotion and not enough time on selling and executing the plan.

Neither of these methods has integrated analysis tools that enable companies to predict the success of planned marketing activities. Predictive models are critical to a manufacturer's ability to plan trade promotions effectively. In addition, account managers and field sales representatives require easy-to-use tools that support their planning and execution activities.

SAP Trade Promotion Management provides you with an integrated solution that draws together all the activities needed to analyze, plan, sell, execute, validate, and evaluate your products in a closed-loop process. This integrated approach can speed up the planning process in your company and offer you the highest level of predictability, particularly regarding your budget. The process is goal-oriented and provides you with measurable success. It connects brand, sales, finance, operations, and logistics users to this critically important, customer-centric business process.

6. WOULD YOU LIKE TO LEARN MORE?

By developing a process geared towards the area of sales promotion, SAP is playing an important role in helping today's future-oriented companies master the challenges they face.

The concept of integration upon which the trade promotion management process is based opens up new dimensions in planning and monitoring sales promotion measures. This allows you to strategically plan and execute marketing measures and track their success in real time.

This document provides an overview of the current situation regarding development and of the functional scope of SAP Trade Promotion Management. SAP will keep you informed of future development progress and looks forward to your comments.

If you would like more information on SAP Trade Promotion Management, please contact your local SAP office.

Information on SAP for Consumer Products, mySAP CRM, mySAP SCM, and mySAP Financials is located in the media centers at the following Internet addresses:

- <http://www.sap.com/solutions/industry/consumer/>
- <http://www.sap.com/solutions/crm/>
- <http://www.sap.com/solutions/scm/>
- <http://www.sap.com/solutions/financials>

www.sap.com/contactsap

