Oracle Trade Management

Defining a new standard for the management of the distribution value chain that crosses industry, trade channel and consumer boundaries.

An Industry White Paper
May, 2008
# TABLE OF CONTENTS

TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Consumer-Centric Trade Channel</td>
<td>3</td>
</tr>
<tr>
<td>It’s not Rocket Science…It’s a Whole Lot Tougher!</td>
<td>4</td>
</tr>
<tr>
<td>The “Trillion Dollar Challenge”</td>
<td>5</td>
</tr>
<tr>
<td>Evolving from Transactional to Strategic</td>
<td>7</td>
</tr>
<tr>
<td>The Oracle Trade Management Solution</td>
<td>8</td>
</tr>
<tr>
<td>How the Process Works</td>
<td>9</td>
</tr>
<tr>
<td>The Benefits of Oracle Trade Management</td>
<td>11</td>
</tr>
<tr>
<td>Leveraging the “Best of Breed”</td>
<td>11</td>
</tr>
<tr>
<td>Summary and Conclusion</td>
<td>12</td>
</tr>
</tbody>
</table>
The Consumer-Centric Trade Channel

Manufacturers across virtually all industries have been wrestling with the problems of managing the operations, results and relationships of their distribution channels for hundreds of years. Over the past century and a half or so, the specter of trade funds, co-op advertising, market development funds or other “soft dollar” programs has increased in both complexity and volume. Today, for instance, it is widely held that the percentage of trade funds to gross revenues has risen from just slightly over 3% in 1930 to almost 20%. Further, just since the mid 1980’s promotion funding has increased nearly 3X, from between 6% and 7%. In fact, it is virtually impossible to see any published article, white paper, analyst study or academic treatise on the business of the supply chain and channel marketing without seeing these figures somewhere in the body of the content.

Where does the money go? So many industry marketing and supply chain pundits argue that there is a combination of expanding cost of media, human resources, distribution and, of course, rising costs from retail consolidation that spurs this demand. Others ponder the pure concept of greed on the part of the largest retail mega-chains, which is buoyed by the continual reporting of major research houses that channel company profits are more likely to be generated from huge mandates for promotion funds, rather than margin on product. In fact, an HPM survey taken in 2005 showed that trade funds contributed to more than 60% of the profitability of the top ten largest retail chain stores;¹ and a growing slice of the profit margin reported by the major distributors as well.

However true that may be, channel companies are not always the mean green ogres they are made out to be by beaten down sales managers, frustrated category managers and downright angry financial analysts. Product pricing margins have dropped to virtually nothing, especially when the products are promoted or when there is a contractually low discount applied to every

¹ Hand Promotion Management Survey on Trade Channel Promotion, 2005.
product sold.\textsuperscript{2} The massive merger and acquisition activity over the past three decades has reduced the different channel companies, but has spurred tremendous growth of branch retail locations and retail channel formats that offer more opportunity for the consumer than any other time in our planet’s history. And it does not seem to be letting up. New stores, more spacious and attractive interiors, more emphasis on product categories and the expansion from goods only to services mean higher cost, higher complexity and higher concerns from both sides of the channel.

So why does the average consumer goods manufacturer do it? Why spend all of that money? The answer is simple: to attract the loyalties of the consumer. With the channel often driving the direction, tactics, timing and funding, it is easy to believe that the manufacturer has little or no authority to make well-intended and even well heeled promotion recommendations. But the reality is that both partners have a common goal. It is an objective that is a combination of inciting the consumers’ entry through the doors and more about holding their loyalty, making them consider that retailer as the sole and only center of the universe for food, beverages, home improvement, entertainment, computer technology, auto parts, apparel, footwear or whatever need they have. Attracting the consumer is nothing new, of course. But today’s efforts are quickly moving from art to science, bordering on rocket science – and for good reason.

**It’s not Rocket Science...It’s a Whole Lot Tougher!**

Bridging these typically segregated functions requires not only the technical capability to link point solutions, but to also understand the typical business ebbs and flows and the unique philosophical approach of multiple major channel customers toward the consumer.

Centering the consumer within the wide array of typical functions and processes of channel management is a science indeed. Most companies view these as ERP-centric issues, using the core ERP technology as the driver in determining how the functions fit together. Too much attention is paid to the technical interaction between customer facing solutions and the back-end corporate enterprise resource planning technology and not enough is given

\textsuperscript{2} Everyday Low Pricing (EDLP) is an alternative pricing structure popular among major mass merchandiser companies that results in an extremely low price markdown at wholesale in lieu of accrued and/or allocated trade funds.
to how this technology can and should be focused on the consumer as the driver.

Bill Marriott once spoke of a time when his hotel designers showed him the plans of a huge resort hotel they were planning to build. The plans called for an enormous off site laundry facility with a Ford-like assembly line and storage enough for all of the linens, towels, soap, shampoo and other items that would be eventually put into each room. The lower cost of operation far outweighed the inconvenience of moving the towels to the housekeepers up and down the hotel towers. In addition, the architect showed the chairman how the elimination of a storage room on each floor for extra household items would enable the addition of more rooms, hence more revenue. Proud of their superior design, efficient operation and lower overall cost for housekeeping services this would bring the hotel and the company, the chief designer sought approval. Marriott looked at the designer and asked him what happens if a guest (his word for “customer”) wanted a towel at midnight? The plans were scrapped in favor of on floor storage, a basement laundry and elevators that ran up to each floor.

In consumer goods, the same holds true. The consumer is the trigger to all that happens – sales, marketing, product design, packaging and location in the store shelf. Working from the consumer back rather than from ERP out is the most effective and intelligent way of being a leader in consumer goods. The construction of a comprehensive trade management solution is based on science of logic and sensibility. It means orienting the process toward the fulfillment of the consumer demand.

The “Trillion Dollar Challenge”

The amount of money spent today in global marketing is more than $1.4 trillion dollars (USD). More than half of it is trade promotion. If you add in the amount of money manufacturers spend on direct consumer promotion such as coupons and the exploding internet advertising and marketing, the so-called below-the-line spending associated with channel promotion funding is the lion’s share of that global market spend.

The “Trillion Dollar Challenge,” therefore is not something that is exclusively the domain of the manufacturer/suppliers. It is a serious problem facing the channel as well.
The problems encountered by both sides of the channel include inventory and stocking, category optimization, marketing, distribution and logistics, to name a few. For years, these problems were obscured within the disparate silos inside the organizations and worse, the channel wielded power over the manufacturer/supplier so completely that a “don’t ask” policy was often assumed between the channel buyer and the manufacturer representatives. The manufacturer was powerless to do anything but comply. That meant giving more money and getting less in the way of true marketing opportunities. The typical attitude of the channel has often been that they are simply more informed about how to sell to the consumer, and executives for manufacturers large and small reluctantly agreed and ceded control. Behind the organization walls, however, both companies suffered similar ills, with forecasting sales and demand, promotion management, category management and execution as the top areas of concern.

At the same time the ongoing evolution of sales teams into account business managers continued. The transactional paradigm of the past supports neither the current customer demands nor the direction of their role objectives moving forward. The need for the channel and the supplier to earnestly collaborate has never been more critical; but the tools to accomplish effective sharing partnerships have been slow to reach maturity.

As the industry, and the technology capabilities available to it, has evolved, the drive to actionable insight has increased in focus and estimated return. Enhancements in their own planning processes have enabled similar changes on the part of the retailer and
distributor, who now often operate a highly sophisticated planning process. In fact, the manufacturer account team may find themselves at a disadvantage because their customer is more sophisticated than the manufacturer itself in these critical business processes. Increasing levels of collaboration between parties is exposing some of this imbalance, and prompting actions to rectify it.

With the creation of the Vendor Interindustry Council on Standards initiative known as Collaborative Planning, Forecasting and Replenishment (CPFR), manufacturers and channel companies began true collaboration on key issues of logistics, distribution, demand forecasting and the joint management of inventory stock levels. This important initiative broke down numerous long-standing communications and philosophical barriers between the channel and the supplier such that it became evident and obvious that more of their respective business processes, policies and procedures needed to be shared.

**Evolving from Transactional to Strategic**

The “Trillion Dollar Challenge” for both channel and supplier means that each must work to join data gathered by each on key areas such as predictive trade planning, category management, retail execution, merchandising and financial ROI. For the past several years, manufacturer/suppliers and channel companies have been working hard to identify and reengineer the processes and improve the technology that supports them as well as improve the flow of consistent, accurate and timely data.

Most I/T organizations focused on improving the transactional technology that emerged from three decades of manual, spreadsheet or cumbersome internally developed solutions. Now, however, with many companies meeting transaction performance and administrative goals, it is time to tackle the harder chores of integrating data to form the base of knowledge and intelligence that enables more effective and efficient management of the consumer demand signals. Satisfied that transactional problems have largely been solved, sales, marketing and I/T executives have begun to change the vector toward more strategic initiatives.

The problem most consumer goods companies have is that the layer of components that operate and/or manage the trade channel are not equally shared, consistently managed or even under one
organizational responsibility. Each such component is often at different stages of technical development or capability. Often these are “home grown” applications with management and maintenance that are inherited through the typical organizational attrition, so the understanding of how they fit into the service of the channel management spectrum is limited and often incommunicado with the rest of the process and technology owners. Sales may own retail execution, finance TPM, brands category management and brokerage firms the annual customer planning. Linking, coalescing, and reengineering these together is beyond typical transactional definition and performance.

The Oracle Trade Management Solution
Oracle Trade Management for Consumer Goods enables sales and margin improvements for both your company and your customers, optimizes account and category management, and enhances the productivity and collaboration between all internal and external functions.

Few consumer goods executives today will readily admit that it was better to have the mission-critical functions such as A/P, A/R, order entry, invoicing, shipping, manufacturing and HR managed by multiple disparate software products that were grossly inefficient compared to the powerful ERP technology that exists today. Yet this is the very argument widely used today to justify the resistance to a single comprehensive trade management solution.
The many varied and complex requirements for management of the trade channel of distribution require the leveraging of industry discipline and experience. Related, but often segregated, functions within the company must work together to solve the problems and implement the business of the channel and supply chain to ensure success. Bringing these disparate point solutions together is often more than an internal organization can do – even one with a large and talented I/T development staff.

With the acquisition of Siebel and the addition of widely acclaimed and industry leading consumer goods solutions such as Hyperion and Demantra, Oracle now has not only all of the components necessary to ensure full spectrum technical support of the critical processes and functions of trade channel management, but also the customer base, domain knowledge and expertise necessary to be the thought leader in consumer goods. The process of integration has been underway for months leading up to recent announcements of new products that showcase the integration of these solutions as well as the development of others leveraging this domain expertise.

The intent of the Oracle Trade Management initiative is not only to be more strategic, but also to leverage a growing wealth of point of sale data that enables more alignment between individual tactical decision making by the rep and the store buyer. Goals and objectives vary with so much regularity, depending upon the combined environments of channel and supplier that the consumer-centric model must enable a better response to the marketplace demands. Being able to translate demand signals to actionable tactics requires many combinations of complex decisions that can only be done via technology that is able to rapidly translate simulated models into tactical direction and results with precision and trust.

How the Process Works
The process below is an illustration of how Oracle Trade Management is implemented across the consumer goods enterprise. Trade management is divided between planning and execution. Planning, so critical to every CG company today is typically broken into two “rounds.” The first round is where the primary top down and bottom up forecast, demand and promotions are configured. The second round is where the plans
are presented to the channel buyers, negotiated, reworked and finally approved.

Execution is where action is taken, performance occurs, compliance is validated and settlement made. This is the part of the process where most of the traditional weaknesses of trade management are exposed. Once the deal is struck, much of the initial performance including purchasing, shipping, retail execution compliance and even deduction management is often totally out of the manufacturers’ control. Worse, the lack of immediate and accurate consumer signals often mean that any reasonable response is impossible. This is what companies like Wal-Mart, Tesco, Metro and Target are trying to solve with their direct POS systems.

Combined with consumption intelligence and historical data, there is the beginning of a true demand signal management industry.

The development of more sophisticated demand signal repositories, such as Oracle’s recently released DSR are replacing more primitive and less capable technology. Oracle’s DSR is the culmination of a highly successful two-year pilot with two of America’s largest consumer goods companies and retailers. The result is a powerful scorecard functionality that combines end-to-end near real-time monitoring of the entire supply chain with promotion execution and analytics data. The Oracle DSR also provides a powerful Category Management system that contains
reporting and analytical tools, combined in an interactive dashboard that delivers consumer demand signals throughout the brand and marketing organization as well as store and item level intelligence accessible by the reps and broker A/E’s.

**The Benefits of Oracle Trade Management**

Bringing all of these functions into the same foundation, while preserving the best-of-breed advantages of the individual applications that comprise the suite delivers to the manufacturer and to the trade channel partners a powerful set of benefits.

- Integrated marketing and brand management, sales account management and field sales management into a single end-to-end trade management process
- Transformation of the role of the sales force from order taking to business management
- Use of predictive promotion planning and optimization to create the "best possible" trade promotions
- Proactive management of the execution of trade promotions, using real-time alerts based on key performance metrics
- Measurement of promotion performance in near real-time
- Support for the end-to-end retail execution and merchandising processes
- Leveraging of a repository of downstream retail data to optimize account and category performance
- Precise and trustworthy sales volume plans into the Sales & Operations Planning process

**Leveraging the “Best of Breed”**

Software companies strive to build entire suites of products to ensure full coverage of a designated segment of processes of the enterprise and, of course, to sustain and grow their revenue stream and margins. As such, most companies create a variety of component functionality that is built off the central core of their existing enterprise software architecture and expand from there. There are two ways to achieve the “best of breed” in enterprise software applications. You can acquire numerous domain experts and development teams and build it, or you buy it. Building takes far more time than the acquisition and integration of different products, but buying existing best-of-breed applications brings an
existing corps of domain experts, developers and customers. Oracle has wisely opted for the latter strategy, and the benefits have begun to be recognized.

The many varied and complex requirements for management of the trade channel of distribution require the leveraging of industry discipline and experience. Related, but often segregated functions within the company must work together to solve the problems and implement the business of the channel and supply chain to ensure success. Bringing these disparate point solutions together is often more than an internal organization can do – even one with a large and talented I/T development staff.

**Summary and Conclusion**

The primary purpose of the Oracle Trade Management technology is to automate the end-to-end process of effective and efficient channel management activities. These activities include, but are not necessarily limited to:

1. A financial planning foundation that identifies the immediate impact, reconciliation and response to trade channel activities.
2. Real time, precise and trustworthy data that fuels brand and category plans and enables appropriate reaction to change.
3. High-level account plans that identify future promotions.
4. Predictive promotion simulation that estimates profitability for both trading partners.
5. Coordination of advertising campaigns with account promotions, leveraging marketing materials.
6. Visibility to constraints such as product requirements, shipping windows and potential reserve needs.
7. Collaborative power to become a key partner with the trade channel’s most successful retailers and distributors.

Oracle’s offering of the industry’s first truly comprehensive Trade Management suite combines the power and best-of-breed functionality of the world’s most successful TPM transaction, Retail Execution, and Analytical tools from Siebel, with the industry’s most precise and trustworthy sales forecasting, demand management, S&OP, predictive trade planning and promotion optimization solution, Demantra. In addition, Oracle’s recently announced Demand Signal Repository containing the most proven collaborative retailer scorecard dashboard and category management workflow, dashboard and report engine and the
award winning financial analysis product, Hyperion are part of this package of products and solution.

Finally, the industry’s best channel management analysis tool, Oracle Business Intelligence Enterprise Edition, tops off the suite with powerful dashboards, reports and intelligence tools that take advantage of direct retail POS, manufacturer financial, promotion, sales and marketing performance data, and third party consumption data to bring each individual close enough to the consumer to gain near real time demand signals that enable rapid and effective response in the market.