



SAP White Paper



EFFECTIVE FOODSERVICE TRADE-SPENDING AND CONTRACT MANAGEMENT

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CONTENTS

- Executive Summary 4
- Getting Lost in the Details 5
- Bringing Order to the Complexity 6
- Achieving Greater Profitability Through Efficiency 7
- Summary 7
- Powered by SAP NetWeaver. 9

EXECUTIVE SUMMARY

Today's consumers are constantly on the run and continually multitasking. They place a premium on convenience, and this drives the demand for prepared foods. People want to eat exactly what they want when they want it. For many, preparing and eating a home-cooked meal has taken a backseat to work, family commitments, and leisure activities.

Given the fast-paced lives we lead, "food away from home" is the fastest-growing segment of the food industry. But behind the scenes, the foodservice channel is complex. Customers include commercial and noncommercial entities ranging from restaurants, schools, and hospitals to recreational facilities. Competition is so fierce that manufacturers like you are under constant pressure to reduce prices; consequently, profit margins are narrow. Incentive systems are also complex: For distributors, there are multiple promotions, deals, rebates, and multitiered purchasing structures. For operators and national accounts, there are rebates and contract pricing.

The problem is that most foodservice manufacturers have no way to figure out which incentives are profitable and which are not; nor can you easily understand the liabilities associated with each incentive. You may use one-off applications, spreadsheets, and databases as tracking tools. In addition, you may have difficulty supporting your legacy order-management and sales and distribution systems because you've heavily customized, patched, and rewritten them over the years.

Distributors submit their claims in many different formats, including paper. Claims appear as line-item entries sometimes adding up to tens of thousands of dollars. You have to laboriously go through line-by-line, column-by-column to validate the data. Typically, you rely on your salespeople, brokers, and other staff to perform this task, so the process is extremely manual, time consuming, and error prone. In addition, the lack of automation makes it difficult to evaluate performance-based incentives before paying them.

A popular phrase in the foodservice industry regarding claim adjudication is "weigh it and pay it." That is no easy feat for manufacturers that lack the right technology to integrate sales, marketing, and financial activities. But you now understand that you can gain competitive advantage by deploying integrated systems that provide visibility over all the accepted contractual obligations, growth and rebate programs, incentive dollars, and daily miscellaneous spending. An integrated system also enables you to put controls in place to validate claims at a line-item level, settle deductions and bill-back payments, and validate the profitability of contracts and sales cycles.

GETTING LOST IN THE DETAILS

Competition and other market forces drive the structure and content of contracts for national accounts and operators. Manufacturers frequently offer special pricing to operators to purchase their products, even offering competitive prices to operators at prices below the distributor's acquisition cost. The distributor recoups the difference through the claims and deduction process, which ultimately results in a bill-back payment or credit from you to the distributor. The operator is sometimes entitled to rebate payments based on performance and growth criteria.

Although this process may seem straightforward, it is very complex and labor intensive for all parties involved. Distributor-incentive (trade-spending) programs often target all levels of the supply chain. You may offer these incentives as earned income, competitive allowances, market development funds, or growth rebates. The agreements can involve one or many distributors. In addition, multiple overlapping agreements may simultaneously apply in certain cases. It is a common practice for distributor rebate agreements to exclude volume shipped to operators. This just adds to the complexity of accruing and ultimately settling these rebates.

Distributor or operator agreements can cover a vast array of products and can have multiyear validities. Agreements change frequently and can even be modified retroactively, encompassing volume commitments, if-then conditions, and cooperative advertising. Claim data can originate from distributors, brokers, operators, or external sources – such as a group purchasing organization, customer buying group, or data aggregation service.

Keeping track of it all can be a real challenge. Foodservice manufacturers try to implement, execute, and monitor these programs with basic tools such as spreadsheets, e-mails, faxes, and phone calls; but you may find it difficult to ensure thoroughness and accuracy. As a result, you can often overpay claims and become caught up in disputes and lengthy cycles of claim rejections and resubmissions. Ultimately, this drives up costs and impairs cash flow and profitability for the channel partners.

The lack of detailed information, visibility, integrated processes, and control can hinder you from effectively evaluating the overall performance of trade-spending programs with distributors. Sales and marketing cannot optimize trade funds allocation across customers on the basis of past promotion effectiveness.

Moreover, you can't recognize the true financial liabilities related to your trade-spending programs, resulting in skewed financial reporting between periods. You may have a hard time assigning all relevant financial information – such as discounts, rebates, and deductions, as well as advertising and other marketing costs – to contracts or trade-spending agreements. The lack of financial transparency and consistency leads to random deductions and pricing that can eat into your margin and impact your cash flow. It also makes it difficult for you to determine the true profitability of individual accounts or promotions.

BRINGING ORDER TO THE COMPLEXITY

Forward-thinking foodservice manufacturers recognize that relying on manual processes and building, developing, and maintaining multiple interfaces among legacy systems poses a significant burden and is not a best practice. Implementing a fully integrated solution allows you to bring order to the complex, difficult, and error-prone trade-spending process.

A solution that is fully integrated with your enterprise resource planning (ERP) software lets you combine data specific to trade-spending and contract management with your company's general customer and financial data. It allows you, for example, to model and create rebate and incentive plans based on all the transactions you execute with your customers. You can build into these models the eligibility of the transactions, as well as the bill-back payments accrued at the transaction level.

Using an integrated solution, you can validate the various types of purchase rebates claimed by the distributors, as outlined below:

- With standard rebates, you pay the distributor a percentage of a given dollar amount in purchases.
- A flat rebate entitles the distributor to a percentage when it buys a given volume of the product.
- Growth rebates allow the distributor to claim a rebate once purchases reach a specified volume threshold.

Technology can help you manage deductions. You might pay an incentive or rebate to a distributor by off-invoice payment, check, or credit memo, but distributors often deduct the amount off the next invoice themselves instead of waiting for you to act. Let's say you invoice the distributor for \$100,000, but the distributor thinks you owe it \$20,000 in incentives. The distributor might cut a check for \$80,000 – the net amount due from its perspective.

With the right tools you can figure out why the distributor made the deduction, whether it is valid, and what promotion or contract it is related to. Then you can post that deduction as an expense on a specific incentive. If you determine that the deduction is invalid, you can request repayment.

Since all the data is cleaned, standardized, and stored in one place, individuals across your entire enterprise have a single view of it. You can reuse master data throughout the organization, so that the trade-spending process takes into account other enterprise processes, such as sales (order to cash). For example, the sales history data resident in the system allows you to compare the quantity you sold to a distributor with the quantity the distributor claims. Your sales and distribution processes can use the pricing and trade-spending agreement rules, and your financial- and demand-planning processes can employ the bill-back information.

ACHIEVING GREATER PROFITABILITY THROUGH EFFICIENCY

Armed with the right technology, you can manage the entire trade-spending life cycle, from creation of the contract or agreement and initiation of the claim request through settlement. In addition to having visibility into the rebate process, you have more control over accruals, financial liabilities, and, ultimately, your profitability.

Greater efficiency and accuracy have a direct impact on your revenue, operating costs, and working capital, with the following benefits:

- Lower labor costs as well as greater productivity and faster turnaround times in trade-spending claims processing
- A more transparent, closed-loop process to manage pricing and trade-spending agreements, claims, accruals, and settlements
- Fewer overpayments and disputes
- Easier compliance with accounting standards and government regulations such as Financial Accounting Standards Board (FASB) standards and the Sarbanes-Oxley Act



SUMMARY

Effective trade-spending and contract management are strategic levers for foodservice manufacturers to meet competitive pressures, stimulate demand, and reward distributors and operators for achieving volume and growth objectives. The implementation, execution, and monitoring of such programs, however, is often a complicated, slow, and costly process for all involved channel partners.

An integrated solution addresses the entire spectrum of these processes, from program inception and bill-back claims adjudication to real-time financial postings and advanced reporting and analytics. It enables you to manage the complexities of trade spending, efficiently provide a key service to channel/trading partners, and strengthen your ability to compete and grow profitably in today's consumer products industry.

The SAP® Paybacks and Chargebacks application by Vistex and the SAP Incentive Administration application by Vistex make up a comprehensive, integrated software solution designed for foodservice manufacturers. With SAP Paybacks and Chargebacks and SAP Incentive Administration, you can capture bill-back data, administer claims, control varied and changing bill-back agreements, and ultimately transform bill-back management into a systematic and effective process. The software allows you to manage the entire bill-back life cycle – from initiation to settlement – and to minimize manual intervention to bring new levels of efficiency and accuracy to the process.

SAP Paybacks and Chargebacks and SAP Incentive Administration enable you to perform the following functions:

- Create and manage a variety of agreements with multiple customers
- Apply evolving agreements on an ongoing basis to optimize bill-back payments
- Communicate with partners via electronic data interchange (EDI) or Web portal technology
- Upload documents to provide the opportunity to review and approve claims
- Handle interim settlements without waiting for final resolution
- Produce timely reports and establish a full audit trail for bill-back activity to support corporate accounting and compliance efforts
- Use multiple currencies and units of measure in the bill-back process
- Monitor and reconcile outstanding bill-back claims using flexible search criteria
- Support a multitiered distribution model in which shipments are initially sent to consolidation centers, then to branch locations, and finally to end customers
- Use the reported bill-back data to control various performance programs, such as earned income and growth program rebates
- Aggregate bill-back document data in logistics information structures and provide extract structures for use in a data warehouse
- Provide a holistic overview of bill-back agreements with complete visibility at the customer and product levels

SAP Paybacks and Chargebacks and SAP Incentive Administration are fully integrated with the SAP ERP application. Consequently you can include documents from other enterprise processes, such as distribution, in the bill-back process. And you can easily use bill-back information in your finance and other enterprise processes. For example, bill-back recovery may affect incentive payouts to employees.

The complete integration of software from Vistex with SAP software also means that there are no additional interfaces and up-front integration costs to manage, and that ongoing maintenance and upgrades will remain fully integrated. And because SAP ERP is powered by the SAP NetWeaver® platform, you are assured of easy integration and flexibility in virtually any IT environment – all of which helps ensure a low total cost of ownership.

SAP Paybacks and Chargebacks and SAP Incentive Administration are also fully integrated with other SAP software such as the SAP Customer Relationship Management application and the SAP Price and Margin Management application by Vendavo. Together, these components allow sales and marketing personnel to integrate business processes for a complete 360-degree view of their customers.

For more information on how SAP Paybacks and Chargebacks and SAP Incentive Administration can help you manage bill-back payments, visit our Web site at www.sap.com/usa/solutions/solutionextensions/index.epx.

POWERED BY SAP NetWeaver

SAP Paybacks and Chargebacks and SAP Incentive Administration are powered by the SAP NetWeaver platform. SAP NetWeaver unifies technology components into a single platform, allowing organizations to reduce IT complexity and obtain more business value from their IT investments. It provides the best way to integrate all systems running SAP or non-SAP software.

SAP NetWeaver also helps organizations align IT with their business. With SAP NetWeaver, organizations can compose and enhance business applications rapidly using enterprise services. As the foundation for enterprise service-oriented architecture (enterprise SOA), SAP NetWeaver allows organizations to evolve their current IT landscapes into a strategic environment that drives business change.

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