

SAP Thought Leadership

SAP Solutions for Small Businesses and Midsize Companies



PROVEN STRATEGIES FOR MIDSIZE RETAILERS

YOUR GUIDE TO ENTERPRISE RESOURCE PLANNING

THE BEST-RUN BUSINESSES RUN SAP™



A solution that offers preconfigured business processes and project accelerators streamlines implementation time and costs so you can more quickly and more affordably implement best business practices in key functional areas.



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EXECUTIVE SUMMARY

KEEPING PACE IN A DYNAMIC ENVIRONMENT



In today's dynamic and complex selling environment, you face compound pressure. As a retail operator of a midsize company, you must contend with increased competition, changing shopper tastes and loyalties, operating costs that are rising beyond control, and fewer resources at your disposal than your larger counterparts.

These unforgiving market conditions call for a decisive approach to operational performance. Simply making decisions based on instinct is not good enough. Being competitive today requires greater insight and control of every aspect of your operations. This means greater knowledge about your shoppers – their buying habits and preferences. It also means tight control of your supply chain and flawless execution of your merchandising strategies.

Achieving a heightened state of performance requires an integrated technology solution specifically designed for retail operations. Running disparate legacy applications with silos of information does not provide the broad insight necessary to support accurate and informed decision making. Furthermore, these disparate applications support neither the integration of business processes to improve operating efficiencies nor an environment to quickly put action plans in motion.

A single-platform, retail-specific enterprise resource planning (ERP) solution is the answer. With the SAP® Business All-in-One for Retail solution, you can better manage your merchandise assortments, realize efficiencies in purchasing and distribution, and provide enhanced customer service. Designed specifically for small to midsize retailers, SAP Business All-in-One for Retail can be implemented on a fixed schedule at a fixed price. The solution includes the SAP Best Practices for Retail package, which provides proven methods and tools so you can implement best business practices in key functional areas. You're able to meet customer demands and compete effectively without straining your budget. And you'll be setting the stage for future innovation with a stable and committed software partner.

Using technology to your advantage is a key success driver for retailers who wish to not only survive but also thrive in today's competitive and challenging environment.

MIDSIZE RETAILERS FACE ENTERPRISE-SIZE PRESSURES

DRIVING SALES AND RETAINING PROFITS

From early days of barter to the modern exchange of currency, how we acquire goods has evolved. This fact holds true today as the technology revolution continues to shape our daily lives. By removing physical boundaries for shoppers and increasing competition for retailers, the Internet has created an extremely complex and challenging selling environment.

Shoppers continuously change their wants and needs, but their demands for quality, selection, and service remain consistently high. If you don't provide the item or service they desire, it's very easy for shoppers to find another retailer that will. But you know this. You feel the pressure of trying to balance your customers' needs with your needs to run a profitable business – while operating costs are on the rise.

If you do manage to meet your sales and operational goals, increasing supply chain costs – most notably, energy and transportation – are eroding whatever profitability you've managed to attain. These unforgiving market conditions are exacerbated by sales and operational challenges that are common among midmarket retailers (see table).

Business Challenges Across the Midmarket Retail Industry

Challenge	Observation
Macroeconomic environment	<ul style="list-style-type: none"> ▪ Proliferation of private labels and private brands ▪ Globalization, with new market opportunities for retail operations in China and India ▪ Attempts to capture upswings in consumer spending by all segments ▪ Continuous industry consolidation ▪ Rising energy costs leading to higher operating expenses
Ultimate consumer power	<ul style="list-style-type: none"> ▪ Technically savvy and empowered ▪ Highly educated, multicultural, and demanding customer base coupled with changing demographics ▪ Strong preferences for convenience and entertainment ▪ Socially and environmentally conscious
Greatly increased competition	<ul style="list-style-type: none"> ▪ Morphing of wholesalers into retailers and the rise of vertical retailers with sourcing expertise ▪ Opening of stores in the United States by western European retailers looking for a growth opportunity ▪ Increased competition for wallet share outside traditional retail; globalization of direct-to-consumer selling with no bricks-and-mortar footprint
Operational and internal concerns	<ul style="list-style-type: none"> ▪ Product and division fragmentation that makes it difficult to manage proper assortments across regions and stores ▪ Data fragmentation resulting in the lack of timely and accurate data to support decision making ▪ Operational excellence from concept to consumer through the entire value chain
Regulations and modernization	<ul style="list-style-type: none"> ▪ Sarbanes-Oxley compliance ▪ Item-level radio-frequency identification (RFID) tagging ▪ Customer privacy and data security; compliance with payment card industry (PCI) data security standards ▪ Counterfeiting ▪ Port security ▪ Product-safety regulations ▪ Environmental and social compliance

Midsized retailers are finding it increasingly difficult to reach new customers. Shoppers' lifestyles are increasingly busy, requiring you to connect with them when and how they want. Your merchandising and promotional strategies have to be 100% accurate, or you'll have to contend with shrinking margins and lost sales, costs no retailer can afford. Without adequate inventory control and supply chain visibility, retailers experience inefficiencies that can have a big impact on operating profit margins. In the back office, inadequate human resources and financial best practices drain valuable resources.

Overcoming these challenges can be overwhelming, but many retailers are facing them with great success. The most successful retail organizations share some common operational philosophies that are described in the next section.

Trends for Success

Retailers need innovative business solutions to keep up with increased competition, changing shopper demands, and fluctuating market dynamics. You must continually evaluate your merchandising strategies and adjust for market and competitive changes. To this end, many retailers are shifting their attention to the following trends to meet their sales and operational goals.

Operational Excellence

Successful midsized retailers are focusing on lowering operational costs, increasing efficiency, and reducing errors through process automation. By automating key business processes, retailers are able to reduce labor costs – typically the largest costs midsized retailers face – while simultaneously reducing manual errors. Key processes, such as warehouse and transportation operations, can be streamlined and possibly improved upon through workforce collaboration practices. Other areas of focus include closely monitoring store performance, conducting detailed profitability analyses on assortments, and calculating demand trends.

Profitable Growth

To grow profitably, midsized retailers are focused on increasing business with existing customers and adding new customers. Retailers must continually meet their shoppers' changing wants and needs, adding value to the shopping experience. Only through such growth can midsized retailers expand the opportunities of their company, employees, customers, and shareholders.

Customer Focus

Savvier-than-ever customers demand more from their shopping experience. Sharing data across your sales channels provides insight into customers' buying habits so you can continuously upgrade the shopping experience. You can establish cross-channel promotions, compelling store formats, relevant remerchandising strategies, and valued services like the ability to

A single-platform, integrated ERP software solution provides a means to address the key challenges shared by midsized retailers.

order, pick up, and return purchases anywhere in your sales channel. These customer-focused measures make for a more enjoyable shopping experience and go a long way to getting and keeping a loyal customer.

Value-Added Service

Operating on very low margins, midsized retailers are constantly looking for ways to bring more revenue into the business. One approach is to differentiate through value-added services. For some retailers, this may mean featuring items based on typical shopper needs on various days of the week or time of day that the actual customers are walking through the doors, adding more customer services at the storefront, and offering warranties for the products sold.

Global Presence

More and more midsized retailers are forced to expand market share by expanding internationally. To achieve this expansion, midsized retailers are making use of software solutions that span national boundaries, accommodate different languages, and handle multiple currencies and exchange rates.

Regulatory Compliance

Existing and new government regulations significantly affect the midsize retailer's operations. Retailers need to ensure and track manufacturing compliance, adherence to child labor laws in foreign countries, food safety practices, and, most recently, the mandate to prove sustainability and environmental compliance. By establishing processes that optimize compliance efforts, successful retailers can minimize time and resources allocated to administration and maximize focus on sales.

Technology

Some retailers avoid making investments in technology until the last possible moment, making do with homegrown, heavily interfaced solution landscapes that drain resources. These landscapes often include disparate point solutions that breed duplicate data for items, customers, employees, and vendors.

Successful retailers are adopting an integrated platform that gives them the ability to flexibly implement new processes and services, analyze supply chains, handle large quantities of data, and easily connect to customers' and suppliers' systems. By implementing these technology solutions, midsize retailers are able to address the many challenges experienced (see table).

Technology Challenges Across the Midmarket Retail Industry

Challenge	Observation
Business process inefficiency	<ul style="list-style-type: none">■ Back-office processes are often not integrated across multiple channels and geographies, hindering alignment and effectiveness.■ Limited ability to aggregate spend and demand across multiple channels and geographies increases cost of operations.■ Best practices proven in one business unit or geography are often not leveraged elsewhere.■ Highly qualified professionals perform manual tasks to get the job done.
Lack of 360-degree view of the business	<ul style="list-style-type: none">■ Limited real-time visibility into key business information and performance indicators obscures current business state.■ Limited end-to-end business process integration creates inefficiencies.■ Limited analytics capability impedes decision making.■ Knowledge workers must mobilize each time executives demand performance reports.
Complex application portfolio	<ul style="list-style-type: none">■ Application portfolio is fragmented by function, requiring a high level of customization.■ Application portfolio is fragmented by geography and by a mix of packaged and homegrown applications, creating an excessive burden on point-to-point integration and connection.■ Upgrades and updates to multiple systems increase resources required to maintain and support applications.
Lack of data harmonization	<ul style="list-style-type: none">■ Global standards for data definition, analysis, and reporting do not exist.■ There is no global steward to drive data quality and standardization.■ Incomplete view of operations increases manual effort in meeting transparency requirements and makes it difficult to quickly identify problem areas.■ Data integrity creates doubt on reported performance metrics and results.

INCREASING CONTROL AND FINDING REWARD

MAKING BETTER USE OF TECHNOLOGY

By automating key business processes, retailers are able to reduce labor costs – typically the largest costs midsize retailers face – while simultaneously reducing manual errors.



Overcoming the Challenges

Just as technology has shaped the changing retail environment, technology also provides the means to address many of the challenges today's midsize retailers face. Using technology to your advantage is a key success driver for retailers who want to not only survive but also thrive in today's competitive and challenging environment.

A single-platform, integrated ERP software solution provides a means to address the key challenges shared by midsize retailers. Through an integrated platform, you gain the ability to understand the delicate balance of each merchandise decision and its impact on customers and margins. You are able to deliver on brand promises to satisfy customers and profitably grow market share. You can balance hundreds of choices with the corresponding impact on costs, competition, and customer satisfaction. Ultimately, you can deliver the right customer service to attract and retain customers.

Making the Right Choice

When making a technology selection for your business, there are many considerations. Finding the right blend of functionality, scalability, and affordability is important. So is finding a technology solution that streamlines the adoption of best-practice business processes. With these criteria in mind, here are some items to keep on your checklist when shopping for an ERP software solution for your retail business:

- **Operational support** from managing assortments and exchanging purchase orders with your vendors to receiving products and allocating them to your stores
 - **Planning and merchandising execution support** for such activities as adding items, changing prices, and creating promotions
 - **Supply chain support** for creating purchase orders and adjusting allocations
 - **Advanced warehouse management** to ensure the delivery of the right items to the right stores at the right time
 - **Inventory tracking functionality** to make sure that transfers to stores are accurate and timely
 - **Comprehensive profitability-analytics functionality** to help improve operational excellence across the entire organization
 - **Integrated business processes and master data** to maximize efficiency and decision making
- **Affordability and flexibility** based on an open technology platform to meet changing business needs
 - **Backing by a proven and reliable software vendor** to ensure ongoing service and support
 - **Preconfigured business-process templates** and project accelerators to speed implementation time and reduce related costs

SAP Business All-in-One for Retail Solution

The SAP Business All-in-One for Retail solution is a fully configured enterprise resource planning solution based on proven best practices. Designed for rapid implementation at a fixed cost, the solution delivers a fast ROI from business-process improvements that help you increase sales and decrease costs.

Best-Practice Experience and Templates

With SAP Business All-in-One for Retail, you benefit from the experience of thousands of SAP customers who have dealt with problems similar to yours. Fully built in to the solution is the SAP Best Practices for Retail package. Based on proven best practices for the retail industry, the package contains methodology, documentation, and pre-configured business-process templates to deliver a rapid and reliable deployment and accelerate the return on your investment.

Comprehensive Functionality

The SAP Business All-in-One for Retail solution offers rich functionality and enables you to meet customer demands and compete effectively without straining your budget. And you'll be setting the stage for future innovation with a stable and committed business partner. The software supports the following business processes:

- **Merchandise management** – Better tailor your assortments to your stores and react more quickly to changes in customer demand
- **Procurement** – Process purchase orders faster, enable greater control of purchase orders, and improve overall visibility during the procurement process
- **Merchandise distribution** – Enable complete visibility during the entire distribution process
- **Warehouse management** – Implement logistics planning and execution of picking, packing, posting, and goods issue and receipt
- **Store execution** – Enable faster processing of item, assortment, and price or promotion information at the store level, and improve visibility into individual store demand through point-of-sale analytics
- **Financial processing and performance monitoring** – Analyze performance based on real-time product and vendor data, with support for generally accepted accounting practices, general ledger, and month-end close



Running disparate legacy applications with silos of information does not provide the broad insight necessary to support accurate and informed decision making.

Today more than 2,000 retail companies use SAP expertise, solutions, and support for best practices to manage their business. In addition, nearly 60% of all SAP software installations are in organizations with annual revenues of less than US\$500 million. For midsize companies, the SAP Business All-in-One for Retail solution provides:

- Flexible and powerful technology combined with robust scalability for investment protection
- Open architecture to leverage existing applications
- Vendor stability that mitigates risk and offers a rich heritage of world-class customer support
- Rapid time to benefit, with minimum disruption to business activities
- An expansive, worldwide network of SAP business partners who are experts in the unique requirements of midsize companies
- Modular, fixed-price, fixed-scope implementations of comprehensive functionality to meet your changing business needs

Learn More

To find out more about how SAP retail solutions can support your business, contact your SAP representative or visit us online at www.sap.com/retail.

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