

DemandTec, Inc.  
Form 10-K  
April 23, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K**

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended February 28, 2010**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 001-33634  
DemandTec, Inc.**  
*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**94-3344761**  
*(I.R.S. Employer  
Identification Number)*

**One Franklin Parkway, Building 910  
San Mateo, California 94403**  
*(Address of Principal Executive Offices)*

**(650) 645-7100**  
*(Registrant's Telephone Number)*

**Securities registered pursuant to Section 12(b) of the Exchange Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, par value \$0.001 per share	The NASDAQ Stock Market LLC (NASDAQ Global Market)

**Securities registered pursuant to Section 12(g) of the Exchange Act:  
None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

## Edgar Filing: DemandTec, Inc. - Form 10-K

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 31, 2009, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant (based upon the closing sale price of \$8.47 per share on the NASDAQ Global Market on such date) was approximately \$154.0 million.

As of April 15, 2010, there were 29,954,740 shares of the registrant's common stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its fiscal 2010 Annual Meeting of Stockholders (the Proxy Statement) are incorporated by reference in Part III of this Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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**DemandTec, Inc.**

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**PART I**

*This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Please see the section entitled "Forward-Looking Statements" in Item 7 of this Annual Report on Form 10-K for important information to consider when evaluating these statements.*

**Item 1. Business**

**Overview**

We are a leading provider of on-demand optimization solutions to retailers and consumer products, or CP, companies. Our software services enable retailers and CP companies to separately or collaboratively define category, brand, and customer strategies based on a scientific understanding of consumer behavior and make actionable pricing, promotion, assortment, space and other merchandising and marketing decisions to achieve their revenue, profitability, sales volume, and customer loyalty objectives. We deliver our applications by means of a software-as-a-service, or SaaS, model, which allows us to capture and analyze the most recent retailer and market-level data, enhance our software services rapidly to address our customers' ever-changing merchandising and marketing needs, and connect retailers and CP companies via collaborative, Internet-based applications. We were incorporated in November 1999.

Our solutions consist of software services and complementary analytical services and analytical insights derived from the same platform that supports our software services. We offer our solutions individually or as a suite of integrated software services.

Our solutions for the retail and CP industries include:

DemandTec Lifecycle Price Optimization™, which enables retailers to strategically price items at any stage in their lifecycle, including new items, regular items, promoted items, and clearance items.

DemandTec End-to-End Promotion Management™, which enables retailers to manage the complex processes related to retail promotions, from collaborative promotion planning and CP vendor deal management to in-store promotion execution and post-event analysis.

DemandTec Assortment & Space™, which enables retailers to create localized assortments by store, cluster, or section, based on shopper demographics, the competitive environment, and a science-based, quantitative understanding of each item's ability to add variety and grow incremental sales in the category.

DemandTec Targeted Marketing™, a collection of services that enable retailers and their CP trading partners to better understand key shopper insights, define shopper segments, and plan segment-targeted shopper merchandising and marketing programs to build loyalty, increase sales, and improve profitability.

DemandTec Trade Effectiveness™, a set of software and analytical services for CP companies designed to drive CP company performance and retail trade success.

Connecting our solutions for both the retail and the CP industries is the DemandTec TradePoint Network™, an Internet-based platform connecting the DemandTec software services and users from both retailers and their CP trading partners to transact, interact, and collaborate. The DemandTec TradePoint Network™ provides the infrastructure, security, connectivity and services for retailers and CP companies to effectively collaborate on core

merchandising and marketing activities.

We have introduced our nextGEN branded strategy, which represents the next generation of capabilities for our industry and incorporates a unique combination of category and item-level insights based on econometric modeling and shopper and shopper segment-level insights. nextGEN includes standalone products as well as upgrades to our products.

### **Industry Background**

Retail trade is one of the world's most widespread activities. There are more than 1,500 retailers worldwide that have annual sales in excess of \$500 million, and more than 250 of those retailers have annual sales in excess of

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\$2 billion. Retailing is highly competitive and generally characterized by low profit margins. Furthermore, there are more than 1,300 CP companies worldwide that have annual revenues in excess of \$500 million that sell to retailers. The CP industry is becoming increasingly competitive due to factors such as retailer consolidation, more discerning and less loyal consumers, and the growing impact of private label products. To counter these trends, CP companies are making substantial investments in product innovation, market research, branding, and consumer and brand marketing.

***Consumer Demand and Pricing Challenges***

Retailers compete for consumers who are becoming more knowledgeable, more selective and, in many instances, more price sensitive. Consumers today devote considerable time to researching products and comparing prices prior to shopping and have a greater array of choices in price, size, brand, color and features. The growth of discount stores, warehouse clubs, dollar stores and the emergence of the Internet as a viable retail destination offer consumers further alternatives when purchasing goods. Adverse macroeconomic conditions in recent years, including unemployment, housing market declines, volatile fuel prices, and an increasing shift from spending to saving for some families, have further increased the average consumer's price sensitivity. For retailers to compete effectively, they need to better understand and respond to these changes in consumer demand and behavior through targeted pricing, marketing and merchandising strategies.

A basic principle of economics is that a change in the price of an item will affect demand for that item. Every item in a store has a unique price elasticity, or sensitivity between sales volume and price. Small decreases or increases in the prices of some items may lead to significant changes in the demand for those items, whereas larger decreases or increases in the prices of other items may have little effect on demand. In addition, changes in the prices of items in a store often have an impact on the sales volumes of other items in that store. This interdependence is referred to as the cross elasticity of demand. Demand is influenced by a wide variety of additional factors, including store location, customer demographics, advertising, in-store displays, the availability of complementary or substitute products, seasonality, competitive activity and loyalty and marketing programs. These variables make calculating price elasticity for even a single item an extremely data-intensive and complex process. Calculating the cross-elasticity of demand for thousands of items is exponentially more difficult.

Applying these economic concepts to make day-to-day pricing decisions presents enormous challenges to retailers of all sizes, particularly large retailers that sell tens of thousands of items and have hundreds, if not thousands, of stores. These retailers must determine how to price each particular item and whether to vary the price among different regions or individual locations. They also must determine the price of each item relative to competing products and the likely impact on their aggregate profitability if the prices of that item or competing items are increased or decreased.

Consumer demand, though, is driven by more than just the everyday price of an item. In addition, retailers may want to consider whether promoting an item would result in increased sales volume and, if so, whether that increase would represent incremental revenue or merely cannibalize sales of other items. Retailers must also determine which items should be stocked, by store or store cluster. These pricing and marketing decisions must also strike a balance between the retailer's financial goals and its desired price and brand image in order to enhance consumer loyalty and maximize sustainable, lifetime value from its customers.

Consumer demand also differs by consumer segment. Not all consumers are price sensitive to certain brands or respond similarly to particular promotions. Understanding and predicting demand in today's market requires retailers to analyze the differences between various segments of shoppers in their stores. Shopper segments with descriptive names such as budget families, young, urban, and affluent, or foodies can reflect differences in demographics. However, retailers now must also analyze the purchase decisions and other shopping behaviors of individual consumers in order to properly define consumer segments and identify strategies and tactics to target those segments.

CP companies also must make complex decisions when pricing and promoting their products. Like retailers, CP companies are faced with rising costs, intense competition, less consumer loyalty and an operating environment in which it is difficult to raise prices. As raw ingredient costs escalate and competitive threats intensify, predicting the relative impact that promotion and everyday price activities will have on volume and margin objectives is an



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essential planning requirement. CP companies must understand how consumers will respond to promotions, how price changes will affect sales volumes and how often to promote their brands. CP companies also must decide when and how to use trade funds in the form of discounts, offsets or direct cash payments to compensate retailers for offering temporary price reductions on their products and how competitive trade plans will impact their own promoted items, their total portfolio and even the retailer's entire category. According to Capgemini, most CP companies' trade promotion budgets represent 15% or more of their net sales, which is second in magnitude only to their cost of goods sold. In 2008, CP companies in North America alone spent over \$125 billion on trade promotions according to a 2008 report by Cannondale Associates, Inc. Despite the pervasive use of trade funds, studies suggest that over 50% of trade promotions have negative returns on investment after taking into consideration execution costs and unintended cannibalization.

The trade promotion process is often not only generally unprofitable, but also highly inefficient. Submitting and negotiating trade promotions historically have been handled through a combination of fax, voicemail and manual, paper-based processes. This has led to frequent inaccuracies and increasing costs for both CP companies and retailers. CP companies and retailers have lacked an accurate, integrated technology platform for improving the efficiency of their trading relationships.

In order to attain higher revenue growth, improve profit margins and increase market share, while maintaining proper price and brand image, retailers and CP companies must better understand and predict consumer behavior across geographic, demographic, gender, age, income and other segments. However, achieving these objectives through day-to-day pricing and other merchandising and marketing decisions is extremely complex.

***Existing Approaches to Understanding Consumer Demand***

Retailers and CP companies have made significant investments in information technology, or IT. Most of these IT investments have focused on achieving cost reductions through increased operational efficiencies and transaction automation, including supply chain management, point of sale, or POS, systems, and marketing automation software.

As a result of these IT investments, retailers have accumulated vast amounts of sales data. While a number of academic techniques exist to analyze this data, incorporating advanced statistical analytics into a commercially-useful solution that yields meaningful and actionable insights for retailers and CP companies presents significant scientific, engineering, processing and cost challenges due to the vast amounts of data and the complexities of mathematical computing. Consequently, existing approaches that incorporate an understanding of consumer demand into retail and CP pricing decisions generally have been limited to modeling sample data sets to provide limited insights. As a result, retailers and CP companies historically have made merchandising decisions based on simpler approaches such as:

cost-plus or competitor-matching pricing;

national pricing of items, regardless of local consumer demand and competitive dynamics;

one-size-fits-all assortments of goods, regardless of the unique preferences of consumers who shopped in each location;

habitual promotions, advertisements, mailers and other marketing programs; and

engaging business consultants to provide isolated category-based analyses.

In recent years, retailers have engaged consultants and used internal data warehousing systems to begin analyzing market basket information and loyalty card data in order to learn new insights about customers, how they shop, what

they buy together, and what their lifestyles, preferences, and future behaviors might be. These efforts have been both time- and people-intensive, and have not sufficiently involved the business users requiring those insights to make timely decisions.

In the current environment, retailers and CP companies need scalable enterprise software capable of modeling the numerous variables that affect consumer demand, processing massive data sets in a cost-effective manner,

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presenting valuable shopper insights right at the point of decision, and that delivers actionable merchandising and marketing recommendations to achieve their revenue, profitability, sales volume, and customer loyalty objectives.

**DemandTec Solution**

We are a leading provider of on-demand optimization solutions to retailers and CP companies. Our software services enable retailers and CP companies to separately or collaboratively define category, brand, and customer strategies based on a scientific understanding of consumer behavior and make actionable pricing, promotion, assortment, space and other merchandising and marketing recommendations to achieve their revenue, profitability, sales volume, and customer loyalty objectives. We deliver our applications by means of a SaaS model, which allows us to capture and analyze the most recent retailer and market-level data and enhance our software services rapidly to address our customers' ever-changing merchandising and marketing needs.

***Understand and predict consumer behavior to make merchandising and marketing recommendations that achieve revenue, profitability, sales volume, and customer loyalty objectives***

Our software services enable retailers and CP companies to incorporate a scientific understanding of consumer demand into their day-to-day merchandising and marketing decision-making processes. By using our software, our customers can achieve their revenue, profitability, sales volume, and customer loyalty objectives, while striking a balance with their desired price and brand images in order to enhance consumer loyalty and maximize the lifetime value of the consumer. Specifically, our software services allow retailers and CP companies to:

make daily pricing, promotion, assortment, space and other merchandising and marketing decisions based on consumer demand;

balance financial goals with price and brand image in order to maximize the lifetime value of their targeted consumer segments;

use shopper insights based on analyzing loyalty card data to define and execute merchandising and marketing tactics targeted and tailored to meet the needs of individual consumer segments;

enforce pricing rules consistently;

forecast sales more accurately;

devise more targeted promotions based on consumer segmentation insights;

create, version and publish targeted advertisements to be distributed via multiple channels and media vehicles; and

allocate trade funds more effectively and efficiently.

***Incorporate scalable science into merchandising and marketing decision-making processes***

We incorporate advanced econometric modeling techniques and optimization theory into scalable software services that our customers use to make day-to-day merchandising and marketing decisions. Our software automates the process of predicting consumer response to various merchandising and marketing activities, such as pricing, promotion, assortment, space, loyalty programs and media. Our proprietary demand models quantify consumer response at the individual store and item levels based on a number of factors, including store location, consumer

demographics, advertising, in-store displays, the availability of complementary and substitute products, seasonality, competitive activity and loyalty and marketing programs. Our software incorporates optimization science that uses a combination of complex algorithms to help our customers determine in real-time the prices, promotions and markdowns that best accomplish their merchandising and marketing objectives, while complying with their business rules.

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***Leverage technological advancements through a SaaS delivery model that enables us to adapt to our customers changing business needs rapidly and to deliver results quickly***

Our SaaS model leverages a set of pervasive technology trends that includes the availability of greater amounts of computing power at commercially affordable and decreasing prices, dramatic reductions in the cost of data storage and inexpensive and secure access to broadband communication networks. This model represents a dramatic shift from developing and delivering static, highly-customized software code that is installed at the customer's site. Due to the dynamic nature of consumer demand and the changing merchandising and marketing objectives of retailers and CP companies, we believe a solution is delivered most effectively through a SaaS model. By delivering our software as a service, we are able to:

capture and analyze the most current transaction-log/loyalty data from retailers, as well as up-to-date market-level data, syndicated data and other third-party demographic content, in order to better understand the dynamic nature of consumer behavior;

intimately understand how our customers use our software to make their day-to-day merchandising and marketing decisions so we can continuously enhance our offering to address our customers' business needs;

improve user productivity with more frequent but smaller incremental updates and training courses;

deliver technical enhancements to our software on a frequent and predictable schedule with little or no disruption to our customers' operations;

utilize grid computing and service-oriented-architecture, or SOA, techniques to maximize scalability and processing capacity; and

enable interoperability across our customers' diverse legacy systems.

By delivering our software as a service, we enable our customers to make better pricing, promotion, trade funds management and other day-to-day merchandising and marketing decisions. With our SaaS model, our customers are able to achieve measurable financial results within a matter of months.

***Incorporate shopper insights into DemandTec's software services at the point of decision for merchants***

In connection with our nextGEN strategy, we are adding advanced shopper insights to our solutions to enable retailers and CP companies to both analyze shopper behavior and collaboratively define merchandising and marketing programs based on those insights. Our model is to utilize transaction-log and loyalty data to incorporate detailed insights regarding customer segment and shopper behavior into the DemandTec software solutions directly at the point where merchants and marketers are making business decisions. This provides retailers and CP companies with a competitive advantage as they are able to address both category objectives for sales and profit as well as customer objectives for loyalty, price image, shopping trips, and basket content. Key nextGEN capabilities include:

advanced market basket insights, including basket metrics trends year over year and in weekly time series, as well as affinity analyses to understand cross-promotional opportunities;

customer segment-level insights delivered directly at the point of decision for merchants and marketing professionals, including insights such as penetration, buy rate, dollars per trip, trips per household, and brand switching; and

modeling and optimization by segment so as to enable retailers to make targeted assortment, promotion, and pricing decisions based on customer segment preferences and goals.

**Strategy**

Our objective is to extend our position as a leading provider of on-demand optimization solutions to retailers and CP companies. The three key elements of our strategy to achieve this objective include:

*Expanding our relationships with our existing retail customers.* We plan to continue to deliver measurable business results to our existing retail customers in order to encourage their renewals of their existing

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solutions, as well as their adoption of additional solutions. A key element of our strategy is to leverage our domain expertise, proprietary software platform and advanced analytical capabilities to expand our solutions including new software services, new analytics, and additional nextGEN functionality.

*Extending our market position with major retailers worldwide.* The retail industry is an international business, with a significant portion of the world's retailers based outside of the United States. We intend to use our market position and distribution investments to pursue additional retail opportunities around the world, leveraging our partnerships and multi-language product capabilities. We believe that our existing retail customers have the ability to influence other retailers worldwide by changing the competitive dynamics in their respective markets.

*Continuing to expand our relationships with CP companies.* Developing the right trade marketing strategies has evolved into a rigorous and important discipline for CP companies. We intend to continue to expand the footprint of our CP solutions that empower CP companies to forecast promotion and pricing activity in a unified planning environment at the account and headquarter levels. Further, the collaborative business model enabled by the DemandTec TradePoint Network creates ecosystems that each include a retailer and that retailer's CP trading partners. By leveraging our ability to deliver existing and new software services through our DemandTec TradePoint Network, we intend to use our existing retail customer relationships to create and expand our relationships with their CP trading partners and believe there is a significant opportunity to expand our CP market presence as a result of a network effect.

## **Offerings**

### ***Overview***

Our solutions consist of one or more software services and complementary analytical services. We offer our solutions individually or as a suite of integrated software services. Our software services are configurable to accommodate individual customer needs.

Our solutions for the retail and CP industries include:

DemandTec Lifecycle Price Optimization™, which enables retailers to strategically price items at any stage in their lifecycle, including new items, regular items, promoted items, and clearance items.

DemandTec End-to-End Promotion Management™, which enables retailers to manage the complex processes related to retail promotions, from collaborative promotion planning and vendor promotion offer management to in-store promotion execution and post-event analysis.

DemandTec Assortment & Space™, which enables retailers to create localized assortments by store, cluster, or section, based on shopper demographics, the competitive environment, and a science-based, quantitative understanding of each item's ability to add variety and grow incremental sales in the category.

DemandTec Targeted Marketing™, a collection of services that enable retailers to better understand key shopper insights, define shopper segments, and plan shopper merchandising and marketing programs better targeted for different consumer segments in order to build loyalty, increase sales, and improve profitability.

DemandTec Trade Effectiveness™, a set of software and analytical services for CP companies designed to drive their performance and better collaborate with retailers.

Connecting our solutions for both the retail and the CP industries is the DemandTec TradePoint Network™, an Internet-based platform of DemandTec and partner software services used by retailers and their CP trading partners to transact, interact, and collaborate. The DemandTec TradePoint Network™ provides the infrastructure, security, connectivity and services for retailers and CP trading partners to effectively collaborate on core merchandising and marketing activities.

Our proprietary software platform is the foundation for our software services and analytical services. We have developed this platform to transform vast amounts of raw and underutilized business data into actionable insights in an efficient and cost-effective manner. Our platform provides scalability, advanced analytics and an integrated view of demand for each of the DemandTec services.



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The DemandTec TradePoint Network utilizes a common, configurable dashboard for all of the software services that connect to it. Based on industry-standard portal technology, the DemandTec user interface consolidates web-based content and information through a common portal, providing users with context to make pricing, promotion, assortment, space and other merchandising and marketing decisions and to organize tasks. The DemandTec TradePoint Network can incorporate third-party content within its windows or can exist within a customer's broader corporate intranet or other portal system.

### ***DemandTec Lifecycle Price Optimization™ for Retail***

Packaged together as a solution to enable retailers to manage pricing for new items, regularly priced items, promoted items, and markdown/clearance items, the DemandTec Lifecycle Price Optimization™ solution for the retail industry consists of one or more of the following software services, along with complementary software, analytical services, and analytical insights:

#### ***Everyday Price Optimization and Everyday Price Management***

Our Everyday Price Optimization and Everyday Price Management software services enable retailers to establish everyday prices for their products, using both optimization techniques based on a scientific understanding of consumer behavior, as well as rules-based pricing methods.

*Everyday Price Optimization:* Everyday Price Optimization enables retailers to determine optimized prices to achieve their sales, volume, profit, and price image objectives for regular, everyday items. Using Everyday Price Optimization, customers create scenarios in which they define strategic objectives such as increased revenues, profitability and/or sales volume and optimize prices to best achieve these objectives. A typical strategic objective might be to maximize net margins, while not sacrificing more than a certain defined percentage of sales volume.

Retailers use Everyday Price Optimization to optimize and set retail prices in their stores based on their unique cost structure and strategic goals. Everyday Price Optimization would likely generate different optimized prices for the same item carried by competing retailers in stores located in the same geographic location, since consumer behavior varies between competitors and each retailer has its own vendor costs and strategic pricing objectives.

Key features of Everyday Price Optimization include:

*Store/SKU-level modeling* econometric modeling that captures the elasticity of each item, in addition to cannibalization, halo, and cross-elasticity effects, trends, seasonality, and a variety of other causals to deliver accuracy;

*Optimization and forecasting* full category price optimization, with store/item level forecasting, enables retailers to develop pricing that conforms to their pricing rules while maximizing their primary and secondary goals, such as driving higher sales, increasing volume, and improving profitability;

*Image item analysis* determination of effective price image items for key consumer segments;

*Natural language pricing rules and rules management* non-technical end-users can define and enforce pricing policies by creating pricing scenarios with pricing rules selected from a comprehensive library of retail pricing rules, customized with a rules editor and prioritized with rules relaxation capabilities to handle conflicts;

*Scenario management* the ability to create and evaluate multiple pricing scenarios to fine-tune pricing strategy before prices hit shelves in order to change goals (maximize profit, sales, or unit volume) or add, remove,

modify, or reprioritize pricing rules; and

*Benefits reporting* the ability to validate the effects of price optimization on actual sales of a particular category and to understand the degree to which factors such as promotions, seasonality and macroeconomic shifts contributed to sales.

*Everyday Price Management:* Everyday Price Management enables retailers to improve execution and compliance with their pricing strategy, and dramatically boost efficiency by automating their most cumbersome, time-consuming pricing tasks. Using Everyday Price Management, customers define pricing rules and apply those

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rules-based prices to merchandise categories that are not modeled and optimized using Everyday Price Optimization. In addition, customers maintain both optimized and rules-based prices using Everyday Price Management as vendor costs and competitor prices change.

Key features of Everyday Price Management include:

*Rules-based pricing* define and enforce pricing policies by creating pricing scenarios with rules selected from a comprehensive library of pricing rules such as last digit rules, competitive price index rules, and cross-zone rules, all of which are configured using easy-to-understand natural language;

*Rules management* rules editor and rules relaxation capabilities to handle conflicts;

*Advanced price maintenance* operational price management capabilities to handle frequent vendor cost changes, competitive price changes, and new item introductions; and

*Advanced pricing delivery* quickly review and approve incoming data and automatically schedule when updated pricing will be delivered to downstream systems.

Both Everyday Price Optimization and Everyday Price Management utilize a library of configurable business rules that act as constraints on the optimization by limiting the set of possible outcomes. For example, a customer can ensure that larger size items always cost more than smaller size items but are a better value, or that an optimized price is within a given percentage of a competitor's price.

As we continue to expand our nextGEN capabilities to include modeling and optimization by customer segment, we intend to incorporate shopper insights at the point of decision into our nextGen Everyday Price Optimization software service so as to enable merchants to make targeted pricing decisions based not only on category objectives, but also on customer segment preferences and goals.

### ***Promotion Optimization***

As part of the DemandTec Lifecycle Price Optimization™ solution, Promotion Optimization can help retailers quickly determine the appropriate discounted price for any item or promoted item group and the best type of temporary price reduction.

Promotion Optimization uses scientific analysis that takes into account cannibalization, halo, and cross-elasticity effects of existing retail and markdown programs. Promotion Optimization customers can create and simulate multiple scenarios based on mathematical forecasts of results in order to evaluate tradeoffs among various promotions.

Key features of Promotion Optimization as a part of DemandTec Lifecycle Price Optimization™ include:

*Store/SKU-level modeling* the ability to plan promotions that maximize total store impact on all categories by taking into account promotional response by item and by store, as well as cannibalization, halo, and cross-elasticity effects of existing everyday prices; and

*Scenario management and what-if analysis* the ability to create and evaluate multiple promotion scenarios to fine-tune promotional pricing and combinations of ad and display support.

Promotion Optimization is also included in the DemandTec End-to-End Promotion Management™ solution (described below).

***Markdown Optimization***

Markdown Optimization incorporates the science of consumer demand to enable retailers to design optimal plans that set markdown timing and depth to maximize profitability or meet inventory objectives for every clearance item in every store. Markdown Optimization supports a wide range of markdown types, including seasonal, short

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product lifecycle, event and holiday, category reset, cycle refresh, and standard discount markdowns. Key features of Markdown Optimization include:

*Scenario management* the ability to create and forecast multiple scenarios in order to evaluate tradeoffs between timing and depth of markdown prices, as well as other factors such as the number of markdowns taken within a time period;

*Science-based* the ability to design markdown plans based on the unique price elasticity and inventory position at each store;

*Rules management* the ability to configure markdown-specific rules;

*Re-optimization* the ability to re-optimize plans and prices on a weekly basis to adjust for changes in demand and inventory position; and

*Automated workflow process* the ability to create and initiate new markdown plans and scenarios automatically based on category-specific rules defined by the retailer so that merchants can simply log into the system to review the results of planned optimizations.

Retailers use Markdown Optimization to eliminate excess inventory by a specified date after which an item will no longer be sold and to maximize profitability of items sold before that date. Retailers have the flexibility either to allow all stores or zones to share the same schedule or to have each store execute its own unique schedule to maximize overall plan performance. Retailers can also create, forecast, compare, and evaluate multiple markdown pricing scenarios to fine tune their markdown strategy before finalizing in-store prices.

### ***DemandTec End-to-End Promotion Management™ for Retail***

Managing retail promotions is a complex, multi-faceted process. Successful retailers are able to collaborate internally among senior management, merchants, marketing, advertising managers, and others, and collaborate externally with CP trading partners to build promotion plans that provide win-win results for all parties. Leading retailers are also able to quickly predict the outcome of any of the thousands of CP company trade promotion offers they receive every month, and evaluate alternative versions of any promotion to ensure they're capitalizing on the full potential of each promotion and maximizing the impact of every category plan.

The DemandTec End-to-End Promotion Management™ solution for the retail industry consists of the Promotion Optimization software service discussed above and/or the software services listed below, along with complementary DemandTec Analytical Insights & Solutions, or AIS.

### ***Deal Management***

Our Deal Management software service enables retailers to automate and streamline the presentation, negotiation and reconciliation of trade promotion offers they receive from their CP trading partners in a secure, Web-based environment.

Key features of Deal Management for the retailer include:

*Proprietary offer sheet mapping* uses each retailer's existing paper-based offer format to ease adoption by retailers;

*Online collaboration* provides a common platform for retailers and their CP trading partners to present and negotiate the terms of trade promotion offers, eliminating the large number of emails, faxes, and spreadsheets that typically go back and forth between parties, thereby reducing errors;

*Web portal* boosts the retailer's productivity by pushing data entry work to the CP trading partners and allowing them to enter trade promotion offer information;

*Retailer item catalog-based entry* provides CP trading partners use of retailer-specific item catalogs in order to eliminate data-entry errors;

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*Electronic document and deal history archive* provides version control of trade promotion offers, final contract terms, user activity and communications in order to facilitate regulatory compliance and dispute resolution and to eliminate the need for costly post-trade promotion offer audits; and

*Accounting and reconciliation* provides for reconciliation of invoicing and deduction notices with CP trading partners.

When a retailer implements Deal Management, that retailer requires that all of its CP trading partners submit and negotiate their future trade promotion offers electronically through the Deal Management software service. We offer two editions of this service for CP companies: Deal Management, which is offered at no charge and allows CP trading partners to submit trade promotion offers by selecting valid items from the retailer's item catalog, and Advanced Deal Management, which is a paid upgrade that includes additional features specific to a CP company, such as accounting and reconciliation, transaction and workflow reporting, catalog management, vendor item catalog synchronization and trade promotion offer history archiving.

### ***Allowance Billing***

Allowance Billing automatically creates invoices and accruals based on negotiated trade promotion offers in Deal Management and based on transaction details from point-of-sale, warehouse, and store receipts. By automatically creating invoices, retailers save labor, improve accuracy, and get their invoices and accruals incorporated into their financial statements sooner.

Key features of Allowance Billing include:

*Direct access to trade promotion offers in Deal Management* automatically creates accounting entries and feeds those directly into existing accounting systems, thereby reducing the time and labor required to enter the data and eliminating the possibility of introducing errors into the system;

*Robust workflow management engine* provides version control of trade promotion offers, final contract terms, user activity and communications in order to facilitate regulatory compliance and dispute resolution and to eliminate the need for costly post-trade promotion offer audits;

*Interface displays transaction details* allows financial analysts to identify additional funds that should be billed based on the trade promotion offer, reducing the required efforts of a retailer's internal audit team and allowing retailers to invoice and collect trade promotion funds earlier; and

*Electronic bill distribution* distribute invoices through the online Advanced Deal Management system or via email and track undeliverable invoices and manage CP company invoice distribution lists all in a simple, integrated interface.

### ***Promotion Planning & Management***

Our Promotion Planning & Management software service enables retailers to establish a single repository for all their information and content about promotional offers and events, greatly improving visibility and accountability, reducing costly errors, and increasing consistency across media channels. As the core or base module of the DemandTec End-to-End Promotion Management™ solution, Promotion Planning & Management allows retailers to build, develop, and manage promotional plans with a collaborative platform that enables versioning and cross-functional collaboration.

Key features of Promotion Planning & Management include:

*Central repository* plan and manage all promotions and events in a collaborative environment so as to create a single system of record for all promotions and a centralized data repository for merchandising product and pricing data, ad copy and images.

*Integrated workflow controls processes and security* enables collaboration between analysts, marketing departments, buyers/merchants, advertising departments, and other partners;



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*Centralized merchandising and marketing calendar and integrated workflow system* view all promotions in a single, integrated calendar and plan and forecast merchandising activities in a single collaborative system, which enables collaboration between analysts, marketing, buyers/merchants, advertising and other partners;

*Dynamic layout and versioning capabilities* view and select items, build and manage sophisticated promotional offers and create multiple versions customized for different regions, clusters of stores, customer segments, or advertising zones;

*Highly-configurable enterprise architecture* supports complex requirements to integrate with key retail production systems;

*Integration with DemandTec's Promotion Optimization* the ability to present promotion analytics directly at the point of decision within the dynamic layout and publishing process, enabling a more scientific approach to selecting items and building promotions; and

*Enterprise integration* provides multiple integration points with the customer's IT systems: large incoming and outgoing data feeds use data-level integration to transfer bulk files on an automated basis, and industry-standard web services protocols communicate with customer systems and process customer system requests.

Retailers use Promotion Planning & Management to manage the production process and execute more targeted promotions across multiple channels and media vehicles while also dynamically creating the highly-granular promotion history required to achieve effective promotion analytics and complete the promotion cycle with post event measurement and improved modeling for future periods. Promotion Planning & Management enables retailers to make better decisions about promotional offers based on insight into past performance and visibility to cross-channel promotions, to reduce errors and to improve the ability to target promotions and to version products and prices by market, zone or customer segment.

***Promotion Optimization***

As part of the DemandTec End-to-End Promotion Management™ solution, Promotion Optimization helps retailers to develop promotional offers and placement that maximize the total store impact on all categories. Promotion Optimization uses scientific analysis that takes into account cannibalization, halo, and cross-elasticity effects of existing retail and markdown programs. Promotion Optimization customers can create and simulate multiple scenarios based on mathematical forecasts of results in order to evaluate tradeoffs among various promotions.

Key features of Promotion Optimization as a part of DemandTec End-to-End Promotion Management™ include:

*Store/SKU-level modeling* the ability to plan promotions that maximize total store impact on all categories by taking into account promotional response by item by store, cannibalization, halo, and cross-elasticity effects of existing everyday prices;

*Scenario management and what-if analysis* the ability to create and evaluate multiple promotion scenarios to fine-tune promotional pricing and combinations of ad and display support.;

*Category plan and master calendar management* the ability to generate, view and forecast multiple promotions on one plan, taking into account factors such as cannibalization of regular priced items, concurrent promotions and the pantry-loading effect of successive promotions;

*Deal Management integration* the ability for all CP trade promotion offers entered into DemandTec's Deal Management software service to flow directly into Promotion Optimization for analysis, optimization and forecasting; and

*Promotion Planning & Management integration* Promotion Optimization is the analytics engine providing embedded insights within the Promotion Planning & Management workflow. The two modules work together to enable merchants to identify the right items to promote, forecast the impact of different pricing