

DemandTec: Wall Street and Merchants Are Impressed with On-Demand Retail Price and Promo Optimization

PERSPECTIVE #GRI209640
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IN THIS PERSPECTIVE

This Global Retail Insights Perspective discusses *The Six Transformational Technologies in Global Retail* (Global Retail Insights #IDC_P15561, September 2007). In this Webcast, we highlighted the game-changing importance of demand intelligence and discussed why giving retailers these predictive tools, especially in the areas of pricing and promotion optimization, can have a major positive effect on both gross sales and net margin.

One of the companies directly focused on this area of demand intelligence is **DemandTec**, which for a while was at the center of numerous acquisition talks but ended up going public last August. While DemandTec's initial Wall Street performance as a public company was weakened by this summer's overall tough market, it has been on a tear of late. Its stock at one point had doubled, but now it is hovering 50–70% above its IPO price due to additional analyst coverage and Wall Street's improving understanding of the fiscal improvements that retail optimization technologies can provide. DemandTec's 2007 revenue of \$43.4 million is a measurable jump from \$32 million in 2006. The company's customer list is also impressive, with its core success at grocery retailers like Safeway, HEB, Big Y, Piggly Wiggly, and Food Lion being expanded to other retailers such as Best Buy, Office Depot, and Radio Shack. DemandTec has also worked closely with a number of global partners, including **IBM, Nielsen, and Accenture**.

While there are a number of technical and operational reasons to see continued strong performance from DemandTec as retailer spending in demand intelligence increases, there are two specific factors that will drive the company to further differentiate its offering.

Factor #1 — The Power of Software-as-a-Service Technology

DemandTec from its start has built and deployed its optimization applications as software-as-a-service (SaaS) solutions. Buoyed by the

success of SaaS companies like **salesforce.com**, DemandTec has leveraged its on-demand model to give retailers unique and rapidly improving capabilities. Top among them is regular application updates. Retailers — more than other industries — tend to avoid application updates on internally installed platforms because of the sales-critical nature of their use. DemandTec keeps its users on the latest improvements to front-end applications and demand forecasting algorithms with consistent six-week release schedules — there have been over 40 upgrades total in the history of the platform. These quick releases allow instant merchant feedback on improvements to forecast models and user dashboards and workflows so that changes can be quickly adopted.

Even retailers' reluctance to share their valuable sales data (necessary for demand planning) has been overcome by DemandTec's flexible integration toolkit. Last, DemandTec offers promotion optimization to both food retailers and consumer packaged goods suppliers, as its SaaS platform enables a flexible "negotiation network" between trading partners to allow for better trade funds usage during retailer promotion planning.

DemandTec is not the only retail optimization company to be on the SaaS bandwagon, but its development model and integration technology do set it apart.

Factor #2 — Embedded Value/ Benefit Tracking

My favorite feature in the DemandTec platform is its integrated ability to track the improvements retailers receive from the optimized price and promotion plans they are executing. Called Merchandising Decomposition Analysis (MDA), this capability decomposes sales, volume, and profit into increments that show the specific deltas between baseline performance and the improvements seen post-optimization. This "always-on, how is optimization helping me?" metric data gives DemandTec clients a running tally of performance and shows where target opportunities still exist. MDA also has the implicit benefit of educating reluctant merchants and planners with real data on how optimization tools can be a powerful addition to their daily data-crunching and price/promo planning efforts. Seriously, the only thing I would change about MDA is its name.

Potential Next Steps and Other Players

DemandTec's SaaS strategy and its sophisticated understanding of retail demand intelligence have set the company up well for expanding beyond grocery-centric price and promotion optimization. DemandTec should consider supporting other merchandise types (specifically softlines/apparel), providing more expanded markdown capabilities,

and perhaps even moving horizontally into other retail optimization functions like replenishment.

DemandTec has benefited from the fact that its primary competitor KhiMetrics was acquired by **SAP** in late 2005, but I would expect that advantage not to last as SAP aggressively pursues new deals with a much larger global sales team. Some other vendors that provide retail-centric price and/or promotion optimization include **SAS Institute**, **KSS**, **Oracle**, and **Revionics**.

Our View

While there are certainly many more factors for a retailer to consider when diving into demand intelligence and evaluating the capabilities of price/promotion optimization vendors, DemandTec's iterative development and embedded benefits tracking strategy help to establish it as a short-list candidate for any major retail price optimization project.

LEARN MORE

Related Research

- *Worldwide Retail IT Spending Guide, Version 1, 2007* (Manufacturing Insights #MI206689, May 2007)

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