



DemandTec and ACNielsen Partnership: Advancing the Demand Intelligence Model for FMCG Retailers

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DemandTec and **ACNielsen** (a business unit of **VNU**) are forming a broad, exclusive alliance designed to bring complementary corporate strengths together into a new product and market execution model directed at Fast-Moving Consumer Goods (FMCG) retailers around the world. At the core of the deal is an agreement to jointly develop and sell a new suite of advanced category management and merchandising applications that blends DemandTec's *Consumer Demand Management* suite with ACNielsen's powerful assets in competitive demand data and market insight analytics. These resulting new products will also look to benefit from ACNielsen's global reach and longstanding retailer relationships to help broaden the adoption of advanced price and promotion optimization capabilities. Specific terms of the arrangement were not disclosed, though it is expected that joint sales activity will occur immediately following the announcement.

The Bottom Line: Both internal Point-of-Sale (POS)-driven demand intelligence and multiple levels of integrated, external market data needs be at the heart of any successful Retail Lifecycle Price Management (RLPM) implementation. These are core requirements in improving FMCG retail sales, margin, and market share.

What It Means: The process of combining POS-centric sales insights with broader consumer, competitive, and market influence analytics has historically been a brute-force effort by most category managers, but a required one for FMCG retailers wanting to make accurate pricing and promotion decisions. Whether planning initial pricing rules, new product pricing strategies, or promotional event forecasts, merchants need to have transparent access to competitive market and consumer insights to complement available POS sales trends and more accurately predict demand at the store or cluster level.

As traditional market-level POS data availability has dropped (thanks in large part to Wal-Mart no longer providing scan data), other insights have taken hold, including demographic, psychographic, and consumer panel input, though often on a much-delayed basis. AMR Research has long seen the direct and real-time use of external influencing factors, such as competitive pricing, scan data, and consumer panel insights, as a core requirement of advanced category management and price planning technologies (see the *AMR Research Report "Retail Lifecycle Price Management: Blending Optimization and Execution Modernizes Retail Pricing,"* November 2004). Creating a partnership model that is designed to produce rapid results rather than becoming bogged down in the complexity of an acquisition gives DemandTec and ACNielsen a window of opportunity to win new business in a very competitive market.

Here are some other insights into this deal.

Each company brings strengths to a technology requirement retailers find critical

While DemandTec has seen consistent growth in retailer adoption of its application suite (including Safeway, Brookshires, and Duane Reade among its FMCG wins), quickly integrating and using not only ACNielsen's global market data and analytics but also accessing its global sales resources creates a new set of market opportunities. On the other side, ACNielsen avoids the time-consuming and costly product development effort in building a new optimization platform while increasing its reach into global retailers almost instantly. Each potential new DemandTec implementation becomes an almost automatic win for ACNielsen's market data and analytics system.

The Takeaway: Between 40% and 55% of retailers (depending upon size) are evaluating new or expanded investments in price and promotion optimization technology, according to AMR Research's 2005 Retail IT Budget Study. This shows that demand intelligence is one of retailers' most important application investment priorities. FMCG retailers can generate upwards of \$50K of incremental bottom-line annual profit per store when RLPM is successfully deployed (see the AMR Research *Alert* article "How To Add \$10M to Store Profit Next Year: Retail Lifecycle Price and Promotion Management").

The planned go-to-market approach supports faster and broader RLPM adoption

The market needs this. While most RLPM implementations continue to operate in hosted mode, DemandTec has successfully used this model as a competitive strength, bringing in like-minded partners like IBM to help spearhead business and marketing development. The combination of a hosted platform running a common code base, improved POS data and application integration, and better deployment models will help streamline efforts by DemandTec and ACNielsen to bring more FMCG retailers onboard quicker to optimization.

The Takeaway: The primary constraint to further penetration of RLPM technologies is not time or cost, but resistance from traditional merchants, category managers, and promotion planners, which struggle with effectively using new application and data-centric RLPM workflow models, including proper use of external market data.

Two very different corporate cultures could pose a risk

This won't be the first time that a smaller, nimble, entrepreneurial company attached itself to a more methodic, slower-moving yet resource-rich organization. (I can't help but think about Apple and IBM many years ago). DemandTec has a big challenge educating and evangelizing its portfolio strengths to the ACNielsen salesforce, but its previous experience with other partners has already helped DemandTec train a number of ACNielsen resources, which will hit the ground running upon the partnership's announcement.

The Takeaway: The real company to watch will be ACNielsen, as the move from selling market data, analytic services, and transactional-oriented software to optimization technology is a big one. If it gets it, however, so will the market.

Competitive positioning now gets very intriguing

With both DemandTec and ACNielsen poised to offer immediate blended capabilities at launch, the pressure will be on their direct archrivals and other RLPM competitors to provide compelling alternatives. **Information Resources** (IRI) has been ACNielsen's most direct competitor in FMCG market data and retail analytic services, and has been aggressively pursuing its own development of a broad suite of retail optimization applications since **Symphony Technology Group** acquired it two years ago. IRI is thought to be actively (though quietly) engaged with a number of retailers looking at becoming earlier adopters of these new applications. These sales cycles will need to become operational successes before the DemandTec/ACNielsen partnership bears too much fruit. Additionally, ACNielsen targets a number of global geographies that IRI doesn't, which will give ACNielsen some immediate opportunities.

Khimetrics, meanwhile, has a long history in FMCG price and promotion optimization. With both major external market data companies actively pursuing their own RLPM market agendas, they must combine not only a strong data integration framework that continues to work with ACNielsen and IRI data, but also viable alternative market data sources that will help round out their external causal factors that help drive their forecasted demand models. Expect Khimetrics also to continue to press its new price and promotion execution capabilities as a point of differentiation.

Existing RLPM optimization vendors that target FMCG retailers, including **SoftSolutions**, **Athens Group**, **Tomax**, **Connect3**, **SAS**, **Lawson**, **i2 Technologies**, and **KSS**, will have similar external market data issues, at least from a positioning perspective. Major retail software vendors considering expanding their portfolios with more retail price optimization abilities, such as **Oracle/Retek** or **SAP** (which already has an established partnership with DemandTec), will need to spend additional development effort planning their alternative FMCG market data integration strategies—or move their focus to other retail segments like hardlines and specialty retail, where RLPM opportunities are still great.

The Takeaway: FMCG retailers evaluating products that combine price and promotion optimization technology with broad market data need to judge not only the value of this external data, but also its strength in demand forecast accuracy as well as its influence on other planning processes like store clustering, category planning, promotion analysis, and vendor deal management.

Conclusion: Both ACNielsen and DemandTec bring unique strengths to this partnership, the result of which will be an enhanced technology platform with the kind of broad, market-centric influence data necessary for true FMCG retail demand intelligence. It also will have a broader go-to-market execution capability that should get more retailers around the world to realize quickly the value of next-generation price and promotion technology. Speed to market with the early fruits of the alliance will be critical, as will be the reaction of the competition. The real winners from this deal are FMCG retailers not yet RLPM-enabled, which will now see even more directly the analytic accuracy that results when regular and promotional demand forecasts are built from internal POS data and external insights.