

DemandTec, Inc.
Form 10-K
April 21, 2011

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[Table of Contents](#)

[Item 8. Financial Statements and Supplementary Data](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 28, 2011

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:

Title of Each Class	Name of Each Exchange on Which Registered
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

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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, 2010, 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 \$7.46 per share on the NASDAQ Global Market on such date) was approximately \$160.5 million.

As of April 15, 2011, there were 32,298,956 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2011 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.

Table of Contents

DemandTec, Inc.

Table of Contents

PART I

<u>Item 1.</u>	<u>Business</u>	<u>3</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>27</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>41</u>
<u>Item 2.</u>	<u>Properties</u>	<u>41</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>41</u>
<u>Item 4.</u>	<u>(Removed and Reserved)</u>	<u>41</u>

PART II

<u>Item 5.</u>	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>42</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>44</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>46</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>61</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>63</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>96</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>96</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>97</u>

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>98</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>98</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>98</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>98</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>98</u>

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	<u>99</u>
<u>SIGNATURES</u>		<u>103</u>

Table of Contents

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 provide a collaborative optimization network of software services connecting retailers and consumer products, or CP, companies, enabling them to define category, brand, and shopper marketing 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 solutions 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 online to enable improved, more collaborative business processes between these trading partners. We were incorporated in November 1999.

Our solutions consist of software services and complementary consulting and analytical services derived from a uniform 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 , enabling 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 , enabling 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 , enabling 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 Shopper Insights , a collection of services that enable retailers to better understand key shopper insights, define shopper segments, and plan shopper merchandising and marketing programs for different consumer segments in order to build loyalty, increase sales, and improve profitability.

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 Marketing Plan Optimization , enabling CP executive and brand managers to develop strategic marketing investment allocation decisions and optimize marketing mix decisions across the spectrum of trade and consumer promotion vehicles.

DemandTec Total Trade Optimization , enabling CP companies to optimize and manage the full spectrum of trade funds decisions including strategic trade planning, customer trade planning, deal management and negotiation with retailers, and post-event analytics.

Table of Contents

DemandTec Shopper Marketing Optimization , enabling CP companies to receive valuable shopper insights and to make informed assortment planning decisions leveraging retail customer data and collaborative business processes on the DemandTec network.

DemandTec Connect , enabling retailers and CP companies to collaborate using social messaging and networking capabilities that link intra-company and inter-company groups of users together on the DemandTec network.

DemandTec provides these software solutions, as well as insights and value-added qualitative content, in an online network where our approximately 16,000 users log in to do business every day. DemandTec is the collaborative optimization network where retailers and CP companies go to log in, access content from DemandTec and DemandTec partners, collaborate both internally within their company and externally with trading partners, analyze insights about consumer behavior and their own businesses, and ultimately make and optimize decisions across a variety of business processes. The DemandTec network is unique in the industry and provides the infrastructure, security, connectivity and services for retailers and CP companies to effectively collaborate on core merchandising, sales, and marketing activities.

In March 2011, we acquired M-Factor, Inc. ("M-Factor"), a provider of predictive analytics software for marketing mix and trade investment spending. In December 2010, we acquired substantially all of the assets of Applied Intelligence Solutions, LLC ("AIS"), a provider of intelligent software solutions for retail enterprises with a specific focus on softlines retailers.

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 \$3 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 Retail Merchandising 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,

Table of Contents

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, inventory, 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.

Consumer Demand and CP Company Challenges

CP companies also compete for consumers. CP companies must make complex decisions when distributing, pricing, and promoting their products. CP companies are faced with rising costs, intense competition, waning consumer loyalty, strong and divergent retailer strategies, and an operating environment in which it is difficult, but sometimes necessary, to raise prices. As ingredient and fuel 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 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 globally spent over \$175 billion on trade promotions according to a 2009 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, common, and 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

Table of Contents

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.

Alternative Approaches to Understanding Consumer Demand

Over the last 20 years, 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 software solution that yields meaningful and actionable insights at the point of decision for retailers and CP companies presents significant scientific, engineering, processing and cost challenges due to the vast amounts of data and the complexities of the required mathematical computing actions. 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, sales, and marketing 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 boutique 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, presenting valuable shopper insights right at the point of decision, and delivering actionable merchandising and marketing recommendations that help them achieve their revenue, profitability, sales volume, and customer loyalty objectives.

DemandTec Solution

Our online collaborative optimization network of software services enables retailers and CP companies to define category, brand, and customer strategies based on a scientific understanding of consumer behavior and make actionable pricing, promotion, assortment, space and other merchandising, sales, and marketing recommendations to achieve their revenue, profitability, sales volume, and customer loyalty objectives. The DemandTec network of software and other services is a destination for our customers, an online environment made possible by our SaaS model that 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 provide best practices content, social

Table of Contents

messaging features, and other community features to better connect our approximately 16,000 users as they collaborate on business decisions. Our solutions enable retailers and CP companies to:

Understand and predict consumer behavior to make merchandising and marketing decisions 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, sales, and marketing decision-making processes in order to meet their business objectives. Specifically, our software services allow retailers and CP companies to:

make daily pricing, promotion, assortment, space and other merchandising and marketing decisions based on the ability to understand, predict, and influence 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;

make strategic marketing investment allocation decisions on a continuous, dynamic basis;

develop optimal allocations of marketing funds across the spectrum of trade and consumer vehicles; and

manage the full spectrum of strategic and tactical trade planning decisions to better support retail customers.

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, and assortments that best accomplish their merchandising and marketing objectives, while complying with their business rules.

Leverage technological advancements through a SaaS delivery model that enables us to adapt to our customers' changing business needs, deliver results quickly, and create an online community

Our investment in the 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,

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Table of Contents

highly-customized software code that is installed at the customer's site and requires frequent maintenance cycles. 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, sales, and marketing decisions. With our SaaS model, our customers are able to achieve measurable financial results within a matter of months, not years.

By combining and packaging our software services as an online, SaaS-based network for our customers, we are also able to develop and nurture a user community and enable collaboration features like those found in the social networking technologies of the consumer software space. Specifically, our SaaS model enables us to provide the following services on the DemandTec network:

product information, "tips-and-tricks" forums, message boards, and other community capabilities for the entire network of approximately 16,000 business users;

solutions that enable users to create custom groups and communities and define what information to share with each group;

the ability to "follow" users on the network as well as defined objects (a pricing plan, for example) such that real-time updates can appear in a customized activity feed on a user's desktop;

best practices and other qualitative content provided by DemandTec, our partners, and any user on the network; and

online purchasing for services such as premium reports, and shopper insights shared by retailers for use by their CP company suppliers.

Incorporate shopper insights into our software services at the point of decision for merchants and marketers

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We incorporate advanced shopper insights into 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 our 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, profit, and volume as

Table of Contents

well as customer objectives for loyalty, price image, shopping trips, and basket content. Key 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.

Enable and monetize collaborative programs between large retailers and the ecosystem of suppliers (CP companies) serving those retailers

A number of our software services can be deployed as collaborative programs designed in partnership between DemandTec and key retail customers. In the collaborative model, the software services are designed to be used by both the retail and the CP companies based on roles and responsibilities and business processes defined within the program.

For example, Assortment Optimization and Shopper Insights are currently sold as standalone offerings to retailers or as collaborative programs. When sold and deployed as part of a collaborative program, the software service is available for subscription by CP companies as part of the program. The underlying data is retailer-specific and, therefore, these solutions and underlying services represent significant new capabilities for the CP companies and the overall program can provide significant value for both trading partners. Ultimately, both parties are able to collaborate on better, win-win plans using shared solutions and a single version of the truth with regard to analytics.

Strategy

Our objective is to extend our position as the provider of a collaborative optimization network for retailers and CP companies and to grow membership in and capabilities on that network. 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 solutions, as well as their adoption of additional solutions. A key element of our strategy is to leverage our domain expertise, proprietary network and advanced analytical capabilities to expand our solutions including new software services, new analytics, and new value-added consulting services.

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.

Expanding our relationships with CP companies. Developing the right strategic marketing and trade planning strategies has evolved into a rigorous and important discipline for CP companies. We intend to expand upon and leverage our market-leading footprint and empower CP companies to forecast a broad range of sales and marketing decisions in a unified planning environment. Further, the collaborative business model enabled by the DemandTec network creates "ecosystems" between retailers and their CP trading partners. By leveraging our ability to deliver existing and new software

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Table of Contents

services through our network, we intend to use our existing retail customer relationships to create and expand our relationships with their CP trading partners. We 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 , enabling 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 , enabling 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 , enabling 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 Shopper Insights , 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 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 Marketing Plan Optimization , enabling CP executive and brand managers to develop strategic marketing investment allocation decisions and optimize marketing mix decisions across the spectrum of trade and consumer promotion vehicles.

DemandTec Total Trade Optimization , enabling CP companies to optimize and manage the full spectrum of trade funds decisions including strategic trade planning, customer trade planning, deal management and negotiation with retailers, and post-event analytics.

DemandTec Shopper Marketing Optimization , enabling CP companies to receive valuable shopper insights and to make informed assortment planning decisions leveraging retail customer data and collaborative business processes on the DemandTec network.

DemandTec Connect , enabling retailers and CP companies to collaborate using social messaging and networking capabilities that link intra-company and inter-company groups of users together on the DemandTec network.

Solutions and Software Services

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

Table of Contents

Optimization solution for the retail industry consists of one or more of the following software services, along with complementary consulting and analytical services:

Everyday Price Optimization

Everyday Price Optimization enables retailers to determine optimized prices to achieve their sales, volume, profit, price image, and customer loyalty 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. Models are analyzed at the overall customer base level as well as by customer segment;

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, based on a customer segment-specific strategy;

Image item analysis determination of effective price image items for key customer 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 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.

Table of Contents

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.

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, in aggregate and by customer segment, 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, in aggregate and by customer segment, 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 enables retailers 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. The Markdown Optimization software service incorporates the science of consumer demand to enable retailers to design optimal plans that set markdown timing and depth (of discounted price) 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 product lifecycle, event and holiday, category reset, cycle refresh, and standard discount markdowns.

Table of Contents

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.

Lifecycle Pricing for Softlines

Lifecycle Pricing for Softlines applies advanced science and technologies to enable retailers to identify opportunities to maximize profitability and meet inventory objectives for clearance items while adhering to markdown budget constraints. Lifecycle Pricing for Softlines uses pattern recognition demand forecasting techniques developed specifically for short-lifecycle softlines products, which requires less data than traditional statistical forecasting tools. This approach allows for faster focus on volatile seasonal merchandise providing a multidimensional forecast-by-demand component that better supports customer centricity at store/SKU levels.

Key features of Lifecycle Pricing for Softlines include:

Pattern-Recognition Based the ability to recommend pricing plans using limited sales data based on behavior of similar historical items;

Real Time Optimization the ability to selectively identify items to mark down together and quickly provide optimal pricing recommendations;

Rules Driven the ability to define business rules to guide the optimized price recommendations;

Multi-Dimensional Targets the ability to define varying goals across product areas, enabling recommendations to be aligned to merchandise targets; and

Graphical Reporting the ability to view detailed graphical representations of the correlations between inventory, demand, and price.

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.

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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 services.

Table of Contents

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;

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;

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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

Table of Contents

Electronic bill distribution distributes invoices through the online Advanced Deal Management system or via email and tracks undeliverable invoices and manages 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;

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, customer-centric 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 placements that maximize the total store impact on all

Table of Contents

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, in aggregate and by customer segment, 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, in aggregate and by customer segment, 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 and merchandising options, build and forecast a complete promotional calendar, and then manage the downstream execution (integrating to Promotion Execution) to complete the end to end process.

Promotion Optimization is also included in the DemandTec Lifecycle Price Optimization solution (described above).

Promotion Execution

Our Promotion Execution software service enables retail users to execute the promotion plans built in Promotion Planning & Management with direct integration into major promotion plan output mechanisms including Adobe® InDesign® for print, signage systems and the retailer's website. Promotion Execution streamlines the promotion plan proofing process with an online system that simplifies the proofing of multiple promotion plan versions, enables retail users to proof anywhere and anytime, and manages the proofing workflow. By simplifying promotion plan publication, retailers are able to execute promotions more quickly, thereby gaining a competitive advantage.

Key features of Promotion Execution include:

Powerful version-enabled environment rapidly build page-oriented promotions, streamline the flow of promotional content and details to the creative team, and automatically communicate all the versioned content, images, prices and layout directly to Adobe InDesign®, where artists can quickly build pages and maintain links to highly versioned promotional elements;

Highly graphical and easy-to-use web-based software automate and streamline the collaborative advertising proofing process to accelerate the process and reduce errors;

Integrated signage software efficiently push versioned signage information to existing systems both in-store and at headquarters, thereby improving efficiencies and eliminating errors between pricing and messaging in the advertising circular with the information sent to the stores;

Table of Contents

Multi-channel/cross-media publishing create content for planned promotional events once and then manage and publish the content and digital assets across print, email, website, mobile device, and other multi-channel/media publishing; and

iFlyer module automate the execution of promotional flyers to targeted customer groups and distribute them on-line through an email link, posting an electronic Flyer on the retailer's web site, or to a web device.

DemandTec Assortment & Space (for Retail)

The DemandTec Assortment & Space solution for the retail industry consists of the following software services, along with complementary consulting and analytical services:

Assortment Optimization

Assortment Optimization enables retailers to determine which items should be stocked, by store or store cluster, based on the customers that shop at each store, the competitive environment, and a quantified understanding of whether each item in a category is merely duplicative or truly provides variety and adds incremental sales to the category. Key features of Assortment Optimization include:

Advanced modeling and optimization science enables the creation of efficient, customer-centric assortments based on a quantitative understanding of incrementality (an item's ability to increase overall category sales) and transferable demand (the degree to which sales volume shifts to similar items or leaves the store when one item is delisted);

Multiple data inputs incorporates market, loyalty card, planogram, and cost data into the optimization process;

Automated processes includes automated processes and wizards to address the assortment challenges merchants face every day, such as performing straight optimizations, increasing or decreasing SKU count and space, and making one-in-one-out changes to assortments;

"What if" analyses enables retailers to run multiple scenarios and compare results to identify the best strategy to meet company objectives such as protecting private label items and image items; and

Macro-space optimization enables retailers to add or decrease category space within the store layout in order to maximize category growth and customer loyalty.

DemandTec Shopper Insights (for Retail)

The DemandTec Shopper Insights solution includes the analytical services to segment shoppers into discrete groups that a CP company or retailer can target with merchandising and marketing programs, as well as the software service that makes those segments actionable.

Shopper Insights

This software service provides powerful analysis capabilities as well as highly actionable delivery of insights. The key features of this software service are:

InsightCenter the InsightCenter is an online collection of dashboards that are designed to provide comprehensive analysis into shopper segments and the shopper behavior of those segments in the retailer's stores.

Insights Embedded in addition to the dashboards housed in InsightCenter, Shopper Insights can also deliver a subset of those insights directly at the point of decision within the other DemandTec software services.

Table of Contents

DemandTec Marketing Plan Optimization (for CP)

The DemandTec Marketing Plan Optimization solution enables CP company executives and brand managers to develop strategic marketing investment allocation decisions