



SignalDemand: Managing Margin for Commodity Manufacturers

Friday, September 28, 2007

John Hagerty, Noha Tohamy

We will issue a Report by year's end that examines the landscape of vendors in the price and profit management market. Earlier, we published a model to frame the business issues that define this important business process area (see "AMR Research's Active Pricing and Profitability Framework"), and part of our research work plan is to scan the market for possible new competitors that fit this model.

In these efforts, we uncovered an interesting company, **SignalDemand**, which offers a software-as-a-service (SaaS) product for margin optimization targeted at commodity manufacturers. The company currently markets its service to proteins and foodservice sectors. **Cargill Meat Solutions, Hormel Foods, and Rich Products Corporation** are notable customers. The firm is funded by **General Catalyst Partners, Catamount Partners, and Hummer Winblad Venture Partners**, the latter with a significant number of SaaS vendors in its portfolio.

Managing risk while optimizing margin

SignalDemand was founded in 2004 by Mike Neal and Dr. Hau Lee of Stanford University, co-founders of retail price and promotion optimization vendor **DemandTec**. With serious credentials in supply and demand concerns, the company has approached its target markets with an eye toward managing risk while maximizing profit margins.

In commodity manufacturing, price volatility is the norm, and financial risk increases the further out in time you go. A lot of external factors influence supply, such as the price of feed, weather conditions, and quality of end product. Many of these are already factored into futures prices on global commodity markets. Adding to this, buyers demand product that will meet widespread consumer demand. For beef, as an example, that means an array of different cuts that will eventually end up on store shelves.

SignalDemand software steps into these scenarios to help maximize seller margins by delivering optimal prices to balance demand, supply, and competitive pressures. Recommendations for product price and mix are projected for spot, weekly, monthly, or long-term contract purchases, which gives the seller much more confidence in price quotes and hedges their risk using better projected information.

One SignalDemand customer experienced the result of this increased confidence when it shared its pricing models by product SKU over time with one of its large buyers. This transparency resulted in the seller being awarded a long-term contract to supply every SKU for the product category for all its stores. This allowed the seller to bring significant value to the table, other than price and availability alone.

Are supply recommendations next?

SignalDemand sits squarely at the intersection of demand, supply, and product, and its focus is on price and profit margin optimization. While it currently uses supply constraints as inputs to recommending pricing, this supply information could be turned around to recommend what supply levels will be necessary to meet demand based on a price forecast. Since the lead time for commodity-based products can be extensive, such as putting more fields into production for a growing season and raising more livestock to bring to market, sellers can use this information to decide whether to invest in more production or search for alternate sources of supply given the specific quality requirements. We expect SignalDemand to expand into this aspect of the demand and supply continuum in the future.

Conclusion

SignalDemand has rigorously stuck to its target vertical for the first few years and built out a healthy, renewable revenue stream with its existing customers. By proving its value in one sector and only then expanding into others, it has built a strong foundation for future growth into other industries with similar commodity characteristics. This is a lesson that start-up vendors of all stripes should take to heart before diversifying too quickly and diffusing attention across too many disparate concerns. The SaaS model is also one to monitor, as most competitors offer installed software for these functions today.