

## GENEXIS GLOBAL BUSINESS

### INFORMATION, TECHNOLOGY AND SERVICES FOR CONSUMER ORIENTED COMPANIES

In the new business universe, where the driving force shifted from supply to demand, consumers, and no longer suppliers, became the center around which all other players gravitate. Identify, capture and understand the wishes and preferences of the “New Masters”, and to respond, quickly and efficiently to them, became the critical factors and turning point between success and failure, winners and losers, profits and losses.

Genexis is the company holding technology, services and solutions, expertise, proven experience and success cases, which brought a new and unique approach to e-business, integrating market information and business transactions, to help the consumer oriented companies achieve their objectives and succeed in this new universe.

The growing adoption of Genexis’ services and solutions, in different economic segments, by major international manufacturers and world leading information providers, shows Genexis is mature to expand in a global way and become the new standard for the integration of consumer driven business networks.

## I - THE UNDERLYING CONCEPTS

### Power shift in the product distribution process

In the new competitive market, power has shifted from suppliers to the consumers, and successful companies became those who were able to, prior to and better than their competitors, **identify, capture, analyze, understand and respond to the wishes, preferences and decisions of the consumers.**

Highly **integrated retail chains**, which could have information flowing instantly from their check-outs to their distribution centers and purchase departments, minimized inventories while keeping high availability level of products in their shelves. Walmart, among others, was probably the most famous success story.

The situation changed dramatically, however, in the large majority of examples, as companies no longer owned and controlled all links of the production / distribution network they had to use in order to manufacture, distribute and sell their products to the final consumers – which as a consequence, were not anymore their direct clients, but **clients of their clients**, or even farther than that.

In fact, with the decay of vertical conglomerates (which integrated, under the same corporate umbrella, production, distribution and retail), product manufacturing and distribution until the ultimate consumers became more and more complex, with links formed by independent, specialized companies (suppliers of raw or secondary materials,

manufacturers, logistics operators, distributors, wholesalers, retailers, delivery centers, door-to-door reps, etc), controlled by different owners, with their own habits, strategies, management structures, systems, concepts, catalogs, codes, languages, etc.

Thanks to that, to achieve an efficient flow of information, between production and consumers became a true and difficult challenge and, as a consequence, at the very time manufacturers were required to get closer to the final customers who bought their products in retail markets, know them better and act faster to grab the opportunities, farther they became, less visibility of the final markets they started to have, longer the time it took them to know which products should (or should not) get to each retail point of sale where products were (or should be) sold.

Slower, less effective and less precise became their response to consumers' wishes.

The participants in a distribution chain just had the vision of their **direct clients**, and a true "**Chinese Wall**" was created between manufacturers and consumers. As a consequence of that, a manufacturer's typical day became a struggle between the **lack of enough products** to meet consumers' demand on stores, and, simultaneously, the administration of huge **excess inventories** of products, parts, etc, they "thought" consumers would buy, but consumers, unfortunately, disagreed.

Also, enormous amounts of money were spent in promotional efforts and marketing campaigns, with no reliable measure of the return of all that spending.

### **The "Bullwhip Effect"**

The impact of unforeseen fluctuations of demand, at the consumers' level, even when they are apparently small, may, however, generate huge and dramatic consequences in the whole distribution chain, as shown by Forrester in what he called the "bullwhip effect" (Fig.1 below). In that example (which used as assumption a case where retailers, wholesalers, manufacturers and suppliers of materials produce, supply and keep enough inventories to fulfill their direct clients' monthly demand, set initially at 100 units per month), a minor variation of **5%** at the consumers' end, occurred just once, and not reflected immediately and proportionately in the upper links of the chain, generates huge variations and distortions in the companies upstream, causing enormous fluctuations in the levels of inventories, product availability plans, service levels – hurting revenues, p&l accounts, share price, etc .

In the example, a materials supplier expecting to refill 100 units per month, would be, all of a sudden, asked to supply only 20 units in the second month, 180 units in the third month, 60 units in the third month - and only in the 5<sup>th</sup> month he would be back to the original 100 units, going down in the sixth month to adjust to the 95 units corresponding to the consumers' demand in the first month. Same goes for the other links, in different proportions.

Enormous excess and lack of products to be delivered, bad production and logistics programming, higher costs, lost sales, revenues and clients. Even worse, if the merchandise is perishable or subject to a deadline for consumption.

Fig 1.



Periods	supplier		manufacturer		wholesaler		retailer		Demand
	production	Invent.	production	Invent.	Procurem.	Invent.	procurem.	Invent.	
1	100	100 100	100	100 100	100	100 100	100	100 100	100
2	20	100 60	60	100 80	80	100 90	90	100 95	95
3	180	60 120	120	80 100	100	90 95	95	95 95	95
4	60	120 90	90	100 95	95	95 95	95	95 95	95
5	100	90 95	95	95 95	95	95 95	95	95 95	95
6	95	95 95	95	95 95	95	95 95	95	95 95	95

Final result, an equation where everybody loses:

- the supplier of raw materials, which would sell less than what he could to allow the production of unforeseen high sellers, while gets over stocked of other materials he expected to supply to manufacturers and never did;
- the same going to manufacturers; the distribution channels taking an additional burden due to the general practice adopted by manufacturers to push excess inventories into wholesalers and distributors in order to meet their sell-in goals;
- the retail stores (which in general carry low inventories) missing sales due to lower service level of products desired by consumers who wouldn't find them in the retail shelves\*.

The bad news is that, in the real world, things are not as simple as the situation displayed in the above example, and variations not as small and steady. An unthinkable amount of money is and continues to be wasted every day, everywhere. In the attachments to this presentation, a few examples of in-depth analysis of this phenomenon, made by well-known experts, are worth reading.

What Genexis did was to create processes, products and services **to bridge the gap existing in the conventional way to handle the flow of information and transactions**

in distribution chains and therefore allow manufacturers to **eliminate or minimize extremely the Bullwhip Effect**, seeing through the Chinese Wall that prevented them to know what consumers actually wanted to buy. Allowing suppliers, distributors and retailers to operate as an “**extended company**”, **oriented by consumers’ behavior**, while keeping their independence, individuality and ability to interact with other parties or networks.

### **Information & transactions - it’s all e-business!**

Traditionally, the capture of information on the demand of products and consumers’ behavior and the exchange of business transactions (orders and related documents) in a distribution network are treated as separate things, under different requisites and timing and without being subject to the same technological rigor and framework.

Indeed, information services are usually handled by providers as a matter of contents, while the automation of transactions among business partners is deemed to be purely a matter of technology, to be handled by different providers.

As a consequence, frequently, conventional information services, because of poorer technological instruments utilized to capture, process and / or distribute information, lack greater agility, flexibility, customization and capability of being rapidly available to be utilized by a bigger number of users, and as such fail to meet, in its entirety, the important role they should play in the management processes of companies. On the other hand, transaction automation services, because of lower than ideal knowledge of the particular business processes and characteristics of the companies using the services (as information providers possess), sometimes lack better adherence to particular business or operating characteristics of the companies involved, which are necessary for a comprehensive integration of networks of business partners.

Genexis’ approach to information and transaction automation is that in fact one and the other are part of the **same overall business process**, with the same goal – to meet, efficiently, fast and productively, the needs of the consumers. One (information) being necessary to **ask the questions** to the consumers, and the other (transactions) to **respond** to such questions, on a timely and efficient manner (isn’t what ECR is all about?).

Therefore, they must be treated with similar or the same **technological apparatus**, **business-oriented** processes, **integration** requisites, **delivery** requirements (as to velocity, consistency, contents and security control), and capability to be distributed electronically to be consumed in **real time** for whatever necessary number of users. They are both **e-business**, and should be treated as e-business – which means adopting all the instruments of e-business in order to enjoy all the benefits e-business generates - in a world where everything converges to electronic media, conducted through multiple devices.

Genexis is the unique company which congregates technology, solutions, services, business knowledge, expertise, proven experience and success cases in both **demand information management** and **business transaction automation** necessary for a true and efficient integration of a consumer-oriented production / distribution network.

Genexis' services and solutions (using all along the concept of "**software as a service**"), for both information and transaction exchange, are based on the same underlying platform – **EMPTOR** - to address, among others, questions like

- Which products are being sold, in which amounts, when, where, to which buyers and by which distribution channel? Where should they be sold and where not; and why?
- How efficient are my distribution channels, each one of them? How loyal to my brand are the ultimate buyers in that specific category?
- How can I enhance productivity of my (or my distribution channels') sales force and monitor their actual effectiveness (based on sales to the ultimate consumers in the regions they work in), and not simply on the transfer of inventories from the manufacturers' warehouse to the warehouses of distributors, wholesalers or retail chains?
- How can I improve the planning of market actions and monitor the return on the money spent on them, all based on actual and solid data I can check?
- How can I have all that information my company needs as fast and timely as I need it, within the scenario and timeline when a decision has to be made or an action be taken?
- How can I integrate the information I have on consumers' behavior and demand profile and my company's sales and distribution systems and procedures, so that we are able to go back and respond to the consumers' needs on a quick and efficient manner?
- How can my company do business with a multitude of different business partners, of different magnitude and sophistication levels, without being compelled to change our own internal systems and procedures or obliging our business partners to change theirs?

### **The ability to integrate consumer-driven business networks**

In the real world, interactions among business partners occur on a one-to-one basis. Even in a simple or a complex business network, where hundreds of companies interact with each other, and with different networks (save for some special types of merchandise, which allow auction-like forms of purchasing), interactions are still made one-to-one. Many interacting with many, through multiple, nearly infinite, sets of one-to-one interactions.

In the e-business world, the process has to be the same as in the real world. Genexis learned that and how to do it when it first integrated the whole pharmaceutical segment almost fifteen years ago.

In the modern business networks of independent and heterogeneous companies, each company wants to send and receive information, transactions, etc using their own individually adopted standards, formats, language, concepts, etc. And a successful flow of

information and / or transactions throughout a business network will not happen unless such practical requirement be obeyed and met - so that business partners are able to communicate and do business with each other without worrying about and having to adapt to the myriad of different platforms, languages, standards, catalogues, systems, which populate the different networks

**That was the basic concept utilized by Genexis in order to implement the efficient integration of business networks: by providing instruments which allow each link of the network to interact with all the other links (to exchange information and transactions), on a one-to-one basis, as smoothly, seamlessly and efficiently as necessary, using their own platforms, systems, concepts, standards and formats.**

## **II - THE JOURNEY SO FAR – STRATEGY, CHALLENGES AND ACHIEVEMENTS**

### **The beginning – the integration of the pharmaceutical segment**

All those concepts referred to in the previous section were developed, tested, corrected and proven, in concrete situations involving some of the largest and most credible companies worldwide for years.

Indeed, when Genexis was formed, the strategy adopted was to begin by testing its concepts, solutions and services in a relevant business segment and, once that had been done, replicate those activities to other market segments, mainly in consumers' goods areas, where problems were substantially the same and companies even more competitive.

The **pharmaceutical segment** was the one chosen by Genexis to begin: well organized in sets of specialized business partners, with products being mostly placed in retail markets by wholesalers and distributors, manufacturers being traditional consumers of market information and, at that time poorly served as for the electronic integration of the segment.

In 1994, Genexis (then named Server) "sold" to Bristol Myers Squibb (BMS), a major player in the pharmaceutical industry in Brazil, the concept of getting from wholesalers, distributors and major retail chains, **on a daily basis and electronically**, complete information as to all their sales/supplies to the final retail stores. As retail stores kept no significant inventories, on getting what they bought on a daily basis, it would be quite precise for BMS to determine what individual consumers were ultimately buying.

By doing so, Bristol could have, every day, a massive census tracking of sales of all their products in the whole Brazilian territory, with information of which of their products was being bought/received by which retail store, in which amount, supplied by which distribution channel, in which region (State, city, Zip code, store, etc) - while their competitors would depend on the slow, belated reports then available, provided weeks or months after the facts had happened.

That initiative – **the first of its kind, worldwide** - was a great success and shortly after Genexis was hired by most players of the pharmaceutical industry to do the same, and within two years over 500 companies, spread out nationwide had been electronically integrated by Genexis to exchange daily information with their business partners, covering

an overall universe of approximately **2 million commercial transactions per day**, in average, made to about **62 thousand pharmacies** and some more **30 thousand other stores** which sold some type of pharmaceutical products.

In the year 2000, Genexis was reorganized and received a US\$ 16.5 million investment from a private equity fund managed by Electra International for a 30.6% interest.

That **learning curve** and the result of it - in terms of investments made (over US\$ 25 million), technology developed, knowledge of operating and business issues, hands on testing, excellence and maturity of products and services (confirmed by the long lifetime of the contracts signed with major companies such as Pfizer, GSK, Merck, Nycomed, Roche, Novartis and many others) – prepared Genexis for its next big steps and definitely formed a major **entry barrier** for any competitors who may decide to come in.

As technology evolved, Genexis continued to innovate and, starting 1996, Genexis migrated its whole technological platform to the Internet, it being **the first company in Latin America to ever use the Web for business purposes in a B2B environment**. Clients would log in a Web access to consult huge databases hosted in Genexis' premises and consult or download pre-formatted reports, dynamic tables and spreadsheets, multidimensional cubes, etc.

In the same year, Pfizer began to conduct its sales to its direct clients (wholesalers, distributors, retail chains, hospitals) using Genexis' services (a complex B2B platform, developed and hosted by Genexis in its own data center and accessed by Pfizer and its clients via Web – again, that being **the first e-commerce case in Latin America over the Internet**. Over time, 100% of Pfizer's sales in Brazil started and continued to be made using that mechanism. Subsequent to that contract, other major manufacturers started to do the same.

Starting 2001, Genexis commenced activities in Portugal, focused on e-commerce transactions between manufacturers and wholesalers, integrating companies like Novartis, Bayer, Glaxo Smith Kline, Eli Lilly, Sanofi Aventis, etc, and more than 150 distribution channels, which carry out their business transactions using the Genexis' platform, entirely **hosted in Genexis' data center and support services in Brazil**. No technical infrastructure whatsoever was required in Portugal to provide the services.

### **Replication to other market segments**

Following its original strategy, Genexis began to replicate its success story in the pharmaceutical industry to other segments of the consumers' packaged goods market (CPG), where Genexis has no competitors with similar knowledge, proven cases and offers.

In little over one year, the replication strategy of the pharmaceutical success story is proving to be correct in a major way and shows Genexis' big growth potential ahead.

Genexis' portfolio of clients is already impressive, including major international companies such as Unilever, Master Foods (Mars), L'Oreal, Perfetti, Pernod-Ricard, Bauducco, among others, some of those with multiple contracts.

A strong partnership is being consolidated with Unilever, with whom Genexis has entered into contracts to provide demand management services for various divisions and is currently finalizing negotiations to begin four major projects of large scope:

1. the Latin American expansion of demand management services provided in Brazil, for a total 14 countries;
2. e-commerce transactions for several countries in Latin America, starting with xxxxxxxxxxxx;
3. a world's first programmed replenishment of distributors' inventories by Unilever, based on true demand, using a Vendors' Managed Inventory platform developed and operated by Genexis;
4. the management of a nationwide promotional campaign, in conjunction with a marketing service provider, together with an incentive plan to distribution channels, controlled by Genexis.

The importance of those projects obviously transcends the limits of the revenues and profits which may derive from them, as relevant and substantial as they may look to be.

Indeed, the sponsorship of companies of that magnitude and credibility, witnessing the excellence of Genexis' services and solutions, will have a significant role in Genexis global expansion, to reach other companies, segments and geographies.

### **A huge opportunity in the media area**

In his delicious and brilliant book, "Marketing Myths That Are Killing Business", marketing guru Kevin Clancy many times says he believes there is no more than seventeen marketing managers, amongst all Fortune 500 companies, who are able to calculate the rate of return of their huge investments in marketing actions. Maybe there is more than that who can, but the truth is most companies did not have means to control and determine the ROI of their market spending.

Again, Genexis came to bridge the gap that existed between the **decision** to carry out a promotional **action**, the **allocation** of the funds attached to it and the **control** of the **returns** expected from such spending.

With services and solutions which allow to determine the profile of each region and even points of sale where products are sold, including the demographic profile of consumers present in such regions, and to measure, in detail, with a massive demand tracking, the performance of sales on a daily basis, Genexis helps its clients to **plan, segment, choose and caliber the appropriate promotional actions**, consistently with the characteristics and potential of each target area, as well as **monitor and quantify the true impact of those actions** on the performance of the sales of the products involved in the given marketing action.

Hard \$\$\$\$ data, and no longer inconclusive blah-blah!

That approach is already being applied by a major international corporation for assessing the effectiveness of the promotional campaign of one of its leading products in the personal care area. A substantial amount of money is being invested by the manufacturer to boost the productivity of sales forces of distribution channels, Genexis being the company who **controls and certifies the goals achieved by each participant and reports to its client the return produced by the program** in terms of increase of the demand in the areas involved.

Those instruments and initiatives – which are highly innovative in an area where massive expenditures are made and huge costs may be saved - will **revolutionize** the way advertising and promotion budgets are allocated and accounted for, changing the way companies interact with publicity and media players and introducing efficient mechanisms for planning, controlling and measuring the effectiveness of marketing actions.

Also, it opens a whole new segment favorable for strategic alliances and the marketing of Genexis' services and solutions: the publicity agencies and promotional services providers, which will have a big differential to offer to their clients to support their proposed campaigns.

### **Strategic alliances – market research and information providers**

In August 2006 and December 2007, US-based **IMS Health** - the world's leading provider of market intelligence to the pharmaceutical and healthcare industries, with over 50 years of industry experience in more than 100 countries, and over US\$ 2.2 billion annual revenues, acquired, for a total US\$ 13 million, approximately, an **exclusive license of use** of Genexis' software applications for **information and commercial transactions** exchange for the **pharmaceutical segment in Latin America**, together with the service contracts entered into with the pharmaceutical companies. The use of the platform for commercial transactions outside of Brazil is still subject to a 10% royalty over revenues in favor of Genexis.

It is already known that local branches of IMS in Asia have consulted their peers in Latin America with a view towards taking Genexis' technology and products to **China and Korea**. Conversations are still in an initial stage, but perspectives are strong and concrete.

The deals made with IMS Health – which again represented the recognition of Genexis' excellence and capability by an international leader in its area of business – were a key milestone of the new phase initiated by Genexis for global expansion and the replication of its activities to the other market segments.

Along those lines, strategic alliances with other major information providers, having a big client base both in Brazil and in many other countries, are progressing rapidly as they perceived the market requires technology, services and solutions like the ones developed by Genexis and which they, themselves, do not possess. Therefore, a collaborative work with such companies clearly may result in a **win-win** equation.

Effectively, companies operating in CPG are eager to have efficient instruments which allow them to manage the performance of their own distribution channels and determine the efficacy of marketing actions and promotional efforts, as well as to improve their transaction exchange mechanisms. Genexis is probably the only company with know how,

products and services capable of providing answers to all those questions, one-stop shopping, and is therefore, a natural ally for international service providers to which the solution to those issues have been requested by their clients.

Along those lines, the entering into strategic alliances is being discussed with the following companies:

1. **The Nielsen Company** - world's leading market research company, present in more than 100 countries, currently owned by KKR: a joint product Genexis / Nielsen, combining market share (Nielsen) and demand management (Genexis) has been developed and will commence to be offered to the market, on a revenue split basis, beginning with selected clients, in the current month of May. Such product is not yet available in any other countries, and therefore, the opportunity for a larger spectrum partnership is open.
2. **GFK** - one of the world's biggest market research companies, present in more than 100 countries and which is currently in the process of merging with London-based TNS, world's # 2 world's biggest market research company. In Brazil, GFK has been deeply focused on retail panels, a product which is now being extended to other countries. Advanced conversations for a comprehensive collaboration in Brazil and other countries in Latin America (also to include Portugal, as a first step into Europe), to market Genexis' products and provide services, on a revenue split basis utilizing GFK's large regional structures.
3. **Marktest** – Portugal's leading market research provider for CPG, also present in other 8 countries in Europe. Negotiations are in advanced stage, letter of intent about to be executed, providing for the marketing of Genexis' products / services in Europe on a revenue split basis.

Important to remark that, once alliances with Nielsen and GFK (which will then include TNS) have been effected, Genexis will have established partnership agreements with **the four biggest market research companies in the world** in order to use and market Genexis' services, solutions and technology internationally.

That fact, added to the other proven cases, contracts with some of the world's leading corporations in their areas of business, besides other prospects underway, give a solid indication of the magnitude of the possibilities of Genexis, its technology and products, worldwide, in an array of business segments, and give strong support to the financial projections set forth below.

### **Strategic alliances – technology providers and consulting companies**

The instruments and solutions developed by Genexis are a step-ahead of the technological products offered by many major providers in the corporate scenario. Conceived and built to deal with the facts occurring beyond the internal boundaries of companies, and capable of providing seamless integration with heterogenous systems, processes and concepts utilized by different, business partners, Genexis' platforms and applications are a natural complement of established platforms (like SAP, Oracle, etc) more deeply focused in the handling of internal processes in corporations, which usually lack that ability to allow a faster and easier integration with independent companies.

Also, consulting and software integration companies are natural allies of Genexis, as the services and solutions provided by Genexis can make effective the actions they recommend to improve the business processes, competitiveness, efficiency and profitability of their clients.