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Title

LEVERAGING CATEGORY MANAGEMENT FOR EXCELLENCE IN RETAILING

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Abstract:

Category Management is vital to success of a retail operation. Category Management is a retailing concept in which the total range of products sold by a retailer broken down into discrete groups of similar or related products; these groups are known as product categories. It has become an essential component of modern retail business. In fact, it is difficult to imagine a retailer winning in the marketplace without relying on the direction that this valuable process provides.

Today, it is very important to know about the category management. Product categories are the building blocks of the store. Category management leverages them to enable retailers to operate effectively. Some categories may be larger than others and some may contribute more to the bottom line. But all of them must work well individually and must come together to present a cohesive whole to discriminating shoppers. Expertise in category management is certainly a competitive advantage. It empowers retailers to make better business decisions that help them achieve objectives.

The Purpose of Category Management is to enable retailers to keep their present shoppers and attract new ones. The industry may have taken its eye off the consumer in the early days of data overload and number crunching, but that time has past. Today, the best practitioners are focused on consumer-centric category management.

The consumer today stands at the center of the process and drives all decisions about the category today and its direction tomorrow. The purpose of this paper is to describe the various aspects of category management. This paper is covering the areas like evolution, purpose, importance and future of category management in modern retailing business.

Keywords: Category, Retail, consumer behavior, Caption

Introduction:

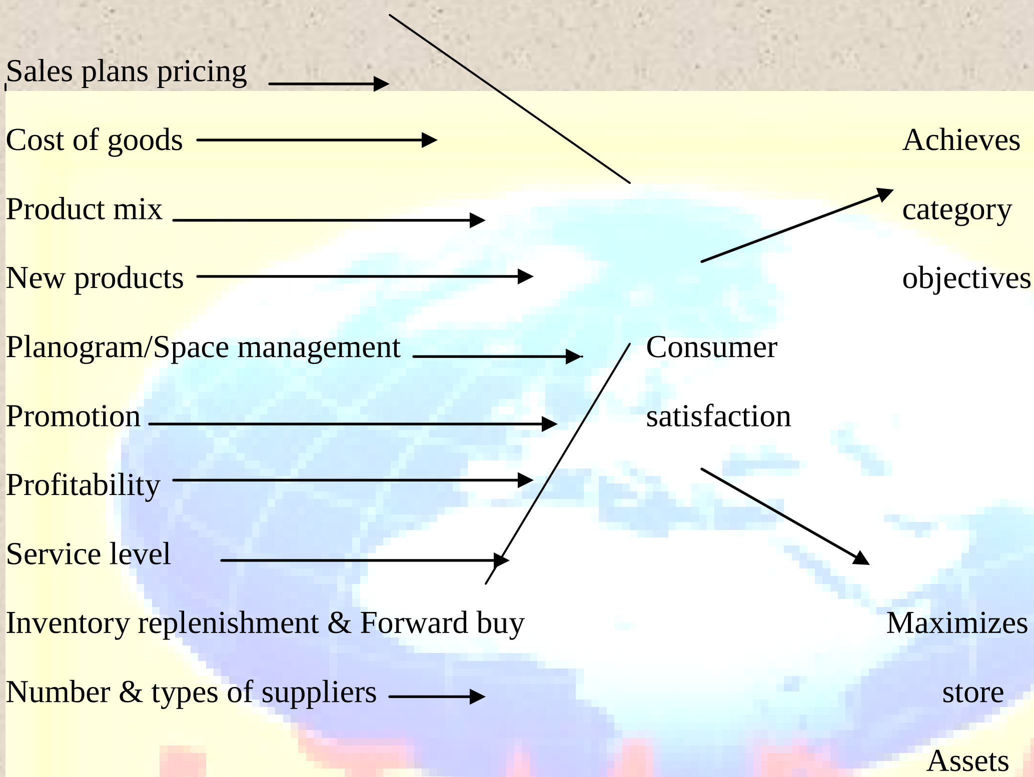
Category Management is a retailing concept in which the total range of products sold by a retailer is broken down into discrete groups of similar or related products; these groups are known as product categories. Examples of grocery categories may be: tinned fish, washing detergent, toothpastes, etc. Each category is then run like a "mini business" (Business Unit) in its own right, with its own set of turnover and/or profitability targets and strategies. An important facet of Category Management is the shift in relationship between retailer and supplier: instead of the traditional adversarial relationship, the relationship moves to one of collaboration, exchange of information and data and joint business building. The focus of all negotiations is centered on the effects of the turnover of the total category, not just the sales on the individual products therein. Suppliers are expected, indeed in many cases, mandated to only suggest new product introductions, a new Plano gram or promotional activity if it is expected to have a beneficial effect on the turnover or profit of the total category and be beneficial to the shoppers of that category. In essence this function involves management of a category like an independent profit centre in all respect of sourcing, pricing, and buying to selling to deliver customer satisfaction and strategic advantage to the store. A category manager would have separate team member to handle product management, buying and merchandising. Such a retailer is able to successfully differentiate its merchandise based on its consumer's needs and wants.

Rationale for Category Management:

One key reason for the introduction of Category Management was the retailers' desire for suppliers to add value to their (i.e. the retailer's) business rather than just the supplier's own. For example, in a category containing brands A and B, the situation could arise such that every time brand A promoted its products, the sales of brand B would go down by the amount that brand A would increase, resulting in no net gain for the retailer. The introduction of Category Management imposed the condition that all actions undertaken, such new promotions, new products, re-vamped planogram, introduction of Point of Sale advertising etc. were beneficial to the retailer and the shopper in the store.

The second reason was the realisation that only a finite amount of profit could be milked from price negotiations and that there was more profit to be made in increasing the total level of sales. Another reason was that the collaboration with the supplier meant that supplier's expertise about the market could be drawn upon, and also that a considerable amount of workload in developing the category could be delegated to the supplier. So, just whom does category management impact?. While the accompanying chart will illustrate this process in detail, the point to be born in mind is that it affects almost every department of the retailer's and also its suppliers in addition to the end consumer.

What does category management impact?

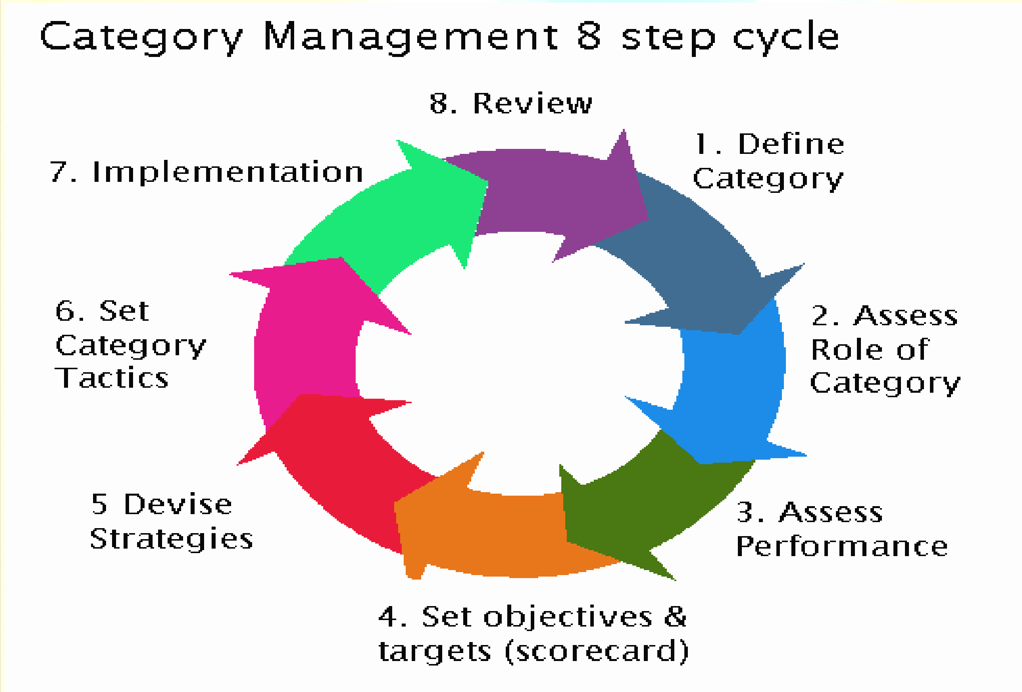


Definition of a Category:

The Nielsen definition of a category, used as the basic definition across the industry is that the products should meet a similar consumer need, or that the products should be inter-related or substitutable. The Nielsen definition also includes a provison that products placed together in the same category should be logistically manageable in store (for example there may be issues in having room-temperature and chilled products together in the same category even though the initial two conditions are met). However, this definition does not explain how the process often works in practical retailing situations. For example, electric toothbrushes are often placed in a separate "electricals" category with hairdriers and not with manual toothbrushes, even though the Nielsen definition may suggest otherwise. Sometimes demographic considerations over-rule, so luxury chrome toilet brushes could be found in a luxury-bathroom-fittings category, totally separate from the white plastic toilet brushes placed in the household brushes category.Depending on the size and internal structure of the retailer, different definitions may exist: whereas one retailer may have a tinned tomatoes category, another may consider it just a small sub-segment of a larger tinned vegetables category.

The Category Management 8 Step Process:

The industry standard model for Category Management is the 8-step process, or 8-step cycle developed by the Partnering Group. The eight steps are shown in the diagram ; they are:



The Category Management 8 Step Process:

1. Define the Category (ie what products are included/excluded).
2. Define the role of the category within the retailer.
3. Assess the current performance.
4. Set objectives and targets for the category.
5. Devise an overall Strategy.
6. Devise specific tactics.

7. Implementation.
8. The eighth step is one of review which takes us back to step first.

The 8-step process, whilst being very comprehensive and thorough has been criticized for being rather too unwieldy and time-consuming in today's fast-moving sales environment; in one survey only 9% of supplier companies stated they used the full 8-step process. The current industry trend is for supplier companies to use the standard process as a basis to develop their own more streamlined processes, tailored to their own particular products Market Research company Nielsen has a similar process based on only 5 steps : Reviewing the Category, Targeting consumers, Planning merchandising, Implementing strategy, Evaluating results. Organizations that have successfully adopted the disciplines of Category Management have shown significant benefits.

A study published by Accenture, "ECR Day-to-day Category Management," found that businesses that adopt Category Management as a business discipline experience up to a 10 percent uplift in sales, a percent increase in profit margin and up to a percent reduction in inventory .

It has also been observed, based on anecdotal reports and market experience, that the process regularly breaks down in the area of compliance monitoring, which in turn allows less-than-optimal implementation to go unnoticed and therefore uncorrected .Undoubtedly Category Management has earned its pivotal role in the fast moving consumer goods industry, and yet significant gaps still remain between its ultimate promise and the significant but less than full potential results practitioners now enjoy.

Category Captains:

It is common place for one particular supplier into a category to be nominated by the retailer as a Category Captain. The Category Captain will be expected to have the closest and most regular contact with the retailer and will also be expected to invest time, effort, and often financial investment into the strategic development of the category within the retailer. In return for this, the supplier will gain a more influential voice with the retailer but must be careful never to abuse this or fall foul of any antitrust laws. The Category Captain is often - but not always! - the supplier with the largest turnover in the category. Traditionally the job of Category Captain is given to a brand supplier but in recent times the role has also gone to particularly switched-on Private label suppliers.

What is involved in Category Management?

Category Management in practice covers a wide scope of activity, and a really good Category Manager will be multi-talented, able to deal with a diverse range of projects. A key component of good Category Management is data analysis. Such data may be from specialist data providers such as A C Nielsen, may come direct from the retailer (as in Wal*Marts Retail Link) or may be collected by a field force contracted by the supplier themselves. In any case, it is the job of a good Category Manager to turn data into actionable decisions for the company and for the retailer alike. Since Category Management activity often involves marketing activity specifically within the retailers themselves, the Category Manager may find him/herself working a lot in the area of Field Marketing, in projects such as merchandising, point of sale displays, stock checking and working with the retailer as to the exact style, design and layout of the fixture, often combined with useful product information to guide the shopper to his/her purchase (in-store retail "info-trainmen" - a portmanteau expression often compressed even further to "Retailtainment") . Promotional activity is also an area in which the Category Manager can expect to be involved: deciding which promotional mechanics work best in what situations, and advising both the retailer and his/her own sales/marketing department on the optimum promotional calendar per retailer in order to achieve the category objectives.

The Future of Category Management

After some initial hiccups, it certainly looks like Category Management is not only here to stay, it is going to increasingly become a way of doing business, and those suppliers who cannot do it well, do so at their peril. We can gaze up and make some predictions about Category Management over the next few years like as under:

1. The spread of Category Management into more diverse retailing sectors. Initially, Category Management was a grocery or "Mass Merch" concept; however it has now spread into other retailing sectors such as Pharmacy and Cash & Carry. And in recent times, Borders Bookshop has implemented Category Management as a process within its bookstores. We are expecting this trend may continue.

2. The data explosion. The amount of data has been "exploding" now for 20 years, however it still shows no sign of abating, and Category Management is becoming highly "information technology" and mathematics oriented. That, coupled with the fact that there is still a large "social science" element to Category Management (for example in understanding the psychology of Shopper Behavior) and you get a very rich and diverse job function indeed.

3. Streamlined Processes. The formal 8 step process may well be comprehensive, but is often too laborious, time consuming and not rapid enough in many fast-moving markets. Companies are increasingly looking for faster, more flexible, streamlined processes which deliver results in shorter timescales.

4. Aisle Management. Just as products and brands make up categories, so do different categories make up aisles. And as many retail buyers are not in charge of just one category but in charge of a whole aisle, so all the issues around products in categories can be up scales to the same issues of categories within aisles. There may well be good openings for suppliers who can take on the role of "aisle captain" - if they can handle the workload.

5. The increasing use of field marketing activity. The explosion of media channels such as satellite channels means that it is becoming increasing difficult to target advertising message through traditional above the line means. Couple with that the increasing demands of the retailer to have sales and marketing investment not diluted across consumers in general, but spent on *their* consumers and shoppers. Within this, though, expect to see a few counter-trends such as some retailers moving to "clean aisle" policies, or an increasing insistence that suppliers display material must be tailored to *their* corporate feel.

6. Micro-marketing. The ability to analyze store sell-out data by barcode and by individual store means that the traditional concept of "one range fits all" may have to make way for a more flexible approach. Already, Wal-Mart in the USA has the concept of "Store of the Community" where individual store ranges are tailored to the demographics of the local population. For example, stores in areas of large Hispanic communities have product ranges more biased to their tastes. As stores become increasingly keen to use their information technology to squeeze ever more juice out of Category Management, expect to see some more of this.

7. Development of Category Management across the world. At the moment, Category Management is carried out predominantly in North America, Canada, (Mexico if you deal with

Wal-Mart), Australia, the UK and Western Europe. As other countries develop their expertise and expectations of Category Management will grow too, fuelled by the growth of International Retailers such as Tesco, Walmart, Carrefour, Auchan and Metro expanding into new countries and immediately injecting their expertise into them.

Identifying the Hurdles:

Category Management helps eliminate a variety of factors that have prevented retailers and manufacturers from achieving greater excellence with their Category Management efforts. These include inadequate flexibility of the data structures; a "project" mentality surrounding Category Management efforts; a planning process that is front-loaded with considerable effort; and difficulty in extracting useful insights from the mass of data collected.

- Automating data analysis and being able to continuously monitor category and brand performance.
- Reacting faster and more accurately to changes impacting the performance of category business plans.
- Developing interactive merchandising and new product introduction presentations.
- Improving sales force productivity by being able to create, customize and communicate fact-based presentations, analyses and information via the Internet.
- Significantly improving the implementation of category business plans.

Conclusion:

Category Management is a valuable effort and investment in modern retail business. By identify a variety of qualitative and quantitative benefits that suggest the payback will be quick and substantial. This is a necessity that is seldom met using present Category Management methodologies or modeling tools. Flexibility is enhanced where category managers possess tools that allow them to accurately model the complexity of their markets. This includes the ability to represent owned stores versus competitive stores and to model individual categories using flexible market structures and flexible product structures. New modeling tools permit retailers to track information that makes sense and make decisions using neighborhood-based category strategies. It is understandable that retailers will make different strategic decisions; that every brand marketer will make individual choices based on market insight and self-interest. However Category Management focuses and speeds attention to mutually beneficial opportunities. Category Management is not only here to stay, it is going to increasingly become a way of doing business, and those suppliers who cannot do it well, do so at their peril. The analysis indicates that adopting a model-based category management approach can improve category profit substantially over a retailer's current practice. In addition, the empirical results suggest a simple and effective way for retailers to set markups based on historical sales data by allocating markups proportional to market shares, which could reasonably improve profitability over their current practice. Moreover, we find that larger share brands may be set with higher markups than what is done currently, while the common practice of charging lower markups for high turnover items may not be in retailers' best interest from a category management perspective. The ultimate goal of category management should be to improve the overall performance of the retailer instead of to maximize the profit of any one category in isolation.

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