CHAPTER 5

CATEGORY MANAGEMENT FRAMEWORK

5.1. Definition of Category Management

The definitions of CM are numerous and some of them are presented below:

According to Nielson, 1992

"Category management is a process that involves managing product categories as business units and customizing them on a store-by-store basis to satisfy customer's needs."


"Category management is a distributor/supplier process of managing categories as strategic business units, producing enhanced business result by focusing on delivering consumer value."


"CM is a method whereby vendor and retailer team up to manage their mutual product categories on a store by store basis."

5.2. Emergence of Category Management

Emergence of category management is mainly attributed to severe margin pressure in the grocery industry. The partnering group listed the following reasons for the emergence of category management (As reported in Drug Store News, 1995):

- The willingness of retailers and manufacturers to develop shared business goals that focus on the consumer.
- The creation of trading partner alliances in which retailers and suppliers recognize the value of collaborative, as opposed to adversarial, relationships with mutually desirable goals. Partnering allows the magnification and leveraging of resources between trading partners.
- The willingness of both retail and manufacturer organizations to empower their front-line managers with greater authority and accountability.
• The development of multifunctional teams who work together to develop strategies for pricing, procurement and promotions.
• The growing availability of information delivered through new forms of technology, which enables trading partners to share data and change business practices in ways that would have been unrealistic just a short while ago.
• The need to deliver consumer value. If consumer value is not delivered, enhanced business results are not likely.

5.3. Category Management Process

Category management is as a process of managing categories as strategic business units, producing enhanced business results by focusing on delivering value to the customer. This could be achieved by optimizing new product introduction, enhancing repeat purchase and increasing the turnaround of the merchandise. Category management process ensures that shoppers find every visit to the store rewarding, enriching and exciting. The main components of the process are presented in Figure-5.1.
Step 1: Defining categories

This is the first step in the category management process and plays a very important role. The focus of category management is on customization of product offerings in a category on the basis of shop’s profile and its location in order to meet ever changing customer needs. Considerable debate exists on how to define a category. Whether to define a category from the retailers buying viewpoint or manufacturers’ way or consumers purchasing and usage pattern. During category-management meetings with retailers,
manufacturers like Nestlé, P&G and Kraft often find that their own category definitions don't match the retailers'. Such discrepancies can often slow down or even derail the momentum of category management program. Category management has become a more consumer-driven focus, rather than a retailer's category-driven focus (Angrisani, 2002). Therefore, one unanimous opinion is that category definition should be based on how the customer buys, not on how the retailer buys. So it is pertinent to look at the customers shopping behavior and buying pattern inside the store as well as the end use of the product either at the store or out side the store. That provides enough insights on how the shoppers buy and at what sequence. However, there is no standardized way of defining categories; rather it varies from retailer to retailer. Ideally categories should be defined according to the consumer shopping and usage pattern. Let's look at an example of grocery shopping behavior of Indian consumers where the preliminary step starts from the stocking pattern of item in the kitchen or stock room, then listing of items leading to shopping the items listed first. Therefore, most of the "kirana" stores keep the high ticket items like staple foods in the front row so that consumer can take informed and judicious decisions. So, it is clear that the retailer should understand the shopping pattern of the consumer and then define the categories. It is very difficult to have a standardized category definition for grocery items, because consumer preferences and tastes change across India. The difficulty in dealing with category definition when the manufacturers/distributors give their own definition and the retailer thinks differently. So, that takes lot of time to analyze the category performance with utmost accuracy. Therefore, there is debatable how should categories be defined? It is not easy to define a category. For example: should we classify shampoos as health and beauty product? What about perfume? Should they be set apart, and so on? The best answer is to go with the consumer who drives the definition of the category. Figure-5.2 presents structural classification of salty snacks category. There have been cases where consumer look for shopping some items altogether but they are located in different aisles/departments and defined under different categories. Many argue that there can be a super category to address such an issue. For instance, Unilever's Post seizes upon side dishes as an example of the disconnection -- and the opportunity: In the sides category you have noodles, rice, and potatoes, but they are usually spread across the store in two or three different aisles. They can all be part of a super category -- [if] consumers get to an
aisle/department and find rice, noodles, and potatoes together, they will get more than one; they will think that they can have one in the night, another in the 2nd night. If such products are grouped together like that, it can influence the consumer to buy multiples.

Figure-5.2: Category Structure: Salty Snacks

Step 2: Assigning role to categories

Yet another important step in the category management process is to assign role to each defined category on the basis of priority and importance in the overall business plan and objective. Retailers assign a specific mission to each category - and individual roles to each sub-category. These missions and roles are likely to vary by retailer and even different stores of the same retail chain; they provide the key differentiator among retailers. Those who best identify and analyze their customer bases will enable their marketing divisions to adopt the most effective approaches. Generally four category missions assigned by retailers are destination, routine, convenience and seasonal/occasional.
• Destination categories - the retailer is the customer's first choice for specific products
• Routine categories - the retailer is the preferred supplier of the routine needs of targeted consumers
• Seasonal categories - the retailer is a major supplier for a particular time or season
• Convenience categories - the retailer is the supplier of fill-in products.

Step 3: Assessing category performance

Category assessment is the scrutiny of a category as well as sub-categories, brands, and items to figure out their potential for growth. This step involves collection of historical data and analysis of the same and relevant information and then development of insights to manage categories. Four kinds of information would help category managers to assess the opportunity for a specific category. They are consumer information, market information, retailer information, and supplier information. Consumer information is most important as that would tell who shops the category, where, and how much and why they shop. Market information gives opportunities to compare and establish a benchmark for itself. Retailer information is useful to look at the operational details such as category pricing, profitability, sales per linear square foot, slow moving & fast moving items of the category. The supplier information allows retailers to examine their vendors’ past performance and as well as to assess future support to achieve category objectives.

Step 4: Category scorecard

Most of the retailers use balanced scorecard to evaluate the performance of the category. Performance of each category is evaluated with respect to parameters such as turn over, profit and return on assets in the category. It involves evaluation of target gross margin and profit, stock turn over, service level, the suppliers and the retailer’s performance in that specific category in comparison to store performance. The scorecard helps them to monitor the progress made towards achieving the set goals. A scorecard may include metrics such as sales, profit, return on investment, market share, inventory turn, gross margin return on
investment (GMROI), gross margin return on floor space (GMROF), gross margin return on people (GMROP), bill size, purchase frequency, conversion, service level and more.

**Step 5: Category strategies**

Objective of this step is to carefully craft marketing and product supply strategies to achieve the category role and scorecard targets, and plan for optimal use of resources to convert opportunities into reality. At this step the retailer would develop appropriate strategies for each of the categories based on their roles and performance objectives. The strategies are developed based on the performance of each of the categories and how they relate in delivering values to the customers as well as derive competitive advantage. The typical category strategy includes traffic building, transaction building, profit generating, cash generating, excitement creating, image enhancing, and turf defending. Seven common marketing strategies that retailers use today are described below.

- **Traffic building:** Such a strategy is devised to attract shoppers to the store, aisle, and the category.
- **Transaction building:** This strategy is directed towards increasing the size of average purchase basket.
- **Profit generating:** This strategy helps the retailers to yield higher gross margin percentage and gross profit (rupee/ dollar).
- **Cash generating:** The objective is to generate cash flow
- **Excitement creating:** Such a strategy is useful to generate interest and enthusiasm in the market.
- **Image Enhancing:** The strategy would help the retailer to strengthen its place in the mind of consumer.
- **Turf Defending:** This kind of strategy is employed by retailers to strengthen position of a specific category versus competitors.

Retailers may randomly or deliberately choose category strategies for specific categories to fulfill the desired objective (s). For example, one of the retailers at Ahmedabad promotes fresh fruits and vegetables category as traffic builder and staple category as excitement...
builder. Retailers can use some of the general guidelines of measurable category purchase dynamics to assign category strategies (Figure-5.3). Retailers can also develop marketing strategies at the category, sub-category, or brand level. Figure-5.4 presents category strategies developed by Harris (1995).

Figure-5.3: Matching Category Strategies with Category Purchase Dynamics

<table>
<thead>
<tr>
<th>Category Strategies</th>
<th>Category Purchase Dynamics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traffic Building</td>
<td>High share, Frequently Purchase, High % Sales</td>
</tr>
<tr>
<td>Transaction Building</td>
<td>Higher Ring-Up, Impulse Purchase</td>
</tr>
<tr>
<td>Profit Contribution</td>
<td>Higher Gross Margin, Higher Turns</td>
</tr>
<tr>
<td>Cash Generating</td>
<td>Higher Turns, Frequently Purchased</td>
</tr>
<tr>
<td>Excitement Creating</td>
<td>Impulse, Lifestyle-Oriented, Seasonal</td>
</tr>
<tr>
<td>Image Creating</td>
<td>Frequently Purchased, Highly Promoted, Impulse, Unique Items, Seasonal</td>
</tr>
<tr>
<td>Turf Defending</td>
<td>Used by Retailers to Draw Traditional Customer Base</td>
</tr>
</tbody>
</table>

Source: ACNielsen (2006, p-125)

Figure-5.4: Category Strategies as per Harris (1995)

- **Sleepers**
  - identify key products within category
  - delist slow movers and marginal products
  - give quick movers more shelf space
  - optimise margin mix and DPP

- **Winners**
  - continue current policies
  - be alert to adoption of new products
  - minimise operational problems like "out of stock"
  - optimise margin mix and DPP

- **Questionable**
  - limit product mix to core assortment and delist marginal products
  - look for price raises
  - minimise shelf space at category level
  - transfer logistical and operational work to third parties

- **Opportunities**
  - harmonise product mix with market trends
  - improve price image via low prices for key products
  - maximise shelf space at category level
  - give promotional support to key items

Market Share

Market Growth
Step 6: Category Tactics

The retailer develops tactics to reach at the desired objective and carry out the joint plan and strategies set earlier. All the tactical moves depend on variables like product, price, place and promotion. The decisions such as category level pricing, assortment mix, location of the shelf, allocation of shelf space and running promotions are taken at this stage. The promotional plan includes frequency of promotion and price point at which the category likely to grow and generate spike in sales.

Despite significant criticism, promotions remain an important commercial tool for both manufacturers and retailers. On average, 40 to 50% of the turnover of retailers and manufacturers is achieved by using some form of promotions. Therefore, it is important for the retailers and manufacturers to optimize promotions which essentially include:

- efficiency, which predominantly has to do with the implementation process;
- effectiveness, which focuses on setting objectives and defining the right promotion tactics to meet them.

The promotional tactics means:

- targeting the right consumers/shoppers to stimulate certain behavior
- the promotion incentives offered to reward the behavior
- communicating the promotions to the target audience
- presenting or merchandizing the promotion
- timing of the incentive and frequency of offer

Figure-5.5 presents focus areas of promotional tactics and area where a retailer can cut down expenses and increase sales with clear focus on brand loyalty. Retailer has to make a move beyond price-offs and discounts to increase shoppers purchasing basket.
PriceWaterhouseCoopers recommended an eight step approach to develop more effective promotional tactics. The steps are graphically presented in the Figure-5.6.
Step 7: Category plan Implementation

Implementation refers to actual carrying out of category plan on the retailers’ shelves. This is the most difficult stage in the process. The plan includes the specific tasks are to be done by specific person/ a group within a specified time limit. The plan should mention the starting date also. The role of category manager at this stage is to manage three important assets for the retailer- inventory, shelf space and consumer traffic. Most of the retailers and manufacturers spend lot of time in planning stage, but considerable amount of time is not spend at the implementation stage.

Step 8: Category Review

In this step the retailer reviews performance of each category periodically. For example, a category manager can examine performance of shampoo category as a whole and its performance in specific retail stores. The category manager can look at parameters like incremental unit sales, Rupee/Dollar sales, per unit price and sales per linear feet. These parameters would give performance of a specific category within the store and then that can be compared with the national average. Again the category manager can compare the performance of his category with the performance of competing stores. The retailer should supervise the intended results of overall plan on a regular basis. The result should be reviewed at scheduled intervals listed in the implementation plan and progress must be tracked accordingly.

5.4. Other Approaches to Category Management Process

One more approach to category management prescribed by Silvermine Associate Study is described in Table-5.1. The process consists of four steps/tiers and each tier certain activities have to be conducted.
### Table-5.1: Alternate Category Management Process

<table>
<thead>
<tr>
<th>Tiers</th>
<th>Descriptor</th>
<th>Activities</th>
</tr>
</thead>
</table>
| I     | Basic Assortment Planning | SKU rationalization  
Variety Duplication |
| II    | Cross category analysis/  
Role definition | Relative performance Vs.  
Space allocation  
National top line  
Consumer attitudes &  
Purchase hierarchies  
Recommended roles |
| III   | Category management  
analys

| | Pricing/ Product/ Ad Promotion/  
Placement analysis based on Category  
role and Strategy direction |
| IV    | Full blown category | “4p” analysis (tier III) plus Supply-chain levers and efficiencies. |

Source: Progressive Grocer, Aug 96, pg-36, Silvermine Associate Study

#### 5.4.1 Category Management Process: ECR Europe

While category management originally views every category as a strategic business unit, the ECR Europe day-to-day version has defined four stages to deliver category management (see Figure-5.7) in a more coherent way across the total store.
5.5. Category Captain

To implement category management, a retailer partners with a leading national brand/regional brand, and gives the manufacturer adequate decision-making authority over the product category. Some retailers favor one vendor/supplier to help them manage a particular category, known as category captain. The category captains manage entire categories for retailers, including ordering, replenishment and even in-store shelf placement. Category captains often manage both their own brands and competitors' brands in the category. This supplier forms an alliance with the retailer to help gain consumer insight, satisfy consumer needs, and improve the performance and profit potential across the entire category. Industry study has shown that Procter & Gamble served as the captain in 55% of retailers surveyed and Kraft as captain in 31% of the retailers surveyed; and retailers like Wal-Mart and Safeway are the top participants in category management (Wang, 2002). In India, Dabur Foods has been trying out the concept for a while (Banerjee, 2005). It has entered into an agreement with the Food World chain to manage its juices category. Most of the retailers in India are new to this concept but manufacturers like HUL, Colgate, and P&G have immense international experience in this field. They have
been serving as category captains for several international retailers in number of countries. Retailers are more interested to grow their category; they are more likely to come to the manufacturers or suppliers who have better understanding of a specific category.

### 5.6. Benefits of Category Management

The key potential benefits from an implementation of Category Management approach are (As given in ECR Europe’s Category Management Best practices Report):

- Higher levels of consumer satisfaction and value from more consumer-focused procurement, marketing, and merchandising programmes.
- Reduced system and marketing costs from more productive and less adversial business process.
- Product margin increases of up to 3 percentage points
- Increased turnover, profit and return-on-asset level for retailers and suppliers.
- Higher productivity in management practices from the use of more consistent strategic framework to drive day-to-day tactical decisions.
- More efficient product assortments, new product introductions, promotion methods, and shelf planograms resulting from greater strategically driven decision making.
- Higher return from technology investments as a result of more clearly defined system requirements and greater system compatibility amongst retailers and suppliers.
- Improved ability to attract and retain higher skilled talents through improved and rewarding business career.
Results of category management implementation in Europe are presented in the Table-5.2.

<table>
<thead>
<tr>
<th>Areas of Improvement</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Sales and Gross Profit</td>
<td>+ 5 to 10%</td>
</tr>
<tr>
<td>Increased Return on Inventory</td>
<td>+ 5 to 10%</td>
</tr>
<tr>
<td>Reduced Inventory Investment</td>
<td>- 10 to 20%</td>
</tr>
<tr>
<td>Increased Sales per Man Hour</td>
<td>+ 2 to 5%</td>
</tr>
<tr>
<td>Reduced Store Labour Costs</td>
<td>- 0.25%</td>
</tr>
</tbody>
</table>

Source: ECR Europe

The benefits of category management process can be realized by the consumer, retailer and supplier. The retailer may look at the financial and non-financial benefits but the consumer is more concerned about non-financial benefits than the retailer and supplier.

(a) Supplier

As far as successful category management is concerned; the importance of manufacturers/suppliers can not be overlooked. As it is a collaborative process of manufacturer and retailer, the financial return holds the key to supplier. The profitability to the supplier comes from higher sales and incremental revenue gained. The supplier also gets non-financial benefits such as getting information about the purchase basket and behavior of consumer. So, this helps the supplier to design the product offering looking at the purchase behavior of buyer. Category management helps to increase the business knowledge of the supplier at the retailer and end user level.

(b) Retailer

- **Financial**

The benefit accrued to the retailer is of two types such as financial and non-financial. The financial benefit is directly realized from the incremental sales and incremental margin. The category management allows retailer to reduce cost through efficient supply-chain, hence enhance efficiency of serving the customer.
This process offers a lot of flexibility in terms of right product planning and assortment at the store, leading to higher market share and improved overall margin for the retailer.

- **Non-financial**

Category management offers new learning opportunities for the retailer which includes effective implementation of planned strategy, superior customer service, improved insight into the purchasing and usage behavior of customers, micro understanding of cost structure, more open communication with suppliers and improved relationship with the supplier. So, the retailers experience the stability of business practices.

(c) **Consumer**

Category management adoption by the retailers and manufacturers needs investment which is primarily to enhance customer satisfaction and increase in profitability. The basic logic behind category management is to offer optimal product mix at the right location at the right time in the store, to minimize customer confusion and search time during the shopping trip. So, the retailers should define their category according to the customers' purchase and usage pattern. The consumer is stands to gain from the variety of assortment provided by the retailer within a product category. Category management helps the retailer to offer products at competitive prices by improving supply-chain and by getting support from the supplier for in-store merchandising. So, the consumer is likely to get benefits from competitive pricing.

### 5.7. Factors Affecting Category Management

Category management process is working well in some of the countries like USA, Brazil, Germany and UK. All the retailers are not adopting this process because of various factors. Some of these factors are listed here:
5.7.1. Top Management’s Willingness

Top management takes crucial decisions and category management is one of those strategic decisions where lot of issues like investment in people, technology and time frame of return on investment, etc. are involved. So, willingness of top management to go for such a process is very important. This is first step forward to bring change in the way business is done.

5.7.2. Organizational Structure and Human Resource

To implement a new process organization structure needs to be aligned. The structure should support the new changes. Especially the willingness of sales people to implement category management at the store level carries paramount importance. They need training and motivation to bring the best out of them. So, incentive structure may require revamping. Again the top management’s role is phenomenal.

5.7.3. Technology

In order to get the best out of category management process investment in technology, both in hardware and software is critical. Although investing in technology may not give the competitive advantage because competitor can buy and use the same software from the same vendor. But technology would enable the retailer to capture the desirable information about the consumer, which include a profile of the particular category's shopper along with purchase dynamics like frequency of purchase, product movement and shelf space utilization. Even retailers and manufacturers can track the consumer purchase and usage pattern by using radio frequency identification (RFID). Technology helps to take better decisions and prepare effective strategies and tactics. The retailers like Ebony, shoppers’ stop and pantaloon have taken initiative to use technology for better measurement of performance and consumer satisfaction. Ebony uses retail prepackage for complete implementation of category management.
5.7.4. Relationship with the Supplier/Manufacturer

Relationship between the supplier and retailer is the deciding factor for the success or failure of category management. As the process is a collaborative one, manufacture plays important role in each and every step. There are issues like sharing of data and investment between the two parties. Retailers are hesitant to share the store level data with the manufacture because retailer invests to capture this data and they are very skeptical about the secrecy of shared data. Manufacture needs store level data to make effective category plan with the help of retailer. So, the conflict of sharing of data and resources is a real concern.

Reference


ECR Europe’s Category Management Best Practices Report, ECR Europe’s Publication


Progressive Grocer, Aug 96, pg-36, Silvermine Associate Study