6.1. Category Management (CM)

Category Management is a process which involves managing product categories as independent business units and customizing them on a localized basis to meet customer needs. It implies the closer integration of a sequence of business activities, including consumer marketing, buying and selling, merchandising, and distribution, in order to maximize category profitability. Clarke et al. (2004/006) observed that retailers are finding difficulty in managing brands and own labels. Therefore, managing product categories as independent business unit is a suitable alternative available to retailers. Dupre & Gruen (2004) observed that category management begins with a strategic shift of focus of management attention from the manufacturers brand to retailer’s category. It has now been well-documented that category management was developed originally in the USA by the likes of Procter & Gamble and Coca-Cola (Hutchins, 1997) and it has enjoyed rapidly growing acceptance and implementation by retailers and suppliers in the grocery sector around the world (Basuroy et al., 2001; Dussart, 1998; ACNielsen, 1998; IGD, 2002). However, experts in this field admit that the first version of category management took a product centric approach but that should be consumer centric in future (Progressive Grocer, Nov. 15, 2005, pg-36) and category definition may vary from retailer to retailer and categories should be complementary to one another and managed as a part of overall plan (Progressive Grocer, Aug 1996, p.4). CM is an ongoing strategic management process to enhance overall business performance through identifying and targeting the right consumer segment for the specific category (Lewis, 1998) and a demand side strategy to decide the location of the product in the retailers’ shelves (Dupre & Gruen, 2004; Kurnia and Johnston, 2003). Category management is proposed as a tool capable of preparing both grocers and suppliers to changes taking place in the needs and buying behaviors of consumers (ECR Brazil). Category management was initially driven as a vehicle of win-win between retailers and suppliers. But now it is time to make it a vehicle of win-win-win
by bringing consumer benefit into the equation. At this point in time it is important to start "mass producing" rich consumer information and direct involvement of consumer in the whole process of wealth creation. The prize is potentially huge. It includes lower go-to-market costs, rich new revenue streams, and deeper, more trusting relationships with consumers leading to increased retention, share of purse and life-time customer value. Those achieving consumer input would reap significant first-mover advantages (Mitchell, 2001, p-77).

6.2. Evolution of Category Management

Interest in the process of category management among the leading global retailers and manufacturers/suppliers is an outcome of challenges faced by many traditional management methods to deliver value to consumer. Some of the methods focused on enhancing consumer value with an ultimate objective of gaining higher profitability and competitive advantage. Traditional practices have been based on the view of competition and competitive behaviour leaving consumer as isolated entity. Combination of business conditions and changing consumer preferences that exist today has created a need, as well as a significant scope for innovative new management approaches. Companies that quickly understand the environment and act upon the need to change are certainly going to emerge as the leaders of 21st century. These realities are cut across all industries and they are particularly relevant for retailing and consumer goods industries. These industries always have been characterized by sudden changes and those organizations are slow to react are bound to fail in the market. It is heartening to see that many of the world's leading retailers and suppliers are willing to go for innovative and new approaches and category management is one of them scoring very high among them.

Category management is an evolved form of trade marketing (Harlow, 1994). During 1990s, retailers emphasized adoption of category management to improve financial and non-financial performance in an increasingly complex and competitive environment (ACNielsen, 2004; Desrochers et al. 2003). In 1960s manufacturers were very much into the brand management practices, and early 1980s saw growth of trade marketing followed
by focus on supply chain management in the late 1980s. Finally retailers and manufacturers moved toward a better approach to manage their business and started category management practices. Many researchers in academics and trade justify the move but with cautions. Moving into 21st century category management has got strong presence in the United States and Europe.

Every year AT Kearny profiles emerging retail destinations and most attractive retail markets are from Asia notably India and China. Global retailers are eying their fair share and category management is going to find momentum in these markets too. Local retailers are practicing category management but the fine tuning and perfection is yet to be achieved. Therefore, it is expected that the global retailers like Wal-Mart and Tesco would popularize the category management practices in these markets. In the next decade category management adoption would be much faster in these emerging markets.

ECR Europe Category Management Best Practices report points out that four industry level trends that driving the emergence of category management are consumer changes, competitive pressure, economic efficiency and consideration, and advances in information technology.

6.2.1. Shift in Consumer Behaviour

Category management encompasses a process to manage complex changes that are happening in consumer moods and shopping behaviour. Many maturing markets in Europe saw declined consumer spending impacting at-home food spending. This is challenging and asking retailers and suppliers to intensify their efforts to clearly understand consumer needs and fulfill their needs more effectively and profitably. Core of category management concept is to focus clearly on understanding consumer needs and direct retailers’ and suppliers’ strategies accordingly.

There is evidence to suggest that, as competition between brands intensifies, consumers are learning to buy brands only when they are on promotion, and hence price sensitivity is
increasing (Buckingham, 1993; Pellet, 1994a; Rothschild and Gaidis, 1981). In effect, consumers are tending to shop for categories rather than for individual brands (Hutchins, 1997). Consumer deploys similar buying strategies for similar product categories and different buying strategies for dissimilar product categories. Therefore, it is very critical for retailers to define product categories with utmost care. Blattberg et al. (1976) suggested that product similarity should be defined not only in terms of similar end uses but also in terms of other variables such as number and mix of national and private level brands and the extent of dealing common in the product category. Their findings also suggest that smaller proportion of households use identical brand choice strategies across product category. They also found that greater the similarity in the product categories, the larger the proportion of households which use identical brand choice strategies. However, store choice strategies were less affected by the characteristic of product class.

6.2.2. Competitive Pressure

New approaches are more than desirable to meet the challenges of today’s intense and varied competition. The traditional focus on competition from similar formats does not give clear view of competition and very often leads to poor underestimate possible casualties from alternative formats. In the markets like US and UK traditional retailers face stiff competition from discounters, specialty “category killers”, and convenience stores. It is observed that the “category killers” have successfully entered categories as diverse as coffee, toys, pet food and supplies, non-alcoholic beverages, baby care and prepared meals. This format has been successful at the expense of traditional retailers. Specialty retailer focuses on category level rather than store level. Category killers identify a category opportunity and direct their retail activity offer superior value in that category. Traditional retailers may find difficult to match category killers in a specific category. However, if traditional retailers start thinking at the category level instead of store level performance, that would offer excellent opportunity to serve customer more efficiently and effectively. Category Management offers necessary competitive perspective, management methods, and tools to meet new challenges.
Traditional sources of competitive advantage for manufacturers/suppliers, such as new product development, consumer advertising and trade promotions have little impact as competition is increasingly among similar resourceful companies. Let’s consider an example of new product introduction. According to ECR Report (1999) on Efficient Product Introduction, True new products are rare (2.2% of all new items), and 43% of these are "dead or "almost dead" within one year. Line extensions represent 6.1% of all new items, and 51% of these are "dead" or "almost dead" within one year. Me-toos are the biggest cluster (77% of all new items) and have the highest mortality rate: for example, in France 78% are "dead" or "almost dead" within one year. The vast majority are introduced by retailers (private label) or by minor/niche players. High failure rate in new product introduction is risky and expensive. Therefore, new resources of differentiation are desirable. That would essentially come from superior consumer knowledge and expertise and collaborative marketing programmes with the trade partners. Category Management has got the potential to provide platform for the implementation of these new initiatives to bring the differentiation.

6.2.3. Economic Efficiency and Consideration

The birth of ECR movement in Europe and the US has been an industry-wide effort to reduce cost and increase efficiency in the supply chain. There have been conscious efforts to deliver higher value to consumer with improved demand management (efficient assortments, promotions, and new product introductions).

6.2.4. Advances in Information Technology

Information technology really empowers not only consumer but also retailers and suppliers. With the advent of better technology retailers and suppliers are able to share and exchange collective business practices. Growing availability of syndicated data, consumer panel data, and the move to open systems and client/server technologies have eased the adoption of ECR and Category Management.
6.3. Shelf Space Problem

Researchers in the field argue that consumer's presence in the store is primarily driven by one category and space allocation to that category becomes important to him (Chen et al. 1999). Further market research shows that two thirds of purchase decisions are now made in the store (Nielsen, 1992). As per Boatwright et al. (2001) the category sales depends on the total number of SKU offered. Some consumers, some of the time pre-decide the store, keeping in mind the intended product to purchase (Kahn and McAlister 1997, Bell et al. 1998) and therefore, retailers would like to influence them by offering assortment of goods and services. A study conducted by Broniarczyk et al. (1998) found that variety perceptions were influenced by three factors: total space devoted to category, number of distinct SKUs offered, and the inclusion or exclusion of favorite brand of consumer. Arnold, Oum and, Tigert (1983) found that the consumer often prefer stores carrying large assortments of products for several reasons. For one, consumers making larger selection like to find a match for their exact matching (Baumol and Ide 1956) and product varieties give more flexibility to the consumers having uncertain preferences (Kahn and Lehmann 1991; Koopmans 1964; Kreps 1979; Reibstein, Youngblood and Fronkin 1975) or predisposed to variety seeking (Kahn 1995; McAlister and Pessemier 1982).

Shelf space problem is significantly different depending on whether we consider the perspective of manufacturer or retailer. Manufacturers always look out for maximizing sales of their products, so they are interested to get better and more space allocation to their brands. Where as retailers are inherently interested in maximizing sales and profit in the category. Therefore, they are less concerned about specific brands and more concerned about optimization of shelf space. Finally, from the retailers stand point they are concerned about the overall category performance and the manufacturers are primarily bothered about their product or individual brand share to the retailer. So, it is very critical for the retailers to manage their in-store activities well. In an attempt to study the in-store tactics specifically retailer's store level shelf management Dreze et al. (1994) found modest gains (4%) in sales and profits from increased customization of shelf sets and 5-6% changes due
to shelf reorganization. From field experiment study they found that location had a large impact on sales in comparison to changes in the number of facings allocated to brand.

**6.3.1. Assortment from Retailer's Perspective**

In the perspective of retailers, category management allows them to establish good category assortment plans as well as make better decisions on the shelf space allocation and prices and promotion, in order to improve sales and profit (Arkader and Ferreira, 2004, Dupre & Gruen, 2004). Shelf space became very important for retailers as number of products introduced in the market out paced the amount of shelf space added. A study conducted by Quelch and Kenny (1994) reported that the number of products in the market place increased by 16% per year between 1985 and 1992 while shelf space expanded only by 1.5% per year during the same period. This rapid growth in variety in comparison to shelf space raises questions whether it is excessive. Whether it is desirable and profitable for the retailer? Some retailers are adopting an “efficient assortment” strategy, which primarily seeks to find the profit maximizing level of variety by eliminating low-selling products (Kurt Salmon Associates 1993), and “category management”, which attempts to maximize the profits within a category (AC Nielsen 1998). There is even empirical evidence that variety levels have become so excessive that reducing variety does not decrease sales (Dreze et al. 1994, Broniarczyk et al. 1998, Boatwright and Nunes, 2001).

Assortment selection problem has been well studied in the context of established commodity products (such as food) typically sold in the supermarket (Rajaram, 2001). Assortment can shape consumer preference and affect purchase decision; therefore marketers can design their assortments accordingly (Simonson, 1999). Recent research results confirm that larger assortments rated more positively and any addition to assortment size helps to enhance assortment evaluation (Oppewal & Kitty, 2005). Therefore, space allocation issues are very important from the retailer's stand point. A number of researchers such as Preston and Mercer (1990), Borin et al. (1994), and Dreze et al. (1994) examined brand and category space allocation. For example, Preston and Mercer (1990) examined the number of varieties of a brand stocked and its effect on sales, thus
introducing the notion of range elasticity. They suggested a nested approach, first allocating a fixed range to a fixed space; their process then moves on to consider changes in space allocation to categories or range. Finally they consider space allocation between categories. Their empirical data showed increases in sales of up to 15 percent through adjusting the number of variants on offer. Zufryden (1986, 87) demonstrates that demand for any product is a result of interaction of a large number of marketing variables such as space allocation, retail price, advertisement and promotion. According to the study conducted by Davies and Ward (2000), the retailers use three broad groups of factors related to environmental/consumer, tactical/operation and supplier, to take decision on space allocation. Simonson (1999) suggest that bundling of different preferred item in a relevant category can help retailers to increase consumer purchase quantity.

6.3.2. Assortment Purchasing Decision

There are increasingly evidences available that consumers tend to focus on the set of options they observe in a particular context (e.g. product items on the shelf) and select an attractive option. Simonson (1999) suggest that consumer make compromise when given alternatives or options but the extent to what that happen is not yet predicted accurately. Also consumer purchase decision is influenced by context of the product use. Under the circumstances of desired product unavailability the substitute choice represent a kind of loss or create certain level of regret to the buyer. So, assortment purchase problem may be viewed as finding the set of products that minimizes total level of loss or regret. Lee and Steckel (1999) found that individual take a ‘present context’ approach and maximize their immediate return when making consumption decisions. For consumers the assortment variety may be more than a number of products to choose from (Raftery, 1993). Therefore, detailed insight into consumer perception about assortment is needed to support retailers in managing their assortment optimally (Herpen and Peiters, 2002).
Efficient assortment is one of the four principal initiatives of ECR, along with efficient product introduction, efficient promotion and efficient replenishment. The right mix of SKUs that best meets target consumer needs affects practically all aspects of both the supply and the demand side. By definition, consumer needs are better satisfied when the right products are available at the lowest possible cost. Moreover, when assortments are optimized within the specific parameters of the category role/strategies provided by a category management process, the entire business system can work faster, better and more efficiently. The primary benefit of efficient assortment is that consumer needs are better met by having the right products in the right stores at the highest efficiency. For the total system, cost savings from more efficient assortments are a significant component of total estimated ECR savings. For retailers, assortment expresses the strategic differentiation of the store perhaps more than any other aspect of retail management. Corporate strategies in other areas - such as retailer branding, pricing, and promotion - also will impact assortment decisions. As per ECR Europe's Efficient Assortment - Best Practice Report (1999) the retailers and suppliers get additional benefits which include faster stock turns, lower out-of-stocks and overall better asset use and returns from a more efficient, less burdened replenishment system. For suppliers, benefits also include a more efficient manufacturing and logistics infrastructure, plus a clearer understanding of consumer needs. Chong et al. (2001) pointed out that an ineffective assortment may adversely affect the category revenue by two ways: (1) the ineffective assortment can shift demand from high-margin brands to low-margin brands, and (2) the ineffective assortment may reduce the total category sales. However, they suggest that with reconfiguration exercise a reconfigured category assortment can have a profit improvement of up to 25.1 percent. Therefore, one can argue that significant improvement in category profit can be achieved through small changes in category assortment. Chong et al. (2001) found that the expected 'lost sales'\textsuperscript{16}

\textsuperscript{16} Chong et al. (2001) defined lost sales as the difference between the actual category sales of a store and the expected sales associated with a reference assortment. They choose the union of all products offered by the store over the two-year period to be the reference assortment and call it the "complete assortment" (versus the "actual assortment").
ranges from 0.85 percent (regular cereal) to 10.18 percent (hotdogs) and it is more category dependent than store dependent. Category managers can make adjustments to minimize lost sales in any category. It has been found that if a high priced product is introduced into an existing product range in a category then consumer tend to assign more value to earlier product which now looks cheaper due to introduction of high range product. That means, high priced item may not sell more but that would likely to enhance sales of lower priced item. In such a context retailers can implement effective assortment plan. For example, they can place their private labels next to the national brand where the consumers more likely to positively evaluate the private labels and purchase the same.

Krishnan et al. (2002) discussed about consistent assortment and analyzed its impact on retail strategy and retail structure. According to them ‘consistency in assortment means the tacit promise made by a retailer to carry a given set of brands, sizes, flavors, colors, etc. from one period to next, so that a consumer who looks for his preferred brand (or size, flavor, etc.) will be able to find that brand for sure at that retail store. Of course, not all retailers commit themselves to carry a consistent assortment’. For example, if someone walks into such as Big Bazaar Wholesale Club, he may be able to buy a branded product at a lower price but not the brand or the size (or color, flavor, etc.) he looks for. One reason for this inconsistency is that these stores make a bulk of their purchases during trade deals that are offered by the branded manufacturers and hence have less say on what they can carry in a given period.

Krishnan et al. (2002) argue that the mere existence of the consumer segment that looks for consistent assortments will drive some retailers to adopt such commitments to consistent assortments (C2C for short). However, this strategy is affected (negatively) by supply side factors such as the availability of trade deals. This is because while opportunistic buying helps a retailer to reduce his acquisition costs, it introduces inconsistency in the assortment. Hence, one can argue that consumer service likely to suffer. It is understood that consumer may look for particular brands, but their final store choice decision is affected by price and location of the retailers. Thus, it is not clear how a retailer would react in a competitive environment even if a sizable segment of the market seeks consistent
assortment. Probably ‘category killers’ those offer more variety and choice within a category may attract such kind of customers.

6.3.4. Out-of-Stock

The average out-of-stock (OSS) rate for all 40 studies reliably reported OSS extent was 8.3 percent (Corsten and Gruen, 2003). ECR Europe’s 2003 on-shelf-availability study reported an OSS rate of 7-10 percent with categories ranging from 5 percent for canned food to 18 percent for fresh meals and whopping 32 percent for ladies stocking. From a world-wide study of consumer response to OSS as follows:

1. (1) buy an item another store (31 percent)-store switch
2. (2) delay purchase-buy later at the same store (15 percent)
3. (3) substitute- same brand of a different size or type (19 percent)
4. (4) substitute-different brand (26 percent)-brand switch
5. (5) do not purchase the item (9 percent)-lost sales

It is clear that there are 40 percent consumers are not ready to wait or buy any substitute from the store because their choice item is not available. That means sales lost completely. It not only accounts for loss of sales also 31 percent of these consumers buy from another store which may have a larger implication than just lost sales. For the manufacturers the problem is more acute as 66 percent contribute to lost sales. From that 26 percent are found to be brand switcher and contribute to sales of competing brands. Because of OSS both manufacturers and retailers lose sales. However, retailers are worst sufferer. Therefore, both of them should take joint initiatives to reduce OSS.

In a slightly different context Campo et al. (2004) studied consumer reactions to out-ofstocks (OOS)—which are unexpected and temporary in nature—as opposed to permanent assortment reductions (PAR). Their results indicate that retailer losses incurred in case of a PAR may be substantially larger than those in case of a stock-out for the same item. They suggested that retailers look at following three things: (i) should be cautious in extrapolating consumer response to stock-outs to PAR situations, (ii) should keep a
minimum of variation in the assortment even if this implies a higher stock-out risk, (iii)
may wish to explicitly signal the temporary character of a stock-out by leaving the shelf
space of the OOS item unused.

It is observed that variety is a key component of overall retail strategy a major means of
attracting and retaining target consumers. Therefore, a retailer should be sure to match the
variety offered within a category to consumer demand. When retailers try to do that the
incremental sales from increasing assortment is not always profitable as fast moving items
face more out-of-stocks (Anderson Consulting, 2000 as cited in Campo at al. 2004) and the
for the sake of variety retailers waste money on slow moving items. That may lead to over
stocking in some slow moving categories and may demand for product category/item
rationalization.

6.3.5. Product Rationalization

The most common methods for determining which products to add or to discontinue are to
use a brand ranking report. The retailer looks at performance of each SKU for a fixed
period of time (usually quarterly). Each SKU is rank ordered by its sales, revenue, profit,
or, occasionally direct product profit (DPP) (Needel, 1998). A product's DPP is equal to its
retail price minus the retailer's cost and direct product cost. Compared with gross margin
(retail price−cost); DPP provides a more complete picture of a product or category
profitability and Marsh Supermarket used DPP to evaluate category performance (Burkey,
1995).

The organization of product category in terms of the allocation shelf space to the total
category and to different SKUs is contingent on the consumer choice process. The
relationship between product category and consumer choice works in both directions
(Molla et al. 1998, p-227). According to them the attributes relevant for the choice process
of wine category are type of wine, designation of origin, maturing time and price. Hence,
the composition of wine category varies across different store formats and management of
the category is significantly different for discounter and for hyper markets (Molla et al.
120
In another study on sensory-specific satiety Inman (2001) finds that flavor is an important switching attribute, while brand is less important in this regard.

6.4. Previous Space Research

Evidence on the sales impact of space management is limited because of the high costs of implementing controlled experiments in the field. The existing work can be divided into three types: commercial applications, experimental tests, and optimization models. The commercial literature is composed of application oriented approaches where simplicity and ease of operation are the most important features.

Today there are numerous PC-based shelf management systems available to retailers including Apollo (IRI) and Spaceman (Nielsen). Although each decision support system has "optimization" capabilities with the input of space elasticities, and experts in the field argue that retailers use them mainly for planogram accounting purposes so as to reduce the amount of time spent on manually manipulating the shelves. Summerfield a UK based supermarket uses decision support system for fixing planogram problem. A number of experiments have been conducted to measure shelf space elasticities, usually focusing on a limited number of brands and only a few stores. An implicit assumption is that there are diminishing returns from additional shelf space. Brown and Tucker (1961) postulated three classes of products with respect to space changes: "unresponsive products", "general use products", and "occasional purchase products". They showed that space elasticity increased as one moved from one class to another. In the late 60's and early 70's, several controlled experiments investigated the effect of changes in product facings on unit sales [Cox 1970; Curhan 1972; Kotzan and Evanson 1969; Krueckenberg 1969 as cited in Dreze et.al, 1994, p.304]. The average elasticity was about 0.2; that is, a doubling of facings led to a 20% increase in sales. Although this elasticity might seem sizable to a manufacturer, it is not clear how significant it is to a retailer given the likely within-category substitution that occurs. Corstjens and Doyle (1981) focused on the optimization of shelf space for a chain of ice cream and candy stores. They considered both the supply and demand side by taking into account inventory and handling costs and own and cross space elasticities. The
elasticities were estimated using OLS, yielding a mean own elasticity of .086 and cross elasticity of -.028. An interesting aspect of their work is that they do not constrain the interaction between categories to be symmetric and some of the products are complements and some substitutes. A constrained optimization indicated that profits can be increased from 3-20% depending on store size, though these results were not empirically validated. Bultez and Naert (1988) used an attraction model to represent the interaction between brands and apply it to space allocation for several product categories in Belgian and Dutch supermarkets. The attraction model implies perfect substitution between brands (a logical assumption since they work within rather than across categories); in their model interactions are constrained to be symmetrical. As a result of their heuristic, each item is allocated space proportional to market share and contribution to category profits. They developed a practical allocation rule called Shelf Allocation for Retailers Profit (SHARP) and tested across several types of assortments (like coffee, biscuits, canned fruits and pet foods) at four different Belgian supermarket chains, leading to encouraging results. They validated their work with some in-store implementations and found profit increased ranging from 6-33%. Bultez et al. (1989) extended this work by utilizing an asymmetric attraction model and included asymmetric substitution between products due to brand loyalty, preference for a specific variety, or multiple package-size purchasing habits. This extended model (SHARP II) is tested allocated shelf space for an assortment of dog food at a large Belgian supermarket.

Assortment selection affects product demand through the choice and inventory position effect. For example, demand for a chosen product can change depending on product omission. If the substitutes for the chosen products are omitted from the assortment demand for the chosen product may increase, while elimination of complements can reduce demand for the chosen product. Inventory position can be explained by an example, if a chosen product is not in the shelf then demand for the substitute may go up and there is a chance for stock out of that substitutable product (Rajaram, 2001). To make the assortment choice a nonlinear integer programming model was developed using demand forecasts derived from historical sales patterns. The model was tested in basic and fashion merchandise category and found to help retailer reduces markdowns due to excessive
The model incorporated shelf space constraints and the effect of assortment choice on product demand.

Assortment is a critical issue faced retail stores and category managers. Given the space constraint it becomes a challenge to decide inclusion or deletion of items in the assortment. Managing assortment requires in-depth knowledge about substitution and complementarity patterns among items in the assortment as well as competing stores offerings along with other variables like store ambience and accessibility (Koelemeijer and Oppewal, 1999). Using the extended logit model they explain the utility of an item as a function of assortment characteristics, which allows capturing substitution, complementarity and asymmetric dominance effects. In an application to florist stores they found that in-store purchase decisions are affected by the size and composition of the assortment, and by the presence of a competing store, but not by ambience. Although progress slowly has been made, these methods typically have considered only small subsets of brands; moreover, they have not taken into account the position of each item.

Borin et al. (1994) formulated a shelf management model as a constraint optimization problem with two decision variables: product assortment and allocation of a fixed amount of space to the items in the assortment. The assortment and space allocation correspond to actual product dimensions and minimum pack-outs; differences in item profitability; shelf-space elasticities and cross-elasticities among SKUs in the same category and strength of consumer search loyalty to SKUs. This model does not take care of error in the estimation of the parameters. Borin and Farris (1995) tried to determine the implications if a retailer sets category shelf using incorrect parameter values. They found that when the parameters are estimated with a large amount of error (+/- 50%) still the model works. As pointed out by Needel (1998) the search for category management models based on scanner data is important but the models hardly can predict consumer behaviour based on changing assortment or configuration of the products in a store. Therefore, the consumer research is required to verify the effectiveness of the model.
6.5. Category Tactics

6.5.1. Trade Promotion

According to ACNielsen’s Trade Promotion Practices and Emerging Issues Study (2002) total dollar poured into trade promotion activities such as slotting, pay-for performance, display allowances, and marketing development funds rose in 2001. Trade promotion spending was close to 14 percent of gross dollar sales, compared to 11 percent in the previous year. Food and general merchandise brands paid the maximum of about 15-16 percent and beauty care products paid about 9 per cent in 2001 (Urbanski, 2003). Trade promotions play important role in the relationship building process. Retailers like to receive trade promotions and convert them into consumer promotions.

6.5.2. Consumer Promotion

Kamakura and Kang (2007) in their recent article pointed out that, cross-category effects are very important in retail context as retailers’ main purpose of promoting a brand in a specific category is not simply to sell more of the promoted brand, but to increase sales of the product category as a whole. This may lead to higher traffic to the store, resulting in more sales in other product categories as well (Hruschka et al. 1999). Their findings got support from an earlier study conducted by Walters (1991) who found that pricing and promotion of brands in one category affected sales of brands in a complementary category. For example, price cut in particular brand of tooth paste product category increases sales of same brand of tooth brush and reduction of sales of tooth brush of competing brand (see Kamakura and Kang, 2007). Their findings suggest that the private labels generate higher sales when the leading national brands offer a discount. However, they do not show any empirical evidence of why this odd complementarity is happening. The possible reasons might be the retailers schedule the price promotion for their own labels at the same time of leading national brands, or placing their lower priced own labels near the promoted leading brands. In their study Kamakura and Kang (2007) developed a factor regression model to help retail category managers to understand and use richer insights into pattern of cross
brand and cross-category promotion effects without any patterns. The model accounts for the difference in price sensitivity across various brands and categories in different markets. But they ignored the residual effect of promotion as their focus was on immediate effect. Also the study is limited to price promotion only. However, other marketing stimuli like point of purchase advertising, or shelf location might impact sales.

Duchessi et al. (2007) put forth their argument for creating cluster specific shoppers profile using scanner data to design suitable store-specific promotional schemes for specific segment of customer who purchase correlated product categories. This exercise probably would help the retailers to find out grouping of products at the aggregate and macro-aggregate levels.

It is seen that promotions hold key to performance of many retailers. For example, promotions serve a variety of purpose at Marsh supermarket. Some frequently purchased items (such as canned fruit and vegetables, breakfast cereals, pet foods, and shelf-stable juices and drinks) feature at low prices to increase category sales. Other products (such as soft drinks, paper products, soaps, detergents, and coffee) are sold at or below cost to convey an image of low prices and used as traffic builders for the store. Price cut, display and feature ad when used together give better result than any single component (Burkey, 1995).

While developing promotion plans for particular brand (s) retail managers must remember that promotion of a brand not only affects sales of competing brands and the total category, but also affects sales of other categories (Kamakura and Kang, 2007). They pointed out that cross-category promotion effects at the store level are relatively under-researched. Walters and MacKenzie (1988) tried to examine the impact of price promotions on store traffic, sales of promoted and non-promoted products, and overall store performance with a structural equation approach. They assumed that all cross-category relationships arise through store traffic and the category level but not at the brand level. Then not many studies have been conducted in this direction.
6.6. Role of Private Labels

Many researchers and experts agree that private labels are critical to the retailers from margin-generating perspective along with creating a point of differentiation from the other retailers in the market place (Burt, 2000; Leahy, 1994). In supermarkets the private levels are commonly available in three different segments ‘core’ private label segments (generic, standard, premium) and other ‘specialist’ segments (for example organic, healthy eating, and children’s). It has been well documented that Tesco’s success is driven by private labels. In 2000, private label sales contributed 52 percent compared to 21 percent in 1980. It has four sub-brands such as Tesco finest, Tesco organic, Tesco and Tesco value to segment the private label users. Tesco finest serves the premium segment where as Tesco value serves the value conscious consumer segment. Looking to the longer term, the challenge doesn’t only lie with brand manufacturers. There is growing evidence– in grocery at least – that there is an upper limit of between 40 and 50 per cent private label for mainstream retailers such as Albert Heijn, Carrefour, Metro, Tesco and Wal-Mart. Beyond this band retailers may get diminishing return on the private label as consumer response to private labels may not be so high even though retailers push too hard. Main job of a retailer is to provide the product or brand consumer wish to buy and simultaneously profitable business operations.

Many retailers have traditionally used store brands to enhance category performance. In the United Kingdom, private labels now represent about 40 percent of sales in supermarkets (Kumar & Steenkamp, 2007, p. 218). In India, retailers such as Westside and Pantaloon allocate high percentage of shelf space to private labels. Food Bazaar and Star Bazaar are also beginning to use the same strategy to maximize return on the shelf space. Star Bazaar has wide variety of store brands in product categories ranging from staple products to apparel. It sells a private label “Edward” in men’s shirt category and it is getting acceptance gradually. In the countries like US and UK where organizing retailing is highly developed and retailer are brand in themselves the private labels are well accepted for their quality and affordability. A study conducted by Hoch and Banerji (1993) supports
our argument. They analyzed across category differences in private label market share. They localized the drivers of store brand performance with the three parties that make up the retail channel: consumers, retailers and manufacturers. In a cross-sectional analysis of 185 grocery categories, they found that six variables could explain 70 percent of the variance in market shares. Store brands obtained higher market share when:

- quality relative to the national brands was high,
- quality variability of store brands was low,
- the product category was large in absolute terms ($ sales),
- percent gross margins were high,
- there were fewer national manufacturers operating in the category,
- national advertising expenditures were low.

In another study Hoch and Lodish (1998) argue that store brand is more profitable because the retailer has the advantage of the built-in lower variable cost structure and gain higher gross margins. An empirical research conducted by Ailawadi and Halram (2004) found that private labels offered 30.1 percent gross margin as compared to 21.7 percent by manufacturer brands. However, the private labels were giving 21 percent direct product profit as compared to 23 percent by the manufacturer brands. Hoch and Lodish (1998) suggested that store brands/private labels can be used as image creator, where the image to be conveyed is one of best available quality for the money (i.e., a good value for those customers who want it). They also observed that larger gaps between store brands and national brands produce diminishing returns in terms of consumers’ assessment of the value offered by the store brand. They also found consumers’ perceptions of store price image are affected about twice as much by a national brand price advantage compared to a store brand price advantage. They found that smaller rather than larger gaps between national and store brand prices are an example where a "win-win" situation actually exists. According to Clarke et al. (2004/006) the latest generation of own label has reached some maturity in terms of quality, technology, image, and number of SKUs. It is observed that in some instances premium private labels are perceived to be better quality than some brands and are considered suitable for a special occasion or for a treat. Brand choices are permanently under review and consumers are getting access to an increasingly large
amount of information. Therefore, retailers should capitalize such opportunities to provide more options in the form of private labels to consumer and earn higher margin. Retailers, through their knowledge of consumer preferences can identify need for a product that is different from what is available through national brand manufacturers, and then create products to fill that gap. In fact, this kind of initiative from the retailers may help to send across the message to manufacturers to work with retail customers to collect, analyze, and use information to better define gaps in assortments, so that new products can be introduced to fill those gaps before a retailer does (Progressive Grocer, Nov 15, 2003). Along with that retailers can exercise their power with introduction of private labels. According to an industrial economic theory, margin secured by a party is directly linked with its market power. It means the greater power of its private label in a category; the retailer should be in a dominant position to extract more margins from manufacturer brands. This theory has been empirically supported. For example, Chintagunta et al (2002) found that the retail margin for Quaker Oats increased after the introduction of a store brand. In another study Ailawadi and Harlam (2004) found that a supermarket chain having large market share of private labels in those categories commanded on average 4 percent more gross margin on manufacturer brands compared to categories having small market share.

6.7. Collaborative Relationship with Suppliers

Many researchers like Wong et al (2005) studied the extent that organizations develop cooperative goals with mutual dependence and developing continuous trust among themselves to build strong relationship to enhance customer satisfaction. Their findings support the argument that supply chain relationships can contribute to customer satisfaction. Companies that had relationships based on trust with focus on continuous improvement in relationship with the suppliers and distributors were found to have satisfied customers. Therefore, cooperative goals, but not competitive or independent ones, are important foundation for these productive relationships between supply chain organizations. On the other hand Huxham and Vangen (1996) caution that collaboration gives rise to a variety of issues causing concern and anxiety for managers and hence a
range of different factors is integral to the success of collaboration. Very recently Vangen and Huxham (2003) suggested that trust is one of the most important elements to reduce anxiety and lead to successful relationship but that does not mean lack of trust inevitably leads to failure. They argued that the key to success lies in the ability to predict others’ behavior and the trust management is about managing the risk and vulnerability inherent in the collaborative situation. The act of collaborating will increase partners’ ability to predict outcomes and how others may act—so enabling them to assess uncertainty and reduce fear of opportunistic behavior regardless of whether trust exists or not.

It is found that the retailers are seeking to establish new relationship patterns with suppliers (Saab and Gimenez, 2000) and category management and efficient consumer response - require close co-ordination of trading partners (Hogarth, 1999). According to Kim and Frazier (1997) retailers and manufacturers embark on a range of relationships - discrete exchange relations to value laden relationships. Experts in the field have suggested that there should be good understanding between departments. Recently Gruen and Shah (2000) pointed out that better understanding of the interaction between the manufacturer’s brand management and its customer sales team is critical to success of category management. This is even more important now than before because retailers are now market driving rather than market driven and the balance of information ownership has swung toward the retailer (Kumar, 1996). Even though category management is primarily a retailer’s strategy, it is the manufactures that have developed required expertise and skills to determine the efficient assortment, pricing and promotion and placement of brands and SKUs at category level (Gruen and Shah, 2000). Despite conflicts and apprehensions trading partners can increase the likelihood of success of Category Management practices by developing Joint Category Business Plans that serve as blueprint for leveraging their complementary capabilities. These plans become an integral part of both parties business objective and serve a key enabler of cooperative relationship. In order to strengthen the relationship the reward system should be based on the accomplishment of agreed business plan objectives. Ideally, the reward system of category management team members are linked to their job performance measures which are linked to business objective set for the category under their purview. When the reward system takes care of mutual benefits then
the conflicts are likely to be minimal. Wang (2002) tried to examine coordination between the retailer and category captain because such co-ordinations constitute crucial aspects of category management business practice (Frozen Food Age 1997; Supermarket Business, 2000).

On-shelf availability is a critical issue for both manufacturers and retailers today because it improves consumer value, builds consumer loyalty to the brand and shopper loyalty to the store, increases sales and most importantly boosts category profitability (Roland, 2002). There seems to be many types of collaborations are happening. Process of Collaborative Store Ordering (PCSO), can be considered as a new form of supply-chain collaboration in the grocery retail sector (Pramatari et al., 2002) and it has been effectively piloted by many retailers (see Pramatari and Doukidis, 2005). PCSO aims to bring this supply-chain collaboration practice to store level and enable its application on a large scale. In order to do so, it utilizes an internet-based platform to enable information sharing and supplier-retailer collaboration in the store ordering process. Business cases suggest that PCSO helps a 67 percent reduction in the total level of OOS from 12 percent to 4 percent (Pramatari and Doukidis, 2005).

6.7.1. Joint Business Planning

Collaborative planning is widely used in education, business and public resource planning. In the field of retail business it is increasingly getting prominence among the business partners. Collaborative planning involves interaction in the form of a partnership through consensus building, plan development, and implementation (Lowry, Adler, and Milner 1997). However, consensus building is not an easy task. Margerum (2002) describes obstacles to consensus building. Some of them which are really important in the context of supplier-retailer collaborative planning process are resource, ideology, power and capacity. For example, dependency emerges from the differentials that exist in trading partners' available resources and needs, and the uncertainty associated with the lack of control over these necessary resource flows (Collins and Burt, 2006). Therefore, it is critical that partners optimize their resources. It is concerned with partner substitutability and alternative sources of resources, which are reduced in circumstances where the existence of
specific investments is high. In the context of category management and collaborative business planning information can be treated one of the important resources. For example, manufacturers have the national level consumer information and the retailers possess store level shoppers information. Therefore, under collaborative and cooperative relationship both the parties should share available information for better and efficient category level planning. It is already proved that collaborative initiatives bring better result for both retailers and suppliers. A recent study conducted by Dewsnap and Hart (2004) provides initial evidence of how shared consumer insight can highlight opportunities for category growth and therefore, the opportunity for jointly developing long-term category strategy for the categories identified.

Experienced manufacturers in the field of category management such as General Mills are taking category management to the next level. They are offering category management insights on aisles, departments, meal occasions, and even the total store. It is seen that the question of shelf space optimization is at the top of the mind of many retailers. Here the supplier plays vital role to ensure that the retailer assigns adequate shelf space to each categories in the aisles, and gain competitive advantage in the marketplace. The suppliers like General Mills play critical role in developing consumer-driven strategies and tactics to grow categories. They are believed to be better informed about general and specific consumer trends at a macro level. They constantly invest on consumer research and use innovative thinking to understand the future of the category. This enables the supplier to take appropriate decisions regarding, baseline assortments, shelving, space management, and promotion management. They are better placed to help the retailers understand how consumers shop for a category. For example, General Mills has developed expertise in the meal solution and dairy products. Therefore, it offers recommendations regarding consumer shopping behavior in these categories to many retailers. The supplier also advises retailers about which categories to be included in an aisle, and which category would work as traffic driver versus transaction driver (ACNielsen, 2006). However, for better planning and implementation of category management, sharing of data is important. Karlsson and Heur (2006) sum it of that data sharing offers opportunity for both supplier and retailers. Key benefits of data sharing are (1) better collaboration on all levels, (2)
faster decision making, and (3) shared mindset: the store sales in focus. It has been observed that when information sharing with the partner is extensive, forecasting accuracy is higher compared to traditional information sharing.

6.7.2. Information Sharing

Information sharing is very important part of maintaining collaborative relationship between the trading partners. Retailers and suppliers different and important information related to consumer needs, consumer purchasing behavior, competitive environment, creative and marketing approaches and programmes, and systems costs and ways to improve efficiency. For utilization of fullest potential of category management trading partners should share available information with each other. Sharing of confidential information shows the strength of relationship and trustworthiness of the partner. Trust and partnership are not obtained overnight. However, with common business objective and professional behavior there can be rapid stride to build stronger relationship with trust as base pillar. Supplier information sharing is as defined in Cannon and Homburg (2001) as the extent to which the supplier openly shares information about the future that may be useful to the customer relationship. Many researchers like Cannon and Homburg (2001); Kalwani and Narayandas (1995) agree that collaborative relationships adopt a long-term perspective and include an ongoing process to lower acquisition and operating costs. By working together as partners, retailers and manufacturers can provide the greatest value to customers at the lowest possible cost and ‘Trust’ helps manufacturer-retailer relationships to realize their full potential (Nirmalya 1996; Gruen and Shah 2000; Harris and McPartland 1993). Although collaborative relationships through joint efforts of the partners create unique value that neither partner can create independently, there is tension between maximizing such value and distributing it between the partners (Zajac and Olsen 1993). This makes collaborative relationships challenging to implement in practice, particularly with powerful parties. However, if supplier can provide critical and important shopper’s insights even powerful retailers are likely to take that for betterment of both parties. For example, in the US infant formula one of the largest and most profitable baby food categories, with a 32 percent share of dollar sales was headed for some disruptive
changes in 2007. Abbott nutrition— a supplier was able share important information about shopper’s buying pattern and their preferences with retailers. Hence retailers were able to make adjustments in their product assortments and planograms to get favourable response from the shoppers. Similarly, Campbell Soup Co. has been continuously helping retailers to grow sales in canned soup category. Progresso Soup partnered with Information Resources, Inc. to quantify a $100 million baseline opportunity for retailers. From the study it found that bulk of the benefits can be realized by optimizing shelf space allocated to the category. The Progresso team estimates that optimizing category space alone could result in category dollar sales growth of 3.3 percent (Progressive Grocer, Nov.15, 2007).

6.7.3. Category Captain

The Economic Times (May 1, 2006) reported that Indian electronic product manufacturers like Onida and others were looking forward to build partnership with retailers in line with category management practices in the FMCG companies for the modern trade. The common practice of category management is an example of a decentralized regime for controlling assortment because each category manager is responsible for maximizing his or her assigned category’s profit (Cachon and Kök, 2004). Retailers are looking for leading partners from the list suppliers to help them out in strategic as well as day to day category management decisions. Such a partner is called ‘category captain’ who looks after a specific category because of its experience, expertise, in-depth consumer insights and above all higher commitment level. Anheuser-Busch’s has been regarded as one of the best category captains in beer category. In 2007, it was able to help 250-store chain in the southeast to grow at 6.8 percent and a whopping 13.8 percent at national supercenter chains in US (Progressive Grocer, Nov.15, 2007). General Mills serves as category captain for many retailers in the soups category in meals aisle.

6.8. Collaborative Consumer Relationship Management

ECR Europe defines collaborative consumer relationship management (CCRM) as ‘an integrated ECR demand management strategy which helps manufacturers and retailers to
jointly recognize & value consumers'/shoppers' individual needs and tailor their offers to them' (see Table 6.1).

<table>
<thead>
<tr>
<th>Table 6.1: Reasons for Why Collaborative Consumer Relationship Management is Important</th>
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</thead>
<tbody>
<tr>
<td><strong>Current Economic Scenario</strong></td>
</tr>
<tr>
<td>Profitability related to margin of branded products and scale efficiencies in manufacturing operations</td>
</tr>
<tr>
<td>Profit margins enable manufacturers to maintain profitability by offsetting low growth rates in mature products and market</td>
</tr>
<tr>
<td>M&amp;A enabled manufacturers to develop mega-brand portfolios and achieve growth rates demanded by shareholders</td>
</tr>
<tr>
<td><strong>FMCG Manufacturers</strong></td>
</tr>
<tr>
<td>High volume turnover and substantial growth rates offset typically low margins in highly competitive markets</td>
</tr>
<tr>
<td>Efficient store operations and operating costs enable retailers to maintain margins</td>
</tr>
<tr>
<td>High rate of consolidation has placed the balance of power clearly in the retailers' hands</td>
</tr>
<tr>
<td><strong>Source:</strong> ECR Europe Guides for Collaborative Consumer Relationship Management (2003)</td>
</tr>
</tbody>
</table>

With ECR, retailers, distributors and suppliers work together to reduce supply chain costs and delivers significant value to consumer. The benefits to consumer include increased choice, lower prices, and increased customer service via an increase in on-shelf product availability. From retailers stand point, they need to understand shoppers and consumers demand and combine these with the product understanding of manufacturers to create a retail offering that best meets the needs of their target consumer segment in the most profitable manner. The CCRM report by ECR Europe points out that in most cases collaborative efforts are seen in the industry. Retailers are spending lot of time on data mining to segment their customers; manufacturers put emphasis on maintaining long-term
relationship with trade customers. Often the manufacturers are involved with various trade/consumer promotional activities without access to detailed shopper purchase data.

According to ECR Europe CRM Group, CCRM needs to focus on understanding consumer needs and delivering benefits that create demonstrable consumer value. Experience indicates that it is more efficient and effective to execute this task collaboratively than as separated elements of the industry value chain.

Category management is the way to build equity consistently across all the categories with well-defined and differentiated category definition as the driver. As consumer dynamics are constantly changing, currently available definitions of category role might have to be adapted and should incorporate consumer insights into the definition stage. In-depth knowledge of shopper segments and their behavior would be much useful while developing category plan. It is really important to understand and refine category definition as suitable to local situations. In Table 6.2 customized strategies are presented.

<table>
<thead>
<tr>
<th>Manufacturer-driven</th>
<th>Manufacturer-driven</th>
<th>Long-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimize personalized consumer value offer</td>
<td>insights in lead consumer needs for brand differentiation</td>
<td>Integrated strategy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segment Customized</th>
<th>Mass</th>
<th>Manufacturer Strategy</th>
<th>Individual Relation</th>
<th>C-CRM AREA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer selects most attractive segments</td>
<td>Collaborative strategy for relevant segments</td>
<td>Retailer driven Insight in differentiating shopper segments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depending on both sides consumer strength</td>
<td>Retailer selects offer for segments</td>
<td>Retailer Driven Personalized shopper value of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traffic Creators</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Table 6.2: Customized Strategy

Source: ECR Europe Guides for Collaborative Consumer Relationship Management (2003)
Collaborative CRM adds a cross-category layer to the category management work, by building a plan from the shopping experience expectation of 'well defined' segments. As per ECR Europe's report on CCRM (2003) 'well defined' means understanding of shopper segments would lead to translating shopper segmentation into cross-category and category plans.

6.8.1. Consumer Information and Insights

Category management benefits from dramatic increase in market information, advances in technology, and sophisticated software applications (Nielsen, 1992, p.9). Retailers practicing category management heavily use information and technology to understand their shoppers. In the era of advanced information technology, the retailers started to use tools and techniques such as electronic checkout scanners, computerized programs that provide local demographic profiles, computer databases that track consumer purchase behavior and software programs that integrate sales data with pricing, promotion, merchandizing, and consumer data. These tools and techniques help the retailer to learn more and more about the shoppers. New tool like Radio Frequency Identification (RFID) is getting more popular as that offers wide array of scope to not only understand product movement in the value chain but also to track the usage of the product. So the retailers are empowering themselves with shoppers purchase and consumption information.

Accessing information about what products and when shoppers buy is no longer difficult to capture. Dapiran and Sandra (2003) put forth that retailers have ever increasing mountain of information that can be effectively used for segmenting shoppers and selecting the right target. However, converting this information into knowledge, insights and action is challenging (Burkey, 1995; Clemons and Spitler, 2004). Category management relies on detailed information on consumer's in-store behaviour (Dewsnap and Hart, 2004) and scanning data gives that opportunity to know the consumer better (O'Keeffe and Fearne, 2002). Suppliers are also interested to gain a share of that information. If retailers provide information to the supplying partner, shopping experience can be enhanced as there is an opportunity to tailor assortment and service to local demand (Bishop et al. ECRE, 2006).
Promotions provide secret of better understanding consumers. Different types of promotions provide the stimuli for gauging consumer response to changes in price, packaging, and merchandising. Therefore, capturing critical consumer information and incorporating insights to design suitable product offering hold paramount importance for the success of category management.

Currently supermarkets largely depend on commercially available geodemographic, psychographic and retail database marketing applications to analyze and target potential customer segment at single item or category level. Geodemographic applications combine data on consumer expenditures, obtained from survey and panel data with socioeconomic variables (e.g., age, gender, occupation etc.) and geographic (postal code) data. Psychographic applications integrate consumer life style data with product usage data. Using cluster analysis, commercial software vendors create consumer groups that have similar characteristics. For example, Tesco uses geodemographics to identify profitable store sites, determine store assortments and design promotional campaigns (O’Malley et al., 1995).

Many retailers do not focus on consumers, but instead on product and vendor management. But researchers and experts in the industry view that understanding consumer certainly empowers retailers and manufacturers to get the maximum benefit from category management process. Progressive Grocer (Nov. 15, 2003) reports that most retailers and manufacturers haven’t even scratched the surface of understanding consumer insights. Recently, Desrochers and Nelson (2006) stressed on the importance of consumer insights to improve upon category management practices. They acknowledge that category management is heavily dependent on information technology and sophisticated software applications. They argue that scanner data is not well equipped to fully address category management issues. For example, if an item currently located in more than one category, scanner data can not identify actual sales happening from which category. In addition to that, scanner data can not tell which SKU currently not in the shelf would sell well. They recommend that such kind of problems can be tackled by focusing on consumer pre-purchase decision process and goal-directed categorization. More precisely, the act of
grouping specific set of items together on the store shelf may influence consumer evaluation process. By collecting consumer insights on which attributes are important to consumer, retailers can make necessary changes to their assortment plan and ultimately influence purchasing decision of a consumer. Their findings suggest that when context (i.e. product categorization) changes the attribute importance also changes. For example, smaller pack of tofu is more strongly preferred when it is placed under Dairy category than it is in oriental category. They also suggest that previous exposure to a product category may influence item evaluation. Therefore, store's layout can be considered to induce more favorable evaluations of selected items, leading to enhanced customer value and retailer, supplier business results, or both. Retailers may place private label tofu in Dairy category if it is seen before the oriental category in the consumer's natural pathway through the store. That might give better result to the retailer at the expense of national brands. Further, to place right product categories at right location it's important to understand how shoppers buy multiple categories and how one category relate to another, because in the minds of consumers, food solutions involve the intersection of categories and occasions.

Once Michael Minasi –Safeway's president of marketing said that one obligation of collecting data is to do something productive to it- not just for the company but for also for consumers. Understanding consumer trend and insights along with how those things influence consumer shopping behaviour hold paramount importance to the retailer. According him Safeway wants to be destination for simple ingredients. The consumer information would help them to better arrange merchandise, improve display and engage with consumer in-store and out of the store (Tarnowski and Dowdell, 2007).

Dewsnap and Hart (2004) pointed out that before category management, neither retailers nor suppliers possessed in-depth knowledge of the consumer's in-store behaviour and now it is changing. Johnson (1999) opines that consumer insight is vital to achieve the aims of category management, but although retailers have access to EPOS data, few have the resources to conduct and/or analyze consumer research at the category level.
6.8.2. Consumer Loyalty

Many retailer and suppliers have been constantly showing increasing interest in the composition of their “loyal consumer base” and defining the shopping or consumption behavior of loyal consumers. Most of them have realized that failing to recognize and reward loyal consumers may prove costly. For retailers, research consistently shows that while loyal consumers may only account for 20-30 percent of consumer traffic, this consumer base contributes more than 60 percent of retailers' turnover and profit (ECR Europe, 1999). The core of category management concept is to better understand the consumer needs, and prepare plans, strategies, goals, and implement them to provide better offerings to them. By focusing on consumer needs, category management not only provides renewed opportunities for consumer needs, but also helps the retailers and manufacturers to achieve competitive advantage as lower cost through efficient work process.

6.9. Role of Information Technology (IT)

Technology has been one of the drivers of retailing since the early 1980s. It facilitates loyalty card developments, self-scanning, home shopping, supply chain management, and a whole range of efficiency measures that are part of category management and efficient consumer response (IGD, 1998). Category management is essentially data-driven and as a result, IT is an important enabling component. IT is important for capturing, storing and analyzing point-of-sales (POS) scanner data. IT helps in an effective manner to take better informed and judicious decisions regarding operational issues related to categories and store. Several information sources (e.g., Information Resource, Inc.) and IT applications exist to support category management, from basic geodemographic and psychographic cluster software, through data mining applications (e.g., Neural induction algorithms) to advanced retail data base marketing systems such as Valassis Retail Marketing Systems (VRMS) and MarketExpert (Duchesssi, 2007).
6.9.1. Role of RFID

Kellogg used shopper science in the form of RFID tags on the shopping carts and baskets to help a major western retailer to track overall traffic movement, minimize congestion, and ensure the breakfast categories and brands were getting the most exposure. Then, Kellogg and the same retailer had extensive conversions with shoppers, via focus group discussions and shop along to discover ways to enrich the breakfast shopping experience. From such an exercise the retailer was able to grow the category by 2 percent in the latest 13 weeks (Progressive Grocer, Nov.15, 2007).

6.10. Role of Employee

6.10.1. Role of Category Managers

Category managers are the new shopkeepers of retailing. Each category manager works as an entrepreneur, and is responsible for success or failure of a small business (Nielsen, 1992, p.27). The Category managers are likely to be responsible for all buying and merchandising decisions, including assortment, pricing, promotion, space management and inventory replenishment (Nielsen, 1992; Pellet, 1994b). Category managers must be given authority to develop strategy, implementing plans, evaluating progress and making necessary adjustments, and finally responsible for results (Nielsen, 1992, p.39). However, category managers must nurture strong relationship with store managers. Frequent communication with them is necessary to receive information about the category's performance, customers, and the competition. Moreover, the store managers can help category managers to achieve their target by executing the category tactics that support a category's strategic plan. Often a store manager can provide better market intelligence than the scanning data and other sources such as market research. Therefore, to maintain good relationship with store managers and other members in the organization, category managers must possess strong organizational and people skills.
6.10.2. Role of Top Management

Category information and scanning data also provide the reference point for retail buyers to manage themselves and assess their performance. Category management treats the buyers and suppliers as knowledge workers, who basically manage their own performance. Traditional command and control management systems may not work with this new business. We have observed that many organizations have revamped their organizational structure after adoption of category management. Therefore, top management’s role is very critical for successful adoption and implementation of category management. Top management has to take critical decision such as investment in technology, process, people and restructuring of organization hierarchy.

6.11. Store Performance and Category Management

Category management is a new way of thinking customer’s shopping experience (Progressive Grocer, August, 1995, p. 57) and effective category management programs provide optimization of retail shelf space, increased profitability and reduced out of stock situations (Progressive Grocer, Aug. 1998). One obvious benefit of category management is to reduce out of stock and increase on shelf availability. That leads to reduction in lost sales opportunity.

Since inception of category management it has contributed significantly to top-line sales and bottom-line profit improvement for vast majority of retailers all over the world (Progressive Grocer, Nov 15, 2005, p.97). In a recent article Gajanan et al. (2007) found that (1) product assortment is polarized more under category management than under non-category management regime; and (2) the price of high-end (low-end) product in assortment increases (decreases) under category management than under non-category management regime; and (3) a high-quality manufacturer makes more profit than a low quality manufacturer.

According to Chong et al. (2001) profit improvement can come from two sources: (1) higher share for higher-margin brands, and (2) higher category sales. Academic empirical
research findings show that implementation of category management brings positive result in term of category growth and profitability. It is found to positively affect retailer prices and profitability (Basuroy et al., 2001) and implementation of category plan is found to positively affect category performance (Dhar et al., 2001). Successful category management requires an executable action plan at the store level and the willingness to follow it through. Most of the grocers practice some form of category management to keep track of sales, stay competitive and attract customers (Felix, 2006). Manufacturer adoption of CM in a packaged goods category, which showed that interbrand price coordination, generated higher prices for the brands in the manufacturer’s product line (Zenor, 1994) and CM produces enhanced business result. Category management gives opportunity to the retailer to maximize sales of category through an optimal mix of brands, SKUs and pricing that is determined from the consumers’ perspective and based on historical sales data (Gruen, 1998). The overall profitability of a store depends on careful category level merchandizing (Chen et al. 1999) and determining correct category composition (Progressive Grocer, Aug. 1996) and role of category managers become crucial. Category management empowers an individual category manager within an organization to operate a category like a single business unit. Through this process, category managers can identify optimal product mix and stock for each store with the specific products the customer usually buy or wish to purchase. It is well understood that category management is a circular, long term process, not a linear short-term project.

Grewal et al. (1999) suggest for planning and evaluation of merchandising activities at disaggregate (category) level using Data Envelopment Analysis (DEA), which allows managers to plan and evaluate the performance of similar operating entities. They argue that store performance is driven by assortment and regional planning. The merchandise assortment itself is used to attract and retain core customers. Retailers offer variety to appeal variety-seekers (Kahn, 1995; Kahn & Lehmann, 1991; Kahn & McAlister, 1997) and bundling products and services to enhance cross selling to larger customer segment (Yadav and Monroe, 1993). Recently O’Keeffe and Fearne (2002) reported success of the category leadership strategy in Waitrose which was reflected as gain in market share. The food retailer was operating with 137 stores primarily in the south of England had achieved
over 5 per cent market share in fruit retailing compared with 3.5 cent market share in grocery products. In some products, such as exotics, the market share of Waitrose was as high as 12 percent. **Table 6.3** summarizes results reported from practices of category management in Europe.

<table>
<thead>
<tr>
<th>Performance Indicators</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

In the ECR conferences business cases are constantly reported where category management increases both market share and profitability. For example, in 2006 ECR conference Migros a retailer from Turkey reported 13 percent increment in hair care shoppers and 8 percent growth in profitability of hair conditioner category. During one year study period Migros hair conditioner turn over grew by 25 percent and the partnering firm’s brand Elidor hair conditioner’s turn over grew by 36 percent. The retailer opines that combining in-store tools with CRM approaches results with more effective activities delivering higher rates of redemption (ECR, 2006). From the findings of the study it is clear that collaboration, sharing expertise and know-how results with a win-win case for both the parties.

### 6.12. Role of Performance Management

Performance of an organization can be measured both financially and non-financially. Measuring financial performance is easier than measuring non-financial performance. Different non-financial criteria carry different importance, according to the study carried out by Ernst and Young (1998). Measures of strategy execution, management credibility, innovation and market position, for example, proved to be far more useful than measures of customer complaints, employee training programmes or environmental and social policies (Table 6.4).
Table 6.4: Valuable Non-Financial Metrics

<table>
<thead>
<tr>
<th>Most valuable</th>
<th>Least valuable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy execution</td>
<td>Compensation ratios</td>
</tr>
<tr>
<td>Management credibility</td>
<td>Use of employee teams</td>
</tr>
<tr>
<td>Quality of strategy</td>
<td>Process quality awards</td>
</tr>
<tr>
<td>Innovations</td>
<td>Social policies</td>
</tr>
<tr>
<td>Ability to attract talented people</td>
<td>Published investor materials</td>
</tr>
<tr>
<td>Market share</td>
<td>Quality of customer service</td>
</tr>
<tr>
<td>Management experience</td>
<td>organization</td>
</tr>
<tr>
<td>Quality of executive compensation</td>
<td>Quality analyst guidance</td>
</tr>
<tr>
<td>Quality of major processes</td>
<td>Quality of investor relations</td>
</tr>
<tr>
<td>Research leadership</td>
<td>Number of customer complaints</td>
</tr>
</tbody>
</table>


Performance management (PM) can described as a process of assessing progress towards achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services, the quality of those outputs and outcomes, and the effectiveness of organizational operations in terms of their specific contributions to organizational objectives (Amaratunga et al. 2001). Role of performance management is very crucial in category management. It becomes more important if the organization is new to implementation of category management process. PEA (1998), a leading-edge organization suggests ways to create efficient and effective performance management system to (as cited in Amaratunga et al. 200):

- translate organizational vision into clear measurable outcomes that define success, and that are shared throughout the organization and with customers and stakeholders;
- provide a tool for assessing, managing and improving the overall health and success of business systems;
- continue to shift from perspective, audit and compliance-based oversight to an ongoing, forward-looking strategic partnership;
- include measures of quality, cost, speed, customer service, and employee
• alignment, motivation, and skills to provide an in-depth, predictive performance management system; and

• replace existing assessment models with a consistent approach to performance management.

6.13. Gaps in the Literature

Extensive study of literature reveals that a very few studies related to category management have been carried out in the developing markets. Many studies and business cases have been reported from the developed markets like US, UK, and Germany. However, none of those markets are similar to developing markets like India. Retail environment in this country has its uniqueness. Consumers as well as retailers are new to the retail developments. Under such circumstances, it is necessary to study adoption of global retail practices like category management by the Indian retailers. More importantly when the retailer sector is at growth stage how the retailers are looking at such practices to fulfill consumer needs. It also important to explore how such practices can be deployed to create a win-win-win situation for the retailers, suppliers and consumers.

Reference


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