8.1. Analysis

We observed that majority of the retailers, barring few, were at early stages of implementation of category management process. Looking at the capability of managing retail operations, it could be said that all the leading retailers had almost similar capabilities. All of them had access to same talent pool, and similar type of technology. More interestingly the leading retailers were not big in terms of number of stores. During our initial interaction with retailers we gathered information that many retailers did not have the critical number to go for category management. Some argued that they didn’t require such practices as retailing in India is at a nascent stage of growth. Many of them were buoyed with the significant growth potential and they were more concerned about opening stores than consolidation. Though some of them were making losses, yet they were in the expansion mode. There was no uniformity in the desired level to seriously pursue category management practices within organizations. Some organization had very sound knowledge about category management process and some others had very minimal knowledge. We found that in one of the organization’s category management practices were largely driven by what was recommended in the book on ‘Consumer Centric Category Management’. Some of the retailers had category management department and the department was headed by one of their top executives. We observed that retailers to certain extent had revamped the organizational structure to bring changes in the working style.

Retailers agreed that there was a fundamental need to accumulate knowledge and information about consumers and share the same with the partners for effective use in various stages of product design and development. Access to accurate information on product need and usage could provide much needed stimuli to bring out new and innovative product. Insights into shoppers’ behavior inside the store and their response to
various promotion stimuli could help the managers to better design and direct the promotional tools at category level. Some of the managers didn't agree that category management could bring competitive advantage at this stage of retail development in India. Some retailers were very much confident that competitive advantage could be achieved by adopting category management. However, they were cautious about measuring the impact of category management. Industry was in growth phase and many retailers were new to retail business. There was moderate desire to proliferate the practice of category management, making it an integral part of the way retailers and suppliers to do business on a daily basis. In this direction retailers were taking much needed initiatives than the manufacturers/suppliers. Interestingly most of the retailers were in introduction or growth stage compared to manufacturers, who were in the maturing stage of their development. Despite this the retailers were more responsive to category management than the manufacturers.

The retailers those adopted category management practices received some form of financial or non-financial benefits. All the retailers under study were in the early or middle stage of category management. Category managers in these companies viewed the traditional category process as very complex one to execute. Many of these managers agreed that the difficulties to execute plans at the store level are much higher as compared to the planning level. At the planning stage top management and middle level managers are involved and they spend considerable amount of time. Some of the managers with whom we interacted argued that adequate time should be dedicated to address issues involved in execution and implementation stage of the category management process.

8.1.1. Case Analysis

8.1.1.1. Food Store (C1)\textsuperscript{18}

Food Store, one of the largest retailers was successful to a larger extent. It had a sizable amount of stores with centralized decision making. It was one of those retailers at \textsuperscript{18}see Annexure 1
advanced stages of category management (for more details see Annexure 1). Important
decisions on category management were taken at the corporate office level and some of the
decisions were also taken at the store level. Category management certainly helped the
retailer. The retailer reported mild to significant benefit through increased sales and
margin. We also observed that some of the practices at the store level induced positive
shopping behavior. Due to new and improved assortments at the stores consumer could
find products easily without much effort. The retailer was implementing category
management practices on store by store basis. It had national level roll out plan. However,
the retailer was facing serious challenges from various fronts. There were not enough
experienced managers to ensure proper implementation of category management plan. On
the other hand largely the planning and implementation stages were handled by the retailer
only. Very minimal support was received from the suppliers. Many national level suppliers
were large enough compared to the retailer and the local/regional suppliers did not have the
expertise to effectively execute category management practices. Category managers
believed that significant cost savings could be realized through increasingly closer
relationship with the suppliers. The retailer was charging slotting fees to some of the
suppliers and there was a listing fee for all the suppliers. In many cases the new suppliers
had to pay hefty fees to find a shelf space in the store. Again the slotting fee was very
much dependent on the type of supplier and market demand for the product/brand. The
retailer gradually moved towards uniform policy for the suppliers. Suppliers had the option
of signing national agreement (NA) with the retailer. The NA allowed retailer to receive
similar kind of facilities offered by the supplier to the other competing retailers. That also
allowed suppliers to have fair share of the retailer’s shelf.

8.1.1.2. TruMart (C2)19

TruMart was in the middle stage of category management process. It was experimenting
with category management. We observed that TruMart had clear cut objective to
implement category management process. It believed that effective and successful
adoption of category management process would enhance customer visit to the store and

19 see Annexure 2
create customer based equity. A loyal customer could patronage a store over and again. The retailer was trying to service the customer faster and better. Purposefully the stores were located in the residential areas and the location of store could convey the message that a supermarket that could offer variety and quality at convenient places and at affordable price. In order to deliver the value proposition the retailer was very selective in choosing product categories and stock keeping units (SKUs) within categories. It was clear that the retailer would be banking on the top-up purchase of the consumer shopping basket. A typical store was stocking variety of products ranging from fresh vegetables to crockery. The category definition was based on consumer shopping pattern. The retailer had developed a specific category objective for each of the product categories for each store. The category roles were assigned purely based on the performance of the store. The retailer feels that it is important to consider category level costs (Table-8.1) and look at performance at the category level.

<table>
<thead>
<tr>
<th>Table 8.1: Category Level Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion Funds</td>
</tr>
<tr>
<td>Advertising-Company or General</td>
</tr>
<tr>
<td>Advertising Products or Stores</td>
</tr>
<tr>
<td>Promotion Funds-Customer or Shopper</td>
</tr>
<tr>
<td>Demand Processes</td>
</tr>
<tr>
<td>Complete Strategic Plans</td>
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<tr>
<td>Manage Assortments</td>
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<tr>
<td>Manage Promotions</td>
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<tr>
<td>Manage Product Introductions</td>
</tr>
<tr>
<td>Supply Processes</td>
</tr>
<tr>
<td>Operate stores</td>
</tr>
<tr>
<td>Manage Store Inventory</td>
</tr>
<tr>
<td>Manage Orders</td>
</tr>
</tbody>
</table>

The retailer had organizational structure and team to support the new process. It had developed cross functional team to carry out category management projects. However, in most of the cases the team was spending much of their valuable time in the planning stage itself. Like other retailers it was also facing challenges at the implementation level as well. Shortage of experienced people at each level was most important challenge for the retailer. Information technology and analytics played critical role. The retailer changed the system
structure and the transition was important but managing this transition was proved to be associated with bit difficulties.

8.1.1.3. Harish Store (C3)\textsuperscript{20}

The retailer was into the very early stage of category management process. But, from the very beginning it focused on consumer value and all the strategies and tactics are consumer centric in nature. The retailer shows that in order to deliver desirable value to consumers it is imperative to have category management practices. However, it is easier said than done. It requires commitment from the retailer as well as the suppliers. The supplying partners are to play key role in successful adoption of category management.

Category definition and roles are slowly changing. At first, the retailer looks at the importance of a product to consumers and how they shop and use. Then the role of the category is decided. Based on the category role and objectives, strategies and tactics are developed. It is observed that technology plays critical role in successful importance of category management. Hence, investment decision in technology needs to be carefully studied. Return on investment in technology may not be very positive in the beginning but surely in the long run it would be beneficial. For the retailer investing in technology is not a limiting factor and it acknowledges investment in technology is a must.

It is seen that the suppliers do not take very active participation in the category management process. They do provide partial support when the retailer asks for. They are interested in long term relationship but the extent of such relationships is not known at this point in time. However, such relationships may range from financial to non-financial in nature.

\textsuperscript{20} see Annexure 3
8.2. Findings

8.2.1. Motives to Adopt CM

The main motivation for retailers to adopt category management was identified as the opportunity to maximize sales and increase profitability levels, which is consistent with the literature. We observed that retailers don't feel comfortable to adopt new practices and it seems they were in no hurry. We can safely conclude that they were risk averse in nature. Adoption of category management requires a great deal of commitment, willingness and above all restructuring of organizational set up. Accurate planning and execution of category management demand involvement from top to bottom. Interestingly we found out that a process which is believed to be mastered by the suppliers/manufacturers in the developed markets like US and Europe finds minimal support by the manufacturers in India. The retailers are taking all the responsibility of adopting category management process (for more details see annexure 1, 2 & 3).

8.2.2. Current Status of CM

In terms of the eight steps of the process, retailers C1 and C2 stressed the fact that the definition of a category is not a simple process, since agreements among suppliers, grocery retailers, and consumer response might be very divergent. Hence it becomes difficult to pin pointedly decide what items should or not be included in the category. However, retailers admit that role of the consumer is increasingly given major prominence for boiling down to the decision as which categories to include. Consumer is going to be the central point in the category management process and all tactics and strategies would be formulated to address consumer needs. That means the departmentalization or classification is not going to happen on the basis of pre-set product nomenclature, but based on shoppers purchasing behaviour and consumption pattern. At the implementation level all retailers face difficulty in tracking voluminous data and finding out the critical indicators. One of the retailers said that in the initial years they had to depend more on their sensibility and gut feelings rather than on the real data. However the situation is improving for better implementation of category management decision.
According to some of these retailers, determination of the role of the category, involves the analysis of sales data of different categories, in order to establish their relative importance in the store. Data are available to all the retailers under study, but the big challenge seems to be in interpreting and taking advantage of the information potential as a support to business. Retailers are not always able to determine which data are important to generate useful category information and those small pieces of information can be used to deliver value to consumer and the retailer & suppliers.

Most of the retailers didn’t have the suitable mechanism for timely follow-up. In order to adopt new practices every organizations show resistance to change but the extent of resistance varies from case to case.

All the retailers under study have been trying to improve their buying, merchandising, sales, and promotion practices in view of the definition of target markets and their respective needs. In fact, retailers like C1 and C2 are constantly trying to find new ways to attract and retain customers. This would involve spotting new opportunities to reduce inventory by means of improved buying practices as well as to make better use of data obtained through the use of information technology. These motivating factors preceding category management adoption are reinforcing what has been previously discussed in the literature. C1, C2 and C3 revealed they had an objective to build long-term collaborative relationship with the supplying partners which can bring benefits to all the parties. C1 was the largest retailer among the three samples under study. So it had far more control on the suppliers compared to other two retailers. But none of them had collaborative category management projects with the suppliers. Much to our anticipation all these retailers initiated category management program on their own. However, C1 was believed to be in the advanced stage of developing some collaborative projects with its suppliers. Very interestingly and surprisingly managers voiced that they were able to negotiate better deals with national level manufacturers of branded products than the local manufacturers as some local brands had commanding market share in their market. Because of strong brand power and their reputation in those specific markets suppliers were able to maintain their
bargaining power. Probably retailers can develop their own labels or store brands to generate category growth and reduce over dependence on local players. It was found that as there was very minimal collaborative business planning the concept of category management was almost absent. The retailers good relationship with some of the suppliers and they termed them as preferred suppliers. These suppliers either had larger shelf share in a specific category or had given favorable offers to the retailer. Due to lack of collaborative partnership there was minimal information sharing between the retailers and the suppliers.

We found that category management can not be developed in a vacuum. Organizations require some amount of expertise and experience. In the context of category management efficient assortment is very critical and it does require:

- A specific category definition and structure defined by consumer needs.
- A category role describing the objective (or what some term as the "desired state") of the category in the supplier or retailer trading partner portfolios.
- Consumer, market, retailer and supplier performance evaluated via an assessment.
- Specific performance measurement targets.
- Clear strategies, such as "traffic building," "profit generating," etc. that are developed to ensure the category achieves the role and performance measurement targets.

8.2.3. Pre-requisites for CM

We found that there are pre-requisites for adoption of category management in an organization. Figure-8.1 presents six important components which are very critical for successful adoption and implementation of category management. The most important is the top management's willingness to adopt such practices and align other people in the same direction. It was found that retailers in India are facing shortage of experienced people in the organizations to implement category management. Although it is difficult to
have experienced people at all levels but it would be highly recommended to recruit them in important positions for effective implementation of category management.

Figure 8.1: Pre-requisites for Adoption of Category Management

8.3. Challenges to CM Adoption

The following factors are found to be challenging for the retailers to adopt category management practices in India:

8.3.1. Limited Experience

Lack of adequate experience seems to be creating lot of challenges for the retailers. On top of that limited experience of the supporting partners like manufacturers and distributors makes the adoption rate very slow.
8.3.2. Top Management’s Willingness

Getting top management’s buy-in seems to be most important to the adoption process. Once people at the top level show their interest it becomes easier to proceed further. However, getting positive signal from the top management is very challenging. The retail sector in India is growing fast and there are very few large retailers in terms of their presence across all the cities. Many of them are growing in terms of number of stores and so they are less interested for such activities. For many retailers they want to grow with opening new stores rather than adopting global practices such as ECR and category management.

8.3.3. Limited Support from Manufacturers

Retailers are getting limited support from the supplying partners. One reason could be the suppliers lack awareness about such practices. In case of the local suppliers they are probably not exposed to such practices but the global firms like P&G, Unilever, Pepsi operating in India have adopted such practices in other markets. However, unlike other developed markets these manufacturers yet take much needed category management initiatives in India.

8.3.4. Experimentation

Many retailers are in the process of carrying out experimentations in terms of retail formats. Some of them are carrying large format stores but they do not have large number of stores. They are looking for successful format before adopting full scale category management practices. Category management along with other experimentations looks to be challenging to these retailers.

8.3.4. Shortage of Experienced Manpower

It is observed that the retail sector is facing shortage of experienced manpower. Retailers face difficulty in finding able mangers at the top level as well as store level to work on
There was widespread agreement that a retailer's experience and organizational alignment with category management could be one of the determining factors when choosing between the basic and advanced level of category management. Table-8.2 presents a “roadmap” to move from basic level to advanced level category management practices in India.

8.5. Conclusion

The empirical literature on category management (Basuroy et al., 2001; Dhar et al., 2001; Gruen and Shah, 2000) focuses exclusively on food categories within the grocery industry and indicates that in this sector category management still faces significant development. Further, although this literature reports on the gathering of consumer insights for particular categories, it does not seek to apply these to the category management process (e.g. Basuroy et al., 2001). Dewsnap and Hart (2004) extended category management research to fashion industry with focus on ‘bra’ category. Their exploratory research presents early evidence that category management could offer distinct opportunities for retailers and suppliers in the fashion industry. They argue that collaborative category management can generate sustainable competitive advantage for the retailers. The value of this study has therefore been to explore and demonstrate: how category management might offer significant benefits to Indian retail sector; and how consumer insights can be applied to the category management process which would lead to efficient product assortment and display.

Our study findings support Lindblom and Olkkonen (2006) that the retailers are clearly in charge of category management. They found that the large manufacturers still had little weight of control for CM decision making compared to small manufacturers. We found that manufacturers in India are not deeply involved in the CM process compared to other countries. However, category management is likely to get momentum and in the next couple of years it is going to be widely practiced concept in India.
category management projects. There are limited experienced professionals and they keep on changing their organization frequently. Retailers face more difficulty at the store level as there is acute shortage of experienced managers to implement category management plans.

8.4. Category Management Road Map

Retailers should move from basic to more advanced level during their journey in practicing category management.

| Table 8.2: Category Management Road Map for Retailers |
|---------------------------------|--------------------------|--------------------------|
| **Factors** | **Basic** | **Advanced** |
| Category role | Retailers driven | Consumer driven |
| Data integrity | Low-medium | High-very high |
| Synergy | Low | High |
| Frequency of category review | One-off project | On-going |
| Number of retailer-supplier partnerships | None | Many |
| Trading partner’s involvement | Low | High |
| Internal responsibility | Team based | Whole Organization |
| External focus | Minimal | Significant |
| Level of additional analytical resources available to support the process | None | Define analytical experts |
| Senior managements support for the process | Acknowledgement of potential benefits | Fundamental business requirement |
| Functions involved | Functions as service providers | Total business alignment in a fully data based environment |
| Impact on annual planning process | None | Annual plan an output of on-going category planning |
| Degree of consumer insight | Ad-hoc | Contiguous research |
| Level of reward and incentive alignment | Minimal | Suppliers’ and retailers’ rewards integrally linked |
Reference


