Category Management and Buying Skills Seminar

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Stanton’s Background

• I am a Professor of Food Marketing at Saint Joseph’s University in Philadelphia, USA
• I have been involved with the food industry for over 35 years.
• Besides Academia I actually worked!
  – I was VP of Marketing of an international coffee company
  – I worked in food retailing for Tengelmann in Germany
  – I was director of marketing research for an advertising agency
New Book by Stanton and Lang

Precision Target Marketing

A practical guide to implementing targeted marketing, focusing marketing activities, and improving business results.

John L. Stanton
Mark F. Lang
Now Category Management!
In the beginning

Opportunity to manage all of the parts in a more effective and efficient manner…
Category Management

- Integrating Buying, Merch, Promo, Supply Chain
- Coordinating Data, Processes, Roles, Decisions
- Managing from a Consumer & Category perspective
- Right product, place, time, quantity at each stage
- Max revenue + Minimize cost, time, waste
In an ideal world:

• We would have one product on a shelf that consumers buy regularly
• When one unit is bought a person arrives with a replacement.
• No inventory, never out of stock
This of course is a fantasy. Why is it a fantasy?

- We don’t know what products consumers will want to buy
- We don’t know when they will buy them
- We can’t replace products one at a time:
  - So we need inventory
  - We need lead time to order
  - We need to have an EOQ
Before we get too deep in CM we need to make it clear that CM is only part of a process to get the right products to the right stores at the right time.
So running a retail business involves three main functions

• Figuring out the future (what people want to buy)
• Figuring out how fast they will buy them (how much to put on the shelf and how much to keep in inventory)
• Figuring out how to get the products to the store as inexpensively as possible.
And cost are high and costs of mistakes are higher!!

1. Seventy-five per cent of the cost of a retail product is getting it there according to MIT

2. Worldwide shrinkage of (CPG), consisting of loss, theft, damage etc before sale, is $60 billion according to Efficient Consumer Response alliance

3. Stock-outs at retailers are six per cent of sales yet one third of these products are in the retailer’s depot at the time according to Procter & Gamble.

4. The University of Florida calculates that the global retail industry spends $5 billion yearly on paperwork and administration - largely manual procedures.
Let’s start at the beginning

- The earliest models of the supply chain were based on PUSH principle.
  - Products were “forced on retailers” as most of the power of in the channels rested with manufacturers.
  - Retail Buyers were evaluated on the “discounts” they got usually by ordering in large volume
• At retail stores were often overstocked on the discounted purchases and had to sell at even a bigger discount negating the value of the “purchase discount.”
• Any possible saving was lost on the high inventory costs incurred from the “volume buys.”
• At the same time the most desired products were often out of stock.
  – These losses were huge: you lost that sales and often drove customer to competitors.
Out of stocks hurts business!!

- The U.S. Food Industry loses $7-12 Billion dollars a year to out-of-stocks and product voids at the shelf
"Solving the shelf problem will require systematic solutions, not stop-gap measures..."

---Coca-Cola Retailing Research Council
Something's cooking....

And it looks like

CATEGORY MANAGEMENT

Are you making the RIGHT decisions for your category?
Just suppose…

• You were to run a retail operation and decided to not take any money for slotting etc. and all profits would come from selling.

• And that you would run the retail business like a branded business.
What would you manage? Manufacturer’s brands??

Not likely as you would just be shifting consumers from one brand to another and not increasing your sales or profits??
You would likely manage Categories?

• You could think of your business as a group of interrelated categories of products that could be managed.

• Just like a manufacturer has a portfolio of brands with different roles and objectives, supermarkets can manage their business in a similar fashion.
What are the raw ingredients??

- The brands and products in the store.
- The approach of taking control of the store as a business made up of categories is Not surprisingly…Category management
You might have two questions

- **What will I bring into the store?**  
  - This is usually referred to as Category management

- **Where will I put it?**  
  - This is usually referred to as Shelf management or merchandising
Category Management

Definition:

• Category management is a retailer and supplier *process* of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer value
Category Management

• Definition

– Category management involves managing one product category as an individual business unit and customizing the category's product mix, merchandising, and promotion to satisfy customer needs on a store-by-store basis. Therefore different stores in the same retail chain may have very different merchandise, depending on the consumer base and location for each store.
Category Management Viewpoints

Retailer’s View:
• Managing categories as separate business units with the primary focus centering on consumer demand

Manufacturer’s View:
• Working with the customer to build profits and volume for the category in a manner that is consistent with the retailer’s strategy and objectives
Category Management Roles

**Retailer:**
The retailer is typically the “category manager”, as the store is where categories are managed. The site of the retailer is where all the components of the category come together for decisions.

**Manufacturer:**
 Manufacturers and distributors are typically category consultants and partners to the retailer – i.e., those who supply important input and experience but are not the final decision makers on how the particular category will be managed.
Key Factors That Have Led to the Practice of Category Management

- Retailer emphasis on profitability
- New product proliferation
- Erosion of brand loyalty
- Increasingly complex consumer demographics
- Emergence of alternate store formats
- Economic considerations
- Increase in trade usage and leverage of business information
Category Management Misusage

• In some cases buyers have replaced the sign on their door from Buyer to Category Manager but nothing else changed

• Category Management has been used to just grind numbers on profitability and not actually do any of the recommended steps (remember the definition – It is a Process)

• Retailers have turned over their shelf management responsibility to Category Captains. (Good if you’re the captain, bad if you are not)
The process really does start with corporate mission and/or objective

• What does the company want to do or accomplish.
• The contents of the store must be related to corporate objectives/strategy.
• Therefore every category manager must understand the corporate objectives.

It hoped that not only the CM’s know the and act on the corporate but everyone does
Do you think the following stores serve the same needs??

- Wegman’s
- Acme
- Aldi
- Wal-Mart

- Yet they all have about the same products for sale!
Strategy describes how you intend to get from where you are to where you want to be.

• To create good strategy you need:
  – Know your position in the market in the minds of customers. What do they think about you relative to competition and the important attributes.
• Who are you consumers
  – Are they older, single family, specific ethnic group, with young kids etc.

• Be able to execute
  – Most failures are execution not bad strategy (but it might be bad strategy of you can not execute it)

• Who are the competitors and what are their strengths
Category Management: Driven by Data (Consumer Insights)
Data Sources

• Internal
  – Frequent Shopper Card-Loyalty Program
  – Shopper Interviews
  – Item Movement Reports
  – Sales Reports
Data Sources

• External
  – Syndicated Data Providers
  – Business Reviews
  – Futures Market Trading Reports
  – Market Research Studies
Data Uses

- New Product Analysis
- Category Review
- Post-promotion
- Merchandising
- Seasonality
- Track Consumption
- Measure Results
Category Management

- Assortment Decisions
- Inventory Levels
- Space Allocation
- Consumer Promotions
- Buying/Replenishment
- Purchasing Patterns
- Product Movement
- Market Trends

Source: FMI Best Practices Report
Category Management
Process

Monitor Performance/Review Category

- Identify Capabilities
- Define Category
- Identify Role
- Assess Category
- Create Scorecard
- Develop Strategies
- Develop Tactics
- Implement Plan

- Assortment
- Promotion
- Shelf Presentation
- Pricing
- Supply Chain
Step 1

- This requires a level of frankness and honesty...what can we really do?
- Can you really get your products in the store at the lowest costs?
- Can we really expect our associates to offer help and suggestions

It is a little bit of a two way street...when you decide what you want to be you can get there!
Category Management Process

Monitor Performance/Review Category

- Identify Capabilities
- Define Category
- Identify Role
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Asortment
Promotion
Shelf Presentation
Pricing
Supply Chain
Step #2: Category Definition

• The purpose of this activity is to determine the specific SKU’s that make up the category
• The appropriate definition starts with the consumer: How would the consumer define the category?
• This also includes the identification of the category’s key sub-categories, segments and sub-segments
Step #2: Category Definition

- Category definition is the most difficult and misunderstood step and one of the most important.
- The aim of a good category definition is to achieve a delicate balance between a broad and narrow view of the category
  - Too broad and lose the ability to create actionable strategy
  - Too narrow and category development opportunities are not addressed.
How do you decide what are the categories?

- Rely on suppliers?
- Rely on Nielsen?
- Rely on your own analysis?
The decision tree

• How do consumers make decisions with the category?
• This really implies that you understand how consumers “address” your shelf.
• Campbell company found that consumers didn’t just see the category as soup but really four types of soup
  – Children’s soup; cooking soups, meal soups and drinking soups
Three steps

1. Determine the collection of products that make up a category.
2. Determine the structure of the category
3. Record the category definition and assign skus to each category
Category structure is the identification of the category's key sub-categories, segments and sub-segments.

Segment and sub-segment relations vary from category to category. Many suppliers have conducted very sophisticated research, perceptual and/or, substitutability maps that help them understand the category's structure.
The Category continues to evolve into a more defined segment-driven structure.

2009 Consumer Decision Tree

Yogurt

Kids
- Form
- Brand
- Price
- Sub-Brand
- Promotion
- Count
- Promotion
- Flavor

Quarts
- Brand
- Price
- Sub-Brand
- Promotion
- Fat
- Flavor

Specialty
- Sub-segment
- Price
- Form
- Promotion
- Fat
- Flavor

FOB
- Promotion
- Price
- Brand
- Fat
- Promotion
- Form
- Flavor

Flavored
- Promotion
- Price
- Brand
- Fat
- Promotion
- Form
- Type
- Flavor

Blended
- Promotion
- Price
- Brand
- Fat
- Promotion
- Form
- Sub-Brand
- Flavor

Light
- Brand
- Price
- Promotion
- Form
- Type
- Flavor

Proactive Health
- Sub-segment
- Brand
- Price
- Promotion
- Count
- Type
- Flavor

Flavor is generally the lowest attribute across segments.
Nielsen Data Shows How Purchase Decisions are Made by Shoppers in the Snack Category

This is often referred to as a “Decision Tree” or a “Category Structure”
How should *Baby Food* be handled??

- How does a mother see the category?
- Is this the way a supplier of diapers, or formula would think of it?
- Should you have a baby destination made up of all things for babies?
  - Food, diapers, car seats, room monitors, powder, shampoos, medicines, etc.
- What is your evidence for either method?
  - Usually it is about the supplier or departments.
How about *Gifts*?

- How would young men think of it or young women?
- Is this how the flower company or gift card company would think of it?
- Should be category be defined as candy, flowers, cards, wrapping paper, etc.
- What is your evidence for either method?
How are Category Definitions Determined?
• Generally, users of CM have skipped this step and rely totally on the way Nielsen/IRI categorizes the foods.
  – It is cheaper than using your own market data

• In general it is based on product characteristics not consumer perceptions.

• Manufacturers can generally advise Nielsen/IRI if they feel a SKU has been mis-identified.
There is no correct view but there are rules of thumb.

1. Don’t just take what manufacturers say.
   a) They are more interested in THEIR sales than category sales

2. Don’t just take Data companies such as Nielsen
   a) They are generally based on “same products.”

3. Think about how you believe YOUR customers approach the shelf.
   a) Ask them or watch them.

4. There are quantitative methods as well
Quantitative Methods

- Transactional or Markov analysis
- Cluster analysis
- Card sorts
- Intercept studies
Category Management Process

- Identify Capabilities
- Define Category
- Identify Role
- Assess Category
- Create Scorecard
- Develop Strategies
- Develop Tactics
- Implement Plan
- Monitor Performance/Review Category

- Assortment
- Promotion
- Shelf Presentation
- Pricing
- Supply Chain
Step #3: Category Roles

- The purpose of this activity is to assign the category role (purpose) based on a cross-category analysis considering the consumer, retailer, manufacturer and marketplace.
- This includes the definition by which the categories are named as well as the actual assignment of these specific roles to each category.
- This also includes the allocation of resources that are consistent with the category role.
Category Role - Why Is It Important?

- Positions the category within retailers’ portfolios of categories
- Prioritizes categories
- Defines how a retailer will use a category to achieve overall business objectives
- Helps drive tactical decisions on price, promotion, product assortment, and store location
Consumer-Based Category Roles

- Destination
- Routine
- Seasonal / Occasional
- Convenience
Assigning Roles: How important is category to your strategy?
Working with Category Roles

- Investment
- Destination
- Routine
- Occasional
- Convenience

Axes:
- Investment
- Importance
Consumer-Based Category Roles

Destination:
To be the **primary** category provider and help **define** the retailer as the store of choice by delivering consistent, **superior** target consumer value

Example: Prepared Foods in Wegman’s
Consumer-Based Category Roles

Routine:
To be one of the preferred category providers and help develop the retailer as the store of choice by delivering consistent, competitive target consumer value

Example: Dish soap, laundry detergent
Consumer-Based Category Roles

Occasional / Seasonal:
To be a major category provider, help reinforce the retailer as the store of choice by delivering frequent, competitive target consumer value

Example: charcoal
Consumer-Based Category Roles

Convenience:
To be a category provider and help reinforce the retailer as the store of choice by delivering good target consumer value

Example: shoe and leather care
Alternate Role Determination

- Some retailers have adopted Reach & Frequency as an alternate means to assign roles
  - Staples – High frequency, high reach, i.e. bread
  - Niches – High frequency, low reach, i.e. dog & cat food
  - Necessities – High reach, low frequency, i.e. deodorant
  - Fill-ins – Low reach, low frequency, i.e. charcoal

- Other retailers use sales volume and profit margin
  - Flagship – High sales, high margin, i.e. ice cream
  - Core Traffic – High sales, low margin, i.e. laundry detergent
  - Cash Machine – Avg sales, Avg margin, helps subsidize traffic items, i.e. pasta
  - Under Fire – Heavy competition – must defend, i.e. pasta sauce
  - Grow/Maintain – Low sales, high margin – real growth opportunities, i.e. Specialty Foods
  - Rehab – Low sales, low margin – opportunity to grow margin, i.e. shortening
# Category Role - Best Practices

<table>
<thead>
<tr>
<th>% of Categories</th>
<th>Destination</th>
<th>Preferred</th>
<th>Convenience</th>
<th>Seasonal Destination</th>
<th>Seasonal Convenience</th>
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<tbody>
<tr>
<td>% of Categories</td>
<td>10%</td>
<td>70%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
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<td>Category Role</td>
<td>Primary Seller</td>
<td>Preferred Seller</td>
<td>A Seller</td>
<td>Same as Destination during season</td>
<td>Same as Convenience during season</td>
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<tr>
<td></td>
<td>Defines Retailer Image</td>
<td>Develops Retailer Image</td>
<td>Reinforces Retailer Image</td>
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<td></td>
<td>Delivers Superior Value</td>
<td>Delivers Consistent, Competitive Value</td>
<td>Delivers Good Value</td>
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<td>Examples</td>
<td>Baby Care</td>
<td>Frozen Vegetables</td>
<td>Sewing Needs</td>
<td>Charcoal</td>
<td>Lawn Furniture</td>
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<td>Soft Beverages</td>
<td>Home Cleaning</td>
<td>Shoe Leather Care</td>
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<td>Seafood</td>
<td>Toilet Tissue</td>
<td>Paper Towels</td>
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</table>

Source: ECR Best Practices Report
**Category Role Selection Flow Chart**

**CONSUMER**
- Does the category provide consistent, **superior** value to the consumer (pricing, breadth of offering, etc.)?
  - No
  - Yes

**COMPETITION**
- Is the category frequently purchased by almost all c-store shoppers to meet **planned**, routine needs?
  - No
  - Yes
- Does the category provide consistent, **competitive** value to the consumer?
  - No
  - Yes

**RETAILER**
- Does the category differentiate you from the competition?
  - No
  - Yes
- Is the category's major responsibility to reinforce the image of the retailer?
  - No
  - Yes

**CATEGORY ROLE**
- Is there a total company effort to commit resources (money) and assets (people) to this category to create market domination at the expense of other areas?
  - No
  - Yes
- Is the primary responsibility of the category to generate profit, cash flow, and ROI?
  - No
  - Yes
- Does the category establish you as the preferred provider?
  - No
  - Yes
- Is a **secondary** responsibility of the category to generate profit, cash flow, and ROI?
  - No
  - Yes

This is a Destination – Driver category.
- Does the category provide a unique value to a targeted consumer base?
  - No
  - Yes

This is a Staple category.
- Does the category deliver **timely**, competitive value to consumers for specific occasions or seasons?
  - No
  - Yes

This is a Niche category.
- Does the category provide good everyday value to the target consumer by meeting **less-planned**, fill-in needs?
  - Yes
  - No

This is an Occasional – Seasonal category.
- Does the category reinforce your image as a full service retailer (on-stop shopping)?
  - Yes
  - No

This is a Fill-in category.
- Does the category play an important role in the areas of profit generation and margin enhancement?
  - Yes
  - No
Category Management Process

- Monitor Performance/Review Category
- Identify Capabilities
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- Promotion
- Shelf Presentation
- Pricing
- Supply Chain
Step #4: Category Assessment

- This step identifies the gap between current and desired state and uncovers key business building opportunities.
- A thorough assessment of the category prompts the development of total system strategies and tactics.
- This step allows for more focused research and analysis.
- The manufacturer’s perspective on the consumer and category is extremely valuable to the retailer.
- Manufacturers must be prepared to provide category data – not just brand data – and have an accurate understanding of the category’s consumer.
Category Assessment

CONTENTS

• Consumer Assessment
• Market Assessment
Category Assessment - Key Information Analytical Areas

Consumer Assessment:
• Why do consumers buy this category?
• Who buys the category?
• What % of hh buy the category?
• When do consumers buy the category? Frequency?
• Where do consumers prefer to buy the category?
• How do consumers buy the category? “Decision Tree”.

Market Assessment:
• What are the sales trends of the category?
• What is the retailer’s market share and opportunity gaps of the category?
• How does the retailer compare to competitive retailers across key merchandising areas?
• What shopper migration has occurred to other channels?
Category Assessment - Key Information Analytical Areas

Retailer Assessment:
- Sales trends?
- Profit trends?
- Acquisition costs?
- Operating expenses?
- Service levels?
- Gross margin return on inventory investment (GMROI)?
- Effectiveness of shelving assortment, space pricing, promotions?

Manufacturer Assessment:
- Supplier profitability?
- Physical flow efficiencies?
- Monetary flow efficiencies?
- Brand performance?
- New product introductions?
- Price Changes?
- Marketing funds?
- Team resources dedicated to retailer?
Range analysis

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<th>Export</th>
<th>Product</th>
<th>Brand</th>
<th>Units Rank</th>
<th>Customer Penetration Rank</th>
<th>Loyalty (Value) Rank</th>
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<td>34</td>
<td>56</td>
<td>59</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Ariel Non Bio Liquid 1.5Ltr Bottle</td>
<td>ARIEL</td>
<td>40</td>
<td>57</td>
<td>21</td>
<td>58</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Ariel Bio Powder 15 Washes/1.1Kg</td>
<td>ARIEL</td>
<td>10</td>
<td>14</td>
<td>50</td>
<td>102</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Tesco Conc Colour 1.5Ltr Bottle</td>
<td>TESCO</td>
<td>36</td>
<td>58</td>
<td>72</td>
<td>11</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Persil Colour Liquigel 1.5 Ltr</td>
<td>PERSIL</td>
<td>47</td>
<td>48</td>
<td>76</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>Tesco Conc Non-Bio 1.5Ltr Bottle</td>
<td>TESCO</td>
<td>38</td>
<td>60</td>
<td>57</td>
<td>34</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>Bold Active /Woodland1.5Ltr Bottle</td>
<td>BOLD</td>
<td>45</td>
<td>77</td>
<td>39</td>
<td>30</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Daz Tablets 24 Washes 48S/1.872Kg</td>
<td>DAZ</td>
<td>80</td>
<td>96</td>
<td>14</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Bold A/Matic Hawaii / Summer 15 Washes/1.1Kg</td>
<td>BOLD</td>
<td>11</td>
<td>16</td>
<td>60</td>
<td>106</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: dunnhumby
Market Growth

Low

High

Share Of market

Low

High

Sleepers

Winners

Questionables

Opportunity Gaps
Cross-Category Analyses Focus on the Following Questions...

- How important is the category to the retailer’s target consumer?
- How important is the category to the retailer?
- How important is the category to the retailer’s competitor’s?
- What is the category outlook in the retailer’s marketplace?
Cross category buying can be insightful.

- Cross-buying analysis permits a more complicated analysis of data elements to identify optimal sale combinations with other categories or promotion mixes.
- A cross-buying analysis looks at how probable it is that a consumer will purchase the targeted product when buying another category.
Category Management Process

- Monitor Performance/Review Category
- Identify Capabilities
  - Define Category
  - Identify Role
  - Assess Category
  - Create Scorecard
  - Develop Strategies
  - Develop Tactics
  - Implement Plan

- Assortment
- Promotion
- Shelf Presentation
- Pricing
- Supply Chain
Step #5: Category Scorecard

- This step determines the target objectives for the retailer and manufacturer as they relate to the category business plan.
- The target objectives are usually the hurdle rates or numbers the category manager and manufacturer expect to achieve.
- The end result of this step is a SCORECARD complete with current status, target objectives and the proposed changes between the current state and the target.
## Hypothetical Category Scorecard

<table>
<thead>
<tr>
<th>Consumer</th>
<th>CURRENT</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retention Level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase frequency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase incidence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction rating</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share</th>
<th>CURRENT</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category to department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category to market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales</th>
<th>CURRENT</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category $</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales/ Sq. Ft. / Week</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Hypothetical Category Scorecard

<table>
<thead>
<tr>
<th></th>
<th>CURRENT</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Profit $</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Margin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Profit / Sq. Ft. /Week</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Private Label</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of Gross Profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Margin</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Product Supply</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Days of Supply</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory $</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turns</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GMROI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Level</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### FIGURE 6.2 Different Roles Call for Different Goals

<table>
<thead>
<tr>
<th>Category Scorecard</th>
<th>Destination Category</th>
<th>Convenience Category</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
<td>% Change</td>
</tr>
<tr>
<td>Market share $</td>
<td>32%</td>
<td>7</td>
</tr>
<tr>
<td>Market share units</td>
<td>32%</td>
<td>7</td>
</tr>
<tr>
<td>Sales $</td>
<td>$79 mil</td>
<td>10</td>
</tr>
<tr>
<td>GM %</td>
<td>11%</td>
<td>1</td>
</tr>
<tr>
<td>Op exp % of sales</td>
<td>15%</td>
<td>(8)</td>
</tr>
<tr>
<td>Net profit $</td>
<td>$2.4 mil</td>
<td>5</td>
</tr>
<tr>
<td>Service Level</td>
<td>95%</td>
<td>6</td>
</tr>
<tr>
<td>Inventory (days supply)</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Inventory Turns</td>
<td>33</td>
<td>6</td>
</tr>
<tr>
<td>Return on assets</td>
<td>27.2%</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: The Partnering Group, Inc.
Category Management Process

Monitor Performance/Review Category

- Identify Capabilities
- Define Category
- Identify Role
- Assess Category
- Create Scorecard
- Develop Strategies
- Develop Tactics
- Implement Plan

- Assortment
- Promotion
- Shelf Presentation
- Pricing
- Supply Chain
Strategies
Step #6: Category Strategy

• Category strategy is the step in the process when strategies are developed to complement the category’s consumer-based role

• It provides a forum for the retailer and manufacturer to develop strategies that focus on the category opportunities through creative and efficient use of the resources available

• Category strategies typically include both “marketing” and “product supply” (procurement and distribution) strategies
# Marketing Strategies

<table>
<thead>
<tr>
<th>Category Role</th>
<th>Category Scorecard</th>
<th>Current Assessment</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 1</td>
<td>Strategy 2</td>
<td>Strategy 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tactics</td>
<td></td>
</tr>
</tbody>
</table>

Strategies are how you will get from your current situation to your target.

Strategies depend on the category’s role and scorecard.

They provide guidance to tactics.

Strategies can be both general and unique depending on your situation.
Marketing Strategies

1. Grow and Expand Existing Brands
2. Establish New Brands and Introduce New Products
3. Maintain Current Position and Share
4. Block Competition (Gain Competitive Advantage in an honest, ethical manner)
5. Rationalize the Portfolio (Acquire or Divest)
Category “Marketing” Strategies

- A retailer’s marketing strategy addresses – how will they market the category and its components to achieve the category role and scorecard?
- Marketing strategies typically address consumer and competitive positioning and their application

Marketing Strategies:
- Traffic Building
- Transaction Building
- Cash Generating
- Profit Generating
- Image Enhancing
- Turf Defending
- Excitement Creating
It is very important for suppliers to understand where their various brands and products fit into the retailers strategy.
Marketing Strategies

TRAFFIC BUILDER

Objective:
• Draw consumer traffic to the store and / or into the aisle and category

Characteristics:
• High Category market share
• Frequently purchased items
• Account for a high percentage of sales
Marketing Strategies

TRANSACTION BUILDER

Objective:
• Increase the size of the average category, aisle or total store transaction

Characteristics:
• Higher ring
• Impulse Purchase
Marketing Strategies

**CASH GENERATOR**

**Objective:**
- Focuses on the ability of the category to generate cash flow

**Characteristics:**
- High turns
- Frequently purchased
Marketing Strategies

PROFIT GENERATOR

Objective:
• Focuses on the ability of the category to generate profits

Characteristics:
• Higher gross margins
• Higher turns
Marketing Strategies

IMAGE

ENHANCING

Objective:
- Communicates the retailer’s desired image to the consumer in one or more of the following areas: price, service, quality and assortment

Characteristics:
- Frequently purchased
- Highly promoted
- Impulse
- Unique / seasonal items
Marketing Strategies

TURF
DEFENDING

Objective:
• Aggressively positions the category to appeal to the consumer in comparison with the competition

Characteristics:
• Used by retailers to draw traditional customer base
Marketing Strategies

EXCITEMENT
CREATING

Objective:
• Communicates a sense of urgency or opportunity to the consumer

Characteristics:
• Impulse
• Lifestyle oriented
• Seasonal
It is very important for manufacturers to understand where their various brands and products fit into the retailers strategy.
Category Management Process

Monitor Performance/Review Category

- Identify Capabilities
- Define Category
- Identify Role
- Assess Category
- Create Scorecard
- Develop Strategies
- Develop Tactics
- Implement Plan

- Assortment
- Promotion
- Shelf Presentation
- Pricing
- Supply Chain
Step #7: Category Tactics

• The goal of this step is to determine the specific actions that should be taken to achieve the chosen category strategies.

• This step requires the retailer and manufacturer to address each choice through key considerations and complete the necessary analysis that validates (or invalidates) their desired category tactic.
5 Key Areas of Category Tactics

• Assortment
• Pricing
• Promotion
• Shelf Presentation (Plan-o-grams)
• Product Supply
Hypothetical Example of Tactical Choices
Driving the Strategy

Category: Soft Drinks
Role: Destination
Subcategory: Regular and Diet Colas
Strategy: Traffic Builder

Tactics:

**Assortment**
Create as many items as possible to increase the opportunity for consumers to purchase

**Pricing**
Offer the best market value price per unit across all items.
Keep price points competitive at all times.

**Promotions**
Select items that increase sales and feature frequently.
Display as frequently as possible.
Display with complimentary profitable items.

**Shelf Pres. (plan-o-gram)**
Stock items in high traffic areas with high exposure time.
Place top sellers in leading positions.
Practicing Category Management

Category Tactics

Four main components are utilized:

– Pricing
– Promotion
– Merchandising
– Assortment
Practicing Category Management

Pricing

- Key Questions
  - How does pricing compare to competition?
  - Is pricing consistent with category strategies?
  - How will price changes effect overall category sales and profits?
Practicing Category Management

Promotion

Category Tactics

• Key Questions
  – How are competitors promoting?
  – What impact do promoted items have on sales and profits?
  – Do promotions build traffic or generate more sales?
  – Which types of promotions best support the category strategy?
Practicing Category Management Merchandising

- Key Questions
  - Is space allocated properly between sub-categories and segments?
  - How well are products utilizing the space (dollars/sq. ft.)?
  - Do target days of supply equal total shelf pack out on an item level?
Practicing Category Management

Assortment

- Key Questions
  - What process is used to evaluate new items?
  - What criteria should be utilized when identifying SKUs to remove?
  - How does assortment compare to competitors’?
  - Is assortment consistent with category role and strategies?
# Category Management

## Category Tactics

### Strategy/Tactics Matrix Reference Chart

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Objective</th>
<th>Sales Impact</th>
<th>Profit/Impact</th>
<th>Pricing</th>
<th>Promotion</th>
<th>Assortment</th>
<th>Merchandising</th>
<th>Supply Chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traffic Building</td>
<td>Grow share and traffic</td>
<td>Increase sales.</td>
<td>Maintain gross profit dollars.</td>
<td>Price key items at or below market. Good discount on promotion.</td>
<td>Use banner/window ads to generate traffic. Use displays outside and inside the store.</td>
<td>Broad selection to appeal to highest number of customers.</td>
<td>High sales items placed in prominent position based on store flow.</td>
<td>Allocate space to profit contribution.</td>
</tr>
<tr>
<td>Profit Generating</td>
<td>Grow or maintain profit.</td>
<td>Hold or increase sales.</td>
<td>Maintain &amp; grow current GP dollars.</td>
<td>Test price changes to drive GP dollars.</td>
<td>Use displays inside store to generate impulse purchases.</td>
<td>Limit offering to highest GP% items or those with high turns.</td>
<td>High-profit items placed adjacent to high-sales (traffic) items.</td>
<td>Not important.</td>
</tr>
<tr>
<td>Transaction Building</td>
<td>Build cash register ring by building market basket.</td>
<td>Increase market basket.</td>
<td>Increase total basket GP dollars.</td>
<td>Price to build average ring, e.g., multiple pricing. Bundle pricing.</td>
<td>Limited promotion support.</td>
<td>Limited offering of items with most appeal/high turns.</td>
<td>These items placed adjacent to transaction items.</td>
<td>Not important.</td>
</tr>
</tbody>
</table>
## Cash Generating

<table>
<thead>
<tr>
<th>Goal</th>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase sales/maintain profits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>Keep price points competitive.  Avoid using items as EDLP.</td>
<td>Increase prices on selected items if they appear to be price insensitive.  Avoid using items as EDLP.</td>
</tr>
<tr>
<td><strong>Promotions</strong></td>
<td>Promote profitably to increase sales.  Never run as loss leader.  Use coupon to offer price discount while mitigating loss.</td>
<td>Promote only to increase profits.  Never run as loss leader.</td>
</tr>
<tr>
<td><strong>Assortment</strong></td>
<td>Increase assortment in growing categories.  Prune less profitable items.  Create high-quality private label using high volume items if economic return can be shown.</td>
<td>Increase assortment in growing categories.  Prune less profitable items.  Create high-quality private label using high volume items if economic return can be shown.</td>
</tr>
<tr>
<td><strong>Planogram</strong></td>
<td>Increase space to category.  Place more profitable items in leading positions.  Allocate space disproportionately to high profit items.</td>
<td>Place more profitable items in leading positions.  Allocate space disproportionately to high profit items.</td>
</tr>
<tr>
<td><strong>Feature Ads</strong></td>
<td>Never run items as loss leaders.  Run items in A ads using coupons to generate interest in the category.  Try to use many items in B ads to increase profitability.  Use category often in ads to generate sales but avoid aggressive price points when advertising.</td>
<td>Never run items as loss leaders.  Run items in B ads to increase profitability.</td>
</tr>
<tr>
<td><strong>Display</strong></td>
<td>Use “shelf talkers” to emphasize best buys.  Display as frequently as possible to increase consumer interest in category.</td>
<td>Use “shelf talkers” to emphasize best buys.  Display as frequently as possible to increase consumer interest in category.</td>
</tr>
<tr>
<td><strong>Positioning</strong></td>
<td>Increase consumer trial.  Good assortment.  Priced so the consumer does not have an incentive to change stores.  Good value through promotional pass-through.</td>
<td>Good assortment.  Priced so the consumer does not have an incentive to change stores.  Good value through promotional pass-through.</td>
</tr>
</tbody>
</table>
Beware of Supplier Recommendations

• While it is true that suppliers are more partnered with retailers today one still must be very careful when dealing with promotions.

• Many promotions helpo sell the suppliers products but do little to lift category sales. You often just have brand switching or forward buying.
Planograms
Part of Tactics not all CM!!

• The most important thing to remember is that space to sales ratios do NOT work.
• We will talk about more systematic methods such as SPACEMAN but it is important to understand the role of each brand or variety within the category.
Category Management Process

- Monitor Performance/Review Category
- Identify Capabilities
- Define Category
- Identify Role
- Assess Category
- Create Scorecard
- Develop Strategies
- Develop Tactics
- Implement Plan

- Assortment
- Promotion
- Shelf Presentation
- Pricing
- Supply Chain
Step #8: Plan Implementation

• This step consists of gaining approval of the process and plan, assigning responsibilities and scheduling appropriate time frames for execution.

• I can not emphasize enough this is where success and failure takes place!!

• In USA planogram compliance rate is about 60%...slightly over half!

• All this energy and resource spent to decide the “perfect” way to create shelves and it does not get done.
Most Common Mistakes

1. Issuing planograms with unintelligible images
2. Incorrect correct fixtures on hand (say planogram calls for peg hooks and there are none)
3. Lack of understanding of store staff of importance of new products and getting them on the shelf
4. Failure to monitor DSD vendors
Most Common Mistakes

- Failure to change fast moving categories such as HBA. Headquarters view of the category may be very different from what is in the store.
- Being late for a seasonal sale.
Step #9: Category Review

• The final step of the process
• Consists of an ongoing review and measurement of the progress of plan toward the category role and scorecard

Key Review Principles:
• How often should a category plan be evaluated?
• What role does each party play in measuring the progress?
• What format (forum) should the review and measurement reporting follow?
Some General Rules of Thumb

Categories accounting for about 50% of sales should be reviewed 3 times a year.

<table>
<thead>
<tr>
<th>Category</th>
<th>Annual $ Sales</th>
<th>% of Total</th>
<th>Store Sales</th>
<th>Cumulative Store Sales</th>
<th># of Annual Reviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1,000,000</td>
<td>17.2%</td>
<td>17.2%</td>
<td>17.2%</td>
<td>3</td>
</tr>
<tr>
<td>B</td>
<td>800,000</td>
<td>13.7%</td>
<td>30.9%</td>
<td>30.9%</td>
<td>3</td>
</tr>
<tr>
<td>C</td>
<td>785,000</td>
<td>13.5%</td>
<td>44.4%</td>
<td>44.4%</td>
<td>3</td>
</tr>
<tr>
<td>D</td>
<td>650,000</td>
<td>11.2%</td>
<td>55.5%</td>
<td>55.5%</td>
<td>2</td>
</tr>
<tr>
<td>E</td>
<td>600,000</td>
<td>10.3%</td>
<td>65.8%</td>
<td>65.8%</td>
<td>2</td>
</tr>
<tr>
<td>F</td>
<td>540,000</td>
<td>9.3%</td>
<td>75.1%</td>
<td>75.1%</td>
<td>2</td>
</tr>
<tr>
<td>G</td>
<td>440,000</td>
<td>7.6%</td>
<td>82.7%</td>
<td>82.7%</td>
<td>1</td>
</tr>
<tr>
<td>H</td>
<td>420,000</td>
<td>7.2%</td>
<td>89.9%</td>
<td>89.9%</td>
<td>1</td>
</tr>
<tr>
<td>I</td>
<td>390,000</td>
<td>6.7%</td>
<td>96.6%</td>
<td>96.6%</td>
<td>1</td>
</tr>
<tr>
<td>J</td>
<td>200,000</td>
<td>3.4%</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,825,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Step #9: Category Review

- The final step of the process
- Consists of an on-going review and measurement of the progress of plan toward the category role and scorecard

Key Review Principles:
- How often should a category plan be evaluated?
- What role does each party play in measuring the progress?
- What format (forum) should the review and measurement reporting follow?
Category Management-The New Approach

• Manage the Aisle-Instead of measuring the performance of every category, concentrate on the key aisles, those with double-digit growth.

• Focus on Solutions-Put the emphasis on fixing and changing the store and not simply obtaining and analyzing information.

• Keep Up With the Consumers-Use data on purchasing trends to catch up to or even get ahead of shoppers as they alter their lifestyles-and shopping habits.

• Monitor in Real-Time-Employ technology to monitor performance (and make changes) in days and weeks instead of months or a year.
"The dip in sales seems to coincide with the decision to eliminate the sales staff."
What are the biggest obstacles that should be addressed in implementing category management?
The most common obstacles often are:

1. lack of management commitment,
2. lack of timely,
3. easy-to-use information to facilitate category assessment,
4. inadequate knowledge on the consumer characteristics for the category,
5. skill deficiencies of category and account managers.
gracias