

Category management flashcard



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Working Paper: Category Management (CM) in Indian Marketing Context M
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com Abstract Category management has been a potent tool for
transformation of retail industry worldwide, especially the US. The USP of
Category management is in the fact that instead of the emphasis on brands
within a single category of products thereby enhancing competition within a
category, it takes a holistic view of the category and attempts to maximize
profits for the whole category. By doing so, it professes to optimize profits of
the individual brands within the category also.

In India, the modern retail industry is in a nascent stage but with a huge
potential and a rapid growth projected in near future. There is much scope
for venturing into category management, given its proven applicability in the
West and its feasibility in transforming Indian retail industry. This paper
proposes a strategic framework for implementation of Category Management
in India as also the guidelines for doing the same. Keywords Category,
Category Management, Indian Retail Industry, Category Captain, Retailer-
Supplier Relationship, Retailer-Consumer Relationship. 1.

INTRODUCTION Category Management can be defined as a retailer-supplier
process of managing categories (distinct manageable group of products) as
Strategic Business Units (SBUs), producing enhanced results by focusing on
delivering consumer value. Category management was developed as a
strategy for retailers to successfully compete in each retail category for the
shopper's loyalty and money. Traditionally, retailers used to assign buyers to

purchase brands of specific manufacturers instead of making all purchases within a particular product category. Category Management approach, on the other hand, has put forward a new method of doing business for the retail industry. It recognizes the interrelatedness of products in the category and focuses on improving performance of whole product category rather than the performance of individual brands.

The traditional brand-oriented buyers are replaced with category managers who are responsible for integrating procurement, pricing and merchandising of all brands in a category and jointly developing and implementing category based plans with manufacturers to enhance the outcome of both parties (Pellet, 1994; Progressive Grocer, 1995 a and b; Supermarket news, 1997). A category is defined as a distinct manageable group of products that consumers perceive to be related and/or substitutable in meeting a consumer need (FMI, 1995) and the Category management insists that retailer's categories, rather than the manufacturer's brands, become the focus of management resources. The operating assumption of category management implies that performance in a category at the retail level will result in improvements in the suppliers' performance whose brands are sold through the category. The category management theory posits that retailers can maximize their sales in the category through an optimal mix of brands, SKUs, and pricing that is determined from the consumer's perspective and is based on historical sales data (Gruen, 1998). Once the retailer's sales in maximized in the category, the equilibrium established within the category would be the best-case scenario for each individual brand.

2. CATEGORY MANAGEMENT vs. BRAND MANAGEMENT The approach discussed above runs counter to the manufacturer's brand management paradigm that views positive result mainly when the brand managers' SKUs gain shares in the category. Brand management approach postulates that brands require a dedicated advocate to maximize their market potential. It encourages a type of " Darwinian" environment in which the strongest brands survive. In case a brand is weakening in the market, the brand management principle says it is better to have a sister brand take its position rather than some other brand in the same category.

As opposed to the holistic approach of category management, brand management encourages intensification of competition within a category. Competing brands within a category actually give rise to a lot of cannibalization problems where a lot of resources are wasted on countering each other's competitive moves. This problem would get more severe when consumer loyalties are diminishing and hence this is both a challenge as well as a business problem.

3. INFLUENCE OF ENHANCED RETAILER POWER ON CATEGORY MANAGEMENT The greatest factor that holds category management as the paramount strategic policy of future and keeps it somewhat favorably compared to brand management is the increasing power and sophistication of the retailer.

Whereas traditional retailers may have relied on the manufacturer for information and expertise, contemporary retailers are often in a position to dictate marketing policy to the manufacturer. This change has created a two-pronged effect (Zenor, 1994): a) The retailer has started taking many decisions regarding pricing, advertising, merchandising, promotion etc.

traditionally associated with the brand manager. b) The strength of the retailer increases the importance of the sales force for presenting a united effort across the firm's product line. Both these effects have led to the transfer of power away from the brand-management group and coupled with this is the rising interest of retailers in category management.

In the recent past, studies have shown the increasing interest of retail chain operators into category management. In a report (Progressive Grocer, 1996), 83 % of retailers viewed category management as the most important issue facing them. In another study (Chain drug review, 1997), Category Management initiatives were shown to be the most important reason behind retailers improving their technology systems. Such trends seem to continue; with its implications on the way principles of category management are getting shaped. 4.

THE STRATEGIC FRAMEWORK FOR CATEGORY MANAGEMENT A very popular report (Category Management Subcommittee et al. , 1995) presented the process of applying category management principles to practice. This report essentially contains the how-to of Category management and lays out eight critical steps that are necessary for a proper implementation of CM by a retailer. We present this framework here to facilitate the understanding of the strategic structure and process surrounding CM to evaluate the outcomes of its implementation effectively.

Step 1: Category definition This step determines the products that constitute a category, sub-category and major segmentation. At this step, the retailer assigns products to the various categories based on factors such as

consumer usage and packaging. The category definition should include all products that are either highly substitutable or closely replaced. So, there may be a category of soaps with a sub-category of toilet soaps; or there may be a separate category for toilet soaps altogether. Similarly, there may be a category for soft drinks and a separate one for soft drinks in cans, or the second one may be a sub-category.

Step 2: Category role This step assigns the category role based on a cross-category analysis that considers the consumer, distributor, supplier, and marketplace. Designing a category role gives the retailer a perspective to allocate resources among various categories. Traditionally, four category roles have been identified and are as follows: a) **Destination Categories:** These are the ones in which the retailer positions itself as the store of choice to the consumers by offering better value. b) **Routine Categories:** These are those that the consumer purchases as matter of routine.

Toothpastes, soaps etc. form part of this group. **Figure 1: The Category Management Strategic process** c) **Convenience Categories:** These are the categories that the consumer finds convenient to pick up at a neighborhood retailer rather than go to a distant retailer offering better value. Stationery products, and certain commodity items form part of this group d)

Seasonal/Occasional Categories: These are purchased infrequently or seasonally. Seasonal fruits and similar food items are part of these groups.

Some of the seasonal categories may become part of the destination category group in that season for the retailer. **Step 3: Category Assessment** This step involves gathering and analyzing historical data and relevant

information and then developing insights for managing the category. At this stage, a detailed assessment of the sales, profit and return on assets opportunities is done on the basis of an analysis of categories' components including elements such as sub-categories, brands and SKUs. Step 4: Category Scorecard This step involves establishment of performance measures to evaluate program execution. At this stage, baselines and targets are established. The category role matrix is used here along with other parameters such as GMROI (Gross Margin Return on Investment), return on inventory goals, service levels and so forth.

Step 5: Category strategies This step involves the development of marketing strategies for the category. Category marketing strategies can be classified into demand-chain and supply-chain categories. The strategies regarding cash generation, traffic building, profit, transaction, image, and excitement creation come under the demand-chain strategies. The strategies regarding merchandising flow and transaction costs come under the supply chain strategies. Step 6: Category tactics This step involves the determination of optimal category pricing, promotion, assortment, and shelf management that are necessary to achieve the agreed-on-role, scorecard, and strategies. Literature (Category Management Report, 1995) proposes that pricing policies should be applied to the current prices to develop price changes and set overall price changes for the category.

Promotional prices should be applied in the development of a promotional plan that includes frequency of promotions and recommended price points.

Step 7: Category Plan Implementation This is the stage where the action happens by virtue of implementation. The implementation plan includes

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what specific tasks need to be done, when each task should be completed, and who is to accomplish each task. The implementation of the category plan is perhaps the most vital linkage in the entire chain.

Step 8: Category review This step involves the regular management of the intended results of the overall plan. Reviews should be scheduled at established intervals and listed in the implementation plan. Choice and implementation of category strategies is one of the keys of category management process. Retailers practice category management with several ends in mind, but increasing profitability, increasing revenue and optimizing item mix are some of the most important strategies (AC Nielsen, 1998). With such a strategic framework, the performance of category management is dependent on the strategic and operational efficiencies of the implementation procedure.

A lot of factors decide the performance of a particular category functioning under the purview of category management. 5. STRATEGIC MODEL FOR PERFORMANCE OF CATEGORY MANAGEMENTAs has been discussed above, a lot of inputs have to be factored into, while devising a model that guides the performance of the category management procedure. Essentially, the performance depends upon the three basic groups involved in category management and the kind of relationships that. These three groups are: a) Consumers, b) Retailers, and c) Suppliers. Category management is provided its operational form at the retail outlet level.

Thus the retail outlet, and by consequence, the retailer becomes the central figure in category management strategy formulation and implementation.

The consumer is obviously the key to all decision-making and the suppliers form the third part in the sense that they have to perform most of the category management tasks. The two relationships that are keys to category management performance are: (i) Supplier – Retailer Relationship (ii) Retailer – Consumer Relationship We propose a model to illustrate the overall interaction of these entities and the effect of the interrelationships as shown graphically in the adjoining figure. We present the performance model of the supplier and retailer relationship to formulate the category management strategies and their implementation.

This implementation is mostly reflected at the retail outlet, which is the point of sale as well as the point where consumer choices are manifested. At the retail outlet, the consumer – retailer relationship comes into the picture and the consumer is offered enhanced value through category management. We also propose a model to illustrate the entities and effects of Retailer-Consumer relationship which leads to consumer satisfaction. Consumer satisfaction, if achieved, props up category growth to fulfill the final objective 5.

1 SUPPLIER – RETAILER RELATIONSHIP Even though category management is primarily a retail strategy, the influence of manufacturers and suppliers cannot be negated. It is the manufacturers who have developed the expertise required to determine the efficient assortment, pricing, promotions, and placement of the various brands and sizes of each SKU for the category. Such expertise, coupled with proprietary consumer data, and syndicated market data, enables the manufacturers to pitch their ability to play the role of Category Captain. The concept of Category captain,

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extensively employed in US, is to implement category management. The Category Captain is a supplier who forms a strategic alliance with the retailer to enable the retailer to develop consumer insights, satisfy consumers and improve performance and profit across the entire category. He is, most often, also the leading manufacturer in the category and the essential task for him is to provide solutions to the retailer that is optimal for the whole category and not only for his own brands and SKUs.

Once the retailer identifies the category captain, the retailer provides its proprietary sales information at the store level for the entire category. The category captain then develops the category plan and the strategies for the whole category, including the SKUs of its own, the store brand, as well as competitor brands. Such a plan might actually result in de-listing of many SKUs including some of the captain itself. In such a scenario, the relationship between the retailer and the category captain assumes much significance. The model presented here (Gruen et al.

, 2000) illustrates the effects of components of such relationship on performance of the category. Effect of Supplier-Retailer relationship on category performance Where P_i are the postulates: P1: Greater brand management / sales conflict leads to greater supplier opportunism P2: Greater the pre - planning agreement, lesser is supplier opportunism P3: Greater the pre - planning agreement, greater is the plan objectivity P4: Greater the pre - planning agreement, greater is the retailer system trust P5: Greater the pre planning agreement, greater is its implementation P6: Greater the opportunism, lesser the category plan objectivity P7: Greater the objectivity, greater is system trust P8: Greater the system trust, greater is

plan implementation P9: Greater the plan implementation, greater is the category performance P10: Greater the objectivity, greater the category performance The above model has a host of processes that comprise of the supplier-retailer category implementation model. Combined with the processes are the postulates that signify the inter-linkages between the processes. We hereby present a brief description of the processes and the postulates.

The processes can be categorized in three segments: a) Drivers of category performance) Antecedents of category performance c) Relationship parameters a) Drivers of category performance These are the factors that aid in enhancement of category performance, if properly implemented. (i) Objective category planning: The chief strength of category management is its reliance on data. The plan then must fully consider the available data and syndicated market area data. A category plan is considered objective when it fairly considers the store and market -level data so that the interest of the consumer is fully accounted for. The incentive to maintain a minimum objectivity of category plans is that by using actual sales data and by incorporating knowledge of the consumer's needs and wants, the plan should deliver the assortment, placement, and pricing of the SKUs in a manner that enhances the performance of the category.

(ii) Category plan implementation: Implementation refers to the actual carrying out of the category plans on the retailers' shelves. As a mediator between plan objectivity and category performance, the role of implementation is critical. b) Antecedents of category performance i) Brand management / Sales conflict: This is determined by the extent to which the <https://assignbuster.com/category-management-flashcard/>

firm's brand managers place pressure on their own firm's sales function during the category planning process to favor their firm's brands. Such a conflict finds its genesis in the essential policy differences between brand management principles and category management principles. (ii)

Opportunism: It is the degree to which the supplier firm places its interests above the joint interests above the joint interests of the relationship with the retailer.

It also connotes the category captain taking undue competitive advantage of its position in the category. The tendency towards opportunism is best described by the Agency theory. c) Relationship parameters (i) Retailer's "System Trust": This can be defined as the willingness of the retailer to rely on the category captain's policies. Such trust is essential to category plan implementation and lack of such trust retards category performance. (ii) Supplier / Retailer preplanning agreement: This process involves establishing common objectives, agreeing on the approach, and gaining buy-in from all parties involved in the category management process.

(iii) Supplier / CBD team resource commitment: This is the final key factor. It can be considered to be the input of resources and personnel by the partners into the category management partnership. Thus we have seen how supplier - retailer relationship affects category performance. Now we proceed to explore the other relationship in category management, which is between retailer and consumer. 5.

2 RETAILER-CONSUMER RELATIONSHIP We hereby propose a model to signify the aspects of this relationship. Consumer satisfaction has been

assigned the utmost importance as the determinant of category performance. We have divided the model into two basic segments, viz. Strategies for enhancing consumer satisfaction and Benefits of consumer satisfaction. While the former deals with the strategies that the retailer should adopt to generate enhanced consumer satisfaction, the latter deals with the impact of enhanced consumer satisfaction on retailer's macro objectives. I.

Strategies for enhancing consumer satisfaction The above model takes into account two broad strategies for enhancing consumer satisfaction. These are: a) Product centric strategies: The product centric strategies at the retailer level include the strategies regarding availability of an optimal product range. The two postulates proposed here are: (i) Product mix: An optimal product mix comprising of a broad product range, optimal price range and innovative and new products enhances consumer satisfaction (ii) Supplier management: An optimal assortment of suppliers in various categories, coupled with proper inventory management policies followed by retailer/supplier enhances consumer satisfaction b) Consumer centric strategies: The consumer centric strategies are those that are devised to positively affect consumer preferences for a particular category. The two postulates proposed in this category are: (i) POS management: The point of sale is the key to the process of consumer choice. We postulate that an effective POS management, comprising of creation of brand awareness at POS, Planogram management, merchandising, and POS promotion enhances consumer satisfaction by offering him more choices.

(ii) Services offered: The effectiveness of services offered, including after sales services, trade promotional programs, and relationship marketing enhances consumer satisfaction. II. Benefits of consumer satisfaction

Consumer satisfaction has been postulated as the key determinant of category performance. The two key areas that are affected positively by consumer satisfaction are presented by way of our hypotheses as: a) Category growth: We postulate that greater the magnitude of consumer satisfaction with a category, greater is the category growth. Greater category growth has a direct bearing on enhanced profits of the supplier. Hence consumer satisfaction leads to enhance supplier benefits.

b) Enhanced retailer assets: We postulate that enhanced consumer satisfaction causes greater purchases from the retailer outlet and hence offers competitive advantage to the retailer. This leads to enhanced retailer assets. Thus enhanced consumer satisfaction leads to greater benefits for the retailer. We iterate that although the importance of retailer consumer relationship has been tried to be mapped in the model we have provided here, the hypotheses need to be validated through market research and consumer patterns.

6. CATEGORY MANAGEMENT SCENARIO IN USA Category management as a concept has been endorsed and applied in the US in a major way. In a recent industry study (Cannondale Associates) where the current practices in category management were assessed by over 250 retailers and manufacturers, including Wal-Mart, Winn-Dixie, Publix, Kellogg's, Kraft Foods, Quaker Oats and Tropicana, it was found that the findings could be grouped as per the lines of the following: "...To survive in today's consolidating

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environment, retailers and manufacturers need to improve their collaboration with trading partners using the newest technologies, be alert to evolving views of private label and trade promotion efficiencies, and incorporate frequent shopper data analyses. According to the study, both retailers and manufacturers attributed double-digit sales growth to category management.

Efficient Assortment ranked as the category management skills component of most concern to those surveyed, while Category Definition/Role, Category Strategy, Shelf Management and Pricing ranked high as well. One of the major reasons for evolution of the whole concept of category management in US is the evolution of strong retailing industry and strengthening of the power the retail chains have over manufacturers. The retail chains have grown to become huge business enterprises in themselves. Thus there has been a shift away from the brand management concept of the manufacturers.