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**“The application of the category management business process into a non-food
business environment”**

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1 INTRODUCTION

The subject of this essay is the application of the basic category management business process into a non-food business environment. The subject is timely and interesting as category management has practically yet to be adopted outside the grocery business. However, as nowadays rather commonly accepted, the experience gained from the grocery industry has proven that category management can be of great help in improving efficiency and profitability, and increasing and enforcing the consumer orientation of doing business (Harris & McPartland 1993).

The objectives of category management are increasing profitability by taking into account all the factors that influence it on the shop floor and focusing on products with a high circulation, creating regular customers by focusing the product supply to target consumers and developing in-store marketing through space management and well instructed product display (Hisey 1995; Mestarimyyjä –teaching material 1999, 1).

The Category Management Best Practices Report (1997, 10-15) gives four trends in the retail business that explain the growing popularity of the concept in the grocery business. These are changes in the consumers, increased competition, economic and profitability aspects and developments in the field of information technology. Pellet (1994) in turn describes the three trends that support the adaptation of category management as the diversification of the market place, the growing number of new products and the grown demand for efficiency of activities via intensified competition.

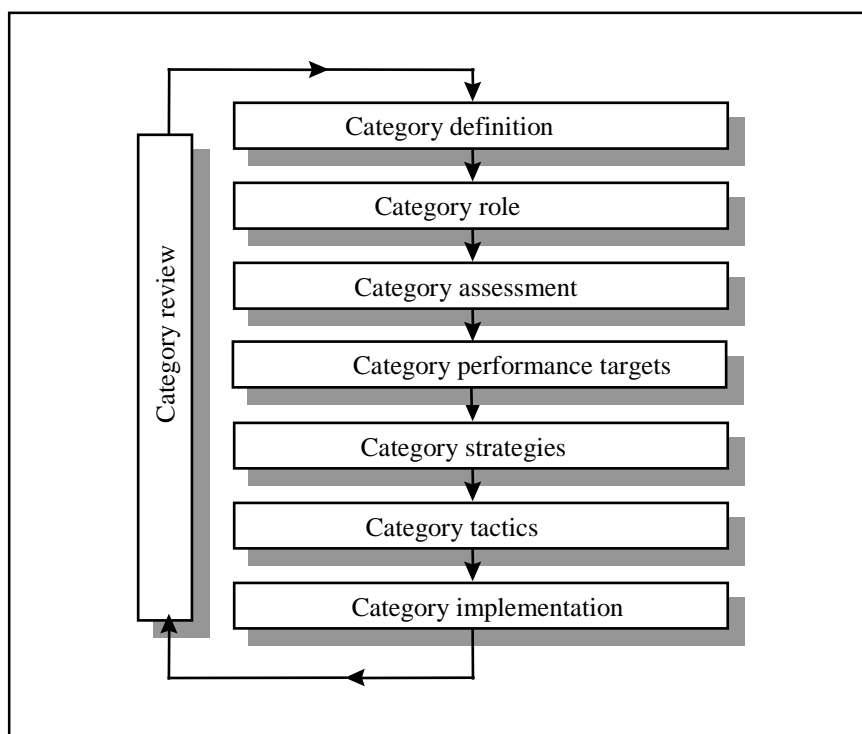
From a theoretical point of view both the aforementioned objectives of category management, and the developments in the market place seen to explain the growing popularity of the concept in the grocery business, apply directly also to most non-food businesses.

2 THE DEFINITIONS OF CATEGORY MANAGEMENT AND NON-FOOD PRODUCTS

In the literature concerning the subject there are numerous definitions to be found for the concept of “category management” (see for example Nielsen 1992; Joint Industry Project 1995, xix; Coopers & Lybrand 1996). For this essay I have chosen to define category management by the Canadian ECR Steering Committee (1995, 7) as *the cooperation between the retailer and the supplier in order to achieve efficiency and profitability in the product category by fulfilling the customers’ needs effectively. This is achieved by the systematic and goal-directed management of the product categories.*

The basis of this essay is the eight-step category management business process presented in The Category Management Best Practices Report 1997, 36. The process chart is show below in figure 1.

Figure 1: The category management business process



Source: Category Management Best Practices Report 1997, 36

For this essay a definition for a non-food product must be created on the basis of different product definitions found in literature (see for example Cravens & co. 1987, 377-378; Wilkie 1994, 489-490; Kotler & co. 1996, 547-549; Kotler 1997, 433-434; Fisher 1997). In the basic marketing and consumer behaviour literature products are classically divided into nondurable goods, durable goods and services. Durable goods are sold to their final consumer for his personal use and they last for a relatively long period of time and several times of use. Nondurable goods are consumed in one or a couple times of use while services are abstract and their acquirement does not lead to the ownership of any object (Kotler & co. 1996, 547; Kotler 1997, 433). According to this classical definition, the non-food goods referred to in this essay are durable goods.

3 NON-FOOD PRODUCTS AND CATEGORY MANAGEMENT

In order for there to be a realistic possibility of implementing the category management process into a non-food environment there are some fundamental factors that must be in effect. These are management support, willingness to change the company's organisation and culture, an organisation in which products are or can be led as strategic business units, information systems that (somewhat) effectively support operations and possible partners willing and able (with realistic resources) to participate in category management projects. This can be a problem in the non-food environment, as the relationship between retailers and suppliers often differs to some extent to that of the grocery industry. Compared to the grocery business non-food suppliers have less knowledge, capability and interest toward category management. In addition to this, for example in the clothing and footwear business, it is often the case that the suppliers are small companies situated geographically far away from the retailer (e.g. the Far East), which in practice makes a tighter cooperation impossible. In these cases the carrying out of the business process is much more the retailers responsibility than on the grocery side.

To enlighten the differences and difficulties faced when attempting to operate according to the category management process in a non-food business I shall next move step by step through the eight-step process especially highlighting these points.

3.1 Category definition

The defining of a non-food product category must be done carefully and thoroughly, as an “educated guess” on the category’s structure by a person or persons professionally involved with the category can easily differ from that of the target consumer’s point of view. It is advisable to always start the process with a customer survey to make sure that the category is analysed and developed in a way that pleases the most important consumer from the company’s viewpoint. This is especially true in new product categories, such as computer related equipment etc.

3.2 Category role

Before engaging in the category management process a company operating in a non-food business should carefully consider, which of the four traditional category roles (e.g. destination, preferred, seasonal and convenience) are suited for its use. It is worth noting in this connection that the category management ideology, including the defining of the different category roles, has been created in a grocery environment and may not always necessarily be directly transferable into a non-food environment in, for example the form of an optimal rolechart. This is something that it would be worth the academic world getting deeper into in the near future.

3.3 Category assessment

In a non-food business environment, the assessment stage represents by far the greatest challenge in the category management process. Contrary to the grocery business, there are practically no official instances that collect and sell data on the products and product categories (e.g. ACNielsen). Also the culture of fact-based management is often very different from that of the grocery world. There may not be

a history of systematically analysing and utilising data collected even from the company's own information systems. Another common problem faced is the form in which the company's internal data is collected and presented. The existing category definitions are usually rather industry-oriented and may be based on such product qualities that the modification into a category structured from the target consumer's perspective may prove impossible.

In practice the data used must be collected from possible associations within the industry, different suppliers' views on the subject, qualitative consumer surveys, concluding totals from the company's own figures (e.g. calculating the approximate size of a certain market by multiplying the company's sales figures by the assumed market share) etc. It is worth planning the customer survey referred to under category definition in view of these problems so as to obtain as much knowledge as possible from it also in the assessment stage.

However, there are also some aspects of the non-food business that somewhat diminish the information problems compared to the grocery business. For example, especially in fashion-sensitive product categories suppliers and retailers must constantly create new consumer needs and product categories (e.g. thick soled shoes or mobile phones with various new qualities). There can be no historical numeric data to support this function whatever the companies information systems are like. Also, the demand of non-food products is strongly influenced by external factors, such as weather conditions, which could make the gathered information anyway rather subjective of a certain period of time (e.g. clothes or sporting equipment). In addition to this, non-food goods are generally bought at a considerably lower buying frequency than grocery products, which for its part has an effect on the demand-predicting value of historical performance-information into the future.

In order to survive the stage of category assessment, there must be a lot of determination and willingness within the company to acquire as much information as possible on a certain product category. Although the data obtained might never match the quality of that of the grocery industry it can still make a considerable difference to

the way the category is seen and led, as the information used for the basis for decisionmaking before is likely to have been even lesser both in quantity and quality.

3.4 Category performance targets

The informational problems encountered in the non-food business environment also restrict the choice of appropriate performance measures for the product category. For this reason the performance targets set for the category must be such that their measurement is possible. This will usually mean restricting to simpler and fewer targets than in the grocery business, anyway on the numerical side. Qualitative targets may be set based on the information received from the consumer survey preferably performed at the beginning of the process. These can later be measured by repeating the applicable parts on the survey, this could mean for example finding from the original survey results that target customers find information on product packages to be insufficient, after which information is added and the survey repeated later from this part to ensure that the conceived amount of received information has indeed grown as expected.

A correctly done category definition becomes very important also in the target-setting stage. The right definition makes it possible for one of category management's biggest ideological benefits to be exploited also in the non-food business: measuring the product category instead of a stock keeping unit as the lowest followed level. This helps ensure that the right decisions are made concerning the whole category and conclusions are not made based on performances of single products. For example, if cheap women's tights are first sold from caged boxes on the floor and then displayed hanging on a wall and their sales fall, the decision should not be made to put the tights back into boxes without seeing what happened to the category as a whole. When not finding the obvious cheap tights on the floor, did the consumers possibly move their business into more profitable products?

3.5 Category strategies

The category strategies are defined as in grocery product categories to fulfil the chosen category roles and placed performance targets. In this stage, as in defining the category role, it should be considered whether all the strategies are indeed relevant for the non-food product categories in question, or whether there should be strategies added or taken away from the seven-strategy menu (traffic building, transaction building, cash generating, profit generating, image enhancing, turf defending and excitement creating) suggested in the basic category management theory. This too is a place for further academic research.

3.6 Category tactics

Non-food product category tactics should be decided for the basic four tactical areas: range, store display, pricing and promotion. The relative importance of each tactical area depends largely on the category in question. It can however be said that range and store display decisions are always very important in the non-food business as the store can often be the most important promotion-media. Well-planned ranges and displays should also help with the in-store supervision and upkeep of the product category so as to minimise problems with availability.

In the planning of product displays the role of space management software is something to be explored. This software suits some non-food product categories better than others (e.g. cds and videocassettes vs. clothes) and might call for development before being of general use with non-food products. However, until then display-instructions can be given in other forms, such as written instructions.

Notable compared to the grocery category management is the destination –role’s manifestation in the non-food business. Whereas in grocery products price must mostly play an important role in creating a destination position, in non-food categories its relevance can be much smaller. As consumers often feel higher involvement towards non-food products, the added value expected of destination

product categories can be created in various, creative ways (e.g. a hypermarket which target customers are families could manifest the baby-products destination –role by establishing its own department for all baby products such as food, nappies, clothes, toys, etc. thus easing the busy mother’s job in collecting them all up).

Perhaps the biggest modification to be done concerning category tactics in the non-food business is the need to add a fifth tactical dimension: service. It is crucial when making decisions about a non-food product category to take a stance on the level of service offered to the consumer and the way in which it is given. This can vary from package or shelf information to personal assistance and should be based on the level of service that the target customer wishes to get. For finding this out, the aforementioned consumer survey can be of great help.

3.7 Category implementation

Once the tactical decisions concerning a certain product category are made, it is time to put the plans into practice. Obviously this stage, as in the grocery business, is where the benefits of category management ultimately come to life – or do not. It is usually worth piloting the solutions in a couple of outlets before making the final decisions about widely spreading them. Also worth noting here, although no different from the grocery business, is the importance of motivating the people working with the product category at every level of the distribution chain. Store-implementation can never work if the staff does not know about and understand the objectives of the pilot-project or realise the importance of upkeeping the changes made to the category at the store-level.

3.8 Category review

As in the grocery industry, the success of the category business plan should be monitored constantly and systematically in relation to the category’s role and chosen performance targets. The plan must be modified if the piloting period proves that it is

necessary or later changes in the business environment call for adaptation of the widely spread category solutions.

4 CONCLUSION

The subject of this essay was the application of the category management business process into a non-food business environment. At the beginning it was suggested that the objectives of category management, as well as the trends that have supported the development and usage of it apply to non-food products just as they do to groceries.

Going through the eight-step process stage by stage I have then underlined the challenges and difficulties of category management in non-food categories. The biggest differences between grocery and non-food products were found to be in the existence and availability of appropriate assessment data, and the need for a fifth tactical element, “service”, to be added to the category tactics –stage of the business process. Also it was suggested that the category roles and strategies should be critically examined in order to determine whether they form the optimal mix for the use of the non-food business at hand.

In conclusion I feel certain that the category management theory can be adopted with little adjustments into a non-food environment and offer considerable added value to the profitability, efficiency and consumer orientation to the doing of non-food business. This will be a considerable competitive advantage for those first to apply it.