
Outdoor dining experience solution
delicatessen
fruit n veg
bakery
soft drinks

Category management may be difficult but it is critical for retail success. Experienced practitioners are now moving the goalposts by focusing on five key 'next steps'. The journey is only just beginning

The evolution of category management

ANALYSIS

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Category management has always been critical to the ultimate success of ECR. Re-engineering supply side relationships has lowered costs. However, results from the demand side have been more anecdotal and less demonstrable. Even after many years, firms are still struggling to achieve the full benefits of category management.

At the 2001 ECR-Europe conference in Glasgow, several case presentations on category management highlighted many of these challenges. From my North American perspective, they do not seem unique to Europe. Rather, they are global and generally evolutionary in nature.

Based on the reports from Glasgow, along with my own research in and involvement with category management, I have identified five key developments that practitioners of category management currently must address to assure future success in their efforts. These are:

1. Managing multiple suppliers to create a more exciting shopping experience, shift the category management focus from category "efficiency" to include a "consumer response" that is positive.

2. Expanding beyond a single category, product focus to multiple categories designed to address a consumer solution, where co-ordination goes well beyond juggling competing suppliers within a single category to co-ordinating complementary suppliers across categories.

3. Simplification and efficiency in category management planning, moving from "heavy on inputs – light on outputs" to "light on inputs – heavy on outputs".

4. Shifting the category management focus from a project to a core process orientation.

5. Web-services and e-category management – delivering category management in an open and competitive environment.

Having attended ECR conferences in the

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The next steps for category management

1. Moving beyond improved efficiency to improved consumer experience
2. Moving beyond single product-based categories to consumer solutions
3. Simplifying processes to become 'input light – output heavy'
4. Making category management a core process, not a project
5. Realising the full potential of the internet

US since 1996, I have heard industry leaders advocating the first four issues in one form or another for several years. But the fifth issue is new – the product of new technology – and has important implications for each of the first four. Let's look at each of them in turn.

From supplier-retailer efficiency to positive consumer response

ECR-inspired supplier-retailer partnering has transformed relationships and practices in many ways, by addressing process improvements. However, removing major inefficiencies in the supply chain is only one of two major opportunities of retailer-supplier collaboration.

The second opportunity is for the two parties to combine their knowledge of the consumer to develop improved offerings.

At the ECR-Europe conference in Glasgow, one of the presentations during "demand day" demonstrated the new evolutionary form that category management would need to take to include and inspire the consumer.

ASDA/Wal-Mart and L'Oreal brought together several L'Oreal brands with their head-to-head competitors to form a single co-ordinated aisle format – a "store within a store" environment that women would find satisfying in supplying their make-up needs.

Previously the make-up category had been unsuccessful in ASDA stores across the UK. ASDA has a 10 per cent share in total toiletries categories sales, but only a one per cent share in make-up. The goal was to create a "beauty experience" combined with ease of shopping. The results of the initial test store were eye opening. Overall sales increased 21 per cent more than initial estimates, and overall toiletries sales increased by 27 per cent.

Creating a better experience boosts sales

Three key lessons emerged from the ASDA/Wal-Mart and L'Oreal partnership.

First, generating positive consumer response requires the knowledge and assets of both the retailer and the supplier. Second, the retailer must take an active role in managing the category. The retailer cannot remain passive, relying on suppliers to perform the category management work. Instead, the retailer must be the key co-ordinator of the primary suppliers to the category. Third, major research into consumers' needs must be implemented early to identify those initiatives that will genuinely motivate them to alter behaviour.

From product-focus to solution focus

Category management is sometimes defined as management of the retail operation at the category level, by treating each category as a single profit centre. This view poses several challenges.

When a retailer has 200 categories, for example, the sheer task of simultaneously

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While a consumer may purchase diapers, she (or he) is ultimately interested in baby care. This solution thinking cuts across traditional categories

managing all of them as profit centres is potentially overwhelming. Also, consumers don't shop for isolated categories. In reality, they buy solutions to their needs and these needs are met through purchases of multiple categories (eg, snack foods are normally matched with a beverage).

This means performance in a single category should not be examined or measured in isolation from complementary categories.

Finally, allocation of fixed costs across categories is often arbitrary, or relies on simple averages which might not accurately reflect the true cost (and thus the ultimate profitability) of the category.

Product-focused category management represented only a first step in shifting from a producer orientation to a consumer orientation. The next step requires a move deeper into the consumer's approach to the shopping experience.

For example, while a consumer may purchase diapers, she (or he) is ultimately interested in baby care. A purchase of pet food is part of the overall pet care. A purchase of laundry detergent is one component of the consumer's clothing care purchases.

Thus, it is not surprising that category management has naturally evolved from managing single categories to the combination of multiple-related categories that focus on a consumer solution.

Solution thinking changes store layouts

This development is not limited to matching two complementary categories. It can involve the creation of complete sections in the retail store which cut across traditional category thinking – sections based on consumer needs and habits such as "meal replacement" or "vegetarian" sections.

Solution thinking cuts across traditional category thinking which, by design, is based on assumed efficiency of the retailer (and thereby making the shopping experience inefficient for the consumer). Solution thinking also cuts across the methodologies and templates used in shelf-space focused category management processes.

Ralston Purina, a leading manufacturer of various pet foods, spearheaded one of the early success stories in aisle management in the US.

The key categories in the grocery store were dog and cat food, catbox litter, pet supplies (brushes, flea and tick collars, etc), other domestic pet foods, and wild bird seed.

In partnership with Wolverton, Inc (distributor of pet supplies), Ralston Purina created the Total Pet Care solution which was tested in several Spartan Stores in the US. The idea was to create a "store within a store" that featured the quality consumers expected from speciality pet shops.

Strategically, implementation of the

Examples of the shift from product-focused categories to solutions

From	To
Diaper	Baby care
Laundry detergent	Clothing revitalisation
Pet food	Pet care
Toiletries	Personal care

Total Pet Care solution shifted the grocery retailer's focus of categories from routine (dog and cat food, catbox litter) and convenience (pet supplies) to the pet care aisle as a destination for the consumers.

From a sales and profit perspective, since the concept was implemented in 1997, pet food sales have increased over 20 per cent, pet supply sales have more than doubled, and overall margins have increased by about three per cent.

At the ECR conference in Glasgow, another excellent case example of the "store within a store" or aisle management concept was presented – the Carrefour/Procter & Gamble "baby solution centre" developed for the Marinopoulus stores in Greece.

This brought together complementary expertise from Nestlé, Johnson & Johnson, Fisher-Price, and Procter & Gamble. To create the centre, all Baby categories (diapers, wipes, baby food/milk/formula, toys, baby cosmetics and baby clothes) were located together.

The results were impressive, with sales in the major categories (diapers and food) increasing 34 to 51 per cent and sales in the impulse categories (toys and clothing) doubling and tripling.

Whether it is pet care in the US or baby care in Greece, these examples show the evolution of category management to aisle management can be successful worldwide. The common denominator is to find categories which are inter-connected and based on consumer needs.

From "heavy on inputs – light on outputs," to "light on inputs – heavy on outputs"

One key challenge for category management is the amount of input necessary to effectively review a category.

Category management projects often lead to increased sales, decreased assortment and corresponding inventory, and increased customer satisfaction. But given the heavy collective investment of time and money, was it really worth it? While the overall ROI in category management has rarely been measured, all parties agree the process is too time-consuming and the amount of inputs needs to be reduced.

Overall ROI has rarely been measured

Progress has been made on this front in both the US and in Western Europe. However, the reputation of category management in Eastern Europe – where the practice has been more recently adopted – has been characterised by being "heavy on inputs" and "light on output".

At the ECR Europe conference in Glasgow, a report on a joint project by Kraft Foods and Ahold in the Czech Republic to develop a category management system which could streamline the traditional eight-step best-practice process developed by The Partnering Group, sought to change this characterisation.

Currently, category management is too time-consuming. It must be streamlined and automated to become 'input light – output heavy'

Incorporating the Kraft three-step Category Builder ™ with the eight-step approach, they developed a five-step approach for Ahold. The streamlined category planning process took only three months before being ready for implementation.

While this seems like a long duration for planning, it is much shorter than early adoption of category planning practices in the US or Western Europe. In essence, they were able to leverage knowledge and move along the "category management" learning curve much more rapidly than their predecessors.

While the initial objective was to streamline the inputs, the ultimate objective was to not have to sacrifice outputs relative to reduced inputs. And the results from the process were outstanding. Using coffee as a test category, sales were up 21 per cent, SKUS were reduced by 11 per cent, and out-of-stocks were cut in half.

The Kraft-Ahold partnership demonstrates that while category management in Central Europe has the reputation for being heavy on input and light on output, it's possible to successfully balance inputs and outputs.

From project to core process

Reducing category management is, however, just a first step. The next crucial move is to automate and reduce the cost involved in creating and implementing category plans so they become a part of normal day-to-day business.

Managing categories should be a day-to-day activity

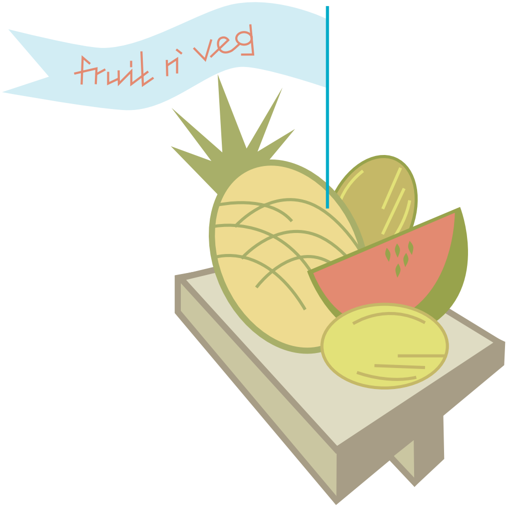
One approach was demonstrated at the ECR-Europe conference in Glasgow. There, COOP Schweiz and Procter & Gamble worked with SAP in Switzerland to develop an architecture for real-time collaboration which provides the foundation for executing everyday category management.

COOP Schweiz has 360,000 SKUS divided among its 156 categories contained in a category master data set. This data is complemented by two additional databases. The first includes category logistics based on Apollo shelf optimisation. The second is a data warehouse that stores POS data, AC Nielsen data, and consumer decision trees.

The SAP solution utilises these three sources to provide category management charts based on the consumer decision tree. Thus, the category management plans can be generated on demand and delivered in a format (shelf planograms) that can be immediately implemented.

The payoff to COOP Schweiz is evident. While its overall growth is 4.2 per cent, for the 41 categories currently under category management, growth averages 7.2 per cent. However, the practice is not easy. The solution is expensive and requires extensive training.

Moreover, category management



systems that are incorporated as part of an ERP solution may find themselves locked into rigid processes, a somewhat dangerous position in a dawning era of flexible Web services.

Regardless, the reported case study is very encouraging as it directly addresses the need to shift category management thinking from that of an occasional project to a core work process.

From closed systems to open systems: Web services and the future of e-category management

Technology has always been a key enabler for category management. Without the ability to rapidly analyse scanner data from the store and the market level, the original templates for category management would never be executed.

Better data use and communication are essential

From the supply chain perspective, systems such as EDI are critical for constant communication, electronic purchase orders, and on-demand inventory and shipping information by both the suppliers and retailers.

A limiting factor is that these systems and processes have been designed for one-to-one communication. This requires retailers to maintain a separate, dedicated link with each of its suppliers. This requires intensive IT resources and infrastructure.

However, the nature of category management requires managing categories where several suppliers simultaneously participate. Evolutionary patterns such as the adoption of solution thinking make the simultaneous communication with several suppliers even more paramount. New evolutionary modes of category management require more efficient means for true collaboration between suppliers and retailers, as well as among suppliers working with a retailer.

Additionally, in order to lighten the inputs, formats and platforms must be developed which can be shared by multiple suppliers and retailers.

The term “e-category management” was discussed extensively at the ECR conference in Glasgow, and – as one would expect with a new and misunderstood concept – it took several forms depending on the presenter.

One company pushing e-category management is Accenture, which unveiled its web-based approach to category management through a demonstration of its “e-category management dashboard”.

Three key advantages of the Accenture approach include the ability for all parties in the process to simultaneously view the category reports (via a Web interface), continuously updated data in the data warehouse (assuming automated data feeds from the retailer, manufacturer, and data providers are in

Using the Internet for category management not only saves time. It enables groups of suppliers to coordinate activities to enhance the category

place), and limited up-front IT investment for the retailer.

The key concerns include security – since it requires working outside the company firewall – and ongoing dependence on the category management services provider.

This new form of category management is part of the new approach to corporate information systems that is commonly referred to as "Web services".

The term was coined by IBM, although Microsoft (.Net), Oracle (Network Services), and Sun (open network environment) all have their own initiatives in this arena.

Web services will change – and enhance existing processes

Regardless of the name (and I will use Web services as the generic term), the key assumption is that companies will buy their information technologies as services provided over the Internet rather than owning and maintaining their own hardware and software.

While the potential benefits and pitfalls of Web services are debated daily in the IT media, there seems to be general agreement that applications which focus on increasing productivity through collaboration with business partners provides a rich early opportunity in the Web services arena.

One major implication of utilising the Internet as a platform for category management is that it allows the process to be truly collaborative.

Category planning has traditionally been asynchronous in that the supplier receives all the data for an entire category, analyses it in isolation, and following analysis, presents the findings to the retailer who sees only the results and none of the process.

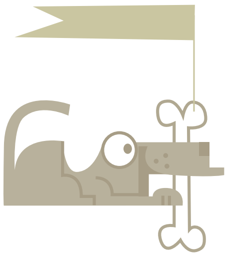
An inherent "agency problem" is faced by the retailer who must determine objectivity of the results. Use of the Internet allows synchronous examination of the data and ongoing analyses, and this reduces the opportunity for the supplier to prejudice results.

Furthermore, in a synchronous planning and analysis environment, both the retailer and the supplier can collaborate in planning decisions.

A second major implication is that the relationship can move from a one-to-one to a one-to-many relationship. Since many suppliers are involved in the category, suppliers have the opportunity to act as a consortium to collectively enhance the retailer's category. Such transparency will undoubtedly also lead to challenges and difficulties, but the potential to harness the expertise of multiple suppliers should outweigh the downside risks.

A third major implication is that the results are transparent to all parties. This allows for ongoing enhancement of category management plans which otherwise could only be accomplished

Transparency is crucial. It allows for continuous improvement rather than periodical reviews. And decisions are more likely to be implemented



periodically. In addition, this also increases the likelihood that the plans will get implemented.

Failure to implement is a major drain on resources

Experience suggests suppliers can lose out if they invest heavily in category planning, only for the retailer to implement the plans completely or correctly. Use of e-category management makes the degree of implementation obvious to all parties.

At the ECR Europe conference in Glasgow, three presentations demonstrated the benefits of e-category management. A&O/Selex and Barilla in Italy utilised e-category management for the pasta category which contains more than 6,000 SKUs. Using the eight-step model as a base, they focused on the three most time intensive elements: role, assessment, and review, where both the supplier and the retailer make inputs on the Web. Moreover, implementation was Web-monitored, starting from the first week.

Utilisation of e-category management shortened the category management process which had previously taken four months. Now, due to data transfer and handling as well as standardisation, A&O can conduct two projects in two months. Furthermore, every direct client of Barilla and every supplier to A&O/Selex will be able to use the Web-based tool.

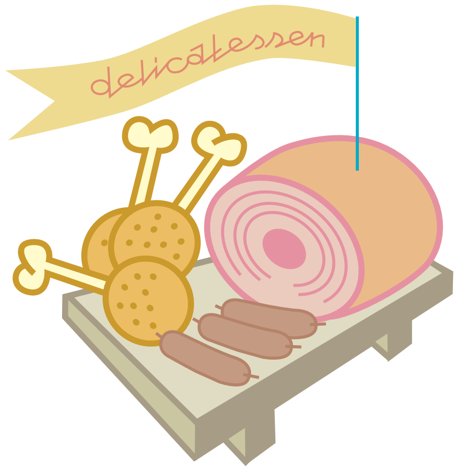
Drogerie Markt and Henkel demonstrated use of an extranet to bring together the processes of both the demand side and the supply side. All parties on the extranet could monitor stock levels, service levels, product information, promotions, and point of sale activity. This allowed suppliers to monitor the promotions and maintain service levels, even during periods of unusual demand created through promotions.

The case presented by Accenture and Shell Retail highlighted several of the advantages of e-category management. As mentioned earlier, the Accenture approach integrates three streams of information – product and consumer information, syndicated data, and e-pos data. Shell Retail has implemented e-category management in many of its retail outlets and has derived solid results from the process, including reduction in SKUs of nearly 20 per cent, while outperforming competitive petrol-related convenience centres.

The case for e-category management is compelling

The case for e-category management, particularly as viewed from a Web services perspective, is compelling. Buying (or renting) the application from a Web-based supplier takes out all the massive up-front costs, and takes the decision to implement category management out of the hands of the IT department and places it into the strategic decision-making of the firm.

Furthermore, it provides a means for category management to be integrated into a daily process, rather than as an occasional event.



Getting outside the box

All of the changes in category management require thinking "outside the box". Some of the changes embrace a broader set of consumers' needs. Others require retailers to see category management as a core daily business process.

Clearly, also, the shift to the Web services model of category management requires thinking outside the box. It requires a great degree of trust and working in partnership with trading partners as well as with the Web services provider. It also requires transparency in practices, as each decision will be quickly known by others.

The Web services model provides the basis for the industry to realise the benefits from category management in each of the other four evolutionary forms addressed above. Whether it is developing an aisle management plan, managing inputs from multiple suppliers, shifting the load from "inputs" to "outputs", or moving category management to the strategic centre of the business.

At the ECR Europe conference in Glasgow, a clear consensus was that ECR had emerged as the accepted platform in Europe for manufacturers and retailers to work together. The evolutionary changes in category management provide the parties new and refreshing direction to extract the benefits from ECR.

Useful Reading and References

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