

Category management can help drive sales and profits.

But which elements of the concept contribute most? And how can we get them working together even more effectively?

## Category Management: when 1 + 1 = 3

RESEARCH

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**There is no doubt that in the majority of cases category management drives sales, revenues, and profits. But do managers from industry and retail really know which particular category management tactics generate these results? And, when initiatives do not meet expectations, do they know why consumers did not react as intended?**

In order to solve that problem and measure the effect of category management on consumer perceptions of assortment, prices and shelf presentation, we arranged a research project in cooperation with a German producer of garden equipment. We chose the particular product category of garden hoses for two reasons. First, it contained only a few different products which allowed for quick and simple judgments by the consumers. Second, the products are broadly known and easily judged by

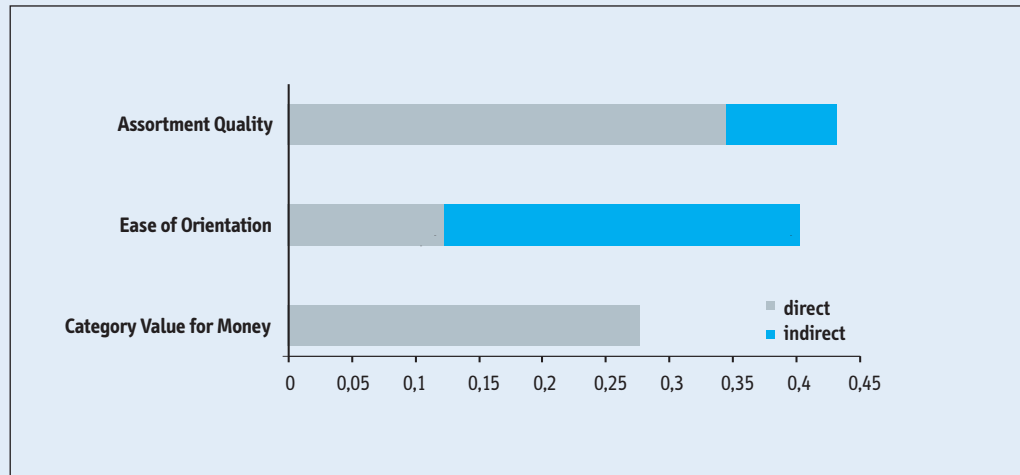
consumers without necessarily owning them.

To carry out our assessment, we conducted personal consumer interviews in the gardening sections of eight comparable German do-it-yourself stores. Four of these stores were using category management, while the other four stores kept with a traditional marketing concept. 591 people were interviewed, of whom 325 (55%) were shopping in the category management stores.

Our research was aimed at two major questions which, so far, had not been addressed by previous studies:

- (1) In a category management environment, which are the major drivers of store loyalty: assortment quality, ease of orientation or assortment value for money?
- (2) What is the impact of the marketing concept on both the strength of these

**Exhibit 1:**  
Effects of  
Category  
Management  
tactical  
elements in  
store loyalty



loyalty drivers and how these drivers interact?

#### Consumer Behaviour Propositions

Behaviour propositions research generally proves a strong interrelation between perceived value for money and consumers' store loyalty. In line with these findings, our study reveals a similar effect, although it does not turn out to be of extraordinary impact. On a scale ranging from nought to one it merely reaches a value of 0.28. At first sight, ease of orientation seems to affect store loyalty even less than that, reaching only 0.12. But ease of orientation also exerts indirect effects on store loyalty, namely via value for money and assortment quality: eventually, the total effect adds up to 0.40. But the biggest influence on store loyalty is assortment quality, which has a direct effect of 0.35, with additional indirect effects through value for money to reach a total of 0.43. These results are in line with findings from other researchers who, for instance, revealed a strong interrelation between merchandise selection and store loyalty.

#### The impact of category management

Assuming category management is designed to address shopper needs, we hypothesise that under the influence of category management consumers will perceive assortment quality, category

value for money and ease of orientation more positively than under the influence of traditional consumer marketing. In addition, we expect the correlation between these tactical elements and store loyalty to be stronger in a category management environment.

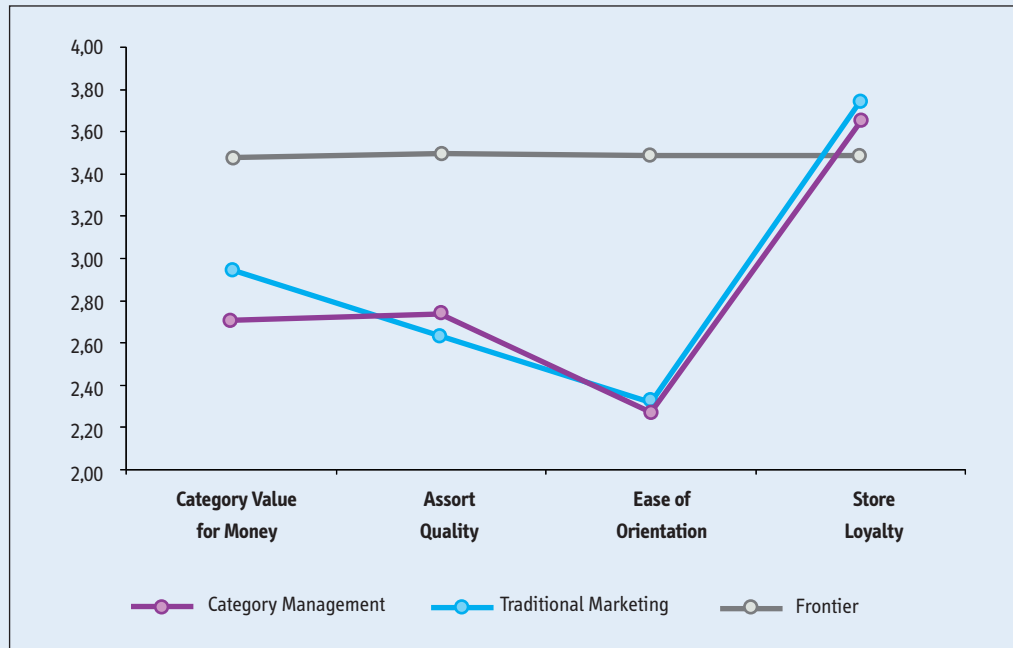
Our research results show that category management works well in terms of category value for money. But consumers did not perceive any difference between assortments and shelf presentation if they were interviewed in a category management surrounding or not (Exhibit 2). As a consequence, they did not feel more loyal to category management stores than to stores that kept with traditional marketing concepts. Indeed overall shopper loyalty to particular stores was borderline - lying at just above 3.5 on a scale ranging from 1 to 6.

Exhibit 3 displays the effects category management exerts on the interrelations between the model constructs. In three out of six cases the concept works the way we expected. The negative effects, (i.e. the cases where traditional marketing seems to outperform category management), are of minor importance from a statistical perspective since the effects themselves turn out to be insignificant.

Viewing the results in more detail, we can prove that the impact of ease of

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**Exhibit 2:**  
Category Management impact on category value for money, assortment quality, ease of orientation, and store loyalty



orientation on assortment quality, of assortment quality on value for money, and of value for money on store loyalty are stronger in a category management surrounding than in a traditional marketing environment. That means that the implementation of category management results in stronger interrelations between these constructs, i.e. the retailer is able to produce a greater effect on store loyalty by increasing ease of orientation, assortment quality and value for money.

We also found that technical quality (i.e. factors such as product stability, flexibility, resistance to cold, heat, and pressure, material quality, strength, and elasticity) plays a focal role for consumers when having to make a buying decision in the category of garden hoses (Exhibit 4). This finding supports the view that assortment quality should be the cornerstone of category management projects in any category.

Regarding the store itself, we can conclude that location is the most important criterion for consumers when having to decide where to make a purchase. Since location is not influenceable within category management we concentrate on the criteria which follow location, i.e. assortment and price.

### Managerial implications

Our analysis gathered two valuable results. First, we figured out which determinants exert a major and which exert a minor impact on store loyalty and how the determinants interact to produce indirect effects on store loyalty. Second, the study revealed the interrelations on which category management has a positive influence and on which it executes a negative effect. By this means, we now can recommend how to improve the category management concept at hand. As such, we might give advice on how to deploy resources efficiently and effectively.

- (1) The analysis reveals that assortment quality has the strongest direct and indirect impact on store loyalty, but category management is not able to improve on this effect. Nonetheless, the interrelation between assortment quality and value for money turns out to be stronger in a category management surrounding and as such contributes to an indirect positive effect on store loyalty. Our first recommendation, therefore, is to include assortment quality as a key consideration, i.e. to incorporate those products into the category that are perceived to be outstanding in terms of their functional quality.

In other words, category managers

Exhibit 3:  
Category management  
impact on  
interrelations  
between  
model  
constructs



should not only optimize assortments in terms of sales and revenues. Although such a strategy might indeed improve short-term goals, it tends to neglect store loyalty as a long-term objective. Therefore, category managers need to have product rankings in terms of both hard facts and consumer perceptions before making a decision regarding which products to eliminate and add, respectively. Otherwise, a product might be eliminated from the assortment due to small sales in spite of its contribution to the assortment's quality image. Eliminating a product could result in a decreasing quality image of the complete assortment which might lead to decreasing sales within the category.

Although quality is important, we should not try to increase it endlessly. Consumers are willing to pay more for quality, but we need to take into account the marginal quality they are willing to pay for. Moreover, quality considerations need to apply across all price points in the category: quality and value are not really separable from each other when implementing category management.

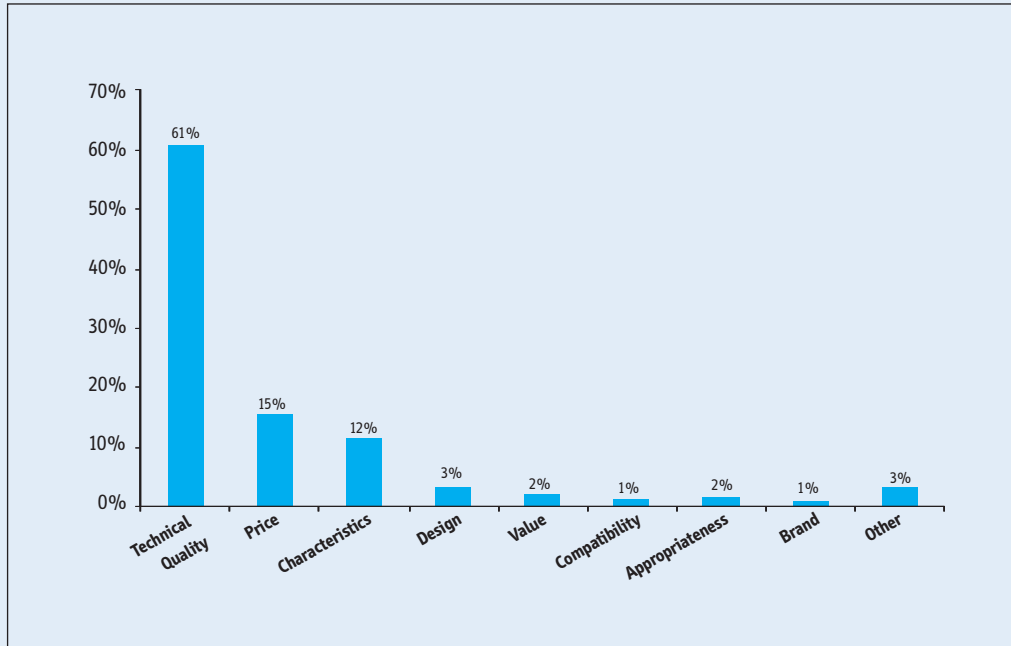
- (2) Although ease of orientation displays the lowest direct impact on store

loyalty, it should not be neglected, since its total effect adds up to 0.404. However, our findings suggest it is not easy to positively influence this factor through category management. Consequently our second recommendation is to increase ease of orientation through informational quality and consumer guidance.

Category managers should be work hard to facilitate the buying process for consumers. The shelf itself should represent a kind of shopping list for the consumer. Making use of plausible guidance systems and detailed information on the products listed will support consumers' search logic. This search process can be displayed employing decision tree instruments. For instance, we need to know the primary need the consumer wants to satisfy when buying a garden hose (is it to be used for watering, washing, building, or some other purpose?). Furthermore, what are the subsequent criteria the buyer considers when making the purchase decision (cracking pressure, price, branding, width, et cetera).

Usually consumers orient themselves horizontally alongside the shelf while the search for a specific product happens vertically. Category

**Exhibit 4:**  
Purchase  
criteria for  
garden hoses



management needs to take that into account when putting products on the shelf. In our case, the retailer could arrange products along the shelf by brand names and/or particular benefit of the hose. Within these sub-categories products should be differentiated vertically by quality and/or price level.

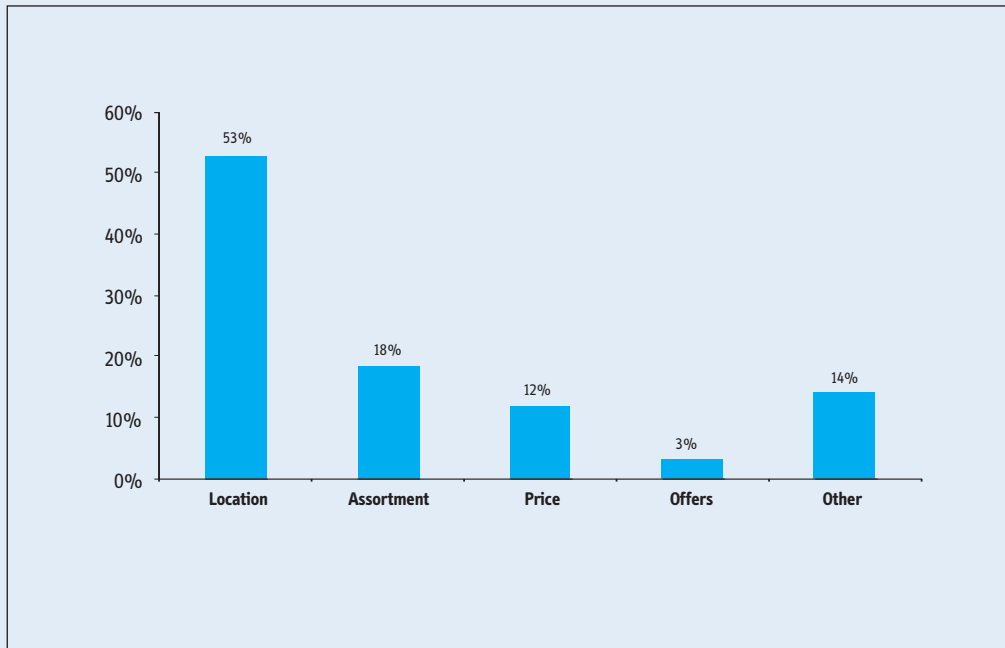
In an age of radio frequency identification (RFID), even more sophisticated forms of shelf presentation may be applied. For instance, one might think of intelligent shelves where the can touch a screen beside the shelf and can choose from various selection criteria with numerous options for each one. For example, one might choose benefit of the hose' and make a selection from 'gardening', 'car wash', 'building', and 'playing'. Having chosen one of these options, a visual sign (e.g. a lamp) would highlight selected hoses and the shopper might choose from the remaining hoses in terms of quality, then length, and so on until only one hose remains.

Our research shows that category management does indeed improve the strength of the interaction between category value for money and store loyalty. To optimise value for money

category managers need to identify what additional quality consumers are prepared to pay for. That in turn means they need to understand the detailed needs of different customers. For instance, a shopper wanting to water his garden and living in an area characterized by a moderate climate might not be willing to pay more for a hose because it can stand temperatures of  $-30^{\circ}\text{C}$  up to  $+40^{\circ}\text{C}$ . A shopper who needs the hose to work on a building site where strong changes in outside temperature are usual might think differently. We have to cover different underlying needs with our assortment.

Product bundles represent one way to improve value for money from a consumer's point of view. Product bundles give shoppers intending to buy only one product a good reason to buy several instead - and make them feel smart at the same time because they received better value for money. In our case, this could be achieved by offering hoses, adapters and spray attachments and the like as single products and as bundles at the same time. In this way, the retailer satisfies those customers who really only want to buy the single product - e.g. the hose - and those who want to get a good deal on the bundle.

**Exhibit 5:**  
Store selection  
criteria in the  
category of  
garden hoses



It is also possible to increase value for money beyond the product itself by offering special services in combination with the purchase of a product. The possible range of additional services is almost endless. One option is simple pieces of advice on how to handle, maintain, and keep a hose via by information folders attached to the shelf. Another option is to offer a professional gardening consultant for a small additional fee. The success of such additional services will depend on what kind of services shoppers need and are willing to pay for.

Finally, we can conclude that category management as it stands offers some advantages over traditional marketing but still leaves room for improvement. Category management as a whole could gain a lot by incorporating the consumers' view and perceptions of basics such as assortment quality, ease of orientation and value for money.

### **Limitations**

Although we were able to work out valuable results and recommendations for practitioners we also need to point out some limitations of the research.

First, we only evaluated one specific category management project. Strictly speaking, the results and conclusions will differ project by product and category by category. Future studies are needed to

generate widely valid success factors of store loyalty within the framework of category management.

Second, while we conducted a cross sectional analysis, an analysis based on longitudinal data would reveal even richer results. Taking interviews in the same stores - and ideally with the same consumers - at different points of time would allow researchers to learn more about how sustainable the benefits of a particular project are.

Third, the central focus of this project was store loyalty - on the assumption that a loyal customer base leads to economic advantages of the retailer. Although this assumption is generally valid, it would enhance future research projects if key performance figures (for example, demand coverage ratio, frequency, or average transactional value) were incorporated.

Finally, category management is a concept integrating manufacturers' and retailers' perspectives. Therefore, future research should not only incorporate brand loyalty as a second target variable, but also make integrated brand and store loyalty the focal construct. Then we could investigate the interrelations between brand and integrated loyalty and between store and integrated loyalty, respectively.