

Latin American UPGRADE

Panama's Supermercados Rey confronted traditional retail disorganization and put a modern category management strategy in its place.

By Joseph Tarnowski

Five years ago, Supermercados Rey's category management strategy was in disarray—if a strategy even existed. Business was based more on relationships than anything else, and if the store manager liked a supplier enough to place its products in the store, it was up to the supplier's reps how the category was to be merchandised. Of course, if the manager was friendly with another supplier that had products in the same category, merchandising would switch from week to week, depending on which supplier was most recently in the store.

Category analysis was unheard of because the supplier and the store manager never trusted each other enough to share customer data. Not that it would have mattered if they did. "It wasn't very organized," says Igor Kanelopulos, v.p., commercial area, for the Panama City, Panama-based chain of 16 traditional supermarkets and seven smaller, value-oriented stores that operate under the Mr. Precio banner. "Nothing was centralized; each store negotiated with the suppliers separately."

Rey's v.p., information technology, Alvaro González, noticed this was particularly true with pricing strategies. "Category managers were changing prices on the fly," he says, "so it was important to get on a schedule, determining when to change prices, why to

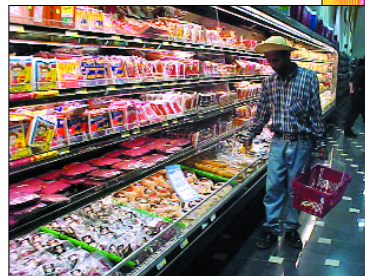
change prices, and trying to hold these decisions against category management practices. Then we needed to put some formality in the process."

Outside help

In 1998, Rey hired Winston Weber Associates, a Memphis, Tenn. consulting firm, to help centralize and revamp the retailer's category management. Winston Weber reviewed Rey's business practices and systems, and gave the company an assessment, evaluation, and road map to follow. "They needed a lot of cultural and organizational change," says Paul Christman, Winston Weber's v.p. of retail consulting.



Panama-based Supermercados Rey's category management strategy allows the grocer to be more responsive to its customers, ensuring that it sells the right products in the right places at the right prices—using the right promotions.



"They needed to move toward a centralized retail pricing and cost information structure. They needed more fact-based decision-making and a clarification of the company's decision authority—who's responsible for which decisions. They also needed to develop systems to focus on the consumer purchase data hierarchy and factor it into their category planning. You have to base your category management on how the category is shopped, and for that you need data," he says.

Merchandising standards, policies, and procedures were also lacking, accord-

ing to Christman. "In the past it was impossible to talk about planograms or what to do in the case of out-of-stocks."

This isn't unusual for Latin American grocers, Christman says. "Rey is an anomaly in the fact that they've been able to break away from the traditional methods of doing business in Latin America," he says. "In Latin America, when they talk about category management, they're talking about shelf management. Skill levels are not as developed as in more advanced countries, market share information is not as developed, and distribution is very complex.

Most markets are DSD, with very little centralized delivery, so you can imagine what the back rooms of these places look like. Also, merchandising standards and compliance are difficult because you have all of these merchandisers coming in at different times."

At Rey all major decisions must pass the company's executive committee, which consists of executives from all the company's divisions—commercial area, administration and finance, human resources, operations, and information technology—as well as

the c.e.o. and the head of the Mr. Precio operations. (For a detailed look at the committee's decision-making process, see Feb. 1 PG, page 22.) Winston Weber worked closely with the executive committee to build a new category management strategy.

"Meeting with the executive committee was critical to the success of the

project," Christman says. "The way we envisioned Rey's category management would impact every area of the company, so it was necessary to have everyone on board. Once we had support from the executive committee, everyone else followed suit because they're confident in the committee's decisions."

Christman and Kanelopulos decided

to restructure the entire business in terms of categories and to restructure the categories according to how the customers shop them. "We needed to set up a defined format and gather information on products, costs, and suppliers," Kanelopulos says. "We also had to convince the store managers to think in terms of the customer, not the sup-

plier. It would require a huge change in the way Rey was doing things."

Now everyone at Rey thinks in terms of categories—from the store-level customer service associates to the accountants at headquarters.

Three categories

There are three primary categories into which all the retailer's products fall: grocery, perishables, and nonfoods. (Rey is considering separating pharmacy from nonfoods because it sees great potential for pharmacy as a signature category.) These categories are each assigned a head, with category managers reporting to them, and each category manager has a retail

The Precio is right

In addition to its 16 traditional Rey supermarkets, Supermercados Rey opened seven smaller-format stores this year. Named Mr. Precio, these stores are limited-assortment discount outlets with a heavy emphasis on price.

"The Mr. Precio stores follow the same category management philosophy as the Rey stores, except on a simpler level," says v.p., commercial areas Igor Kanelopulos. "The Rey stores have more than 40,000 SKUs, and the Mr. Precio stores range around 5,000. The customer base is also more homogenous, so they're easier to analyze."

The pricing strategy for the Mr. Precio stores focuses on EDLP, with occasional seasonal promotions. Although the category management philosophy is the same as in the traditional stores, it's customized to fit the limited assortment of Mr. Precio. "Part of that strategy is identifying what we call the sensitive list—the products that have better recollection from customers on price perception," says v.p., information technology Alvaro González.

However, operating two such different formats can make supplier relations tricky, according to Kanelopulos. "Suppliers have different pricing scales for the various markets, and sometimes there's confusion," he says. "We have to let them know that Mr. Precio and the Rey stores are the same company, even if the same products sell for different prices in each. They all get dropped off at one distribution center, and we dock it down to the stores. This smaller-format value concept is new down here, and the suppliers aren't used to it."

Suppliers that adapt may benefit greatly. Supermercados Rey plans to open two more Mr. Precio stores by year's end, and at least seven more next year.

merchandising support team to handle execution. Each of the primary categories is subdivided into 25 subcategories, such as produce and meat.

Each one of the categories and sub-categories has its own P&L. Rey uses software from Lawson for its financial and human resources systems, which had to be reworked to support the new category management structure. "All of the financial reports are now segmented by category," Kanelopulos says. "Saleables, general ledger, asset management, and labor are all reported in relation to a specific category. We can measure labor vs. sales, for example, and see if we're staffing a specific category appropriately."

TCI Solutions' Price Merchandise Manager and Store Merchandise Manager—part of TCI's RetailSuite—handle all in-store price management and merchandising for the categories, with specific rules set up for each category. The solution allows Rey to establish its pricing rules and strategies at headquarters, and automatically deploy them at store level.

The Price Generation module automatically updates retail price adjustments based on cost, margin, deals, allowances, add-ons, and reductions to the landed cost of an item on the store shelf. The rules created by Rey deter-

mine at which point to make retail price changes. "We added category roles to the system, and each product plays a particular role in the category," González says. "For example, if someone wants to run a promotion on an item, the system has defined rules as far as minimum amount of margin we're looking to get from that item."

Centralized purchasing

All purchasing is now done centrally, not store by store as in the past. The TCI system supports purchasing negotiations with the vendor and analyzes the impact of new products to the category.

"This gives us a very objective, fact-based method of negotiation with a vendor," Kanelopulos says. "For example, if a category is a non-power category—where customers don't mind switching brands—we have a lot more purchasing power. Within signature brands, customers expect more variety within the brand. Having all this information at our disposal makes the negotiation more effective."

Another benefit the technology brings is that it will free up more time for the category managers to focus on their categories. "The category managers now have more time to work on vendor relation-

ships and to look for new business," González says. "By lowering the time it takes to adjust prices, they can take more time to do more productive tasks, such as negotiations with vendors or merchandising the category."

To ensure that everyone adheres to the system, each employee is measured on key performance indicators. A scorecard was created by human resources so that every employee is aligned on performance measurements for his or her category.

The new structure allows the customer, not the supplier, to dictate category management, which is just the way Kanelopulos thinks it should be. "There are no category captains at Rey, only category advisers," he says. "We used to have category captains, but it caused a lot of conflict with other suppliers to the category. We do want to hear their input, though, and encourage ideas from them; we just don't want to give them the full load and responsibility of managing the category. As the retailer, it should be our responsibility. The technology helps us to do this because it allows us to be very objective."

More sharing

The fact that Rey has become more information-savvy has led suppliers to open up a bit more when it comes to

sharing data. "Suppliers are more open-minded now in their dealings with us and share more of their information," Kanelopulos says. "This data, added to our own, gives us better knowledge of our customer needs. The key is to sift through all of this information and put it into action."

Looking ahead, Rey plans to incorporate its loyalty program data into the system to fine-tune category offerings at the cluster level and household level, and build targeted promotions around this data. "We have three major clusters of stores, and each has different typical buying baskets," says Winston Weber's Christman. "Colón, for example, is more economically challenged than Panama City or some of the rural areas in between, so we want the assortment of products to match the local markets."

Rey looks to continue refining its category management strategy as the company adjusts to the new way of doing things. "The process is a never-ending issue," González says. "The new business practices are just a start. We'll continue to change and adapt as we work with them."



Nonfoods editor Joseph Tarnowski can be reached at jtarnowski@progressivegrocer.com.