# Category Management Needs New Life

* * *

*Category Management, as currently defined, is no longer adding incremental value for a growing number of retailers*

**By Win Weber**

Does category management need new life? Absolutely! It needs a good "shot in the arm" if many retailers are to continue to experience incremental gain.

Let's begin by taking a brief look back over the past 10-15 years. Since its inception, category management has contributed significantly to "top line" sales growth and "bottom line" profit improvement for a vast majority of retailers. It has positioned retailers to align merchandising strategies and tactics more closely with consumer purchase behavior as the focus has shifted from products and brands to categories. It has created an environment that encourages fact based decision making within the framework of a disciplined analytic and planning process. As a key component of ECR, category management has led to greater efficiencies across the supply chain and it has put a much sharper focus on costs down to the item level. The process has provided the framework for retailers to receive an acceptable return on sizable investments in information technology. Finally, category management has created an environment that encourages collaborative information sharing and planning relationships between trading partners. This has led to improved alignment of business objectives and strategies as well as utilization of combined resources for the purpose of driving retailer category and supplier brand growth.

I believe it is safe to say that the principles of category management are well understood and widely accepted. It has proven to be a very effective resource management process. It has served a valuable purpose and is continuing to evolve as an effective supply chain tool that does recognize the importance of the consumer.

Category management practices vary widely across the industry. Some retailers have given category management lip service and are still stuck in their old ways of conducting business. Many have compromised the guidelines published in the 1995 Category Management Report. Others are deeply committed to the "textbook" definition of the concept and are at various stages of implementation. Most of these retailers are continuing to experience some incremental gain. On the other hand, a growing number of retailers in the advanced stage of category management are experiencing diminishing incremental value in the concept. These retailers are beginning to question whether category management as defined today is still an enabler for growth. Or, as category management matures in an environment that is rapidly becoming more sales driven, has it become a constrictor for growth.

In order to address this question head on, let's examine category management today from two perspectives. First, as currently defined, it has fallen short of meeting expectations. Second, it is important to understand other key structural and process limitations that can constrict the concept's ability to be an enabler for growth, particularly in today's sales driven retail environment. It is quite clear these limitations will inhibit a retailer's ability to focus on the shopper to the extent necessary when seeking differentiated and behavior changing merchandising solutions, when trying to capitalize on complementary category opportunities across the store and when reaching out to the shopper at store level.

First, let's examine where category management, as defined today, has failed to produce the desired results. Here is where it has fallen short:

- Old habits die hard. Prior to category management, the relationship between trading partners focused primarily on negotiating promotion funds or the "best deal". The retailers buying structure was aligned by supplier instead of by category, the availability of information was quite limited and there were virtually no long-term planning disciplines. During that era the trading partner relationship can be best characterized as an adversarial "buyer and seller" relationship. When category management emerged in the early 1990's, it was designed to create an environment and tools that would enable trading partners to work collaboratively to produce enhanced business results by focusing on delivering consumer value. There were high expectations that the traditional "buyer/seller" relationship between trading partners would evolve to a consumer focused planning environment. Unfortunately, this has not occurred. The expected shift to a more consumer focused process has marginally occurred, at best.

  There are three reasons why category management has fallen short in truly focusing on the consumer. First, it was positioned as one of the key components of ECR. This led to an environment heavily skewed toward driving costs out of the supply chain and negotiating the lowest possible net cost. Next, an intensely competitive retail environment has been a compounding factor as it has become necessary for retailers to aggressively focus on driving costs out of the supply chain in order to profitably grow their businesses, and in some instances just to survive. Lastly, a more traditional cost focused buying mentality has prevailed across the retail landscape.

- The category management guidelines for developing a category plan imply a category manager should "know everything there is to know about everything" and this knowledge should be incorporated as part of the plan. Despite considerable progress toward simplification by focusing more on the business question and investing in technologies designed to make the process more efficient, category management continues to be a very cumbersome, project oriented and resource draining process for both the retailer and supplier. The inordinate amount of time and resources devoted to the analytic component of category planning has hindered efforts to institutionalize category management as a core business process. It has also taken the emphasis off of the importance of allocating resources toward the development of creative merchandising solutions. In this context, overemphasis on analytics has virtually stripped the word "merchant" out of our vocabulary.

- A retailer's reliance on suppliers to provide analytic and other resources to support category management has produced mixed results for suppliers. Those suppliers with a leadership position in a category are often able to leverage their resource investments for mutual benefit. The remaining suppliers in a category either invest resources in an attempt to validate or influence the retailer's decision making process or for fear of loss. In these situations, it is difficult to experience an acceptable return on investment. In all cases, working within the limits of one year or shorter planning horizons makes it difficult for a supplier to sustain incremental gain over time. In fact, during the first three years most partnering or collaborative planning relationships experience a diminishing return on investment. Thereafter, it is strictly a cost of conducting business with benefits skewed heavily toward the retailer. A growing number of suppliers are asking… Why continue to support category management under these circumstances?

- In most instances there is considerable misalignment of category strategies and tactics across the store as category plans seldom are linked from top down and across departments and operating units. Guided primarily by department financial objectives and merchandising strategies, category plans tend to stand alone as they are not part of an integrated business planning process. This situation is compounded by the fact that tactical decisions are often made outside the context of defined category roles and planning guidelines. Key performance measures are also a contributing factor if they are not properly aligned with category roles.
- Many retailers have sub-optimized the category management process due to the lack of adequate execution at store level. Apart from labor related issues, few category managers have store operations experience or understand the implications of their decisions on the ability of stores to execute the category plan. Lack of defined merchandising standards and compliance disciplines, the weightings of performance measures as well as a lack of creative merchandising skills at store level are also contributing factors.

Summarizing its positives and negatives, on a scale of 1-10, category management as defined today has probably achieved a 6 or 7 score. I believe it's safe to conclude that the current concept has probably reached its limit.

Now, let's understand several other significant limitations of category management, from a structural and process standpoint, as defined today. This assumes retailers have no choice but to become more sales and shopper driven to effectively compete and grow their businesses. These limitations are as follows:

- The centralization of the buying/merchandising decision making process to support category management has numerous advantages; however, most category managers do not have the time or resources to effectively manage multiple categories across markets and stores. They can study the numbers, but it is virtually impossible to manage below the store cluster level. Considering the trend toward neighborhood or local merchandising, the category manager is too removed to enable responding to local opportunities.
- The organizational structure of retailers has been compartmentalized into departments such as Grocery, HBC, GM, Meat and Produce for decades. This traditional structure, by itself, is the primary contributor to misalignment of merchandising strategies and tactics across the store and it is a huge barrier to optimizing complementary category merchandising across departments.
- The sameness of the category planning process, available scan data and panel data across retailers has created an environment conducive to improving performance by closing opportunity gaps and achieving parity. This sameness, however, limits a retailer's ability to move beyond parity. It is extremely difficult to uncover hidden growth opportunities that can lead to the creation of innovative and differentiated merchandising solutions. Consequently, there is little true differentiation in merchandising tactics and considerable similarity in shopping experiences.
- The primary emphasis of category planning is on analytics and producing the plan, without sufficient emphasis on the development of creative and differentiated

merchandising solutions. As a result, there has been a noticeable deterioration of the "art" in merchandising capabilities. The required merchandising skills to support a sales driven environment, in most cases, are not in place. This applies to both retailers and suppliers.

In the future, retailers will have to evolve from traditional category management practices to a more shopper centric approach to planning and execution. Building on the solid foundation of category management as currently defined, retailers must be willing and able to accept a paradigm shift to a "New" category management model that will require modifications in organizational design, planning processes and store execution processes. There will be a need to develop new skills. More actionable shopper insights will be a must.

It's time to face the facts. The industry's Category Management Report, published in 1995, is now 10 years old. It is still an excellent directional primer for retailers in the early stages of category management implementation, new category managers and analysts. It should be used accordingly. Those retailers who are in more advanced stages of implementation or who have optimized the incremental benefits of the "textbook" version of the concept must move beyond this model if they expect to continue to experience incremental gain. Today's competitive retailing environment and shopper expectations demand it. This means shifting from what has been a cost and supply side focus to a more shopper driven category planning process, routinizing the process and modeling the process based on the needs of the retailer. It should be a key component of an integrated business planning process that better aligns category plans and the allocation of resources with the retailer's overall marketing strategies and operations capabilities.

What is the "New" category management model? "New" category management is a shopper centered alignment of business processes, merchandising competencies and performance measures across internal functions, down to the store and between trading partners. It is positioned to convert knowledge of the shopper into actions designed to enhance the shopping experience and drive sales growth.

The successful implementation of "New" category management is dependent on and guided by eight "Shopper Centric Success Factors". These success factors are outlined below:

**1. Place merchandising decision making where it makes sense**
The centralized advantages of category management should continue to be applied, down to the store cluster and store level, for those core categories, items and services that are the primary drivers of sales and profit growth for the retailer. For the remaining categories, stores should be allowed to "touch" the shopper with appropriate merchandising decision latitude. In this environment, it will be necessary to clearly define and effectively communicate decision guidelines to stores. A redefinition of store management roles and responsibilities may also be necessary.

**2. Capitalize on the "growth power" of complementary categories**
The ability to generate category growth, beyond relying on a constant flow of new products, will require considerable emphasis on leveraging the interrelationship between complementary categories, as shoppers see them. This will shift the focus of merchandising planning more toward providing shopper solutions that can add category value and improve the effectiveness of the total store shopping experience. Coordination of planning activities across categories and departments will be extremely important. In most retailers, this will lead to modifications in category management organizational structures and planning processes. Category planning, as we know it today, will take on a new dimension.

**3. Break down organizational silos**
In order to deliver the solutions that shoppers are seeking, retailers must break down those organizational silos that cause misalignment of merchandising strategies and tactics across the store and inhibit cross department merchandising of complementary categories and products. An environment conducive to seamless planning and execution across the "demand chain" will definitely enhance a retailer's ability to identify and capitalize on sales growth opportunities. Importantly, a retailer will be much better positioned to improve the effectiveness of the shopping experience and realize the inherent sales benefits.

**4. Seek in-depth knowledge about "your" shoppers and their behavior**
Retailers must seek more in-depth shopper knowledge from suppliers to help them better understand why shoppers "do what they do" when making decisions in their stores and at their shelves and how to convert this knowledge into innovative and differentiated merchandising solutions. It will be necessary to supplement more traditional sources for shopper insight that rely solely on past purchase behavior, such as scan data, in-store observations, panel data and loyalty card data, with "looking forward" methodologies for understanding what the shopper is thinking as she is in front of the shelf and what information in the store and at the shelf influences her choices. To gain this knowledge, suppliers will be expected to invest in more actionable shopper insight at the category level. Merchandising solution ideation and development, based on this insight, will become an important aspect of the relationship between trading partners. Retailers will also have to "step up" their consumer research efforts to better understand their shoppers.

**5. Ensure a shopper focus in your merchandising practices**
The increasing focus on the shopper will continue to place the consumer purchase decision hierarchy, reflecting how shoppers seek solutions, at the core of the retailer's business practices. Decision hierarchies will need to be integrated into the data systems and applied within the analytical processes. All merchandising decisions from assortment, to shelf placement, to in-store displays need to be made from the shopper's point of view. The consumer purchase decision hierarchy will need to become the foundation of the pre-analysis, the decision making processes and the post-analysis to ensure continuous improvement.

**6. Don't let chain-wide averages govern merchandising practices**
The growing importance of tailoring merchandising to satisfy local market requirements and store differences will require that retailers move away from chain-wide averages as a means of governing merchandising practices. The uniqueness of each store, particularly as it relates to sales performance and shelf space requirements, must be included as a component of a retailer's space planning process. This will improve shelf productivity down to the item level. Importantly, assortment and shelf space will be better aligned with shopper demand.

**7. Don't expect good analysts to be good merchants**
Creative merchandising skills are essential in a shopper driven environment. Today, most category managers have relatively good analytic skills, but are not as strong in creative merchandising skills. Unfortunately, analytic and creative skills are seldom compatible. A typical manager tends to be strong in one skill area or the other; seldom in both skills. This adds some complexity to merchandising skill upgrading as a majority of category managers may not become good merchants. Apart from training and external recruiting, retailers should consider developing a specialized group of "merchants" within the Category Management/Merchandising organization.

**8. Don't expect execution of merchandising plans to happen on their own**
It will be necessary for retailers to take more control over the execution of their merchandising activities. Heavy reliance on suppliers will not work. Communication, operational input and feedback, and compliance processes need to be developed and implemented. This will require organizational changes and supporting technology. Store operations compensation should be based, in part, on execution compliance to ensure delivery of the shopper expectations.

## Requires a willingness and commitment to change

Continued growth requires retailers become more sales and shopper-driven. A directional commitment to the "Shopper Centric Success Factors", from top down and across a retailer's organization, is essential to the successful implementation of those initiatives required to evolve to the "New" category management that will enable such growth. Once there is a commitment and willingness to change, the next step is to take an inventory of current core competencies, practices and processes compared to defined planning benchmarks related to the eight "Shopper Centric Success Factors". These benchmarks will guide the identification of alternative solutions and the development of an implementation plan. It should be understood that the magnitude and pace of change will vary considerably between retailers. Change will be relatively easy for some and extremely difficult for others. Whatever the case, this is an evolutionary process that may take some time to institutionalize as a way of conducting business.

Does category management need new life? Absolutely! This is the "shot in the arm" and "reality check" many in the industry have been waiting for.

## About Win Weber

Win Weber is founder of Winston Weber & Associates, Inc, a Memphis based management consulting firm that provides a wide range of consulting services for manufacturers and retailers in the consumer products industry. He is recognized as one of the foremost architects of category management and as an expert in establishing collaborative relationships between trading partners. He is credited with introducing partnering in the US, Australia, Mexico and Asia. He was a resource for the Joint Industry Project on ECR: *The Category Management Report* and the Kellogg Graduate School of Management/Food Marketing Institute *Category Management Series Implementation Guides*. He has written "must read" articles on category management, including Developing Partnerships for Mutual Growth, 1991; The Future of Category Management, 1997; Clearing Hurdles to Implementation, 1998; and The Road Ahead, 1999.