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Ask The Experts: Win Weber, Winston Weber & Associates

Sharpening Category Management Focus

By Winston Weber

WHO IS WIN WEBER?

Winston Weber & Associates, founded in 1985, is recognized as a broad-based consulting firm with expertise in category management.

Since entering management consulting, Win Weber, President, has gained a solid reputation as an expert in establishing partnering relationships between retailers and suppliers, and as one of the foremost architects of category management implementation. Two of Weber's clients, H.E. Butt in San Antonio and Coles Supermarkets in Australia, are recognized worldwide as leaders in category management today.

WWA's list of clients includes major manufacturers, retailers, wholesalers and brokers in the United States, Canada, Mexico, Australia and Asia. The firm is also part of Nielsen's Solution Partners Program, with both companies working together to develop educational programs to assist retailers and manufacturers to better adopt category management.

Win Weber was a member of the Food Marketing Institute's ECR category management subcommittee, and he has written several articles on partnering and category management. He is credited with designing the industry's first retailer/supplier partnering plan, and the first comprehensive analysis and planning manual for category managers.

With a B.A. degree from Syracuse University, Win Weber started his career with Colgate-Palmolive. He subsequently rose into senior management positions with General Foods, Squibb, American Brands, Bristol-Myers, Warner Communications and Schering-Plough prior to starting WWA.

UNDERSTANDING THE BASICS

DrSN: How is category management a different way of doing business from the way mass retailing has traditionally been done?

Weber: The real difference is that planning is right down to the category level, with specific category objectives, strategies, tactics and budgets.

Basically, category-level planning means that a category manager manages the category as a business. What category management does is give the retailer a much sharper focus on category sales, profitability and consumer marketing.

Category management focuses on the demand side as well as the supply side. Frankly, most retailers, particularly in the relationship with suppliers, focus to a much greater extent on the cost side and the supply side of the business as opposed to the demand side.

The next key piece and a critical component of category management is the establishment of collaborative or partnering relationships between retailers and suppliers.

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DrSN: Why is the collaborative relationship with the manufacturer important?

Weber: For several reasons. First, to maximize the efficiencies of product flow throughout the distribution system, a retailer must be aligned with the supplier. Both are an integral part of the distribution system.

Second is the fact that suppliers have very important information that a category manager needs to properly create a category plan, information such as planned consumer spending, planned new product activity and planned trade promotion spending, as well as a wealth of consumer research that helps the retailer better understand consumer behavior. Without that consumer information, a category manager is just not equipped to be proactive.

In our eight years of experience being involved in category management, we have found that retailers do not have the analysis and planning resources they need to fully support category management without the help of suppliers.

Another key point is that by jointly planning at the category level, both retailer and supplier can align business strategies at the category and brand level. This should enable both to optimize their return on investment.

For example, we had one major supplier and a retailer client. We aligned both parties, and they totally shared consumer information. The supplier was given the retailer information in terms of store movement, right down to store clusters. They developed a joint planning and marketing team to determine how to better position the category for increased sales and profit. The result was not only increased sales for the retailer but also increased market share and an increase in gross margin by 2 percentage points. The supplier also saw an increase in sales. In our extensive experience, we have yet to experience one situation where both the retailer and supplier did not gain from working together developing category plans.

DrSN: Does the business increase justify what it costs both retailers and manufacturers to make major changes in the way they do business?

Weber: Usually, it amounts to short-term investment for long-term gain.

DrSN: Like retailers, manufacturers want to be able to sell to as many customers as possible. How can they do that while also acting as category partners with some accounts?

Weber: For both suppliers and retailers, the ultimate goal is to grow consumption in the market. If, as a supplier, I just shift share from one store to another within a market, then it’s going to cost me more to do no more.

While the retailers are focusing on their stores and how they can grow sales and profit and market share, the suppliers in relationship with these retailers will have to find ways to grow market share within the total market in order to get a return on their investment.

DrSN: How would a supplier do this?

Weber: First of all, the manufacturer and the retailer have a common goal, which is to reach the consumer. The supplier is supporting a brand with direct consumer advertising, packaging, new product innovation, and so forth on a global or national perspective. Underneath that framework, the supplier must work to position those products and brands in alignment with the retailers’ consumer positioning and within their markets.

Category segments meet different consumer needs, and different stores are meeting the needs of different consumer segments within each local market. Suppliers have got to be able to drive their

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marketing down to that lowest common denominator. They've got to integrate national marketing with local marketing and store specific marketing and account specific marketing.

PUTTING CONSUMERS FIRST

DrSN: A lot of business people talk about being customer driven today, but what does it really mean to be consumer focused when it comes to category management?

Weber: Only when you really understand consumer purchase behavior can you truly understand the role a given category plays.

Currently, we don't feel retailers are focusing nearly to the extent they should be, on the consumer. That's because buyers have been brought up to focus on the supply side, focusing on negotiating the best deal of the day, not focusing specifically on the consumer.

We're looking at focusing on the consumer on a macro basis. That means that the retailer's top executives should, first of all, have a strategic plan, and they should clearly define the target consumer and their positioning toward the consumer within that strategic plan.

DrSN: But if you're a mass, supermarket or a drug store retailer, aren't you trying to get as many consumers as you can into your stores?

Weber: Many retailers tend to think that "everybody" is their consumer; however, there is a certain profile they should be targeting. They should be allocating their resources toward the "core" or "target" consumer. Different retailers actually attract different types of consumers.

Let's say, for the sake of discussion, that a drug chain's target consumer is a health and convenience oriented female between the ages of 25 and 45. Now, as you break this down to the store level, you have profiles of different consumer segments for each store market, and these consumers may have totally different profiles. Therefore, you've got to be able to establish your micromarketing or store level marketing to meet the target consumer within specific local markets. A local market can be defined as a store cluster or as a specific store.

DrSN: Where do retailers get the consumer information they need?

Weber: Today, retailers are looking more at demographics. Most retailer real estate departments have a wealth of information available on demographics, and syndicated research firms can provide demographic data down to the local area.

The other important area to look at is consumer purchasing behavior with your existing customers in your own stores.

For example, a frequent shopper program, which is more typical in the food trade channel than in the drug channel, enables a retailer to monitor the purchasing of consumers within their store. That gives retailers a very good understanding as to how their core consumers are shopping and what they can do to get the core consumer to shop more categories, increase purchase frequency, or to increase their transaction size.

One shortcoming of such internal programs is the fact that they don't capture consumer behavior in terms of store switching or across trade channels. Nor do they capture consumers who don't shop in your stores.

One of the reasons Winston Weber & Associates aligned with Nielsen (the Schaumburg, IL based research firm) was because we were attracted to its consumer household panel. Through in-home scanners, Nielsen captures loyalty to brand, loyalty to the category, loyalty to the store, as well as store switching.

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We strongly believe that for category management to be optimized, there has to be a much stronger understanding of the consumer, and decision making must be based on that knowledge of the consumer. Therefore, we are stating that retailers must incorporate more consumer research into their cost structure.

In addition, we believe that suppliers must reallocate their consumer research resources, which today are global in scope. They need to allocate more consumer research to local markets and specific accounts.

ISSUES IN IMPLEMENTATION

DrSN: What are the key issues that must be considered by retailers who decide they want to implement category management? How long should they expect it to take?

Weber: First of all, corporate objectives and strategies should be defined before category management is ever implemented. The overall corporate strategic plan guides the allocation of resources and time. When there is commitment at the senior level, then it is much easier to implement category management across all functions and down through the organization. This significantly reduces difficulties.

The second “key learning” is that there has to be a “needs and capabilities” assessment before category management is started to define the current status of the organization versus those factors that have been found to be critical to the success of category management implementation.

The retailer must honestly evaluate itself in terms of factors that include: (1) the level of top-level commitment, (2) a tradition of strategic business planning, (3) information technology, (4) collaborative relationships with suppliers, and (5) fact based management and decision making.

The third thing we’ve learned is that the pace of change must be carefully orchestrated. The impact on culture, processes, systems and people is so significant that you must pace the change as category management evolves.

The timeframe for the change to category management is driven by the situation the retailer is in when it begins, which is determined in the Needs Assessment I mentioned. But you have to consider that the change will take years.

DrSN: Once the decision is made to go forward with category management, what does a retailer need to do to make sure it is implemented?

Weber: Execution—getting the stores to execute the category plans—is a complex issue. What you have to do is give the category manager sufficient authority to make decisions that must be implemented at store level. That requires both top-down and bottom-up communications processes.

The stores must be involved. Some retailers are putting their category managers out in the stores for a minimum of one day every two weeks to facilitate that communication.

Cross-functional agreement and integration is critical. That’s why store management and operations must be involved early in the category management effort.

If traditionally the retailer’s stores had considerable decision making latitude, the store-level people must remain involved, but they must also be given clear guidelines.

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With category management, the store manager can be focusing on running the store as a business, not merchandising.

DrSN: How broadly or narrowly should a category be defined?

Weber: The target consumer is defined in the strategic plan. So, you move down and align the category definition with how the consumer would define the category. We strongly suggest that retailers build their strategies around the consumer throughout the entire process.

For example, a consumer grouping may be personal care. A category within that would be hair care and a subcategory of that would be shampoo. A segment of the shampoo subcategory would be "price".

It's very important to rely on major suppliers to help the retailer define categories.

Similarly, category roles are based on consumer purchasing behavior.

As an example, take the hair care category again. This may be a destination category for a given retailer, and shampoo may be a target subcategory. At the same time, while women's hair coloring may be a target subcategory because it aligns with the retailer's target female consumer aged 25 to 45, men's hair coloring would be an "all other" because it does not align exactly with that target consumer. Meanwhile, ethnic hair care may also be a target subcategory for some stores or store clusters, but not all of them.

DrSN: What is the role of technology in category management?

Weber: It is important for retailers to understand that the integration of systems is critical to analysis, planning, and performance monitoring. If the information is fragmented across a lot of databases, this can create a mountain of manual processes that will literally choke your category management efforts. Information must be able to move around efficiently, and this requires investment in technology and systems.

Retailers must have scanning in all stores, of course. Then, they must be able to pull up sales, profit and cost at the SKU level, by store. They must be able to aggregate those figures by store cluster and by total chain. And, they must be able to integrate all this on screen with market level data and consumer information.

There are numerous software packages on the market, such as Nielsen's Portfolio, which do this. But, first you must have the data.

DrSN: What kind of internal training programs are necessary for the implementation of category management?

Weber: What we have learned is that a "canned" approach to training does not work. This is an evolutionary process, not a one-shot deal.

We recommend that retailers: (1) define category manager job expectations and responsibilities, (2) define the required skills, (3) assess their own organization to understand the strengths and developmental needs of their people in terms of those skills, and, finally, (4) develop training to meet those developmental needs.

This training can be group classroom type or tutorials, but it must be tailored to each retailer.

For example, one client of ours has invested very heavily in technology training, in collaborative training (for working with suppliers as partners rather than in "negotiations") and in top-to-top

communications training. They also have a one-on-one critique of the category managers' interfaces with suppliers.

With a cultural change of this magnitude, it was decided that training must include behavioral change on an interpersonal level.

DrSN: In your experience, what particular issues seem to apply most often to the drug store channel?

Weber: A key issue particularly in the drug channel is a reluctance to share internal information with suppliers. Drug chains place a high value on this information and will only give it to a supplier at a high cost. This can become a major obstacle in a collaborative relationship.

Another issue with drug chains is that they tend to be managed in a more hands-on manner by senior marketing executives than other channels. It is important to delegate to category managers, as well as to empower them within the organization.

Q&A by Marie Griffin

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