Miles to go

Winston Weber was in at the beginning of category management, but he still sees a long road ahead before the practice can catch up with 21st century retailing.

By Jenny McTaggart

The year was 1990. Winston Weber, a seasoned food industry executive with his own consulting firm, Winston Weber & Associates, Inc., was developing partnering strategies for retailers and suppliers. Weber's work led him to San Antonio, Texas-based H.E. Butt Grocery Co., because the chain was, like him, looking for more productive relationships with its suppliers.

"In order to achieve HEB's objectives, we concluded it would be necessary to restructure their procurement and merchandising organizations, to more closely align with categories and similar category groupings," recalls Weber. "This included the design and implementation of a fairly comprehensive category-planning process. As part of the restructuring, we changed the titles of buyers to category managers, and the rest is history."

It sounds like a tidy story with a happy ending. Adds Weber, "HEB's ability to execute the concept to perfection established their reputation as the industry leader in category management—a position that they still enjoy today."

But the story didn't end there. Indeed, today is a completely different era in supermarket retailing, and Weber is convinced that category management will require a seismic restructuring before it can truly focus on shoppers, render efficiencies, and, most importantly, help retailers differentiate themselves.

In a one-on-one with PROGRESSIVE GROCER, Weber bemoans the practice's missteps and proposes directions for getting it back on track. Earlier this year Weber published a white paper titled *Category Management Needs New Life.*

"We've reviewed the model with a sampling of large retailers and suppliers," notes Weber, whose firm, WWA, is based in Memphis, Tenn. "There's general agreement with the model and [on] where the industry must evolve over time. Of course, there are huge questions on how to get there."

PG: When category management was first being implemented, what were the major objectives behind it?

Winston Weber: We weren't really trying to implement category management. Our primary objective in 1990 was to leverage combined resources with the retailer and supplier to achieve competitive advantage. Our goal was to align the strategies, systems, people, and processes to reduce the cost of conducting business while better serving the consumer.

PG: Well, has that goal been met?

WW: Yes and no. Since its inception, I think category management has contributed significantly to top-line sales and bottom-line profit improvement for a vast majority of retailers. In this context it has positioned retailers to align merchandising strategies and tactics more closely with consumer purchase behavior.

It has created an environment that encourages fact-based decision-making within the framework of a disciplined analytic and planning process. That's a major step forward, vs. the old relationship selling of the 1970s and '80s.


Winston Weber

PG: But where has it failed?

WW: I think the concept has fallen short in several areas. The expected shift to consumer-focused processes has marginally occurred, at best. Collaborative planning between trading partners continues to be heavily skewed toward costs. I guess we've learned over time that old habits die hard, as a more traditional, cost-focused buying mentality has prevailed across the retail landscape. I look at that as probably the biggest disappointment we've had in the evolution of category management.

In this context, I believe the positioning of category management as a key component of ECR and the intensely competitive retail environment have been contributing factors. It has been necessary for retailers to focus on aggressively driving costs out of the supply chain in order to profitably grow their businesses, and in some instances just to survive. That focus on costs is one of the things that have kept us from focusing on the consumer to the extent we should have.

There's often misalignment of category strategies and tactics across the store.

PG: Is this because of a lack of communication?

WW: No. 1, it's because most retailers don't have what we call integrated planning processes. You'll have category plans building up to department planning. Each department is functioning as a separate planning function that should align to a marketing plan. But in linking that with strategic plans, you see considerable disjointedness in a retailer's typical planning. In fact, at one of the most successful retailers, I asked the president, "How do you link your marketing with your strategic plan?" And his answer was, "Well, we're thinking about that now." That's been a weakness not only in the grocery industry, but also straight across channels.

Also, the inordinate amount of time and resources that is being devoted to the analytic component of category planning has taken the emphasis off the importance of allocating resources toward the development of creative merchandising solutions. The overemphasis on analytics has virtually stripped the word "merchandising" out of our vocabulary.

PG: So which are the elements of category management that most require restructuring?

WW: It's very important to recognize that industry dynamics have changed considerably since the *Category Management Best Practice Guidelines* were published 10 years ago. In today's retail environment, there's a much sharper focus on the importance of driving sales. That's the trend. With the focus on developing a more effective in-store shopping experience, we're also talking about the trend toward neighborhood, or local, merchandising.

Today's category management model encourages the centralization of retailer buying and merchandising functions. This has numerous advantages. As technology enables us to access data easily, it made a lot of sense for category managers to have a picture of their business right in front of them on their computer screens.

However, as we're trending toward local marketing/merchandising, category managers don't have the time or resources to effectively manage multiple categories across multiple markets and across stores. As you're looking at making decisions that vary by store cluster, a category manager doesn't have the time. Therefore, most retail organizations today are really not positioned to, as we say, "touch" the shopper.

Secondly, there's a huge barrier to optimizing complementary category merchandising, as typical organization structures of retailers are compartmentalized in the departments. The structure by itself is a primary contributor to misalignment of merchandising strategies and tactics across the store. Even the leading retailers will admit that they don't have proper alignment across the store.

Another point that's important as we're talking about center store is the sameness of category planning processes. The availability of data and panel data across retailers has created an environment conducive to improving performance by closing opportunity gaps and achieving parity. If you think about it, everybody's looking at the same data. If you're looking at the same data, what you're basically doing is making sure you're in line with the averages, whatever the averages are.

PG: What—or who—is holding back category management's evolution?

WW: First, it's the commitment and willingness to accept a paradigm shift to a new model that requires changes in trading practices, organizational design, planning, performance measures, and store execution—this is the biggest hurdle to overcome. If we rely on history as a barometer, it usually takes one or two retailers to take the lead. The pace of change varies considerably across retailers, but it's usually a relatively slow process.

Apart from this hurdle, we're dealing with a natural conflict between retailer store branding and supplier product brand objectives.

Also, there's a significant knowledge gap in understanding shopper behavior. Only 9 percent of retailers believe that they're being provided efficient shopper information from suppliers. Since most consumer research is largely brand-driven, it fails to shed light on what goes on in-store in front of the shelf.

PG: What's your plan for a new model?

WW: We believe that category management must evolve to a shopper-centered alignment of business processes, merchandising competencies, and performance measures across internal functions, right down to the store and between trading partners.

This new model is guided by several shopper-centric success factors:

First, 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. But for those categories, items, and services that are the primary drivers of sales and profit growth for the retailer, the store should not be in a position to negotiate those categories. For the remaining categories, stores should be allowed to touch the shopper with appropriate merchandising decision latitude where they can make adjustments based on consumer demand, consumers requesting certain products, or to reduce space on secondary items to better support their core items.

Second, 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.

Third, break down organizational silos. This is a tough one. Organizational silos can cause misalignment of merchandising strategies and tactics across the store, and can inhibit cross-department merchandising of complementary categories and products.

Fourth, retailers must seek more knowledge from suppliers to help better understand why shoppers do what they do when making decisions at retailers' stores and shelves. And they need to know how to convert this knowledge into innovative and differentiated merchandising solutions.

Fifth, ensure shopper focus in the retailer's merchandising practices. This increasing focus on the shopper will continue to place the consumer purchase decision hierarchy at the core of the retailer's business practices, by reflecting how shoppers seek solutions.

Sixth, don't let chainwide averages govern merchandising practices. The growing importance of tailoring merchandising to satisfy local market requirements and store differences would require that retailers move away from chainwide averages as a means of governing merchandising practices.

Seventh, 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 aren't as strong in creative merchandising skills. These are seldom compatible. A considerable investment will have to be made in this area.

Eighth, and last, don't expect execution of merchandising plans to happen on their own. It's going to be necessary for retailers to take more control over the execution of their merchandising activities. Heavy reliance on suppliers has not worked and will not work. ■

Category management: The picture in 2010

By the end of the decade, category management, strictly speaking, will not exist, predicts Winston Weber, president of Winston Weber & Associates, Inc. Instead, the practice will be institutionalized as a component of a totally integrated business-planning process for retailers.

Weber has other predictions for 2010:

- The focus of planning will be much broader than category and aisle planning. The focus will be on shopper solutions and strategy alignment across the store.
- Tier 1 suppliers will be required to invest in actionable shopper insights on a retailer-specific basis. Fewer resources will be required for analytic support, as retailers will internalize most aspects of the category planning process.
- Merchandising solution ideation and development, based on shopper insights, will be an important aspect of the relationship between trading partners.
- Retailers will be better marketers of their brands and store brands, with an emphasis on differentiation and building shopper loyalty. This is going to place added pressure on suppliers in areas such as breadth of product line, new-product success, and providing unique product offerings on a retailer-specific basis.
- The quality of store brands, and less space allocated to the center of the store, will result in retailers' placing more emphasis on shelf space allocation and productivity optimization across the store.
- Stores will have more decision latitude in the areas of assortment, space management, and display within the framework of disciplined decision guidelines.
- Many retailers will gain control of store execution by requesting suppliers to subsidize in-store service costs, leading to retailer-owned or -dedicated merchandising capabilities. The value of supplier-retail merchandising organizations will be diminished in this environment.
- Trading partner collaboration will be focused on the shopper within a planning environment, where cost negotiation, other natural conflicts between the two parties, and a broad range of behaviors will continue to exist.