Is Category Management Still Viable? You Bet!

By Bill Dusek

There is little question that category management will remain a viable entity in the marketplace. However, a significant change is under way: practitioners are increasingly adopting a results-oriented approach providing "best practices" recommendations rather than sticking to the earlier template-driven model.

There should be no doubt that the perceived promise of category management has yet to be fulfilled. Many manufacturers today are reassessing the value it brings to their organization and weighing it against the tremendous resources needed to maintain its functionality. And while such retailers as H.E. Butt, Wal-Mart, Safeway, Wegmans and Kroger have been frequently cited for their practice of true category management principles, many other retailers have not changed some of their purchasing practices which fly in the face of true category management. Some are even charging manufacturers for the "privilege" of being the category captain, thus completely dismantling the collaborative effort that the category management process was developed to foster in the first place.

While the slower-than-expected results have been compromised by many factors, the most important is the resource commitment needed for category management. While both retailers and manufacturers have invested significant time and resources in the process, most of the analytical rigor, and therefore cost, has fallen to the manufacturer. In fact, many companies today have entire category management departments located at headquarters and/or out in the field to conduct category management reviews. Hundreds of hours can be invested in a single retailer review, and manufacturers are now starting to push back.

At the Efficient Consumer Response ’99 conference in Atlanta, manufacturers spoke about slimmed-down versions of the eight-step process that has been the industry standard since being adopted by the ECR Committee. The view of the industry is that the "one-size, eight-step process" does not fit all. In fact, even TPG’s Brian Harris, the acknowledged "father" of the eight-step, template-driven approach, agreed that the process was indeed very laborious and needed to be made more manageable.

With this movement afoot, the obvious question becomes, "Is category management still viable?"

The answer is yes. While the current trend is to find a more efficient and economical approach to the process, there are significant industry issues/trends that will keep category management alive.

As an example, over the last few years, much attention has been focused on eliminating supply chain costs, but there are significant costs still invested at the retailer’s shelf. While item optimization has been discussed, there has been little practice of down to the store or store cluster level where it has the greatest impact. Most item optimization models do not include any consumer data, or rather, they are based only on movement data. Yet it is the consumer who retailers are trying to influence at the shelf. Ultimately, item optimization models should be designed to work for individual stores or store clusters. In the not-too-distant future, these models will need to "work backwards" through the manufacturer’s supply chain system, helping manufacturers define the products that they will need to produce and offer to retailers, and better identify products that consumers want to buy.

For a while now retailers have been trying to get closer to, and gain a better understanding of, their customers through the use of consumer panel data. This data helps clarify channel/category/brand purchase dynamics, and has generally been in the domain of manufacturers. It has also been an integral and laborious part of their category analyses.

This consumer panel data traditionally has been the source in defining the consumer decision tree, which provides retailers with a better understanding of how the consumer shops the category, which is indeed valuable information. The need for retailers to truly understand their customers' decision process will continue to be an integral part of the category management process.

A growing retailer trend is the use of frequent-shopper programs. The truth is that frequent shopper cards (FSC) have generated plenty of data, but little real analysis, drawing few valuable insights. But the learning curve on how to use the information will soon translate to more and more manufacturers being asked to incorporate the FSC data into their category management process/analysis. Analyzing the FSC data will become a requirement of doing the category review.

When consumer panel data is combined with FSC information, the outcome could be a very powerful consumer/loyalty-driven category management process.

Retailers are also looking to manufacturers to help them understand the "best practices" in merchandising categories and moving away from the standard template-driven process. These best practices document what is working in the retail community in areas such as shelf merchandising, pricing and promotional practices. Though they may require greater analytical rigor, best practices truly provide insight to the retailer and should be part and parcel of any category analysis.

We also need to make sure that in our zeal to make the process simpler, we don't compromise one of the basic premises of category management. That is a better understanding of the category for both the retailer and the manufacturer, which, in the end, results in the manufacturer adding value to its relationship with the trade. Another historic problem with the template approach to category management has been that everyone is filling out the same 16-page template. In that environment, how does one manufacturer differentiate itself from another. How do they truly add value?

There are three basic tenets of category management. The first is that category management obviously must be consumer-based and consumer-driven. Next, the process should take a view from the perspective of the retailer, the true category manager. Retailers ultimately control the products that consumers see on their shelves and have control over how those products are merchandised. Finally, the ultimate outcome of the category management process must be an increase in at least one of the following: sales, profits or productivity.

While basic category learning and the identification of current trends are important parts of the category management process, the real value of category management is in analyzing the overall profitability and productivity of the category, identifying best practice solutions and applying micro-marketing approaches to those solutions.

There is nothing wrong with trying to look for time efficiencies in the basic category learning step of the process. However, there is a need to build and continually evolve the category management steps that add value and provide a better understanding of category dynamics. The goal must be to provide a better, more focused understanding of what drives category performance, and how to better optimize the product set and merchandising programs currently in place.