

Category Management for Consumer and Shopper Journey

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Abstract

A distinct, manageable group of products/services that consumers perceive to be interrelated and/or substitutable in meeting a consumer need.

The category management process creates a balance between product and process investments with attention focused on work activities throughout the total system — from supplier to distributor to consumer. Category management needs a formal deployment plan. This deployment plan is typically developed through a redesign process that changes the organization by redefining the work done by that organization.

Consumers "come to market" to satisfy needs which are more likely to be defined in terms such as pain relief, breakfast food, fresh breath, etc.

Category structure is the identification of the category's key sub-categories, segments and sub-segments

Keywords: *Category management, business process, category structure, category roles, dairy products*

1. Introduction

Category management is one of the key components of the philosophy of ECR (Working together to create sustainable value for consumers better, faster and at less cost) because:

- It can provide the strategic framework, business process and organizational structure within which this collaboration can take place;
- It can have a profound operational impact on each of the four ECR strategies: *Efficient Promotion, Efficient Replenishment, Efficient Product Introductions and Efficient Store Assortments.*

Definition of a category

A distinct, manageable group of products/services that consumers perceive to be interrelated and/or substitutable in meeting a consumer need.

Definition of category management

A distributor/supplier process of managing categories as strategic

business units, producing enhanced business results by focusing on delivering consumer value.

The key points of this category management definition are:

- Category management is a process — which is to say it can provide a method for doing much of the work of ECR — and involves a series of interrelated activities;
- Category management is comprised of distinctly different distributor and supplier components and support elements and, therefore, is a process that should not be done alone by either;
- Category management has as its outcome both improved business results (i.e., greater consumer value and improved supplier and distributor business results) and improved relationships between trading partners;
- The underlying foundation for these improved results is ultimately based upon understanding and meeting

consumer needs more effectively in the products and services offered.

By providing better consumer value through category management, both distributors and suppliers can become more productive, especially in the key areas of new store formats and new product introductions.

A category management project is based on principles highlight several areas of change and opportunity within the industry:

- *Shared business goals: focus on the consumer* — Historically, many suppliers and distributors have been focused on internal maximizing instead of consumer value. The outcome of this business practice frequently is: (1) inefficient systems — systems not designed with either the consumer or customer in mind — and (2) adversarial relationships, since maximizing internal goals can breed inherent conflict based on the lack of a common interest.

- *Trading partner alliances* — A large number of suppliers and distributors are recognizing the value of collaborative, as opposed to adversarial, relationships with trading partners. Delivering superior consumer and shareholder value cannot occur solely by managing one's own business in isolation. Several distributors and suppliers have experienced tremendous volume and profit gains by partnering, which allows for the magnification and leveraging of resources between trading partners.

- *Empowerment* — Organizations throughout the industry are giving greater authority and accountability to front-line managers. This often leads to a reconfiguration of existing organizational structures. For many distributors, the practice of having separate individuals manage pricing, procurement and promotion has often produced less than perfect decisions at the same time it eliminates accountability for overall category performance. Suppliers have experienced similar problems: sales executives try to implement their

marketing department's nationally developed promotion plans on a local level — or are asked to drive short-term sales volume without regard to the increased cost elsewhere in the system.

- *Information technology* — Advances in information technology have allowed many distributors and their supplier trading partners to share data and change business practices in ways that would have been unrealistic a short time ago. The move to open systems and client/server technologies has greatly facilitated solutions to the issues of ECR.

All these and other changes have triggered many within the industry to do more with current resources and to refocus on the basics of meeting consumer needs for value, variety and service. Category management can be a powerful tool for meeting these consumer needs in a marketplace sharply more competitive and less forgiving than in the past.

The implementation of a category management project is an approach to develop and achieving a performance that will satisfy all the actors (win-win-win):

-Category management is a continuing, strategic process — not a onetime project or business review;

-The creation of category management plans, therefore, suggests a complete review of internal business strategies and processes within and between both the supplier's and the distributor's organizations. The category management *business process* is a structured, measured set of activities designed to produce a specified result for the trading partners and their consumers.

Business process implies a strong emphasis on how work is done within and between organizations, in contrast to a singular and exclusive focus on the specific products or services delivered to the consumer. The category management business process is therefore a specific ordering of work activities across time and place — with a

beginning, an end and clearly identified inputs and outputs. It is a structure for action. Unless the participants can agree on the way work should be structured, it is very difficult to systematically improve or operationalize that work into routine practices within which trading partners do business. Of course, successful suppliers and distributors must offer quality products and services and employ productive business processes for producing and selling them. Collaborative marketing, product supply and administrative work processes between trading partners, however, represent major opportunities for improvement.

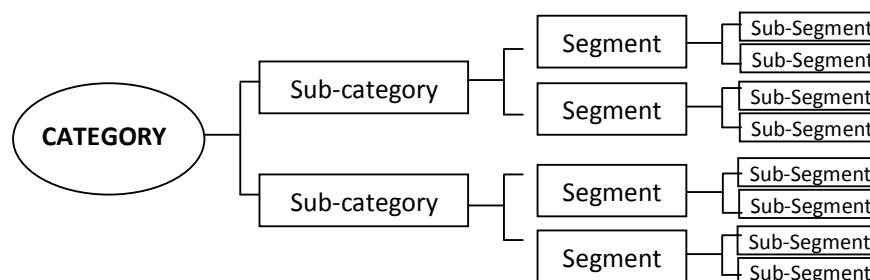
The category management process creates a balance between product and process investments with attention focused on work activities throughout the total system — from supplier to distributor to consumer.

2. Fundamental elements of the process of category management project

2.1. Category structure

It is the identification of the category's key sub-categories, segments and sub-segments. Work done to date suggests several ways to determine the category structure. Every category is different. In some categories, sub-categories will be made up of different product forms. In another category, a sub-category may be ingredient-driven — caffeine or decaffeinated, diet or sugar. Similarly, segment and sub-segment relations vary from category to category. Many suppliers have conducted very sophisticated maps that help them understand the category's structure. A generic structure of such a map is shown in Figure 1.

Figure 1: Category structure



(Source: Joint Industry project on Efficient Consumer Response (1995) Category Management Report)

The outcome of this important section of the overall process is: A name for the category; A description of the products and SKUs that comprise the category; The category's structure, e.g., sub-categories, segments, etc.

2.2. The role of category

The role of a **destination category** is:

- To be the primary provider of these products to the target consumer;

- To assist in defining the target consumer's image of the retailer;
- To deliver consistently superior value to the target consumer;
- To lead all retailer categories in the areas of sales, market share, consumer satisfaction, service level and operating expense management;
- To serve as the link between the supplier-retailer strategic partnership;
- To lead the retailer's personnel, systems and technological development

toward achieving the corporate mission, goals and strategies.

The role of a **routine category** (called "preferred" by some) is:

- To be the preferred provider of these products to the target consumer;
- To assist in building the target consumer's image of the retailer;

- To deliver consistent, competitive value to the target consumer;
- To deliver balanced results across all areas of the scorecard;
- To serve as the link between the supplier-retailer partnership;
- To play a primary role in delivering profit, cash flow and ROA.

Figure 2: Category Roles and Primary Performance Measures

Category role	Performance Measures (Scorecard)			
	External Results	External Causes	Internal Causes	Internal Results
DESTINATION To be the <i>primary</i> category provider and help <i>define</i> the retailer as the store of choice by delivering <i>consistent, superior</i> target consumer value.	Sales Market Share - sales - consumption Con.Sat. Rating	Service Level - Supply to DC - DC to retail	Operating Expense	Cash Flow Profit ROA
ROUTINE To be one of the <i>preferred</i> category providers and help <i>develop</i> the retailer as the store of choice by delivering <i>consistent, competitive</i> target consumer value.	Sales Market Share - sales - consumption Con.Sat. Rating	Service Level - Supply to DC - DC to retail	Operating Expense	Cash Flow Profit ROA
OCCASIONAL/SEASONAL To be a <i>major</i> category provider, help <i>reinforce</i> the retailer as the store of choice by delivering <i>frequent, competitive</i> target consumer value.	Sales Market Share - sales - consumption Con.Sat. Rating	Service Level - Supply to DC - DC to retail	Operating Expense	Cash Flow Profit ROA
CONVENIENCE To be a category provider and help <i>reinforce</i> the retailer as the store of choice by delivering <i>good</i> target consumer value.	Sales Market Share - sales - consumption Con.Sat. Rating	Service Level - Supply to DC - DC to retail	Operating Expense	Cash Flow Profit ROA

(Source: Joint Industry project on Efficient Consumer Response (1995) Category Management Report)

The role of an **occasional/seasonal** category is:

- To be a major provider of these products to the target consumer;
- To assist in reinforcing the target consumer's image of the retailer;
- To deliver frequent, competitive value to the target consumer;
- To play a secondary role in delivering profit, cash flow and ROA.

The role of a **convenience category** is:

- To reinforce the target consumer's image of the retailer for one-stop shopping;

- To deliver excellent, everyday value to the target consumer;
- To play an important role in the area of profit generation and margin enhancement.

These category roles were developed with the consumer in mind and reflect typical consumer shopping behavior (Figure 2).

Finally, experience shows that a distributor needs to manage all of the category roles and not focus exclusively on the destination categories. Each category plays a critical part in achieving the distributor's overall corporate objectives, and each should be managed

as part of an integrated portfolio of categories.

3. Deployment plan:

Develop a detailed first year deployment plan based on the largest opportunity areas found in the assessment. These opportunities often use key strengths as well as addressing severe weaknesses. Develop a second and third year plan in less detail. Enroll key players and formally communicate the deployment plan to the entire organization. Recall that the deployment plan process is comprised of the following components:

The following are a few **potential barriers** to successful deployment of category management:

- *Developing the enabling components before the core components.* Organizations that change their structures, information systems, reward systems, scorecard, etc. *before* they clarify their strategy and learn the business process often have costly revisions and rework, plus a longer deployment process.

- *Bringing the old into the new.* Many distributors and suppliers attempt to keep old practices while trying to implement category management. Many of these old practices can hinder progress.

- *Diversity of category management skill development among trading partners.* Suppliers and distributors attempting to deploy category management are challenged by their trading partners' varying abilities to do the work required. Objective assessment of capabilities *before* beginning collaborative work is helpful.

- *Unwillingness to give up short-term opportunities for long-term gains.* A distributor and its suppliers are sometimes unwilling to give up short-term benefits for longer term success.

- *Lack of appropriate data.* A distributor and its suppliers need

consumer purchase behavior data to develop shopper-driven strategies. In addition, some data today does not represent the total picture and can be misleading (e.g., gross margin, single channel market share, etc.).

- *Lack of trading partner appreciation.* A distributor or its suppliers try to deploy category management without appreciating or fully using their trading partners. As a result, their costs to develop and implement category business plans are higher, and their plans are often inferior, since they lack the trading partners' perspective and expertise.

- *Unrealistic expectations.* Category management requires investment and patience. Returns take time, presenting the temptation to lose focus or falter.

- *Lack of process improvement skills.* Category management implementation should involve the reengineering of crucial business processes (order cycle time, new item introduction process, etc.) in order to produce the desired results on a sustainable basis. The skills and techniques needed are relatively simple, but they are missing in many sales and merchandising organizations today.

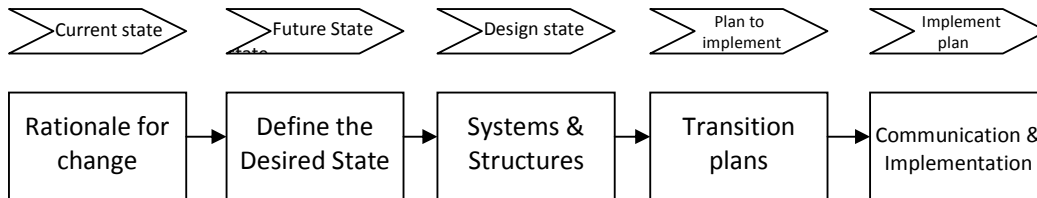
- *Failure to lead the cultural change.* Top management of both the supplier and the distributor should model the new behaviors and provide the recognition for consistent collaboration within the company throughout the change process. They should lead the tough work of realigning their internal functions and their rewards systems, which can inhibit successful deployment of category management.

Category management needs a formal deployment plan. Once top management of a company decides that category management will be a part of their organization's overall vision, a deployment plan is developed to bring it to reality.

This deployment plan (Figure 3) is typically developed through a redesign process that changes the organization by redefining the work done by that organization. Companies implementing

category management are consistently including the following key elements in these work process redesign and implementation programs.

Figure 3: Design and Implementation Process



(Source: Joint Industry project on Efficient Consumer Response (1995) Category Management Report)

Rationale for change: The deployment plan describes the current state — where the organization is winning and where it is losing — and provides the context for change while creating a sense of urgency.

- *Definition of the desired future state:* The deployment plan provides the organization with a clear picture of the desired “future state” to be achieved by the change to category management. Reactive or blind change often is unproductive and worse than maintaining the status quo. Importantly, communicating the vision of the desired state — what the organization and its work will look like when the change is done — provides overall direction and often helps to “pull” rather than “push” the organization through the transition period.

- *Design the new systems and organizational structures:* The design process is a concerted effort to recognize the barriers and links binding the current organization together, and to recast those elements to facilitate the desired new organizational capability. This typically begins by defining the work to be done in category management and the impact of this new work on the skills of the people responsible, on the organization structure supporting that

work, on interactions with trading partners, on the decision making authority made at different levels in the organization, on the information systems and data necessary to make those decisions, and, finally, on the rewards and recognition that motivate the work.

- *Plan to implement:* The deployment plan contains a transition design that ensures the organization moves from the current state to category management in the most productive, expeditious manner. This plan recognizes that the transition period is different than either the past way of doing business or the eventual future state. This period does, however, provide a formal critical path for change. It also answers key questions concerning timing, method and pace of change, allowing for the day-to-day running of the business during transition. Finally, a good transition plan tends to be consumer and employee oriented, leverages trading partner capabilities and strives for major changes in standards of excellence.

- *Implement plan:* The actual implementation of the plan includes execution of the necessary steps to *institutionalize* category management. This element of the deployment plan helps to stabilize the organization and reinforce the new business practices,

focuses on new systems, reinforces desired employee behavior, and generally allows the change to become the way the company does business.

Category management is a leverage for the buying decision and a tool in developing a shopping experience.

The growing worldwide interest among retailers and suppliers in Category Management has been the result of a set of business conditions that have increasingly challenged many traditional management methods. The combination of business conditions that exists today has created a need, as well as an enormous opportunity, for innovative new management approaches.

The willingness to replace these traditional processes with new ideas and approaches is high on the agenda of many of the world's leading retailers and suppliers. Among these new ideas and processes is Category Management. Category Management represents a method for managing the complex changes that are occurring in consumer needs and shopping behavior. At the core of the Category Management concept is a focus on a better understanding of consumer needs as the basis for retailers' and suppliers' strategies, goals, and work processes. This focus causes a re-evaluation of many current business practices which have impeded a greater understanding of consumer needs and opportunities. Take two such practices: 1. how categories are described and 2. how categories are managed in a fragmented manner across departments.

Consumers "come to market" to satisfy needs which are more likely to be defined in terms such as pain relief, breakfast food, fresh breath, etc. The use of category descriptors that do not relate in direct ways to how consumers define their needs can cause a lack of connection between how consumers "come to market" and how suppliers and retailers "go to market" in attempts to

meet consumer needs. Category Management helps identify this lack of connection by emphasizing that consumer-defined needs and their solutions should be at the heart of decisions on how products and categories are marketed.

The supplier's category expertise and consumer knowledge generally play a key role in developing the appropriate definition and segmentation/structure of the category. The supplier's consumer research is often the primary source of this information. Most suppliers have invested heavily in research to understand consumer usage habits, needs and desires. This gives suppliers a unique perspective in understanding the consumer's definition of the category and its structure (i.e., the way consumers organize product forms, flavors, price options, sizes, etc., when they buy and use the category). As suppliers often have this data, they can bring it to the table and present the retailer with their vision of the way the consumer defines and organizes (structures and segments) the category.

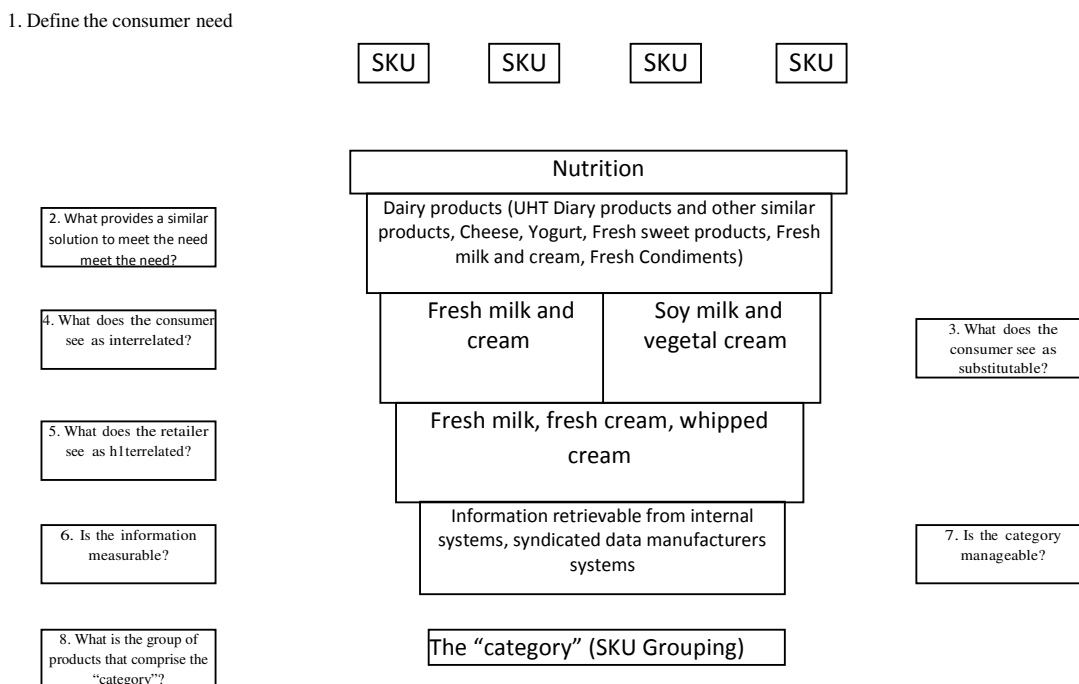
4. Case study

Figure 4 illustrates the process and criteria used to select SKUs that are combined to determine an appropriate category definition. It provides an example of the use of this process in defining the dairy category. Starting with the need of the consumer (here, dairy), all the product groups that provide a solution to this need are determined. In the next step, consumer research is carried out to find out what the consumer sees as interrelated products and substitutable products in meeting his need for dairy. Consumer research showed that consumers do not see paper plates and frozen dinners as interrelated or substitutable products for their need for clean dishes. In the next step, the retailer defines what he is able to manage together. As this category definition process was done in an early

category management implementation stage, the retailer decided not to combine these products into one

category and still treat them in separated departments.

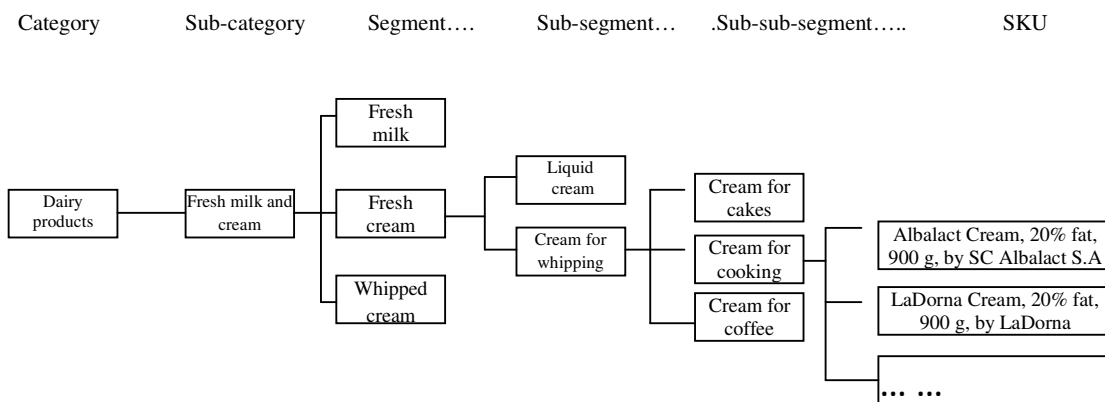
Figure 4: Category Definition Process



Nevertheless, he was aware of the opportunities and the need for a different organizational structure based

on more consumer-oriented category definitions.

Figure 5. Category structure



In the next step of the definition funnel process, the retailer and the

manufacturer checks whether the remaining products comprised in the

category are measurable and manageable.

In practice, they check whether the information needed for Category Management can be retrieved from their current information systems or from the syndicated data suppliers.

The products passing this last check constitute the category. Typically, the result of this definition process consists of a list of SKUs or product groups that are part of the category and a list of products that are not.

5. Conclusions

Category structure is the identification of the category's key sub-categories, segments and sub-segments (Figure 5. shows an example). Work done to date suggests there are several ways to determine the category structure. Every category is different. In some categories, sub-categories will be made up of different product forms (e.g., roll-ons, sticks, spray deodorants); in other categories a sub-category could be an end-user (e.g., dogs vs. cats), in other categories a sub-category may be ingredient driven (caffeine vs. decaffeinated; light or sugar, etc.). Similarly, segment and sub-segment relations vary from category to category. Many suppliers have conducted very sophisticated research, perceptual and/or, substitutability maps that help them understand the category's structure. The key is that the structure of a category reflects as closely as possible how a consumer makes a decision when purchasing within the category. A

category structure is a map of the "consumer decision tree." Appendix 1 and 2 shows how Category Management can change the "classical" structure of a category into a consumer oriented definition.

6. Future research

In the next work we will present a category proposal, for all the dairy product on the market in Targoviste, and it can be useful for the consumers, but also for retailers and producers. The research will present, for April 2012, information from supermarkets, from which it can be concluded the dimensions of the category (assortment), the merchandising organization from all stores. Future students, starting from this category management approach, can enhance the category management approach for other needs. Also, be the online publishing of the structure of the category, anyone can evaluate and visualize the planogram for the dairy department. Smaller Romanian firms can optimize their business from the perspective of good practices and specific "language" of ECR and shopping experience management.

References

Joint Industry project on Efficient Consumer Response (1995) *Category Management Report*, ECR Best Practices Operating Committee and The Partnering Group, Inc

**Category management classification – AC Nielson (Germany & Italy);
ECR Conference, Torino 2000**

- 1. DAIRY PRODUCTS
 - 1.1 DAIRY, UHT AND OTHER SIMILAR PRODUCTS
 - 1.1.1 Cream Cheese
 - 1.1.1.1 Canapes
 - 1.1.1.2 Slices
 - 1.1.1.3 Other Cream Cheese
 - 1.1.2 UHT Milk
 - 1.1.2.1 Enriched
 - 1.1.2.2 Whole Milk
 - 1.1.2.3 Partially Skimmed Milk
 - 1.1.2.4 Skimmed Milk
 - 1.1.2.5 With Vitamins/Dietetic
 - 1.1.3 UHT Cream
 - 1.1.3.1 Cooking Cream
 - 1.1.3.2 Whipped Cream
 - 1.1.3.3 Vegetal Cream
 - 1.1.3.4 Disposable
 - 1.1.4 UHT Dessert
 - 1.1.4.1 D UHT - Milk - Based
 - 1.1.4.2 D UHT - Other Base
 - 1.1.5 Bechamel Sauces
 - 1.1.5.1 Ready Bechamel
 - 1.1.5.2 Bechamel to be Prepared
 - 1.2 CHEESE
 - 1.2.1 Mozzarella Cheese
 - 1.2.1.1 Buffalo
 - 1.2.1.2 Cow's Milk
 - 1.2.1.3 Mixed Milk
 - 1.2.1.4 Light
 - 1.2.2 Other Fresh Milky Products
 - 1.2.2.1 Burrata
 - 1.2.2.2 Provola
 - 1.2.2.3 Stuffed Cheese
 - 1.2.2.4 Other
 - 1.2.3 Parmesan And Similar Cheese
 - 1.2.3.1 Grated
 - 1.2.3.2 Small Pieces
 - 1.2.3.3 Big pieces
 - 1.2.3.4 Chips
 - 1.2.4 Ricotta (Cottage Cheese)
 - 1.2.4.1 Cow's Milk
 - 1.2.4.2 Mutton's Milk
 - 1.2.4.3 Mixed Milk
 - 1.2.5 Table Cheese
 - 1.2.5.1 Gorgonzola
 - 1.2.5.2 "Crosta Fiorita"" Cheese"
 - 1.2.5.3 Asiago
 - 1.2.5.4 Ewe's Milk Cheese
 - 1.2.5.5 Montasio Latteria & C
 - 1.2.5.6 Swiss Cheese
 - 12.5.7 Maasdam
 - 1.2.5.8 Quartirolo

- 1.2.5.9 Fontina/Fontal
- 1.2.5.10 Taleggio
- 1.2.5.11 Caciotta And Italian Cheese
- 1.2.5.12 Ripe Mozzarella Cheese
- 1.2.5.13 Ripe Goat's Cheese
- 1.2.5.14 Other Foreign Cheese
- 1.2.5.15 Other Table Cheese
- 1.2.6 Crescenza
 - 1.2.6.1 Normal
 - 1.2.6.2 Light
- 1.2.7 Cooking Mozzarella
- 1.2.8 Other Fresh Traditional Cheese
 - 1.2.8.1 Goat's Cheese
 - 1.2.8.2 Robiola
 - 1.2.8.3 Fresh Primo Sale
 - 1.2.8.4 Tomini
 - 1.2.8.5 Other
- 1.2.9 Sophisticated Cheese
 - 1.2.9.1 In Oil
 - 1.2.9.2 Enriched
 - 1.2.9.3 Spiced
- 1.2.10 Mascarpone
 - 1.2.10.1 Up To 250 Gr
 - 1.2.10.2 Over 250 Gr
- 1.2.11 Industrial Fresh Cheese
 - 1.2.11.1 Spreading
 - 1.2.11.2 Flakes
 - 1.2.11.3 Other
- 1.2.12 Sliced Melted Cheese
 - 1.2.12.1 Normal
 - 1.2.12.2 Light
- 1.3 YOGURT
 - 1.3.1 Dietetic Yogurt
 - 1.3.1.1 White
 - 1.3.1.2 Fruit Flavor
 - 1.3.1.3 Other Flavors
 - 1.3.1.4 To Drink
 - 1.3.2 Two-Container Yogurt
 - 1.3.2.1 Fruit Flavor
 - 1.3.2.2 Cereals
 - 1.3.2.3 Other Flavors
 - 1.3.3 Yogurt To Drink
 - 1.3.3.1 White
 - 1.3.3.2 Fruit Flavor
 - 1.3.3.3 Other Flavors
 - 1.3.4 White Yogurt
 - 1.3.4.1 Whole Milk
 - 1.3.4.2 Skim Milk
 - 1.3.5 Flavored Yogurt
 - 1.3.5.1 Whole Milk With Fruit
 - 1.3.5.2 Skim Milk With Fruit
 - 1.3.5.3 Flavored Whole Milk
 - 1.3.5.4 Flavored Skim Milk
- 1.4 SWEET FRESH PRODUCTS
 - 1.4.1 Fresh
 - 1.4.2 Snacks
 - 1.4.2.1 Coated
 - 1.4.2.2 Stuffed

- 1.4.3 Sweet Fresh Snacks
- 1.4.4 Fresh Desserts
 - 1.4.4.1 Pudding
 - 1.4.4.2 Glass With Cream
 - 1.4.4.3 Custard
 - 1.4.4.4 Profiteroles
 - 1.4.4.5 Cooked Cream
 - 1.4.4.6 Tiramisu
 - 1.4.4.7 Mousse
 - 1.4.4.8 Fresh Cakes
 - 1.4.4.9 Other Kind Of Cakes
- 1.4.5 Mild Cheese
 - 1.4.5.1 Natural
 - 1.4.5.2 Fruit
 - 1.4.5.3 Mousse
 - 1.4.5.4 Other
- 1.5 FRESH MILK AND CREAM
 - 1.5.1 Fresh Milk
 - 1.5.1.1 Whole
 - 1.5.1.2 Partially Skim
 - 1.5.1.3 Skim
 - 1.5.1.4 Enriched
 - 1.5.1.5 Flavored
 - 1.5.1.6 UHT
 - 1.5.2 Fresh Cream
 - 1.5.2.1 Whipped Cream
 - 1.5.2.2 Liquid Cream
- 1.6 FRESH CONDIMENTS
 - 1.6.1 Butter
 - 1.6.1.1 Normal
 - 1.6.1.2 Salted
 - 1.6.1.3 Other Kind Of Butter
 - 1.6.2 Margarine
 - 1.6.2.1 Maize
 - 1.6.2.2 Other Base
 - 1.6.3 Lard

**Branched structure of the category.
AC Nielson (Germany & Italy);
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