Category Management

What is it?
Modern Category Management

“The absolute defining success factor of an individual retailer is: what it sells! In other words, its range of products and services. Everything else is support or window dressing.” Paul Foley 2009

Modern Category Management (CM) is the best practice method to determine strategically what the range should actually look like, at any moment in time.
Adopting the strategy

1. Concept
   - Who is our customer?
   - Why do they choose us?
   - What will be their needs?

2. Goals
   - Revenue
   - Gross Profit
   - Stock investment
   - Space required
Dynamic product range

• Once the goals are identified, the range of products becomes the supporting pillars on which the whole concept is sustained.
• Because the needs of the consumers change, the range must be dynamic with those changes in needs.
Implement modern CM

The “get ready” stage

The “assessment” stage

The “organisational structure and goal setting” stage

The “execution” stage

The process will probably take 6 -9 months in order not to overload the current commercial team
The “get ready” stage

• Data has to be in a manageable format and made ready to be analysed

• Product hierarchy must be organised to make best use of commercial team resource and to group customer needs
The “get ready” stage

A must-have by product, category and supplier is:

- **Sales-rate**: cash/volume/time/growth
- **Stock turn in days**
- **Gross margin**: front margin/cash/percentage/return on stock invested (GMROI)
- **Supplier terms**: lead time/payment terms/back margin
- **Supplier performance**: logistics costs and fulfillment of orders
The “assessment” stage

- Consumer needs must be analysed through internal and external research, including the training of how to do this.

- Identified needs require new logical product hierarchy (baby food fits better with diapers, baby clothes and wipes than with preserved food, textiles and paper products).
The “assessment” stage

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Consumer needs example - Chocolate

**Supplier oriented**
- Mix (single wrap pralines)
- Chocolate candy
- Boxed
- Bars / Multi-packs
- Chocolate Eggs
- Seasonal
- Alcohol filled

**Consumer oriented**
- Enjoying / indulgence
- Giving gifts
- Sharing with others
- Eating with coffee
- Packed lunch
- Providing energy
- Cooking / baking ingredients
Consumer needs example - Baby

Feeding

Dressing baby

Keeping baby healthy and safe

Entertaining baby

Bathing and care
The "assessment" stage

- Products should be classified into:
  
  **Roles & Types**

  - Traffic
  - Margin
  - Growth
  - Generation

  - Routine/Core
  - Profile
  - Categories
  - Peripheral

- Space must be allocated to support concept, profile categories, sales and gross margin goal generation
Assortment types

Standard
season

Profile
7 – 15* %

Routine/Core
50 – 65 *%

Peripheral
20 – 35* %

Share on sales of types
(Sum = 100 %)

* approximate share on sales - differ in retail industries

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Category Management
Share of types

Profile

Core

Peripheral

on sales

on profit*

on space

Schematic diagram

* Gross margin; share on salaries; share on store space (rent); share on advertising support, share on inventory, ...

11/02/2014 Category Management
The "organisational structure and goal setting" stage

Once the matrix and goals for the business are clearly identified, the structure needs aligning to the workload and the individual categories can be redistributed.
The "organisational structure and goal setting" stage

- The KPIs need clarification, the goals need breaking down to individual Category Managers and the staff motivation and evaluation processes can be designed to fit perfectly.

- Workshops will be required to ensure staff are able to understand how they manage their new KPIs.
Organisation

Hierarchical levels

> Commercial Director

> Category Manager

> Junior Category Mg.

Operational tasks

Strategic tasks
The "execution" stage

Complete company education and support is needed

– Merchandising, Sales Operations, Marketing and Advertising must all be aligned to the goals
The "execution" stage

- Sales floor plan needs adapting as will individual category merchandising plans
- Promotion strategy and calendar must be worked out
- Communication to all Stake Holders - Share Holders, Suppliers, Operations, Finance, Controlling
Summary

- Successful Modern Category Management implementation is the key to crystalizing a concept in the eyes of the consumer.
- If this process is managed properly the consumer will clearly understand what the business stands for and the company becomes ‘first choice’ when the need for these products or services are front of mind.
- Furthermore, done properly, the process allows for the constant change needed to keep up with a dynamic market.
- It is the change from the traditional market scenario where the supplier knows the customer best to the modern market where the retailer knows it’s customer better than anyone else!
Typical Outcomes

Of course, every retail that we have cooperated with on introducing Modern Category Management has had a different starting point, and therefore different benefits.

- Improved Gross Margin
- Reduction in SKUs and stock holding
- Increased sales
- Greater resilience to new competition
- Increase in size and importance of Commercial Team within business
- Improve staff retention of Commercial Team
Why use consultants to introduce modern CM?

- Change management often is easier accepted by middle management and staff, and implemented with less compromise when explained by expert consultants.

- The “buy-in” of the whole company is required to ensure this process works properly. Strategic Consultants have no hierarchical connection, they recommend to Top Management and must justify those recommendations with logical explanations.

- The thought about alternative of employing an experienced Commercial Director has the problem that their “day job” is extremely demanding. This would put the whole business at risk during the change. Consultants can also dedicate more resources to effecting the change faster.
Actual Example of Modern CM implementation

• An ambitious food retailer in Belarus with 123 stores acquired a similar supermarket business with 80 stores. The concept for each part of the business was evaluated and a new hybrid concept was decided upon.

• Modern Category Management was then implemented over a 9-month period and the results were spectacular!
Modern CM in Belarus

✓ +2% improvement in Gross Margin, within 12 months from 21% to 23%
✓ SKUs count reduced from 14,800 to 8,500
✓ Stock holding reduced from 38 to 31 days total stock
✓ Cash Flow increased by 48% !!!
✓ Head count decreased in store by 1 (203 total) due to all procurement being managed centrally by headquarters (HQ)
✓ Commercial Team at HQ increased from 26 to 32 in total