How do I: Implement Category Management?

Thinking of implementing category management to develop your business? This guide will help you understand the basics of the task, its key elements and how to progress.

Category management is an effective way to utilise market data to help increase sales. Its format provides a consistent merchandising guide and allows management to easily update figures in relation to buying trends. Moreover, it is the modern language of most retailers, and buyers will often expect suppliers to implement category management for the sectors they are trading in.

BENEFITS

Implementing the principles of category management can provide a number of business benefits, including:

- Providing a model for valuable market and consumer information.
- Developing competitive advantage via information and understanding.
- An opportunity of building your relationship with the retail account.
- Building sales.

WHAT IS CATEGORY MANAGEMENT?

Category management is a distributor/supplier process of managing categories as strategic business units, producing enhanced business results by focusing on delivery to the consumer. It has grown in importance since point-of-sale scanning allowed for accurate assessment of product movement.

KEY ELEMENTS

1. It is an organisational design for distributors where buying and merchandising functions are integrated through category management teams responsible for developing category business plans, both internally and with suppliers. These category-based plans are aimed at improving the overall performance of the category.
2. The main aim is to produce an interactive and collaborative business process in which distributors and suppliers work as partners to create and manage consumer-focused category plans.
3. Retailers and suppliers have to focus on the category as a whole rather than concentrating on just one particular line. Supermarkets often have categories for a number of products that are grouped together, e.g. soup or fresh produce.
4. The consumer also benefits from category management. It leads to an improved range, reduced out-of-stocks and shopping will be made easier by the collaboration of retailers and suppliers to improve the effectiveness and efficiency of demand/supply management.

Using the soup category example, the category leader (e.g. Heinz) would advise the retail buyer on which products of all brands should be stocked in a bid to maximise total sales and to grow the category as a whole.

This would involve recommending a mix of traditional and more exotic lines – from budget soups to premium lines. Analysis of buying and consumer patterns would drive the recommended range and what number of facings each product line should have at the fixture.
GETTING STARTED

For the category leader the benefits are enormous – they have the opportunity to control, influence and direct the category. It can be more difficult for a minor player unless they are able to demonstrate how the category as a whole can benefit from their move to a greater position of influence. In such circumstances clarifying the opportunity in strategic terms is the key to success.

To implement category management it is essential to have a consistent strategy and a standardised business process. The process consists of six steps:

- **Category definition**: decide what category your product fits into.
- **Assessment**: identify sales, profit and return required.
- **Strategy**: develop demand and supply-chain strategies for the category.
- **Tactics**: determine the assortment, pricing, shelving and promotions required to achieve the plan targets.
- **Plan implementation**: implement the category business plan and strategies through the store.
- **Category review**: monitor category performance versus plans on an on-going basis, e.g. how has your product, your sales and, ultimately, your bottom line improved?

Category management should be viewed as a demand/supply chain process with a manufacturer/retailer interface.

For the manufacturer there are product management functions, which should be organised into category. Similarly for the retailer there are customer management functions that need to be aligned to the category management functions for maximum impact.

DEVELOPING YOUR STRATEGY

The strategy is the link between a company’s overall mission and the role of category management. Retailers and suppliers must answer a number of questions before starting the category management business process. They are:

- What is the company’s overall mission?
- What is the basis of competitive positioning?
- What are the key corporate goals?
- Who are the target consumers?
- What are the key strategies relating to price, assortment, promotion, customer service and product supply?
- What is the present relationship between the retailer and the supplier?

The answers to these questions provide key strategic directions and a framework to build upon.

FOCUSSING ON THE CONSUMER

Category management requires the target consumer to be the basis for the competitive strategy. It is essential to understand the target consumer and consumer behaviour that affects retail strategy and consumer purchases.

Three questions managers should ask themselves are:

- How do consumers choose stores for shopping?
- How do consumers choose products?
- How do in-store category tactics affect consumer choice?

It is important that space allocation, shelf presentation, assortment, pricing and promotion are dealt with carefully to get the right message across to the consumer.

Market research can help with this, but there are also four key points that should be kept in mind when choosing a retail outlet. They are:

- Location of the store.
- Product/brand variety.
- Price.
- Shopping environment – fast checkout, friendly staff and the atmosphere within the store.
Retailers can influence the consumer through merchandising tactics as part of their category management plan. These include:

- Space allocated to a category and to a brand within a category and the location of the brand, i.e. top shelf versus bottom shelf.
- The assortment offered – items added to or dropped from the category.
- The pricing decision – high/low or everyday pricing.
- The promotion decision – features, in-store displays, sampling.

MANAGING THE RELATIONSHIP

Collaborative relationships between trading partners are not always easy to achieve by the category management business process. Both retailers and suppliers need to develop databases that integrate their internal data with external market/competitive data.

To assist in avoiding problems, category management teams should ensure that:

- Both parties are allowed to put across their perspective
- The category has a co-ordinated internal programme
- The category has a co-ordinated external programme
- It has the appropriate level of resource allocation

A substantial amount of work has to be carried out in terms of research and putting strategies in place to be able to implement category management and, subsequently, improve on business processes. To be successful, suppliers and retailers have to adopt a new way of working together.

HOW DO I? SUMMARY

1. Develop your strategy and the role of category management in its achievement.
2. Develop your approach to the retailer i.e. why they would benefit from a joint category management approach.
3. Formally begin the process with a start-up meeting involving the team (which will include representation from your business and the retail account).
4. Follow the six-step process described in Getting Started.
5. Remember that category management is not a single initiative; it is an on-going process. Ensure regular reviews and category development. Building this relationship will build competitive advantage.

OTHER USEFUL SOURCES OF INFORMATION:

Visit [www.scotlandfoodanddrink.org](http://www.scotlandfoodanddrink.org)

- INSIGHTS: you can access data on geographic markets, consumers, retailers, foodservice operators, specific product sectors and more
- There are many other How Do I? Guides which can help you grow your business

The Institute of Grocery Distributors: [www.igd.com](http://www.igd.com)

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[www.scotlandfoodanddrink.org](http://www.scotlandfoodanddrink.org) - The information service tailored to the food and drink industry.
Contact the Scotland Food & Drink Helpline on 0845 601 3752.