

Retail | Category Management

# Effective day-to-day category management



## Fast facts

In BearingPoint's experience, category management can be taken to a whole new level by structuring the processes involved and taking an analytical, data-driven approach to decision-making.

## In this white paper

Introduction	3
Overview of the category management workflow	3
Market insight	4
Company goals	4
Category strategy	4
Category tactics and execution	6
Follow-up	6
How to set up a practical daily category management workflow	7
The annual clock and the weekly schedule	7
Essential management elements	9
Tools to support the workflow	10
A note on organizational aspects	11
Conclusion	12
Author and Contact persons	13



## Introduction

Based on our experience of category management improvement projects, there is a clear gap between what research studies and reports present as best practices and many companies’ day-to-day category management activities. Category management can be taken to a whole new level by following a more structured, analytical and data-driven approach. The category management workflow proposed in this white paper is intended to facilitate such an approach. Our aim has been to ensure it was data driven, encouraged an analytical approach and above all was simple enough to use and function in reality. Implementing this workflow requires both a thorough understanding of category management as well as experience and expertise in management systems and change management.

Execution is the key. Although you may theoretically have the right route to market, the appropriate products, the best campaigns, effective merchandizing and excellent sourcing, the moment of truth comes when it is time to execute. In our experience, the difficulties only become apparent when you attempt to execute your strategies in stores. It is essential, therefore, that you plan for excellence in both design and delivery – and this is especially true in the case of category management.

Category management, the concept of managing categories as strategic business units, plays a key role in retail success. The importance of activities within category management such as pricing, assortment management, promotion planning and merchandizing cannot be over-emphasized. Category management is about satisfying customer requirements, profitably. Without efficient category management, you provide the competitors with an opportunity to outperform you on this and could lead to decreased sales. There are numerous studies and theories covering the basics of category management. Perhaps the most widely accepted of these is the eight-step category management business process outlined by Efficient Consumer Response (ECR). This whitepaper builds on ECR’s eight-step process and shows how it can be evolved and successfully applied in practice.

The goal of this white paper is to provide insight into how to close that gap by setting up a practical day-to-day category management business process that is focused on effective execution.

## Overview of the category management workflow

The category management framework can be divided into five main areas as illustrated in Figure 1 below. The activities within each area and their goals are described on the following pages.

Figure 1. Category management framework



## Market insight

Market insight includes activities targeted at collecting and analyzing information about the market environment. The most important goal is to understand the company's customers and their needs. To stay up-to-date on the trends and customer behavior patterns, category managers must continuously follow information available from various sources: the formal sources such as customer and market surveys and commercial category analysis from, for example, AC Nielsen, as well as informal sources and weak signals such as magazines, blogs, customer feedback, global and local trends, and so on. Thorough customer knowledge combined with an understanding of the competitive situation and the market environment provide a solid basis from which to define the strategy and goals of the company.

## Company goals

The business strategy is the starting point for category management activities. In a customer-centric business such as retail, it is essential to define the target customer or customer segment(s). The business strategy should clearly define the format strategy or strategies, the operating model and the key means of differentiation from the competition (for example: everyday low price; promotion-driven retail; branding; quality; or service).

There are two particularly important aspects of the company goals, format and category-management strategies:

- The goals must be aligned and articulated to an operational level of detail through an effective planning process and successfully controlled at that level.
- The format and category management strategies should be defined together, ensuring proper communication between these functions.

These are very basic building blocks for category management that help to provide clear leadership, direction and focus on execution.

## Category strategy

The foundation for defining the category strategies comes from the company goals on:

- Target customer
- Format strategies

These pieces of the strategy serve as the main guidelines for defining the category strategy. In addition to the company goals, the category definition is also important. In order to define a successful category strategy, the category definitions should be based on the consumer decision tree (CDT). The CDT shows how shoppers prioritize when deciding what to buy. For example, when it comes to buying an ice cream, do they make the decision based on flavor, brand or package size? CDT shows the relative importance of product attributes. Another important aspect is that there should be a certain level in the product hierarchy on which the products can be considered to be interchangeable – for example, ice-cream cones: if a certain brand or flavor is out of stock, the consumer will most likely buy another brand rather than not buy an ice-cream cone at all.

Basically, a category should consist of products that serve the same purpose or somehow belong together in the consumer's mind. Another definition of a category is that the items in it would represent the complete range of products required to stock a specialty shop run by, for example, a butcher, a chemist or a baker. Under these main categories, there should also be sub-categories for each product. For example, the main category for Edam cheese could be "dairy products", while the sub-category would be "cheeses". These requirements for the category definitions may sound obvious but it is amazing how many category trees are based on product type or supply, or have cheeses and decaffeinated instant coffees on the same level. In addition, effective categories should

enable more effective promotional planning to see to it that supplementary products are considered and contribute to additional purchases at higher margins.

When category definitions are in place, the next step is to define the category roles. Role assignment should reflect the company’s strategic targets and be based on the targeted customer segment. A typical set of category roles are shown in Figure 2 on the next page.

Figure 2. Typical set of category roles

Category roles	Category role objectives
Destination	To be the primary category provider and help define the retailer as the store of choice by delivering consistent, superior target customer value.
Routine	To be one of the preferred category providers and help develop the retailer as the store of choice by delivering frequent, competitive target consumer value.
Seasonal	To be a major category provider, help reinforce the retailer as the store of choice by delivering frequent, competitive target consumer value.
Convenience	To be a category provider and help reinforce the retailer as the full service store of choice by delivering good target consumer value.

The idea behind setting roles is to decide on what the company is trying to achieve with a certain category. For example, the fresh-meat category may serve as a destination category, while the bread and yogurt categories can be treated as routine categories.

After the category roles have been defined, it is time to decide how to fulfill them. Sub-category strategies help to achieve this aim. Example sub-category strategies are outlined below:

Figure 3. Sample sub-category strategies

Category strategies	Category strategy objectives
Traffic building	Get the consumer into the store and purchase from the category and from the store in general.
Transaction building	Increase the consumer’s average purchase of the category.
Profit generating	Increase the sales of high margin products (>average category margin).
Share protecting	Protect the obtained market share and turnover of sub-categories against competition.
Excitement creating	Meet the consumer’s needs by offering trendy and innovative products.
Image enhancing	Create an image towards the target consumer, in one of the following domains: pricing, service, quality or assortment.

These sub-category strategies differ from the roles assigned to the larger categories, but they should support those roles by combining in a meaningful and feasible way.

The essential link between the concepts above and the practical day-to-day work in category management is the tactogram. There are several different versions of this handy tool, and the version that has proven to work the best in BearingPoint’s projects is the one that combines both roles and strategies. Consistent guidelines can contribute to an effective approach to category tactics around:

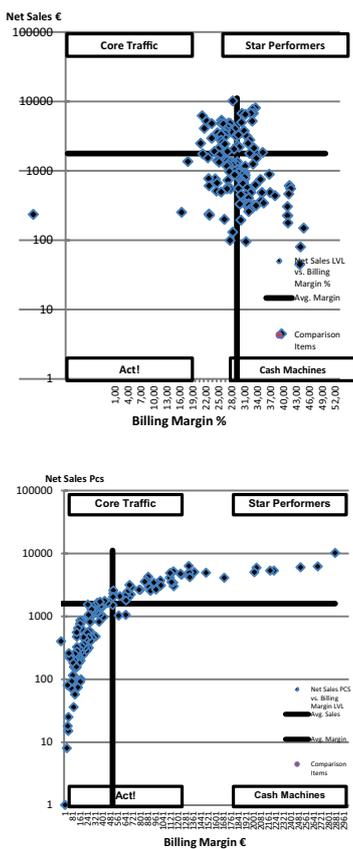
- Assortment management
- Pricing
- Promotion planning
- Merchandizing

The tactogram serves as a handbook or practical guideline that empowers the appropriate people to make the right decisions in their daily activities. Essentially, it guides and allows for initiative within agreed boundaries.

Figure 4. Sample tactogram

		Traffic building	Transaction building	Profit generating
Destination	Assortment	Market coverage about 85,98% No of items: above 80% of the comparison value Avg. price: 90-100% of the comparison value		
	Price	Price index up to 100% in the peer group Price range for the selected traffic builder products 90-100% of the comparison value		
	Promo	High level of activity High frequency, multiple vehicles Defined level and number of very aggressive promotions		
	Merchand.	Best location, lots of shelf-space, attractive design, 100% availability		
Routine	Assortment			
	Price			
	Promo			
	Merchand.			
Seasonal	Assortment			
	Price			
	Promo			
	Merchand.			
Convenience	Assortment			
	Price			
	Promo			
	Merchand.			

Figure 5. An example of analysis for the category revision



### Category tactics and execution

There are two cornerstones in category tactics and execution: the tactogram and the category review. In the category strategy sessions, a category plan and targets have been prepared for each category. In addition, there are the category roles and strategies, and the tactogram summarizing the general guidelines. There are four main steps to follow in category tactics and execution:

1. Create a full internal and external overview of the market environment. For example, identifying the trends, the competitors, the company's market share, sales development, margin development, assortment width and depth, price comparisons, and so on.
2. Prepare an action plan for the category that is based on the strategic category plan, the tactogram and the market understanding resulting from step 1.
3. Execution of the plan.
4. Rigorous follow up, review and ongoing improvement.

A practical approach to follow for steps one and two is a category-revision process. This starts with a standardized analysis in order to gain a thorough understanding of the market situation and the company's current performance in the category. Based on the analysis, a standardized revision template can be used. Completing the template requires that you draw conclusions and draft an action plan. This document should serve as key input to the category-revision meeting. Representatives from category management, sourcing and formats should finalize and approve the action plan.

### Follow-up

When following up on the category management actions:

1. Ensure that the category-specific action plans were executed in a quick and effective manner. This follow-up must be included in the meeting structure and category-management schedule. Actual performance should be rigorously compared with planned performance and steps identified to make improvements and close the gap between the two. This will be discussed in more detail in the following chapter.
2. Review whether the actions taken are achieving the desired effect in terms of sales and margins. This is important due to the frequent changes in the retail market: trends and consumption patterns are constantly changing, competitors are launching campaigns, new products are introduced, and so on. Because of these external factors, it may happen that a change in assortment, pricing or promotion does not achieve the desired effect and a correction needs to be made as quickly as possible. A category management dashboard with the right key performance indicators (KPIs) and up-to-date data is an essential tool for tracking the success of category management actions.

Figure 6. An example of a category management dashboard

WEEKLY DASHBOARD - CATEGORY MANAGEMENT						week 8
	Actual	Target	A/T Index	Last Year	Actual YTD	Trend
Sales	46 931 015	73 930 135	63,5	18 996 499	104 169 041	▲
F&V	16 425 855	25 875 547	63,5	6 648 775	36 455 664	▲
Fresh	16 425 855	25 875 547	63,5	6 648 775	36 455 664	▲
Dry	23 465 507	36 965 068	63,5	9 498 249	52 079 520	▲
Near-food	23 465 507	36 965 068	63,5	9 498 249	52 079 520	▲
Non-food	7 039 652	11 089 520	63,5	2 849 475	15 623 856	▲
PL sales/Total sales %	54,05%	21,77%	248,3	24,44%	52,37%	▲
Production sales/total sales %	266 244	240 901	118,8	282 009	346 995	▲
Billing margin (cash)	153 963	166 439	92,5	238 971	388 099	▼
Billing margin %	27,96%	31,35%	89,2	54,75%	20,60%	▼
# Active SKU	68 532	10 197	672,1	43 082	40 170	▼
# SKU in promotion	51 966	44 662	116,3	7 293	45 333	▼

All monetary amounts in €

Copyright © 2010 BearingPoint

## How to set up a practical daily category management workflow on a daily level

The previous chapter introduced the category-management workflow based on the layers (market insight, company goals, category strategy, category tactics and execution and follow-up). Our practical experience suggests that it is best to keep things simple and user-friendly.

### The annual clock and the weekly schedule

An “annual clock” is a simple tool that can be used to schedule category-management events. It helps to see to it that relevant events have been aligned and synchronized – for example, the category review and supplier negotiations take place every year before an important season for this particular category. The most important topics to be scheduled in the annual clock are the following:

- Yearly format strategy update on company level
- Yearly category strategy update on company level
- Category role and strategy revision per category
- Tactogram update and fine-tuning
- Seasonal schedule for campaigns and promotions
- Category revisions
- Supplier negotiations per category

Figure 7. A snapshot of an example annual clock for category management

WEEK		1	2	3	4	5	6	7
SEASONS	DESCRIPTION	DATE						
	Winter							
	Spring							
	Summer							
	Autumn							
CAMPAIGNS								
	Christmas							
	Easter							
	Back to school	20.1.2011						
	Beauty days			x				
PROMOTIONS								
	Promotion 1	Winter sales items	x					
	Promotion 2			x				
	Promotion 3				x			
	Promotion XX						x	
CATEGORY REVISIONS								
	1	Women's clothing	18.1.2011		x			
	1	Children's clothing	11.1.2011		x			
	3	Electronics	27.1.2011			x		
	4	Fresh vegetables	2.2.2011				x	
	8	Beverages	8.2.2011					x
SUPPLIER NEGOTIATIONS								
	Supplier 1	Clothing			x			
	Supplier 2							
BUDGETING & STRATEGY								

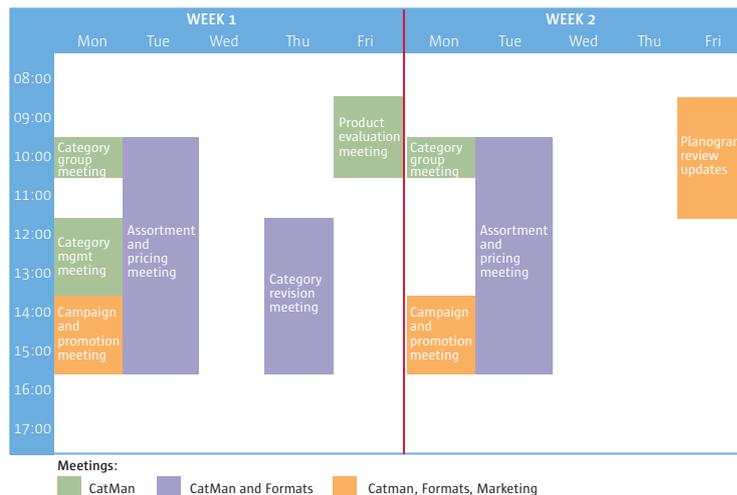
**Retail | Category Management**

Whereas the annual clock takes the long view, the weekly schedule contributes to the category management scheduling process by concentrating on the short term. Typically, the annual clock specifies the weeks in which key operational meetings will be held. The weekly schedule, on the other hand, specifies the day and the time at which all category management related meetings and events will take place. Unlike the annual clock, the weekly schedule is not limited to just meetings – instead, it schedules almost all of the work that will be done by the category managers. The most important topics to include in the category-management weekly schedule are the following:

- Category review meetings
- Category analysis work and preparation for category reviews
- Assortment meetings
- Product-evaluation meetings (for new product launches) and other preparations for assortment meetings
- Supplier meetings
- Preparation for supplier meetings and fact-based negotiations
- Store visits and communication with stores
- Campaign-planning meetings and preparations
- Planogram reviews and updates, and other merchandizing planning work
- Category-group meetings
- Category management meetings

The aim of the meetings is to promote sound decisions and see to it that improvement actions are detailed and followed up. Organizing the function in such a way encourages consistency of approach and minimizes the amount of time wasted. It is quite common for weekly schedules to be mirrored more or less from one month to another, and it therefore makes sense to follow a rolling four-week calendar.

**Figure 8. A snapshot example of weekly schedule**



## Essential management elements

Successful execution requires effective ongoing management of activities, organized in a consistent and efficient manner. Their aim should be to effectively plan, control and review performance in a timely manner to drive performance. Meetings should add value to the business, but our experience suggests most organizations are unclear about the purpose of meetings and who should attend them. This usually leads to increased frustration and costs. Focusing on the key operational meetings and getting these right is important to promoting both successful execution and efficiency. These meetings are required in most cases, regardless of the branch of retail or the scale of the operation. These five fundamental meetings have been listed and discussed in more detail below.

### Category review

These meetings take place usually once or twice a year per category. Before the meeting, the category manager should conduct comprehensive yet practical analyses to identify opportunities for improvement in the category. The category manager should also prepare or update a concrete action plan to execute according to the selected category role and sub-category strategies. In the meeting, these plans are reviewed and approved. The purpose of the meeting is to see to it that everyone is familiar with and approves of the plans. This is also an opportunity to fine-tune and adjust the scheduling of the plans.

### Assortment meeting

The goals of these meetings are very concrete:

- Decide on new products to add to the assortment
- Determine which items to delist from the assortment
- Control the number of items in active assortment
- Determine the prices for new items

All of these decision points must be prepared thoroughly in advance. In the meeting, the business case for each course of action should be reviewed before decisions are made.

### Campaign and promotion meeting

The efficiency of this meeting depends on the clarity of the targets set and the quality of the guidelines in the tactogram. If both of these are in a good shape, the campaign meeting will largely involve reviewing the performance of the previous campaign and assessing the new campaign plan against the tactogram.

### Category-group meeting

This is a weekly follow-up and execution meeting in which all of the category managers under one category-group manager are expected to be present. The target of this meeting is to review performance and improvement plans per category (and per category manager). This is the forum in which the daily issues in category management can be tackled.

### Category management meeting

Category management meetings are similar to category-group meetings, but take place on a higher level. All of the category group managers are present and their performance and improvement plans are reviewed. This is the forum for the discussion of company-wide issues in category management, as well as for organizational topics.

### Tools to support the workflow

When category management works well, it is data-driven. There are several input-data flows that should be taken into consideration:

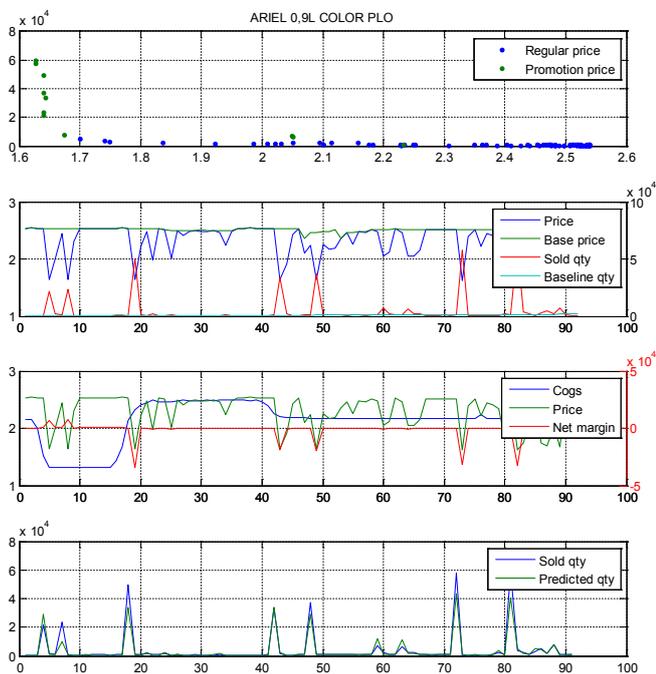
- Historical sales data, including the campaign information
- Historical price data, including campaigns and margin
- Market data: total market; market shares; trends
- Customer data: demography profiles; incomes; segments; behavior patterns
- Competitor data, especially competitor prices and assortments

Category management is about analyzing these inputs and providing a set of data as an outcome: an assortment plan, pricing and a campaign plan. Category management is about using data to make effective decisions to deliver the category role and drive profitability. Given this, it is obvious that category management should be approached in an analytical and fact-based manner. The good news is that the category-management workflow, when applied properly, is a powerful vehicle for promoting an analytical and data-driven approach. By providing category-management personnel with the right data, analytical tools, report templates and requirements, the workflow promotes a structured, analytical way of working. As a framework for data management, BearingPoint recommends the following five-step model:

1. Data sources. Data on the company’s sales, as well as for competitors and the market, must be easily available to the category managers.
2. Category management analysis. This is probably the most critical step in the data flow. Category managers must be equipped with proper tools to be able to conduct thorough analysis of the data and draw conclusions. BearingPoint has created an analytical toolbox for category managers to fill this need.
3. Reporting and data visualization. Reports and visualizations should be a direct outcome of the analysis. With proper analysis tools in place, this is not a step in and of itself.
4. Category management action plans. The plans should be derived directly from the results of the analysis. If the process is data-driven, the planned actions can be easily mapped.
5. Follow-up. This should combine the results of the analysis with the measured performance after the planned actions have been taken.

Figure 9. Examples of BearingPoint’s analytical toolbox for category managers

ASSORTMENT MATRIX	Price Fighter 0 - 1.2 €	B-Brand 1.2 - 1.59 €	A-Brand 1.59 - 2.99 €	Premium Over 2.99 €	TOTAL
Price sensitive	2	5	4	0	11
Family with children	1	3	5	0	9
Healthy and active	1	3	2	0	6
Gourmet	0	0	1	5	6
Youngsters	0	0	0	0	0
<b>TOTAL</b>	<b>4</b>	<b>11</b>	<b>12</b>	<b>5</b>	<b>32</b>



## A note on organizational aspects

One important topic that has not yet been discussed is the organizational dimension of category-management workflow implementation. The challenge in advising on organizational matters is that current situation, operational methods and business environment differ drastically from case to case. However, a step-by-step checklist for addressing the organizational aspects of category management appears below. In referring to it, the variables mentioned above must be considered.

Organizational checklist:

1. Adjust the category-management workflow described earlier in this paper to make it suitable for the business case and environment.
2. Map the current organization against the drafted workflow. Pay attention to the following details:
  - Has someone in the organization been made responsible for each task in the workflow?
    - Are the roles and responsibilities in the workflow aligned with the reporting and chains of command in the organization?
    - What is the current status of cross-functional communication between the functions included in the category management workflow?
    - What is the skill level of the personnel in category management? Are they comfortable with an analytical and data-driven approach?
    - What is the current level of analytics, structure and sophistication in category management work? Considering the starting point, what is the feasible target level for the first phase?
3. Create communication and change-management plans to be attached to the overall category-management implementation plan.
4. Create follow-up mechanisms to track progress during the project. These mechanisms could be tools based on Implementation Progress Scores (IPS) or something else entirely, but progress must be measured.

## Conclusion

In BearingPoint's experience, category management can be taken to a whole new level by following a more structured, analytical and data-driven approach. The category management workflow proposed in this white paper is intended to facilitate such an approach. We have devised it bearing in mind that it would only be useful if it were simple enough to function in reality, completely data-driven and strongly encouraged an analytical approach to decision-making. Implementing this workflow requires both a thorough understanding of category management as well as experience and expertise in establishing effective structures and an understanding of the people side of change to ensure successful execution. There are two main vehicles that can help to usher in this change: the management system and analytical tools. Firstly, the management system is the means to successful execution. Effective ongoing management of activities, organized in a consistent and efficient manner drives performance improvement. Ensuring staff have the right data at the right time to make effective decisions is key to success. It should also push for issues to be rigorously analyzed and resolved as they arise at the lowest possible level of the business, to prevent small, actionable concerns, magnifying into larger issues. Secondly, category management personnel must be equipped with analytical tools that are quick and easy to use. Only then are they able to draw accurate conclusions and make decisions that can be the difference between a successful operation and an unsuccessful one.

We trust this white paper has provided some useful input into how to drive successful category execution in your organization.

We would be happy to discuss our experience in helping organizations improve their Category Management and how we may be able to help you. At BearingPoint, we aim to tailor our approach to the specific needs of our clients. To get there, together.

## Contact persons

### Ireland

Claudia Carr  
claudia.carr@bearingpointconsulting.com  
+353 1 418 1206

### UK

Stephen Coy  
stephen.coy@bearingpointconsulting.com  
+44 (0) 203 206 9655



## We are BearingPoint. Management and Technology Consultants

BearingPoint is an independent management and technology consultancy managed and owned by its Partners throughout Europe. Serving commercial, financial and public services clients, BearingPoint focuses on offering its clients the best possible value in terms of tangible, measurable results by leveraging business and technology expertise. Its seamless cross-border approach, an entrepreneurial culture, long-standing relations with reputable organisations, profound industry and functional knowledge as well as solutions customised to clients specific needs make the company a truly trusted adviser. BearingPoint has European roots, but operates with a global reach.

To get there. Together.

[www.bearingpoint.com](http://www.bearingpoint.com)

© 2011 BearingPoint. All rights reserved. BENO1167.