Category Management

March 24, 2003

By Polpiya Thitivesa

"There is no point in getting a product
to the store faster and cheaper if it's the wrong product"

Message from CEO.

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Scope of the Category Management Session

The <u>common approach</u> in managing category between manufacturers and retailers. Scope of this sharing session will focus on <u>the foundation</u> and for <u>academic purposes</u>.

Although, it is not suggested that there is only one way to perform category management, the approach outlined here is <u>supported by the ECR</u>.
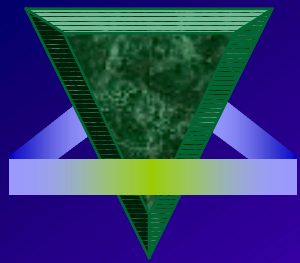
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Agenda

- Category Management (CM) Overview

- Category Management 8 foundation steps

- Category Management Revolution

- Knowledge Sharing (Q & A)

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Message from CEO of Retailer

A Joint (Supplier & Distributor) Focus on Supply & Demand Opportunities

"There is no point in getting a product to the store faster and cheaper if it's the wrong product"

Supply-Side Strategies

Efficient Replenishment

Demand-Side Strategies

Efficient Assortment
Efficient Product Introduction
Efficient Promotion

Category Management
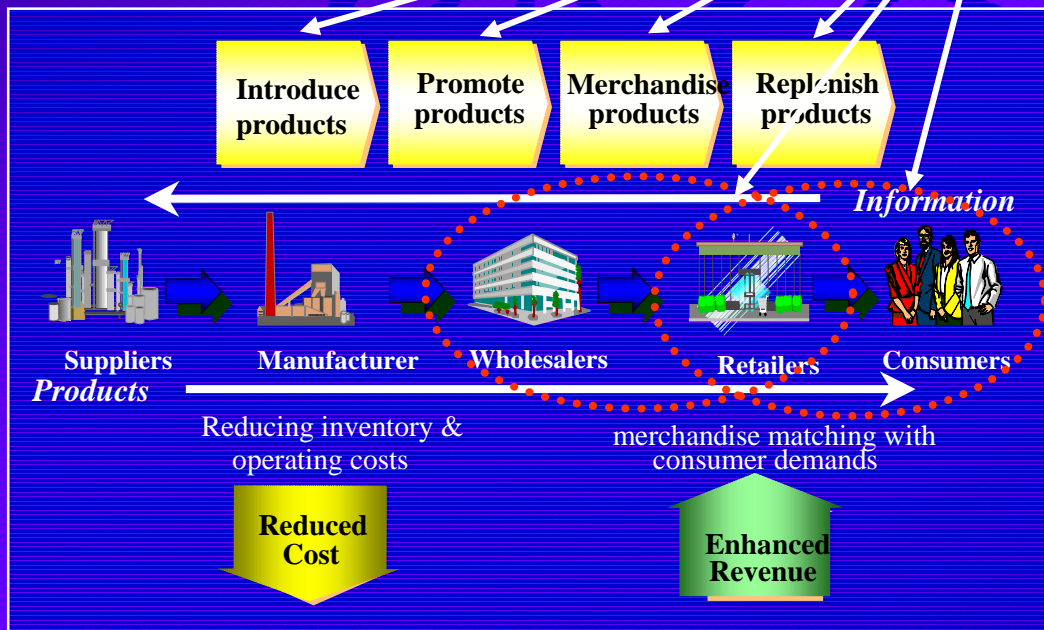
- The "Planning Platform"
- The "Steering Wheel" of ECR

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Ground rules: From Supply Chain to Category

What is Category Management ?

Category Management

▶▶ Retail Marketing
▶▶ Brand Marketing

| Introduce products | Promote products | Merchandise products | Replenish products |

Information

Suppliers
Products

Manufacturer

Wholesalers

Retailers

Consumers

Reducing inventory & operating costs

merchandise matching with consumer demands

Reduced Cost

Enhanced Revenue

CATEGORY MANAGEMENT IS A MANUFACTURER/RETAILOR PROCESS OF *MANAGING CATEGORIES AS STRATEGIC BUSINESS UNITS*, PRODUCING ENHANCED BUSINESS RESULTS BY FOCUSING ON DELIVERING *CONSUMER VALUE*

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Category Management Concepts

Optimise Introduction

Optimise Promotion

Optimise Assortment

Product Seasonality

Market Forecasts

New Product Introductions

Product Extensions

Trade Deals

Consumer Promotions

Category Strategies

Channel Strategies

Key Account Plans

Category Management
Variations in Consumer Demand

Response Requirements

Consumer Demand

Withdrawals from Trade DCs or POS

Manufacturer Plants & DCs

Retail DCs and Retail Stores

Replenishment Shipments

To understand competitive pressures, new approaches are necessary to meet the challenges of today's intense and varied forms of competition.

The traditional focus on similar format competition is inadequate to understand and to respond effectively.
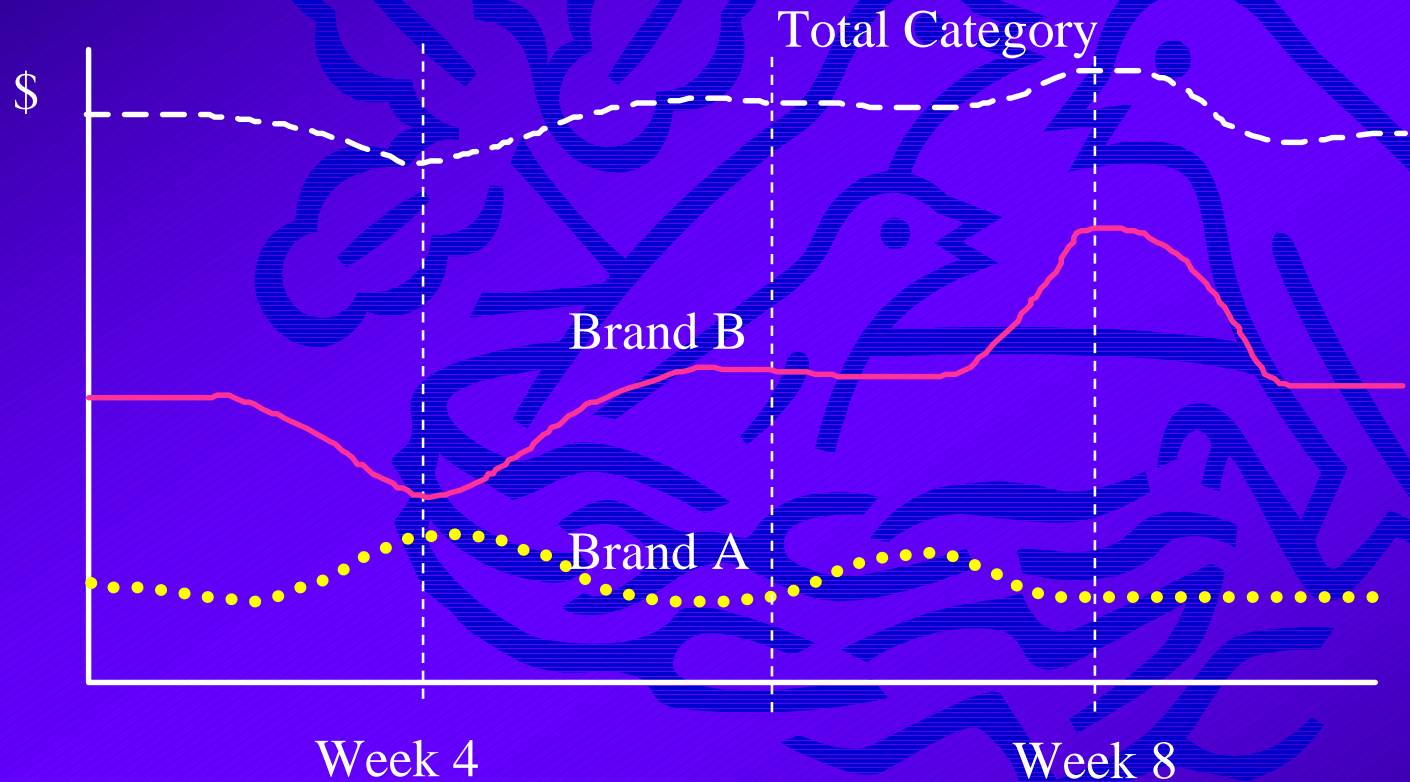
The success of alternative retailer formats, such as discount stores, hypermart, specialty "Category Killer", and Convenience stores has been challenging to the most traditional retailers.

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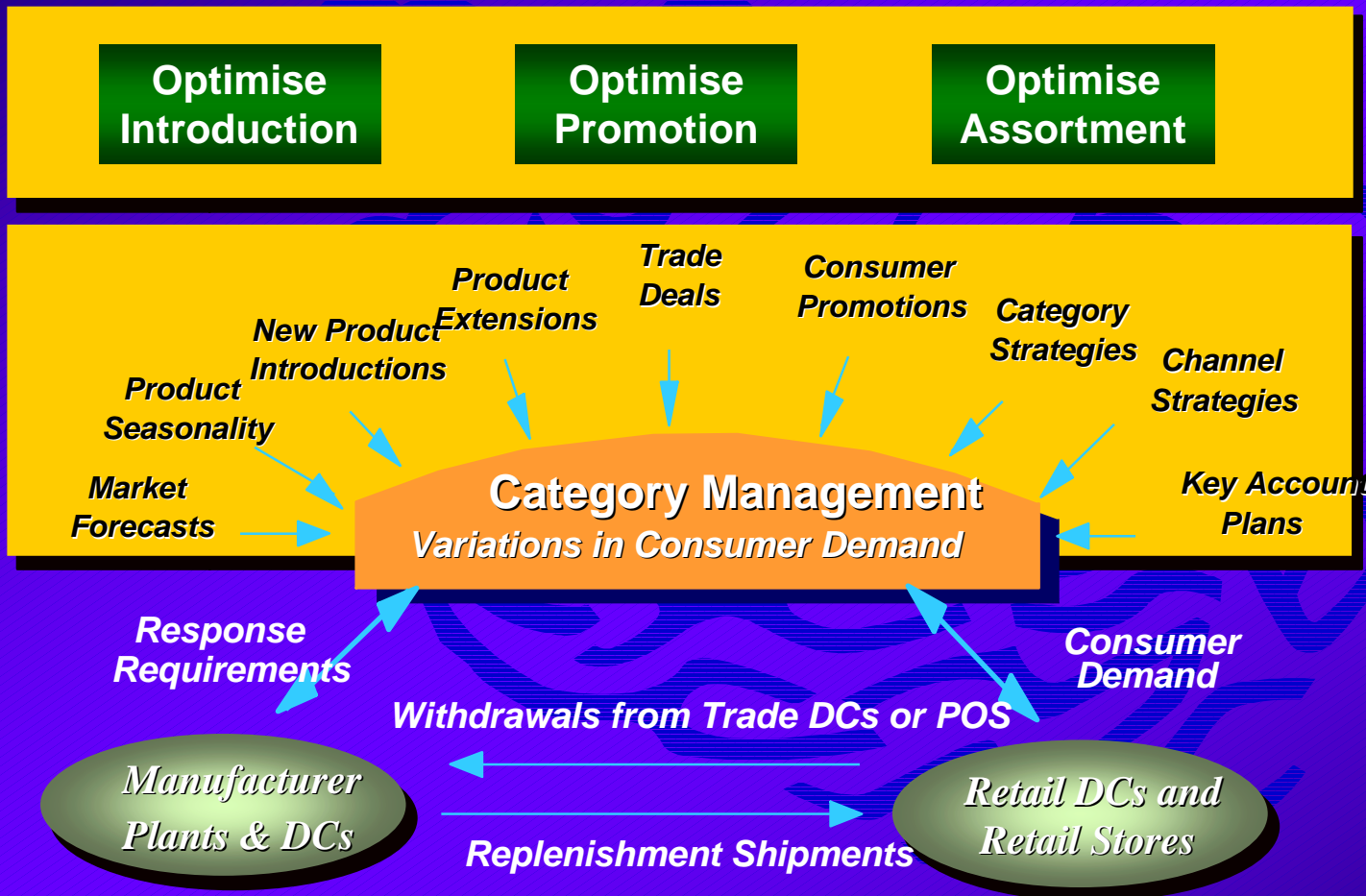
Brand Performance Falls on Deaf Ears

…Until You Address Total Category Impact

Total Category

$

Brand B

Brand A

Week 4

Week 8

Rationale

- Brand "A" trades existing category sales

- Brand "A" trades shoppers down to lower price point

- Brand "B" generates new shoppers/additional sales

- Category responds positively to Brand "B" promotions

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What Are The Benefits of Category Management?

Joint Category Management Programs Are Delivering Results

Manufacturer & Broker Results

	Own Products	Total Category
Sales	+5.9%	+6.8%
# SKUs	-1.5%	-3.9%
Space Allocation	N/A	+1.8%
Retail Inventories	N/A	-5.3%

Overall Gross Profit % Up 1.25 Points

Retailer & Wholesaler Results

Sales	+3.7%
# SKUs	-4.9%
Space Allocation	-1.0%
Retail Inventories	-4.3%

Overall Gross Profit % Up 1.1 Points

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Traditional Manufacturer/ Retailer Activities

MANUFACTURER

- Research consumer needs
- Develop products
- Package products
- Price products
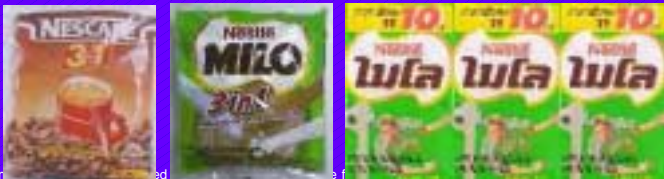- Advertise products
- Promote products

RETAILER

- Research shopper needs
- Select range
- Develop own label
- Layout range
- Price
- Promote
- Advertise store

Product flow

Restricted information flow

"VIEW OF THE BRAND"

"VIEW OF THE STORE"

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Under Category Management Manufacturer / Retailer Activities

MANUFACTURER

Research consumer product needs

- Price
- Advertise brand

RETAILER

Research customer shopping needs

- Price
- Advertise store

Consumer category needs

Product development branded/private label

Range/Layout promotion

"CATEGORY CAPTAIN"

Easy to shop

Stock most demanded products

New products stimulate needs

Promotions add value to Category

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Category Management Best Practice Business Process

CATEGORY DEFINITION → What is it? / What is its structure?

CATEGORY ROLE → How important is the category? / How to leverage the importance?

CATEGORY ASSESSMENT → How is the category doing? / Versus Potential? Versus roles?

CATEGORY SCORECARD → What are our goals, objectives?

CATEGORY STRATEGIES → What is the business plan? / How will it achieve the role, scorecard?

CATEGORY TACTICS → What do we do to achieve the strategy? / Who does what?

PLAN IMPLEMENTATION → DO IT!

Category Reviews

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Category Definition

Category Definition (Preview Category)
This represents the the set-up phase of the category strategy and planning process

```
CATEGORY DEFINITION
        ↓
  CATEGORY ROLE
        ↓
CATEGORY ASSESSMENT
        ↓
 CATEGORY SCORECARD
        ↓
 CATEGORY STRATEGIES
        ↓
  CATEGORY TACTICS
        ↓
 PLAN IMPLEMENTATION
```

CYCLE - Revise & Review

▶▶ Conventional Category
▶▶ Unconventional Category

- **Category Definition and Structure**
  - **Sub-Categories (Beverages)**
  - **Segments (UHT Milk)**
  - **SKU's (Low Fat/Hi Cal UHT)**
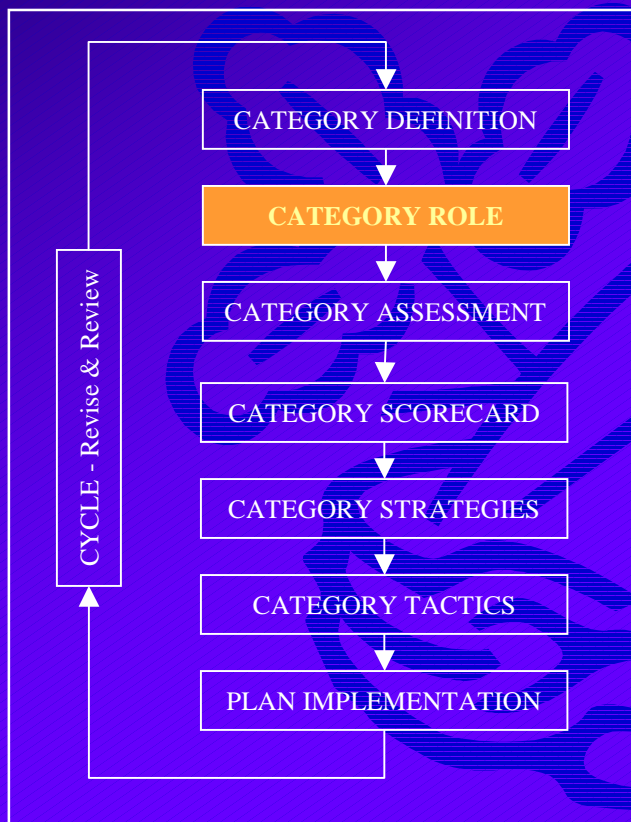- **Capable Contributor Designation**
- **Timing and Frequency**

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Category Role

Category Role (Category Positioning)
Development of the <u>category roles and strategies</u> in support of the overall business objectives

- **Retailer Corporate Strategy**
  - **Company Mission**
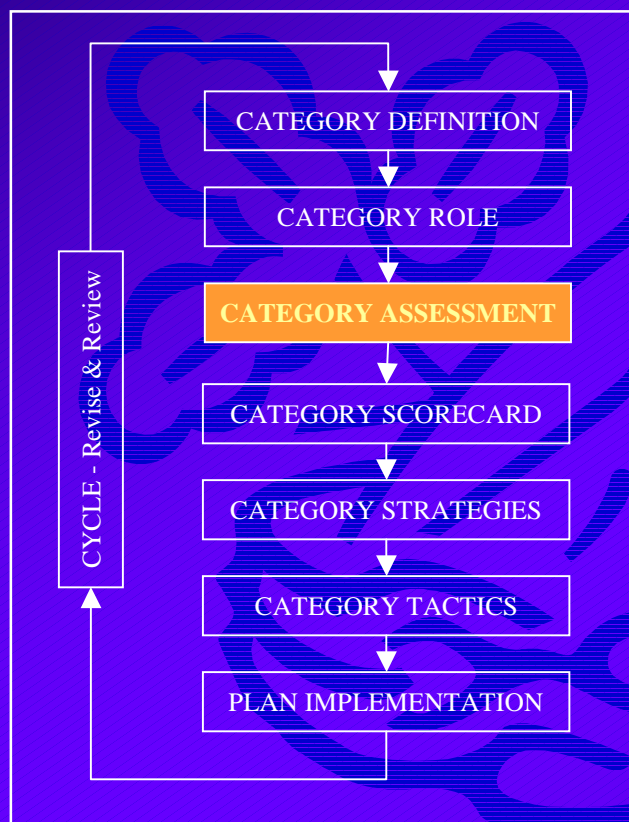 - **Financial and Marketing Objectives**
  - **Department Strategies**
- **Category Role**

Flow chart (top to bottom):
CATEGORY DEFINITION → CATEGORY ROLE → CATEGORY ASSESSMENT → CATEGORY SCORECARD → CATEGORY STRATEGIES → CATEGORY TACTICS → PLAN IMPLEMENTATION

CYCLE - Revise & Review

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Category Roles - Possible Approach

Category Role	Objective	Description	Examples

Destination
5-7%
	To be the *primary* category supplier and help *define* the retailer as the store of choice by delivering *consistent, superior* target consumer value	· High volume
		· Broad reach (high penetration)
		· High purchase frequency
		· Differentiates retailer from competitors
			· Perimeter departments:
			  • Tobacco
			  • Liqueurs
			  • Pet Cares

Preferred/Routine 55-60%	To be the *preferred* category supplier and help *develop* the retailer as the store of choice by delivering *consistent, competitive* target consumer value	· High volume · Broad reach (high penetration) High purchase frequency	· Soft drinks · Hot beverages · Confectionery
Occasional/Seasonal 15-20%	To be a major category supplier and help *reinforce* the retailer as the store of choice by delivering *frequent, competitive* target consumer value	· Heavy fluctuation in volume by season · Average reach · Low-moderate purchase frequency (occasional) · High purchase frequency in season (seasonal)	· Suntan lotion · New Year Cards · Moon Cake · Movie related items
Convenience/Fill-In 15-20%	To be a category supplier and help *reinforce* the retailer as the full-service store of choice by delivering *good* target consumer value	· Average volume · Low-moderate reach · Low purchase frequency (higher in other channels)	· Kit Kat Chocolate · Smarties Chocolate · 3-in-1 Milo or Coffee · Polo

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Category Assessment

CATEGORY DEFINITION

CATEGORY ROLE

CYCLE - Revise & Review

CATEGORY ASSESSMENT

CATEGORY SCORECARD

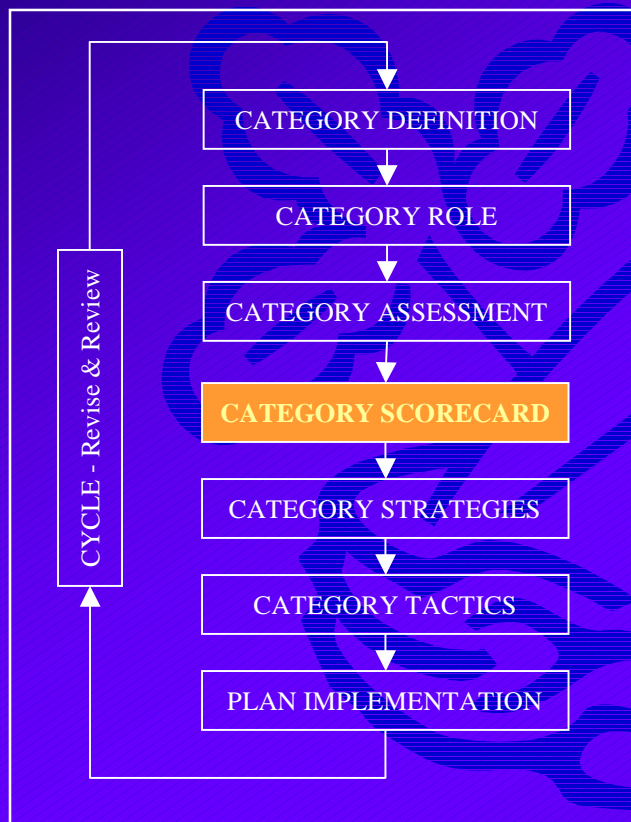CATEGORY STRATEGIES

CATEGORY TACTICS

PLAN IMPLEMENTATION

Category Assessment To review the available underlined market research and performance data and identify trends relevant to the category as well as measure effectiveness of category management capabilities

- Market Research
  - Positioning Consumer
  - Positioning Competitive
  - Positioning Category

- Current Capabilities
  - Assortment Effectiveness
  - Promotions Effectiveness
  - Shelf Display Effectiveness

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Category Scorecard

CATEGORY DEFINITION

CATEGORY ROLE

CATEGORY ASSESSMENT

CATEGORY SCORECARD

CATEGORY STRATEGIES

CATEGORY TACTICS

PLAN IMPLEMENTATION

CYCLE - Revise & Review

Category Scorecard (Category Goals) The target objectives for the banner and its vendor partner as they relate to the category business plan

- Understand business goals
- Understand other category considerations
- Agree category objectives

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Category Scorecard - Example

	Original Figures	Plan Objectives	Current Figures	Current Adjusted Objectives
Time Period				
Source: Syndicated Data				
Dollar(Baht) Market Share				
Total Dollar (Baht) Sales				
Dollar (Baht) Growth				
Unit Market Share				
Total Unit Sales				
Category % of Department Sales				
Private Label Unit Market Share				
Private Label Dollar (Baht) Market Share				
Private Label Percentage of Category Dollar Sales				
Private Label Percentage of Category Unit Sales				
Source: Plan-o-gram				
Dollar (Baht) Sales/Avg. St./ Cube Ft Per Week				
Gross Profit Dollars (Bt.)/Avg. St. Cube Ft Per Week				
GMROI (Shelf Level)				
Days of Supply (Shelf Level)				
Dollar Inventory (Shelf Level)				
Source: Other				
Gross Margin %				
Net Margin %				
Turns (Shelf & Warehouse Combined)				
Service Level (Warehouse)				
CRP Savings (Warehouse)				

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Category Strategies

CYCLE - Revise & Review

- CATEGORY DEFINITION
- CATEGORY ROLE
- CATEGORY ASSESSMENT
- CATEGORY SCORECARD
- **CATEGORY STRATEGIES**
- CATEGORY TACTICS
- PLAN IMPLEMENTATION

Category Strategies - To determine the specific actions that need to be taken to deliver the category roles and scorecard
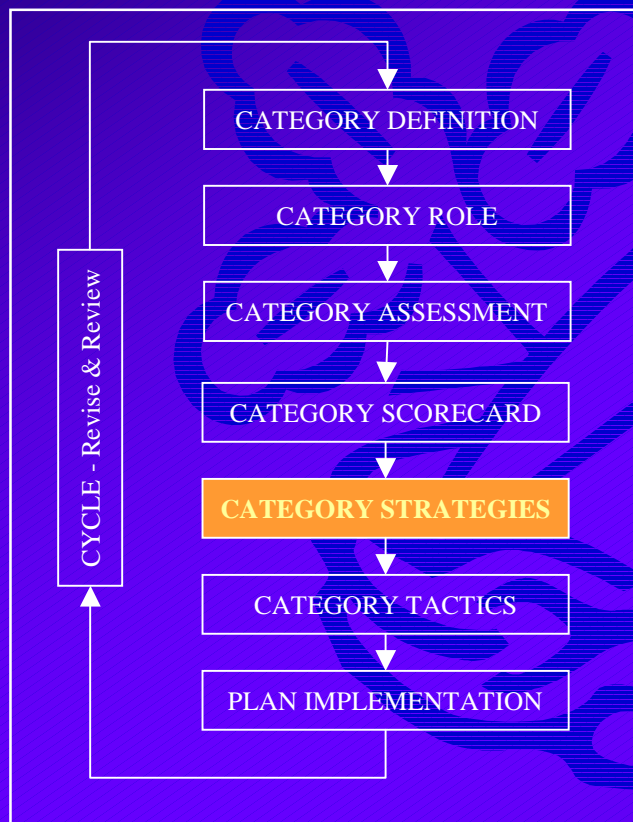
- Traffic Building
- Transaction Building
- Profit Contribution
- Cash generating
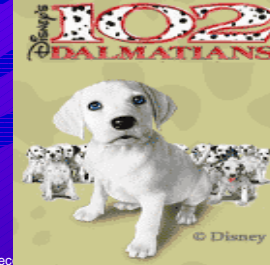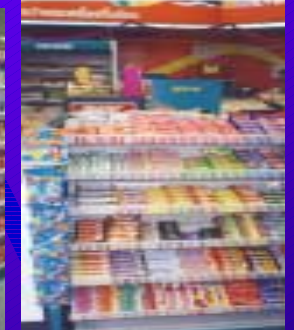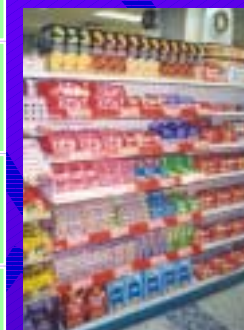- Excitement creating
- Image creating
- Turf defending

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Category Strategies - Definitions

CATEGORY STRATEGIES	CATEGORY STRATEGY CHARACTERISTICS
TRAFFIC BUILDING	HIGH SHARE, FREQUENTLY PURCHASED, HIGH % OF SALES
TRANSACTION BUILDING	HIGHER RING-UP, IMPULSE PURCHASE
PROFIT CONTRIBUTION	HIGHER GROSS MARGIN, HIGHER TURNS
CASH GENERATING	HIGHER TURNS, FREQUENTLY PURCHASED
EXCITEMENT CREATING	IMPULSE, LIFESTYLE ORIENTED, SEASONAL
IMAGE CREATING	FREQUENTLY PURCHASED, HIGHLY PROMOTED, IMPULSE, UNIQUE ITEMS, SEASONAL
TURF DEFENDING	USED TO DRAW TRADITIONAL CUSTOMER BASE

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Category Strategies - Summary

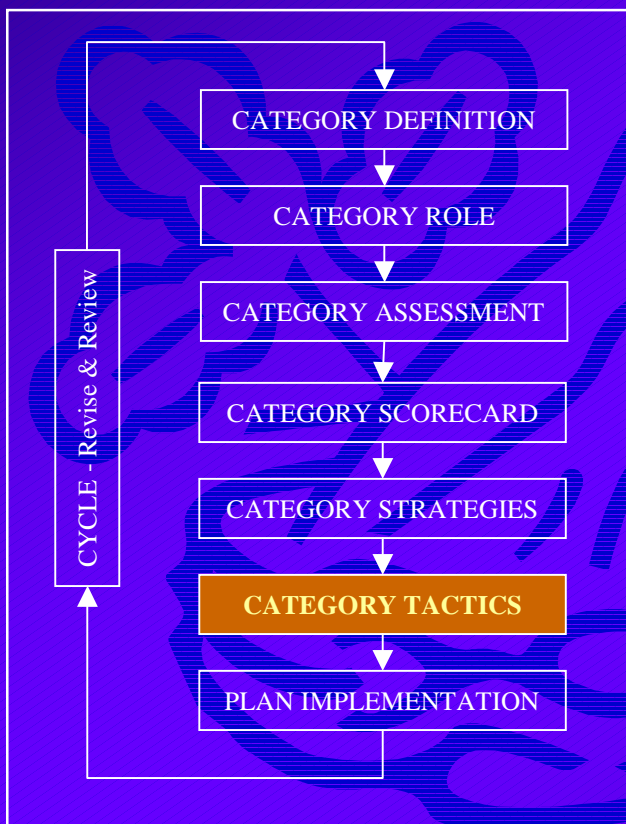| CATEGORY STRATEGIES	CATEGORY STRATEGY CHARACTERISTICS
TRAFFIC BUILDING	HIGH SHARE, FREQUENTLY PURCHASED, HIGH % OF SALES
TRANSACTION BUILDING	HIGHER RING-UP, IMPULSE PURCHASE
PROFIT CONTRIBUTION	HIGHER GROSS MARGIN, HIGHER TURNS
CASH GENERATING	HIGHER TURNS, FREQUENTLY PURCHASED
EXCITEMENT CREATING	IMPULSE, LIFESTYLE ORIENTED, SEASONAL
IMAGE CREATING	FREQUENTLY PURCHASED, HIGHLY PROMOTED, IMPULSE, UNIQUE ITEMS, SEASONAL
TURF DEFENDING	USED TO DRAW TRADITIONAL CUSTOMER BASE

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Category Tactics

Category Tactics - To determine the <u>specific actions</u> that need to be taken to achieve the chosen category strategies

Diagram

- CATEGORY DEFINITION
- CATEGORY ROLE
- CATEGORY ASSESSMENT
- CATEGORY SCORECARD
- CATEGORY STRATEGIES
- **CATEGORY TACTICS**
- PLAN IMPLEMENTATION

CYCLE - Revise & Review

Tactics list

- Assortment tactics
- Promotions tactics
- New product tactics
- Pricing tactics
- Shelf presence tactics
- Product supply tactics

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Category Tactics - Definitions

Category Tactics and Linkage to Category Roles

Category Role	Category Tactics			
	Assortment	**Pricing**	**Shelf Presentation**	**Promotion**
Destination 5-7%	• 'Complete' Variety - Best variety in market - Sub-Categories - Segments - Brands - SKUs	• Leadership - Entire Category (per unit of use)	• Prime Store Location - High Traffic - High Exposure Time • High Cube Allocation	• High Level of Activity High Frequency Multiple Vehicles - Customised
Preferred 55-60%	• 'Broad' Variety - competitive in market - Sub-Categories - Major Brands - Major SKUs	• Competitive - Consistent - Equal to Competition (per unit of use) - Major Components of Category	• Average Store Location - High Frequency • High Cube Allocation	• Average Level of Activity - Average Frequency - Average Duration - Multiple Vehicles
Season/ Occastional 15-20%	• 'Timely' Variety - Sub-Categories - Segments (per unit of use)	• Competitive - Seasonally - Close to Competition - Some Components of Category	• Good Store Location - High Traffic • Average Cube Allocation	• Seasonal /Timely Activity - Multiple Vehicles
Convenience 15-20%%	• 'Select' Variety - Major Brands/SKUs	• Acceptable - Within 15% of Competition (per unit use)	• Available Store • Low Cube Allocation	• Low Level of Activity - Selected Vehicles

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Plan Implementation

CATEGORY DEFINITION

CATEGORY ROLE

CATEGORY ASSESSMENT

CATEGORY SCORECARD

CATEGORY STRATEGIES

CATEGORY TACTICS

PLAN IMPLEMENTATION

CYCLE - Revise & Review

Plan Implementation - Development of an implementation schedule with responsibilities for completing all category tactics

- Plan Proposal

- People

- Communication

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Category Management Deployment Plan

Year I - Timeline

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Category Management Primers	▬			
Category Management Strategy	▬			
Customer Mgmt Guidebook	▬			
Customer Team Scorecard Design	▬			
Information Strategy & Deployment		▬	▬	▬
Information Systems Design & Dev.		▬	▬	▬
Customer Prioritization		▬		
Category Management Selling Pres.		▬		
Category Management Seminar			▬	▬
Customer Team Start-Up (Preparation & Rollout)		Preparation	Rollout	
Pilots (Strategic & Informal)			▬	▬

SAMPLE

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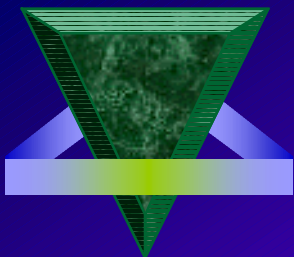
Category Management Deployment Plan

Year II - Timeline

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Refine Category Management Strategies	▬			
Refine Category Management Selling Presentation (Lead Categories)	▬			
New Category Management Strategies (Other Nestle Categories)	▬			
New Category Management Selling Pres. (Other Nestle Categories)		▬		
Field Organization Renewal	▬			
Category Sales Development Organization Renewal		▬▬▬▬▬▬		
Information Systems Rollout	▬▬▬▬▬▬▬▬			
Reward Program Development & Deployment	▬▬▬▬			
Best Practices Assortment Initiative	▬▬▬▬			
Advanced Training	▬▬▬▬▬▬▬▬			

SAMPLE

Cycle - Review and Revise

```
┌─────────────────────────────────────┐
│  ┌───────────────────────────────┐  │
│  │    CATEGORY DEFINITION    ▼   │  │
│  └───────────────────────────────┘  │
│              ▼                       │
│  ┌───────────────────────────────┐  │
│  │    CATEGORY ROLE              │  │
│  └───────────────────────────────┘  │
│ ┌──┐         ▼                       │
│ │C │ ┌───────────────────────────┐  │
│ │Y │ │   CATEGORY ASSESSMENT     │  │
│ │C │ └───────────────────────────┘  │
│ │L │         ▼                       │
│ │E │ ┌───────────────────────────┐  │
│ │  │ │   CATEGORY SCORECARD      │  │
│ │R │ └───────────────────────────┘  │
│ │e │         ▼                       │
│ │v │ ┌───────────────────────────┐  │
│ │i │ │   CATEGORY STRATEGIES     │  │
│ │s │ └───────────────────────────┘  │
│ │e │         ▼                       │
│ │& │ ┌───────────────────────────┐  │
│ │R │ │   CATEGORY TACTICS        │  │
│ │e │ └───────────────────────────┘  │
│ │v │         ▼                       │
│ │i │ ┌───────────────────────────┐  │
│ │e │ │   PLAN IMPLEMENTATION     │  │
│ │w │ └───────────────────────────┘  │
│ └──┘                                 │
└─────────────────────────────────────┘
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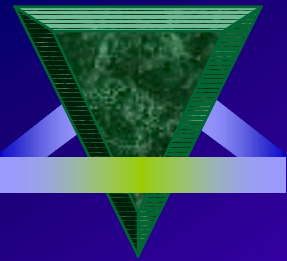**Cycle - Review and Revise** - The continuous process of reviewing the category plan, revising the category plan and once again revisiting the category plan - a continuous process

- Review

- Revise

- Revisit

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Category Management *Development*

Getting started to Best practices

Basic/Getting Started

- Initial Pilots
- Following Eight-Step Process
- Determining Opportunity
- Working with Suppliers

- Initial Pilots
- Following Eight-Step Process
- Completing Templates
- Determining Opportunity
- Working with Retailers
- Some Training

Retailers

Manufacturer

Co-Planning

- Traditional Category Definitions
- Consumer-Oriented
- Clustered Shelving

- Identified Target Consumer
- Collaborating with Supplier

- Evolving Category Definitions
- Fielding New Category/Consumer Research
- Demand Strategies
- Template Oriented
- Redesigning Field Scorecard/Rewards
- CM Deployment Plan in Place
- CM Strategies Developed
- CM Selling Presentation Complete
- More Training
- Redesigning Organization
- Building Decision Support System
- Collaborating with Retailers

Best Practices

- Rigorous Role Analysis
- Extensive Consumer Understanding
- Top-Down Scorecard Setting
- Co-Marketing (if available)
- Clustered Shelving
- Identified Target Consumer
- Redesigned Organization
- Implementing ABC

- New, Broader Category Definitions
- In-Depth Structure Study
- Customer Scorecard (P&L)
- Problem Solving (w/ Templates)
- Supply & Demand Strategies
- Best Practices Efficient Assortment
- Co-Marketing / Micro-Marketing
- Multi-functional Customer Teams
- Menu/Service Pricing
- Decision Support System
- Integrated Supply/Demand
- Category Focused Research
- Program Supported Strategies
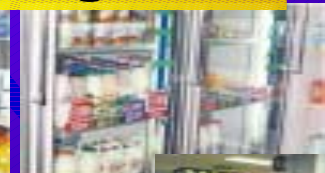- Extensive Training
- New Reward Program for Field

Question & Answer

Product / Brand Knowledge
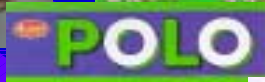
Consumer Behavior Knowledge

Thank you
Nescafe Break