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

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

- Category Management (CM) Overview
- Category Management 8 foundation steps
- Category Management Revolution
- Knowledge Sharing (Q & A)
"There is no point in getting a product to the store faster and cheaper if it’s the wrong product"
What is Category Management?

Category Management is a manufacturer/retailer process of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer value.

- Introduce products
- Promote products
- Merchandise products
- Replenish products

Information

Retail Marketing

Brand Marketing

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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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.
Brand Performance Falls on Deaf Ears

...Until You Address Total Category Impact

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
What Are The Benefits of Category Management?

Joint Category Management Programs Are Delivering Results

Manufacturer & Broker Results

<table>
<thead>
<tr>
<th></th>
<th>Own Products</th>
<th>Total Category</th>
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<tbody>
<tr>
<td>Sales</td>
<td>+5.9%</td>
<td>+6.8%</td>
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<tr>
<td># SKUs</td>
<td>-1.5%</td>
<td>-3.9%</td>
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<tr>
<td>Space Allocation</td>
<td>N/A</td>
<td>+1.8%</td>
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<tr>
<td>Retail Inventories</td>
<td>N/A</td>
<td>-5.3%</td>
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Overall Gross Profit % Up 1.25 Points

Retailer & Wholesaler Results

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<thead>
<tr>
<th></th>
<th>Own Products</th>
<th>Total Category</th>
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</thead>
<tbody>
<tr>
<td>Sales</td>
<td>+3.7%</td>
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<tr>
<td># SKUs</td>
<td>-4.9%</td>
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<tr>
<td>Space Allocation</td>
<td>-1.0%</td>
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<tr>
<td>Retail Inventories</td>
<td>-4.3%</td>
<td></td>
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</table>

Overall Gross Profit % Up 1.1 Points
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

“VIEW OF THE BRAND”

“VIEW OF THE STORE”
Under Category Management

Manufacturer / Retailer Activities

**MANUFACTURER**

- Research consumer product needs
  - Price
  - Advertise brand

**RETAILER**

- Research customer shopping needs
  - Price
  - Advertise store

**“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 Definition**

**Category Definition** (Preview Category)

This represents the set-up phase of the category strategy and planning process.

- **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 Positioning)

Development of the category roles and strategies in support of the overall business objectives

- Retailer Corporate Strategy
  - Company Mission
  - Financial and Marketing Objectives
  - Department Strategies
- Category Role
## Category Roles - Possible Approach

<table>
<thead>
<tr>
<th>Category Role</th>
<th>Objective</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Destination</strong></td>
<td>To be the <em>primary</em> category supplier and help define the retailer as the store of choice by delivering <em>consistent, superior</em> target consumer value</td>
<td>- High volume</td>
<td>- Perimeter departments:</td>
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<td></td>
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<td>- Broad reach (high penetration)</td>
<td>• Tobacco</td>
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<td>- High purchase frequency</td>
<td>• Liqueurs</td>
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<td></td>
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<td>- Differentiates retailer from competitors</td>
<td>• Pet Cares</td>
</tr>
<tr>
<td></td>
<td><strong>Objective</strong></td>
<td><strong>Description</strong></td>
<td><strong>Examples</strong></td>
</tr>
<tr>
<td><strong>Preferred/Routine</strong></td>
<td>To be the <em>preferred</em> category supplier and help develop the retailer as the store of choice by delivering <em>consistent, competitive</em> target consumer value</td>
<td>- High volume</td>
<td>- Soft drinks</td>
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<td></td>
<td></td>
<td>- Broad reach (high penetration)</td>
<td>• Hot beverages</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- High purchase frequency</td>
<td>• Confectionery</td>
</tr>
<tr>
<td><strong>Occasional/Seasonal</strong></td>
<td>To be a major category supplier and help reinforce the retailer as the store of choice by delivering <em>frequent, competitive</em> target consumer value</td>
<td>- Heavy fluctuation in volume by season</td>
<td>- Suntan lotion</td>
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<td></td>
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<td>- Average reach</td>
<td>• New Year Cards</td>
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<td></td>
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<td>- Low-moderate purchase frequency (occasional)</td>
<td>• Moon Cake</td>
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<td></td>
<td>- High purchase frequency in season (seasonal)</td>
<td>• Movie related items</td>
</tr>
<tr>
<td><strong>Convenience/Fill-In</strong></td>
<td>To be a category supplier and help reinforce the retailer as the full-service store of choice by delivering <em>good</em> target consumer value</td>
<td>- Average volume</td>
<td>- Kit Kat Chocolate</td>
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<td>- Low-moderate reach</td>
<td>- Smarties Chocolate</td>
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<td>- Low purchase frequency (higher in other channels)</td>
<td>- 3-in-1 Milo or Coffee</td>
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<td>- Polo</td>
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</table>
Category Assessment

To review the available 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
**Category Scorecard**

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
## Category Scorecard - Example

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Original Figures</th>
<th>Plan Objectives</th>
<th>Current Figures</th>
<th>Current Adjusted Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source: Syndicated Data</strong></td>
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<tr>
<td>Dollar (Baht) Market Share</td>
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<tr>
<td>Total Dollar (Baht) Sales</td>
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<tr>
<td>Dollar (Baht) Growth</td>
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<tr>
<td>Unit Market Share</td>
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<tr>
<td>Total Unit Sales</td>
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<tr>
<td>Category % of Department Sales</td>
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<tr>
<td>Private Label Unit Market Share</td>
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<tr>
<td>Private Label Dollar (Baht) Market Share</td>
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<tr>
<td>Private Label Percentage of Category Dollar Sales</td>
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<tr>
<td>Private Label Percentage of Category Unit Sales</td>
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<tr>
<td><strong>Source: Plan-o-gram</strong></td>
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<tr>
<td>Dollar (Baht) Sales/Avg. St./Cube Ft Per Week</td>
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<tr>
<td>Gross Profit Dollars (Bt.)/Avg. St. Cube Ft Per Week</td>
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<tr>
<td>GMROI (Shelf Level)</td>
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<td>Days of Supply (Shelf Level)</td>
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<td>Dollar Inventory (Shelf Level)</td>
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<tr>
<td><strong>Source: Other</strong></td>
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<tr>
<td>Gross Margin %</td>
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<tr>
<td>Net Margin %</td>
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<tr>
<td>Turns (Shelf &amp; Warehouse Combined)</td>
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<tr>
<td>Service Level (Warehouse)</td>
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<tr>
<td>CRP Savings (Warehouse)</td>
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</tbody>
</table>
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
<table>
<thead>
<tr>
<th>CATEGORY STRATEGIES</th>
<th>CATEGORY STRATEGY CHARACTERISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRAFFIC BUILDING</td>
<td>HIGH SHARE, FREQUENTLY PURCHASED, HIGH % OF SALES</td>
</tr>
<tr>
<td>TRANSACTION BUILDING</td>
<td>HIGHER RING-UP, IMPULSE PURCHASE</td>
</tr>
<tr>
<td>PROFIT CONTRIBUTION</td>
<td>HIGHER GROSS MARGIN, HIGHER TURNS</td>
</tr>
<tr>
<td>CASH GENERATING</td>
<td>HIGHER TURNS, FREQUENTLY PURCHASED</td>
</tr>
<tr>
<td>EXCITEMENT CREATING</td>
<td>IMPULSE, LIFESTYLE ORIENTED, SEASONAL</td>
</tr>
<tr>
<td>IMAGE CREATING</td>
<td>FREQUENTLY PURCHASED, HIGHLY PROMOTED, IMPULSE, UNIQUE ITEMS, SEASONAL</td>
</tr>
<tr>
<td>TURF DEFENDING</td>
<td>USED TO DRAW TRADITIONAL CUSTOMER BASE</td>
</tr>
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### Category Strategies - Summary

<table>
<thead>
<tr>
<th>Category Strategies</th>
<th>Category Strategy Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traffic Building</td>
<td>High share, frequently purchased, high % of sales</td>
</tr>
<tr>
<td>Transaction Building</td>
<td>Higher ring-up, impulse purchase</td>
</tr>
<tr>
<td>Profit Contribution</td>
<td>Higher gross margin, higher turns</td>
</tr>
<tr>
<td>Cash Generating</td>
<td>Higher turns, frequently purchased</td>
</tr>
<tr>
<td>Excitement Creating</td>
<td>Impulse, lifestyle oriented, seasonal</td>
</tr>
<tr>
<td>Image Creating</td>
<td>Frequently purchased, highly promoted, impulse, unique items, seasonal</td>
</tr>
<tr>
<td>Turf Defending</td>
<td>Used to draw traditional customer base</td>
</tr>
</tbody>
</table>
Category Tactics - To determine the specific actions that need to be taken to achieve the chosen category strategies

- Assortment tactics
- Promotions tactics
- New product tactics
- Pricing tactics
- Shelf presence tactics
- Product supply tactics
## Category Tactics - Definitions

### Category Tactics and Linkage to Category Roles

<table>
<thead>
<tr>
<th>Category Role</th>
<th>Assortment</th>
<th>Pricing</th>
<th>Shelf Presentation</th>
<th>Promotion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Destination</strong></td>
<td></td>
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</tbody>
</table>
| 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  |
| **Season/Occasional**  |            |         |                    |                                                |
| 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/SKU’s  

- Acceptable  
- Within 15% of Competition  
(per unit of use)  

- Available Store  
- Low Cube Allocation  

- Low Level of Activity  
- Selected Vehicles  |
Plan Implementation - Development of an implementation schedule with responsibilities for completing all category tactics

- Plan Proposal
- People
- Communication
## Category Management Deployment Plan

### Year I - Timeline

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**Preparation** | **Rollout**
## Category Management Deployment Plan

### Year II - Timeline

<table>
<thead>
<tr>
<th>Activity</th>
<th>1st Qtr</th>
<th>2nd Qtr</th>
<th>3rd Qtr</th>
<th>4th Qtr</th>
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</thead>
<tbody>
<tr>
<td>Refine Category Management Strategies</td>
<td></td>
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<tr>
<td>Refine Category Management Selling Presentation (Lead Categories)</td>
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<tr>
<td>New Category Management Strategies (Other Nestle Categories)</td>
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<tr>
<td>New Category Management Selling Pres. (Other Nestle Categories)</td>
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<tr>
<td>Field Organization Renewal</td>
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<tr>
<td>Category Sales Development Organization Renewal</td>
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<tr>
<td>Information Systems Rollout</td>
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<tr>
<td>Reward Program Development &amp; Deployment</td>
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<td>Best Practices Assortment Initiative</td>
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<tr>
<td>Advanced Training</td>
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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
Category Management Development
Getting started to Best practices

- Traditional Category Definitions
  - Consumer-Oriented
  - Clustered Shelving
  - Identified Target Consumer
  - Collaborating with Supplier

- Basic/Getting Started
  - Initial Pilots
  - Following Eight-Step Process
  - Determining Opportunity
  - Working with Suppliers

- Co-Planning
  - 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

- Retailers

- Manufacturer

- Best Practices
  - 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

- Manufacturer

- Retailers

- Best Practices
  - New, Broader Category Definitions
  - Extensive Consumer Understanding
  - Top-Down Scorecard Setting
  - Co-Marketing (if available)
  - Clustered Shelving
  - Identified Target Consumer
  - Redesigned Organization
  - Implementing ABC
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Thank you
Nescafe Break