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When retailing becomes a science

IT'S been described as one of the most scientific approaches to decision-making in retailing because of its reliance on data. Grocery retailers across the world were the earliest to adopt it, but over the last few years retailers in all categories have looked at it as a tool for seeking sustainable competitive differentiation and advantage. The 'it' here is category management. And for the retailer striving to bring greater focus to the store and improve its management and measurement processes, category management is most often the answer.

So, just what is category management? Quite simply category management involves organising and managing promotions, merchandising and distribution activity around the way consumers view and buy a product. A more formal definition would be 'Category management is a retailer-supplier process of managing categories as strategic business units (SBUs), producing enhanced results by focusing on delivering consumer value'. Which, then brings us to the question – what is a category?

A 'category' is a distinct, manageable group of products or services that consumers perceive to be inter-

Pic: Shaju John

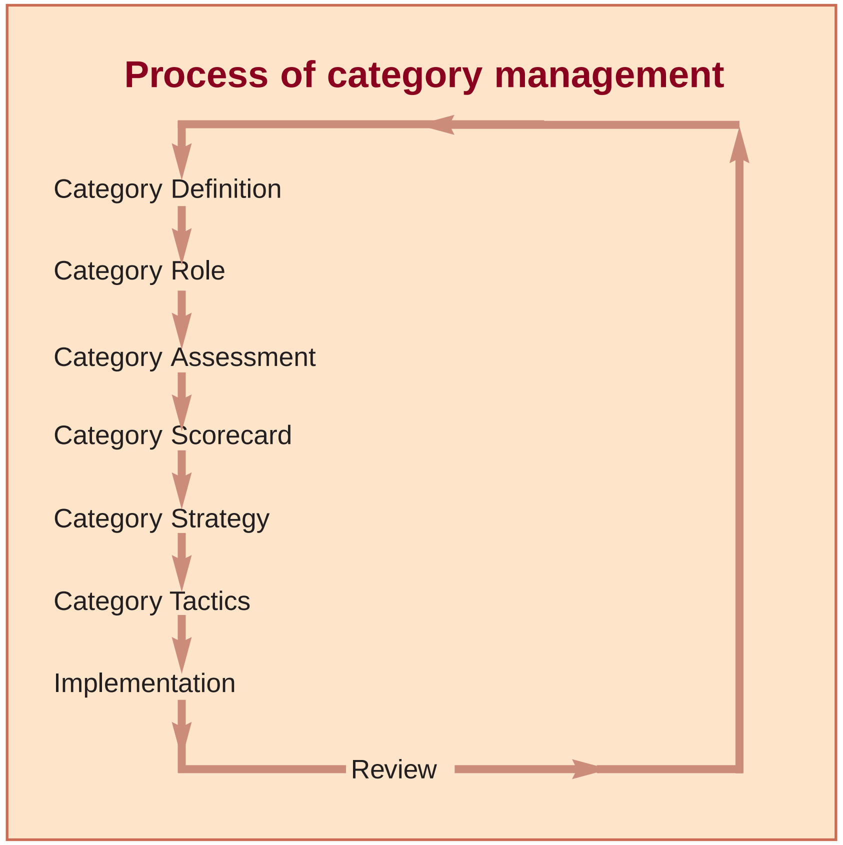
related and\or substitutable. It must be noted here that the focus of both the category and category management is the consumer and providing her with a range of products and services that offer more value. Category management must not be run contrary to the will and interests of the consumer and should favour the consumer if need be: This is the Holy Grail of this aspect of retail management. Thus, the aims of category management are to:

- Satisfy the consumer
- Grow the category

The process

Category management looks at answering a series of questions. Issues that need to be addressed include – What items should be carried, in what quantities, at what prices, in which stores, where in the store, how much shelf space should be allocated, what level of advertising is required and so on. The actual category management process can be broken up into several steps, that are outlined below. (The box accompanying this story presents a snapshot of how a lifestyle retailer views this process.)

Category definition: Is the first



Category management looks at satisfying the consumer and helping the category grow.

step in category management, where the retailer assigns products to various categories based on factors such as consumer usage and packaging. So while one possible category definition could be soft drinks, another definition could be soft drinks in cartons. (Most often, though, this will be a sub-category)

Category role: The next phase is to decide each category's role and where it figures in the retailer's category mix. Traditionally four category roles have been identified.

1. Destination categories: Are those that the retailer uses to help define itself as the store of choice to the consumers by simply offering better value to the consumer. An example would be fresh vegetables at a food retailer such as FoodWorld that is known for its pick of fresh vegetables.

2. Routine category: Are those that the consumer purchases as matter of routine and would include things such as toothpaste, toilet soap and so on.

3. Convenience categories: Are those that the consumer finds convenient to pick up at a neighbourhood retailer rather than visit another retailer who may offer a wider selection or better prices. Stationery products would be a good example.

4. Seasonal \ Occasional categories: Are those that are purchased infrequently or follow cyclical patterns. Interestingly, some seasonal categories could become destination categories, which the retailer is known for during the season. Say, mangoes sold by a particular food retailer during the mango season.

Though most retailers choose to follow this system, some do use other names for these category roles. Some others also define categories based on their functionality. For example, consumer durables retailer Vivek Ltd creates categories based on the type of products it retails, and has four such categories:

- Brown goods: Which include products such as TVs, audio systems and so on.
- White goods: Which include products like refrigerators, washing machines and so on.
- Domestic & lifestyle appliances: Which include items such as fans, grinders and so on.
- IT and computer-related products.

Category assessment: At this stage a detailed assessment of the sales, profit and return on assets opportunities is done based on an analysis of the categories' components including elements such as sub-categories, brands and SKUs (stock keeping units). This process is carried out using consumer, retailer, supplier and market-data.

Category scorecard: Is used to establish the baseline and the targets for measuring category performance. The category role matrix is used here along with other parameters such as sales volume and all-time favourite GMROI (Gross Margin Return on Investment).

Pic: Shaju John

Category strategies: Involves the development of marketing strategies for the category. Category marketing strategies can be classified into the demand-chain and supply-chain strategies. The demand-chain strategies are targeted at traffic, profit, transaction, image, turf, cash and excitement, while the supply-chain ones focus on merchandise flow and transaction costs.

Category tactics: Once the strategies for the category have been selected, the next step is to determine the assortment, pricing, promotion, shelving and supply-chain tactics required to ensure that the strategies work.

Implementation: This is the stage where the action actually happens. In fact, store level execution of the category management process is perhaps the most vital link in the entire chain.

Review: As the term indicates this phase involves monitoring the category and taking any action required to ensure that the category management process delivers maximum value.

A partnership

Perhaps the most crucial element for the success of category management is the partnership between the retailer and the supplier\ manufacturer. And for category management to really work this partnership must be just that – a partnership that focuses on the consumer and providing her with value. In order to make this happen, the measures outlined below may be of some use:

- Agree on just how the partnership is supposed to work, including details of the level and degree of the relationship.

Perhaps the most crucial element for the success of category management is the partnership between the retailer and supplier.

On the front line

Ask any retailer what the most important aspects of the business are and store operations is likely to figure among the top three. As Rob Moore, the Chief Operating Officer of FoodWorld puts it: "Store operations drives the business." Moore says store operations is all about doing the routine, and sometimes boring, things that have to be done. "It's about consistently delivering the right offer every single day and every single hour," he declares.

Just how important this function is can be seen from an experience at lifestyle retailer Shoppers' Stop. The company found that the average time spent on each item during the billing stage was over 20 seconds. The company was able to cut this down to less than 10 seconds, simply by giving the cashier an assistant who would untag purchases, enter the relevant code into the billing system and pack the purchases, before passing them on to the cashier. The result: A shorter check out time for each customer!

And while the operations guidelines are most often set down by the head office, the actual implementation is in the hands of the store's personnel, headed by the store manager. "The store manager's job is the most difficult in the company," is how Moore describes this vital function. The store manager's tasks range from the more simple ones such as ensuring that the store is clean and opens on time, to more complex ones such as developing the team and profitability. Cost control, salaries and wages, repairs and maintenance, communication, carry bags, shrinkage - you name it and it's the store manager's responsibility.

Another very vital function of the store manager is to "Know how the customer buys," says C.K. Nair who heads the Southern operations of Shoppers' Stop. Of course, this is in addition to keeping track of what the customer buys, he adds. And not so surprisingly, both Moore and Nair agree that the fundamentals of this vital aspects of retailing are - accountability, discipline and urgency. ■

- Establish a match between the strategies of the retailer and the manufacturer.
- Set priorities for the category.
- Create a mechanism for measurement and monitoring.

Another useful method, and one often used in markets such as the US, is for the retailer to identify and work with a 'category captain' to develop the category.

The category captain is a supplier who will form an alliance with the retailer to enable the latter to develop consumer insight, satisfy consumers and improve performance and profit across the entire category. The category caption is most often the leading manufacturer in the category. Yet, the category captain must also be 'mature' and objective enough to look beyond its own products and brands and look at promoting the entire category, even the products\ brands of its competitors. For this altruism will lead to the growth of the entire category and thus boost the category captain's sales too.

For instance, the FoodWorld chain of food and grocery stores is working on a joint category management programme with some manufacturers. The bottomline in such an arrangement is that the category captain must have an understanding of the core consumers for the category as well as an understanding of the core consumers for the retailer.

Pic: A. Roy Chowdhury

Does it work?

Though category management sounds very exciting and useful, the question is does it deliver any tangible results? Equally important is the issue of the ease of implementation of the process.

As an executive at one of the country's leading retailers, and one that practices category management, put it: "Category management leads to better customer focus and system profit focus, resulting in efficient assortment, efficient replenishment, efficient promos and efficient new product introduction." The corollary to this being that category management leads to improved consumer satisfaction, category growth and thus better sales and profits for all involved.

An effective category management strategy is for the retailer to work with a 'category captain', who is usually the leading supplier in the category.

However, this is easier said than done. There are several implementation issues that need to be ironed out before the system can deliver substantial results. Some of the hitches that can arise in the process are outlined below:

- The differing organisational structures and processes of the partners can be a major roadblock in the implementation of the process.

How it works

Govind Shrikhande

In category management retailers focus and organise themselves in the way the consumers buy. For example, sportswear is a category consisting of items such as sports shoes, exercise gear, T-shirts, shorts and so on. The consumer buys them for performance and generally buys the shoes and apparel together. Hence, the thought process of choice runs in a clear way. This focus leads to the following advantages:

1. Consolidates all functions such as buying, selling and promotion for a category.
2. Focus all members on delivering customer satisfaction through data analysis and strategy formulation.
3. Brings vendors into partnership with the company. For instance, international retail chains make one of the dominant suppliers a partner in the category management team.

In essence this function involves management of a category like an independent profit centre in all respects of sourcing, pricing, buying to selling to deliver customer satisfaction and strategic advantage to the store. A category manager would have separate team members to handle product management, buying and merchandising. Such a retailer is able to successfully differentiate its merchandise based on its consumer's needs and wants.

So, just whom does category impact? While the accompanying chart will illustrate this process in detail, the point to be borne in mind is that it affects almost every department of the retailer's and also its suppliers in addition to the end consumer.

For instance, a high-fashion leading departmental store realised that the sportswear category management needed a different style than was adopted for normal apparel lines. Hence, they brought in a specialised sportswear retail chain as partners. This chain was able to bring in economies of scale, lower costs and therefore higher margins and lower markdowns. This also resulted in wide variety to consumers and therefore satisfied his requirements.

Categories can also be used to drive either volumes or values. Hence some stores use categories described as 'Category Killers' or 'Margin Drivers'. Chains use different terms to describe these category roles, based on different parameters. Listed here is one approach based on the volumes and profits each category generates.

- Superstars: These drive high traffic as well as profits. A buyer must explore this assortment.
- Value drivers: These generate high margins, but volumes are low.
- Volume drivers: These generate high volume, but margins are low. A buyer keeps only the best performers and drops the others. Every buyer pushes as many SKUs as possible to become Superstars.
- Discards: These SKUs are either dropped or 'fixed' for volume or profit.

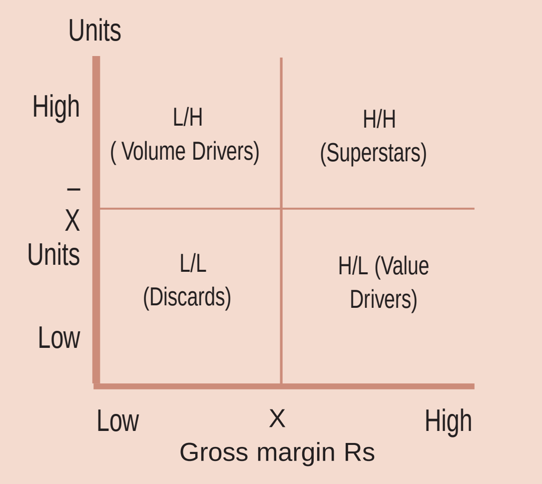
The other important tool in category management is the category scorecard. It reflects the performance, against measurable parameters such as sales per sq. ft. and so on, for periods of one month, a season or a year for one category in one store. This base can be used to compare against results in other stores or against other categories.

For example the sportswear category's performance in the Chandigarh store for December can be compared to the performance during the previous December as well as another store in, say, Delhi.

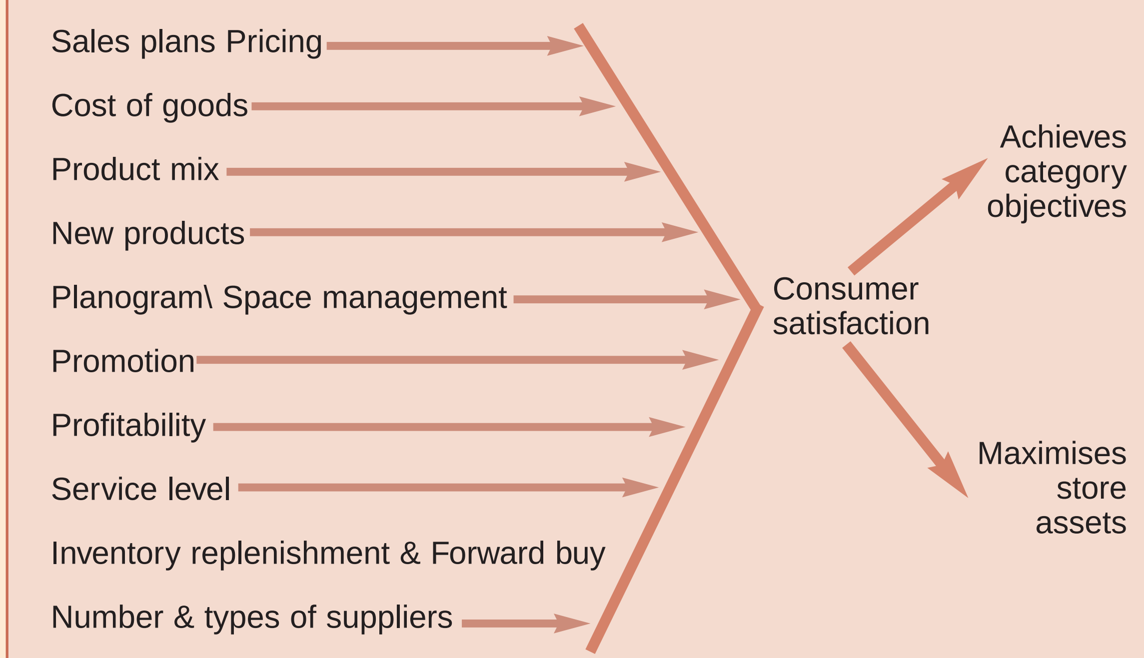
A retailer, with sportswear as a category had problems of low sales and low profits. A category manager first studied the customer base and its buying pattern in terms of shoes *vs* apparel, choice of brands, margin delivery and stock performance of various SKUs. Based on this analysis, he reorganised the portfolio by ensuring the right mix of superstars, volume drivers and value drivers. This increased the width and depth of offering and ensured consumer satisfaction and company profitability simultaneously. ■

(The author is Joint Vice-President Buying & Merchandising, Shoppers' Stop.)

Classifying SKUs from category scorecard



What does category management impact?



- Communication issues between the partners can be another issue.
- The foundation of the entire category management process is the partnership between retailer and manufacturer. The fact that in India such partnerships are almost non-existent can be another difficulty.
- For category management to work properly a great deal of information is required. Whether all this information is available to Indian retailers is a debatable point.
- The process also calls for a degree of connectivity which is yet to emerge in India.

The road ahead

Despite the fact that category management in India is still at a nascent stage, most retailers are rather clear that it will gain in importance over the next few years. For one, it will evolve into an essential component of business planning by virtually all retailers. It will also be driven by better partnerships between retailer and suppliers. And finally, there will be greater focus on the consumer. ■