



2008 Category Management Conference Executive Summary

New Streamlined Process Puts Focus on Shoppers

The next wave of best practices for category management will incorporate such timely concepts as shopper marketing, in-store execution and loyalty marketing. It will build on the traditional eight-step process developed two decades ago by The Partnering Group (TPG), the well-known consultancy.

That is the vision of Dr. Brian Harris, founder and co-chairman of TPG, and developer of the eight-step process. "Shopper marketing is the next great change in the industry," he said. "It will fill the gaps in category management with insights," he said.

The updated version of category management will be Shopper & Category Development (SCD). It will be outlined in a new report called "The Next Wave of Best Practices for Category Management," scheduled to be issued early this year by the Food Marketing Institute (FMI).

Harris said the key features of the new process will include:

- Streamlined, yet robust for all categories
- Consumer- and shopper-insight driven
- Shopper-centric strategies
- Loyalty marketing integration
- Breakthrough, differentiated strategies
- Global and local application
- More emphasis on implementation.

The traditional process included the following eight steps: category definition, role, assessment, scorecard, strategy, tactics, implementation and review. These steps will be compressed into the following five steps: insight generation, strategic and tactical planning, initiative development, plan launch and plan review.

The philosophy and objective of the new process remain the same as the original one, according to Harris. It is a "retailer-supplier process of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer/shopper value."

Harris said category management worked for the industry for many years because it provided a foundation for strategic retail marketing. It also delivered superior results for trading partners in terms of sales, profits and ROI. Finally, it provided a model for collaboration through better sharing of information.

"Collaboration is a competitive advantage today," he said.

Nevertheless, he explained that the traditional process of category management hasn't achieved its full potential for several reasons:

- Inconsistent top management support
- Too data-driven and template-driven, and not enough emphasis on insights
- Too project focused and not a "continuous" process
- Work cycles are too long and time intensive
- Scorecards have not changed enough
- Too headquarters focused and not enough focus on stores and shoppers.
- Inconsistent implementation at store level
- Too much reliance on manufacturers and not enough retailer ownership
- Lack of software supporting tools, especially for pricing and promotion
- New trends and competitive challenges have emerged.

"But category management is a step in a journey," he stressed. The first steps in the late 1970s were scanning and space management, and the newest step is shopper marketing.

Center Store Is Shrinking

The total retail space in the supermarket will expand over the next five years, according Paul Weitzel, managing partner with Willard Bishop Consulting. But the Center Store will shrink with space going to the perimeter.

"Retailers want to win on the perimeter and be good enough in the Center Store," he said. "Many are taking a broad sweeping approach to space contraction. This is a big mistake."

Seventy percent of supermarket executives have told the consultancy they will shrink space for the Center Store in the next five years. Fifty percent plan to shrink space by less than 10%, while 10% plan to reduce it by more than 10%.

Ironically, the Center Store is where retailers make their money, said Weitzel. About 72% of sales and 88% of profits come from Center Store sales.

"We need a Center Store strategy," he said. "We don't have one today [because we're focused on the perimeter]."

Weitzel listed several implications for suppliers:

- New collaboration will emerge
- Successful collaboration will require grocers to "raise their game"
- Different business relationships for new formats will emerge.

Supermarkets Must Adapt

The recessionary economy is affecting supermarkets and retailers must react to remain viable, according to G. Robert James, Vice President of Strategy & Insights for The Great Atlantic & Pacific Tea Co.

Specifically, there are changes in consumption behavior such as shopping more at super centers, buying less expensive grocery brands, using more coupons, and reducing overall spending.

James said grocers need to emphasize value, focus on "best bets," meaning what they think consumers will buy, and partner with suppliers to identify creative incremental opportunities. "Retailers are paying a lot of attention to private label," he added.

But the most important change supermarkets must make, he said, is “getting out of the middle. Getting out of the middle is not being a standard supermarket.” In other words, develop multiple formats that target different types of shoppers. Also, focus on fresh foods and personalized service to customers.

Spotty In-Store Implementation

Deteriorating in-store conditions in terms of planogram “drift,” out of stocks, and lack of display compliance call for new solutions, according to Mike Spindler, president of Panther Mountain Companies and a veteran executive in the retail/CPG industry.

“But there’s no quick solution to this difficult problem,” he said.

The problem is made worse by several factors such as no transparency into the store (“We don’t know what happens when a new product gets cut into a store”), no compliance measurement (“Is the POP up?”), and the wrong data used for evaluation.

He outlined other key points:

- 8% out of stocks
- 2% lost sales due to shrink
- 17% of new items gone from the shelf in less than eight weeks
- Less than 50% promotion/POP execution
- More than 50% of in-store labor spent on non-critical issues.

“If we’re going to progress with shopper marketing and shopper retailing, we have to find out what’s happening in the store,” he said. “There are things coming down the pike to help us find out.”

He listed the following:

- RFID for research/promotion management
- PRISM (measurement of traffic by location)
- CCTV (tracking people)
- Digital collection and interpretation
- Systemic digital collection
- Ability to recognize item-level movement on, movement off and count.

Newell Rubbermaid Leverages CM

Newell Rubbermaid is sharing internal data more and, as a result, improving the interaction between its supply chain management discipline and category management performance. Such collaboration works well because one department leverages the other and they work well together, according to Steve Sigrist, vice president sales operations and supply chain.

One of the challenges that the company was dealing with was a lack of visibility between the two areas. In-store conditions were not aligned with tools that tune the supply chain, and excess safety stock in stores interfered with demand signals.

The maker of office and home supplies aimed to harmonize the departments to improve supply chain efficiency and its planograms. Sigrist teamed up with Chad Zimmerly, director, Wal-Mart category management, to address these issues at their largest retail customer.

As the fastener category grew over time, the executives made sure that the category management and supply chain teams were consulted on all decisions. They worked together on order flow and to improve service levels and transportation efficiency.

Speed in networks and processes were critical to this effort, according to Sigrist. To do the work and make improvements, he relies on four data repositories: point of sale, customer supply chain, orders and shipments, and syndicated data.

Newell Rubbermaid's performance has improved at Wal-Mart as well as at other major retailers.

Focus on SKU Optimization

In an effort to optimize their product categories, many retailers nowadays are reducing their SKUs. Their business partners can either be actively engaged in the process using the best tools available, or they can watch it happen without their involvement. Active engagement calls for a company to have cross-functional alignment around the process.

That was the topic of a panel presentation featuring Jon Troy, Director of Category Management & Shopper Insights for Johnson & Johnson Company; Paul Thompson, Managing Partner for Henry Rak Consulting Partners; and Alex Sodek, Senior Vice President of Research at Decision Insight.

There are several first-rate tools and processes available for assortment optimization. But the panelists agreed that SKU optimization is really less about a particular tool and more about the overall strategy, both internally for portfolio management and externally for optimization with customers. Most companies are making decisions about SKU rationalization to support both internal cost efficiency and to get out in front of retailers' needs for SKU reductions. The process also aims to understand where new items fit in the portfolio and where a manufacturer's other SKUs might be vulnerable.

A major area of focus is working with retailers to manage their portfolios based on optimizing the different consumer segments and understanding where the volume flows when items are added or deleted.

The panelists said that the assortment process needs to be cross functional and include all relevant departments of the organization. Alignment starts with a singular view of the category internally and focuses on the same strategies for growth. The execution using the assortment tool becomes an extension of the strategy. The tool should support the underlying principles of how the category is organized and where the brand anticipates sourcing its volume.

The tool is not the competitive advantage; it is just an enabler, but a powerful one. It takes a considerable amount of time educating the organization on how the tool works, its benefits, and so forth. It is initially difficult to understand how deleting an item can actually be more profitable, based on where the volume shifts.

How do you get cross-functional alignment around the optimization tool? It starts with alignment on the overall company strategy and process. Once the cross functional areas understand the importance of the initiative and the potential in doing this right, it is much easier to move forward.

Coca-Cola Segments Shoppers

By leveraging a shopper-segmented merchandising solution, Coca-Cola is increasing sales through store-specific planograms and leading the way to profitable category growth. What's more, such a program reduces out of stocks and provides store differentiation.

“Each store has a unique DNA,” said Dave Campbell, vice president and group director of category management services for the Retail Division of Coca-Cola North America.

In practical terms, that means each store has a different mix of shoppers, occasions and needs. Coke aims to deliver “beverage solutions” matched to each store’s DNA. In such a store-level segmented merchandising approach, “the shopper is the boss,” said Campbell.

The transition is from the same assortment and shelf-set in each store to store-specific planograms, according to Campbell. Extensive shopper research and insights, along with a first-rate DSD system, drive changes in store-level assortments. Coke has identified 10 different shopper need-states and matches products to each.

Real-Time Shopper Insights

Using automated in-store measurements for gaining real-time insights about shopper interaction with categories is a valuable tool for optimizing shopper marketing and merchandising.

According to Rajeev Sharma, founder and CEO of VideoMining, measuring the impact of such marketing tactics as point-of-purchase displays validates the widely-accepted notion of the store as media. What’s more, it can prove and improve the return-on-investment (ROI) of various in-store marketing tactics.

VideoMining offers a bundled research service that combines a proprietary automated video measurement with in-store shopper intercepts. The service aims to provide a cost-effective approach for consumer product manufacturers and retailers to understand both quantitative and qualitative aspects of in-store shopper behavior.

Pet Project for Nestle Purina

Grocers can enhance the appearance of the pet aisle in stores and make it a key differentiator for shoppers.

Nestle Purina is working with their trading partners to understand how they can work together to get more out of the Center Store. Pet food is one of a few center store categories that can play an important role in retailer differentiation

“Why not pet,” asked Brad Anderson of Nestle Purina. It can have a clean and warm appearance. Sometimes that space has a touch of theater.”

He stressed out that the pet category would suffer if it were located in the “dead zone” in the back of the store.

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