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Category Management - It's Not Just for Big Retailers Anymore

James W. Hamister

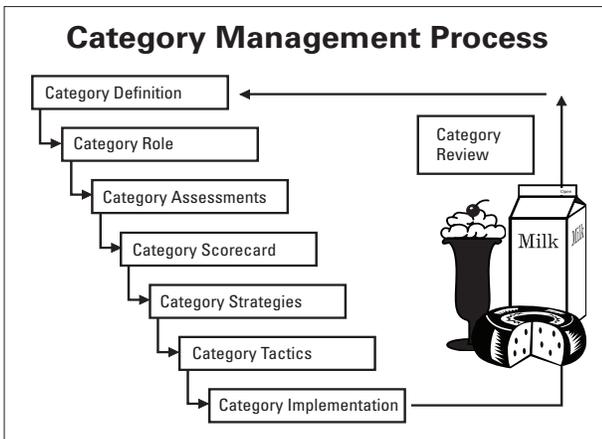*Wright State University - Main Campus*, james.hamister@wright.edu

MANAGEMENT

Category Management - It's Not Just for Big Retailers Anymore

By James Hamister, Ph.D., Assistant Professsor, Raj Soin College of Business

Modern consumer-goods retailers face enormous challenges, including competition from new formats, tight margins, product proliferation, and challenges managing supply chains that sometimes stretch around the world. These challenges are particularly acute for the small independent retailer. Can small retailers take advantage of the Category Management process and data management as a way to improve performance? This is a question that I've been tackling for to try to gain some insights into the competitive issues facing small businesses in the retail sector.

Category Management is an initiative that seeks to combine the different strengths of retailers and their supplier to achieve improved business results. As originally envisioned, Category Management was a systematic approach to combine products into category groupings, with each product category treated as a separate business unit. While many smaller retailers are unaware of the formal Category Management process, they often perform some of the necessary activities that make up a good Category Management program. Some additional insights from my research may help small retailers to better leverage their supplier's skills and information management systems to improve your bottom line.

What is Category Management?

Category Management Process

- Category Definition
- Category Role
- Category Assessments
- Category Scorecard
- Category Strategies
- Category Tactics
- Category Implementation
- Category Review

Category Management is *the distributor/supplier process of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer value.* An effective category management program combines the separate strengths and IT resources

of retailers and suppliers in a way that maximizes the competitive performance of the supply chain. Small retailers are generally not implementing the entire CM program, but are often able to take advantage of elements of CM to improve performance. Suppliers are often able to help with some of the most critical areas of retailer success: technology and supplier support.

Technologies Deployed

My research has surveyed small retailers about several different technologies that are relevant to supporting Category Management: electronic invoicing, point-of-sales data sharing, RFID tagging, internet linkage to

suppliers, and automated replenishment. Responses indicate only modest penetration of key technologies in this sector among participants in this study, which makes sense. These technologies remain relatively expensive and complicated to manage in practice, particularly for smaller businesses. Yet digging in to the data in some detail, I've found that retailers with more than about $500k in annual sales that do implement these technologies report much better performance than do retailers who are not using these technologies. There appears to be a minimum scale for these solutions, and retailers above that scale would be well served to seriously consider "pushing the envelope" and trying out these technologies to support their businesses.

Supplier Support

The best suppliers today have access to sophisticated consumer research to better guide retail product selection and price-point decisions. With

today's explosion of product choices, it is increasingly vital to make good product selection choices. Poor product choices lead to high inventory costs as well as mark downs and returns. Suppliers today need to apply good consumer research and data insights coupled with the strong marketing sense of the independent retailer to mathematically predict which products will move in a market, and which products will not. The best suppliers are also able to assist in often difficult pricing decisions.   My research suggests that these two areas represent an important contribution that suppliers can make to their retail customers' business performance.

This suggests several lessons for small retailers:
1. Taylor CM activities to your competitive situation. Don't apply all of the procedures suggested by text books. CM was originally designed for large format retail managed across multiple locations. Smaller retailers, however, can take advantage of several components of CM, particularly areas of tactics and measurement. In my research, retailers that have spent the time to carefully measure performance in a meaningful way outperform those whose measurement systems are more superficial.

2. Use your suppliers as a source of product knowledge and consumer purchasing data, and don't be shy about sharing your marketing expertise with suppliers. Small retailers are much closer to end consumers than are the manufacturers and distributors, and are therefore positioned to offer valuable market insights to their upstream suppliers.

3. Choose your suppliers carefully, and for more than just price. Suppliers are key partners in your success and should be supportive of the overall success of your product category. Suppliers should try to encourage the overall performance of the category, and as such may suggest competitors' products in certain niches and insights to improve your business.

4. If you have achieved sufficient scale (about $500k in my study), consider an aggressive deployment of key enabling technologies. If your sales level is not there yet, it is probably too early to focus on technological solutions, focus instead on building your scale.

Suppliers can also benefit by adopting some of the lessons of Category Management.
1. Use independent retailers for unique insights into the local market. These retailers are often well connected to consumers in a way that larger-format stores may not be. The account size is not the only important customer characteristic; consider market knowledge in forming your business plans.

2. Help the independent retailer with the planning process. This requires building a degree of trust, but can pay off in enhanced margins over the long run. Develop this trust by demonstrating that you can help build the overall category performance through enhanced product selection and better pricing.

3. Use the independent store as a test case for new products and

promotions. The "gold standard" in testing promotional activities is to conduct research with random assignment to variables. Independent retailers are well positioned to participate in this type of research activity, which can feed back into greatly improved marketing initiatives.

If you are interested in finding out more about this research, or bench-marking your suppliers based on my research findings, please contact me at james.hamister@wright.edu. The service is free and would help to extend my research findings.

James Hamister received his PhD from The State University of New York at Buffalo with a major area of research in supply chain management. He earned an MBA from Cornell University with majors in operations manage-ment and international business, and a Bachelor of Science in Mechanical Engineering from General Motors Institute.

Prior to pursuing his Ph.D., Hamister had 15 years of industry experience in manufacturing management. He worked as a manufacturing project engineer for a major manufacturer in both Europe and South America, and also held management positions for a mid-size manufacturer in quality management and general management.

Hamister's research interests revolve around the interface between mar-keting and operations management. His ongoing research projects involve the study of supply chain management initiatives in retail organi-zations and Six Sigma quality improvement initiatives. He has published in The International Journal of Production Engineering and The Proceedings of EurOMA Conference and conference presentations for the Production and Operations Management Society and the Decision Sciences Institute.

Member Mention

Ross Group Inc, a leading IT software and services firm headquartered in Dayton, Ohio, is pleased to announce that Daniel G. Burnett has joined the firm as the Director of Recruiting.

As Director of Recruiting, Dan's responsibilities will encompass identifying and hiring the best of class candidates for the Ross Group Inc. Dan has over 17 years of experience in recruiting and has worked in the commer-cial and government sector with global and domestic companies of all sizes. Dan's staffing background includes working as an enterprise place-ment consultant for Fortune 500 Corporations and as a Technical Recruiter for National staffing firms. Dan's knowledge includes providing Corporate HR recruiting, On Site Staffing and Vendor Management, Project Team Solutions, and Domestic and International placement.