ELEMENTS OF CATEGORY MANAGEMENT

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Abstract

Retail industry is facing changes due to financial crises in 2007., and its impact on consumption and consumer behaviour. The battle for new consumer is changing and is being transferred in to the store. Therefore stores are placed that needs to be considered, but the retailers do not have any change in profit when costumers switch from article A to article B. The new strategy that some consider to be an evolving approach to retail product management is category management. Category management (CM) has implication on whole retail company organization and in its supply chain. The main aspect in CM is category. Category of products or products within a category should be reasonable substitutes for one another. The basic of CM is to quality manage the category of product-different product categories have different characteristics so they should be managed as mini business. That business product concept has several steps and differs from other buying approaches. Its implication in product management from procurement to stock management than to display in stores has put interest in that concept. In this paper we will show history changes in CM approach and its impact on retailers' profit.

Keywords: category management, retail, management,

1. INTRODUCTION

Category management (CM) is a breakthrough in retail practice. Category management is qualified as a structure that focuses on management of products or product families. (Ayers & Odegaard, 2008., p. 362.) CM focuses on overall category performance and also significant resource commitments of made by both manufacturers and retailers to develop effective category management processes. (Dhar et al., 2001., p. 165-184.).

Today CM concept is expanding on almost all product categories. Therefore main question in introducing CM is a defining of category. Retailers have long recognized that some categories are more important than others in consumers' store choice decisions. The overall profitability of a store requires careful category-level merchandising decisions to draw the most desirable consumers into the store.

Retailers and their different business decisions have different imapact and its vary form category to category.retailers must explicitly define the role that each category plays in the overall store performance. Therefore we can agree that category is a strategic business unit of analysis that consist products that are mutually substitutial ocompose of items that are logistically practical. (Dhar et al., 2001., p. 165-184).

2. RATIONALIZATION OF CATEGORY MANAGEMENT

Ensuring that each category gains its maximum in stock management, shelf place and percentage of overall store place and its profit must be run like a "mini-business" managed by both the retailer and suppliers. In that way each category has its target turnover and range of profitability.[10]

Collaboration of both suppliers and retailers is essential in CM and to overcome the concept of store as "aggregation of products" toward an "amalgam of categories", with each category unique in how it is priced and how it is expected to perform over time. (Sector, R., 2005., p. 77.) In that collaboration analysing data is a key component. The best data come from databases, retailers and suppliers. Some retailers like Wal Mart have their own information-sharing database. In case of collecting data the key element is to establish the supplier that is or will be the category leader Category captain is supplier that helps retailer to:

- define the category,
- determine its place within the store,
- evaluate its performance by setting goals,
- identify the target consumer,
- divine the best value to merchandise, stock and display the category, and
- influence the implementation of the plan. (Sector, R., 2005., p. 78.)

The category captain has the closest and most regular contact with retailer. The place of category captain is often given to supplier with the largest stock or profit turnover, but in last several years that place is given to private label supplier. In that case overall performance of a store is in retailer's hand that has to be very careful to whom its gives the private labels production.

2.1. Category management steps

In 1995 ECR (Efficient Consumer Response) initiative established "best practices" guide lines of introducing CM into practice. These guidelines are ie. eight critical steps that are necessary for a proper implementation of CM by retailer.[11]

This eight steps are:

- Step 1.: Category definition - determines the products in a particular category,
- Step 2.: Category role - mix of analysis that include consumer habits, distributor supplier that help retailer to allocate the category in the mix of categories,
- Step 3.: Category assessment – developing the plan to manage the category,
- Step 4.: Category scorecard – establish of performance measures,
- Step 5. Category strategies – defining the strategy for improving performance,

[10] http://www.catmanplus.com/whatis.html (01.07.2012.).
[11] http://www.ups-scs.com/solutions/white_papers/wp_category_mgt.pdf (01.07.2012.).

- Step 6.: Category tactics – determine elements of marketing mix and Balanced Scorecard,
- Step 7.: Plan implementation – definition of specific tasks,
- Step 8.: Category review – review of results and set plans. (Basuroy, et al. 2001., p. 16-32)

CM has also several key focus areas:

- Efficient product introduction,
- Efficient product promotion,
- Efficient store assortment.

Efficient product introduction focuses on launches of new products based on needs of consumer. Efficient product promotion is focused on promotion strategies for particular category. Efficient store assortment is focused on maximum utilization of store shelf place and elimination of stockouts.

3. INFLUENCE OF CM ON RETAILERS PROFITS

One retailer's adoption of CM increases its average unit price of the category and reduces its sales volume and revenues. This retailer can still enjoy an increase in its gross margin profits as competing manufacturers' wholesale prices fall in the process.

Retailer interest in CM is high. Adoption of CM results in many changes in the retailer's operations and management. One of the key benefits of CM is a more profitable pricing structure.

Examining pricing under CM is important because changes in the retailer's approach to pricing can directly affect manufacturers competing retailers and consumers who are believed to benefit from CM adoption.

CM is defined as a situation in which a category manager jointly sets the prices of all brands in the category so as to maximize total category profits. CM calls for a high level of price coordination. The adoption of CM by one retailer affects its prices, sales and profitability. A retailer enjoys higher profits under CM than do competing non – CM retailers but only under certain conditions. (Basuroy, et al. 2001., p. 16-32).

CM adoption produces the greatest economic benefits for the retailer when interbrand competition is high and consumer store switching is low. Few economic benefits exist for the CM retailer when little brand competition and much interstore competition are present.

It can be suggested that categories characterized by much interbrand competition and little cross-store shopping should be the focus of the retailer's CM efforts.

4. CONCLUSION

Category management (CM) is a recent retail management initiative that recognizes the interrelatedness of products in the category and focuses on improving the performance of the whole product categories rather than the performance of individual brands. CM has implication on whole retail company organization and in its supply chain.

The main question in introducing CM is a defining of category. Retailers must explicitly define the role that each category plays in the overall store performance.

Collaboration of both suppliers and retailers is essential in CM. In that collaboration analysing data is key component. The business product concept has several steps and differs from other buying approaches.

Adoption of CM results in many changes in the retailer's operations and management. The key benefit of CM is a more profitable pricing structure. The adoption of CM by one retailer affects its prices, sales and profitability.

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