

White Paper



**COLLABORATION IN CATEGORY MANAGEMENT:**  
Can CPG and Retail Companies Leverage Insights to  
Achieve Common Goals?

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A CGT White Paper

*Increasing complexity in the retail-CPG industry has many companies taking a closer look at their category management efforts. Retailers and CPG companies are seeking higher levels of insights to drive category management, in order to effectively reach consumers who have more choices than ever before in terms of channels, stores and products to choose from.*

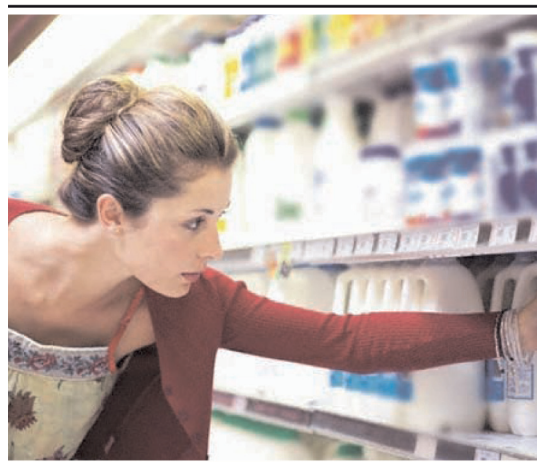
Those companies that are bringing to bear greater insights into their category management processes are finding that what began as simply a survival strategy is providing them with an improved competitive edge. CPG companies that gain a better understanding of who shops in different retailing channels, and how consumer behavior differs from store to store, can use such insights to achieve goals beyond short-term gains. Such insights can help them improve the success rate of new products and increase shopper loyalty. Category management insights can help CPG companies move away from using price as the sole motivator in dealing with their customers—both retail customers and consumers.

“If companies can really search for and implement insights, they can differentiate themselves without being overly dependent on price to do it,” says Craig Hodnett, vice president of category management at Cadbury Schweppes Americas Beverages. “If they can make the shopping experience better for the consumer, they don’t always have to deploy the pricing lever to be competitive.”

For their part, retailers can leverage deeper insights about consumer shopping behavior to improve their overall competitiveness, by increasing customer counts and more profitable market baskets while improving both inventory productivity and margins.

Finally, given the increasingly fickle nature of consumers, collaboration is becoming a business requirement because it provides both partners with the agility to react quickly and effectively to increasingly rapid changes in consumer taste and behavior. “Collaboration is a necessity, because what companies do through collaboration is build different tactics that will meet the trends that consumers are demanding in their shopping experience,” says Tod Pepin, vice president, center store merchandising at supermarket retailer Hannaford Bros. “Without collaboration, you’ll struggle to meet the trends and the demands that are out there.”

If gaining deeper insights from category management is almost the dictionary definition of a “win-win-win,” why has it been so difficult to achieve? One reason may be that an extremely important part of improving everyone’s Return on Insight is achieving higher levels of collaboration between retailers and CPG companies. And as anyone who has looked at the retail and CPG industries knows, there are numerous challenges involved in forging a closer working relationship, ranging all the way from basic issues involving data (who has it, who shares it and how “clean” it is) all the way to the complexities of setting common goals, executing on those goals and creating a continuous feedback loop so the effort is not a “one-off” event but a continuous process.



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Vice President Of Category Management,  
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Despite these hurdles, significant pressures on both retailers and CPG companies are creating a sense of urgency that is promoting collaboration as a means to improve the category management process. Fortunately, there has also been a recent maturing of tools, technologies and services in this area. Companies such as Infosys are offering a combination of industry experience, technology expertise and the services bandwidth needed to make managing categories based on deep insights a reality rather than just a lofty goal. This white paper will examine both the challenges companies face in gaining greater insights from their category management efforts, as well as solutions that can help them gain the benefits such insights offer.

## Defining the Goal

How do we define collaborative insight-based category management? In general it involves gaining a greater understanding of the shopper; the roles that products play within categories; and extending that understanding to the roles that categories play within the entire retail store.

The collaborative aspect involves both retailers and CPG companies setting goals and putting processes in place to achieve those goals, and also creating execution mechanisms that work down to the level of a specific store or a defined store cluster. These mechanisms also need to be capable of timely adjustments and real-time reactions, based on demand changes as well as consumer responses to specific events.

The challenges trading partners face in moving toward insight-based category management will be different for each relationship. However, the major hurdles identified by industry analysts as well as retail and CPG executives include:

- **Data, data, data:** Issues here range from the “cleanliness” of data to its definitions and its locations: even within a retail or CPG organization, the data needed to gain category insights may be coming from disparate sources, each with differing definitions for the same metric. Typically, such challenges get internalized by the organization, which develops its own work-arounds to overcome issues that arise. However, when an attempt is made to collaborate with external partners, the complexity is severely compounded, with multiple entities drawing multiple conclusions from the data. This essentially makes insights non-actionable.
- **Trust issues:** Even when CPG companies or, as is more likely, retailers, can glean actionable insights from their data, there’s often an unwillingness to share these insights with a trading partner when the relationship has traditionally been adversarial. It is not an uncommon belief among CPG companies that category insights are used simply as leverage to demand a price reduction or an increase in trade dollars. At this point collaboration quickly degrades into negotiation.

At the same time it is also not uncommon for a retailer to doubt whether insights brought forward by a category captain are truly unbiased when the category includes competitors’ products. Addressing trust issues is necessary in establishing relationships based on consistency, integrity, business value and common goals.

- **Internal incentives and structural shortcomings:** Even when retailers and CPG companies can agree on common goals for their collaborative category management efforts, existing business practices and incentive structures can sabotage the best intentions. On the retail side, for example, buyers are often rewarded based on their ability to purchase a product at a low price or to win a greater share of promotional dollars from a supplier, but are not judged on how certain strategic decisions affect the category and store performance. So what may be good for a particular category or department is not productive for the store as a whole. For their part, CPG companies are facing structural challenges in devising and implementing category plans for a widening array of retail formats. Many CPG organizations are still aligned geographically, with category management efforts focused on servicing all retailers in a particular area, and are still supermarket-centric. Today’s channel landscape demands a structure that focuses on the channel, the customer and the shopper.
- **Scalability, bandwidth and change management issues:** One of the key challenges faced by CPG companies and retailers alike is analyzing the volumes of granular data available to glean insights. Very often the time taken to analyze this data provides insight too late to have a positive effect on the business. Newer IT offerings can provide some help: technologies related to category management, such as assortment planning, space optimization, price, promotion and markdown optimization, have matured considerably. In addition, analytical tools have also become more sophisticated, making it easier for companies to gain insights from their category management processes. However, while technologies can improve the quality of insights, the human element cannot be completely ignored. For a category management team to quickly derive insights, companies need access to a significant number of qualified resources who understand the retail landscape and who can appropriately leverage tools to conduct effective data analysis.

In addition, implementation of these technologies also requires process re-engineering, standardization across the practices of multiple categories, and changes in the way people work within the organization and collaborate with trading partners. All this adds up to a strong need to manage a company’s transition to insight-based category management.

## Addressing Challenges to Insight Improvements

Some of the biggest challenges to insight-based category management relate to issues around data. For some, it's the root of numerous other challenges. "The largest hurdle you're facing in improving collaboration is data synchronization," says Zeke Duge, senior vice president and CIO at retailer Smart & Final. "As we work together to bring products together, we [and CPG companies] are fairly homogenous on what's needed to meet customer needs. Where we're not homogenous is on defining items, or the significance of data fields, and whether they match one to one."

In many cases, "it's not even an issue of formatting the data," notes Duge. "The questions are, is the data there and is it clean enough to be used. And unless a company has a robust, integrated technology solution, the data is kept in multiple places, and is out of synch even within your own organization. So when you add in dealing with a partner, it's not even the Tower of Babel, it's the Carpet of Babel—because it doesn't even reach that high."

As RFID becomes more of a reality the data challenges for both retailers and CPG organizations will multiply. It will be essential to overcome these challenges if effective use is to be made of this data.

If a trading partner is uncertain about the cleanliness of its own data, it's one hurdle; but if they are uncertain about the cleanliness of a partner's data, those hurdles multiply and also breed other problems. "If there's a data synchronization problem with both partners, the problems will just compound themselves," says Duge. Bad data can also impinge on the trust required for true collaboration: "If I'm going to, for example, let someone set the prices in my store, there's a huge degree of trust needed," says Duge. "That must be both earned, and maintained."

Any form of serious collaboration requires "serious work in data cleansing," according to Duge. "And data cleansing is not a one-time event—you don't invest in it and then depreciate it over a number of years. It's an ongoing commitment to play ball with this vendor in this way, forever."

Another major collaboration hurdle is when partners are in a state of capability inequality. "A dynamic emerging over the last three to five years is that retailers now not only have data but they have tools to analyze that data, and it makes some wonder why they don't just do category management on their own," says Hung LeHong, research vice president, Retail Industry Advisory Services for Gartner. "There's been a new dynamic created by the increased analytical capabilities offered by technology, in areas such as price optimization and space optimization."

Some retailers may be asking, "Why should I collaborate with you if you don't bring anything to the party?" says Dale Hagemeyer, research vice president, Manufacturing for Gartner. As a rule, CPG companies have not yet invested in the tools needed to turn data into insight, he adds, noting that manufacturers who are still using spreadsheet-type reporting tools are not creating "a great user experience for the retailer." Those retailers that have invested in newer tools for optimizing assortments, space, pricing and promotions may literally be speaking another language than their CPG trading partners.



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It's not just technical differences that impede collaboration, but the old question of "Who owns the data?" In the case of loyalty card data that retailers gather, LeHong notes that many retailers are reluctant to share this information, even (or especially) because it shows consumer shopping patterns at the market basket level. "Generally, even a category captain is privy only to macro information at the category level," he says.

## INCREASINGLY COMPLEX INDUSTRY CREATES CLIMATE FOR COLLABORATION

Given the challenges both CPG and retail companies face in making their category management efforts more insight-producing and collaborative may raise the question as to why so many companies are expending the effort. The answer is that there are significant shifts in the industry that are making insight-producing collaboration less of a nice-to-have "extra," and more of a must-have business basic.

Two major trends that are having an impact on both retailers and CPG companies are a proliferation of retail channel types and changes in shopper trip behavior. A study conducted by Unilever titled "Trip Management: The Next Big Thing 2005" identifies the following changes that took place between 2000 and 2004:

- Shopper trips to supermarkets went down 15%
- Supercenter trips increased nearly 60%; trips to dollar stores and wholesale clubs were up 30% and 10%, respectively
- 62% of trips are quick trips (three to five items); 25% of the trips are for fill-in (nine items); and 13% are for stock-up (16 items).

The trend of convenience, dollar and drug channels gaining more of these "quick trip" and "fill-in" shopping occasions from traditional supermarkets has created challenges for these retailers, who have had to fine-tune their formats and, in some cases, create new formats that address specific shopping trip behaviors, such as the desire for convenience.

For CPG companies who had traditionally managed categories on the basis of a limited number of channels, focusing primarily on supermarkets, this proliferation and blurring of channels has added new levels of complexity to the category management process. In short, planning with a supermarket "template" and working by geographic territory is no longer seen as an effective strategy. Industry experts agree that in today's complex and dynamic environment, planning needs to be more granular and incorporate the brand, the channel and the shopper.

For their part, many supermarkets have been caught in the middle: between price competitors (such as Wal-Mart and dollar stores) on one end and specialty retailers (such as Whole Foods and Trader Joe's) on the other. These supermarkets are fighting back by paying more attention to the unique aspects of their customer base. "There's a big movement toward micro-merchandising or customer-centricity," notes Hung LeHong, research vice president, Retail Industry Advisory Services for Gartner. "Retailers are looking to build an assortment that is tailored to the local market—either a specific store's market area or a cluster of stores."

These efforts, while necessary, also add complexity to the category management process, and they make higher levels of collaboration and information sharing essential. In addition, retailers' efforts to differentiate themselves from price-based competitors are making collaboration with their suppliers a more attractive prospect. "If you look at the retailers who compete based on product rather than price, one option is for them to work really closely with branded product manufacturers to make sure they have the right products

in their stores," says Dale Hagemeyer, research vice president, Manufacturing for Gartner.

Collaboration as a necessary business strategy is going hand in hand with collaboration as a necessary data management and operational strategy. "As retailing becomes more sophisticated, the accuracy of the data that retailers work with becomes more and more important," says Zeke Duge, senior vice president and CIO at retailer Smart and Final. "If I'm trying to send manufacturers' items to my store in the most efficient manner, that's an equation that's shared between the two companies—it's a benefit to all of us if we can take costs out of the system. When you do that and also add in increasingly complex systems, such as those for inventory control and replenishment, perpetual inventory or computer-assisted order-

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— CRAIG HODNETT, VICE PRESIDENT OF CATEGORY MANAGEMENT, CADBURY SCHWEPPE'S AMERICAS BEVERAGES

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ing, you're really talking about a dependence on these systems—and how these systems relate to the real world is highly textured by the quality and the symmetry of the data the retailer has access to."

Another strong pro-collaboration motivating factor has been the proliferation of products in the market. Craig Hodnett, vice president of category management at Cadbury Schweppes Americas Beverages, notes that while categories used to be relatively easy to define, many new products almost seem designed to confuse category managers. "For instance, Pepsi has introduced a product that could be defined as both a soft drink and an energy drink; there are juice drinks that are also energy drinks; and Dr. Pepper is coming out with a coffee—there's a blurring of categories," says Hodnett. To deal with this confusion, "retailers are seeking help from the manufacturer. They need insight to understand how to set these up in their store, and where they should go to achieve the best results."

The trend of this new breed of category-crossing products is intersecting with the trend of more customer-centric, market-specific retailers. "The new news is the blurring of categories, and it's added to the news about the blurring of channels," says Hodnett. "The challenge is that both are happening, and that each retailer addresses things differently. That's a situation that begs for collaboration in order to do this better." ■

In reality, both parties can bring unique insights to the table. Retailers have access to shopper data that CPG organizations do not have, while CPG companies have access to shopper insights across channels, regions and stores that could be valuable to retailers. Ideally, there should be a collaborative effort to implement what's needed to grow the category, and with it both retail and CPG sales. What's needed to make such collaborations work are quality insights, which themselves require both sides to focus on investing in using available data sources effectively to jointly add value to each other.

"It all boils down to what value you bring to the table through your insights," says Prateek Sinha, principal consultant and head of merchandising solutions at Infosys. "If a CPG partner is able to leverage an unbiased analysis to tell the retailer how he could use the retail shelf better, there is no reason for the retailer to reject that insight. At Infosys we have helped some leading retailers implement cutting edge technologies in the areas of assortment, space and price optimization. We are now seeing increased interest from CPG organizations to implement these as well. The CPG firms that do not invest in these technologies will certainly stand at a disadvantage in their dealings with retailers."

## Building Trust Between Partners

Even when retail and CPG companies can overcome their data issues, the frequently adversarial nature of their relationship can be a barrier to insight-based collaboration. There are times when insights gained from analytical tools can be used solely as a negotiating tactic or bargaining chip. "Suppose a vendor offers a retailer 25 cents off per unit on their product in order to give that product a 300% lift," says Gartner's LeHong. "If the retailer has the data he might say that he needs 30 cents off to achieve that lift. In some cases, when retailers have more insight, they have more leverage against the consumer goods company."

Some of these issues are extremely difficult to address, since they are built into the business structures and incentive plans of both retail and CPG companies. However, if the lack of trust impedes collaboration, the converse is true: once trust is earned, it puts the CPG company in a privileged position with a retailer. "I would love to have, and in fact do have, vendors who have portal access into Smart & Final's master data, and they have the right to go in there and modify their own data," says Duge. "I would be loath to give that to every vendor out there, because there are some that simply aren't responsible enough. But the ones that are will rapidly become a preferred trading partner."

Duge adds that he is looking for vendors who can be trusted to manage their own data as a means to shift some costs back onto the CPG company. "As a retailer, I want out of the business of updating vendor data, because that would be a cost savings," he says. "In addition, from the IT side, collaboration provides another set of eyes and ears watching the data input process. If both buyers and category managers are checking on the vendors and items they're responsible for, it's another layer of 'edit' for the process."

Maintaining clean data requires not only a technical solution but also efficient business processes to maintain data cleanliness. Several leading retailers and CPG organizations have leveraged the Infosys Master Data Management Solution to streamline their data management and data synchronization endeavors. This not only resulted in improved productivity and efficiency, but also improved collaboration between the retailers and CPG companies.



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Retail Industry Advisory Services, Gartner*

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## Improving Scalability

Finally, even when there’s a willingness on the part of both trading partners to engage in collaboration on insightbased category management, the challenges of scalability and available resources (both IT and human) can throw up one last roadblock.

As it’s currently configured, “Category management is a very process-driven routine that takes hundreds of man-hours just to go through and collect data,” says Paul Price, senior vice president, Acosta Insights, a division of Acosta Sales and Marketing. “People are spending a majority of their time filling out preset templates rather than analyzing data to get results.”

Many CPG companies and retailers have embarked on multi-year transformation exercises to build the next generation of business analytics tools. These efforts will take several years to deliver, and the time lag raises some fundamental questions: Can the business wait until these tools are fully implemented? What do I do to manage my category now? Will these tools, once implemented, provide the required insights in an easy-to-use manner?

“Waiting is not an option, but neither is recruiting dozens of experts to analyze data during the interim period,” says Kishor Gummaraju, AVP and head of CPG Solutions for Infosys. “While the Infosys Enterprise Performance Management Solution helps CPG and retail organizations implement sophisticated BI solutions, the Business Insights on Demand solution provides a short-term answer. This solution leverages a global talent pool of statisticians, domain experts, brand managers and data experts, supported by sophisticated tools, who can better leverage the 24-hour workday because of their location around the globe. The solution thus provides a set of qualified resources on tap, at a fraction of the cost. They can fetch data from multiple sources and conduct an in-depth analysis, enabling category managers to use their time more productively. In addition, this also forms a proof of concept for the long-term solution, and improves the effectiveness of the end state solution that is being built.”

## Conclusion

While gaining greater insight from category management involves a number of steps, none of them easy, it ultimately offers important benefits to the entire retail-CPG industry. Insight-based category management “allows companies to direct their resources where it counts,” says Acosta’s Price. “If they know exactly what, when and where the consumer is looking for a product, companies can direct trade funds and advertising so as to get the best ROI, versus the ‘peanut butter’ approach—spreading them out to everyone.”

“Collaboration involves several different stages,” says Hannaford’s Pepin. “After the upfront business planning is done you can kick into gear with really solid collaboration. Then you can start to talk about becoming more strategic, and then you can talk about innovation. Then you can continue up the ladder of not just talking about it but driving innovation that takes true costs out of the supply chain, and costs out of operating our stores and our businesses.

“In the end, collaboration is about delivering a better product that’s more profitable for everyone,” Pepin adds. “It’s not something that happens overnight. You need to build relationships; build trust; build collaboration; drive innovation; and then have outstanding execution. The benefit is that you deliver a much more impactful, compelling, exciting shopping experience for your customer.”



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## About Infosys

Infosys Limited is a global IT services firm that provides business and IT consulting to Fortune 1000 organizations. With over 50,000 employees in 18 countries, we deliver **IT-enabled business solutions that provide strategic differentiation and operational superiority, enhancing our clients' competitiveness.** Top-tier CPG companies and retailers across North America, Europe and Asia leverage Infosys' services to help improve their productivity, efficiency and effectiveness. Infosys' 2,000-plus strong CPG and Retail practice offers end-to-end services that include business process conceptualization, process engineering, package selection, program and change management and implementation.

With Infosys, you are assured of a transparent, collaborative business partner with industry expertise to ensure business-IT alignment and flexibility, world-class processes, speed of execution and the power to stretch your IT budget by leveraging the Global Delivery Model that we pioneered.

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### About Infosys

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