

# REINVENTING CATEGORY MANAGEMENT FOR THE 'TOO-MUCH-INFORMATION' AGE





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— SCOT HENDRICKS,  
VICE PRESIDENT, GROCERY  
MERCHANDISING AND  
PROCUREMENT, KROGER CO.

Analysts and industry executives agree that despite some impressive success stories, category management as a whole has lagged behind the rapid “change curves” in the retail and consumer goods industries. Particularly on the manufacturer side, category management efforts have had a hard time keeping pace with marketplace shifts, including the explosion of new data sources; a more complex retail environment; and an increasingly diverse—and demanding—set of consumers. It’s true that newer, more sophisticated technological tools are helping to bring category management up to speed. However, these experts agree that for category management to truly advance, a more holistic approach, involving people, processes, and partnerships, will be needed. If category management can successfully evolve to its next level, there will be benefits for virtually all industry players.

When category management (CM) debuted in the 1980s, it was in a vastly different, far simpler environment than today’s. Data sources were essentially limited to raw point of sale (POS) data and third-party syndicated research. While the retail landscape was more fragmented in terms of ownership, it was more cohesive in terms of retail formats: with few exceptions, supermarkets were supermarkets, drug stores were drug stores, convenience stores were convenience stores, etc. So not only did category management decisions frequently come down to a simple question of “order” or “don’t order,” but assortments and planograms could be more easily replicated throughout a geographic region or an entire chain.

Today’s environment is more complex in a number of ways. Both retailers and manufacturers have access to what sometimes feels like too much information, from sources as diverse as retailer loyalty programs to a consumer-driven “brand blogosphere,” busy discussing the merits of various products to a small but influential audience. Separating valid, useful information from “noise” has become an increasingly difficult challenge. In addition, the number and type of retail formats has multiplied in both the

physical and virtual worlds. In the latter, in addition to online shopping, there’s a growing economy in “second life” virtual worlds, where users’ avatars can buy both virtual and real products.

The result is that yesterday’s simple, one-size-fits-all category management strategies will no longer suffice. Larger retailers, who themselves are often operating on a global basis, are demanding store-by-store assortments that are differentiated to meet the highly specific needs of an increasingly diverse group of consumers.

### **Today’s Category Management: Strengths and Weaknesses**

Are category management tools and processes up to the challenges of today’s marketplace? Certainly, numerous advances have been made in the decades since it was introduced. Yet many in the industry feel that weaknesses—some long-standing, some of more recent vintage—limit the benefits that CM could potentially provide.

On the plus side, CM has become increasingly sophisticated as the industry has become more complex. “Traditionally, category management had been a month-

# Defining Advanced Category Management

BY MICHAEL FORHEZ

ly process, typically handled by a consumer products company at the account level,” says Lora Cecere, a Research Director at AMR Research, Inc., who focuses on the consumer products industry. “Now it’s becoming more frequent, and it’s moving toward looking not just at revenue but at profitable revenue. It’s also moving to the store level and becoming much less about categories, and more about the shopper and the market basket.”

That’s certainly the case at one of the nation’s largest supermarket retailers. “We see category management evolving to customer management,” says Scot Hendricks, Vice President, Grocery Merchandising and Procurement at Kroger Co. “Particularly with our customer first strategy, we’re focused on making sure that from the standpoints of assortment, pricing, variety, etc., that we’re doing everything we can to meet the customer’s needs first. That’s our top priority.”

The information that category management activities produce feeds this strategy, he adds. “Category management helps us better understand things like how best to lay out a store, as well as optimal category sizes and the profitability of a category to our operation. In addition, category management helps us understand what a particular category’s purpose is for the customer and for the store, as well as how to manage it so that it produces the margins we need,” says Hendricks. “We’re still taking those learnings from category management, but before we make final decisions, we’re ensuring those decisions are being made with the customer in mind.”

Another sign that companies are giving CM the attention and resources it deserves is the people they are putting in charge of it. “Companies used to put entry-level people into category management,” Cecere notes. “Now, people are thinking that it should be someone who really understands the business, and also has strong statistical and analytical skills.”

**What will be some of the hallmarks of the next evolutionary level of category management?** A big part will be taming the current “too much information” situation, using advanced tools to perform sophisticated analyses of data from a wide range of sources. But equally or more important will be companies’ willingness to establish business processes that allow people to use the resulting information in their daily decision-making. Driving and managing these changes in people, processes and technology will be a crucial element in the advance of category management.

And while each company’s “formula” will differ depending on specific categories, retail formats, and shopper characteristics, it’s likely that all advanced category management initiatives will include the following elements:

- **More Consumer/Shopper Information:** In addition to traditional data sources—the POS and syndicated research—advanced CM will need to include frequent shopper information, data from web transactions, and geographic, psychographic and demographic data on a product’s consumers and a retailer’s shoppers.

- **“Smart Store” Devices and Applications:** Interactive kiosks have been around for a while, but retailers are now also testing and integrating into their stores wireless systems, attached to end-caps and placed on shelves and shopping carts, that will make it possible to record footfalls and track inventory and promotions. These minimally invasive technologies will help retailers, and by extension their manufacturer partners, influence shopping behavior by being able to translate, in real time, intentions into transactions. They will also provide a level of insight into consumer behavior that can better inform merchandising not just on a seasonal basis but by week and day part.

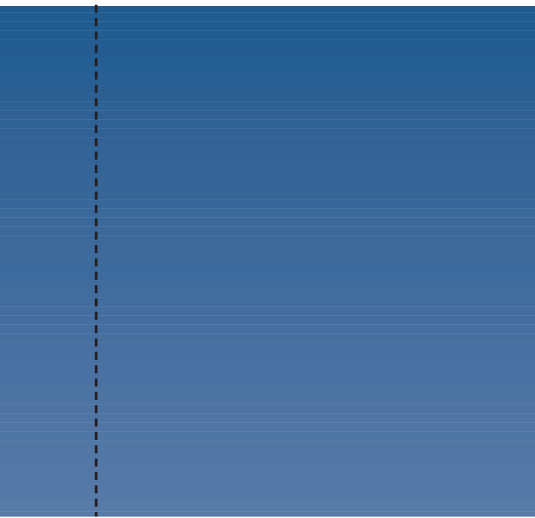
- **Wider Data Distribution within the Enterprise:** Category management is not an isolated function with only one end in mind, since it affects, and is affected by, other critical processes. So as a more complete picture of the consumer emerges, relevant insights should be shared between departments, including demand planning, operations, marketing and sales management, trade promotion management, new product development—in fact, any part of the organization that has a stake in, and responsibility for, putting the right product in the right place at the right time and at the right price.

- **Collaboration, Collaboration, Collaboration:** Despite the growing information-gathering and analytical prowess of retailers, they still lack the breadth and depth of experience that comes from suppliers of national brands. This can be a crucial “deficit,” since advantages multiply when retailers and manufacturers combine and prepare for co-branded advertising and merchandising campaigns. Neither “side” can succeed without the crucial information supplied by the other.

All these elements will be combined in the service of improving the shopping experience. The success of retailers who offer superior service within artfully designed, well-stocked stores reinforces the idea that there are many other ways of competing besides simply offering products at the lowest prices. They also show that consumers want their brands when they want them, merchandised in a way that interests them and meets their needs. The key to providing this superior—and profitable—shopper experience is timely and insightful information, shared on a continuous basis among all the players responsible for advanced category management.

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**“On both the manufacturer and the retail side, a lot of work has been done to understand who the shopper is, how they behave—the ‘why’ behind the ‘what’.”**

—JOE PATTI, VICE PRESIDENT FOR RETAIL PLANNING AND CATEGORY MANAGEMENT, ANHEUSER-BUSCH

Some consumer products companies are leaders in recognizing the value of strong CM. The Consumer Insights group at General Mills, part of the manufacturer’s market research division, now helps shape the company’s extensive category management efforts. “In the past two to three years, Consumer Insights has developed a place at the table in the category management group,” says Vidyotham Reddi, Director, Strategic Business Metrics at General Mills. “That helps us have a unified story that goes back to the customer.”

While acknowledging that CM is not where it should be yet on an industry-wide basis, Reddi says that “from a General Mills standpoint, I think CM is in a very good spot today compared to five years ago. It’s more efficient, more effective, and more real-time, and there are more long-term relationships with retailers.”

Another positive move has been the ability of some companies to make good use of more granular store-level data to inform their CM decisions. Anheuser-Busch has been a long-time user of store-level census data provided by third-party research companies. Now, its BudNet initiative allows the brewer to see store-level data for 500,000 outlets the company sells beer to, according to Joe Patti, Vice President for Retail Planning and Category Management, Anheuser-Busch. “We believe the lower-level granularity helps us develop better plans as well as better insights into the dynamics of what’s going on,” says Patti.

**A Sharper Focus on the Shopper**

Other advances have come in the area of shopper-centricity. “On both the manufacturer and retail side, a lot of work has been done to understand who the shopper is, how they behave—the ‘why’ behind the ‘what’,” says Patti. “Many companies, including ours, do primary shopper research, to understand our core consumer and when that consumer becomes a shopper. On the retail side, they can leverage their shopper loyalty data to tap into those insights.”

Another manufacturer that has committed resources to achieving a greater understanding of shopper behavior is Georgia-Pacific. “In truth, consumer purchase behaviors are ramifications of very simple choices that people are making, based on their needs and attitudes towards a product category,” says Vishaal Jayaswal, Georgia-Pacific’s Director of Advanced Analytics. While the consumers’ choices may be simple, understanding them requires a range of analytical tools to get to the roots of what motivates shoppers to make a purchase.

For example, when manufacturers deploy their resources to do custom, category-specific research, it can help answer a range of key shopper behavior questions, such as: Who are the consumers that retailers are actually selling to? What do these consumers value? Why do they buy what they buy? What do they like about the product? How are they making choices between brand A and brand B? What’s in their consideration set, and what’s not?

“If I know my shopper through market research, I can identify patterns and behaviors that they exhibit at retail,” Jayaswal notes. “When this custom research about what consumers like is connected with things like retailer POS data, it creates a whole different grain of analysis.”

Hendricks says that data from Kroger’s loyalty program provides the grocery retailer with a range of customer insights. He also credits manufacturers with taking a “more researched” approach in recent years, in areas such as new item introductions—although he notes that some suppliers use such introductions in self-serving ways. “Many still have the mentality of putting products out there that will give them plenty of shelf presence, but won’t necessarily expand the category,” says Hendricks. “They might say ‘We’re adding six new flavors, so you should carry them and take away six flavors put out by our competitors.’ But there might be a lot of loyal shoppers who like those flavors.”

Patti also believes that there have been improvements in the execution of CM

plans. “Historically, people used to measure success by how thick the CM plan book was,” he says. “Now it’s about how it’s implemented, measuring things like pricing, space management, and displays, and all trying to determine if it’s really driving a competitive advantage.”

Category management advances have created a number of success stories. Companies that focus on shoppers, and set up processes so that shopper insights feed their R&D innovations, are using CM effectively, according to AMR Research’s Cecere. “Companies need to be able to look at categories and say ‘Are we delivering these categories in the right way, in order to deliver the shopper experience that will lead to the shopper pulling our products off the shelf?’ What Campbell’s did in redefining the soup aisle came out of that kind of process, and that has been very successful,” she says.

## Significant Room for Improvement

Despite such successes from industry leaders, CM as a whole exhibits numerous shortcomings. Many of these stem from a long-standing lack of trust between retailers and manufacturers, which prevents the kind of effective collaboration that CM requires.

“Everybody talks a good game about collaboration, but it’s often just big talk,” says Dale Hagemeyer, Research Vice President, Manufacturing for Life Sciences and Consumer Goods at Gartner Inc. “The other thing is that a lot of companies lack the systems to be able to collaborate, and they also lack the culture of collaboration.”

Hagemeyer identifies a number of “counterproductive behaviors” that are still all too common in the manufacturer-retailer relationship, including forward buying, diverting, and retailers using assortment decisions as a lever to have manufacturers boost margins via trade programs, or fund projects such as charitable contributions.

“If we were really all partners, I wouldn’t be doing that kind of thing,” says Hagemeyer, adding that retailers are in a position to demand these types of concessions, “if for no other reason than their con-

solidation and global reach. Barely 20 years ago you had Wal-Mart buying Asda, but now there are a number of global retailers such as Carrefour.” The countervailing force from the manufacturing side is the power of “mega brands, but these are kept in check by the strength of private label,” he adds.

While new technologies are available that can address trust issues by building electronic bridges between retailers and manufacturers, players must first invest in the systems and then set up processes to use them. Distrust still creates disincentives to do so, according to Hagemeyer. “Retailers and manufacturers could, essentially, use the same portal-type system, with each going in remotely to work on numbers,” he says. However, he believes many in the industry are unwilling to give up what they consider valuable proprietary information—an attitude that makes collaboration difficult if not impossible.

Collaboration requires visibility. “Perhaps I have systems that tell me what I should do in terms of a category decision. I may not want to share them because I can’t shield you from seeing things that I don’t want you to see,” says Hagemeyer. “In other words, how do I ‘black out’ the columns in the Excel spreadsheet showing what my margin is?”

## Corporate Structures Creating Tension, Starving Innovation

AMR Research’s Cecere identified structural and process-related issues that can impede collaboration and advanced category management. “Category management is changing a lot, so there isn’t one good definition of it in the industry,” says Cecere. “Unlike Baskin-Robbins ice cream, there are more than 31 flavors.”

While some of these redefinition processes are positive responses to the increasing complexity of the market, others are proving counterproductive. The shift in CM decision-making power at many CG companies—from its traditional place in brand management/marketing to sales—can take the focus off where it needs to be: on the shopper. “There’s tension in deter-

mining who should make the call as to what is the best brand positioning in the category *for the shopper*,” Cecere emphasizes.

Even companies that can, and do, focus on the shopper may not have the processes in place to use that information effectively. “Because marketing controls most of the R&D for product innovation, the question becomes how to have portfolio innovation, in order to ensure that the ‘big ideas’ come through so we can say ‘yes’ at the right time to major accounts,” says Cecere. “The trade often comes back to manufacturers with ideas they would like us to innovate on, but most organizations have been set up to say ‘no, no, no.’ How do we hook innovation to joint value creation ideas, and how do we determine what’s right in the category and the account? Most organizations don’t have a good handle on this,” she concludes.

Her prescription for CM? “We have to align sales and marketing incentives and focus on shoppers; we can’t reward sales on revenue and marketing on market share,” says Cecere. “We need to reward on delivering the shopper experience, and on having our shopper pull our products off the shelf.”

## Technology Investment Gap—or Gulf?

One of the things that frustrates CM experts and practitioners is that technology solutions that are capable of addressing some of CM’s worst shortfalls, and maximizing its benefits, are already available. However, for a variety of reasons, they remain underinvested and sometimes underused.

“The tools and the thinking and the back-end systems haven’t kept pace,” with current demands on CM, according to General Mills’ Reddi. “We need to have the ability to track behavior, learn from the past, and move on it.” He acknowledges that such systems “will be huge investments,” and that because they will need to be more broadly based than previous solutions, implementing them could engender internal turf battles. “That’s a long-term change, and resources as well as concentrated efforts on it have lagged,” he admits.



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SCIENCES AND CONSUMER  
GOODS, GARTNER

General Mills has made some progress in establishing more enterprise-wide systems, such as institutionalizing a standard reporting framework across all its marketing divisions, with reports provided to a portal that is common to all its businesses but with content specific to different parts of the audience. Reddi believes the company, and the industry, needs to go even further.

“The biggest bellwether for category management to move ahead is the integration capability of multiple data sources within a company,” he notes. “There are tools, but very little discipline in terms of using those tools to the maximum. That’s the single largest ‘rock’ that needs to move—line of sight to multiple insights, seamlessly and on demand. Today we’re very good at putting reports out there, but what you’re looking at isn’t really driving a business. Reports aren’t good at diagnosing where I’m going in the future, and you don’t know where to go unless you know where to look.”

Anheuser-Busch’s Patti also identifies slow speed to insight—insight that would give companies the ability to make more relevant recommendations—as a significant CM challenge. In addition, “there are still some channels, such as convenience stores, where data isn’t as readily available at the granular level,” Patti says. “There’s progress being made—IRI launched a convenience store scanning service last year—but it’s often not at the level of the supermarket industry.” He also admits that manufacturers have lagged in integrating CM principles throughout the entire sales organization: “Sometimes they’re viewed as a separate organization,” he notes.

### **A Sense of Complacency**

Gartner’s Hagemeyer identified a possible reason for what he sees as chronic underinvestment in CM technology, especially by manufacturers. “Manufacturers believe they are better [at analysis and category management] than they actually are, and also that they are better than their peers,

so there’s a sense of complacency there,” he says. “It’s as if the manufacturers were a man rating himself on his looks, saying ‘I’m a nine [out of 10] and you guys are all sixes,’ when in reality they are all fours and fives.”

Hagemeyer adds that retailers also tend to think they are substantially better than manufacturers in this game, but that this idea is closer to the truth. “Retailers use predictive modeling, using the past to predict the future, much more than manufacturers do,” he notes.

The result of this overly flattering self-image is that while retailers clamor for manufacturers to provide them with insights on everything from regional demographic shifts to brand behavior in comparable markets, manufacturers simply spend more on trade promotion activities rather than investing in advanced CM tools. Another result is that many retailers are taking over CM responsibilities themselves, performing advanced product and category analyses rather than waiting for manufacturers to supply them with actionable information.

“There’s a significant amount of work to be done in understanding the effect of trade spending, and how efficiently it is being spent to drive the top line,” says Kroger’s Hendricks. “We need to understand the optimization of price points, as well as answer questions such as when does a customer enter a category? When does a customer leave a category? And what are the key factors that engage a customer?”

In the bottled water category, for example, Hendricks believes consumer concerns about the quality of tap water have played a large part in the category’s recent growth. Therefore, a product’s quality, and its relationship to the customer’s lifestyle, are crucial to maintaining the category’s growth.

“In defense of manufacturers, they have a much more complex world to deal with,” says Hagemeyer. “They have to understand their retail customers as well as the

consumer, which are two totally different audiences. And not only must the manufacturer understand both, they must understand both in the context of each other—both the shopper as a whole, and the shopper at, for example, A&P.”

Understanding this full range of shopper behavior is crucial to manufacturers’ long-term success, says Hagemeyer. “In the consumer staples area, everyone is competing for ‘share of stomach’ or ‘share of wallet’. In order to grow, these companies must either steal share from others or get into new categories.”

However, as Cecere mentioned above, current structures can clog the innovation pipeline, so CP companies are often slow to respond to shifting consumer demands, making them less able to provide the individual products and assortments that will turn consumers into shoppers. Both manufacturers and retailers have room for improvement when it comes to turning data into relevant information. “A lot of product data tends to be about consumers, such as information from focus groups, while retail POS data tends to be on simply what was bought,” Cecere says. “The evolution of trip-type data [identifying the kinds of shopping trips people take at different times to satisfy different needs] and shopper demographic data are new areas. There’s still some work and analysis to be done on this.”

## Rewards of Advanced Category Management

Assuming that the retail/CP industry can overcome these challenges, allowing category management to truly advance to its next level, some of the key benefits that will accrue to individual companies as well as the industry as a whole are:

- More meaningful manufacturer-retailer interactions and improved collaboration
- More fact-based decision-making
- Improved efficiency, both within companies and among different trading partners

- Reduced out-of-stocks
- Sales, revenue, and profitability improvements
- More efficient, targeted, and effective trade spending
- Increased shopper satisfaction and customer loyalty

“If category management advances, it will be a win-win-win because it will put the right product, in the right place, at the right price,” says Gartner’s Hagemeyer. “But people need to be in it for the long term—they need to think about loyalty versus simply nicking someone for a margin improvement.”

Infosys Technologies certainly takes a long-term view of category management. “For a long time, we’ve been examining where category management has been, where it is now and where it needs to go in order to deliver its full range of benefits,” says Kishor Gummaraju, Partner Retail, CPG Practice, Infosys Consulting. “For example, the need to focus on consumer insights is not a new one. The change that has occurred, and is still taking place, is in the scope and relative importance of these insights in the daily operations of both CP companies and retailers. Likewise, winning with key customers and shoppers is not a new concept, but the approach has changed from a pure channel orientation to things like shopper motivation and the context of the individual brand, the category and the retailer’s strategy.

“The key change, however, has been the availability of tools and data to derive richer insights,” Gummaraju added. “However, the biggest challenge here is integrating these tools into all the planning and execution processes, and more importantly, enabling the change associated with their adoption.”

General Mills’ CM efforts have already made it more aware of what’s still missing, according to Reddi. “One effect [of category management’s current shortcomings] is the lack of line-of-sight visibility that’s necessary to make your own systems and processes more efficient,” he says. “For a

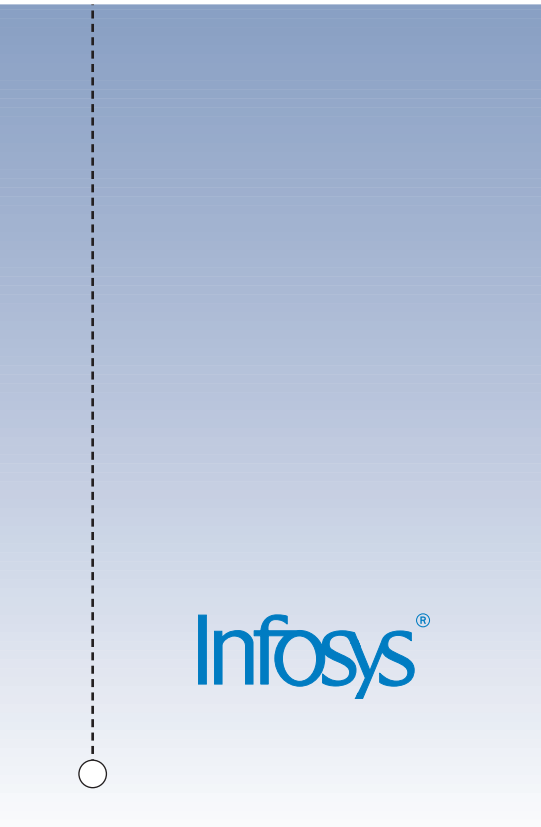
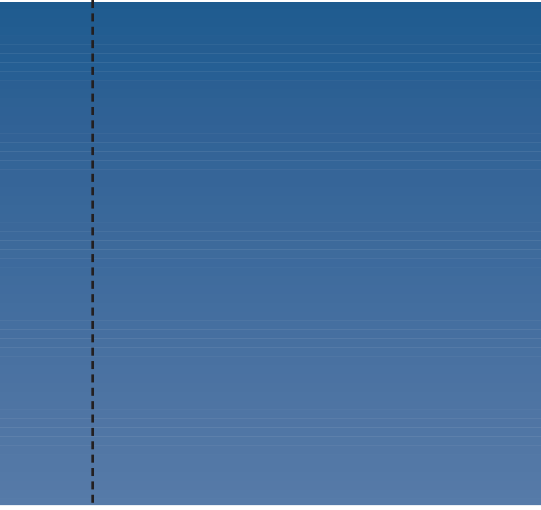
company like ours, which is in 25 different categories throughout the grocery store, the immediate effect of this lack of visibility is that we are losing opportunities.”

Looking further ahead, Reddi says “the bigger effect [of advanced category management] is the long-term ability to impact a relationship. If you’re bringing a message to a customer that helps to grow not only General Mills but the entire category, and the store, you get tenure credibility. You position yourself as a reliable partner who understands the business and can affect future growth.”

Reddi is already seeing some signs of improvement, but there is still a ways to go. “Our CM efforts brought the concerns of our top customers front and center. They had had specific questions before, but these questions weren’t about what was really bothering them. The things that are really keeping them up at night are ‘Wal-Mart is cleaning my clock, consumer demographics are changing, shopper behavior is changing and going online. I don’t understand what products this new consumer will want, and I don’t always know where consumers are getting information on hot topics such as health.’,” says Reddi.

However, when the shopper insights and category management teams at General Mills were able to address these real concerns, the relationship began to change. “For example, General Mills could walk in and say definitively ‘Your demographic is 50% multicultural, but your current product set isn’t meeting that need,’ and show this through the behavior of similar store clusters and comparisons,” he says. “The more we got proactively engaged in working with customers, the more they were asking us questions that they had never asked before, on things like customer segmentation and insights into growth. This has led to a more strategic relationship.”

Reddi notes that it’s important to have the systems and performance to back up these insights. “Now, with some of the system investments we’ve already made,



what used to take 10 hours to gather takes five minutes. So when a customer asks you a question and you say 'I'll get back to you in 20 minutes,' and you actually do, it gives the people you're working with confidence. It's important to start small but build for a bigger version—to go in with a relevant message to meet a relevant business need."

Ultimately, advanced category management is about building collaborations that address real business needs. "Retailers are already saying to manufacturers 'Don't just give me a category captaincy or come in with a self-serving message,'" says Reddi. "The Wal-Mart effect means that retailers are beginning to understand that to compete in the marketplace, they must go after their competitors in a much more niche-oriented manner. We need to help them go to a space that only they have, and can deliver on."

Georgia-Pacific's Jayaswal also sees the relationship-building benefits of bringing valuable information to retailers. "As you develop insights into things like store clustering or retailer economics, or how you can drive more profit to their bottom lines with logistics or shelving efficiencies, or show them opportunities

to drive growth through better assortment, shelving, distribution or pricing, that clearly elevates your company's relationship with retailers," he says.

Much like these companies, Infosys is looking for effective collaborations that will help move category management to its next evolutionary level. "We want to be part of the conversation about advanced category management," says Infosys' Gummaraju. "We want to work with others, on both the retail and manufacturer sides of the house, who have a desire and stake in seeing category management move to the next level."

Effective collaborations are crucial to reaping the benefits of advanced category management. "Some of category management's benefits are the basic 'motherhood and apple pie' ones, such as leveraging ROI, increasing shopper satisfaction and loyalty, increasing sales profitability and reducing out of stocks," says Anheuser-Busch's Patti. "But it's our view that both category management principles and its practice are about good business practices. Over and over again, we've seen that when you apply those good sound business practices, you become competitive and drive both sales

### About Infosys Technologies

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