Drowning in Data

A ROILING SEA OF INFORMATION INHIBITS THE SEARCH FOR ROI IN CATEGORY MANAGEMENT.

By BEN BALL

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The world of category management has changed drastically over the last decade, with many participants questioning their return on investment.

It's hard to determine what complicated such a simple process. Basically, the elements involve focusing on the supremacy of the consumer to generate greater revenue and reduce costs. So why aren't all participants achieving measurable ROI?

A major reason is that the industry is mired in a sea of data and templates, distracting them from focusing on consumers. We have allowed the left brain lure of more data and powerful data analysis tools to substitute for the right brain's work of creating new ideas, concepts and strategies. Instead of searching for common-sense solutions, the industry is immersed in trying to determine who can fit the most numbers from the greatest number of diverse sources on a single template. For some retailers, the veracity of the category management effort is measured by how many templates there are for category captains to complete.

The challenge facing retail and manufacturing category management processes is to find the appropriate mix of investment for each combination of brand/category and partner they manage. Look at it as a continuum where the right investment level can range from "no participation" to a full-blown customer leadership effort. While manufacturers may choose different positions on the continuum with different accounts, retailers won't choose the same manufacturer for a category.

Participants' ROI is determined by how well their category management effort is aligned with the marketplace. This applies to both suppliers and retailers.

It might be unusual, even heresy, for a consultant to suggest that no participation is a viable option. But the truth is that certain products, brand positioning and retailers simply do not justify anything more than solid fact-based selling. True niche products, particularly those of single brand manufacturers or distributors, are usually carried for image and variety. To manufacturers, their consumer cachet is more important than category management capabilities. A com- modity positioning may fit the same mold. In low differentiation categories, one viable brand position is price/value. There may be a category management effort in place for the category, but participants with the low price positioning are usually better off keeping that out of their cost structure.

Additionally, there are some distributors who simply don't value these services, and many are too small to justify the costs. Some may be a poor strategic or demographic fit for a particular business model. Whatever the reason, many distributors can't justify the incremental investment, and making a program available to them would be wasting resources.

Category validator can be an extremely effective role for those who dominate a unique segment of a larger category. While these manufacturers may not want to commit the resources to be category captains, they often have a unique consumer perspective that is valuable to the overall management of the category. This role can also be effective for minor players in major, high visibility categories in which manufacturers can't afford not to be there–one in which the retailer's management style is often "set it and forget it."

Another role for suppliers is providing a full array of services to support a retailer's category management process. This is often the role of category captain and sometimes requires special data, software and even employees on site at the retailer's location. Sometimes, it requires a level of supplier funding. For manufacturers, this has become the modern-day equivalent of providing labor for store resets. You don't expect to get much for the investment–but you can't afford not to do it.

Advancing to the role of category leadership on the continuum changes things dramatically. These manufacturers have moved beyond the service providers' role by developing leading-edge best practices studies, unique consumer perspectives and point-of-sale-level custom research, often in conjunction with selected retailers. The returns can be outstanding. Customer leadership is defined as the addition of power brands, superior consumer insight and a fully integrated supply chain to the elements of category leadership. These manufacturers are working to achieve an end-to-end business process transformation that will make them leaders into the next millennium. The final position on the continuum is one only a few manufacturers such as Procter & Gamble, Coca-Cola and Kraft have approached.

How manufacturers will maintain leadership-level influence will be defined by how far tomorrow's power retailers reach into traditional manufacturer roles. They will almost certainly develop strong secondary brands, eliminating the need for some second-tier or regional players.

The most valuable consumer insights will come from individual one-to-one databases, the result of loyalty cards. It won't be that much of a stretch to apply sophisticated research techniques to that data, supplanting the need for sources supplied by manufacturers. ■

Ben Ball is vice president of Dechert-Hampe & Co., a marketplace management-consulting firm in Northbrook, Ill.