Shall We Dance

Have you done the groundwork and homework needed before hooking up with vendors in category management? If not, you may pick the wrong partners – and wind up working for them

By Richard DeSanta

Contrary to popular belief, the issue of "top management commitment" is not the major barrier to category management progress--once the process has begun in earnest.

Some believe the more likely impediments down the road involve the distributor/vendor "partnership." And it's when those glitches surface frequently and are not easily resolved that corporate "enthusiasm" is likely to wane.

According to consultant Leland Nichols, president of Dechert Hampe & Co., retailers are currently using a number of approaches in their category management working relationships with suppliers, and there are significant pitfalls associated with many of them.

Says Nichols, "Even among those suppliers and customers (distributors) committed to making category management work, we often see the effort floundering, or at least producing less than desirable results, because of unfocused objectives and inconsistent priorities."

Part of the problem, he says, lies in the way retailers evaluate manufacturers—if they do—as potential participants in the review and analysis of various categories.

"Suppliers can be invaluable sources of category information, which includes data on consumer dynamics and how operators in other markets are managing the category and interpreting results. But naturally, operators need to be selective, because when it comes to providing effective category management support, not all suppliers are created equal."

Nichols cautions against several specific approaches associated with vendor participation in their programs.

- One is the assumption that the largest supplier in a category should be the one to participate, without first asking for such information as the breadth and depth of the company's data; its micro-marketing tools; the availability of sufficient, qualified, dedicated resources; and the readiness of application models for category-level retail analysis.
- Another is the solicitation of several suppliers within a category to provide support in only one of its product segments. Nichols says this "tends to eliminate consistency in analytic approaches and makes cross-segment evaluation difficult or even impossible. It's also inconsistent with the concept of full category management, because it increases emphasis on individual product lines."
- A third is the failure to establish what recent proprietary category research the supplier has conducted with regard to innovative merchandising approaches by retailers, consumer market structure and segmentation, "best practices" for managing the category, and the impact of micro-marketing on total category performance.
- The fourth pitfall is the selection of a category supplier more on the basis of its financial resources than its category management expertise—a factor held up by those who criticize the entire category management concept as being merely a new means of maximizing allowance dollars.
- Finally, Nichols cautions against the use of a standard approach or format to gather suppliers' input in a category. He said that while "templates" can provide a solid beginning to category analysis, their use can result in limitations in the scope and rigor of analysis, failure to provide clear objectives and strategy for the category, and restriction of creative input.

In addition to demonstrating a business perspective that's category-based rather than brand-based, Nichols says the ideal category vendor participant should offer a "program for translating its category expertise into retail activities that will enhance performance." He says elements of such a program should include:

- Consumer segmentation and purchase dynamics;
- Consumer segmentation and purchase dynamics;
- Category/market account trend analysis;
- Shelf arrangement and adjacency optimization;
- Shelf space productivity;
- Item optimization;
- Promotion and merchandising event productivity;
- The impact of pricing on category performance; and
- Cross-trade-channel performance

A cross-section of retailer and manufacturer executives generally agreed that the first and last three elements of that list are of particular importance to a meaningful category alignment that reaps store-by-store benefits.

Said one vendor representative, "Right now, the major criticism of the category management idea is that it's bent on reducing the number of items, and therefore lowering costs to all concerned, without giving the consumer a vote. The more formal introduction of localized purchase behavior and dynamics is at least a means of getting closer to a system that really weighs customer preference based on what we know, not just what we think."

The grocery purchasing director for a New England retailer just into its program, having completed the analysis of four categories, says, "The pricing and promotion impact, combined with cross-trade-channel performance, can tell us exactly how much other formats, such as clubs, supercenters and drug stores, are hurting us.

"We know they've made inroads, but sometimes the assumptions we all make and the business realities are somewhat different. Like everything else, the more scientific we get at this, the less likely we are to over- or under-react in various areas of the store."

Here again, says Nichols, generalization is the enemy. "These programs should be based on reasonably recent research by suppliers that is applicable to the retail user's situation. Therefore, it should include a comprehensive analysis of category performance in markets comparable to that user's.

"If the research database is broad and deep enough, the supplier should be able to provide retailers with insights into the management of the category based on the experience of other food operators the supplier has studied."

Ultimately, he says, the best support comes from manufacturers who are capable of analyzing retailers' own category performance data, provided either by operators themselves or syndicated sources, and then comparing them with the market, including other trade channels, as a basis for category (and not brand) development recommendations.

An obvious factor woven through much of Nichols' evaluation is the degree of preparedness distributors achieve prior to entering category management arrangements with manufacturers—whether they constitute formal, contractual "partnerships" or "strategic alliances," or more loosely structured relationships with one or more vendors within categories.

That includes the oft-repeated revamping and restaffing necessary to convert traditional buying/merchandising operations to a set of category management teams. But perhaps more important, it suggests a level of information systems support still lacking in many, if not most, retailer and wholesaler quarters.

Indeed, in the Cornell University study *Category Management: Current Status and Future Outlook*, retailer and wholesaler respondents cited the lack of information system support as the single greatest roadblock to the initiation and development of programs in their companies. By contrast, retailers and wholesalers viewed as leaders in the field are those who were out in front in technological development years before category management became an industry buzzword.

Supermarket Business, March 1996

