Seven Facets of Modern Category Management
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Traditional category management is an old concept in a brave new world. Retailers need a new solution as they enable the level of differentiation necessary to attract consumers with an ever-growing number of shopping alternatives.

Merchants need a better way to create differentiated customer experiences, build solid category strategies, design compelling assortments, plan productive planograms, and efficiently price and promote to the market—and they need it now. Enabling all this will, in most of today’s retailers, require changes to processes tools and organizational structures. It also means better connecting existing processes, and bringing together disparate parts of an organization like never before to deliver a seamless customer experience.

Today, successful category management encompasses a broader set of capabilities than in the past, including: category role and strategy, macro space allocation, financial budgeting, assortment planning, planogramming, price optimization, private brand development, promotion and event planning, and joint business planning with vendors. In addition to an expanded functional footprint, the beginning and end of the processes a category manager needs to manage have expanded. Many are now defining this work as spanning from the initial development of the category strategy and role, through to the completed reset of the store shelf and online assortment. This is a much wider view of the world than what category management traditionally included, and creates a big part of the challenge.

Leading retailers are already planning for the changes and tools needed to integrate these capabilities and define new ways of planning and managing categories, and these efforts are paying dividends. Retailers such as Target, Kroger and Walmart have seen impressive results from revamping category management, including a 2% to 4% increase in sales, a 2% to 3% increase in margin and a 10% to 15% increase in inventory productivity.

But despite these positive efforts, most retailers remain stuck in the past, partially due to fatigue from traditional category management. And even those who have addressed parts of the issue would benefit from a more sophisticated approach.

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Tackling these historical inefficiencies and problems requires addressing seven key facets.

1. **Real customer centricity—walk a mile in your customer’s shoes**

   Today, many retail organizations are far less customer-centric than they claim to be. But in the modern retailer-customer relationship, the customer holds all the cards, and the retailer can’t afford to be anything but hyper-attentive to her expectations.

   As a result, everyone throughout the organization—including everyone involved in the category management process—needs to have a laser focus on the consumer and her needs and wants at all times. Creating truly compelling products and
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customer experiences should be the common thread linking all parts of the organization and category management process.

Leading organizations are going about this in several ways. Some, like Hy-Vee and Lowe’s, are creating the position of chief customer officer to drive customer-focused improvements across channels and functional groups. Others are taking a closer look at loyalty and social media data to understand how their core customers shop their stores and identify opportunities to capture share by satisfying unmet needs. For example, consider a retailer who found that a key customer segment shopped only 20% of their basket with that retailer across four categories. By taking a customer-centric approach, the retailer was able to identify categories in which the needs of that customer were going unmet and exploit that gap to increase basket ownership to 40% across 10 categories.

2 True integration—you’re probably not as integrated as you think
Highly siloed organizations—within functional groups and across channels—have led to processes choked by a series of handoffs and put category management, and ultimately the customer experience, at risk of falling victim to a game of telephone.

Given the breadth of processes that need to be successfully orchestrated to improve category management, handoffs must be effective and efficient. In other words, integration is key. This means removing handoffs wherever possible, and when not possible, ensuring everything is done to make them as smooth as possible. Process and organizational design can provide some relief here by carefully considering what can be lost in translation. However, integrated systems are providing the biggest benefits in tackling these challenges. Software platforms have made significant gains in the past 10 years to expand the functionality required to span the gaps between planning, execution and functional areas. Traditional supply chain solutions now offer tools to plan space, assortments and financials, and conversely, planning suites are expanding into supply management. These tools have fundamentally changed how processes are executed and have made syncing data, timing and weighing tradeoffs much simpler. But they’re big, expensive and can stress organizations ill-equipped to manage this magnitude of change. Adoption is picking up, but slowly.

3 Strong category strategies—if it’s not strategic, it’s not a strategy
Today, many category strategies are lacking necessary consumer insights and are ultimately not linked back into the category management process in an efficient way.

Developing a strong category strategy takes a well-crafted process in which a wide array of data inputs drive unique insights, which narrow in on a set of opportunities and thereby define required initiatives and potential benefits. The process should culminate in a game plan for the category that defines the steps, required investments, and expected financial or operational benefits. As category management has grown in breadth and sophistication, it has driven up the need for a robust go-to-market strategy the team can rally around and cascade across support teams.

Successfully cascading category strategies starts with defining each category’s role within the portfolio. It’s also important to coordinate strategies and tactics related to assortment, pricing, promotions
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and placement across channels, and categories and functions and financial plans should be tied to category-level targets, providing a means for measuring success.

Throughout this wide array of processes—from financial budgeting to planogramming, in-store execution and marketing—it’s critical that the consumer can identify the strategy as it was intended. For example, the value presented in a pricing strategy—competitiveness, brand consistency and value—needs to be aligned with the products that make up that product line—good, better, best. If these are disjointed, the value proposition is muddled, the customer will be confused, and the experience falls flat.

4 **Clean, accurate data—it’s true what they say about garbage in**

Retailers are awash in an ever-growing flood of data and information, but many are not positioned to use it to its fullest. For example, while most organizations have a data quality strategy in place, 94% suspect the data is inaccurate in some way, according to Experian. Accuracy is clearly a significant hurdle to many organizations’ abilities to harness analytics to drive decision making and improve the customer experience.

Getting the most out of all this data also means integrating it across the business, providing one version of the truth across integrated planning processes and connecting the dots across channels, categories and competitors to develop a true picture of the consumer’s needs and behavior. This includes a better understanding of past performance and consumer needs than currently exists for most retailers. Retailers who can achieve this soon will hold a tremendous competitive advantage, as only 37% of retailers currently have a contact data quality strategy in place that supports a single view of the customer, according to Experian.

5 **Actionable insights—in the end, you have to do something**

Ensuring the data is accurate and integrated is only half the battle—retailers are also challenged to derive actionable insights from that data and use it to drive smart decision making. Many organizations don’t devote enough time to this important exercise. As a rule of thumb, category management teams spend 80% of their time gathering and organizing data and only 20% of their time using it to develop actionable insights. Plus, insights are often supplier focused—as they provide much of the data—at the expense of the retailer’s customer experience and loyalty.

To really unlock value from their data, retailers first need to create a centralized analytics team that can identify and develop core insights for category teams. Secondly, these insights should be organized into three key categories—customers, clusters and channel; we call these lenses. The first lens, customers, prioritizes using data to figure out how to influence key customer segments. The second lens, clusters, focuses on harnessing demographic and consumer data to develop store clusters that require similar go-to-market strategies. Finally, the channel lens helps address the growing omnichannel challenge as click-and-collect and delivery models expand.

The key is to derive insights with an eye toward decision making and action. Organizing, funneling and interpreting data requires the correct structure and people to make it work efficiently.
While tools and systems will relieve the burden of computational work and coordinating decisions, this increasing granularity will require a significant redesign of key processes and organizations.

6 Localization and personalization—how will you manage expanding complexity?
One of the industry’s biggest mandates is developing personalized and pervasive relationships with customers across channels—one-to-one retailing. Consumers expect to be recognized and treated as individuals, and those expectations are spurring significant changes to all aspects of retail operations. Modern category management is tasked with “assorting to the individual,” whether that’s an individual consumer or an individual store.

Localized and customized pricing is the first push for many retailers, including Target, Kroger and Staples, which recently made news with its sophisticated pricing system that changes online pricing based on a customer’s proximity to competitors’ stores.

But this focus on granularity will also drive other changes. In assortment planning it will mean a continued evolution from national to regional to store-level, and finally, to individually curated assortments and experiences across channels. In space management, retailers will need to switch from a “one-size-fits-all” standardized approach to a store-level approach that’s flexible enough to allow localized adjacencies and shelf and product arrangements. And of course, marketing, promotions and pricing will change as well, as all move from a market-based approach to one that’s highly dynamic and individualized. These shifts will mean an exponential increase in complexity as increasingly granular decisions need to be made across more and more stores, customers, channels, functional areas and processes. While tools and systems will relieve the burden of computational work and coordinating decisions, this increasing granularity will require a significant redesign of key processes and organizations.

7 Clear roadmap—manage and measure progress
Of course, fixing so many problems won’t be a cinch, and benefits require investment. The necessary changes span many processes and organizational silos—and we’ve seen that one cannot be optimized without making improvements to another. Additionally, modern category management can add operational complexity that will need to be supported by enablers such as new process, tools and organizational structures. (See Exhibit 1 on following page.)

Organizations that are able to successfully transform their category management processes will start with a clear vision, multiyear roadmap, and consensus and commitment among key leaders across functions. The new approach to category management will also require new tools—with considerable data needs—and new processes and organizational change, both of which come with significant cultural implications. Starting small will help prove out the value opportunities, while a focus on change management will ensure that new ways of thinking take root. Finally, focusing on setting and measuring key metrics helps demonstrate benefits and build accountability and ownership.

Although it’s not easy, transforming category management is quickly becoming necessary. As more and more retailers start to address bits and pieces of the issue—78% of retailers plan to revamp their category management processes, according to RSR—those who pull it off now will be well positioned for what the future holds. Meanwhile, those who stand still run the risk of watching their customers jump ship for retailers who are proactively improving their category management capabilities to be more customer-focused, integrated and analytically driven.
“We’re trying to elevate that experience through assortment, improving the relevance of our products ... and then grouping or clustering stores based on similar behaviors by customers.” —Robert A. Gordon, Chief Governance Officer, Safeway
“Providing enhanced visibility for our merchants to implement our portfolio strategy across all channels ... Trend recognition and being able to separate noise from signals through intelligent clustering and attributes ... the big picture is we’re going from basic capabilities to an end state of automated alert-based information flow with collaborative feeds to our suppliers.” — Craig Menear, EVP, Merchandising, The Home Depot

CASE STUDY: HOLISTIC CATEGORY MANAGEMENT

Issue: A large, multiregional North American grocer struggled with flat or declining sales for several years—the result of a hypercompetitive market, rising supply chain costs and intense margin pressure from a heavy reliance on discounts and promotions.

Solution: The grocer built customer-centric clusters based on key demographic data to inform localized assortments and implemented leading assortment planning capabilities to build these assortments. They also established a robust and easily repeatable category strategy development process supported by robust analytics. Finally, a new space planning organization and tools helped the retailer build better planograms optimized to inventory turns.

Result: Sales increased 2% to 4% for pilot categories across stores, and that was with only 10% to 15% of each cluster’s assortment differentiated from the core assortment.
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