

Category Management Mastery: The key to growth!



In the age of growing retailer strength, shopper empowerment, and new insights from big data analytics, the 20-year old discipline of Category Management is suddenly more important than ever.

Where are you on the Category Management maturity curve?



Why read this paper?

Mastering Category Management is critical to your company's growth because Category Management addresses the three most important trends of the millennium:

- The ever increasing power of retailers who focus on growing CATEGORIES instead of BRANDS.
- The digital empowerment of shoppers who seek need state satisfaction at the CATEGORY level.
- 'Big data's' propensity to yield its most valuable insights at the CATEGORY level.

Mastering Category Management addresses these trends by:

- Ensuring you speak your customer's language of category growth.
- Assuring you speak your shopper's language of category satisfaction.
- Organizing big data at the category level where insights naturally emerge.

This paper describes how companies progress towards Category Management mastery by following a maturity curve comprised of four complementary components.

Prepare to invest more resources in Category Management, especially in a larger, better trained staff and the software they will need to succeed in a more complex environment. These incremental resources will be needed to (1) mine gigabytes of household-level data for insights, (2) respond to retailers' demand for individual store assortment solutions, and (3) manage a more complex supply chain.

Actions to consider

- Check your Category Management team's outputs against the ideal output checklist on **page 18**. If you are not receiving these outputs, ask why not?
- Measure where your company stands today on the Category Management maturity curve, beginning on **page 12**.
- See **page 23** to learn the five things you can do tomorrow to check the progress of your Category Management function.
- Set a goal of having 50% of your Category Management personnel certified to industry standards this year, as more retailers begin to demand certified vendor personnel to serve their accounts.
- Consider an external third-party Category Management benchmarking by the Category Management Association. This will provide an objective evaluation of your current capabilities.

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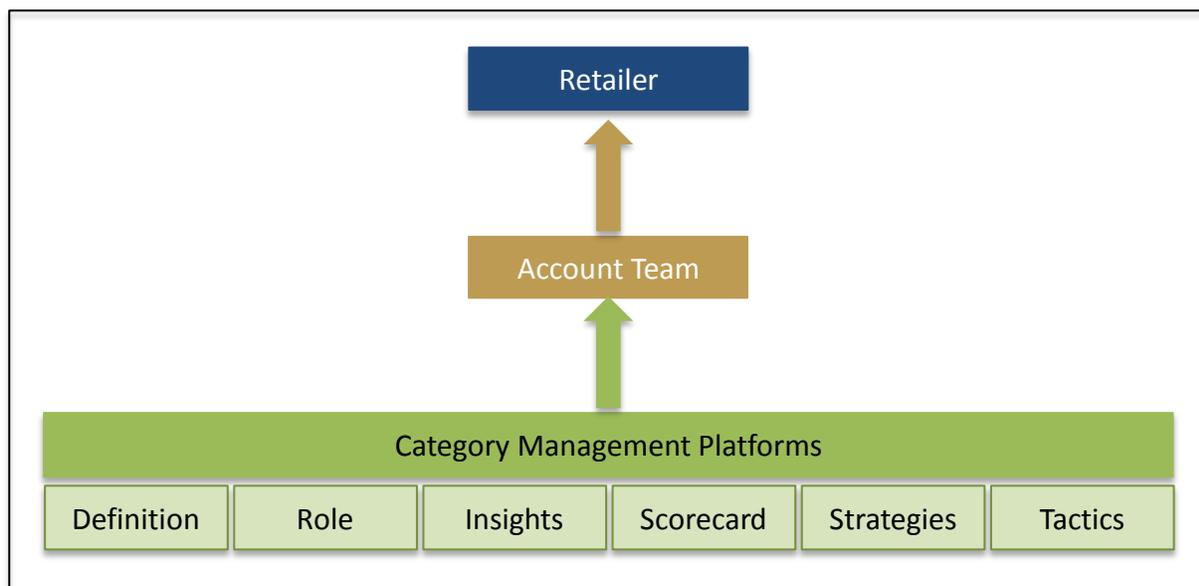
You must master the language your customer speaks: It is called Category Management

The purpose of this paper is to alert Consumer Package Goods (CPG) management to the growing importance of the Category Management function and to the need to allocate appropriate resources, both human and technological, to your Category Management function to ensure brand and corporate growth in the era of ‘big data’ and shopper marketing.

What is category management?

Category Management is the primary platform from which CPG brand owners interact with retailers. Category Management provides the language, process framework, and metrics for communicating all strategic and tactical recommendations to the retailer.

Without the foundation of Category Management, shopper marketing is “a tale full of sound and fury signifying nothing.” That is why CPG leadership must understand what is happening in the CPG ecosystem and why they must allocate more resources to this critical function. Category Management is not just a department that builds pretty planogram pictures, any more than English is a language limited to writing legal contracts or rap lyrics. Category Management is a fundamental discipline, like consumer research or brand strategy development. Mastering Category Management is what will separate leaders from followers.



Primary Conclusions

Three major changes in the CPG ecosystem require leaders to increase investment in Category Management resources

The central message of this paper is that brand owners need to give the Category Management function more and different resources, because several accelerating trends within the CPG marketing ecosystem are increasing the importance of category-based thinking. These trends threaten to overwhelm the existing capabilities of Category Management and choke growth unless management addresses them quickly, intelligently and holistically.

These trends are:

- Retailer control of the shopper's moment of truth at the shelf. This simple and unassailable fact means the power of the retailer in the CPG ecosystem is increasing minute by minute, shopper by shopper. The retailer's power is growing at the very moment when traditional brand building tools are losing their potency and when brand equity is in free fall. Does any brand enjoy the loyalty it had 20 years ago? If so, name it.
- The growing importance of marketing to the shopper on the path to purchase and more importantly, in store. All of those formerly brand loyal shoppers are aggressively searching the internet for the better deal they sense is out there in cyberspace.
- The growing importance of harnessing 'big data', especially the interaction of shopper loyalty card data with other data captured on social media and shopping-related apps. Everyone understands that shopper insights emerge from the interactions of all these data streams. Everyone appreciates how rapidly the new marketing ecosystem is accelerating through space. Everyone fears being left behind. The problem for CPG marketers is that we do not yet have the digital tools to facilitate the sorting of these interactions so that humans may discover an insight.

Category Management Addresses All These Accelerating Trends

How is it that this one function addresses all these emerging trends that have such portentous implications for CPG management?

- **Trend #1 - Growing retailer power**

The retailer thinks and works at the category level. The retail buyers are called CATEGORY managers for a reason. They are paid and incented to grow CATEGORIES not brands.

When your presentation begins with a story about growing a BRAND, the category manager, your customer, tunes out.

The Category Manager wants to hear how you grow the CATEGORY or its margins. Unless you have an insight or a brand that grows the category, the only weapon you have is your wallet. Therefore, you must master the category with superior insights, superior people, and superior tools.

Category Management is the foundation for category mastery.

- **Trend #2 - The growing importance of marketing to the shopper**

Just as the retail 'buyer' thinks in terms of categories, the shopper thinks in terms of need satisfaction. She thinks in

'need states'. That's why shoppers often write "detergent", "bleach" or "bread" on a shopping list instead of "Tide", "Clorox", or "Wonder". The category is the answer to the shopper's need.

Therefore, to win with the shopper you must think CATEGORY need satisfaction first. You must organize your thinking around categories and the particular evolving needs they satisfy.

- **Trend #3 - Big Data and insight generation**

Marketers are drowning in an ever rising tsunami of data. No one can yet contain this torrent into pools of relevant data so that researchers may plumb the pool for actionable insights. Our answer is to organize the data around that which one is trying to understand, namely the shopper need state we refer to as the 'category'. Organizing big data around categories (need states) is basic to uncovering the following:

- Unmet needs, which are the basis for new product development
- The emotional factors driving a need (insight)
- The benefits that marketers need to offer
- The location of key communication touch points

Category Management is at the epicenter of the major trends transforming the CPG ecosystem.

Therefore, growing your brands requires that you master Category Management. This in turn requires more and better people with more and better training and tools.

Once you understand the factors driving attitudes, marketers can begin to influence behaviors through product or positioning breakthroughs or new communications approaches.

How Category Management Excellence Drives Growth and Profitability

Category Management is at the epicenter of the three major trends in the CPG ecosystem. Excellence in Category Management can drive growth and profitability because these trends create problems or opportunities that, if properly addressed, will separate winners from losers in the emerging environment. Below we discuss the major operational trends that are emerging and how Category Management excellence addresses them.

- **Assortment customization by individual stores** – For decades retailers have wanted to customize each store to the unique needs of that store’s shopper base. As they have accumulated more data from various sources, and especially their own loyalty cards, the retailer’s ability to respond to individual store differences has improved dramatically.

- **The problem** – Customizing assortments by store, analyzing their performance, then changing them and maintaining them store by store is a task of epic proportion. One marketer, Dr Pepper, claims to maintain over 5,000 individual-store carbonated beverage category planograms

for its retail customers. Although the software from companies like JDA is a Godsend, the time demand on the manufacturer’s Category Management staff is all consuming. For some entire Category Management teams, maintaining planograms takes more than 50% of the team’s time.

- **The opportunity** – To compete effectively in today’s environment, marketers must be able to understand and manage assortments at the individual store level. This takes the right software and highly trained people. Excelling in this area can pay big dividends. Look at Dr Pepper, competing against two of the largest and most competent of the CPG companies. Imagine what it is worth to them to be selected as the store assortment and planogram manager. Imagine the SKUs and facings they save by being at the top of the class.

Having the right software is critical, but just as critical is understanding the assortment analysis that is driven by retailer loyalty cards and having a keen understanding of store trading areas. With the right combination of data, software, and trained people, the smallest competitor can win against giant competitors. Superiority in analytics levels the playing field.

Here are the five major areas where a more intense focus and increased resources in Category Management can drive increased sales and profits for CPG companies

- **Supply Chain Complexity** – Customizing the assortment at the store level may improve shopper appeal theoretically, but it definitely plays havoc with the supply chain. As retailers move towards individual store assortment customization, they create problems for everyone in the supply chain - from the aisle stocking clerk at retail to the production scheduling manager at the factory.

- **The problem** – Retailers are discovering that store-level assortment customization is exacerbating the problems that already exist in a complex supply chain. Variations in assortment introduce errors in ordering, forecasting, and production. Superficially simple things, such as getting the right four marginal SKUs to the right four stores multiplies itself across 100 categories and 100 stores. Seasonality and differences in promotional response compound the problem.
- **The opportunity** – Predictive analytics are a heaven sent answer for assortment customization’s problems. But predictive analytics don’t work without data sharing among trading partners and the best predictive results are worthless without effective communication across the supply chain all the way to store level.

Improvements in forecasting accuracy are especially valuable for smaller volume marginal SKUs that are particularly subject to the issues of factory out of stocks or excessive storage costs. The obvious answers are aggressive data sharing, an investment in better software, and a trained Category Management function that understands the complexities of individual store assortment customization.

- **Managing categories and shoppers across different retail formats** – Today’s information empowered shoppers have concluded that meeting their needs in a superior manner requires them to shop at different retail formats. This simple fact of modern retailing dramatically increases the importance of Category Management for retailers and for manufacturers.

- **The problem** – Categories are the answers to a shopper need, but the same shopper has many diverse needs met by many categories. Today’s shoppers have discovered that retail formats vary in their capability to satisfy these disparate needs. They know that a conventional supermarket has an excellent bakery and deli so they choose that format to satisfy their food needs. But these same shoppers probably drive to Walmart, Walgreens, Dollar General, or Costco for other categories (needs). Many new mothers have discovered that Amazon meets their disposable diaper needs in a superior manner. In other words, every retail format is leaking volume and profit from their shoppers when that shopper chooses another format for a category they sell.

This shopper volume and profit leakage is becoming the central problem of retailing in the U.S. This problem must be solved category by category. Retailers and manufacturers who want to prosper, even survive, must master the art of managing shoppers at the category or need state level.

- **The opportunity** – Retailers understand that solving category-specific format leakage is critical. Their loyalty card data provides the often unpleasant evidence of massive leakage. Therefore, they can understand what categories their shopper is choosing to buy at other retail formats. This knowledge enables them to attack the problem by offering targeted incentives to the known category leaking shopper.

The manufacturer also has a great opportunity to profit by understanding these format-specific purchase dynamics at the category level and using their unique knowledge to collaborate with retailers for everyone's benefit, including the shopper. Manufacturers can craft solutions, sometimes multi-category (total need state) solutions, that enable a retailer who might lose some volume to another format to capture that volume from a total need state approach. An example would be diabetic needs, where a food retailer might be able to leverage its strength in healthy foods to sell volume in other categories, such as foot care, blood monitoring devices, and skin care as part of the overall Diabetic Care need state.

Please note that these are CATEGORY-level (need state level) solutions that appeal to the retailer who is shopper and need state (category) focused, not brand focused. Offering a single brand solution when the opportunity exists at the multi-category need state level does a disservice to shoppers and retailers.

- **The Human Resource challenge for Category Management** – Category Management presents a major human resource problem because excellence requires disparate skills and experiences. Until these HR problems are solved, the output of the Category Management function will be sub-optimal.
 - **The problem** – Category Management is complex. To be successful, the Category Management leader must understand marketing and sales, sophisticated math concepts and path to purchase ethno-graphics, corporate strategy, and retail aisle clerk operational issues. Why? Because the Category Management function must translate marketing intent into retail action. Today's Category Management leader must be able to translate marketing speak into sales speak and retailer speak.

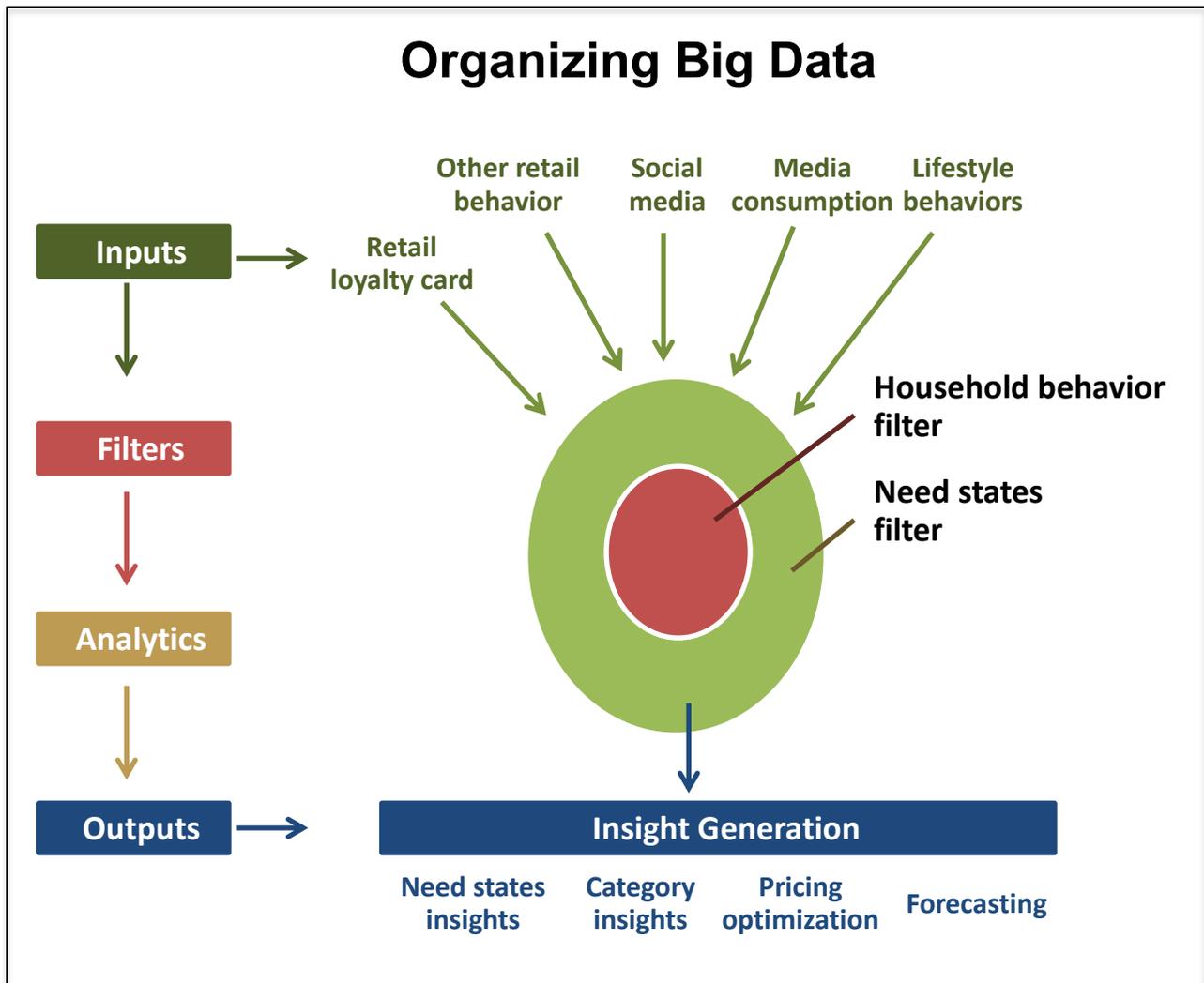
No company of which we are aware has a training program designed to develop these disparate skills. When Category Management was introduced 20 years ago, companies picked an intelligent account manager and handed him a business card saying 'Category Manager'. More recently, companies have populated the Category Management function with personnel possessing analytical and data management skills. Then management focused them on planogram development. As a result, the insight development skills and storytelling skills have been de-emphasized. In today's Category Management departments, few have research or ethnographic skills AND retail experience. Few have account selling experience and analytical skills. Career paths into and out of Category Management are poorly developed, to everyone's detriment.

- **The opportunity** – Today, in many leading CPG companies, no one could rise to leadership without experience in different geographies (the U.S. and Europe for example) and/or experience in disparate functions (Marketing and Finance or Sales and Product Supply). We believe that company HR departments should develop career paths that require Category Management experience precisely because the function touches marketing and sales, shopper research and retail operations. The C-suite should see this as an opportunity to create a sustainable advantage. They should demand a plan from HR to create this advantage.
- **Big data and insight generation** – ‘Big data’ is the descriptor for the gigabytes of disparate complementary data from multiple sources relating to attitudes and behaviors of individuals. Everyone in marketing believes that mastering ‘big data’ will reveal the insights that are critical to marketplace success.
 - **The problem** – Loyalty card data at the household level is now widely available. This data can be inter-related to other behavioral or attitudinal data from other databases, but that is in the embryonic stage. Now comes the torrent of social media data. Unfortunately, most marketers lack the analytical approach, software platform, and trained analysts to analyze this data to extract meaningful conclusions and actionable insights. This is the big data challenge.
 - **The opportunity** – Making marketing sense out of ‘big data’ is the greatest marketing opportunity of this decade. Big data will help marketers better understand attitudes and needs. It will help them develop the positioning ideas and identify the communication touch points that can change attitudes and thereby alter buying behaviors.

If this were easy, someone would already have done it. The solution requires software, especially with a predictive analytics capability. It requires software that can inter-relate differing types of behavior at the household level (buying behavior, social media behavior, mass media consumption behavior, life style behavior, etc.) The challenge is how to array these disparate data sets to facilitate insight development. The solution requires an intellectual organizing platform. Developing that platform depends on the answer to one question: How is the data going to be used? The answer is fairly straightforward: The data will be used to understand needs states and behaviors at the household level. Once understood at the household level, the data can be rolled up into shopper segments and then into geographic store clusters. The data can also be rolled up by communication touch points. This capability provides the economies of scale that create efficiencies.

In practical terms, this mean the data must be organized around CATEGORIES and individual households, because households are where needs occur and categories are the way households and retailers organize to satisfy shopper needs. Therefore, the data cube into which all of this disparate data would be arrayed would include the following cells: household buying behavior from loyalty cards, social media behavior, mass communication behavior, other personal behavior, such as ‘cause’ contributions, and so on.

Once the need state (category) and household level loyalty card data are used as an organizing principal, all the free floating bits of data in the blogosphere can be used by analytical engines to provide actionable insights and more. The data now can be tied into the supply chain to help in forecasting and replenishment in ways previously impossible. The solution we can foresee is impeded today by the difficulty in bringing together the various disciplines that need to collaborate (software designers, social media gurus, retailers, and marketers). These disparate disciplines need not only to understand one another, but must also agree to collaborate in a currently dark space. More difficult problems than this have been solved. This one will be solved as well because the need is too great and the rewards too enticing for everyone in the value chain.



Where is your company on the Category Management maturity curve?

Category Management capability traverses a maturity curve that moves through five identifiable stages across four major attributes.

See where your company fits on the Category Management maturity curve.

All disciplines go through a maturity curve. Category Management is no different. We have identified five stages on the Category Management maturity curve: Embryonic, Adopting, Advancing, Excelling, and Aspiring (a stage to which the discipline realistically aspires but cannot yet attain).

In the case of Category Management these five stages can be examined across four characteristics: Data, Analytics and software, Organizational skills, and Process and culture.

The Embryonic stage

- **Data**
 - National and regional syndicated data only
 - Limited sporadic account level syndicated data
 - Walmart retail link data but no other retailer internal data
 - No syndicated diary panel data
 - Limited consumer data
 - Internal sales data by Account and SKU.
- **Analytics and software**
 - Standard Microsoft software for analytics (Excel/Access)
 - No software to assist in assortment, pricing or promotional analysis and optimization.
 - Limited analysis of promotional spending ROI using internal shipment and share data.
 - Rudimentary forecasting and supply chain software.
- **Organizational skills**
 - Category Management as a glorified sales analysis function.
 - Limited or no training in Category Management theory or practice.
 - No skills or training to develop assortment recommendations
 - No skills or training to operate shelf space management software.
 - Limited knowledge of promotional analytics theory or practice
- **Culture and process**
 - Inwardly focused culture valuing negotiating skills.
 - A siloed organization with the Category Management functions reporting to Sales.
 - Customer relationship is transactional aimed at optimizing short term internal objectives.

- The retail customer is seen as an adversary to be overcome via tough negotiation.
- No category-oriented process knowledge.
- All processes internally focused, except periodic sales presentations and line reviews.

The Adopting stage

- **Data**
 - Comprehensive syndicated share data for all major accounts, channels and regions.
 - Limited data on basket size and pricing.
 - Limited household diary panel metrics on category and brand household penetration, purchase frequency, transaction size, and promotion lift data by type.
 - Walmart retail link data with an analytics package.
 - Periodic exposure to major account loyalty card data.
- **Analytics and software**
 - Industry standard shelf management software.
 - Third party syndicated tools to assist in price and promotion analysis.
 - No third party data management software to manage or analyze disparate data sources.
 - No loyalty card analytics capability.
 - Standard Microsoft tools to manage and analyze diary panel data.
- **Organizational skills**
 - Some staff training from third party trainers but no comprehensive training or certification.
 - Category analysis limited to basic reviews of major accounts and category segments.
 - No deep dives into syndicated data such as Spectra.
 - Some limited knowledge of efficient assortment concepts but no internal development of assortment rationale.
 - Basic knowledge of planogram software but no capability to manage multiple planograms.
 - Price and promotion analysis limited to basics augmented by third party data suppliers such as Nielsen.
 - No ability to develop best practice tools such as 'Voice of the Shopper' or a Category Management platform.
- **Culture and process**
 - Focus is external on key accounts and shopper response to spending initiatives.
 - Limited theoretical understanding of key Category Management concepts such as category segmentation, role, and scorecard.
 - Team has developed some assortment and shelf merchandising recommendations in response to sales account managers' requests.
 - No category captaincies at any retailers, rarely consulted by retailers for input to retail category plan.

- Internally viewed as arm of sales with links to some tactics important to marketing, logistics, and forecasting.

The Advancing stage

- **Data**
 - Sophisticated category segmentation with research support
 - Comprehensive share data by segment at channel and major account level
 - Some cross category purchase behavior data
 - Syndicated data on brand and type loyalty
 - Heavy user demographics and behavior data
 - Shopper response to price promotion and display, trip mission and trigger data
 - Some retailer loyalty card data access
 - Basic store and aisle transit patterns
 - Store level planograms by major account and store cluster demographics
 - Some syndicated retail space profitability (ABC/GMROI) data.
- **Analytics and software**
 - Assortment optimization analytics
 - Access to syndicated service pricing elasticity analysis
 - Access to syndicated service promotion ROI analytics
 - Advanced shelf management software offering space and replenishment optimization planning.
 - Loyalty card analytics access.
- **Organizational skills**
 - One third of all account team members and HQ Category Management staff has completed formal training and been certified by the Category Management Association's protocol.
 - Some personnel have high level skills in data manipulation with Access.
 - Some personnel familiar with common ethnographic research techniques.
 - Some personnel familiar with various statistical and mathematical techniques such as Markov, Discriminate function, conjoint analysis, and Van Westendorp.
 - High level familiarity with ABC costing and GMROI calculation formulae.
 - Basic understanding of assortment theory and planning.
 - Ability to develop and manage planograms using advanced third party software.
 - Able to develop and present line reviews.
 - Deep understanding of retail operations and planning.
- **Culture and process**
 - Viewed as key link between marketing and sales
 - Included in annual planning and especially account planning process.
 - Major contributor to line reviews and building account level sales stories.
 - Team has won category captain designation in half of key accounts.

- Present at all key internal account planning and at all account presentations.
- Interacts with product supply forecasting team.
- Considered authority on all shelf merchandising issues and on account level promotion response issues.
- Maintains shelf planning for several major accounts.

The Excelling stage

- **Data**
 - Sophisticated category segmentation data including need state based approach
 - Comprehensive knowledge of retail format performance metrics, costs, margins, etc.
 - Complete diary panel data by major account and region yielding segment and brand loyalty, exclusivity and shopper worth.
 - Category and brand leakage and closure data by channel and major retailer.
 - Knowledge of comparative metrics for other major categories in various formats.
 - Comprehensive planograms and assortment by store/cluster.
 - Robust 'Voice of the Shopper' and comprehensive best practice Category Platform
 - Loyalty card data from all major accounts
 - Shopper insights by major channels and accounts
 - In store shopper dynamics by location.
 - Advanced activity based costing data from syndicated source and from major accounts.
 - Comprehensive knowledge of basket value and cross purchase issues by major categories.
- **Analytics and software**
 - Advanced assortment analytics by total store, aisle and allocated category space linked to predictive analytics on to supply chain.
 - Three-dimensional shelf and aisle modeling capability.
 - Activity based costing for category, brand and items
 - Advanced loyalty card analytics capability by shopper behavior and groups
 - Individual store level supply chain analytics to reduce out of stocks
 - Advanced basket and shopper purchase analytics by category and broader need state
 - Shopper card analytics by store and category most valuable shoppers.
 - Success models for assortment, shelf merchandising, pricing and promotion by format.
- **Organizational skills**
 - All account service personnel certified by third party industry standards.
 - High level insight development skills.
 - Ability to build category strategic stories for retailers
 - Familiar with retail space customization models for various formats and demographics
 - Understands retailer strategies and implications for category and brands.
 - Extensive knowledge of retail format strengths by category.
 - Able to add value at highest level discussions with retail leadership.

- **Culture and process**

- Category Management function is contributor across company demand and supply chains.
- Category Management is key contributor to account planning and all in-store tactical issues.
- Category Management owns the Voice of the Shopper and Category Management platform tools.
- Works in multi-functional teams on insight development and path to purchase shopper marketing planning.
- Primary contact with retailer on in-store operational issues, especially links to shelf merchandising and supply chain.
- Intimately familiar with retailer strategic and tactical planning approaches by store cluster and shopper segment.

The Aspiring stage

- **Data**

- Detailed shopper loyalty data by account and shopper segment
- Household level shopper planning data from digital panel
- Household level attitude and behavior data from detailed touch point database;
- Brand and type preference and behavior by format.
- Detailed cross purchasing leakage and closure data by account and format.
- Need state attitude and purchasing behavior by format and account.
- Brand switching data across formats, price elasticity by format and account
- Promotion response by shopper segmentation and account.
- Total store space optimization effect on company categories by retail format, account and clusters within accounts.

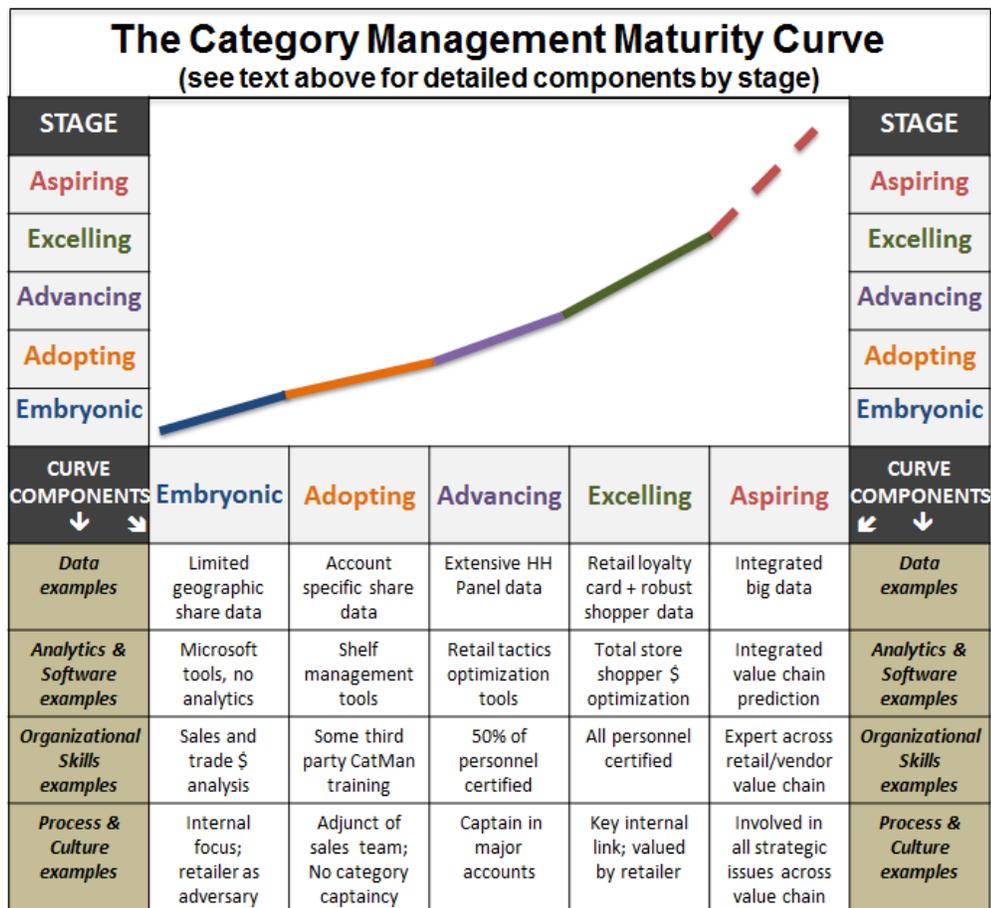
- **Analytics and software**

- Path to purchase ROI optimization by shopper segment, format, and brand.
- Assortment optimization by format and account at individual store level.
- Price elasticity optimization by shopper type and format, in store product location and adjacency.
- Overall need state adjacency optimization
- Promotion type and timing optimization
- Individual shopper shopping list optimization capability.
- Individual store level supply chain optimization with communication link to store operations.
- Total store aisle and display location optimization.
- Ability to incentivize shopper in real time by aisle and by store.

- **Organizational skills**

- Active promoter of strategic interchange between retail strategists and brand marketing.
- Capability to link loyalty analytics and communication data by household to develop planning insights at retail level.

- Major contributor to improved shopping experience, especially reducing in store out of stocks and supply chain hiccups.
 - Major contributor to format strategies, need state planning, and execution at retail.
 - Clear authority on category in eyes of retailer.
 - Company is category captain in all target accounts across all major formats.
 - Has ear of retail and company management on in-store experience and trend identification.
 - Understands retail management’s shopper segment management strategies and role that company’s brands can play.
- **Culture and process**
 - Owns responsibility for in-store planning and executional excellence.
 - Owns responsibility for all in-store response analytics.
 - Responsible for deploying insights at retail.
 - Critical communication link between marketing and sales, logistics and store.
 - Integral contributor to brand planning and logistical planning.
 - Owns Voice of the Shopper maintenance and internal communication.
 - Owns Category Management platform and all format modifications and upgrades.
 - Leads identification of in-store experience research needs.
 - Responsible for in-store experience improvement recommendations.



Ideal Outputs of the Category Management Function

Below are the outputs we would expect from a world-class Category Management team:

Internal Summary Documents

- **Voice of the Shopper by retail format** – A compilation of shopper facts and insights assembled around a common taxonomy of Who, What, Why, Where, When, and How.
- **Category Management Platform** – The brand’s strategies and recommended tactics assembled around the seven-step Category Management process. This ensures alignment within the organization.
- **Annual learning summary** – A compilation of the most important trends, developments, and information learned from the past year from an account and category standpoint.
- **Internal key account analysis and recommendation** – A summary of the brand’s business situation in a key account. This covers trends in volume, share, assortment, pricing, category space allocation, and promotion. The report should propose appropriate improvement objectives.
- **Category insight summary** – A summary of the primary insights upon which the company is basing its in-store and shopper efforts

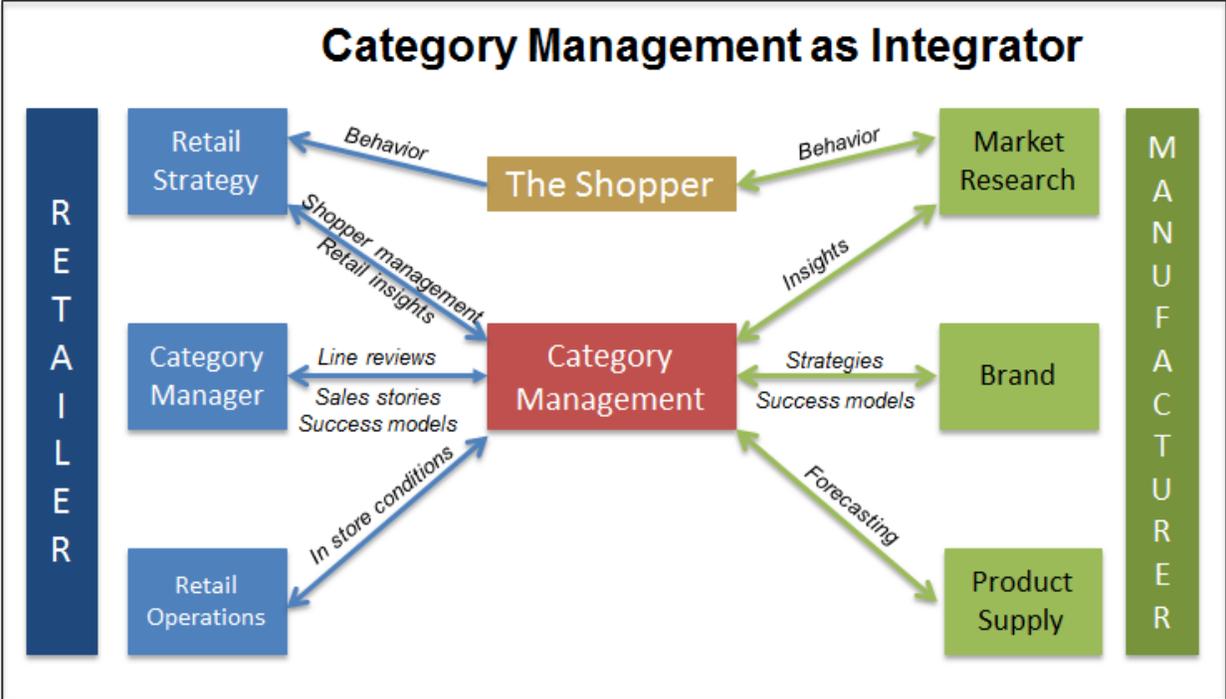
External Presentations to Retailers

- **Account line review for the retailer** – A document presented to key retail accounts that identifies trends important to the retailer and suggests appropriate responses to these trends.
- **New item sales presentations** – Presentations that address how the company’s new items will better serve shoppers’ and retailers’ needs in a superior manner, thereby increasing category volume or profit.

Key Analytical documents

- **Tactical success models** – The company’s findings regarding successful approaches in the four primary Category Management tactics: assortment, pricing, shelf merchandising, and promotion.
- **Category/brand retail profit efficiency presentations** – These documents calculate the company’s retail profitability using either GMROI (gross margin return on investment) or ABC (activity based costing) profitability.
- **Retail display optimization summary** – A report that details the company identification about the most productive locations and types of in-store display by retail format.
- **In store in stock analysis and recommendation** – A report that summarizes the brand in stock position in the context of the category competition. The report compares the effect of various planogram options and recommends an improvement plan.
- **Retail loyalty card analysis and program optimization** – A report that summarizes major retailer trends in their loyalty card programs in the category. It identifies implications for the category and recommends actions to improve the company’s position.

How and Where Category Management Interacts within the CPG Ecosystem



A Day in the Life of a Category Management Leader in 2018

Five years from now, the big data problem will have been largely solved. Voluntary data sharing among shoppers, retailers and manufacturers will be commonplace, because everyone recognizes that the rewards exceed the limited privacy sacrifices. The solution of the big data problem has revolutionized the Category Management function.

Here's what a day in the life of a Category Management Leader (CML) looks like in 2018.

Managing the Supply Chain – The Category Management Leader's (CML's) company has acquired software that predicts out of stocks at individual stores based on the overall supply chain patterns and shopper takeaway. The program does exception reporting to focus operator attention on the stores and SKUs that require action.

This morning, the software suggested a problem occurred in stores with a specific planogram, apparently because of a highly successful promotion that depleted limited shelf inventory. The CML added this occurrence to the agenda for discussion with marketing, sales, and product supply regarding out of stock (OOS) reduction. All these team members were incentivized for keeping OOS below 3% across all channels and SKUs. This goal reflected an improvement from a 7% average OOS in 2012. Reducing OOS from 7% to 3% had improved annual profits >\$2 million vs. 2012.

Category and shopper management analytics – The CML's company subscribes to a service that provides analytics on shopper purchase behavior on a granular level. The CML's focus was on three metrics: overall category volume, the heavy category buyer shopper cohort, and loyal purchasers of the company's brands. Results this morning were mixed. The overall category volume was down for the past week continuing a downward trend that the CML had been reporting for the last month. Within this weak performance, the heavy users were continuing to buy at an acceptable rate and the company's brands were doing well. As expected, loyal users of the company's brands, most of whom were also heavy category users, were remaining loyal and buying at the expected rate. With the click of a mouse, the CML queried the system using natural language 'What is responsible for the category decline?' He already suspected the answer because he had queried the system two weeks ago. The software answered 'light and medium category buyers were abandoning the category or buying less'. The company's volume was holding up well for now, but the trends were ominous. The CML knew he needed a deeper understanding of what was happening. He needed an insight.

A Day in the Life of a Category Management Leader in 2018 (continued)

The Category Management Leader has new tools, new data and new ways to respond to store operational issues and insight development in 2018. He can anticipate problems and prevent their occurrence. When problems do occur, such as out of stocks in a specific store cluster, his new software allows him to communicate quickly to the retailer's store operations staff so that the problem is remedied quickly.

Problem analysis and insight development are expedited by new predictive analytics working across multiple data bases.

Category insight development – The CML had an excellent insight developer working in the group. She had been wrestling with the issue for two weeks. She had speculated that the problem reflected a change in attitudes brought about by some piece of news or rumor that had affected the light and medium users. The company subscribed to a service that analyzed attitudes in the blogosphere. She queried the system for comments and opinions relating to the category. She cross-tabbed several issues, and then discovered a mention of their category. It seems that one of the morning network cooking shows had triggered speculation about the category as a health hazard. Checking further, she found several known influencers who had mentioned the issue, often attempting to debunk it as a problem.

Nonetheless, the issue had gotten traction among those without a significant loyalty to the category. The insights analyst queried this segment and found it had begun defecting to other categories in the company's broad need state. As the integrator of action between marketing, sales and the retailer, the CML called a meeting to share the insights and urge some actions at retail to get the company's category (and brands) included in retail efforts. At the same time, the category marketing group agreed to address the incorrect information in the blogosphere with a digital campaign focused on key influencers and major digital touch points. A PR campaign to assemble the correct information was developed and rapidly deployed. Special notices were uploaded on retailers' websites and in retail loyalty card e-mails and snail mails to get the correct information to consumers.

The ROI of Category Management

Measuring the ROI of Category Management has proven elusive primarily because this function like all other corporate functions (marketing, sales, product development, etc.) is somewhat dependent upon the other functions for its success. For example, the best sales force cannot succeed with a product that is poorly positioned by marketing or last into the market because of development delays. Calculating the cost of the Category Management function (the “I”) has proven easy but calculating the sales revenue (the “R”) directly and solely attributable to the function has proven to be much more challenging. Nevertheless, companies have tried various approaches to quantifying Category Management’s contribution. These approaches include:

- calculating the incremental value of attaining category captaincy
- calculating the incremental profitability of an account’s accepting a new item
- quantifying the value of a specific planogram option
- quantifying the value of incremental account activity attributable to the Category Management function’s analysis such as a tactical success model in assortment or promotion

Other companies choose to measure their Category Management function against objective industry standards provided by the Category Management Association. Specifically, the CMA provides two complementary approaches: certification and benchmarking.

- **Certification** – The industry standard certification process measures Category Management personnel’s skills at three levels through a rigorous testing process based on standards created by an industry committee nearly 4 years ago. The CMA does not itself train personnel; rather, the organization certifies the training courses of third party training firms against the agreed standards. The CMA then certifies those individuals who pass approved courses after testing first by the training companies themselves and then with separate tests by the CMA. This certification approach covers over 30 defined skills across three different levels (Category Management Analyst, Category Manager, and Category Strategic Advisor). To date, an estimated 95% of the industry’s third party training companies train to the CMA standards, as do many companies who have developed their own internal training. To date, over 1,000 individual professionals have been certified at one level or more.
- **Benchmarking** – In the benchmarking process, CMA staff reviews specific outputs of the Category Management function and provides a written evaluation with recommendations for improvement. For example, virtually every CPG manufacturer claims to have assembled a ‘Voice of the Shopper’ repository of category facts, insights, and success models, but the CMA’s review reveals that most companies fall far short of an industry best practice often out of ignorance of what comprises best practice. Many other corporate functions, such as Manufacturing and Finance, hold themselves to a high standard and submit to benchmarking by third party experts. This practice has not taken root in Category Management, but must if the discipline is to be held to high standards like Manufacturing or Finance.

Five things you should do tomorrow

- (1) Ask to see two specific documents: A 'Voice of the Shopper' and a Category Management platform. If they are not produced within 24 hours, they probably do not exist. Rather they probably live as multiple separate unrelated documents that frustrate corporate alignment and prevent effective communication throughout the company and at retail.
- (2) Ask to see your company's recommended success models in assortment, pricing, shelf merchandising, and promotion. Apply the same 24-hour test.
- (3) Ask to see the five major insights you are sharing with the retailers in your major categories. Please note that a 'fact' (for example, most heavy buyers of dog treats are empty nesters) is not an insight. The insight is that empty nesters treat their dogs as a surrogate child. What are your insights?
- (4) Ascertain what percentage of your Category Management personnel are certified at the CMA standards. Please note that certification requires passing specific tests administered by the CMA.
- (5) Check the other items on the Ideal Outputs section on **page 18**. If you are concerned about the quality of the answers you receive, ask about a CMA maturity curve audit of your Category Management capability.

What you should take away from this document

The trends and factors outlined in this document point to one primary requirement for marketplace success. They require collaboration with the retailer, which in turn requires mastery of the category through superior Category Management. Neglecting this discipline will cause the relationship with the retailer to deteriorate. That undermines shopper needs satisfaction and manufacturer growth. Therefore to optimize growth, CPG management must place renewed resources in the Category Management function and its organizational capabilities, data needs, and analytical tools.

Appendix: The History of Category Management

Category Management grew out of the Japanese total quality movement imported into the U.S. in the 1980s by companies like Hewlett Packard and P&G. The total quality movement itself was inspired by the insight of American academic W. Edwards Deming, the primary champion of statistical process control. His insight: businesses are actually multi-stakeholder processes whose end output can be sub-optimized, even though stakeholders may be optimizing their individual contribution to the overall process.

Category Management grew from the Total Quality movement which saw business as a process involving multiple stakeholders whose individual inputs needed coordination to optimize the total system output

In the early 1990s the CPG industry formed the Efficient Consumer Response (ECR) committee to address the multiple process collaboration problems then plaguing the industry across the entire demand and supply operating continuum. That committee, comprised of all major industry stakeholders (manufacturers, retailers, wholesalers and brokers), made a critical foundational assumption. They determined that the industry needed to focus its problem solving around categories, because both shoppers and retailers organized their shopping and buying process around categories and not brands. Therefore, the ECR committee mandated that marketers organize their analytics and communicate their recommendations to retailers at the category level. The committee mandated that Category Management become the principal demand side process in the CPG ecosystem.

Category Management was deployed in the industry as a rigorous seven-step process that mandated specific inputs, outputs, and metrics at each step. Although the data sets employed in Category Management have increased dramatically and the software tools used to manipulate the data have improved tenfold over the past two decades, today's process approach to Category Management is as similar to the original model as Elizabethan English is to modern English. That process approach remains at the heart of Category Management to this very day. But a mere process was not sufficient to explain the power and success of the Category Management discipline over the past two decades. Success required other major changes, of which the most important were the following:

- **Changing the culture at manufacturers and retailers** – Merely creating a process cannot change years of adversarial relationships between trading partners trained and rewarded for extracting advantage from the person 'across the desk'. Both retailers and manufacturers had to begin trusting one another with previously proprietary data and with their own strategic objectives so that the process could work. Category Management succeeded partly by moving the conversation between retailer and vendor from wrangling over who got the lion's share of a 100 cent dollar to concentrating on enlarging the size of the market to a 110 cent dollar. Category Management suggested that both trading partners could benefit by meeting shopper needs in a superior fashion. To this day, the most important achievement of Category Management has been to encourage trust and data sharing among trading partners.

- **Focusing on the shopper** – The cultural change was dramatically enabled by the process imperative of focusing on meeting the needs of the shopper who was the customer of both trading partners. Placing shopper needs first helped push aside some (but not all) of the old adversarial mistrust.
- **Developing new employee skills – Category Management** was, and is, data rich and analytically intensive. Prior to the introduction of Category Management, analytical skills of the sophistication required simply did not exist at the level of the account sales representative or retail buyer. The protocols and analytical tools were brought to the industry by third party suppliers who, in turn, trained thousands of vendor sales personnel and category buyers on the new more rigorous process called Category Management.
- **Creating a fact based environment** – The availability of the new data and analytical tools began to change the nature of the discussion ‘across the desk’. Now the trading partners were at least discussing the facts of the marketplace rather than relying on judgment or anecdotally-based assumptions. Category Management in the longer term has created a new fact based selling environment that has benefitted every member of the value chain, including the shopper. This fact-based focus has given Category Management its credibility, which in turn has contributed to its acceptance and durability within the CPG ecosystem.
- **Increasing profitability via assortment related cost reduction** – Category Management has increased margins, especially but not exclusively retailer margins, by reducing assortment proliferation at the category level. This development was enabled by the ECR monograph on Efficient Item Assortment, which introduced the industry to the concept of ‘transferable demand’ or Shopper SKU substitutability. This concept gave manufacturer and retailers an insight into the relatively low risk associated with eliminating SKUs with similar attributes.

Early studies sponsored by the ECR committee showed that item rationalization following a detailed metric driven process could eliminate over 20% of the SKUs in many categories and INCREASE overall category volume, primarily by eliminating out of stocks by giving the space from the eliminated brands to more deserving brands. In turn, this reduction in the assortment contributed to cost reductions at every step in the entire supply chain continuum across manufacturers and retailers. Additionally, the assortment reduction drove shelf space reduction in many categories, which enabled retailers to stock whole new categories or offer new services within expensive and constrained retail space.

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Gordon's personal contributions to CatMan include the development of the Efficient Item Assortment process for the ECR committee along with virtually all the consumer focused analytical templates subsequently committed to software by Nielsen and IRI. Gordon has served scores of manufacturer clients around the globe in the development of their CatMan platforms and has facilitated category management projects with retailers and manufacturers on every continent.

In 2005, he was asked by the Association of National Advertisers, the world's largest Marketing Trade organization, to develop best practice in marketing accountability, the measurement of marketing's ROI. He has published two white papers on accountability that focus on the interrelationships of process, metrics and systems. He has founded six marketing related companies and currently serves as an advisor, board member or major investor in three leading edge marketing services companies.

Gordon is an alumnus of P&G's marketing department and a graduate of Harvard. He resides in Kentucky with his wife, Jill and noble dog, Grace.

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