Category Management
The Effective Way of Managing Retail Business

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Sanuwar Rashid
The University of Boras
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Category Management: The Effective Way of Managing Retail Business.

Sanuwar Rashid (Sanuwar_69@yahoo.com)

Master thesis

The Swedish School of Textiles
University of Borås
Swedish School of Textiles
501 90 Borås
visiting address: Bryggaregatan 17

Supervisor
Professor Heikki Mattila (heikki.r.mattila@tut.fi)
Tampere University of Technology, Finland

 Examiner
Professor Håkan Torstensson (hakan.torstensson@hb.se)
University of Borås, Sweden

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Abstract:

Today’s fragmented and intensely competitive market place is the obstacle for retailers and suppliers to do business in a traditional way. Even customers have never been more sophisticated. In this perspective, thousands of ideas have already been brought though articles, journals and books and thousands of seminars have been held to define a new way of managing business.

Just as tremendous heat and pressure create diamond, these uncertainties and competitive challenges has produced a new marketing ideas known as category management that offers an wealth of opportunity for those who can adopt with this systematic approach.

In this thesis, some definition and structure-oriented phases as well as the challenging area of category management are mentioned. In the next step, a perfect scenario through different stages starting from zero is brought out to show how retailers and suppliers can overcome the power game and collaborate with each other. Finally I have shown that a trustworthy relationship, coupled with in-store implementation of category management, can create a win-win situation for both retailers and suppliers.
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1 Introduction:
I would like to begin by clarifying some words that I believe need to be clarified as these are the frequent using words and hold the identity of role players of my paper. I use the term “consumer” when I aimed at retail, which is known as shopper from retailer side. Though shopper and consumer is always not bear the same meaning, for example, parents are the shopper for baby food while baby is the consumer; I use the term shopper, consumer and customer to define the same role. In the same way, I use the term supplier to define manufacturer’s perspective. Though there are some significant difference between supplier and manufacturer, for example, suppliers can outsource of his brand from a foreign country as a branded marketer; I use the terms supplier, manufacturer and producer to define the same role. Therefore, the respective usage of this multiple words bear the same significance in my thesis paper.

1.1 Background
Today’s market is competitive and volatile than ever. All retail segments including fashion industry facing new challenge to survive in this market. Fashion trends changes overnight, consumer preference changes quickly, and assortment changes more often than seasons. Brand competition, variety seeking consumer, heterogeneous customer preference make the market unpredictable. As an example, the number of product in a market place increase by 16% per year between 1985 and 1992 where as the shelf space increase by only 1.5% per year during the same period. In that situation, it was not possible to retailer and supplier to manage the complexity of business process by performing their existing role and job description. So they were thinking about the change of their roles. The following figures show us the way of changing their roles in response to the demand of turbulent market.

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1 Gérard P. Cachon, 2007
2 Category Management: Positioning your organization to win, Pg- 12
Category management became the key player for changing the role of supplier and retailer in 1980s and in 1990s, Wal-Mart successfully applied this new theory for bringing its supercenter format which convert retailer’s general merchandise store in to a full line grocery store under a single roof\(^3\). Retailer and supplier usually are guided through this process to develop the strategic category plans. This organizational concept integrates the role of them for an effective buying and merchandising decisions.

But now in 2010, both retailer and supplier are managing their business process with a perplexing complexity. Now consumers are no longer sophisticated and the competition is stiffer than ever. The marketplace becomes fragmented rapidly. In this situation, category management having 8 step processes which were invented by The Partnering Group (TPG) is no longer viable.

Therefore, I am going to write my thesis in a sophisticated way to focus more on the recent challenges that the retailers and supplier faces and have a wish to dig deeper to figure out these challenges and find out opportunities for perfect collaboration between supplier and retailer which will ultimately keep their sales growth in a satisfactory position.

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\(^3\) Consumer-Centric Category Management: How to Increase Profits by Managing Categories Based on Consumer Needs; Pg-13
1.2 Problem Discussion

Since the industrial revolution in early 19th century, we have touched the milestone of modernism. And from early modernism to post modernity, industries have gradually moved towards consumers’ need and wish. As an example we can recall the memory of T-model Ford car having only black color. Henry Ford wrote in his autobiography “Any customer can have a car painted any color that he wants so long as it is black”\(^4\). Nowadays, consumer deserves to have things as per his wish. It means that mass marketing is replaced by mass customization. Only meeting consumer needs is not enough to win the competitive advantage\(^5\). In this situation, there is no alternative to meet the requirement and demand of consumer in an effective way. To achieve this goal, supplier and retailer need to contribute their efforts to understand consumer needs. Therefore, it is necessary for supplier and retailer to generate the growing interest in understanding the consumer demand and in defining the purchasing behavior of consumers. To make them (supplier & retailer) aware, category management represent the method of managing the complexity raised in consumer needs and shopping behavior. So, we can subject category management to minimize the lack of connection between consumer who come to market and the supplier & retailer who go to market in attempts to meet consumer needs. Every fashion product should be categorized on the basis of customer understanding, market data and trend analysis and sales information. Then the objectives of category management comes into action: Increasing profitability by taking into account all the factors that influence it on the shop floor and focusing on products with a high circulation, creating regular customers by focusing the product supply to target consumers and developing in-store marketing through space management and well instructed product display. Consumer value and satisfaction are fundamental to build consumer loyalty and shopper loyalty and to increase sales and category profitability\(^6\).

Therefore, it is important to realize category management in a true scene and retailer should emphasize more on consumer demand to collaborate with supplier for its perfect implementation. Purpose of this thesis is academic contribution to scientific research. My work provides a theoretical study on how supplier and retailer can overcome the opportunism and power game by category management. This thesis initiates the answer of following question.

\(^4\) Ford, Henry; with Crowther, Samuel (1922)
\(^5\) Dag Errikson, SDCM
\(^6\) Colacchio , Tikhonova, kisis 2003
1. How CM allowing retailers and manufacturer to adapt quickly to marketplace changes?

2. How retailer and manufacturer can collaborate with each other without searching the opportunity and hiding information and how their role in business could be redefined to bring out a win-win situation?

3. What are the main areas covered by CM to maximize the profit of retail shop and where is the focus of CM?

4. How a successful implementation could be established in retail shop, are there any supporting tools to do so?

5. What is the next challenge of CM (More evaluation or successful implementation)?

6. Could it be suitable for cloudy marketplace of near future?

1.3 Objective
The objective of my master’s thesis is to investigate how the parties (both retailers and suppliers) involved in fashion or grocery industries experience category management. The purpose is also to examine the implications and potentials concerning category management.

1.4 Scope and demarcation
The center of my focus will be retailer. As retailer can avail maximum benefits by adopting them with category management, I will extend the circumference of my work as per retailers’ convenience. For example, retailers have a target to boost up their business by satisfying the customer. To enable themselves in this purpose, they are in need of getting help from their supply partner. So I have an intention to do the task which is mainly oriented by retailers. And the supplier and consumer also get the same priority as they are the main factors for retailers.
1.5 **Target readers**
This thesis is written as a part of the Master program in Applied Textile Management. So the main readers of this thesis are supervisor, examiner and my interested colleagues. My writing also gives a clear view and theoretical knowledge to those who do business with considering consumer demand and satisfaction. The boundary of my thesis enlarges enough to guide the professionals to adapt with category management.

1.6 **Outline**
This thesis consists of 9 foremost chapters. And each chapter is clustered by different segments and sub segments. The summery of these chapters are as follows:

Chapter 1 provides information regarding very basic initiatives. It includes background & scope of thesis, also the problem discussion through which this thesis is structured.

Chapter 2 describes the method of doing work. This chapter presents the way of easy-writing as like the method of data collection, validity and reliability.

Chapter 3 allocates the explanation of keyword of my thesis. Here I introduce the literature relevant with category management including its terminologies, theme and brief history. In the same way, I take up such literature in here, which I believe is necessary to support the analysis of empirical data.

Chapter 4 introduces structure for studying the way of implementation of category management. It includes some instruction to define the respective role and responsibility of
business partner and simplification of the blurring situation to incline them towards a trust worthy relationship.

Chapter 5 represents cumulative efforts of business partner to touch the shopper attention by providing comfortable shopping atmosphere. Indeed, all activities which I have discussed earlier to realize the benefit of category management, is evaluated by shoppers or customers in store or shop. Furthermore, this chapter provides some tactics to expose each category in a way that it arouse impulse buying tendency of customer.

Chapter 6 provides an open discussion on suitability of category management in compare to its present status. How the future looks like and what are the probable supports that need for category management in near future is brought in here.

Chapter 7 is allocated to conclusion and analysis of overall thesis work.

Chapter 8 suggests some hints of further research in area of category management while the focus is managing retail business in a better way.

Chapter 9 is allocated to references.

In below, connections of eight chapters with research questions are depicted.

Figure 3: This figure shows the orientation of thesis: which chapter represents which question
2 Methodology:

"Theory without practice is dead and that practice without theory is blind" (John We Robbins: The Crisis of Our Time, 2005)

This chapter represents the methodology and my approach that I have followed to write this thesis. My literature consist of articles, literatures, past papers of relevant topic as I came across various database such as LIBRIS, BADA, Boras City Library and our varsity-library web site. I have used different search engine like Google, Yahoo for data reclamation as well. Methods of data collection and information are also included in this chapter.

2.1 Scientific method

In the very beginning stage of my thesis, I have decided to follow the PEL methodology throughout my thesis work. Actually Hugh & Gauch (2003) developed this scientific method which combines presuppositions (P), evidence (E), and logic (L) to support scientific conclusions. In below, I have represent PEL which shows relevance of my thesis structure from questionnaire to conclusion.

![Figure 4: Scientific enquiry using PEL model (Source: Hugh & Gauch 2003)](image)

Likely to the above figure, on the basis of some specific questionnaire, presuppositions are brought in chapter 3. They are, in fact, predefined definitions and terminologies to support my hypothesis. And chapter 4 and 5 have been struggled to provide the strong evidence. Appropriate application of logics, coupled with the combination of presupposition & evidence, brought out the conclusion.
2.2 Inductive and Deductive logics:
Most of the part of my thesis is based on inductive logic. By observing the present tendency of business owner to sustain in competitive market, I have found category management business process perfect for them. By analyzing the needs and wants of business owner whether they are retailer or supplier, I've discovered a versatile area from collaboration between business partners to in-store compliance (like supporting tools, visual merchandising, customer shopping behavior ) with in the field of category management. On the other hand, some of my inductive logics are reinforced by deductive data. For example, I have frequently used some statistical data carried out by market research with proper citation to strengthen the inductive argument. In that sense, I also have used the abductive logic which is the combination of inductive and deductive logic.

![Deduction and Induction](Source: Hugh & Gauch 2003)

2.3 Qualitative and quantitative method:
As we know, there are two types of research method; either it is quantitative or qualitative method. Generally, quantitative methods deals with numeric expression and can be testified by mathematical equations, statistical data and models. But Qualitative methods result in textual or narrative information that is either descriptive, or subject to other forms of analysis (Maxwell 1998). There is no doubt that my work is based on qualitative method. I believe that qualitative method is most suitable for this paper as I strive to seek knowledge and understanding the characteristics of key player of category management business process. But sometime I also used some reference with proper citation where the benefit of category management is proved by mathematical equation to reinforce my qualitative method.
2.4 Methods of data collection
I have gathered data and information to address the question of thesis. The method that I applied for data collection was concerned about resource availability, credibility, analysis and reporting resources and the skill of the evaluator. According to Ohio State University, these are the primary requisites to be methodical.

Data resources are divided into primary and secondary sources. According to Patel & Davidson (1994) it is the degree of closeness that determines whether or not a data source is primary. Eyewitness descriptions and first-hand accounts, like observations, interviews, and questionnaires and so on, are known as primary source. And secondary data are based on a primary source and consists of personal interpretation. Books, journals, theses, database, internet and so on are examples of secondary sources. In this thesis, most of data sources are secondary. I also have used some primary data source.
3 Terminologies and Definition

3.1 Category management
Retailers of United State like Safeway, Kroger, Albertson’s and Publix first practice category management in early 1990. And SUPERVALU, the first wholesaler brought the process to small independent retailer. On the other hand, Coca-Cola & Philip Morris was the key player from manufacturer side to support category management. In no time, category management was promoted enthusiastically and became a must-have process for retailers and supplier.

Now I will discuss about the meaning of category management or the area that it covers. Unfortunately, it’s not possible to afford its definition in single sentence. A true definition of category management covers 3 interrelated elements.

First of all, it is a philosophy of managing retailer’s and supplier’s business and treat product categories as strategic business units for the purpose of planning and achieving sales and profit target. As an example, there are too many individual brands or items to manage strategically each one. Category management is the way of managing retail operation by classifying the assortment of retailer into categories on the basis of consumer preference, not just on the basis of individual brands or items.

The second element regarding its definition is that it is a process through which suppliers and retailers jointly develop strategic category plans. These plans usually set on annual basis to measure their financial performance at the category level.

And the third element is that category management is an organizational concept that integrates the responsibility of both parties for buying and merchandising decisions. Now category manager comes in to play for integrating procurement, pricing and merchandising of all brands in a category and jointly developing and implementing category based plans with manufacturer to enhance the outcome of both parties.

On the basis of above discussion we can say that category management insist on retailer’s category rather than manufacturer’s or supplier’s brand and it is a process that involves managing product categories as business units and customizing them on a store by store basis to satisfy consumer needs and preference.

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7 Consumer-Centric Category Management: How to Increase Profits by Managing Categories Based on Consumer Needs, Pg-15
8 CM defined: what it is and why it works
3.2 Emergence of category management:
During the last 20 years, we have experienced the fragmentation of marketplace which reshaped the total consumer goods marketplace. Demographic and lifestyle changes have caused this marketplace fragmentation. As the time for shopping is very less, consumers are looking for convenience and service. So there is a wider spread demand for one-stop shopping and time saving products. The challenge for responding these demands has made marketing more complex than ever.

On the other hand, though there is a demand for one stop shopping research shows that certain consumer use to buy certain product from specific stores\(^9\). It means that shoppers are looking for perceived benefit in each category and often select the retail outlets according to the availability of these benefits. So we can say that consumer have the access on different outlets whether these are high-end or low-end outlets for saving money as well as realizing the perceived benefits. Moreover, two-third of today’s brand selection decisions is made in store.\(^{10}\)

To tackle this blurring situation, food stores are expanding in to mass merchandise, mass merchandise are expanding in to food and drug stores as well as drug stores are penetrating through food and mass merchandise and even the clothing and garments material find their places in every kind of retail shop.

To meet the demand of urgency, the retail outlet is divided into several individual business units as per consumers’ diverse needs and purchasing habits. With the advancement of technology, retailers and manufactures have reached in consumer insight. Now it’s not hard to forecast, monitor and quickly adjust the optimal product mix, shelf-space allocation, pricing and promotions for specific categories at individual stores.

In today’s fragmented and intensely competitive marketplace, retailers are continuously trying to create and retain customer & supplier are looking for the ways to reach market niche with their product message and to sell it through retailer’s outlet. So the changing marketplace has created a fertile environment for category management as strategic changes in their business. And category management is truly a marketing vehicle for its time.

\(^9\) Category Management: Positioning your organization to win, Pg-21
\(^{10}\) Category Management: Positioning your organization to win, Pg-23
3.3 Eight-step process of Category management
The standard eight step process was invented at the very beginning age of category management. It is now considered as a starting point to implement category management in business process. Though these steps are modified and refined over the years, there still have a significance of this process to experience category management as a whole.

3.3.1 Category definition:
In this area, specific products are summed up to make a category and its segmentation. It is the starting point where the sub-categories and individual stock keeping units are considered within the category. This is a comprehensive task which should reflect the consumers’ needs and desire.

3.3.2 Category roles:
The objective is to assign the purpose of the category from the retailer's perspective. Category role is defined on the basis of various factors like the importance of specific category to its retailer and retailer’s competitor as well as target consumer group. Even the trends of retailer’s market place affect the role of category.

3.3.3 Category assessment:
The purpose of category assessment is to develop the realization on category and its performance as well as study on its opportunities and weakness. Category assessment provides the information regarding key drivers and the area of excellence. Therefore, category strategies and tactics are employed in order to capitalize on these areas. The assessment should be performed by considering every perspectives; retailer, supplier, customer, marketplaces. To gain a full picture of category performance, assessment is conducted from the core category and then through the various category structure level; subcategory, segment, brand and product.

3.3.4 Category score card:
It identifies the key performance measure of the specific category and quantifying the opportunities through a series of target objectives. It is connected with category strategies and gives a guidance to indicate the tactics for forwarding the plan.

3.3.5 Category strategies:
To achieve the performance measure set out in the score card, category strategy is developed. The strategy is the guide line for initiating the desired role and performance. The strategy should consistent with retailers overall strategy and covers the area of product marketing, supply and in store merchandising. Even the strategy need to be developed on
the basis of how each categories are performing, how effectively they deliver the value to consumer and how they derived competitive advantages.

3.3.6 Category tactics:
It works for determining the specific actions that should be taken to achieve the chosen category strategy. The tactics are the set of store variables which are grouped into store assortment, pricing, display and promotion tactics. Category strategy and category role provide the guideline for this tactics.

3.3.7 Implementation plan:
Retailers, the key player of category management collaborate with supplier to develop and implement a written business plan to achieve the category role, strategy, tactics and scorecard. There are several variables; customer choice, fashion, inventory, productivity, retail space and retail margins which should be taken in consideration for a successful implementation of category plan.

3.3.8 Category review:
In this stage, a close supervision is conducted for optimizing the performance of other steps. A better knowledge on a specific category is revealed here as it is the perfect place for highlighting the opportunities and the areas of improvement.

So, on the above discussion regarding 8-steps process, it is easy to understand that every step is interrelated even interdependent as shown in figure 6.
Over the years, according to the convenience of retailer, category management elaborate its area in a more effective and efficient way and nowadays it has been merged with the total business process in a way that each category performance directly affect the overall growth of a organization. This concept is simplified in following figure:\(^\text{11}\):

**Figure 7: Advancement of CM process that merges with corporate goal.**

### 3.4 CM: Circular Long term process

To assign the role of retailer and supplier from their own perspective, category management finds itself in a circular long term process rather than linear short term process\(^\text{12}\). It involves five ongoing stages which flow naturally in to the next. These stages are oriented in a way that it will suitable for both parties to adapt quickly to market place changes. The following figure shows these ongoing stages.

\(^\text{11}\) ACNielsen Consumer 360, “Simplifying Complexity”
\(^\text{12}\) Category management- Positioning your organization to win; pg- 12
3.5 Research area of category Management:
Now I have a wish to discuss more about the difficulties and opportunities related with product category as well as range, information, relationships and product focus vs. customer focus.

3.5.1 Product category and range:
Customers usually search for the retailing shop where retailers create comprehensive offer by categories. For doing this retailer define category based on consumer buying behavior in order to differentiate itself from other retailers\(^{13}\). But according to Dussart (1998), definition of category is something that arise a problem. For retailers and suppliers, it is hard to reach in mutual agreement to select a range of product in single category. For example, shampoo should be accompanied by health and beauty products or it could have a separate category of hair. So it is not easy to obtain an agreement between retailers and suppliers to make a decision on category definition. But sincere effort between the parties could result in categories that provide benefits to all parties\(^{14}\).

\(^{13}\) Dupre & Gruen 2004  
\(^{14}\) Dussart 1998
The perfect role of category makes the whole process effective. The role covers the area of pricing, promotion and assortment strategy of different category. Every product of certain category should be classified according to promotion and price range set\(^{15}\). The effective range of different product which includes the right items with variety but not duplication, streamlining the entire range of category based on consumer preferences\(^{16}\). Retailers can reduce their cost and increase their profits by updating its range\(^{17}\). But it is hard to implement this concept in store. Because category manager fear that streamlining of the range will result in bad reputation of store to customer as the number of product variant is reduced. But a survey of examine consumer’s experience by reducing the range has shown us that 25% reduction in range are not affected consumer’s experience as long as the favorite products and product category space in the store had not been affected\(^{18}\).

Reducing the presence of products that are temporarily out of market is another objective of the process of category management. Many retailers believe that the problem is not so critical because most consumers choose to buy substitute products when the product they are planning to purchase is temporarily out of stock and they continue to make their purchases at the same store\(^{19}\). There is a study involving 71000 consumers in 29 countries conducted by Corsten & Gruen (2004) in order to see how consumer react in practice when a product is temporarily out of deal. The survey showed that 7-25% consumers continue to shop by purchasing a substitute product from the same category while 21-43% chose to go another store to buy the specific product that was temporarily out. According to author, this effect results 4% sales decrement of typical grocery store. And the reason of temporarily run out of product form stores was examined in same study conducted on 600 retail shops of 29 countries. It was found that 72% of these goods which were temporarily out of stock related to the error committed by retailers like overdue orders, small orders, and poor sales projection while only 28% problems were caused by the suppliers\(^{20}\).

Nowadays, it becomes hard to manage the range of product for a specific category because of product development process. I have found a statistical data\(^{21}\) regarding the inflation of product of same category; The U.S. launch about 20,000 new products annually although perhaps 1100 to 1200 products are counted as real news. 33% of product innovations are

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\(^{15}\) Dhar 2001  
\(^{16}\) TPG, Nordic -1996  
\(^{17}\) Kurt salmon associates 1993  
\(^{18}\) Broniarczyk 1998  
\(^{19}\) Corsten & Gruen 2004  
\(^{20}\) Corsten & Gruen 2004  
\(^{21}\) Saguy & Moskowitz 1999
assessed as successful, 25% are deemed unsuccessful which are rapidly disappeared from market and the rest 42% of product follows the declining sales figures. Still now there is no significant standard to measure how successful the newly launched product is. But consumer and consumer’s satisfaction should be the focus of each part of business, in every aspect of product development and product launch process\textsuperscript{22}.

3.5.2 Information:
The development of category management comes in to reality by the faster communication channels and the ability to share data coupled with the development of analytical software applications. Evaluation of sales and demographic data to determine who buys what in a particular category, where they buy it and how often and how much they spend, working as a strong toolkit for category management. It is also the responsibility of retailers and suppliers to optimize their collaboration with the help of information, technology and application. By capitalizing on information, technology and applications, category management enables them to provide customers with the product they want, when they want them- at competitive prices. But there are problem concerning information sharing when supplier want to access retailer’s information on consumer. For example, it may be difficult for any specific supplier to share information about new products, planned campaigns and product development with retailer when his competitor engages with this retailer. The information sharing is going to be more difficult when retailer possess large product range of its own brand in each category, often direct copies of supplier’s market leading product\textsuperscript{23}.

3.5.3 Relations:
Category management is not just a traditional buying and selling relationship between supplier and retailer. It is a pure trustworthy process. But sometime it found that Retailer and supplier have not sufficient confidence level to succeed in a partnership around category management, which complicates the application of this process\textsuperscript{24}. So it is crucial to choose their partner carefully and to build trust and dependence which will be beneficial for both parties.

Trust is the key factor of collaboration between both parties. Actually category management is a collaborative project based on trust where neither party should have

\textsuperscript{22} Saguy & Moskowitz 1999
\textsuperscript{23} Gruen & Shah 2000
\textsuperscript{24} Dupre & Gruen 2004
power over others\textsuperscript{25}. But in reality, there is no way to avoid the truth of power game. Dapiran (2003) has investigated the power relationship between retailer and manufacturers. According to him power is something that is not negative for all time. It can give a party some space to take initiative. For example, supplier can be appointed as a category leader by retailer for a particular category. In this case category leader has the power over retailer. This power doesn't necessarily oppose to cooperation and trust; even this could be the important factor to build a relation between retailer and supplier. For example, supplier has certain power which is based on specialized knowledge of products and customer, while retailer has different type of power. With this power of two sides Dapiran has made a two dimensional matrix of power strategy. The suitability of specific power strategy depend on how retailer are dependent on the supplier and the market share that retailer has.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{power_matrix.png}
\caption{Modification of the power matrix approach (Source: Dapiran & Hogarth-Scott 2003)}
\end{figure}

In an environment where the concentration of retailers are high and the dependence on producers are low (1) retailers exercising coercive power, for example by threatening to exclude the product from its range. This is an option that leads to low costs and low profits for retailers. Retailers will move to a more costly approach, namely, expertise power through Category Management (2), if they are forced into it, because they rely on their producers. If there is low concentration of retailers, combined with a high dependence on producers (3), retailers will prefer to develop their own brands. The fourth power strategy based on the traditional sales and buying relationship. (4). (Dapiran & Hogarth-Scott, 2003)

\textsuperscript{25} Dapiran 2003
Retailers have the greater understanding on consumer preference and the range of product in single category. But Retailers is suspicious of existing relationships with suppliers and finds it difficult to share information and trust the suppliers who have traditionally been their antagonist. Even these two parties could have the tough and aggressive bargaining experience with each other. Power relationship between retailers and suppliers has also changed over time\textsuperscript{26}.

Nowadays, many retailers have proved their self sufficiency and now can dictate their own terms, for example, existing marketing policy. They have their own information and knowledge which reduce the dependency on suppliers and their knowledge of brand building. Retailers are now capable to do the task like marketing mix, for example, pricing, advertising, sales promotion activities and shelf placement. It has also seen that there is a fluctuation of trust level as the producer focus on brand and retailer focusing on the categories\textsuperscript{27}. Wal-Mart is the best example to understand the versatile opportunity of a retailer where the retailer can dominate over supplier by optimizing its efficiency through information collection.

The application of Category Management must be seen as a fundamental process for the company, requiring new organizational forms and new approaches. There must be cooperation between the formal organizations, different companies with different corporate cultures, for a long time. It also requires a partnership that looks beyond its own gain and instead focusing on the work from the mutual holistic perspective. The goal of Category Management is to create a mutual win situation for retailers and producers. (Kurt Salmon Associates, 1993)

### 3.6 Factors affecting the growth of CM

The growth of category management is the result of some factors\textsuperscript{28} which are discussed below:

#### 3.6.1 Changes in consumer

In early 1990s, everyone involved in category management focused on POS data to reveal the product movement rather than consumer behavior. Now consumers are well informed and discerning about the product and the perceived benefit. Most of their decisions are being made within the store. Consumers are looking for choice and service, quality,

\textsuperscript{26} Arkader & Frossard-Ferreira 2004  
\textsuperscript{27} Gruen and Shah (2000)  
\textsuperscript{28} Piyush Kumar and Dwarika Prasad,
freshness and reasonable price according to their needs, spending and lifestyles. Consumers' behavior and attitude become more prominent to make the whole process less product centric and more consumers centric. And for doing this the following initiatives are taken into account:

- Segmenting and targeting consumers to place the right product at the right stores in a right category.
- Clustering stores based on the sales potential of brands or categories.
- Investigating the cause of difference between existing sales and potential sales.
- Developing a marketing strategy on the basis of the consumer groups as well as the factors that make the segmentation of consumer.

3.6.2 **Intensified competition**
Retailers are now subjected for delivering convenience and variety to the customer that is not possible for supplier. So products of any brands are now merged in single categories which weaken the power of specific brand. Each brand is now facing competition in regards to its price against quality at the retail store. Consequently, retailers emphasize more on the turnover of a category rather than specific brand. So retailers are also in competition. Each retailer continuously tries to offer better value to its customer who create competitive situation and the situation is getting harder each day.

3.6.3 **Technological advancement**
The effectiveness of category management depends on collaboration of retailers and suppliers in terms of organizing, analyzing and acting upon the data gathered for the customer and other members of supply chain. To achieve a competitive advancement all data regarding customers, merchandise, processes, cost and quality need to be evaluated. Due to the advancement of information technology, it is possible for retailer and supplier to share information and change in collective business practice.

3.7 **Responsibility of Category manager**
In above discussion, I have written the objectives and challenges of implementing category management in retail shop. To fulfill the objectives and to face the challenges is the main task of a category manager. He is subjected to develop a strategic plan to meet marketing and financial objectives related with the individual category. This plan must dovetail with

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29 Consumer-Centric Category Management: How to Increase Profits by Managing Categories Based on Consumer Needs Pg-19
company’s objectives. He is responsible to define maximum product assortment for the stores and then target merchandise by determining the optimum product mix, inventory levels, shelf-space allocation, pricing and promotions based on local demographic and customer needs. Category managers must have a bottom line consumer orientations, rather than traditional sales orientation, and they must be proactive in creating demand through their merchandising decisions\textsuperscript{30}. The following figure shows the multifaceted skills and experience of a category manager.

\textbf{Figure 10}: This figure shows the job criteria of category manager

\textsuperscript{30} Category management- Positioning your organization to win pg-40
4 Role of business partner to adopt CM

4.1 Role of retailer to evolve five stages of CM

As category management is subjected to boost up retailer’s business through a perfect coordination with supplier and customer, it is retailer’s responsibility to play the ultimate role to enhance his organization structure to suit category management with it. Therefore, I am now going to describe the initiative of retailer from very beginning for evolving category management into his business process.

4.1.1 Getting started:

Here I will describe the primary initiative regarding the role of retailers. At first, retailer should define his mission and determine the public image on the basis of his business characteristics; whether he is low/high promotion driven retailer or he does strictly an upscale business. He may be a price leader or he offers niche of low price. Then he should address some issues such as customer positioning, competitive positioning and supplier positioning.

After this, he should established company wise financial goals like GM, GMROI. Then his mission and marketing strategy coupled with financial plan will provide the outline for category management.

After establishing the frame work of category management, he needs to ensure the suitability of individual category to fit with the whole corporate scorecard. The figure: 7 of literature part show the way of doing it.

But it is not easy to define individual category. Because the definition of category from retailer’s perspective maybe quite different from manufacturer’s experience. Even the way customers expect it could be something else.

For example, retailer may define jeans shirt and jeans pant for men in one category. But manufacture might see them as separate category. Even customer can want to get jeans shirt in shirt’s category and for the pant it could be same. Anyway, retailer should give more weight on customers’ perception which can be determined by analyzing market research data provided by third parties.

After defining product category, it is important and sensitive to identify the subcategories within each category. These small product groups have great influence on overall category performance. For example, if a retailer treats ladies underwear in a single category, he
should keep in mind that both bra and panty having same set will belong to single subcategory where as bra and panty having no set will be placed in different subcategory.

After defining product categories and identifying the key subcategories, retailer will be ready to match the performance of individual categories with company’s mission as well as overall marketing and financial objectives.

Then a retailer should evaluate the strategic role of each category like category’s position in retailer’s store versus the marketplace as a whole, as well as the volume, market share, short term and long term growth possibilities to established sales profit and market share objectives of each category.

Now it’s turn of category manager to come in to action for achieving these objectives. He is subjected by the retailer not only to size up the marketplace and determine the tactics to meet category’s standard goals but also to follow up these initiatives.

### 4.1.2 Restructuring organizational set up:

After defining the job description of category manager, retailer should evaluate his organizational set up and restructure it for the convenience of category manager. The following figure\(^{31}\) shows us the retailer’s organization having traditional method where buyers are assigned by retailers to purchase products from a specific manufacturer without concerning a category. Here, buyers nominated by retailer for negotiating all purchase agreement with a particular manufacturer’s sales representative.

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\(^{31}\) Hypothesis by Author (empowered by Category management- Positioning your organization to win pg.36 )
But this method arises much confusion in retailer’s business process. Because the merchandiser, who are responsible for defining a category, bringing new items in shop as well as offering pricing and promotion, often have a lack of communication and coordination with buyers. For example, buyer might be responsible for purchasing socks from a manufacturer, but might have no idea of merchandising this product as it is the job of merchandiser. Even it is often perplexing for manufacturer to identify the decision maker between buyer and merchandiser as anyone can interfere over other’s negotiation with manufacture.

On the above discussion, I can say that this traditional method is not long lasting as it is an obstacle for retailer to develop a unified approach to his product line. Even to combine the ideology of buyer and merchandiser is a time consuming process.

Therefore, to develop category management in retailer’s business process, it is necessary to shift in a new approach where category manager will be a substitute for both buyer and merchandiser. It is true that there shouldn’t be any standard or unique organizational setup for category management. Set up depends on company’s size, mission and corporate culture. But every retailer’s organization should be organized in a way of giving support to
category manager to execute the following activities for surfacing category management in a better way.

- Buying and merchandising functions including pricing, promotion, shelf-space management should be managed by category managers of each individual category.

- Category manager should be given the authority to manage product category as business units and customizing them on a store by store basis to satisfy customer. He should also be considered for evaluating the progress of each specific category, making appropriate adjustment to bring out expected result which will be matched with the corporate financial goal.

Therefore, to allow category manager for playing the ultimate goal, we can comprehend the evolving retailer organization as follows:

![Evolving retailer’s organization for a perfect adoption with category management.](image)

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32 hypothesis by Author (empowered by Category management- Positioning your organization to win pg-38)
4.1.3 **Concentration on five stages:**
I have mentioned in literature part about the five ongoing stages of category management. I am now going to dig deeper to comprehend the role of retailer to strengthen five ongoing stages where a perfect synchronization of these stages make the overall process effective.

4.1.3.1 **Reviewing the category:**
On the basis of previous sales data, category manager can get an assumption of customer preference. Then he usually offers pricing, promotion, advertising, couponing to boost up sales. In order to bring out new product in shop, he needs to review the sales data of other product having same category. To assess the potential of new merchandising and marketing tactics, he can ask supplier to give him adequate support. Even he could be allowed by the retailer to get help from third party analyzer. Retailer should permit category manager to utilize all internal and external resources to delineate the following factors which are much important for reviewing a category perfectly.

- Determine the market share of specific category.
- Relevance of pricing and promotion of a category with its market share.
- Competitiveness of subcategories in a category.
- Proportional attribution of pricing, promotion, shelf-space allocation and product mix of a category in respect to the store.
- Ensuring the uniformity of sales figure for each sub categories of a category as much as possible.

4.1.3.2 **Targeting consumer:**
In this stage, Category manager is going to focus on specific consumer group for each certain category while he has already taken the above factor of reviewing the category into account. He should explore the demographics, lifestyles and purchasing behavior of consumer against each category. He is subjected to investigate the consumer attitude for a product category. For doing the same, he can consider the consumers’ income, occupation, education level, family size as well as how quickly they react against promotional and discount offer. Different application software is useful to scrutinize these characteristics of consumer. Retailer should allow him to access through marketing department to find the way of touching consumer whether it is media advertising or promotional offer.

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33 The Institute of Grocery Distributors: [www.igd.com](http://www.igd.com)
4.1.3.3 Planning merchandising:
After defining the consumer groups, category manager will look upon the sales and profit goals for each category. To meet the sales and profit goals, he should go for strategic marketing and financial plan which have the relevance with strategic role of the organization. There must have some application software which can guide a category manager for doing so. As I know about “SAP for retail” which is industry-specific application software from the software vendor SAP AG and is focus on global retailing industry. It is a set of software solution that support demand management, merchandise management and planning, supply chain stores operations. Therefore, this kind of software not only help category manager to make a Planograms regarding pricing, promotion, merchandising, shelf space management but also to project whether they will enable him to meet the profit goals for the category.

4.1.3.4 Implementing strategy:
To implement the strategy of single category that will perfectly be matched with corporate scorecard and corporate strategy, category manager from headquarters should collaborate with individual store personnel while the three earlier stages take place at headquarters. During this stage, the responsibility of category manager like product mix, pricing, merchandising tactics should synchronize with the responsibilities of store personnel like pricing changes, product stocking, display assembling and positioning. Therefore, category manager should let the store manager and employees know the way of implementing strategy. This communication between category manager and store employees will cover the area of merchandising plans, including Planograms; advertising plan, including products to feature in circulars; promotion plans, with display placement details; price changes including new shelf labels and cash-register prices; new products, with stocking instruction; and discontinued products with removal dates.

4.1.3.5 Evaluating results:
As category manager has completed the above stages like review each category then defining the consumer groups for specific category and then draw a merchandising Planograms and go ahead for implementing the overall tactics, now it's time to evaluate the outcome of his total initiatives.

34 SAP for retail by Heike Rawe
35 Category management- Positioning your organization to win pg-51
During this stage, he will take a measure on his performance whether he has exceeded or fallen short. His evaluation will cover the performance of each individual stores as well as the performance of his competitor. It will facilitate him to make a required adjustment to remain on track. He should have the foresight and creativity to make his business profitable.

4.2 Role of supplier to evolve five stages of CM

Before 1990, supplier dominated on marketplace with their brand and retailer was just their distribution arms. In that era of mass marketing, supplier inspired consumer through media advertising to buy their product from retail shop.

But after 1990, due to fragmentation of marketplace and advances in technology, retailers have been striving continuously to customize their shops to meet specific consumer needs and differentiate themselves from the competition. In that situation, retailers accepted category management as a must-have process for them which dilute the domination of supplier. Now the question is that why supplier showed interest to category management process and continuously doing work with retailer to foster the growth of category management? I am now going to explain the fact that insist supplier to become a role player for category management.

4.2.1 Supplier as a role player:

In my literature review part, I have mentioned with proper reference that two-third of purchase decision by customer are now made in store. This trend, coupled with marketplace fragmentation, have changed the attitude of supplier and made them understand the need of effective merchandising and promotion of their product at store level. This fact habitually enforce supplier to collaborate with retailer as their long term betterment lies into it.

Before the era of category management, manufacturer subjected trade promotions for the collaboration with retailer. The following chart\(^{36}\) shows that the average supplier spends 50% of his advertising and promotional budget on trade promotion.

This increased spending on trade promotion was devoted as incentives for retailer such as off-invoice allowance, co-op dollars, consignment purchasing, special terms and creative market development funds\(^{37}\). These initiatives were belong to short term lift in sales figure which may not persist for long term period.

\(^{36}\) Source: Nielsen Marketing Research, Donnelley Marketing

\(^{37}\) Category management- Positioning your organization to win pg-100
Figure 13: This figure shows the growing interest of manufacturer to convince retailer.

But the most significant matter was like that the increased reliance on trade promotion of supplier was the sign of searching new opportunities of penetrating through retailer’s organization. Therefore, it was the emergence of category management from manufacturer side while they became interested to play their role for understanding consumer better and building long term mutually beneficial relationships with retailers.

4.2.2 Adopting team approach by restructuring organization:
After discovering the suitability of category management from their side, supplier looks upon organizational set up and thinking of its modification for perfect adoption. Traditionally they have two main department to foster their growth; marketing department and sales department. Sales department focus on retailers to increase their sales volume by gaining distribution, strengthening in-store presence while the marketing department focus on consumer for product development, packing, media advertising, consumer and trade promotions, price points and distribution opportunities. The following figure\(^{38}\) shows the overview of traditional manufacturer’s organizations where product manager and sales manager has different responsibilities and different goals to achieve.

\(^{38}\) Hypothesis by Author (Empowered by Category management- Positioning your organization to win pg-106)
Figure 14: The traditional manufacturer organization

Avoiding the era of department wise performance, category management brings out the modification of organizational setup where the entire departments work in a unified team. And most likely the following figure represents it in a best possible way:

Figure 15: Evolving supplier’s organization for a perfect adoption with category management.

Hypothesis by Author (Empowered by Category management- Positioning your organization to win pg-107)
It means that the responsibilities of sales teams are becoming more closely aligned with marketing and marketing research team. Therefore, sales manager have an access on market research data of marketing department to make a more accurate prognosis on retailer’s demand. Even under the umbrella of category management, the setup of evolving supplier’s organization provides the stipulation of doing work together by these two departments to get a clear scenario of what happening in retailers’ shop.

4.2.3 Concentration on five stages:
I already have shown the way of restructuring the supplier organization to move them towards the retailer’s and consumer’s convenience where all departments work as a unified team to achieve their individual goals. And this new marketing or selling approach will be easier when they shift themselves on the track of five stages which has been already discussed by retailer’s perspective. Before shifting them on this track, they should define a category carefully because retailer may have another definition on category while the shoppers want to perceive a category in much different way. In that situation, supplier should give more weight on shopper’s opinion.

4.2.3.1 Reviewing the category:
After defining a category, supplier should gather and integrate a broad range of data to create an overview of the category. This data will help him to evaluate his product’s position against the competitor in a category. He should focus on following factor to make his evaluation more authentic.

- The ratio of his brand’s market share to the total category volume.
- How low or high his product’s price level in compare to total category volume.
- Whose brand is the leader of market share and why he is not?
- Which products in a specific category or subcategory are preferred by shoppers and which products follow the downtrend.
- Follow up the effect of trade promotion and other advertising of specific products and the category as a whole.
- The effect of supplier’s brand on a category and vice versa.

These factors will assist supplier to make a review on a specific category where his products belong to, and will open a door to search the opportunity and to hide his weakness in compare to other products of this category.
4.2.3.2 Targeting consumer:
In this stage, supplier will point out the specific types of consumer and will draw a strategy of responding the needs of this consumer group. Therefore, he can follow the 3-steps to make his task easier:

1. In first step, he will segregate the consumer groups both for the category and for the specific brand by their demographic profile. This profile is included with information such as income level, family size and age. On the basis of this information, supplier will define the target groups.

2. The second step includes the evaluation of these target groups. This evaluation will be done in terms of their lifestyles; what products do they buy & what stores do they shop at and what leisure activity do they pursue? This information can yield a deeper understanding of the needs of target consumer as well as it can provide useful knowledge for the development of advertising aimed at target consumer.

3. After defining the target consumer group and their needs, supplier will concentrate on consumer motivation through promotion planning and media advertising. By analyzing data on consumer media preferences, the manufacturer can reach out to consumer in an effective way.

4.2.3.3 Planning merchandising:
This stage is oriented by product mix, pricing, promotion and shelf space allocation within a category. In this stage, supplier can use software to identify the particular retailer who does not carry his brand or any retailing shop where his particular brand is missing. These software applications enable supplier to recommend an optimum product mix in retailing shop by considering the volume and profit target of retailer. It is important to supplier to collaborate closely with retailers in this stage to execute mutually beneficial pricing and promotional strategies. This is much sensitive stage for manufacturer while he should not recommend that only competitors’ item are delisted and only his items are added. He should consider the reality that his brand or brands are only the part of a category in retailing shop. Taken into account this truth, supplier’s product manager and sales manager should merchandise their own brand with promotion tactics that will be competitive for long term period. Shelf space allocation is one of the important facts that show how and where products should be displayed on the shelf with in
a category at individual stores. Some software applications enable supplier to assist the retailer for customizing Planograms for specific types of stores.

4.2.3.4 Implementing strategy:
This is the challenging stage for supplier where he is subjected to motivate retailer to implement his planning and merchandising decision. Geared up by the first three stages, sales manager delivers his recommendation about product mix, pricing, promotions and shelf space allocation. And his argument should be supported by charts, tables, Planograms and other graphical representation of management information system (MIS). To motivate retailer for taking a part of supplier’s strategy implementation, sales manager should have data that shows how pricing and promotion strategies of his single brand will affect the brand itself as well as the performance of the category as a whole. His recommendation should be matched with retailer’s financial objectives for a category which encourage retailer to collaborate with supply partner to implement their strategy.

4.2.3.5 Evaluating result:
The overall performance of the specific category is evaluated in here. This evaluation keep the circular process flowing naturally back into its first stage. Different software applications that are available in market can help supplier to estimate his present status in compare to his target goals. Supplier can identify the sales figure of his brand in compare to other brands of same category by automated computer system. This system will help them to identify the opportunities and unforeseen challenges in the marketplace. So they can review the category once again to optimize the growth from supplier’s perspective.
5  **In store implementation**

In the chapter role of business partner, I have discussed the method of true collaboration from retailer and supplier side to establish a long term business strategy. I have shown there how they can adopt themselves with category management process by performing their respective activities. I strongly believe that a fruitful discussion like their primary initiative in regards to category definition and then restructuring their organizational set up and finally focus on ongoing five stages to play their respective role has all ready been brought out. As they are now in a settlement to share and collaborate between them, it is the perfect time to come down in battle field: the retail shop, where they will find the output from customer and evaluate themselves and reorganizing their initiatives on the basis of this evaluation.

5.1  **Main areas of interest with in CM**

After the adoption with category management in their business process, which I have discussed in above, retailer and supplier should focus on its perfect utilization. Because a perfect utilization of category management process will able them to approach for long lasting partnership which in terms keep them on a way of doing business like joint venture. So, I am now going to discuss the important areas to enhance the category management process while the focus is now shifted from retailers’ or suppliers’ head office to retail shop. As I have mentioned several times that it is a process which needs to be updated overtime to understand the whole business process not by their own meaning rather they should understand the shopper on continuous basis. In July 2006, an industry wide web poll where 393 category management practitioners participated, choice four main areas to foster the development of category management process which are discussed below.

5.1.1  **Consumer shopping behavior**

Every category should be defined and promoted on the basis of research data on identifying, understanding and meeting consumer and shopper needs. It is the more oriented phase of targeting consumers from the retailer and supplier side, a part of which was discussed in ongoing five stages process. Consumers know themselves as an arbiter of fortune for the company; therefore they deserve to be cultivated in a loyal way by the side of business owner. The planning of product assortments, pricing strategies, promotional mechanics and in-store layouts should be optimized by retailer according to consumer purchase behavior. Supplier also needs to understand the specific customer group and their psychology to ensure future product development that will be suitable to meet consumer

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41 Category Management and Fashion forecasting by NIFT Mumbai pg 5
needs and wants. So at first, both retailer and supplier should study on consumer shopping behavior to understand the way of consumer’s decision making. And the following figure can help them to realize the matter perfectly:

![Figure 16: Different stages of consumers’ decision making](image)

According the figure, consumers are initially influenced by his socio-cultural environment. It includes family, reference group, social class, sub culture and culture which are known as external influence. Here consumer behavior affected either for individual or in the context of group. For example, friends can influence what kind of clothing a man should wear or an organization can define the clothing for his employees.

After the effect of external influence, a consumer is supposed to buy the product. Then he is in his discussion making stage where psychological field plays the ultimate role. This field covers the area of motivation, perception, learning, personality. In this stage, retailer and supplier can take the chance to motivate consumer for shopping from their defined category by analyzing the average lifestyle data of target consumer group. If the motivation clicks any consumer then he intends to search the opportunity like need recognition,

promotion offer and evaluation of alternatives. This blurring situation of decision making, coupled with his previous experience, lead him to finalize his decision. Therefore, the output is post purchase behavior where he trails on the product whether it is garments product or not and then buys it. If his post purchase evaluation is good then he can repeat his buying or he can influence his friends to have it. This will give him more weight on his experience which in terms increases the reputation of the specific retail industry as well as the supplier.

So whoever among the retailers and suppliers wants to built up long term strategy for their organization should emphasize more on consumer shopping behavior while they define product category or include new product in a category. It is also necessary to mention that besides demographic data, geography has also a tremendous affect on consumer’s shopping behavior. Observation on consumer of different region of world shows the variation in their thoughts like how they select products, how they make decision what they look for. For example, some American manufacturers were anxious about low sales of their products in Japan. After a research they found that Unlike American consumers, Japanese have a tendency to buy the brand specific product rather than product specific brand. They have to have the major brand like Mitsubishi or Proctor & Gamble in the product to be preferred by them⁴³.

These are the initial discussion on consumer’s shopping behavior for understanding them in a better way to offer the right products with right specification in a specific category.

5.1.2 Data analysis and role of market research
Market research on the basis of data analysis allows business owner to penetrate through consumer-insight. Strategic plans & tactics should be undertaken as a unified approach from retailer and supplier side and it should be proceed through continuous follow up and data analysis on a category performance from different consumer perspectives, whether it is the way of consumer shops or how they use a product. Market research on a specific category carried out by experienced team from supplier side or third party analyzer can identify the tactics such as ranging, merchandising, pricing and promotions. Now I am going to mention two important areas where the market research can increase the strength of a category to achieve its financial target.

⁴³ CONSUMER BEHAVIOR: THE PSYCHOLOGY OF MARKETING by Lars Perner, Ph.D.
5.1.2.1 Packaging and design testing:
Market research and corresponding data analysis plays an important role in the development and evaluation of product packaging, brand design, in-store fixtures which helps retailers and suppliers to get a better understanding on existing products or the developments of new products. The communication of products and brand attributes to the consumer is largely dependent on the design and visual aspects. Market research data in regards to planning and designing processes of a product ensuring that the real needs and desires of consumers are met. Market research could be carried out by workshops activities and by in-depth interviews to reveal the visual cues and communication aids for target consumer groups. Effective communication aids not only mean the modification of visual appearance of product but also it could be done by some words or sentences like brand promise which offers functional and psychological advantage to inspire consumer. For example, a fashion retailer brings a new product in market and inspire consumer in following way that the consumer perceive functional and psychological motivation for impulse buying.

![Table showing functional and psychological motives](image)

Figure 17: Functional and Psychological motivation to stimulate impulse buying of consumer.

5.1.2.2 Price testing:
It is better to conduct a market research on consumers’ perceptions about the price of a specific product or brand in compare to other products in a category. Then the business partners have an idea on how consumer would react to a price change and it will help them to reorganize the price structure for a product of a category or for the whole category. Even the price of a specific category could be change in a certain store to observe the sales results in compare to other stores. Due to price reduction, the increment of sales figures, coupled with the low profit per item, generate the overall growth of this product. And if this growth
inclines toward the overall category performance then the reduced price could be finalize for the specific product. This same thing could be happen for overall category as well.
Pricing for a category is also important for retailer-supplier relationship. I have found a market research which focus on how a shift to category management by retailer affects its price, sales and profitability in a competitive retail setting. The study was conducted on two competing common retailers who receive products from two competing national brand manufacturers. The research shows that one retailer’s adoption of category management increases its average unit price of the category and reduces its sales volume and revenues. But the retailer still enjoy an increase in its gross margin profits as competing manufacturers’ wholesale prices fall in the process\textsuperscript{44}.

On the above discussion, it is easy to understand that pricing is not only important from customer side but retailer can also have some benefits from supplier or manufacturer through category management.

5.1.3 Effective implementation and in store compliance
Implementation and compliance is one of the main areas of category management process which determines whether a plan of in-store execution succeeds or fails. Latest research shows that only 37\% of respondent are satisfied with the level of in-store implementation\textsuperscript{45}.

As implementation and compliance is one of the biggest challenging areas of category management, some advanced manufacturers or suppliers willingly meet with their competitors to define category segmentation and decision hierarchy for their category. This minimizes the cost, time and duplication of efforts when they negotiate or collaborate with retailers as the category segmentation has already been resolved. I think, from supplier side, it could be the milestone of effective implementation and in-store compliance if the suppliers embrace this idea to date.

And from retailer side category manager should identify the fluctuation of performance of a category by analyzing POS data and implement solution through additional sourcing, appropriate specification changes, substitution and better demand management. He should have continuous monitoring on following areas:

- **Price Management**: Monitoring of category indices and analytics on impending price changes.

- **Supply-Market monitoring and Reporting**: Searching opportunities of improvement by analyzing market data and benchmarks.

\textsuperscript{44} Suman Basuroy, Murali K. Mantrala and Rockney G. Walters

\textsuperscript{45} Category Management and Fashion forecasting by NIFT Mumbai pg 55
Continuous cost improvement: optimization of cost through substitution, better compliance or additional sourcing.

Supplier performance management: Monitoring supplier performance and driving quality and service improvements.

Retailing organization can subjected category manager to measure performance of supplier by producing quarterly scorecards. These scorecards will cover the following areas:

- Calculating spend vs. plan (Compliance)
- Quantifying realized savings vs. plan
- Tracking electronic transaction accuracy and timelines
- Recording order fill rate, fill-cycle times and freight-term compliance
- Identifying exception by type (Damaged, incorrect items, overage)

5.1.4 Ranging and Merchandising

After a perfect integration of retailers’ and suppliers’ activities, they need to think about the retail layout that will be suitable for consumer focused retail offer. Some example of retail layout is listed in below:

![Figure 18: This figure shows the different layout plan of retail shop which can impact the customer’s perception of the store positioning.](image)

Ranging and merchandising, throughout the layout plan, have an impact on shopper’s ability to find a product in store. So range planning should be done in a way of fulfilling consumer expectations of on-shelf availability. And this is not easy to do as consumers often feel perplexing situation due to too much choice. Every sub category may have product of similar end use from different brand but ranging and merchandising should be done in a way that customer won’t feel the wall of similar product. Retailer should take the following factors into account while they plan the ranging and merchandising:

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Price strategy: Each segment of a category should have high to low price product with same or tends to same visibility.

Choice: The depth and width of range in a category can initiate customer to choice a product by considering its competitive advantage in compare to others.

Quality and exclusivity: To fulfill consumer’s expectations and to differentiate from other competitor’s offering.

Brand/own label mix: ranging should be carried out by the perfect mix of brand and retailer’s own label to generate an average impression of overall category.

Availability: shelf space should be allocated proportionally to accumulate all the product of different brand in a sub category.

5.2 Supporting tools for Category management
As I discussed so far, the objective of category management is not focusing on retailer’s offering as a collection of individual product to get a better view by customer. Rather it is a process of managing ‘each product categories as a strategic business unit’ where the objective is to enhance business result by focusing on delivering consumer value. Robert Spector raised his voice in 2005 for the same issue:\footnote{Robert Sector(2005) CATEGORY KILLERS: The retail revolution and its impact on consumer culture}:

“\textit{Category management began in the supermarket business, where big retailers of packaged goods learned that they could improve sales and profits if they could more efficiently administer all their different product classifications. The idea was to oversee the store not as an aggregation of products, but rather as an amalgam of categories, with each category unique in how it is priced and how it is expected to perform over time}”.

Therefore, to bring this truth out in the store, retailers should have to ensure the proper as well as uniform distribution of all products or brands within a category. For achieving these objectives they can get in touch with many consultancy firms that enable retailers to become best-run businesses, with robust flexibility. There are many well reputed firm all over the world who supports retailer by providing different tools like software application while data synchronization functionality make necessary changes as simple, and error-free, as possible. Retail business solution firm like\footnote{URL are taken from on-line in the internet dated on 13\textsuperscript{th} May, 2010} EPICOR\url{http://www.epicor.com/pages/default.aspx}, SAP\url{http://www.sap.com/index.epx}, APPULSE\url{http://appulse.com/}, TOREX\url{http://www.torex.com/}, ALDATA\url{http://www.aldat.com}.\footnote{ Robertson(2005) CATEGORY KILLERS: The retail revolution and its impact on consumer culture}
a-solution.com/) assist retailer by proving various tools which takes business profitability with customer satisfaction into account. Some of them are listed in below:

5.2.1 Ranging tools
Ranging tools make retailer capable to do space planning by considering many factors of uniform product mix. This tools show retailer to expose all products in a category in a best possible way by taking cash sales, unit sales and profit into account. Ranging tools have extended the capabilities of retailer by including wide range of data and external performance measure and these data can be synchronized with any space planning software to explore the maximum benefit.

5.2.2 Value chain analysis tools
This tool measures the supply chain performance on the basis of Activity Based Costing (ABC). In order to identify the areas of inefficiencies and non-value added cost throughout the supply chain, ABC methodology deals with all the cost drivers and cost based activities. It also covers the area of warehouse inventory and replenishment process.

5.2.3 Micro marketing system
This system evaluates consumer’s behavior and their preference in shop and then provides insight of potential performance for each category comparing to the actual. For doing this, it utilizes demographic and geo-demographic data and shows the right way of advertisement to achieve the best performance. This system can also be used for target marketing activities like leaflet drops or poster advertising to specific locations.

5.2.4 Customized tools
For the sake of Information Technology, all kind of business data from order making to order delivery in store are available, and the customer demand on any specific brands or products is easily identified by POS data. Therefore, many companies generate their tools for in-store assembly of product that is tailored to their specific requirements. Every retailer’s organization that has ability to access through large amount of data and variety of information resources can customize their own tools according to their convenience. For example Pedigree Masterfoods, the company which have various food category not only for human being but also for pet animal, has developed its own range management and space planning systems.

5.3 Visual Merchandising:
Visual merchandising is the activity of promoting the sale of goods, especially by their presentation in retail outlets. (New Oxford Dictionary of English, 1999, Oxford University Press)
Likely to its dictionary definition, it combines the area of products, store-environment and spaces into a stimulating and engaging display to encourage the sales of product or service. In fashion retailing, a successful output through visual appearance of a store has been come by the team effort involving the senior management, architects, merchandising managers, buyers, and the visual merchandising management team. All of these related staffs integrate their idea to create a warm, friendly and approachable atmosphere for its potential customers. And for doing this, the overall display including color, lighting, space, product information, sensory inputs such as smell, touch, and sounds as well as technologies like digital displays and interactive installations should be done in a way that it motivates customer to hang up with the shop for a long time and encourage them to shop again from the same store. So, visual merchandising is a mixture of art and science that provides maximum sales growth to customer. I am now going to explain some factors to simplify the outlook of retail store that associate with visual merchandising:

5.3.1 **Bulk stacking:**
To get rid of slow selling product or the fashion products that has already been expired, this method it fruitful as it encourages shoppers for multiple purchasing. This technique creates the perception of value by offering multiple purchase in reduced price like “buy one get one free”.

5.3.2 **Category Signposts:**
Certain products should show up in a suitable place to indicate the placement of overall category relevant with this product. The positioning of these products assist customer to find the perfect location where the desired category is. For example, a set of ladies underwear in a place of shop is indicated as a underwear category on that specific position.

5.3.3 **Brand blocking:**
Those customers, who are biased by brand, are always searching for their specific brand. Therefore, easily recognizable brand could be blocked in a specific place where all product of this brand is accumulated to represent the whole brand strength. This is the most important attribute for driving consumer choice. But in every category, the presence of the product of specific brand should be present to maximize category strength.

5.3.4 **Color blocking:**
All products are blocked firstly by their color. Especially for fashion products, color blocking is more significant. Every product of a category should be blocked by its respective color.

But the negative impact of color blocking is like that, same products having any specific color could be overstocked due to low sell and the same products having another specific color could be understock and leading to out of stock for high demand, resulting in consumer dissatisfaction.

5.3.5 **Horizontal and vertical blocking:**
Actually, there is no rule to define which one is better but it is recommended to follow one blocking whether it is horizontal or vertical blocking. The suitability of using anyone of this blocking system depends on some factors like the layout of shop, which product this shop offers and on research data. For skimming through the product when the customer walks along the aisle, vertical blocking is more suitable. Here products are blocked together vertically into categories, sub-categories, segments and sub-segments to help consumer find the product they are looking for. In the same way, horizontal blocking helps customer to browse through the shelf to find what they are looking for. I have found a research article of Procter & Gamble which has shown that vertical blocking helps shopper find products 23% faster than other techniques.

5.3.6 **Store Clustering:**
Store clustering should be done on the basis of some retail function like assortment planning, space planning, pricing, promotion planning, store performance benchmarking etc. Since no single clustering methodology can fulfill all the requirements of a retail shop but it must be aligned towards retailers’ objectives. Nowadays, the retailers are becoming aware about store clustering to design their strategies as per store attributes. Store clustering strategies could be depends on location and market type of stores like stores on a beach, or in a student area, or in an urban neighborhood.

5.3.7 **Key benefits for successful implementations**
It has already been discussed that why the business partner need to be adopted with category management business process, what kind of benefit they are going to perceive through a perfect adoption. Even in the very beginning stage of my thesis paper, I have stated the “scope of thesis” from retailer perspective to remain competitive in market. I believe that the key benefit is to get opportunity to collaborate with supplier by avoiding power game where customer satisfaction is the ultimate goal. Retailers and suppliers can’t

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50 Category Manangement and Fashion forecasting by NIFT Mumbai pg 46
able to run their business alone while they are interdependent on each other. So category management give them chance to share their experience, combine their resources and utilize them by taking customer preference in account. The true implementation of this process is neither possible overnight nor is it possible to perceive the benefit in a short time. It is a continuous process having long term strategy that need to be updated over time. It is not possible to calculate the benefit by mathematical equation rather it is a process that accelerate retailer to go ahead by understanding consumer insight. I want to make you understand that sales growth, profitability and increased GMROI is only the consequence of category management implementation while the benefit is to manage their business process in a better way.

Nielsen Marketing Research has conducted several researches to reinforce this concept. In one of their experimental study on category management implementation, they chose a super market chain of USA, SuperProfit Foods; a manufacturer, Deboanir, Inc.; and a category, shampoo. This study shows us how Debonair, Inc. and SuperProfit Foods had taken their respective initiative along with the five ongoing stage of category management to increase the market share of Bargain Bubbles, a budget shampoo. The practical data of step by step proceeding throughout ongoing five stages which has been shown in book “Category Management: Positioning Your Organization to Win” is huge enough that it is beyond the scope of publication.
6 Discussion

6.1 The future of CM

According to earlier discussion, category management define each product category as a strategic business unit where the reflection will be consumers’ need rather than traditional trading concept of viewing and merchandising of overall products and brands. So we can say unanimously that the adoption of category management have changed the focus of business. But is it all that we expect to get from category management? I think the final goal is to discover and manage the key drivers between consumers, retailers and suppliers. And in my research area of category management (chapter 3), I have shown a lot of critics that apparently make this goal beyond the reach. But in my “role of business partner” (chapter 4), how retailer and supplier can able to incline them toward this goal starting from zero point is successfully brought out, I hope.

Therefore, establishing a collaborative relationship between trading partners is the must-have component of category management. Collaboration aligns strategies, systems, processes and people for cost reduction as well as serve consumer in a better way. Due to advancement of technology and modern logistics and eLogistics setup in business process, we already have achieved some advantage to cover those areas. But not to the extent required to avail the full featured benefit of category management. Moreover, a large number of retailers and suppliers are undermining the concept of collaboration by their behavior. For example, some retailers search the opportunity like charging slotting allowance, charging for category captaincies and diversion of products whereas some suppliers usually apply some marketing program and policy decision that erode retailer’s profit, inconsistent business practices across markets. A survey has shown that over 80% of retailers think suppliers are too brand biased when participating in join category planning51.

But I hope that those retailers and suppliers who synchronize themselves with the ongoing five stages (I’ve discussed in chapter 4), will able to reach the level of true collaboration. And the greatest hope for future is that both retailers and suppliers realize the truth that they individually can not avail sufficient resources to shift their focus toward consumers while the matter is making prediction for the future rather than looking backwards. After taking this reality in consideration, a growing number of retailers are investing more on consumer research, upgrading marketing competencies, utilize the supplier’s knowledge on consumers and encourage them to invest time and resources more on research area.

51 Category Management: The Road Ahead(2000) by Winston Wiber and associates, INC
So, how the future looks like... for category management? The answer depends on some factors like how we can utilize this process while the objective is to touch the consumer. To foster the growth of category management, retailers should employ its knowledge of its customer, the way they shop and their purchasing behavior. In the same way, supplier should employ its knowledge of who purchase, who consumes, their wants and needs and behaviors. Better future is waiting for them if they combine their knowledge and skills to provide the optimal category offer on the basis of the location of retail outlet and the demographic data of consumers. In-store environment is also important factor for future growth of category management as success is ultimately driven by the shopper’s experience at the point of purchase which I have discussed in chapter 5.

6.2 **Suitability of CM in cloudy marketplace**

There is no doubt that the advancement of technology, applications and information has made category management effective for managing retail business. But a blurring situation is waiting for us as there will be an intensifying competition among retailers and the continued shifting of manufacturers’ market-share war to the store level. Even retailers will strive harder to distinguish them from other by doing niche marketing. And manufacturer will want more and more to align their marketing efforts with retailers’ niche strategies to enhance brand performance. As this trend will become the usual practice of near future, category manager will face new responsibilities requiring multiple skills in an increasingly fast-paced business environment. To tackle this blurring situation, category management will cause additional restructuring among suppliers and retailers and redefine their relationship even further. Therefore, category management business process will be more sophisticated to cover a widespread area of technology, application and information that will:

- Allow retailer at the headquarters level to customized merchandising plan for each individual store instead of groups of stores, as well as for individual categories within each stores.
- Enable manufacturer to monitor closely his own brand performance and optimize the merchandising and marketing plan of category for each channel.
- Provide customer specific purchase data that will represent the effect on the total customer transaction, overall store performance and overall company performance.
- Allow the use of artificial intelligence to manage and analyze the increasing data flow and to speed merchandising decision.
7 Conclusion
This thesis struggles to simplify the complexity of overall process involved with category management. I have drawn example from every possible perspective to make us understand that category management is the wave of future in consumer packaged goods marketplace. I have revealed some potential for retailers and suppliers to do work together for catching the wave- and ride it to future success. These potentials are the achievement of this thesis and are mentioned below:

- I avoided the term “category captain” in this thesis though this term is known as one of the key role player and has been involved with category management since its beginning stage. Generally, retailers choose a specific supplier as a category captain for a specific category to get category insight and strategic recommendation. But the subsequent negative impact of having category captain to retailer is that he may restrict the competition of other brands in a category. Even he will have access to information on competitor’s product and able to influence the category decision which in terms create a bad reputation of this retailing organization to other suppliers. In order to remove this complexity, I have replaced the role of category captain by category manager.

- Many business owners whether they are retailers or suppliers, still now trying to implement the traditional eight step process to habituate with category management. There is no doubt that this process considers all the aspect of category and set parameters to measure a category success. But this process does not specify the respective role of retailers and suppliers. Therefore, I have focused on five ongoing stages of category management which precisely define the respective roles that the retailers and suppliers need to be adopted while their target is same- boost up the category performance with consumer satisfaction.

- In order to being able to perceive the benefit of category management, retailers and suppliers should bring some modification in their traditional organizational setup. As like, retailer should reorganize their setup to reveal appropriate space for category manager while suppliers should reorganize their setup for market research which will give his product manager and sales manager better understanding on managing business. In my thesis, I have shown that how they can do it perfectly.

- In order to take appropriate initiative regarding volatile market and marketplace fragmentation, proper research should be carried out on the basis of consumer
shopping behavior, data analysis and ranging & merchandising of product. Suppliers and retailers may have not enough to do it. That's why, I also have emphasize on third party researcher who can assist business partner to take the decision.

Collaboration between retailers and suppliers head office level is not enough while customers are looking for better service and comfortable environment of shopping in competitive price. Therefore, I have discussed various space management and merchandising tools which stimulate the in-store environment. I have also discussed some tactics regarding visual merchandising to create a warm, friendly and approachable atmosphere.

In my thesis, I have mentioned in different chapter about the benefits that the business partners can perceived through a true implementation of category management. Though these benefits are somehow discussed in earlier section in a scatter way, I am going to specify the potential benefits below:

- Higher sales and profit returns
- Higher success level for new product launch.
- Reduce out of stock
- Reduced inventory costs
- Improved availability
- Optimal space efficiencies at a store and shelf level
- Getting consumer insight
- Reduced planning time between trading partners
- Improved allocation of promotional and marketing funds
- Improved execution of seasonal plans.
8 Further research

In our above discussion, we already have found that category management continues to be widely used by many companies across the retail sector. Suppliers and retailers accept this procedure as a must-have process in their business as it reduces their inefficiencies by collaborative planning and utilizing joint resources. In spite of many success and well developed category plans, we need further research on implementation and compliance to reinforce rest of the process.

In my discussion part (chapter 6), I’ve mentioned technological advancement as a further opportunity for improving category management. Further research should be carried out based on sales data analysis that will assist category manager to evaluate the promotional offer by measuring the substitution effects of promotions or the variation in result on an individual store basis.

Store layout will be crucial to prevent shopper being intimidated by the scale of large store. Further research for innovation in terms of merchandising, store and fixture design will need to improve if retailers want to retain consumer loyalty. Even to mitigate the puzzling situation of consumer, many retailers and suppliers are developing shop-in-shop and category zoning environment.

Teenagers are the future supermarket shoppers. They use to visit specific areas and do impulse buying. It is the further challenge for business partner to understand them and offer them right product in a right place. Further research is very important in that sense to bring retailers and suppliers one step ahead of teenagers in terms of product offer, retail environment and entertainment.
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