RE-INVENTING CATEGORY MANAGEMENT

Driving growth with Category Leadership

By Robert Ruttenberg
In order to grow your business and meet more complex customer needs, efficient category management with a data-driven, behavioural focus is now essential. This report introduces Category Leadership - a new customer-centric approach to category management – and outlines how retailers can implement this best practice to drive growth.

Category Management is widely recognised as an essential component of retailing. The original concepts introduced in the 1980’s moved retailers from selling products to marketing categories and understanding shopper needs. Since then however, the retailing landscape has changed significantly. Consumer behaviour is now far more dynamic and increasingly fragmented yet the majority of retailers still follow the largely unchanged traditional 8-step category management process¹ which focuses on categories, not people. An industry study found that the majority of retailers and manufacturers agree that the current approach to category management has too many limitations due to a “narrow focus on single categories and a deficiency in factoring in shopper perspective”².

**WHAT DO WE MEAN BY CATEGORY LEADERSHIP?**

Category Leadership is a unique framework that takes a pan-category approach, addressing the strategic role categories play within the business and applying this consistently through to category execution. Category Leadership enables the holistic management of categories through each of the marketing levers, and brings together all the analysis, insight and tools required to drive category growth by placing evolving consumer behaviour at the centre of the planning process. It breaks retail strategy out of category management silos, responds to a more complex environment, and allows for more diversity in strategic thinking and execution.

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¹ 8 step Model created by ECR (Efficient Consumer Response), 1995

² From category management to shopper-centric retailing report, FMI WWA Deloitte, 2015
THE FAILURES OF CURRENT CATEGORY MANAGEMENT

Many retailers rely on consultancy firms for guidance on establishing good category management. An entire industry exists to deliver the training, support and tools for adoption of the traditional 8-step approach. Our experience with retailers consistently shows that whilst these initiatives are well intentioned, they seldom realise step changes in retailer performance in the long term. Effective category management requires more than generic templates and processes.

Our model provides the strategic vision for the management of categories, guiding retailers in the steps required to achieve success, linking together strategy, analysis and execution. By breaking down category silos, it disrupts stagnant thinking that may be driven either by suppliers or from within the retailer itself, which is at odds with emerging behaviour-driven strategy specific to the retailer. This creates options for improved collaboration between different category managers while also setting up manufacturers to better understand and respond to the retailer’s unique challenges.

SOLVING CHALLENGES WITH MANUFACTURER COLLABORATION

Retailers often struggle to maximise their suppliers’ support with category initiatives aligned and tailored to their requirements. It’s commonplace for manufacturers to propose the same or similar plans to multiple retailers, who may have differing priorities. Retailers often choose not to share their strategic priorities with manufacturers which contributes to this misalignment.

And whilst retailers may cry out for manufacturer proposals that are tailored to their needs, traditional category management processes are a barrier to success. Category Leadership breaks the paradigm by engaging manufacturers and transforming them from being recipients of a category plan to being co-creators of the plan.
The framework developed for category leadership is designed with the following key principles in mind:

1. Simple to understand and logical to follow.
2. Modular. While best value will be attained by working through each stage within the framework, the approach is designed so that specific steps can be addressed in isolation if required.
3. Recommendations are supported by existing technologies, enabling ease of execution.

The approach starts with strategic questions and progresses through to tactical (but aligned) execution plans.

- **Strategic**
  - Analysis/output for all categories
  - “Which categories are important and why?”
  - “Which categories should I be looking to invest in more (and less), and how much?”
  - “Which are the marketing levers...I should focus on for each category and how much (i.e. flex based on role)?”

- **Tactical**
  - Category level as per priorities
  - “Where is my category today and what are the opportunities?”

- **Execution**
  - Category workplan
  - “What do I execute at a fixture and product level?”
Category Leadership begins with a segmentation of categories, creating actionable roles. This differs to traditional category management category roles, which are applied generically across all retailers. Our approach is unique because:

- Our approach uses behavioural data, retailer (i.e. margin) data, market data (i.e. market share) as well as customer engagement data (i.e. how important categories are to where customers choose to shop, and their levels of emotional and cognitive engagement in categories).
- Our roles are designed to be actionable, rather than descriptive. Inherent in each role is an emphasis on prioritisation of category focus.
- We provide clarity on how the roles should influence strategic decisions, e.g. resource, budget and time allocation, as well as how roles should impact on tactical execution, e.g. assortment, pricing and promotions.

Traditional approaches can lead to prioritisation of categories that appear important (e.g. everyone buys the category and frequently) but in reality don’t act as a hook or lever for overall customer engagement. Two common examples are confectionery (often bought as an impulse at the checkout) and laundry care (bought by a high proportion of customers). In reality, neither act as a significant lever in attracting customers to a store or driving engagement. Confectionery has the opposite effect in some markets, as customers actively seek to avoid the category. Ignoring the voice of the customer risks prioritising categories incorrectly.

The management of categories requires the consumption of four key resources by a retailer:

1. **Money** – this dictates the levels of pricing and promotional investment.
2. **Time** - how much time is dedicated to both the ongoing management and regular reviews of categories.
3. **Resource** - the people employed to manage categories.
4. **Space** - how space in-store is allocated across categories.

Category Investment provides direction at a cross-category level on how to allocate these resources across categories.

Traditional category management treats categories in isolation rather than as an evolving portfolio of options that need to be managed for opportunities and risks. Category managers may lack a breadth of vision across other categories, but senior managers at a retailer need to be optimising scarce resources across their categories, in line with category priorities and ROI.

Ensuring category investment decisions are aligned to category roles equips category managers with the appropriate resources to deliver against the business strategy.
MARKETING LEVER PRIORITIES

“Which are the levers I should focus on for each category and how much?”

At this step, we talk about identifying each category’s own ‘DNA’. We know that some categories are more important to some customer segments than others. Some categories are more responsive to changes in price and others to promotions. Innovation is a key driver of category sales in some categories whilst own label may be vital in others.

As well as personalising what we do for customers, we are now able to do the same for categories. Our series of analyses are designed to ascertain the relative importance of a range of marketing levers which we are then able to use to guide further analysis and focus.

The marketing levers available are:

- Assortment; assessed through ‘variety importance’
- Price & Promotion; assessed through the ‘price-promotions balance matrix’
- Innovation / NPD; assessed through an ‘innovation importance’ segmentation
- Private label; assessed through a ‘private label importance’ segmentation
- Omnichannel; assessed through ‘channel importance’ segmentations
- Communications; assessed through ‘communications response’ segmentations

The relative importance of each lever, in combination with a category’s role, provides clear guidelines of how the category should be managed. Use of the Levers, DNA and Category Roles sits in stark contrast to traditional applications of category roles which rely on broad assumptions.

For example, traditional category management dictates that destination categories should have the most extensive assortment with high market coverage. Likewise, they should have keenly competitive prices and lower than average margin. Category Leadership is much more nuanced. It recognises the extent to which choice is important to a category (i.e. breadth and depth of assortment), and similarly price and promotions, in order to ensure that rather than management through standard rules, category actions are closely matched to the levers that are important, and applied accordingly based on the category’s role.

WITH THE CATEGORY DNA WE CAN BE VERY SPECIFIC ABOUT WHERE TO FOCUS

Examples of DNA representing the Fresh Category and the Alcohol Category.

**FRESH**

- Important to Price
  - Sensitive customers
- Choice of low importance
- Responds to small changes in price
- Strong volume driver when on promotion
- Space increases don’t drive sales

**ALCOHOL**

- Important to all customers equally
- Customers highly engage with innovation
- Large response to changes in price
- Own label less important

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Through application of customer science, category management has taken a huge leap forward, with a new strategic model that recognises the importance of changing consumer behaviour and the unique positioning of the retailer. The approach is driving results with retailers, generating category growth of between +2% and +10% after adoption of the Category Leadership framework.

Translating analytical insights into actions, Category Leadership is simple, easy-to-understand, and uses readily available data analysis tools. It can help drive a more collaborative relationship in-house between category managers, and creates a more responsive relationship with suppliers by identifying key drivers of future profitability. To drive growth in the current retail landscape, retailers must put customer needs at the heart of their category management process. Category Leadership provides the solution.
WHY DUNNHUMBY?

Over two-decades we have developed expertise in delivering customer-centric insight to drive improved decisions in the category and merchandising space. We have solutions in assortment, price, promotions and communications, and the marketing levers available to category managers. These combine with our category leadership consultancy to create a complete process from strategy to execution.

THE DUNNHUMBY DIFFERENCE

dunnhumby is the world’s leading customer science company. We analyse data and apply insights from nearly one billion shoppers across the globe to create personalised customer experiences in digital, mobile, and retail environments. Our strategic process, proprietary insights, and multichannel media capabilities build loyalty with customers to drive competitive advantage and sustained growth for clients. dunnhumby employs over 2,000 experts in offices throughout Europe, Asia, Africa, and the Americas and works with a prestigious group of companies including Tesco, Monoprix, Raley’s, Macy’s, Coca-Cola, Procter & Gamble, and PepsiCo.

ABOUT THE AUTHOR

Robert Ruttenberg is dunnhumby's Global Capability Director for Category Management and Insight. He leads the development of best practice approaches to category management through our Category Leadership framework.

CONTACT US

Contact us at dunnhumby.com to put the customer at the centre of your business decisions.

WORLD RETAIL CONGRESS 2017 PANEL

David Clements, dunnhumby’s Head of Global Retail, will lead a panel session at the World Retail Congress to discuss the benefits of putting customers at the heart of category and commercial decisions, drawing on real-world case studies:

Space, range and display performance across channel:
The next-gen science and strategies transforming customer engagement

2.20 – 3.00PM, 5TH APR 2017