

Winning through collaboration

Retailer-supplier partnerships are critical for category development.

By Deepak Pillai and Sanjoy Guha Roy

Year 2009 was probably the most difficult year in the not-so-long history of modern retail in India. Hopefully the worst is over, with retail chains seeing a business upswing towards the second half of '09. Even though all that is behind us now, the slowdown did expose the fragile business practices many chains had.



During the downturn, grocery store chains focused on improved inventory efficiencies and back-end processes. But, these efforts mostly happened in silos, thus preventing different functions to collaborate internally and work as one large ecosystem where systems and business processes are interlinked.

Research has validated (what we always knew as customers ourselves) that 'Everything I need in one shop' and 'Always well stocked' are among the key drivers of store choice among supermarket/ hypermarket shoppers. Also, store loyalty is declining further – over a fifth of the supermarket/ hypermarket shoppers visit four or more stores in a month (*Source: Nielsen ShopperTrends 2009*).

Even today most retailers in the country are struggling with issues in supply chain, back-end efficiency and store level execution that results in sub-optimal assortments, stock-outs and undesirable shelf display. This is especially a bigger challenge in India, because compared to retailers in developed parts of the world, the regional variations with seasonal preferences pose a bigger challenge to merchandisers in India, making their task even more complex.

Consumer-centric approach to business through Collaborative Category Management

From time to time retailers have been trying out different tactics to retain existing customers, lure new customers and make them purchase more (read – Higher Ticket Size). During difficult times in particular, this has been one of their greatest challenges. Thus, it may be time that those Indian retailers looked at adopting a consumer-centric category management approach to their business.

Category Management is all about finding out what shoppers want and providing it better than the competition. In that way, the process solves the key problem of shopper erosion. If retailers select the right products for the target customers and then price and merchandise them appropriately, the result would be a satisfied consumer who remains loyal to the store. Shopper loyalty is critical today because of consumer mobility. People are willing to shop at different stores to fill shopping needs.

Finding out what shoppers want is a highly resource intensive research input. That's where the suppliers/manufacturers step in, with their knowledge of the market, consumer segments, and buying behaviour at the store. A retailer can select one manufacturer as a trusted partner. It could be one they believe, has the resources, wherewithal, and commitment to grow the category. That manufacturer will come to be called as the *Category Captain*.

In evolved markets, the use of category captains has increased over the years. Today, most companies use them.

The largest manufacturer in a category is often chosen to be the category captain, but that's not always the case. A smaller manufacturer may bring in more resources to the table and earn the title, especially if it is enthusiastic and clearly has the best interests of the retailer in mind. Manufacturers also use partners like Nielsen to play a go-between role in delivering their responsibility as a captain by enabling them with capabilities and also validating their recommendations to be consumer-centric and fact-based.

What is the Category Management promise?

Category Management does more than just contribute to the success of a retail operation; it is actually an essential component.

In fact, it is difficult to imagine a retailer winning in the marketplace without relying on the direction that this valuable process provides. Product categories are the building blocks of the store and Category Management leverages them to enable retailers operate efficiently.

Fact-based space management and right assortment can mean more purchases in the real environment.

Some categories may be larger than the others while some may contribute more to the bottom line, but all of them must work well individually and come together to present a cohesive platter to the discriminating shopper. Well managed categories will enable retailers to keep the present shoppers and attract new ones. Given the nature of business today, isn't that the demand of the hour?

The industry may have taken its eye off the consumer during the early days of setting up business and aggressive expansions, but that time

What is 'Joint Category Management'?

ECR Europe created a common definition of Category Management as part of the creation of the Category Management Best Practices Process.

This outlines Category Management as: A joint retailer-supplier process for evaluating and managing categories as separate business units on an item by item basis by focusing on delivering consumer value, and developing and monitoring targeted strategies for profitable growth.

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has passed. Even in an evolving market like India, the consumer should now stand at the centre of the process and drive all decisions about the category today and its direction tomorrow. Both the manufacturer and retailer need to realise this to gain advantage of the competition.

Category Management begins with Retailer's Strategy, but does the retailer in India have it?

Strategy distinguishes companies in a crowded, chaotic and competitive marketplace by helping to determine which opportunities to pursue and which ones to walk away from. When carried out, a strategy can help position a retailer in the minds of the consumer. A retailer will be able to carry out a strategy more easily if everyone from the directors to the

store level employees understands the strategy and works to execute it.

It won't be surprising to know that many grocery category managers are not clear on what they want their store formats to stand for in the consumers' mind. Or is it because many grocery retailers stand for the same thing? Promoting a wide range of products? Well, that could create space problems in the store because of the large number of products needed, which will probably increase the chances of 'out of stock' of top selling items.

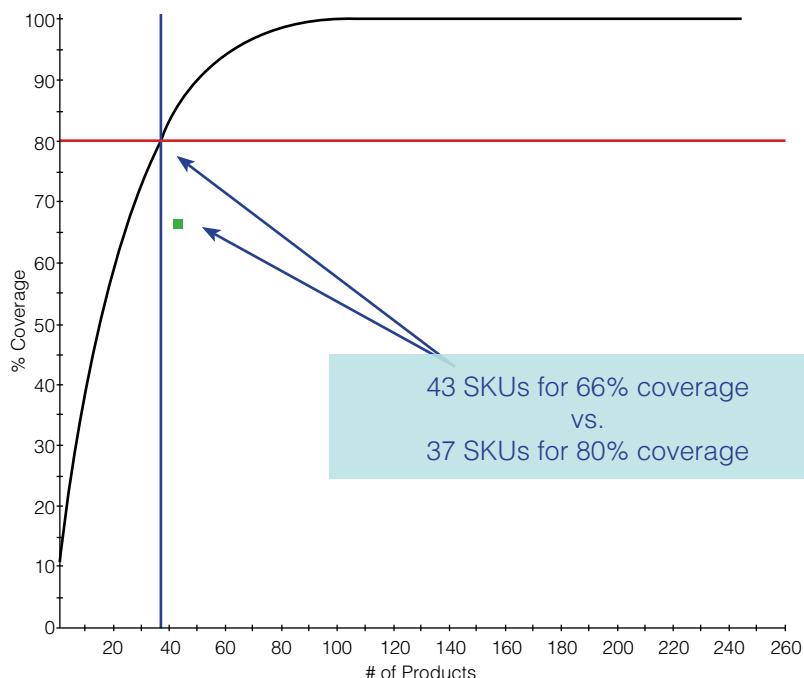
Category Management provides a way to evaluate the success or failure of the tactics of a strategy. Most importantly, it gives the retailer a means to measure their performance against set objectives. However, in a collaborative effort, manufacturers should practice Category Management with the knowledge of retailer

What's in it for the manufacturer?

This helps them to take their engagement with the retailer to the next level. By doing so, manufacturers can take focus away from only price discussions. In most cases the retailer also agrees to share the off-take data for the category exclusively with the 'Category Captain' and also make them party to category strategy planning.

The manufacturer – through a collaborative process – also attains a unique position to better understand the retailer's business and its customers than its competitors. This in the long term becomes a competitive strength of the 'Category Captain'. For example, by leveraging his knowledge of the retailer and its customers, the captain can custom design promotions for their brands. This can eventually get his brands a higher share of the category with that retailer.

Chart 1: Assortment Analysis



(SOURCE: NIELSEN PRODUCT PLANNER)

strategy; else their time and efforts could go waste.

Challenges to developing Category Tactics

Tactics are nothing but the mechanisms for improving five aspects of Category Management: Assortment, Pricing, Promotion, Merchandising and Supply Chain Management. They help to evaluate how consumers experience categories and thereby have an effect on category performance and store image.

While the manufacturer has to align his supply chain to meet the growing needs of organised retail,

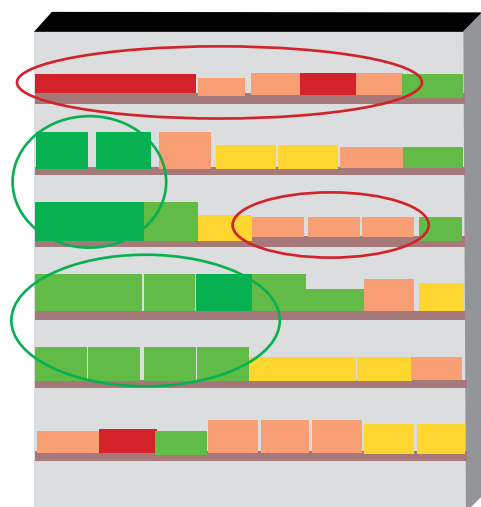
consumer insights can give direction to pricing and promotion strategies. But, the capability of a manufacturer is really tested when it comes to assortment, merchandising plans and updates in a category management program.

The challenges related to range, assortment and space planning can be addressed by really looking at the three areas of retail fundamentals:

1. Range or Range Optimisation
2. Consumer Insights to understand how a consumer shops this range
3. Merchandising strategy for execution at Shelf level

Looking at the Range and its efficiency can be a good starting point,

Chart 2: Top-Bottom performance analysis



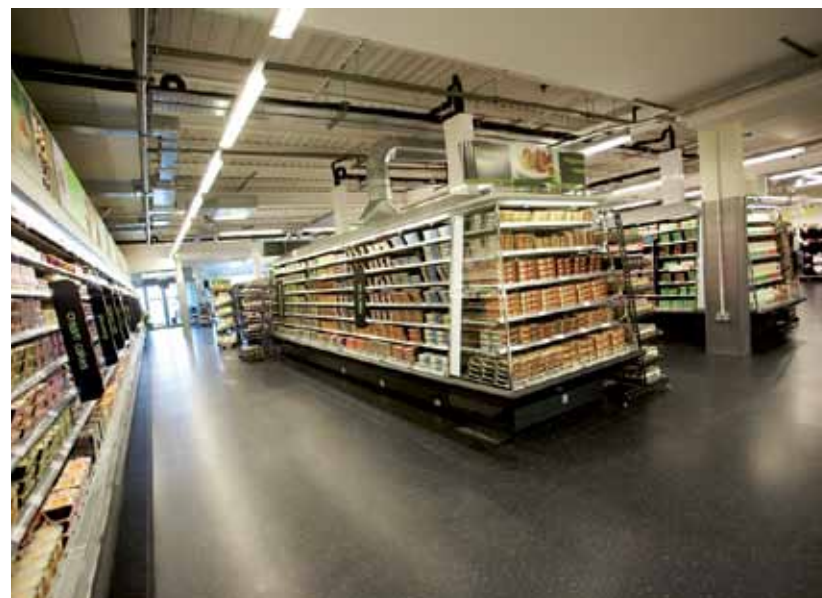
SOURCE: SPACEMAN PROFESSIONAL, INTERNAL DATA AND PLANOGRAMS

Range (Sales)

Top 10%	Top 40%
Bottom 10%	Bottom 40%

Top performing items not Strategically placed

Bottom performing items in premium locations



and improved assortment efficiency can help bring quick wins in both the top line and the bottom line of the retailer. In this area, bringing in the manufacturer's expertise and knowledge of the category and the market can be very valuable.

To do this, the manufacturer needs an in-house team with category management skills and the necessary technology tools to support them with the potentially large volume of back-end work. The technology tools are typically assortment and space planning tools (like the Spaceman suite – Spaceman Professional, Spaceman Product Planner). The challenge for manufacturers here is to keep the team in line with the fluctuating demand of efforts required to service the category management needs of retail accounts. This is why the manufacturers are increasingly seeing the benefits of outsourcing the job to a 'go-between' partner like Nielsen.

Execution is key – How do we execute the plan?

As with any plan, execution is the key to success, but it also remains the biggest challenge for retailers in India today. While retailers seek manufacturers with resources and commitment to manage and grow categories, manufacturers will be willing to put their resources and efforts only on such retailers who are willing to collaborate and at the same time can efficiently implement plans at the store level and reap the benefits. This requires a top level commitment in

the retail organisation to the category management initiative. Only then will manufacturers see reasonable ROI in the resource they put in. This will not only help retailers grow the category, but also save a lot of time and effort they put in the tedious tasks of assortment and space planning updates. They will be able to free themselves of these tasks and focus on more important areas like vendor management, promotions and process improvements.

Globally, retailer-manufacturer partnership has helped category development and benefited both the business partners. The good thing is that there is never a shortage of manufacturers with commitment and willingness to collaborate. But in a developing market like India, where the challenges are varied, both the retailer and the manufacturer need to show commitment to Category Management and trust in each other to see benefits of the process. This could be started on a small scale (say, a pilot) to test out the benefits and fine tune the process for customisation, and then taken up on a larger scale for a roll-out.

A few manufacturers and retailers have already started off on this road with Nielsen acting as a go-between. Collaboration is surely the way forward. ■

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