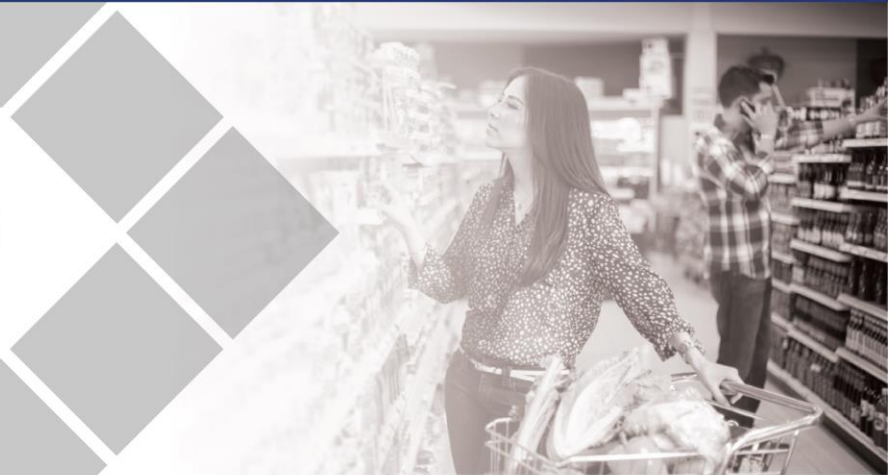


CatMan 2.0:

Category Management in the 21st Century



Category Management Association 2016

Best Practice White Paper

Why read this paper?

Category management is one of the most successful business processes developed in the 20th century. It is used in one form or another globally by most manufacturers and retailers representing a variety of trade classes and business verticals, especially consumer packaged goods. The retail landscape has changed dramatically since the discipline (CatMan 1.0) was originally developed in the early 1990s. This paper summarizes how the industry is modifying category management disciplines (CatMan 2.0) to address the following major changes:

- **A more diverse shopper base** - in the past 20 years, the shopper base has segmented into a collection of unique behaviors based on a consumer's lifestyle and life stage.
- **New retail formats** - since CatMan 1.0, we have seen the growth of supercenters, dollar stores, deep discounters, and online retailers.
- **Data** - since CatMan 1.0, new data sources including shopper insights, loyalty programs and social media.
- **Analytical tools** – new hardware and software solutions enable analytics with unprecedented speed and power, at the individual store level.
- **Success models** – 20 years of knowledge about what works and doesn't work.
- **Shopper focus** – The recognition of the importance of the shopping experience and shopper insights.

What you should do.

Today:

- 1) Review this brief document.
- 2) Share it with other team members.
- 3) Discuss areas where your company's category management practices may need upgrading.
- 4) Develop an internal Category management process improvement team and create a plan.

When the final CatMan 2.0 report is released:

- 1) Reassemble your internal category management leadership team.
- 2) Study the document and attend educational webinars to confirm where your practices need upgrading.
- 3) Share your findings with your internal senior leadership teams including HR, Finance, Sales, and Shopper Marketing.
- 4) Implement programs to improve areas identified as below industry standards.
- 5) Consider training programs approved by the CMA and delivered by certified training companies.
- 6) Participate in webinars, conferences, workshops, and networking groups.

The Need

Category management, “the process”, was developed in the early 1990’s by the industry Efficient Consumer Response (ECR) committee. Its intent was to provide a “language” to facilitate trading partner collaboration that would better meet shopper needs and at the same time enhance industry profits. In many respects, category management 1.0 exceeded the CPG community’s highest hopes. The discipline of category management is now used to some degree or another in every major CPG retailer and manufacturer globally. Its combination of new organizational capabilities, new data and new tools driving a logical collaborative process has transformed the marketing capability of an entire industry. The business now operates with a dynamic collaborative sophistication that would dazzle those who knew the business pre-1990. All stakeholders have benefited including the shopper whose satisfaction has been the primary objective of category management from the outset.

Today, category management resembles an ancient automobile that has been continuously re-habilitated by different mechanics using different parts and new analytical devices. In some cases, completely new parts have been shoved under the hood and new fuels forced through the fuel injectors that replaced carburetors. The car runs even better than it did originally but everyone agrees It’s time to step back and reassemble the process in a more holistic and efficient manner.

What Has Changed?

So what has changed in the last twenty years? Almost everything.

New and different data - category management practitioners have rushed to leverage a tsunami of new data ranging from more granular household panel data to loyalty card data, social media data and finally millions of dollars of new syndicated behavioral and attitudinal data from manufacturers, retailers and third-party providers. The granularity of today’s data permits a store level view and even an individual shopper view of behavior beyond yesterday’s market level view.

New analytical tools - computer hardware and analytical software have gone through several iterations of upgrade since category management was developed in the early 1990s. We now have the capability to do sophisticated pricing analysis as well as multi-variant marketing response analysis that was impossible in the 1990s.

Success models - the combination of more data and better analytics has enabled the development of success models in assortment, pricing, shelf merchandising and promotion. As an industry and as individual practitioners we now know what works in what categories and at what cost across a broad range of category management decisions.

A more diverse retail environment - at the time category management was developed, the retail landscape was relatively homogeneous. The predominant food retail format was the conventional supermarket. Supercenters were relatively rare although growing at a rapid rate. Dollar stores were an artifact of the rural South. Hard discounters had a limited presence and the US drugstore chains were just beginning to offer products in household cleaning categories and a few other categories that had always been marketed exclusively in the grocery channel. Meanwhile, grocers had begun opening pharmacies to mark the beginning of the great channel blurring that is commonplace today. In fact, category management has spread well beyond food formats to a broad range of retail verticals including; DIY, office supplies, food service, etc.

A more diverse shopper universe - as retail formats have diversified, the shopper universe has become much more diverse in multiple ways, demographically and psychographic ally. The combination of retail diversification and shopper fragmentation has driven a perceived need for category management planning at the level of individual store clusters and in some occasions down to the level of individual neighborhood stores.

Shopper insights - adds the power of “why” people shop to “what” shoppers do when they shop. It also adds the emotional component to the rationale component, drives more robust strategies and makes a stronger sale.

Speed of change - Another complicating factor has been the speed of change in the environment. The new data and the various software solutions have enabled thought leaders to keep pace with rapid change. Leading-edge retailers and manufacturers have been early adopters of these improvements but most practitioners lag behind either unaware of the better solutions or unable to adopt them in organizations burdened by rapid personnel turnover and the press of everyday competition.

The biggest barrier to adoption of all the improvements in category management is that no one has taken the time to accommodate all the learning in one place. In CatMan 2.0, our intent is to meet this need. We intend to design a dramatically enhanced CatMan 2.0 reflecting all the enhancements in process, data and tools from the past years.

The Vision

CatMan 2.0 is an ambitious attempt to create a comprehensively redesigned discipline that benefits from the past 20 years of enhancements including the remarkable influence of the digital revolution. Unlike CatMan 1.0, which was presented in a printed monograph of some 80 + pages, CatMan 2.0 will be more contemporary in look and feel with more graphic presentations replete with examples and case studies, podcasts and PowerPoints. The final product will reside in a digital knowledge center that can be queried by category management community and will be readily updated. The CMA will be responsible for updating and maintaining database content with assistance from the broader community.

How is CatMan 2.0 Being Developed?

The CMA is leading the development of CatMan 2.0. We are the logical leader for two reasons:

- (1) Our acceptance by the retail community as “Switzerland”, an objective expert.
- (2) Our unique ability to enroll the most knowledgeable and advanced members of the community.

Making CatMan 2.0 an output of the category management community is critical to its quality and broad scale acceptance.

No one person or organization has the intellectual bandwidth, credibility or time to encompass all the enhancements we envision. Certainly the CMA does not. Therefore, we have reached out to a blue ribbon group of manufacturers, retailers, marketing agencies and solution providers to help assemble the most advanced state of the art solution in each aspect of category management. These companies include:

- **Retailers**
 - 7-Eleven
 - Ahold
 - Sam’s Wholesale Club
 - Walgreens
 - Walmart

- **Manufacturers**
 - Church & Dwight
 - ConAgra
 - McKee Foods
 - Mondelez
 - Procter & Gamble
 - Red Bull
 - Reynolds Consumer Products
 - Republic National Distributing Company
 - The Dannon Co.

- **Solution providers and Sales and Marketing Agencies**
 - Acosta Sales and Marketing
 - Brick Meets Click
 - Decision Insight
 - Interactive Edge
 - IRI
 - Kantar Retail
 - Learning Evolution
 - Market Track
 - McKinsey Periscope

Organizing to Create CatMan 2.0

Once the CMA had assembled the team described above, we organized a meeting in Chicago at DePaul University to align the team around the vision, the objectives and most importantly the scope of our work. As a group, we identified multiple specific areas for potential inclusion in our work. After a structured discussion of these potential “work streams”, we broke into smaller groups to discuss specific issues intensely. We then reconvened into the larger group to hear observations from the smaller groups who had reviewed specific opportunities in detail. After reviewing each of the 25 or so work stream opportunities, the group jointly decided to focus on 17 specific work streams that were perceived to be in scope.

The final step in organizing to develop CatMan 2.0 was to group the work streams into related and complementary groups and then to assign these related work streams to individual work teams comprising committee members who had expressed a desire to address the specific work streams. The result is shown and discussed below.

Work Teams and Work Streams

1) Work Team #1 – Preparation

Team members: 7-11, Kantar Retail, Learning Evolution, McKee Foods, ConAgra and Reynolds.

- **Organizational design** - The challenge for this work stream is to identify the tasks, skills and functional relationships required to meet the needs of more diverse shopper universe confronting category management practitioners today
- **Internal alignment** - category management 1.0 totally ignored the issue of internal alignment required within retailers and manufacturers to be effective partners in developing category plans. The challenge for this work stream is to identify and describe the internal strategies required to ensure both trading partners are prepared to contribute to the category plan at a world-class level.
- **Process** - the process developed in CatMan 1.0 is one of the most successful business processes developed in the 20th century. It is not broken but it needs to be updated based on everything we have learned over the last 20 years. A major challenge is to accommodate the need for shopper insights and shopper marketing plans within the overall category plan.

2) Work Team #2 - The Foundation

Team members: Sam's Warehouse Club, Ahold, Acosta Sales and Marketing, Republic National Distributing, Red Bull, Decision Insight

- **Category structure (CDT)** - agreeing upon the correct category decision tree is fundamental to the success of the category plan. Over the last 20 years, new data and processes have been developed to augment the initial approaches used to develop a category decision tree. These include attitudinal based cluster analysis often enabled by new digitally empowered research tools and techniques such as ethnography and in-depth interviews. This work stream will describe the new approaches and identify when

they may be more appropriate than the original behaviorally based approaches in CatMan 1.0.

- **Category role** - category role is an expression of the retailer's strategy guiding deployment of assets toward the attainment of the retailer's overall plan. This work stream will review how the new data and analytics can help create a better role development process in an era of retail diversity and shopper universe fragmentation.
- **Scorecard** - the scorecard step in the category management process is the critical connection point between the initial foundational and assessment steps and the final steps in plan development, strategy development and tactical deployment. The scorecard step has sometimes been neglected or poorly developed by practitioners utilizing CatMan 1.0 approaches. The challenge in this work stream is to develop a more robust approach utilizing the new data and analytical tools now available. Improving the scorecard is the first step.

3) **Work Team #3- Category Performance**

Team members: Ahold, Market Track, IRI, Learning Evolution, Mondelez, Church & Dwight and P&G.

- **Assessment "what"** - in CatMan 1.0, the assessment step focused entirely upon what had happened historically from a behavioral standpoint. In CatMan 2.0, we maintain a focus on what has happened but augment that with new data sources, more granular data and with the development of an analytical pathway that can help lead practitioners to a clear understanding of what has happened in the category.
- **Assessment "why"** - CatMan 1.0 almost totally ignored why a specific behavior had occurred. In CatMan 2.0, we add the concept and process for developing shopper insights, the "why" driving shopper actions during the path to purchase. This is an important addition into CatMan 2.0 because it provides material for the development of various shopper marketing programs.
- **Category strategy**-CatMan 1.0 offered a relatively primitive approach to category strategy by suggesting that each category have a balance of segments or brands that were "traffic builders, profit builders, transaction builders and excitement creators". CatMan 2.0 takes a much more sophisticated approach utilizing data from the what and

why assessment step. For example, category planners may embrace a strategy of leveraging emotion, providing education, trading up, saving time, etc. In CatMan 2.0 strategies are more creative or insightful and much less mechanical than they were in CatMan 1.0.

4) **Work Team #4 - Shopper Influence**

Team members: 7-Eleven, Acosta Sales and marketing, Market Track, Learning Evolution, McKinsey, IRI, and Mondelez.

- **Pricing** - For a variety of reasons the pricing component of CatMan 1.0 was relatively weak. CatMan 2.0 leverages all of the incremental data now available plus the remarkable new analytical tools to understand pricing elasticity and pricing response by channel, segment, shopper group, etc. This segment of CatMan 2.0 represents one of the biggest step forwards versus CatMan 1.0.
- **Promotion** - Over the past 20 years, practitioners have developed and analyzed a myriad of promotion options. More recently the growth of digital and especially mobile device driven promotions have been added to the portfolio of promotions available to practitioners. It is CatMan 2.0's job to provide perspective on these various alternatives.
- **Shopper marketing and the Path-to-Purchase** - Integrating shopper marketing into category management is one of the principal objectives of CatMan 2.0. The relatively recent growth of shopper marketing as a marketing opportunity for practitioners has confused the community especially as it relates to the relationship between category management and shopper marketing. CatMan 2.0 clarifies this relationship and also harmonizes the processes used to develop shopper marketing programs and category management.

5) **Work Team #5 - Product and Placement**

Team members: Walmart, AHOLD, McKinsey, JDA, Kantar Retail, Church & Dwight, P&G, McKee Foods and Interactive Edge.

- **Assortment** - The growing diversity of the shopper universe plus the multiplicity of retail formats is dramatically influencing the practitioner communities interest in neighborhood-based assortment. CatMan 2.0 will present best practices in this critical area of the discipline.

- **Shelf merchandising** - CatMan 1.0 took a relatively simplistic view of shelf merchandising limiting itself primarily to the positioning of items brands and segments within the category planogram. In CatMan 2.0, we are attempting to address a more complex issue relating to the optimization of the shopper experience by multiple issues relating to shelf merchandising. These include where the category is placed in the store, what are the relevant category adjacencies, how much space is provided to the category, how the space is divided among categories, how items and brands should be arrayed with the objectives of the category and the total shopping experience.
- **Supply chain-** category management is the primary demand side process within the overall consumer goods business model. But practitioners must recognize that the demand side cannot be optimized without the smooth integration of critical supply chain issues. CatMan 2.0 will address those issues at the intercept point between category management and the supply chain many of which are being complicated by factors such as customized neighborhood store level assortments.

6) **Work Team #6 – Deployment**

Team members: Sam's Wholesale Club, Acosta Sales and Marketing, Ahold, Republic National Distributing, Learning Evolution, McKee Foods, and The Dannon Company.

- **Deployment/Executing the plan** - One of the major failures of CatMan 1.0 was not addressing how category plan gets deployed in a complex retail infrastructure. As a result, many category plans were either not deployed at all or deployed in the sub optimal fashion. CatMan 2.0 will try to offer organizational and process improvements to encourage efficient and effective deployment of the category plan down to the level of the store.
- **Measuring ROI** - The single most frequently asked question of the Category Management Association staff is: “what is the ROI of category management”. Answering this question in CatMan 2.0 is even more imperative because of the growth of zero based budgeting - a management approach which questions any personnel or program factor that adds cost to the overall business model.

7) **Work Team #7 - Online CPG Retail and Omni-channel Communications**

Team members: Walmart, Walgreen, JDA, Market Track, McKee Foods, Red Bull, Decision Insight and Brick Meets Click.

- **Online retailing in CPG (Bricks and clicks)** - ordering one's groceries online either for pickup at a brick-and-mortar location or for delivery directly to the home from a remote supplier or from a local bricks and mortar chain is the most rapidly growing shopper behavior in the CPG universe. Initial review by the CatMan 2.0 committee has found a remarkable dearth of information on best practices in this new area. Therefore, we have commissioned an intense effort to understand this complex new shopper behavior. One of the challenges is that online shopping creates major costs on the supply side that also affect the shopper experience on the demand side. Everyone is in Terra Incognita. CatMan 2.0 hopes to shed light on this currently opaque behavior.

Where to from here?

During the first quarter of 2016, we will complete most of the content development for CatMan 2.0. This content then needs to be deployed on a searchable database. Meanwhile the Category Management Association and the CatMan 2.0 steering committee, in conjunction with Stagnito Media, will begin familiarizing the category management community with this work. We expect to formally launch CatMan 2.0 to our members in the Spring of 2016. We will be announcing a series of webinars, workshops and publications throughout the year. We anticipate that CatMan 2.0 will be presented in some detail at the Category Management Association's 2016 Annual Conference in Las Vegas September 11-14, 2016.

Acknowledgements

The Category Management Association is solely responsible for the findings and conclusions herein.

For more information please contact the author:

Gordon Wade

Managing Partner and Director of Best Practices

gwade@cpgcatnet.org

859-360-2828 direct line, EST

513-608-9461 cell phone, EST



Gordon Wade is one of the founders of the category management discipline. In 1991, along with Dr. Brian Harris and Bill Burns, Gordon started the Partnering Group to improve collaboration between retailers and manufacturers. They were asked by the CPG industry co-coordinating committee called Efficient Consumer Response (ECR) to lead development of the category management process.

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

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

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

Other key contributors:

John Drake

jdrake@cpgcatnet.org

214-213-1504 direct line, CST



John Drake brings 47 years of experience in marketing, merchandising and media to the team having been a manufacturer, retailer and consultant. John was co-owner of a consulting company specializing in building category sales and profits at Wal-Mart. He has partnered with leading clients include VF Apparel, Masterfoods, Unilever, Castrol, Michelin, Nokia, Pfizer, Russell Athletic Apparel, and Tyson. He was formerly a Managing Partner in The Partnering Group, where he assisted over 25 leading companies in applying "best practice" category management to their businesses, both in the U.S. and in Europe. John purchased and operated 34 convenience stores; subsequently expanded this enterprise into a very profitable, 174-unit regional convenience store chain. John joined The Southland Corporation's 7-Eleven Stores, with broad marketing responsibilities including all aspects of advertising development, marketing, new product development (including food service) and numerous

support functions. He had brand management responsibility for Duncan Hines Baking Mixes in Procter & Gamble's Food Marketing Department. Under his leadership Duncan Hines achieved record volume and share, in part by introducing new and innovative extensions of the Brand's product line. John was a member of the Procter & Gamble Media group for 17 years, including supervision of all the leading P&G brands' media planning and execution, directing the efforts of 10 top Madison and Michigan Avenue advertising agencies.

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