

**Agata Kobylt**

## **CATEGORY MANAGEMENT – A SUPPLY CHAIN STRATEGY**

### **1. Introduction**

Creating the value to the product for the client is one of the elements in the efficiency in the economic activity. Perceiving the value is the effect either of the marketing activity or of the logistic background.

The crucial philosophy in the process of satisfying client's needs is product category management (*Category Management* – CM).

Th most important is to define what is the product category. Product category is unique, possible to manage group of products/services, which customers perceive as attached and/or secondary in clients needs satisfying<sup>1</sup>.

One can say, that category management is to work for constructing products group form the point of view of the consumer/retailer. This approach influences the perceiving of management categories it the whole chain of supplies. It requires adopting the logistic practices to the groups of products according to the rules constructed in a different way than usual.

The idea of this process is identifying the most convenient product mix and stock of each set of the specific products the clients want to acquire.

Category management is designed to help retailers provide of the right mix of product, at the right price with right promotions, at the right time and the right place. Category management is a cornerstone of the Efficient Consumer Response initiatives [3].

A different definition says as follows:

Category management can be explained as follows: Under the leadership of category manager, using cross-functional terms to identify product categories and

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<sup>1</sup> ECR Europe – *Europe Category Management Best Practices Report*: [a@]: [www.categorymanagement.com](http://www.categorymanagement.com).

drive category performance improvements through the application of categories as strategic business units. The goal of category management is to improve the operating results of retailer and its associate partners – including manufactures, distributors and brokers – by focusing on the consumer [5].

According to the ideas of the conception ECR product management category apart from the marketing aspect needs the implementing the defined logistics solutions, in order to satisfy the needs certain categories. These solutions should be based on widely implied logistic chains creating the final value of the product. Framing the market demand management in the CM strategy needs in this case organizing the logistic chains around the consumer and his specific needs. The result of these qualitative changes should give the effect of the chain work in the business of convenient category/group of receivers by creating the value expected by the consumer, and not imposed by the chain.

## 2. Place of category management in CPFR

Category management is a part of a larger idea, namely the conception *Collaborative Planning, Forecasting and Replenishment* – CPFR. It imposes defined business practices connected with the intelligent cooperation of the partners in the logistic chains in the frames of planning and clients needs satisfying. It lets to implement category management strategy, which represents marketing attitude to the sales, in the planning in the logistic chain as well as the operational processes in such a way, that it is possible to increase flexibility, with at the same time reducing the level costs of storing, transport and logistic.

Figure 1 shows the place of Category Management in CPFR.

Responsibility for creating and managing product category is in the biggest part on the sellers. It results directly from the idea of the strategy, which says, that category has to represent the consumers needs. Therefore it is not possible in an effective way to analyse and implement the solutions of category management without cooperation with the partners of the chain.

Therefore the place of the CM in the strategy CPFR is closely connected with the function of the strategy and planning, where the duty of the seller is to formulating the product category and managing it, and market planning and channels planning in the supply chain is on the manufacturer.

On the intersection of these responsibilities there is fixing of the field of the cooperation and the common business plans. In the centre of these activities should be the consumer and his expectancies in such a way, that the decisive elements given have to make a harmonic whole in the process of the customer service.

Other functions in the conception CPFR, although are not connected directly with the CM have the qualitative influence on the realisation of the strategy assumption.

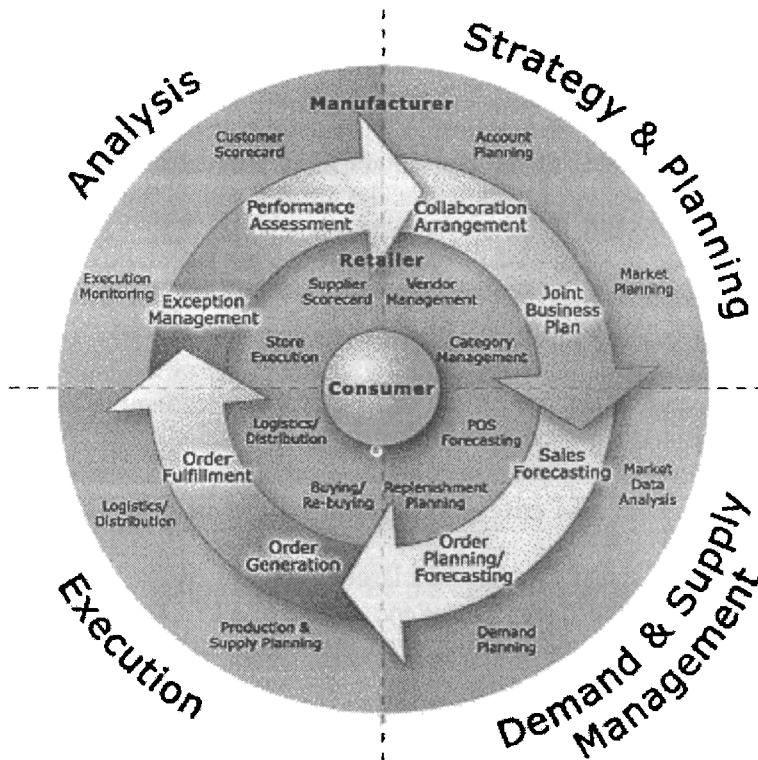


Fig. 1. CPFR model

Source: [1].

### 3. Category management as a strategy of quality changes in the logistic chain

Requirements of the strategy of category management make the participants of the logistic chain introduce the qualitative changes in the chain. The basis of these changes is a change in perception of affiliation of the product and a different qualification. Classic formulation of a chain is most of all defining:

- 1) supply chain participants,
- 2) the participants relations,
- 3) roles and business forces and
- 4) supply chain integrate point.

The stream of the product depends on typical structural factors resulting from the construction of the logistic chain connections, which exist, in it.

Introducing category management strategy needs the reorientation of the rules of creating the logistic chain.

Figures 2 and 3 shows those changes.

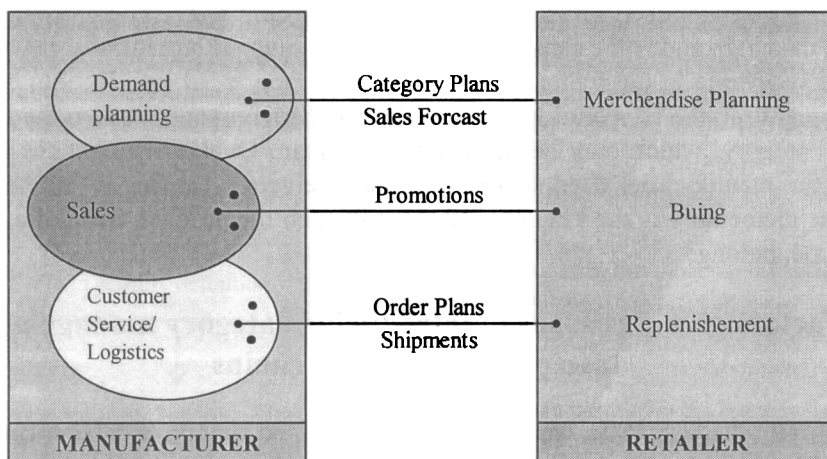


Fig. 2. Conventional organizational roles

Source: [1].

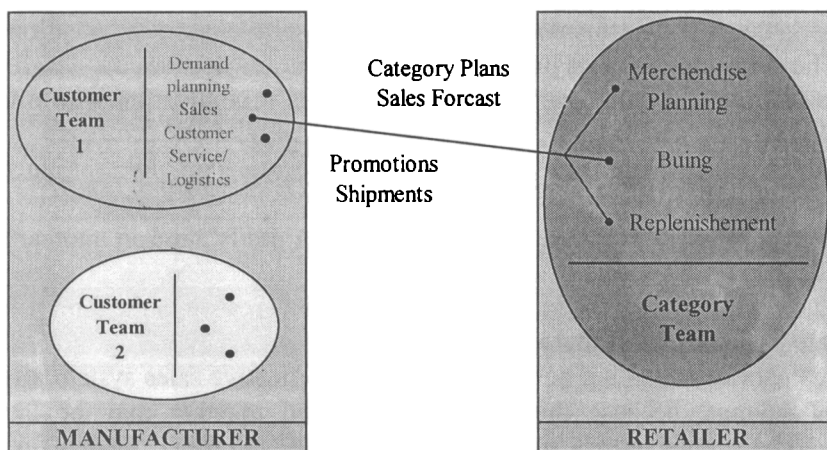


Fig. 3. Collaborative organizational structure

Source: [1].

Figures show clearly the change of the orientation: in the first case we can observe functional cooperation oriented towards suppliers categories (they result from the product division on the groups according to the physical qualities, clients segments and others).

Logistics and marketing actions are directed towards deciding according to each product separately.

In the second case there's a change of the notion of category, where the category is a group of products, which for the customer are connected. Therefore the relations in the chain and at the same time the activities must be structurally changed in order to cooperate in the frames of new types of products groups. It requires very often integrating the cooperation of the seller and different suppliers in the frames of one category, which may be the logistic problem. Qualitative changes on the side of the manufacturer need segmenting the receivers according to the new criteria: the elementary is the kind of category to which the product, being the object of the sale, belongs.

#### **4. Factors giving reasons of introducing category management strategy in the logistic chains**

Currently the consumer market is very dynamic and changeable. High competition make the companies look for the new solutions in the areas of marketing and logistics, which may help to cope the changing market conditions. Category management is a tool, which let to face the requirements on the very quickly changing market of the sellers.

Among the factors influencing looking for new solutions we can mention [4]:

1. The consumption is stagnating. During the last few decades the development has moved from a situation with a lack of products to a situation with a lack of consumers.
2. All basic needs are fulfilled. Instead there is an oversupply of products, services and shop space.
3. The consumers get more demanding and can easily shop In another super-market.
4. The competition in the industry gets harder. One reason in the diminishing of barriers to protest against international competition.

By categories managing one can get the more effective sales system, time and financial savings, because the products connected together may be managed together. The supplementary ruff is the possibility of ordering the managing one category by one manager, which means that each of the product categories will be monitored better than if it were managed separately.

#### **5. Rules of implementing of the category management strategy**

Category management needs according certain rules. On respecting them depends the success and effectiveness of introducing the conception in the enterprise. To these rules one can subsume [2]:

1. The Category Management business process adapts consumer's point of view. It is the structure by which a supplier and retailer do what is necessary to

produce value to their consumers. As the consumers are the final arbiter of work process design and ongoing performance, they are represented throughout all phases of the Category Management business process.

2. The Category Management business process also has clearly defined „process owners”, i.e., individuals with clearly assigned responsibility for design and execution, and for ensuring that the consumer, supplier and retailer needs are met.

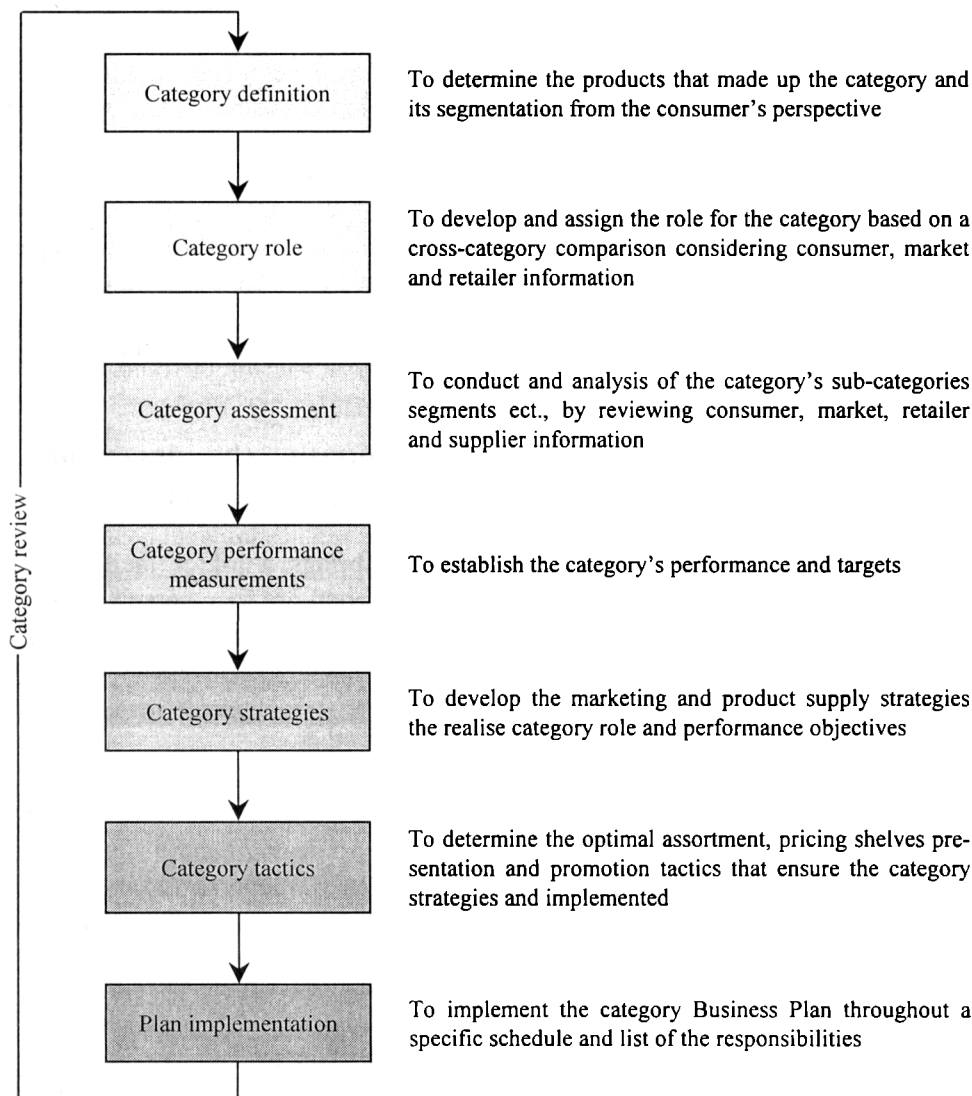


Fig. 4. The process of planning and managing of the idea of category management

Source: [2].

3. The business process provides a common format and language for both the retailer and supplier. If suppliers and retailers follow significantly different processes, much of the value is lost. The process is powerful from of common language which links the supplier's and retailer's business objectives for enhanced results and consumer value.

4. The business process is directed by the retailer's and supplier's corporate and departmental/divisional strategies. These strategies guide the decisions required to complete the Category Management business process.

5. The business process strongly supports both the development and implementations of the Category Business Plans. Well-developed business plans which are poorly executed do not deliver either consumer value or enhanced business results.

6. The business process provides the platform for leveraging supplier and retailer expertise/resources.

7. The business process stimulates continuous improvement through the repetitive refinement of category data and plans. The output of the business process is measured, monitored and refine on a periodic basis.

Figure 4 presents the process of planning and managing of the idea of category management.

## **6. Advantages and disadvantages of initiating the conception of categories management in the logistic chain**

Initiating the management category strategy brings a lot of facilities, but implicates lots of consequences as well. A bit different are they perceived by the consumers, a bit different by the participants of the logistic chain.

Advantages for the consumers if the retailer use Category Management:

- it is easier for the consumer to find,
- complementary products are often clone to each other,
- categories are adapted to market trends,
- it is easier for the consumers to compare products of different brandy and their prices,
- south-after items are more likely to be in shelves.

Disadvantages for the consumers if the retailer use Category Management:

- it can lead to fewer products and higher prices,
- the consumer might miss some distinct products,
- the consumers might buy more than they want to.

Advantages for the supply chain if use Category Management:

- supply chain is focused on consumer and become more consumer oriented,
- supply chain can be more profitable,
- the assortment is more efficient,

- it can save many resources,
  - the handling of products is easier,
  - Category Managers are experts for their categories and combine buying and merchandising functions,
  - it can improve the relationship between manufacturers and retailers.
- Disadvantages for the supply chain if use Category Management:
- it is costly to implement Category Management,
  - the long term ongoing process can hinder short time opportunities,
  - to see results take long time, which can lead to temptation to lose focus,
  - it can lead to uninformed and unmotivated employees, who do not feel responsible.

## **7. Measurable profits of category management in Europe**

Implementation, taking place in this very moment, of the idea of category management of has brought already the first results. Many companies notice the increase of turnover and the decrease of the costs. The research made in the years 1998-2004 demonstrates the results as follows among the companies implementing categories management [2]:

1. Increased sales and gross profits +5% do 10%.
2. Increased return on inventory +5% do 10%.
3. Reduced inventory investment –10% do 20%.
4. Increased sales per man hour +2% do 5%.
5. Reduced store labour costs –0,25%.

Among the logistic aspects it is necessary to consider the biggest access to the information in the supplies chain on the side of the manufacturer, which influence the decrease of fluctuation in the stock management and decreases the logistics costs.

As the result of category management in supply chain it must be noticed:

- possibility of joint planning of information and product flow for groups of products – not individual,
- reduction of transaction costs,
- possibility of quick response for changes on the market (systems of information resource management i supply chain),
- possibility of stock reduction in whole supply chain and better inventory control.

The cooperation let taking the decisions basing on the common targets and techniques in the logistic chain in order to satisfy the customer needs. Introducing the strategy in the logistic chain leads as well to actuate the flow in each link by the effective influencing the receivers market. It needs however breaking structures



functioning of the distribution management and introducing the solutions basing on the marketing tools created with the defined logistic support.

The chances of enterprises cooperating in the frames of logistic chains results from the effectiveness in the clients need satisfying. Nowadays it is not enough to have the product, it is necessary to manage it in that way that clients were satisfied from the complexity of the sales, with the minimal effort.

## References

- [1] *CPFR Overview*, Voluntary Interindustry Commerce Standarts, [www.cpfr.org](http://www.cpfr.org), 2004.
- [2] ECR Europe, *Europe Category Management Best Practises Raport*, [www.categorymanagement.com](http://www.categorymanagement.com).
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- [4] Helgesson C., Huttula J., Roth T., *Category Management – A New Consumer Oriented Concept in the Swedish Food Retailing Industry*, Kristianstad University, Kristianstad 2004.
- [5] Koester L., *Building a Category Management Capability*, UPS Supply Chain Solutions White Paper, Cleveland 2005.

## ZARZĄDZANIE KATEGORIAMI A STRATEGIA W ŁAŃCUCHU DOSTAW

### Streszczenie

Zarządzanie kategoriami jest nieodłączną częścią zarządzania łańcuchami logistycznymi. Wskazuje na konieczność dokonywania zmian jakościowych w konstrukcji łańcucha dostaw. Tylko łańcuch zorientowany na konsumenta i jego potrzeby może być efektywny i przynosić zyski wszystkim jego uczestnikom. Artykuł wskazuje, że zarządzanie kategoriami jest ważne dla strategii i planowania w łańcuchu dostaw.