MAKING CATEGORY MANAGEMENT WORK
Category Management was supposed to transform trading departments from procurement specialists into customer-focused managers of strategic business units. But for most retailers, this hasn’t happened: while job titles have changed, the fundamentals of the role – and the expectations and support provided – have stayed much the same. A few retailers are capitalising on the promise of Category Management by redesigning how their trading organisations work. This means having the right talent, but also the right tools and job design.

‘Category Management’ sounds like a straightforward idea: retailers should manage each product category for maximum customer appeal. A Category Manager should be a general manager of a business unit, not just a buyer looking to procure product. Rather than focusing only on wringing the lowest costs out of suppliers, trading departments should develop the best possible customer proposition, with competitive pricing, attractive promotions, relevant assortments, and appealing visual merchandising.

But when we talk to retailers, they tell us that putting this into practice has proven difficult. Trading departments have a longer list of responsibilities, but most buyers still spend their time dealing with the same tasks they faced a decade ago. Although changing job titles is easy, changing the way people work is much harder; and in many cases, implementing ‘Category Management’ has meant giving the trading department responsibility without power.

The obstacles that must be overcome for Category Management to deliver on its promise fall into three categories:

**Time**: Category Managers must be able to dedicate enough time to being Category Managers.

**Information**: Category Managers need the right information for making decisions.

**Skills**: Category Managers cannot be expected to be experts in everything. They need to be supported by a small number of specialists with deep expertise in specific areas.
This paper describes these challenges in more detail, and suggests ways a retailer can ensure Category Management delivers on its promise.

**TIME FOR CATEGORY MANAGEMENT**
The first problem Category Managers complain about is lack of time – they just don’t have the time to manage their categories, because the old work of buying never goes away. Category Managers must still deal with the same activities as in the past: placing orders, meeting suppliers, addressing problems highlighted by the stores, writing ads, and so on. Adding a new set of responsibilities won’t work if there aren’t enough hours to deal with them.

When overburdened with tasks, most people tend to focus on today’s immediate concerns, and neglect tomorrow’s challenges. Since many of the ‘new’ responsibilities associated with Category Management are strategic in nature and involve longer timescales, they tend to take second place to pressing day-to-day tasks unless Category Managers have additional resources to address them. It’s worth noting in this context that the financial stakes for the strategic aspects of the Category Manager’s role are in fact very high – but missed opportunities to drive sales and profit are less conspicuous than gaps on the shelves.

Exhibit 1 illustrates this problem. Across this group of retailers, category managers spend most of their time on administrative tasks and short-term crisis management, leaving little for setting strategy or long-term planning. The implication is clear: overstretched Category Managers are effectively just Buyers with a different job title. If your Category Managers are spending all their time on ‘traditional’ buying activities, then you probably need to hire some more Buyers.

**BETTER INFORMATION EQUALS BETTER DECISIONS**
Category Managers also tell us they find it hard to get hold of the information they need. Individual categories have hundreds of SKUs, so it’s far from straightforward to figure out what product assortment, promotional program, or price architecture will deliver maximum customer appeal and the best possible financial performance. The massive advances in data collection and storage over the past decade mask an unfortunate truth: most retailers are data-rich, but insight-poor. Although a wealth of information is, in theory, available, gathering it often requires a long and difficult journey through different systems. So Category Managers rarely have the right tools to support decision making. Lacking good management information, some rely upon suppliers to provide customer insights. Besides the risk of allowing these suppliers undue influence over category strategy, this has another drawback: suppliers don’t provide the information retailers really need. For example, data on customer segments and brand loyalty can shed light upon why customers switch between products on the same shelf (which is what suppliers care about), but is less helpful for understanding why they switch between stores (which is what retailers care about).

Over the past decade, many retailers have launched ambitious systems projects aimed at reducing their reliance on inadequate or incomplete data. But the long lead time these involve can be a problem in itself, if major decisions are put on hold while everyone ‘waits for the new system.’ More importantly, though, when the new system is in place, it often turns out not to deliver exactly what the Category
Senior trading executives are often shocked when they see how Category Managers actually spend their time. The sheer amount of administrative work – entering data, managing prices and ads, handling replenishment – squeezes out any time to think about the category strategy and how to drive sustained performance improvement. Meetings with suppliers take up vastly more time than preparing for such meetings – a big issue when tens of basis points of margin are at stake every time a Category Manager talks to a supplier.

And this issue is not confined to a single geography or type of retailer. Oliver Wyman has seen the same pattern in our work with every type of retailer, from grocer to category killer, in half a dozen countries.

### Exhibit 1: How a Category Manager spent the week – A representative example

<table>
<thead>
<tr>
<th>Time</th>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
</tr>
</thead>
<tbody>
<tr>
<td>08:00</td>
<td>Data entry</td>
<td>Reviewing competitor activities</td>
<td>Preparing for supplier negotiations</td>
<td>Internal meeting – recent performance</td>
<td>Planning promotions</td>
</tr>
<tr>
<td>09:00</td>
<td>Analysing past week performance</td>
<td>Preparing presentation on past week performance</td>
<td>Supplier presentation</td>
<td>Running down and fixing bad cost data</td>
<td></td>
</tr>
<tr>
<td>10:00</td>
<td>Requesting reports</td>
<td>Supplier call</td>
<td>Internal meeting – pricing</td>
<td>Approving buys</td>
<td></td>
</tr>
<tr>
<td>11:00</td>
<td>Reviewing competitor activities</td>
<td>Data entry and validation</td>
<td>Internal conference call – distribution issues</td>
<td>Internal meeting – promo planning</td>
<td>Supplier meeting</td>
</tr>
<tr>
<td>12:00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>01:00</td>
<td>Staff meeting</td>
<td>Supplier call</td>
<td>Internal meeting – store fixtures</td>
<td>Supplier meeting</td>
<td></td>
</tr>
<tr>
<td>02:00</td>
<td>Supplier call</td>
<td>Supplier meeting</td>
<td>Supplier meeting</td>
<td>Internal meeting – promotions</td>
<td></td>
</tr>
<tr>
<td>03:00</td>
<td>Internal meeting</td>
<td>Handling e-mail</td>
<td>Handling e-mail</td>
<td>Internal meeting – pricing</td>
<td></td>
</tr>
<tr>
<td>04:00</td>
<td>Revising activity plan</td>
<td>Supplier meeting</td>
<td>Internal meeting – store fixtures</td>
<td>Reviewing deal sheets and pricing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal meeting – store fixtures</td>
<td></td>
<td>Internal meeting – store issue</td>
<td></td>
</tr>
</tbody>
</table>

**HOW CATEGORY MANAGERS SPEND THEIR TIME**

Senior trading executives are often shocked when they see how Category Managers actually spend their time. The sheer amount of administrative work – entering data, managing prices and ads, handling replenishment – squeezes out any time to think about the category strategy and how to drive sustained performance improvement. Meetings with suppliers take up vastly more time than preparing for such meetings – a big issue when tens of basis points of margin are at stake every time a Category Manager talks to a supplier. And this issue is not confined to a single geography or type of retailer. Oliver Wyman has seen the same pattern in our work with every type of retailer, from grocer to category killer, in half a dozen countries.
Managers need. Good decision making typically requires many different items of data from different sources – if one piece of the jigsaw is missing, Category Managers are reliant on guesswork. The solution is to provide comprehensive information and insights specifically tailored to the decisions that need to be made.

Category Managers need industrialised, instantaneous reporting tools, but detailed data and in-depth analysis aren’t enough – information needs to be presented in a clean and straightforward way, and needs to be easily replicated at the different levels Category Managers need (by brand, pack size, sub segment, store cluster, and so on). Data need to be presented in ways to enable commercial decision making. For example, for supplier negotiations, data on supplier performance should be presented in a comparative fashion – to enable the easy identification of strongly and less strongly performing suppliers. Finally, tools need to go beyond just presenting data. In promotions for example, category managers typically need an intelligent planning tool which enables them to predict the performance of potential promotions before they are run.

SKILLS: THE NEED FOR SPECIALISED SUPPORT
The final challenge is that Category Management draws on a broad range of skills. Senior management rarely acknowledges just how broad, and rarely provides the buying teams with the specialised resource they require. Even if Category Managers had more time and better information, they would still face the daunting challenge of being not just a ‘jack of all trades,’ but an effective expert in diverse areas – from understanding and shaping customer tastes and preferences, to building budgets, to managing sensitive levers such as price and promotions.

Add in the ever growing complexity facing retailers, and the challenge is greater still. Customer propositions span a wide range of banners and geographies, and offerings must be tailored to smaller and more focused markets. Managing this complexity requires an understanding of local demand (differential assortment based on affluence, ethnicity, and so on) and local competition (differential pricing by category depending on competitors and their overlap to the offering). Strong analytical skills and strategic insight are essential – but the typical retail talent model, with its emphasis on promotion through the ranks, does not always foster these.

Part of the answer is to create specialised, centralised teams to provide advice and support, while final decisions remain with the Category Manager. This frees up time for Category Managers to think strategically about managing their business, rather than spending countless hours pulling together data and crunching numbers. In addition, specialist support groups can help develop and support the customised management information tools described in the previous section, and can standardise, simplify and improve the approach to category management across the business.

Even with specialist support, to expect the Buyers of yesterday to transform themselves into the Category Managers of tomorrow is asking a lot, because although a few may have the skills required, most do not. Diversifying the talent model can greatly improve the odds of making Category Management a success: the key is to make the best possible use of people with different backgrounds and
**European National Retailer**

**POINT OF DEPARTURE FOR THE JOURNEY**
Historically strong results, but recent steep performance decline. Organisation resistant to change – even the word ‘change’ had become negatively charged.

**APPROACH**
Incremental approach to change. Narrow but highly visible capability upgrades at first. Early quick wins generated trust and ‘pull’ from the organisation. Broader capability building later in the programme.

**SUSTAINING THE RESULT**
Established a Specialist Support Team for each of the major trading levers: Pricing and Promotions, Assortment, Supplier Management, etc. Each team is composed of a mix of trading and finance personnel, with responsibility for providing expert advice to Category Managers – but decision rights and responsibility for results remain with Category Managers.

**EXAMPLE: THE PRICING & PROMOTIONS SPECIALIST SUPPORT GROUP**

**North American Regional Retailer**

**POINT OF DEPARTURE FOR THE JOURNEY**
Strong performance but increasing competitive intensity. Recognition throughout the organisation that current capabilities were not sufficient.

**APPROACH**
Used a major pivot point – significant restructuring of the assortment and attending supplier negotiations – to drive home the new for better capabilities and tools. Senior management set very aggressive goals and provided CMs with the tools they needed to achieve them, including dramatically scaling back low value administrative work that had accumulated over the years.

**SUSTAINING THE RESULT**
Category Manager job descriptions revised to focus on longer term planning, with administrative tasks pushed down to clericals. Established the first category-level budgets to provide a framework for CMs to sign up for the performance they wanted to deliver, and be held accountable. Created a new group within Trading to provide comprehensive support to Category Managers on pricing, promotions planning, supplier management and visual merchandising. The central support group was lean and scale-appropriate but staffed with individuals who understand the merchants’ jobs and had the tools to support them effectively.
skill sets, and ensure a diversity of experience by combining internal ‘through the ranks’ promotions with external hires. It’s also important to recognise that not everyone in the trading department will have the skills to be a great Category Manager, even if they were very effective as a buyer. True category management will always be a demanding role: the focus should therefore be on finding the right people for it.

CONCLUDING REMARKS
So far, Category Management has rarely lived up to its potential to deliver both a more powerful customer proposition and better economics – mostly because the challenges it presents have been underestimated. Viewing it as an evolution from the existing business model has in many cases prevented it from becoming the revolution it promised to be. On the other hand, retailers who have relied on systems solutions to deliver Category Management have also ended up disappointed. The solution lies in acknowledging that Category Management represents a fundamentally different approach to trading, and that the increased complexity of the role requires a new organisational structure, along with new systems and resources. Building these capabilities is a challenge in itself – but it can also bring significant financial benefits, and provide a decisive edge in a competitive marketplace.
ABOUT OLIVER WYMAN
With offices in 50+ cities across 25 countries, Oliver Wyman is a leading global management consulting firm that combines deep industry knowledge with specialised expertise in strategy, operations, risk management, organisational transformation, and leadership development. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC].

In the Retail practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we’ve built our business by helping retailers build theirs.

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