



## EFFECTS OF THE IMPLEMENTATION OF PRODUCT CATEGORY MANAGEMENT IN LARGE RETAIL COMPANIES

GASOVIC, M[ilan]

**Abstract:** *Category management is a system of managing individual products, product ranges, brands or product categories. Some retail companies from the Western Balkans region, which have already completed or which are still going through the process of transition, began with the introduction of the concept of product categories management. First results of the introduction of category management, in spite of all obstacles and limitations, are certainly encouraging. Research results demonstrate the variety of problems, weaknesses, and the future directions of the category management concept development*

**Key words:** *category management, product categories, retail companies, effectiveness*

### 1. INTRODUCTION

Many companies in growing and very competitive Fast Moving Consumer Goods industry face the challenge of satisfying the consumers' needs in the most effective and efficient way. In modern business, companies have to find a better approach to the final consumer. From this reason, the last decades of the 20th century saw the emergence of a new form of product management – the concept of category management. The concept was initiated by US retail companies.

Adoption of the category management led to some important changes in business operations. Some of them are:

- Management based on groups of similar products and not on individual products,
- Retailers and suppliers work together to offer the consumer higher value for invested money, as well as, to optimize their own value chain,
- Power shifts from suppliers to retailers,
- Creation of multifunctional teams of retailers and suppliers instead of earlier contacts through sales and purchase departments, etc.

The modern progress in information technologies and the partnership between producers and retailers allow both sides equal access to data about sales figures and market share. The result of this development lies in the shift of power balance from producer companies (suppliers) to retail companies. Accordingly, modern producers want to build the best and the closest relations with retail companies, just as with end consumers.

Category management is a process which consists of several phases: planning, organization, implementation and control, and audit. Various authors (Singh et al., 2001; Karolefski et al., 2005), emphasize the good results which are, due to the implementation of the concept category management, achieved by the retailers in developed countries.

Introduction of category management in the companies of the Western Balkans region has started only several years ago, due to the transition process. Major retailers in the Western Balkan region (Delta, Mercator, Konzum) have already grasped the significance of category management and they have started practicing this concept. The first results are already visible.

Issue of the introduction of product category management has resulted in the appearance of the first publications in the given field (Bogetic, 2007; Muller et al., 2006), as well as scientific and technical papers, symposiums and training seminars.

The first research on the achievements in the field of category management implementation, were conducted in the three largest retail companies of the Western Balkans region. The research was conducted in March and April of 2010. Interviews and questionnaires were used as methods, as well as appropriate quantitative and analytical tools in the data processing and data analysis.

### 2. EFFICIENCY OF IMPLEMENTATION OF CATEGORY MANAGEMENT CONCEPT IN THREE MAJOR RETAIL COMPANIES OF THE REGION

Research results, undoubtedly, show that the concept of category management in Fast Moving Consumer Goods sector has improved the previous management methods, where functions of procurement and sales were separated. Also, this concept unites all the most important elements of retail management: product range, pricing policy and marketing activities. This enabled retail companies in the region (Serbia, Croatia and Bosnia and Herzegovina) to achieve significant growth in sales, turnover coefficient, as well as profitability upon implementation of the concept. Table 1. illustrates growth/reduction of sales, turnover coefficient and profitability per annum.

Category	Changes in turnover (%)	Changes in product turnover coeff. (%)	Changes in category market share (%)	Was there profitability increase?
Meat & meat products	1st y. 21	1st y. 3	1st N/A	1st y. YES
	2nd y. 11	2nd y. 5	2nd N/A	2nd y. YES
	3rd y. 6	3rd y. 7	3rd N/A	3rd y. YES
Fresh fruit & vegetables	1st y. 39	1st y. 4	1st N/A	1st y. YES
	2nd y. 9	2nd y. 15	2nd N/A	2nd y. YES
	3rd y. 13	3rd y. 10	3rd N/A	3rd y. YES
Personal hygiene	1st y. 27	1st y. 18	1st N/A	1st y. YES
	2nd y. 21	2nd y. 9	2nd N/A	2nd y. YES
	3 <sup>rd</sup> y. 16	3rd y. 15	3rd N/A	3rd y. YES
Household cleaning	1st y. 23	1st y. 8	1st N/A	1st y. YES
	2nd y. 7	2nd y. 8	2nd N/A	2nd y. NO
	3rd y. 9	3rd y. 7	3rd N/A	3rd y. YES
Soft and alcoholic beverages	1st y. 21	1st y. 9	1st N/A	1st y. YES
	2nd y. 4	2nd y. -5	2nd N/A	2nd y. YES
	3rd y. 12	3rd y. 5	3rd N/A	3rd y. YES
Bread& pastery	1st y. 35	1st y. 6	1st N/A	1st y. YES
	2nd y. 10	2nd y. 5	2nd N/A	2nd y. YES
	3rd y. 11	3rd y. 7	3rd N/A	3rd y. YES
Frozen foods	1st y. 44	1st y. 9	1st N/A	1st y. YES
	2nd y. 14	2nd y. 8	2nd N/A	2nd y. YES
	3rd y. 6	3rd y. 11	3rd N/A	3rd y. YES
Electric& electronic appliances	1st y. 92	1st y. -14	1st N/A	1st y. YES
	2nd y. 23	2nd y. -1	2nd N/A	2nd y. NO
	3rd y. 18	3rd y. 10	3rd N/A	3rd y. YES

Tab. 1. Growth in sales, turnover coefficient, as well as profitability upon implementation of the concept

Conducted research proves that there is no “magic formula” which would precisely show how a category, subcategories or segments within a category should be organized. Too narrow or too wide organization of category range can result in: sales loss in the first case, or small turnover coefficients, in the other case. It is, therefore, necessary to continuously collect the available data on performance of competitor companies and control the performance of own product categories in detail.

Research results indicate that the category management concept was accepted by the key accounts, because they realized that it is an efficient way to manage their entire product range, and that they greatly benefit from it. Also, consumers noticed that the principle of homogeneity and consistency of product range segments in stores was respected when establishing the categories.

All the three companies experienced increased profitability in almost all product categories. This represents the justification of investing in category management. It is important to note that all of the three observed retailers managed to overcome the initial difficulties and that at the present moment, the attitude of their staff members regarding the category management is mainly positive. Both management personnel and in-store employees see the process as something that will provide positive business results and improve their competitive advantage.

It must be emphasized that, by increasing their competitiveness and improving their business parameters, the companies which adopted the concept of managing products as separate business units, also increase the competitiveness of economy in general, so that it becomes stronger and more independent. If the producers/suppliers from the region adopt this concept on time, their chances for equal market competition with the approaching international competitors will improve.

### 3. CRITICAL REVIEW OF THE CATEGORY MANAGEMENT PRACTICE IN THE LEADING RETAIL COMPANIES IN THE REGION

The conducted research enabled the creation of the SWOT matrix for the implementation of category management in the region. It frequently occurs that retail companies declaratively announce the launch of business in line with category management principles, but very few aspects of their retail business methods change significantly. In that way the basic values of the concept are being derogated.

The second problem emerges, in fact, in the situation that the decision-making responsibility remains in the upper levels of management. New category managers are held accountable, even though they have no ability to make decisions. That creates frustration and the best employees soon begin to leave the organization.

Designing the category teams is the next weakness in category management practice in the region. The category teams usually consist of category managers and their assistants, who are in some cases accompanied by junior category managers. So, there is no involvement of functional specialists in the category teams, especially analysts.

The information systems used by the companies in the region are, with a few honorable exceptions, mainly inadequate. In the best cases, the existing systems were upgraded but without any major structural overhauls. These systems, currently, mainly provide the access to historical records and creation of simple comparisons of several basic parameters in the given business periods.

Calculation of profitability of category is also quite underdeveloped in the region. One of the reasons lies in the fact that ABC method of costs calculation has not been adopted by retail companies. In most cases, there is no calculation of all costs related to the given category. The fixed costs are

calculated on the basis of performance of the entire companies and then allocated, in certain percentages, to each category. Such practice of costs calculation usually results in a distorted picture of category profitability.

### 4. FUTURE IMPROVEMENT DIRECTIONS OF THE CATEGORY MANAGEMENT PRACTICE

For a concept development, such as category management, it is necessary to continuously monitor and investigate its effectiveness in practice. For retailers from the Western Balkans region, the faster adoption of modern trends and experiences of companies in developed countries, is of a great importance.

Increase of the business volume, causes the expansion of category management teams, which should increase their autonomy when it comes to decision making. Education of professionals in managing product category is necessary for further improvement. In order to improve a given concept, it is necessary to investigate possible connections with other management concepts. Management division, according to some experts, is an upgrade of the category management concept. Cooperation conception is based on partnerships of retail company and supplier, when it comes to improving category management. There is a need of researching the possibilities of connecting the concept of category management to marketing aimed at customer loyalty. Retail companies in the Western Balkans region, must consider the possibility of introducing RFID technology, which is based on identification by using radio waves, and which should replace bar codes.

### 5. CONCLUSION

The concept of category management, as a new form of management of individual products, product lines, product categories and brands, has been for a long time, an integral part of companies in developed markets. The researches suggest that retailers, who implement the concept, enhance their competitive ability. Also, the production sector significantly benefits from its implementation.

The largest retail companies of the Western Balkans region, are launching the concept of category management during the transition period. The concept has united all the key elements of the retail companies: assortment, pricing policies and marketing activities. This enabled the three largest retailers of the region to achieve significant growth in sales, profits and turnover ratio.

Regardless of the initial successes, many weaknesses remained. It imposes new obligations, both for the management company and for researchers who work on theoretical and practical aspects of a given concept. Future research, should focus on the ways of connecting category management with other management concepts.

### 6. REFERENCES

- AC Nielsen & Karolefski, J.; Heller, A. (2005). *Consumer – Centric Category management*, New Jersey
- Bogetic, P. Z. (2007). *Product Category Management*, Data status, Beograd
- Lehman, D.; Winer, R. (2001). *Product Management*, 3rd edition, Mc Graw-Hill, Boston
- Muller, J.; Singh, J. and others (2006). *Category Management – Efficient Response to Needs of Consumers in Retail*, International Centre for Professional Education, Zagreb
- Singh, J.; Blattberg, R. (2001). *Next Generation Category Management*, Datamonitor PLC, London
- Vaselic, D. (2009). *Fast Moving Consumer Goods Category Management*, Master thesis, Subotica