Category Management Process: The Key Steps

Category management refers to a strategic approach for procurement where a company segments its spend into areas that contain similar or related products which enables focus opportunities for efficiency, cost savings, and consolidations. The segmentation, part of the procurement process, aims to assist in a number of areas of the business, including the decision-making process, supplier relationships throughout the entire supply chain, strategic sourcing, and more.

Category management may involve splitting direct and indirect services or products and may relate to dissecting products or services by volume, type, supplier, or value. You can use the Pareto principle or ABC analysis to help dissect the products or services so you can see where high levels of spend are accrued and where you should focus your attention.

Category Management Process: The 8 Steps

To make the category management process easier to follow, let’s break down the steps. The model was developed by Brian F. Harris in 1997. It is sometimes referred to as the Brian Harris model and is a structured and formal category plan with a set of specific actions to follow. The model has evolved over the past 20 years and you may find it in different forms where it has been adopted with a name changing between cycle and process. It’s possible to see five or six steps within the category plan.

Step One: Define the Category

The category should consist of products that serve the same or similar purpose. Category planning aims to increase the overall profitability of the category as a whole. Within an individual category, some items deliver different levels of profitability. They also need to meet different consumer needs so it is important to develop subcategories to further break it down so that you can easily execute different strategies.

A business category refers to a group of products within a retailer. Product categories are defined by the business in order to make category management easier. The proper way to group your products is customer-centric. Consider how the customer or shopper sees the products. To help you get started, consider creating a consumer decision tree.

Step Two: Assess the Category’s Role

After you define the category, you must decide its role. It’s essential to consider how the category will work and how it fits within the retailer’s entire portfolio.

Assessing the role of your categories and how they relate to each other aids in understanding the total profitability of your customer. Check the potential profit margin for retailers and suppliers. All efforts surrounding the category need to be consistently contributing to a category role to ensure allocation of resources is efficient.

Step Three: Assess Performance

Category assessment refers to the periodic review of categories and subcategories. It serves as a regular appraisal of the current performance of the category which means taking time to evaluate sales data. Use KPIs as benchmarks to gauge performance, especially when it comes to new products.

This helps you decide the sales, share, and profitability of the category. It is also necessary to conduct an in-depth analysis of key competitors.

To start, perform a detailed SWOT analysis to show you useful category insights. You may find that recategorization is necessary.

Your suppliers play a major role in the analysis. They bring data-driven evidence from a variety of agencies and have access to shopping research as well as retailer proprietary data. This is for their own lines only.

Insights gained from this part of the category management process provide rich and highly detailed data on your top sellers, top generating lines, out of stock, volume, and more.

Step Four: Set Objectives and Targets

After finishing the category assessment, it's time to set achievable and measurable goals for sales, volume, and margin. Track this information in a category scorecard. With it you can track:

- Sales
- Volume Sales
- Share
- Product Assortment

Step Five: Develop Strategies

At this point, you need to decide which strategy is right for each category to meet its goals.

Take a look at these strategy examples:

Transaction Building

This strategy is used to build sales quickly in a particular category. By selling larger volumes, the goal is to drive up the average weight of purchases per visit. It can be achieved through packaging and aggressive pricing and promotions.

Cash Generating

Using this strategy, the focus is on high turnover and high volume categories – the ones that bring balance to the cash flow.

Profit Generating

With this strategy, the emphasis is placed on the high margin categories and subcategories, which may also help build customer loyalty. As a result, these are less price sensitive.

Traffic Building

This strategy is ideal for destination categories because the aim is to attract consumers into the store and then for them to buy from the category. However, you can also use the strategy to attract customers to your core categories because price sensitivity, frequent purchasing, and promotions benefit from shopper traffic.

Excitement Generating

This aims to create excitement in a certain category or subcategory. It is often achieved by tapping into a relevant and current social trend – and is often seasonal. Consider the special edition soda flavors from Coca Cola and Pepsi, or all the pumpkin spice products that debut or return in the fall.

Turf Protecting

With these strategies, you focus on defending your existing sales and market strategy. It is used in response to competitor activity and is a reactive strategy, so it has ramifications for profit margins. You should use this strategy as a last resort. However, it is important for the perception of the store and maintains a level of competitiveness.

Image Enhancing

With this, the focus is on the intangible aspects of retailer offerings. This refers to anything that improves the overall image and encourages customer loyalty. This may include quality, price, variety, service, convenience, delivery, and presentation.

> *The supplier and retailer build strategies, which in turn, determine the category role.*

Step Six: Category Tactics

Category tactics are simply the tools in your planning toolkit. They allow category strategies to be fulfilled. This includes things like:

- Pricing
- Promotions
- Penetration
- Product Assortment

The category captain is expected to lead the data analysis so they can decide the level, frequency, and timing of the tactics. Adoption tactics will vary from one organization to another.

Step Seven: Implementation

This is the most important step of the entire category management process. This is because it involves executing the plan you've developed in the first six steps of the process.

This is where the planogram comes into play. A planogram is a computer developed diagram that shows retailers where and how to display category products at individual stores. It is the embodiment of category planning and is the most effective method for executing the plan in store. It helps to ensure the correct mix of products with the correct adjacencies are implemented.

Accurate implementation is important because it is key to making it as easy as possible for companies to put in place. After implementing category plans, the retailer monitors the profitability of each category.

Step Eight: Review

In the final step of the category management process, you regularly conduct a category review and make changes where necessary. You may find it necessary to move things around to create different categories, based on market changes. This is important to ensure your company remains relevant in a constantly changing business environment. Category dynamics change often and as such, tactics and strategies must adapt to remain competitive.

Follow the entire eight-step category management process, excluding implementation, requires between 16 and 24 weeks. You'll need a team of multiple people, and you'll need to complete between 60 and 100 different data templates. You may also need an external consultant or facilitator to organize and run each category plan. Effective category management requires a category manager to be assigned to each category. Depending on the size of the company and the number of business units, it may be possible for one person to be responsible for multiple categories.

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