

Category Management

A Service Offered By

*B*USINESS *S*TRATEGY *G*ROUP, INC.

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Industry Issues

Is this your company?

- ❖ The textbook approach to category management that most retailers have taken has not changed the past business practices and processes and replaced them with a focus on the consumer required to “win” in the marketplace. Category management for many has become “one more thing to do” rather than becoming the new way of conducting business.
- ❖ Category Managers have not made the mental leap from the tactical focus on the business to a planning focused approach that is strategic and customer-driven.
- ❖ The supplier relationship is still focused on promotion funding and new item considerations rather than strategically integrating supplier strengths, resources and marketing through a synergistic planning process that drives success for the retailer and the supplier.
- ❖ Store operations has not been integrated into the category management process, which has negatively impacted retail execution and limited the ability for the retailer to truly change the retail experience for their customers. A seamless integration of decision authority along with 100% execution of merchandising plans and appropriate two-way communication is essential to long term success.

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Can We Improve?

Key questions

- ❖ Have my efforts in implementing category management practices delivered to my expectations?
- ❖ Have I financially benefited from the usage of category management practices to date?
- ❖ Are there gaps and/or weaknesses in our category management practices, processes and procedures?
- ❖ How have I integrated my current category management planning into my financial business planning process?
- ❖ Do my category management efforts drive or align with my marketing strategy?
- ❖ Are my category management practices tactical and task-oriented vs. strategic and culturally integrated within my organization?
- ❖ Have my Category Managers fully embraced the core principles of customer-centric business management and “winning” against competition?

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The Size of the Prize

Our track record

- ❖ By improving the supplier planning and collaboration process, a retail client realized an increase of \$300,000 in additional trade and marketing funds from just one supplier alone.
- ❖ By leveraging the information gathered during a new, formalized supplier planning process, a retail client saved over \$500,000 in retail execution costs, and improved supplier retail execution efficiencies in the first year of their category management implementation project.
- ❖ Procurement process improvement at a retail client, resulted in the cancellation of the need to build additional warehouse facilities due to improved product buying and flow-through efficiencies realized within 6 months of implementation.
- ❖ COGS strategy training and a structured top-to-top supplier approach utilized at an international retail client eliminated 22 of 25 category market share gaps within 6 months.
- ❖ COGS skill enhancement and a targeted category approach developed for a multi-billion dollar retail client resulted in a \$100 million trade fund improvement capture.

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Category Management Rapid Assessment

Our industry experts quickly assess the opportunities for improvement ... which can be delivered quickly

- ❖ BSG has prepared this Category Management Rapid Assessment (CMRA) proposal to allow (Company) management to rapidly identify gaps and opportunities for improvement in its category management activities.
- ❖ The CMRA focuses on those areas that can impact the successful integration of Category Management principles into a retail organization.
- ❖ The key areas of focus are:
 - ✓ Business planning processes
 - ✓ Consumer knowledge and awareness
 - ✓ Categorization and alignment across current Buyers/Merchandisers
 - ✓ Organizational structure
 - ✓ Core supporting business processes
 - ✓ Information availability and support tools
 - ✓ Current Category Management knowledge and experience
 - ✓ Supplier roles, relationships, and planning
 - ✓ Performance measurements and accountability
 - ✓ Store execution and Store Operations support

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Category Management – Strategic Focus

Strategic category management initiatives provide the greatest return to the companies that adopt them, and place those companies in a favorable position for long term profitable sales growth

Assess	Target	Align	Focus
<i>Category Management SWOT</i>	<i>Customer Knowledge</i>	<i>Categorization</i>	<i>Business Planning</i>
<ul style="list-style-type: none">- Management commitment- Culture of change- Customer focus- Retail Branding- Business planning commitment- Merchandising practices alignment- Information & Tools- Enabling business processes	<ul style="list-style-type: none">- Customer focus- Customer segment targets- Customer information usage- Customer research capability- Customer-driven marketing- Extent of co-marketing	<ul style="list-style-type: none">- Categories organized by customer jobs to do- Category purchase decision hierarchy drives category structure- Categories assigned into customer solution groups- Private label tiers integrated with category structure- Extent of cross-department assortment duplication	<ul style="list-style-type: none">- Corporate strategic plan guides category planning- Category roles are defined and utilized- Formal process for annual category planning- Financial planning and category planning are integrated- Supplier planning is integrated as a key input- Fact-based & continuous improvement emphasis

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Category Management – Tactical Focus

Prioritization of tactical initiatives is dependent upon the current capabilities of a company embarking upon re-organizing the management of their business around category management principles.

Support	Develop	Institutionalize	Leverage
<i>Organization</i>	<i>Skills</i>	<i>Business Processes</i>	<i>Supplier Management</i>
<ul style="list-style-type: none">- Work flow defines organizational structure- Job descriptions with clear roles & responsibilities- Category Manager has sole responsibility and accountability for merchandising disciplines (4Ps)- Merchandising, Procurement & Marketing are integrated- Resources are aligned with requirements for category management	<ul style="list-style-type: none">- Merchandising skills are inventoried and targeted for development- Skill development plan includes group and individual training- Skill development is monitored and documented- Training balances hands-on with lecture	<ul style="list-style-type: none">- Re-engineered to meet today's business challenges and opportunities- Technology enables the core business processes for efficiency- Standard Operating Procedures and Training Manuals are accessible and current- Decision authority and accountability are supported and documented	<ul style="list-style-type: none">- Supplier engagement strategy employed- Annual supplier planning process- Supplier resources leveraged and maximized- Focus on reducing cost of goods & identifying new sales opportunities- Continuous improvement through supplier performance management

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Category Management – Tactical Focus

The key to the successful implementation of category management is a focus on “winning” through excellence in execution and continuous improvement

Compete

Information

- Systems are integrated to provide timely and comprehensive information
- Data hierarchy for stores & categories are linked
- Information tools are available and easy to use
- Syndicated data is available and easily accessed
- Procurement system effectively supports EDI, VMI, DSD, cross dock, etc.

Execute

Operations Alignment

- Merchandising & operations roles are clearly defined
- Store supervision roles are aligned with consumer solution group execution
- Store cluster methodology is employed
- Pricing strategy effectively addresses each key competitor
- Merchandising compliance and performance is measured
- Two-way feedback mechanism is in place between Merchandising and Store Operations

Measure

Performance

- Key Performance Measures (KPMs) are defined, aligned, and communicated across the organization
- Performance and accountability is measured down to the Category Manager level
- Market performance measures are integrated into the category manager’s scorecard

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Scope & Objectives

Our industry experts quickly assess the opportunities for improvement ... which can be delivered quickly

- ❖ We use the expertise of our industry specialists to rapidly identify category management improvement opportunities for our retail and wholesale clients. Because of our “sat in your chair” retail expertise, our seasoned category management consultants assist our clients in developing practical, proven recommendations and processes.
- ❖ Our methodology clearly defines the current situation versus those factors critical to the successful implementation and integration of category management practices into the core operating philosophy of the retailer.
- ❖ Our approach enables us to identify unique characteristics that differentiate the retailer from other retail organizations, the retailer’s resources and capabilities, gaps versus critical success factors, opportunities for improvement, potential constraints, and critical issues.

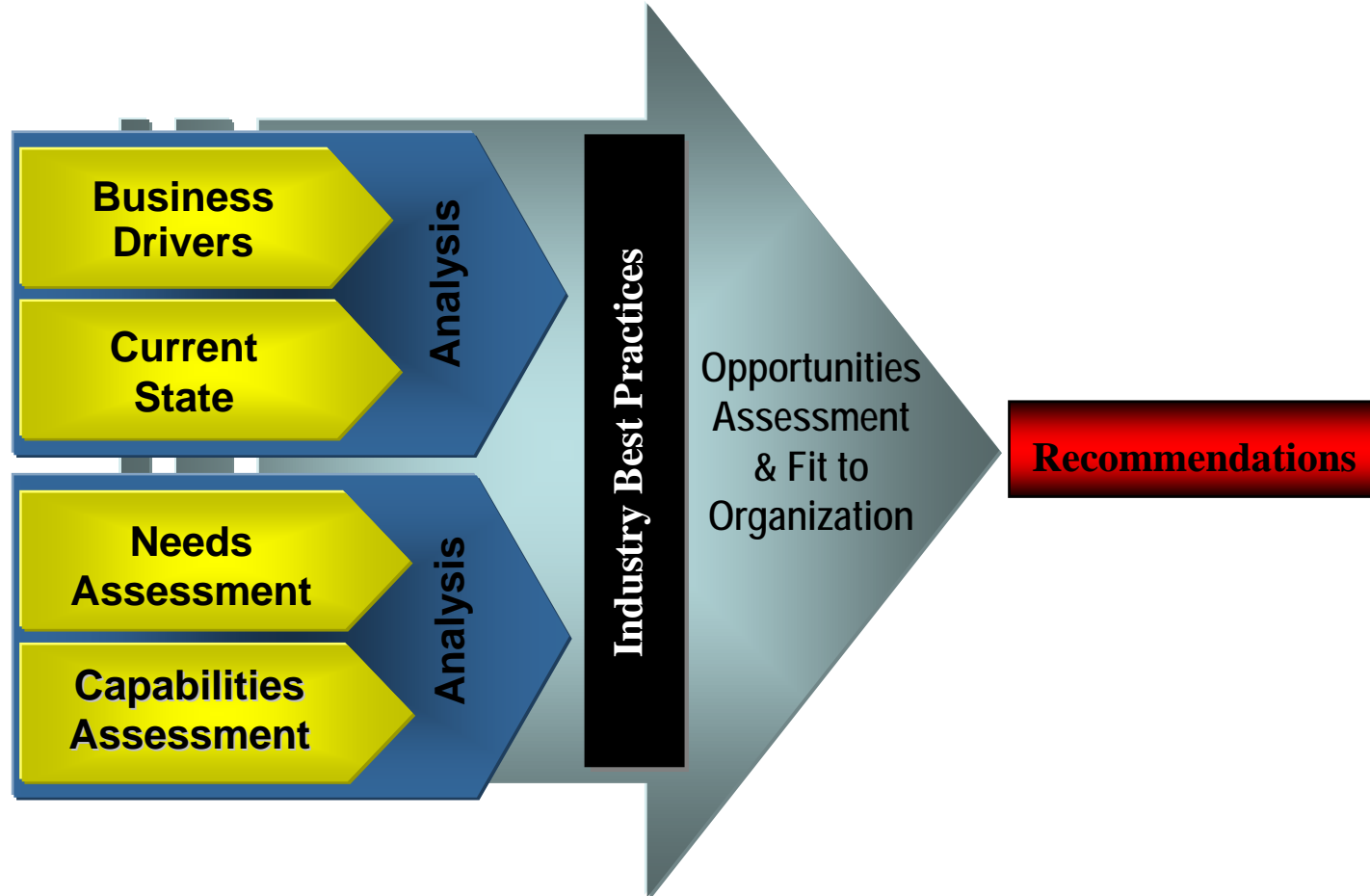
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Approach & Deliverables

We quickly assess the situation, define the opportunities and make our recommendations



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Approach & Deliverables

*Quick results
leads to quicker
benefits*



Discovery

- ❖ Business Drivers: structured interviews with key senior management
- ❖ Needs and Capabilities: structured interviews with buyers, merchandisers, key administrative and operations managers
- ❖ External Review: Store visits; interviews with 3-4 key suppliers to gain their perspectives regarding procurement and category management practices at the retailer.

Assessment

- ❖ Validate current state by benchmarking against industry “best practices” and category management core principles
- ❖ Analyze strengths, gaps & weaknesses
- ❖ Identify and quantify opportunities for improvement

Recommendations

- ❖ Highlight quick wins for rapid payback
- ❖ Prioritize mid term opportunities
- ❖ Recommend longer term investments for efficiency

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Representative Resource Profiles

Consultant A has been work in the Consumer Packaged Goods and Retail Industry for the past eight years, working in the U.S., Asia, Canada and Mexico. He is a Senior Manager in our Marketing, Merchandising and Category Management practice. His most recent activities include multi-year assignments at H.E. Butt Grocery Company, the Liquor Control Board of Ontario and Save Mart Supermarkets, where he led initiatives in business process change design and implementation and category management skills and practices development. Other clients include Wegman's, Gigante (Mexico), Wellcome Supermarkets (Hong Kong), Hormel, and Pennzoil-Quaker State.

Consultant B is a Senior Consultant in our Marketing, Merchandising and Category Management practice. He spent the first 23 years of his career in retailing with a major grocery chain, an independent retailer and a drug store company. His management background includes key managerial positions in Operations, Perishables, Merchandising, Category Management and Information Technology. His expertise in category management enables him to deliver practical solutions that are customized and aligned with client strengths.

Consultant C has extensive international experience with four prominent organizations engaged in marketing strategic enterprise solutions to retail and CPG industries. His clients have included Wal-Mart, Canadian Tire Corporation, The Liquor Control Board of Ontario, National Grocers, Proctor & Gamble, Loblaws and Kroger. While with NCR, he was a key member of the implementation team that assisted in the design and development of Wal-Mart's data warehouse and Retail Link program. His specialty is in end-to-end inventory optimization and category management, including SKU level planning, merchandising, forecasting and replenishment.

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Representative Resource Profiles

Consultant D has more than 25 years experience in the retail industry, with a specialty in store operations and end-to-end inventory optimization. His clients include Schnuck Markets, Brookshire Grocers, J Sainsbury (UK), Savemart Supermarkets, Wal-Mart, Canadian Tire Corporation (CAN), H-E-B, Sommerfields (UK), Coles Myer (AUS) The Kroger Companies and Nike Retail. He has led numerous client projects cover all aspects of store operations, including customer service, store processes and inventory management and replenishment. His retail expertise led Food Marketing Institute to select him to be the architect, writer and producer of FMI's SuperTECHmart educational series for senior industry executives in the food industry.

Consultant E

Has more than 30 years of international retail industry and consulting experience, specializing in productivity enhancement process improvement/transformation. His experience has been gained at executive level in industry (Auchan Hypermarkets, Aquitec) and major consulting organizations (KSA, KPMG and Arthur Andersen). His clients over the years have included A&P, Pathmark, Food Lion, Kroger, Coles Myer (AUS) Aeon (JPN) Safeway, Schnuck Market's, Wild Oats, Federated Department Stores, Advance Auto Parts & Cabela's. He has led numerous engagements a, especially at program management level to achieve major ongoing savings in all aspects of the supply chain. He developed a successful implementation practice, including standard processes for a major software provider. While at the Auchan Hypermarket Group, which included A CUB franchise, he developed category management, product profitability, a suite of EDI applications, including the first customer to develop EDI with SUPERVALU.

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Our Value Proposition

Retail Experience

- ❖ Our depth of experience enables us to identify opportunities and provide practical solutions and benefits quickly
- ❖ The breadth of our experience crosses multiple channels and countries
- ❖ Everyone on our team is a senior executive with hands on retail operations and category management experience

Knowledge

- ❖ We use our broad knowledge base of industry best practice to achieve superior performance
- ❖ We customize improvements to align with your organizational culture
- ❖ This strength enables us to determine what will work and why.

Collaboration and Teamwork

- ❖ We work closely with the client's executive and operational management to transfer knowledge
- ❖ We communicate clearly and candidly during the on-site assessment
- ❖ We guide the prioritization of activity so it blends with the business demands of the functions impacted, rather than disrupting their work

Approach

- ❖ We use clear, precise and logical steps throughout all of the phases of the project
- ❖ We highlight the quick wins, prioritize medium term opportunities & recommend longer term investments in efficiency
- ❖ We employ change management principles to guide the institutionalization of new business practices

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*We take great
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companies we
serve*

Representative Clients

Grocery

- Save -A-Lot
- Brookshire Grocers
- J Sainsbury (UK)
- Cub Franchisees
- Hannaford Bros.
- The Co-Op (UK)
- The Kroger Cos.
- Save Mart Supermarkets
- Weis Markets
- Meier
- Schnuck Markets Inc.
- Somerfield (UK)
- Coles Myer (AUS)
- Wild Oats
- H-E-B
- Stop & Shop
- Safeway
- Food Lion
- Ric's Food Centers

Convenience & Drug

- Petro Canada (CAN)
- CVS/Caremark
- Thrifty/Payless

Mass Merchandise/Specialty

- Wal-Mart
- Advance Auto
- Linens 'n Things
- Canadian Tire Corporation (CAN)
- CTDA (CAN)
- The Limited
- HomeBase (UK)
- Zales
- Michaels
- LCBO (CAN)
- SEARS (CAN)
- Family Dollar
- Aeon (JAP)
- Cabela's

Wholesale/3PL

- Unified Western Grocers
- Southeastern Frozen Foods
- Tibbett & Britten (Excel)

CPG Manufacturers

- Nike Worldwide
- Sara Lee