Foodservice Category Management: A Systematic Approach to Balancing Product Variety & Duplication in the Supply Chain

EFR
Efficient
Foodservice Response

Efficient
Foodservice Response

Foodservice Category Management: A Systematic Approach to Balancing Product Variety & Duplication in the Supply Chain

Efficient Foodservice Response

Written by: Karen J. Ribler
KJR Consulting

March 2001

Table of Contents

Nothing in this report is intended to recommend that category management be practiced in any particular way. Any information a distributor decides to share with its manufacturer trading partner(s) will always be a result of the distributor's own independent business decision. The distributor at all times remains the ultimate decision maker as to how it will conduct its own business.

EFR *Sponsors*

The following organizations are sponsors of Efficient Foodservice Response:

International Foodservice Distributors Association (IFDA)
Food Distributors International
(NAWGA/IFDA)
201 Park Washington Court
Falls Church, VA 22046
703/532-9400
703/538-4673 (fax)
www.fdi.org

International Foodservice Manufacturers Association (IFMA)
Two Prudential Plaza
180 N. Stetson Avenue, Suite 4400
Chicago, IL 60601
312/540-4400
312/540-4401 (fax)
www.ifmaworld.com

Uniform Code Council, Inc. (UCC)
7887 Washington Village Drive
Suite 300
Dayton, OH 45459
937/435-3870
937/435-7317 (fax)
www.uc-council.org

Association of Sales and Marketing Companies – Foodservice
2100 Reston Parkway, Suite 400
Reston, VA 20191
703/758-7790
703/758-7787 (fax)
www.asmc.org

National Restaurant Association (NRA)
1200 17th Street, NW
Washington, DC 20036
202/331-5900
202/331-2429 (fax)
www.restaurant.org

Canadian Council of Grocery Distributors (CCGD)
300 Léo-Pariseau, Suite 1100
P.O. Box 1082, Place du Parc
Montreal, Quebec H2W 2P4
Canada
514/982-0267
514/849-3021 (fax)
www.ccgd.ca

About Efficient Foodservice Response

In late 1994, the International Foodservice Manufacturers Association (IFMA) and the International Foodservice Distributors Association (IFDA) provided the catalyst for the formation of an ad hoc group comprised of representatives from foodservice manufacturers, brokers, distributors, operators and key industry trade associations. The group was formed to examine Efficient Consumer Response (ECR), a grocery industry initiative, and its relevance to the foodservice supply chain. Group members also explored ways to work with ECR pioneers.

After weathering a severe snowstorm during its first meeting, which was hosted by Rich Products Corporation in Buffalo, NY in January 1995, the team became known as the Buffalo Blizzard Group.

Several members had been involved with ECR, and all — directly or indirectly — had observed its implementation in the grocery supply chain. All had seen ECR's impact since its introduction in 1993. To date, its results include increased supply chain efficiency and improved competitive dynamics — both facilitated by more cooperative channel-trading relationships.

While grocery represents the "food-prepared-at-home" half of the food supply chain, foodservice represents the other half, or "food-prepared-away-from-home." Since one complements the other, the "Buffalo Blizzard Group" questioned whether an ECR-like initiative in the foodservice supply chain would make sense. Although many ECR principles are relevant to the foodservice supply chain, the difference between foodservice and the grocery industry is significant enough that total ECR adoption is not appropriate.

The group also recognized that motives for change in the foodservice supply chain differ from those in the grocery industry and that the foodservice industry would require its own economic case for action. The motives for launching ECR as well as the Quick Response movement in the general merchandise channel before it — included heightened competition from alternate trade channels. Dramatic increases in imports from countries with drastically lower labor costs in the mid-1980s had given rise to Quick Response. The growth of grocery sales in the alternative format store sector was the catalyst for ECR.

In contrast, the foodservice supply chain of the mid-1990s faces no such outside threats. Conditions are ripe, however, for development of such threats. The foodservice supply chain features many of the characteristics other supply chains displayed before they lost market share to alternative competition. They include:

- Mistrust and lack of cooperation between supply chain trading partners.
- Pervasive lack of focus on providing value to the consumer.

- Archaic business practices that complicate trade between buyers and sellers.
- Poor penetration of modern supply chain practices and information technologies that which could enable quantum leaps in effectiveness and efficiency.

After adopting "EFR" as the name of the initiative and developing a logo, the group commissioned a study to accomplish three objectives:

- Quantify the cost of inefficiencies to the foodservice industry.
- Define the strategies that comprise EFR and remove non-value-adding costs.
- Educate the industry about EFR.

In August 1995, the group selected Computer Sciences Corporation (CSC) to fulfill these objectives because it possesses a core competency in supply chain management consulting and had helped develop ECR. CSC proposed a collaborative effort with the Stanford Supply Chain Forum at Stanford University, which brought academic credibility, objectivity, and relevant research into supply chain economics and modeling.

The EFR study shows that there are $14.3 billion in non-value-adding costs accruing throughout the foodservice supply chain. This figure represents the potential benefit of EFR to the total supply chain, and applies almost equally to operators, distributors and manufacturers/brokers. It should be noted that this figure is extremely conservative and based on today's technology. Nothing needs to be invented to capture these benefits — they represent an attainable goal, not a theoretical maximum in an ideal world. In reality, $14.3 billion is the tip of the iceberg. Actual cost savings opportunities are much higher.

EFR is intended to align efforts throughout the foodservice supply chain to build a solid platform for profitable growth. The $14.3 billion figure simply represents the benefit of this platform. Foodservice supply chain professionals, after establishing a foundation, should be able to focus on a slice of the $800 billion in incremental industry growth potential. EFR is not a destination; it is a pathway to a new era of renewed prosperity for the foodservice industry.

The EFR mission statement is presented below. While it contains many words, it may be summed up as a philosophy that can be shared by all supply chain participants. If all supply chain segments meet the primary objective — and are geared to eliminating costs that do not add value to the consumer — EFR will create a stronger, more competitive, and more profitable business environment and will provide lasting value for the consumer.

EFR Mission

Efficient Foodservice Response (EFR) is the voluntary undertaking of planned and directed activities among all the partners in the value chain to achieve a low-cost, high-performing value chain. The purpose is to eliminate inefficiencies and wasteful practices, thereby enhancing the ability of each party to compete fairly and vigorously. Each functional component in the chain works in unison with the others to increase value, while minimizing the cost burden on any other value chain component. Thus, the value chain is closely synchronized, highly flexible, reliable, and responsive to customer demands, with short cycle times and lower total value chain costs from raw material ingredient supplier to consumption.

This mission is accomplished via the study of five strategies that comprise a number of interrelated initiatives. The initiatives within each strategy progress from basic to advanced capabilities, allowing diverse organizations to develop unique implementation paths within a common EFR framework. As an overview, the five EFR strategies are:

Equitable Alliances – These are the building blocks that support EFR implementation and the attainment of benefits. Initiatives included address the complex funds flows within the supply chain and how value is measured. A fundamental initiative is activity based costing, which builds the foundation for initiative bundling and value-based incentives. There is no economic benefit attributed to this strategy as it is a "cost-neutral" mechanism that enables shifts in the way costs and revenues accrue in the supply chain.

Supply Chain Demand Forecasting – This strategy encompasses initiatives that create a supply chain characterized by a common view among trading partners of end-consumer demand coupled with an integrated set of planning processes. The industry benefit reaped from implementation of initiatives within this strategy is estimated to be $2.9 billion.

Initiatives within supply chain demand forecasting integrate demand creation and demand fulfillment processes across all segments. These initiatives include standard product identification and bar coding, common product information databases, demand and planning information sharing, and market-level reporting and forecasting.

Electronic Commerce – This is the biggest EFR initiative in terms of quantifiable benefits. The initiatives that comprise this strategy represent a $6.6 billion savings opportunity across all industry segments. Most of these benefits come from reduced administrative cost resulting from streamlining the revenue cycle processes between supply chain buyers and sellers. The five integrated initiatives include business process simplification, product maintenance EDI (electronic data interchange), revenue cycle EDI, electronic funds transfer, and invoiceless payment. An initiative originally identified as part of supply chain demand forecasting — common product information databases — is also being addressed by electronic commerce.

Logistics Optimization – This strategy is a set of initiatives with a goal of optimizing the end-to-end total supply chain costs across all segments. Initiatives dealing with physical flows from point-of-supply to point-of-consumption are represented within this strategy. These include direct shipment, consolidation, shared distribution, coordinated transportation and cross-docking. The industry benefit attributed to implementation of logistics optimization is $2.7 billion.

Foodservice Category Management – This strategy includes initiatives to profitably manage the inherent complexity of a supply chain that produces millions of end products in a variety of service configurations. Its industry benefit is estimated to be $2.1 billion. Initiatives within foodservice category management address the way the supply network is loaded with products against the marketplace's raw demand. They include balanced variety, product deletions, new products, and centralized conversion.

The five EFR strategies are designed to create a more effective end-to-end supply chain. Only a holistic view of the supply chain as a whole machine will create a truly effective supply chain that optimizes the value creation process from end to end. Consequently, the EFR studies can assist trading partners as they consider changing the way they conduct business. Achievement of EFR's mission rests with the senior executives from companies that make up the foodservice supply chain. Success requires these executives' vision and support.

By striving to improve business processes, companies within the foodservice industry have a unique opportunity to become stronger. The Efficient Foodservice Response project provides important analytical tools to help our industry prepare for a tougher business environment in the next millennium.

The EFR Executive Committee encourages you to begin understanding the EFR strategies. The committee is making every effort to support the industry by providing these educational documents and creating an arena for industry-wide continuous improvement.

Acknowledgments

Efficient Foodservice Response wishes to thank the following organizations and their representatives for their support of and participation on the EFR Category Management Committee as well as in the Category Management pilots. This report is a tribute to their contribution to the industry's body of knowledge. A special thanks is extended to Norb Mayrhofer from Procter & Gamble for his leadership in chairing the EFR Category Management Committee and developing this report.

Reinhart Foodservice*
Foodservice Purchasing Cooperative
Land O' Lakes, Inc.*
The Procter & Gamble Company*
Rich Products Corporation*
Schwan's Sales Enterprises
Schreiber Foods, Inc.
SYSCO Food Services of Minneapolis, Inc.*
Veryfine Products, Inc.*
Wisconsin Tissue
Anchor Food Products, Inc.
Fort James Corp.*
Bossart Foodservice
Gordon Bailey and Associates
International Foodservice Manufacturers Association

*Companies with an asterisk next to their names participated in an EFR category management pilot.

EFR would also like to thank the following individuals, who reviewed content input/ prior to publication:

The Procter & Gamble Company
Norb Mayrhofer
Dennis Paulik

Ben E. Keith Foods
Jim Lavender
Bill Sewell

Veryfine Products, Inc.
Stephen Rowse

Brinker International
Michele Varian

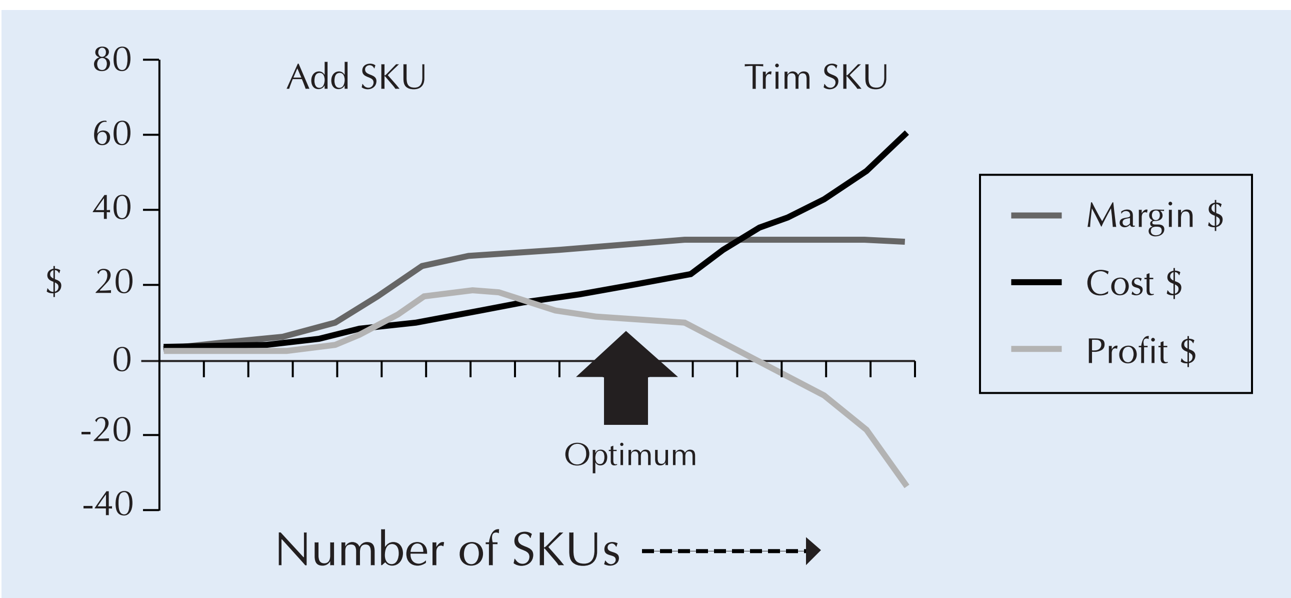
Rich Products Corporation
Mike Ensalaco

Bestfoods
Tirthankar Chatterjee

Introduction

What if you were provided with a means of understanding your business that would enable maximization of product movement and profitability by product category? The purpose of this text is to provide a step-by-step guide for the implementation of Foodservice Category Management. The January 1997 EFR publication, Enabling Profitable Growth in the Food-Prepared-Away-from-Home Industries, noted that "foodservice category management is simultaneously the most strategic and the least developed EFR strategy." The publication went on to quantify the potential benefit of category management to be $2.06 billion annually to the industry.

Since 1997 much has been done by the EFR Category Management Committee to define, develop and test the utility of this powerful management tool. This report articulates a systematic approach to fulfilling customer needs while managing product assortment. Our research and the results of three pilot tests indicate that Foodservice Category Management is a deployable tool that may be used by any distributor to make information-based decisions that will result in increased turns and profit. The graphical representation below demonstrates the optimal point at which variety and duplication are balanced, thereby maximizing margins and profits and minimizing costs.



Three Pilot Scenarios

What if an analysis of your butter and spreads category indicated that 24% of SKUs produced 80% of sales? And that if you reduced the SKUs in the category by 20% you would be rewarded with a monthly sales increase of 55% and monthly gross profit improvement of 68%?

What if you were told that you could increase the revenue of your cookie category by 118% and increase case volume by 96% by reducing the category's SKUs by 14% to make room for additional SKUs that were more profitable, higher-volume items?

What if, after analyzing your glass cleaner category, you reduced SKUs from 29 to 7, increased turns from 7 to 19 per year and increased sales by 105%? You might feel encouraged to study additional categories using this process, as was the case in a recent foodservice category management pilot.

These results were achieved when category management was used.

What is Category Management?

Within the foodservice community, category management is a powerful distributor tool that relies on manufacturer input to develop a customer-focused strategy to optimize product mix, realize potential sales growth and enhance customer loyalty.

Balancing product variety and minimizing duplication in the supply chain is not a new concept. As a part of doing business, distributors regularly look at product movement, customer sales volume, promotional monies and opportunities to grow the business. Category management as it is used in this text is an analytic tool that enhances and systematizes this process. It is designed to take advantage of existing distributor information, pull in important information that resides in supplier organizations and focus a strategic look at the business using end-user category definitions.

Category management is not an SKU reduction initiative but rather a means of:

- Making better fact-based decisions
- Striving to better understand the end user's category definition
- Reviewing the category as it currently exists

- Exploring product opportunities that are not being seized
- Investigating options to improve the bottom line

Category management is, above all, a process. It is meant to:

- Provide a structured, analytic system to grow your business
- Optimize your product assortment based on the needs of the end user
- Furnish a means of tracing and measuring the impact of business decisions
- Promote fact-based discussions between a distributor and its supplier trading partners to improve supply chain efficiency and increase profitable sales
- Be repeatable

Senior Management Commitment

Both the distributor and the manufacturer require commitment from their senior management to implement a successful category management initiative. Commitment in this undertaking extends beyond the people resources to do the work (a discussion of the human resources will follow).

The results of a category analysis may provide insights that are outside the realm of business as usual. Both parties must be willing at the onset of this undertaking to acknowledge that one of the key ingredients of success is trust. The entire category management process is based on collaboration. Both parties are expected to share information, analyze data and generate a plan of action. The candid exchanges that support the category management process cannot take place without commitment to honoring a trusting relationship.

Therefore, it is not surprising that another key ingredient is to do the right thing. For the project to have any meaning, both organizations must be committed from the beginning to take action. Risk is involved, but through the category management process each decision is based on careful analysis of real data and a careful projection of bottom-line consequences.

People and Time

In the area of human resources, senior management should be willing to put into place a cross-functional team that will focus on developing an actionable plan. The time commitment will vary depending on the experience of the team members, the availability of data and the category itself. Most first-time initiatives require three to four months to complete, with multiple meetings over that time frame. The tasks in the following chart are high-level; an explanation of each will be presented later.

TIMELINE

Month 1	Month 2	Month 3	Month 4
Analyze Data	Define Category	Share Data	Implement Plan
Select Category	Share Data	Confirm Scorecard	Implement Scorecard
Select Supplier	Design Scorecard	Conversion Plan Design	
Begin Category Definition			

The Team

Category management requires:

- A collaborative team (distributor/manufacturer)
- A distributor team
- A manufacturer team

The collaborative team is composed of co-leaders — one each from the distributor and manufacturer teams — and representatives from sales, marketing and information systems. This group will meet regularly to develop the category plan. Other members may be added as needed.

The distributor's team requires a team leader and sales, marketing and information systems representation, as well as input from finance and logistics. This team is charged with category selection, manufacturer selection, bringing to the table the internal business intelligence to develop the category plan (present mix, movement, end-user purchasing information and organizational vision) and conversion implementation (plan execution). The distributor, of course, makes the ultimate decision as to how to market its products and/or services.

The manufacturer's team is composed of a team leader, the account executive (this individual may be the team leader) and representatives from marketing, market research and information systems. The manufacturer that markets through sales and marketing agents should include them on the manufacturer team. This team's contribution to the process includes marketing expertise, external data for plan development, product gap analysis, proactive input for the development of the conversion plan and coaching/support in the implementation process.

Understanding Corporate Strategy

Corporate strategy is a long-term vision of how a company plans to meet its financial and corporate objectives and goals. It incorporates the organization's mission statement, strategic plan and business plan.

The distributor team's first meeting should include a healthy discussion of their corporate strategy augmented by a top-level look at customer profitability and product sales contribution.

For example, if a distributor has identified as its mission:

"To be the leading supplier of foodservice products to operators in the Southeast marketplace."

And its strategic plan includes:

- Providing efficient service
- Application of systems technology (internally and externally)
- Offering personal consultation to customers
- Clearly understanding the needs of its customers and meeting those needs to ensure loyalty

And the business plan for this fiscal year has identified the following objectives:

- Expand the market penetration of the health care business by 15%
- Increase quick service volume with current customers by 10%
- Reduce employee turnover by 20%

- Migrate to electronic commerce; reduce paper-based orders by 15%
- Increase bottom-line profits by 18%

It is fairly safe to assume that the team will take into consideration category growth from the health care perspective (their targeted growth customer) as well as the independent operator perspective (given 30% of their business is consumed by this segment).

Selecting a Category

When selecting a category, the distributor should remember that category management is based on systematic data analysis. This grounding provides:

- A better understanding of SKU movement and contribution
- A clearer understanding of the impact of promotional dollars
- A process for collaborating with suppliers to expand knowledge about category/market potential
- A means of constructing the "right" mix
- An ability to think through "what if" scenarios
- A method for optimizing sales by focusing on the end user's category definition

The category-selection process is a resource-intensive undertaking; thus, the category selected for study should be based on its ability to make a difference. Criteria include, but are not limited to:

- Potential impact on the organization's overall business strategy
- Ability to address short-term objectives
- Growth potential
- Category size (100+ SKUs is optimal)
- Movement

Generally, it is best to focus on a category with a clear sense of payback. Even first projects should clearly be worth the organizational effort. Projects of little consequence will limit management's enthusiasm for providing necessary resources and for systematizing the use of this tool. Successful first projects tend to be manageable (no more than 400 SKUs) and non-emotional from the end user's perspective.

It is worth noting that the first category management initiative will take the most time. As with anything else, there is a learning curve. As your information systems personnel better understand the data needs and develop the queries to obtain the data, and as your employees become better at articulating the business question at hand, the time commitment lessens.

The selected category may be "obvious." For example, management may have flagged an area for scrutiny based on one or more of the following factors:

- Poor performance
- Slow movement
- Too many products
- Frequent requests for new products in the mix

Or the selected category may not be as obvious and may be identified from a growth perspective in order to meet business objectives. The selected category may be deemed as having the potential to attract new business and may address some or all of the problems in the above list:

- Many requests for new products in the mix
- Promotional opportunities
- Concern over the mix

As well as:

- Ability to attract a targeted end user
- Opportunity to increase volume

In either scenario (a desire to scale down or increase SKUs), category management provides a fact-based analysis and plan for the selected product area to ensure profitable growth, while remaining supportive of current customer needs.

From a data perspective, the distributor will want to look at:

- A ranking of customers by segment (e.g., independent, health care and schools) based on sales volume
- The number of SKUs in targeted area(s)
- A ranking of capital tied up in SKUs
- Gross profit contribution
- A ranking of customers by segment based on sales volume in the targeted category

The distributor team will use this information to zero in on a category that will benefit from the category management process, taking into account the business plan and the potential bottom-line impact.

An Example: Initiating the Process

A-Plus Distributors decided that systematizing their SKU rationalization through the use of category management was just the approach they wanted to adopt. Management wanted a tool that would promote fact-based decisions, involve manufacturers, help customers grow and measure the success of decisions made.

A team was put into place composed of senior personnel from purchasing, operations, IS, finance and sales. Management was looking for results and understood that in order to really use category management this team would need time, information and management support.

After looking at the volume movement report it became apparent that the dry grocery department had far too many cases that were not turning as often as desired. Lately there had been some promotional opportunities in shelf-stable salad dressings, and health care requests were coming in for low-fat, low-sodium products that were currently not in the mix. The amount of duplication was high, and the dollars tied up in inventory needed to be reduced. As a result of this initial analysis, A-Plus decided to study the salad dressing category.

The team reviewed information on who was purchasing salad dressing, and this triggered a discussion about the need for a clear "category" definition. Did salad dressing include mayonnaise? What was salad dressing? How did customers buy salad dressing?

The team decided that the category included product that an end user would put on a salad. This eliminated mayonnaise. The category included shelf-stable, dry mix and refrigerated items. The team agreed to confirm this definition by asking DSRs to consult their customers.

It was also decided that the following reports would be helpful:

- A ranking of customers by dollar volume
- A ranking of customers by segment by dollar volume
- A ranking of SKUs in the entire category by sales
- A ranking of SKUs by inventory dollars
- Returns by customer and product
- Number of customers purchasing each SKU
- A ranking of vendor contribution (promotional dollars and volume)

Selecting a Supplier

Category management as defined here is a supply chain tool that is firmly based on a collaborative effort to better serve the end user. The decision about whom to select as the primary manufacturer for the "collaborative team" will require careful consideration given the category management process requirements of:

- Sharing data
- 4 to 8 meetings (usually 1/2 day) from kickoff to completion of the first project
- Developing a plan
- Implementing information-based solutions.

In the selection discussion, common sense is an important guide. Select an organization that:

- Has a good working knowledge of the process
- Is easy to work with
- Has a record of trustworthiness
- Can be counted on for its timeliness and its ability to follow through
- Has exhibited the ability to be objective
- Can contribute analytical skills
- Has a stake in the category — volume/SKUs/promotional support
- Can provide market research

To obtain the necessary input to make a good decision, manufacturer candidates may be formally invited to take part through a letter and questionnaire. Or a less formal approach may be taken, like holding a meeting or conducting a few phone interviews. Whatever the approach, it is important to obtain a good sense of:

- The resources (people and analysis) that your primary manufacturer is willing to contribute
- The diversity of product mix
- The availability of marketplace data/insights
- The analytic resources potentially at hand

This search will be useful later on, when executing the plan, because your vendor community will be aware of your undertaking. The distributor team may also require access to resources beyond the primary manufacturer that may not have been apparent prior to this search.

Manufacturer's Identification of Distributors

It is equally important for manufacturers to identify distributors they will pursue for category management. As noted above, the key to this work is the willingness to do the analysis and implement the plan. Criteria for manufacturers to keep in mind when selecting a distributor include:

- Clarity of purpose — the distributor's goal
- The resources (people and analysis) that the distributor is willing to contribute
- Technical savvy
- Good reporting capability
- Ability to provide basic movement reports
- Potential growth opportunity
- Alignment of objectives (e.g., market penetration, SKU reduction and increase in profitable sales)

An Example: Selecting the Supplier

The selection of a supplier to work with in this category management process was important. The distributor team looked at the numbers (item movement, overall vendor contribution) and decided to send a letter to all suppliers in the category informing them of the initiative and inviting them to participate. The team felt it was important to get a feel for initial interest. The manufacturer with whom they collaborated had to be enthusiastic, committed and willing to roll up its sleeves and get to work. The ability to bring analytical skills and marketing information to the table was imperative. By using a letter they increased their chance of obtaining input they might have missed, and by phoning targeted suppliers they were able to get a first-hand sense of interest.

This plan worked well, and Good Products was selected as the manufacturer. It was the number two supplier in the category, had prior experience in category management initiatives, was always easy to work with and reliable, and had the necessary analytic skills. In addition, it offered extensive external market information and had a firm commitment from its senior management.

An Example: Selecting the Distributor

The Good Products account executive was delighted with A-Plus Distributors' invitation. This distributor was known as a thought leader, an early adapter and was an active participant in industry projects. Their experiences with A-Plus personnel were positive; this was an action-oriented company. Plus, the opportunity to expand market penetration was definitely there.

So management was approached for resource commitment. The pluses of obtaining this project were articulated as follows:

- It was an opportunity to gain a perceived leadership position in the foodservice community.
- It was a growth opportunity, in terms of both market penetration and profitable sales.
- It was an opportunity to introduce product that should be in this market area but was not.
- It was an opportunity to gain better insight into this distributor's strategy and operation.
- It would enhance the trust that had been carefully built over the last few years with this customer.
- It appeared to be a win-win project.

Initiating the Collaborative Project

At this point, the targeted category has been selected, the primary manufacturer for collaboration has been identified, the manufacturer's internal team is operational and the distributor's internal team has laid the foundation to put the process in motion. But both the distributor and the manufacturer have work to do before their first collaborative meeting.

Distributor's Preparation

After selecting the category and manufacturer, the distributor's team's first pre-collaborative task is to obtain a solid understanding of the dynamics of the category.

This analytic task is multi-dimensional; it encompasses understanding:

- The category's contribution to your organization's overall objectives
- The end user's perspective/definition of the category (how the end user "sees" the product)
- The composition of the category by vendor and by SKU
- The dynamics of the category (product movement; supply on hand; customer linkage)
- The contribution of each vendor and each SKU, e.g., key financial measures

For data analysis, you will need the following:

- Customer list
- Vendor list
- Item list for the category (including house brand or private label)
- A report that shows your cost by case for the category covering the period of time that you have selected to study (true cost if you have it; otherwise, list cost is a place to start)
- A report that shows the promotional allowances by case for the category covering the period of time you wish to study (you may have this information only by vendor)
- A report that shows item/case movement for the category covering the period of time that you have selected to study
- A report that shows product returns for the category over the period of time that you wish to study
- A report that shows overall vendor profitability
- A report that shows overall customer profitability

- A report that shows customer profitability by business segment (e.g., chains, independents and schools).

This list is illustrative. Your organization may not have all of this information readily at hand but should try to obtain as much of it as possible. The information is needed to assist the internal project team in building a good foundation for information-based conclusions. It will be used to set the baseline against which decisions can be made. It will also promote a better understanding of what may be driving the present category mix.

Don't get hung up on the data

Most organizations can compile the basic information on a category — item list, vendor list, turns, item cost and purchasing behavior. This is enough to get started. As the process moves ahead it becomes easier to identify what information is required, which allows IS the time to build queries to obtain additional data as needed.

The data required by the collaborative team includes complete product movement information. Insights into customer mix and product use are also needed, but they need not be as detailed as the movement data. In this process the distributor team will be expected to articulate detailed product movement data.

An Example: Distributor Team's Pre-Meeting Preparation

With the selection of Good Products the ball was back in the distributor's court. The distributor team wanted to be fully prepared for their first collaborative meeting. A packet was sent to the Good Products team that included:

- A confidentiality agreement that required their signature
- A list of A-Plus Distribution's category management team members, including phone numbers, e-mail addresses and fax numbers
- A preliminary meeting agenda

- A request for specific market-dynamics information

All basic reports except the ranking of customers by segment by dollar volume had been run. The team still wanted this report but acknowledged that their analysis could proceed without it.

Looking at the reports that were run, they realized this information had to be put into some sort of spreadsheet. They were not used to seeing refrigerated and dry product movement information mixed together in one report, and the look they wanted had to be multidimensional. A spreadsheet would do that. They also felt that having information on case cost and promotional allowances by case would be helpful.

The team discussed the company's mission statement, strategy and business objectives. It was clear that the current mix of salad dressings fell short of what health-conscience consumers wanted and that the category was underperforming. Thinking through the current objectives and noting the role this category could play, the team became enthusiastic about proactively managing what was previously thought of as a lackluster category. There was potential to grow the bottom line, expand market penetration in health care, get rid of non-contributing items and get closer to their customers.

The sales-force report gave the team confirmation that their approach to defining the category was right on target. Their customers' purchasing criteria centered on product quality, taste, size, ease of use, health variables and presentation. They didn't think about where in the warehouse it was located! They did care about price.

The next team meeting was really a dry run for the first collaborative endeavor. The team wanted to spend time looking at their internal movement and contribution data. They were pleased with the spreadsheets that IS had put together. They wanted to make certain the meeting's objectives were covered, and the tone was set for a focused, successful project.

Manufacturer's Preparation

The manufacturer's team also has pre-collaborative tasks to address prior to their first category management meeting.

The distributor is counting on the manufacturer to bring "external intelligence" — information that is market specific. This information should identify:

- Trends
- Regional product movement
- National product movement
- Product movement by customer segment
- Gap analysis
- Promotion insights

The manufacturer team is also preparing to provide input on:

- The definition of the category from an end-user perspective
- The role the category performs or can perform for the distributor
- Possible measurements to assess decisions that are made

For the data-crunching aspects of this pre-meeting, the manufacturer team will need:

- A list of the distributor's customers
- A report noting the SKUs carried by the distributor
- Movement reports, both national and regional

Other reports that may be helpful include:

- Those that focus on product movement in similar trade channels (like convenience and club stores)
- Sales-force reports

The manufacturer has the advantage of obtaining input from several data sources — product development, marketing and sales. This multifaceted input contributes to understanding the optimum product assortment for the distributor.

An Example: Manufacturer Team's Pre-Meeting Preparation

The team was very pleased with A-Plus's packet; it confirmed they were working with a serious group.

The Good Products team was composed of representatives from sales, marketing and information systems. Having been through this process before, the team came to their first meeting armed with market-level data. Their objectives for this meeting included:

- Crafting a preliminary category definition
- Reviewing A-Plus's case movement history
- Discussing the market data on hand
- Identifying other information that might be helpful, such as the study they did for the convenience store channel

The category definition discussion highlighted the complexity of the category. Salad dressing was used back-of-house and was also used tabletop. It was shelf-stable, dry and refrigerated. End-user purchase criteria varied. The team agreed that mapping the product by location of use, industry segment and product characteristic would help determine product overlap and substitutability. An initial spreadsheet depicting all of these variables was requested.

After a fruitful market-dynamics discussion, the team decided that having an analysis of A-Plus's SKUs and those of other distributors in their market area was a good place to start, but a report that compared similar marketplaces would also be helpful. A report was available on sales trends in the United States, and the team also requested data on promotional spending for this market.

The team identified who at A-Plus was their buyer. They had a buyer for health care, a buyer for refrigerated products and a buyer for shelf-stable items. They assumed there was a buyer for dry mix. Were they adding to the proliferation of SKUs in this category? What items were more profitable from their perspective? What opportunities could they highlight to the A-Plus team to reduce redundancy and increase sales?

The requested reports were sent to the A-Plus team leader in advance of the meeting, along with the signed agreement of confidentiality.

After a subsequent meeting to review the additional reports the distributor had chosen to share, the Good Products team felt they were coming to the meeting well prepared to meet the initial agenda objectives.

Product Groupings

One of the first agenda items for the collaborative team to address is the definition of category composition. As noted in both the distributor and manufacturer pre-collaborative meetings, conversations defining the category and discussing the product groupings within the category from the end-user perspective are an important exercise. This discussion will be thoroughly articulated by the collaborative team. Through this dialog the team will map the category, noting how the product is used (back of house/tabletop or portion control). This map will serve as a framework to:

- Identify possible options for substitutability
- Identify possible overlaps
- Note possible gaps where product additions may be appropriate (menu development/brand name recognition)

Our example for the salad dressing category could be mapped out like this:

How does the end user buy salad dressing?

Category	Segment	Sub-category
Dry Mix		
Product 1 “lite”	Independent Operator	Tabletop
Product 2 “ease of use”	Independent Operator	Back of the House
Product 3 “fat free”	Health Care	Back of the House
Product 4 “regular”	Schools	Back of the House
Shelf Stable		
Product 5 “fat free”	Schools	Tabletop
Product 6 “regular”	Independent Operator	Tabletop
Product 7 “ease of use”	Independent Operator	Tabletop
Product 8 “ease of use”	Health Care	Back of the House
Product 9 “lite”	Health Care	Tabletop
Refrigerated		
Product 10 “ease of use”	Independent Operator	Tabletop
Product 11 “premium”	Chains	Back of the House
Product 12 “ease of use”	Independent Operator	Tabletop
Product 13 “ease of use”	Health Care	Back of the House
Product 14 “lite”	Health Care	Tabletop

The product-grouping discussions are fundamental in setting forth a foundation for further analysis and in the development of a conversion plan. Obtaining end-user input is imperative in this process.

An Example: The First Collaborative Meeting

The first collaborative team meeting went well. Everyone was well prepared. The distributor's team leader introduced the agenda and initial thoughts about the project's timeline. It was proposed that the collaborative team would meet as needed over the next 12 weeks, with an implementation target of week six.

Tasks to be addressed by this team included:

- Defining the category
- Designing a scorecard
- Identifying the optimal product mix
- Designing a conversion plan
- Executing the plan
- Reviewing the results

The first task, defining the category, went well. The supplier's draft product-grouping map served as a good visual base. It was agreed that for the next meeting the distributor team would populate the chart to include all products in the category. It was also agreed that the next meeting would focus on designing the scorecard and initiating a discussion on the optimal product mix.

Assignments for the next meeting were made. The distributor team was to come prepared to share internal movement data, while the supplier team was to come prepared to share additional external intelligence.

Developing the Scorecard

Category management is an ongoing process. Thus, the collaborative team will want to establish a method for measuring their results and encouraging continuous improvement.

As a rule of thumb, the scorecard includes easily obtainable performance measures that reflect the distributor's go-to-market strategy and business objectives. The scorecard will assist the team in:

- The selection of products for inclusion, conversion and addition
- Gauging the impact of their decisions by the appropriate measure
- Assessing the success of the implementation and conversion plan
- Measuring the success of their decisions against the year's business objectives and corporate strategy

Scorecards will vary based on data availability. The key is to include measurements that are readily obtainable, meaningful and repeatable. Thus, if you cannot run a report to measure net profit by SKU (including activity costs) but can measure gross profit, use gross profit. Decide on the appropriate frequency to run reports and monitor the data. Do monthly measurements make sense? Or are quarterly measures more appropriate to evaluating the success of the team's decisions?

The development of the scorecard begins with the distributor team's first meetings. The gathering of internal information forms the basis for the organization's assessment tool.

A scorecard for salad dressings might look like this:

Measure	Current	Target	Actual
% Category Penetration			
Customer Segment			
Chains			
Independents			
Health Care			
Quick Service			
Cafeteria & Buffet			
Other			
Category Gross $ Performance			
Dry			
Refrigerated			
Tabletop			
Back of the House			

Measure	Current	Target	Actual
SKU Performance — Turns			
Dry Mix			
Product 1			
Product 2			
Product 3			
Product etc.			
Shelf Stable			
Product 4			
Product 5			
Product 6			
Product etc.			
Refrigerated			
Product 7			
Product 8			
Product 9			
Product etc.			
Category Performance — Increase in Margin per Case			
Dry Mix			
Shelf Stable			
Refrigerated			
SKU Performance — $ Sales			
Dry Mix			
Product 1			
Product 2			
Product 3			
Product etc.			
Shelf Stable			
Product 4			
Product 5			
Product 6			
Product etc.			
Refrigerated			
Product 7			
Product 8			
Product 9			
Product etc.			

The target should support the organization's business objectives and reflect the end user's needs. As in all ongoing processes, the category management scorecard measures will change, reflecting the ability to capture more data, or will evolve to address the refinements needed due to ongoing use and experience.

The effectiveness of the scorecard depends on its ongoing use. Initially, the category management plan may reflect success. Dollars may be up; turns may increase. This initial success may be due to the additional attention given to the category, or the support of additional promotional monies, or the fact that the sales force has been encouraged to focus on the category. Looking at the category after the initial lift and then on an ongoing basis is key to fully realizing the benefits that category management offers.

Eventually, new measurements could be linked to category buyer performance, and the category should be assessed on an ongoing basis against the organization's overall business objectives.

An Example: Meeting 2 of the Collaborative Team

Prior to this meeting the requested information was forwarded to all parties. Both the distributor team and manufacturer team met individually to review the material in preparation for their collaborative meeting.

The distributor team had a good sense of what they wanted to include in the scorecard and used the product-grouping map to facilitate a discussion on optimal product mix. At first it appeared that 30% of their items did little for their bottom line. These products were reviewed from customer and vendor-contribution perspectives. Team members expressed some surprise about the market sales trend report. Did they have the right promotional program in place? The group also had a candid discussion about substitutability and the importance of internal communication.

The manufacturer team had a similar discussion. Reviewing the distributor's reports and based on their own experience, they also developed a draft scorecard. This was forwarded to the distributor team leader.

The manufacturer team discussed the present category mix at length and noted their thoughts about items that were candidates for removal, items that appeared to be substitutable and items that would enhance the mix by their addition. Using an index to protect the confidentiality of distributors in the marketplace, the team provided an analysis that highlighted product sales and possible lost opportunities. This report was also forwarded to the distributor team leader.

The manufacturer team prepared a presentation to convey their thoughts about possible product gaps in the present mix. They felt that sending in the index report before the meeting would help the distributor team weigh the information put forth in the gap analysis.

The collaborative team met again. The distributor team leader thanked the supplier participants for their draft scorecard, which the group used for the ensuing discussion. It seemed natural to measure progress monthly. The collaborative team agreed that, before the next meeting, the distributor team would fill in missing baseline data. The next meeting would address issues surrounding the conversion plan and target goals. Both groups thought it best to hold the discussion on optimal mix until a few additional reports could be distributed.

Analysis and Assessment

At this point the collaborative team has performed fundamental analysis that will drive the assessment process. The team has agreement on the category definition and the subgroups that compose the category. A scorecard has been designed and some preliminary data discussions have occurred. The analysis and assessment phase of the category management process builds on the teams' groundwork.

This phase will confirm what "is," highlight the possibilities and set into motion the conversion plan design. The scorecard will assist the group in ensuring a focused discussion (since the scorecard specifies the project's metrics) and will provide a snapshot of the present. The manufacturer team's input is key in obtaining an understanding of possible growth opportunities and marketplace dynamics.

This discussion is best served by the use of spreadsheets that can be read and manipulated as a collaborative team and in separate teams.

Through this process participants will discuss:

- The category's performance
- Where SKU reduction might occur
- Which customers would be impacted if the product were removed from distribution
- The distributor's business objectives
- Where the addition of SKUs makes sense

- How to optimize the performance of the category
- The steps and incentives needed to move the category performance to its optimal state as assessed by the group

Note that the collaborative team's meetings occur as data is identified and becomes available. The process moves as quickly or as slowly as the participants choose. Setting objective-based agendas helps keep the project on track. Developing assignments for needed input, with due dates preceding the collaborative meetings, helps ensure meaningful group discussions. It must also be stressed again that the collaborative effort discussed here is intended to supplement the distributor's decision-making capabilities. But it is the distributor who is the ultimate decision maker. It is also each party's independent decision as to what data and information to share with the other.

The following is a logical list of discussion topics:

- What does the data mean?
- What if...?
- Are there opportunities?

Asking what the data means promotes a discussion that will take into consideration the distributor's corporate strategy and business objectives, the possibility of greater operational efficiency and the possibility of greater profitability. It may also promote a request for more data (especially external data that may provide insights for category growth and bottom-line contribution).

The "what if" discussion looks at the data with the objective of developing a realistic action plan. The team identifies:

- The obvious "keepers"
- The obvious deletion candidates
- The possible deletion candidates in addition to the "obvious" ones

The discussion that ensues takes into consideration who is using the product and the role that the product plays in the overall business picture. Honesty is key in this discussion. What may seem obvious in terms of deleting or keeping items may be quite different than expected once all factors are taken into consideration. It is important to remember that the communication of product contribution does not necessitate sharing proprietary information.

Some methods of organizing the data to help determine which products to keep or eliminate may include:

- Category percentages: calculating case volume and gross sales as a percent of the category total

- Cumulative percentages: ranking the SKUs by their individual percentage of the category total from highest to lowest

- Priority ranking: assigning a ranking from 1 to 5 that notes other key characteristics (like customer or supplier influence)

- "Power" ranking: assigning each key measurement a ranking from 1 to 5. (For example, the highest case volume would be assigned a 5 and the smallest case volume would be assigned a 1. A product that is a 5 in volume, a 1 in sales dollars, a 3 in profits and a 5 in customer influence would be a 14 in the "power" ranking.)

Obtaining qualitative data from the sales force on possible substitutability, how the product is being used, the role it is playing in the end user's operation and the impact of deletion/conversion on the relationship is just as important to the process as the quantitative information. This information may also be mapped in a spreadsheet format for shared and independent analysis.

Based on extensive analysis of all the input, the distributor can draw conclusions about the products that will remain in distribution, the expectations regarding their performance (see scorecard discussion) and which products to remove from the mix.

At this point the discussion focuses on the question of whether this is the optimum mix and whether there are benefits to be realized from adding products. Continuing to use the end user's perspective, the collaborative team assesses the gap analysis provided by the supplier. This analysis takes into consideration market dynamics, the product mix of competitive distributors in the area and sales potential of additional items.

Items identified for inclusion are added to the scorecard, along with the projected target measures.

An Example: Collaborative Meeting 3

After reviewing certain reports, discussion ensued regarding the meaning of the data. This discussion was initially led by the distributor team leader as the collaborative team reviewed the data against the distributor's corporate strategy and business objectives. The possibility of greater operational efficiency and the opportunity for sales growth became immediately apparent.

The "what if" discussion on optimal mix was long and somewhat emotional. But in the end, the groups agreed to review the proposed category mix, share the proposal with sales and customer service and be prepared to discuss final recommendations for the distributor at the next collaborative meeting. The distributor team would recast the data, organizing it in such a way that the group could communicate the rank and weight of items in the current mix. The group felt this would help resolve some of their differences while respecting proprietary issues. The manufacturer team agreed to provide a more in-depth gap analysis.

The next meeting would require the group to share the same optimal category vision and work together to identify tactics to make it happen.

Conversion Plan

On paper the category plan is solid and grounded in fact-based analysis. The next step in category management is designing and implementing a conversion plan. This step, as noted throughout this text, builds on the steps that precede it.

The items for deletion have been identified and the customers who will be affected have been noted. In the previous step, the collaborative team discussed suitable items for substitution. In this phase the team maps out a strategy for a smooth conversion.

Much of this groundwork is based on the substitutability discussion; however, at this point the "who" and "what" are known factors, not speculation. The conversion strategy must rely heavily on input from the sales force, which is charged with selling the substitution. If the sales force is not represented on the collaborative team, it is important to obtain sales input and draft an action plan that is acceptable from a sales perspective. It is highly recommended to solicit the views of the distributor's customer service personnel.

Thinking through the operator's point of view is imperative to success. The plan should take into consideration:

- How the product is being used
- How often the product is used
- The timing of the conversion request
- The relationship of the supplier to the operator
- The pack size equivalence
- How the product is perceived by the end user, e.g., the role the item plays in the operator's overall business, if any

The above list, although not exhaustive, is meant to highlight potential end-user concerns.

Once the distributor team has executed the above exercise for each targeted customer and documented each customer's possible perspective, tactics for conversion are identified and assessed as an incentive for the customer to switch products. The resulting discussion may include an evaluation of a number of tactics including the following:

- Sharing any cost savings
- Product cuttings
- Free trials
- Reduction in price
- Coupons
- Other incentives

The plan could also include the use of:

- Flyers, brochures and marketing support materials
- Pre-developed applications and recipes
- Demonstrations
- One-on-one conversion discussions

The conversion plan gives the distributor the opportunity to have proactive discussions about the use of products in a category with manufacturer support. Although it may appear to be risky to suggest a product substitution, given the thoughtfulness put into the conversion plan, it may ultimately be a marketing opportunity.

Feedback should be sought from those implementing the conversion. Learning what works with one customer may be translated to another. In every case a tally should be kept to assess the realism of the target measures of the scorecard.

An Example: Collaborative Meeting 4

Before the meeting a spreadsheet was forwarded to the manufacturer team leader. The manufacturer team reviewed the distributor input and focused on where they could add value. Conveying opportunities found through the gap analysis became their priority. The team also took the time to think about the things they could do to support the conversion process. Several conversations were held with their sales force to obtain insight into perceived end-user requirements.

When the collaborative team got together this time, the category plan seemed to fall into place. The conversations about what products would stay and what products would be eliminated went smoothly. The manufacturer's gap presentation helped identify items to be added to the mix. Targets were identified and the scorecard was modified to reflect the plan.

The next task focused on drawing up an action plan that would identify customers whose products would be eliminated, customers who would be interested in the new items and tactics to get the work done. At this point the collaborative team meeting sounded very much like a brainstorming session. Each customer was discussed, and an action plan was drafted. The team agreed that before the distributor made its ultimate decisions, confirmation would be obtained from both the sales force and customer service personnel.

Category Management as a Process

At the beginning of this report, it was noted that the full benefit of category management can be realized only if it is used as an ongoing management tool. Once the category plan has been executed (products deleted, products added and customers informed), it is important to evaluate the results of the actions taken and commit to sustaining the effort. Briefing senior management on what worked, what failed, what information might make the process easier and the scorecard results will facilitate the use of this tool as a way of doing business.

The success of category management lies in its implementation and measurement of its impact.

Summary

Optimizing product variety and minimizing product duplication is not new to the foodservice industry. The contribution to be made by this report is based on two main points:

- Foodservice Category Management is driven from an end user's perspective. This category definition opens doors to opportunities not previously apparent.

- Foodservice Category Management is a distributor tool firmly grounded in fact-based information for systematic, measurable strategic decisions.

As with all new management tools, there is a learning curve with the use of category management. Management commitment and a willingness to move ahead even if your organization does not have access to all of the data identified in this report will provide value. Having a systematic process to address assortment issues, and a scorecard to assess decisions made, proved valuable to the EFR pilot organizations.

Targeted by EFR as a key enabler to strengthening the channel's ability to compete efficiently and prosper, there is no time like the present to move forward with your first category management initiative.

Appendix: Insights from the EFR Pilot Projects

The following charts are a result of the cumulative learning from the four EFR Category Management Committee pilot programs. Each chart addresses a key element in the category management process. The charts are illustrative, providing real life insights and practical suggestions for success.

Please note, these charts are meant as guidelines. The most important piece of advice given by the EFR pilot participants is that these pilots were conducted to enhance the industry's learning about category management. If you have a commitment from senior management, a reasonable category to start with, a willingness to act on decisions identified in your plan and a willingness to measure their effect — you are ready to enjoy the fruits that category management has to offer.

Key Element	Understand Corporate Strategy and Target Operator(s)
Desired Outcome	The outcome of this work is a clear understanding of current corporate strategy and target customers of the organization.
Practical Learning	Currently, many companies try to be all things to all customers. The identification of a corporate strategy and their target customers help provide focus and clarity to the building of a category plan. Note to distributors: This can be accomplished at a high level and is very useful during the conversion planning process. Note to suppliers: If a customer does not have a clearly articulated strategy, then continue to move forward with the process and document the implications throughout the process. The plan would be to come back at a later time to invest in the creation of corporate strategies after the initial category is complete.
Key Business Questions	• What do I stand for in the marketplace? • What are my opportunities in the market? • Which group of my customers will help me best achieve my company goals long-term? (Which of my customers are most profitable? Where is there opportunity for growth?)
Work, Tools, & Resources *(What are the steps to follow and things to use in doing the work?)*	• Understand the company's business advantages. • Understand the company's strengths, opportunities, weaknesses, and threats in relation to its competition. • Understand the company's customer base — who it is and who they would like it to be.
Recommended Roles & Responsibilities	• Distributor owns the identification of this process. Other trading partners can assist in clarifying the strategy and highlighting the customer base in order to build a plan that supports the organization's strategy and business objectives.

Key Element	Enroll Senior Management
Desired Outcome	To obtain senior management enrollment and sanction of this category management pilot project for all trading partners. This is a key step in the process that will lead to the allotment of resources (both people and time) to be put against this project.
Practical Learning	Senior management commitment is crucial to the success of category management use. The single largest barrier to successful implementation of category management is underselling the need for consistent and planned senior management participation. The key is to have an agreed-to action plan that channels key learning back to senior management sponsors, as appropriate.
Key Business Questions	• Am I satisfied with my current business result? • Are my current practices supporting my business objectives? • Where do I need to see improvement?
Work, Tools, & Resources *(The steps to follow and things to use in doing the work)*	• Category management enrollment presentation to senior management. Include the what, the why and the how.
Recommended Roles & Responsibilities	• Key senior management sponsors of this work from all trading partners. • Require checkpoint updates before and after implementing the plan. • Senior managers are needed to help break down barriers within their organizations that impede progress against executing this plan. • Senior managers are needed to reinforce plan implementation.

Key Element	Identify Category Roles & Goals
Desired Outcome	To identify the different category roles that will be used across the entire company.
Practical Learning	Many companies have informal ways of establishing category objectives and allocation of resources. Formal, systematic role development will be a new exercise for most companies. They also tend not to allocate goals by role, but instead by vendor. Do not let this part bog you down in the process. It is not critical in getting a pilot program started.
Key Business Questions	• How do I logically group my categories today? • How do I currently set an objective for a category? • What are the key roles I could use to group my product categories and better help me manage my organization? Destination? Routine? • How do my end-users use and define product?
Work, Tools, & Resources *(What are the steps to follow and things to use in doing the work?)*	• Discussion of end-user use; identification of product movement. • Example of possible roles and goals sheet.
Recommended Roles & Responsibilities	• The distributor is responsible for the sanctioning and creation of strategic roles. Other trading partners should be involved in developing roles as needed.

Key Element	Identify Category Roles & Goals
Desired Outcome	The outcome of this work is a common category definition for managing the category. Additionally, trading partners should agree on how to segment the category or how to group individual items in the category into interchangeable product groupings.
Practical Learning	• IFDA database product grouping definitions (as applicable). • The category definition reflected end-user definition and use. Location in the warehouse essentially becomes a characteristic, not a category definition.
Key Business Questions	• How do distributors/suppliers currently group products? • How do operators purchase this category? How do patrons view this category? What need does the product fulfill? • How should products be grouped to meet end user (operator or patron) needs? • How should products be grouped to support effective decision-making? • What data do I need to analyze this category completely?
Work, Tools, & Resources *(What are the steps to follow and things to use in doing the work?)*	• Review the end-user hierarchy of needs and operator purchase decision trees as supplied by manufacturer(s), based on end-user research. • Identify all products that meet the end-user need. • Determine which products, when managed together, have procurement, distribution, marketing or service similarities that enhance operator or end-user value. • Determine which products can be accurately measured as a group to assess the progress of the business plan. • Organize the resulting group of products by segment groupings and items. • Create a list of data measures and time periods that will be necessary for further category analysis.
Recommended Roles & Responsibilities	• Supplier provides end-user hierarchy of needs and purchase decision trees, to provide operator insight. • Distributor provides operator insight based on informal studies or understanding. • The distributor's system resources will be responsible for getting internal category data for further category analysis. • The manufacturer will be responsible for getting logistics (perfect order) formation.

Key Element	Pilot Category Selection
Desired Outcome	To obtain agreement among trading partners on what will be the pilot category for this pilot. Additionally, the distributor and manufacturer must define, at the end of this step, what data is needed for further category analysis later in the category management process.
Practical Learning	It is best to pick a category that is important to all trading partners, but one that is simple enough to analyze and implement in a 3 to 6 month time frame. Successful first projects are those that are "manageable" (no more than 400 SKUs) and "non-emotional" from an end-user's perspective. To pick the most complex or most critical category can frequently lead to issues that may impede the process.
Key Business Questions	• Where do we have our largest opportunity among trading partners? • Is there a manageable category that will provide good learning and still provide meaningful results to the organization? • Is there an opportunity to be pursued that supports present business objectives?
Work, Tools, & Resources	• List of categories that both companies share and relative size of the category at the distributor.
Recommended Roles & Responsibilities	• The distributor must be sure it is an impactful business category. • The manufacturer must be certain they can support the end-user understanding necessary for this category.

Key Element	Category Scoreboard
Desired Outcome	The outcome of this work is common "balanced" scorecard applicable to all categories. It can be used to evaluate how a category is performing versus expectations. The scorecard should consist of a limited number of measures in four focus areas: • Financial Measures (profitability, revenue). • Internal Measures (volume, order size, out of stocks, turns). • Competitive Measures (market share, price index versus competition). • Operator Measures (customer satisfaction, service level).
Practical Learning	A good scorecard is consistent across categories, and includes multiple ways of looking at the business. It is automated, using systems that are already in place. It should be balanced and measurable using today's capabilities. If "perfect" data is not available use data that is obtainable with an eye to refining the data collection process over time and as the information is required.
Key Business Questions	• Are the measures consistent with the distributor's corporate and category objectives and strategies? • Are the total system strategies linked to key measures on the scoreboard? • What systems are in place to measure progress against those measures? • What objectives by category are expected to deliver corporate objectives?
Work, Tools, & Resources	• Identify the critical scorecard measures to be used in each focus area. • Identify causal measures that can help indicate why overall scorecard measure may be less/more than the expectation. (For example, a causal measure for overall profitability may be price index.) • Develop a prototype scorecard and causal measure supporting document. • Document goals by item role for the category. • Develop method of delivering scorecard for pilot test. • Test the scorecard. • Work to integrate scorecard into the ongoing work of the category management process and in reward/recognition for this project.
Recommended Roles & Responsibilities	The distributor owns the scorecard, but will probably need the manufacturer to supply some of the measures.

Key Element	Category Assessment
Desired Outcome	The outcome of this work is an understanding of the category that provides the basis for suggesting category strategy and tactics. The depth of understanding will depend on the role and relative importance of the category.
Practical Learning	This can be the most tedious part of the category management process, if you are not selective in what you're analyzing. In reality, internal distributor data will probably be the piece that takes the most work and provides the most information. The key is to look for important nuggets of data that indicate either a missed opportunity or a significant amount of duplication of items. In all cases the data "jumped out" and it was apparent where there may be opportunities for more optimal assortment.
Key Business Questions	• How is the category currently performing versus objectives, the market, the competition? (e.g., case, $ sales, net/gross profit $, index and trends). • How do the distributor's business tactics compare with the market, competition? • What products are currently distributed in the category? • What are the most important product items/groupings to your operators in this category? What key product groupings may be missing from current line-up? • What products should be distributed in this category?
Work, Tools, & Resources	• Determine what data is available to drive assortment decisions (internal distributor data, marketplace data, end-user information). • Determine the source of the information (supplier, distributor, outside vendor). • Develop reports to answer these types of questions: 1. Operator needs • What are the key needs of the category from the operator's perspective? • What key product groupings should a distributor carry to meet their needs? • What key product groupings does the competition carry that would add a unique competitive advantage? 2. Distributor (specific focus on efficient assortment) • What are the case, $ sales, and net/gross $ profit index and trends by category, product groupings, and by individual item? *—continued on next page*

(continued from previous page)

Work, Tools, & Resources	• What are the case, $ sales, and net/gross $ profit index and trends by customer within this category? • What are the turns, service level performance by category, product groupings, and by individual item? • Within a product grouping, what % of items deliver x% of $ sales and profit contribution? • Within a category and by product grouping, what % of customers deliver x% of $ sales and profit contribution? • How do individual items rank within a product grouping? • Develop an Efficient Assortment: • Which items fall below/above an identified threshold within key product grouping rankings? • Do these items that fall below the line represent unique operator needs (e.g., variety versus duplication)? • Are there any items that should be included to add a competitive advantage? • Based on this information, create a tentative assortment plan. • How does the distributor's new category line-up compare to the previous assortment based on projected $ sales and profits? • Determine how new items should be evaluated to be introduced into the category. • Determine how promotion/pricing can be used to support a conversion plan from old items to items within the current line-up. • Determine how items can be replenished in this category to support the category role.
Recommended Roles & Responsibilities	The distributor and supplier are both resources in analyzing the category, the breakdown of who does what depends upon where the analysis expertise lies.

Key Element	Category Strategy & Tactics: The Keep/Add/Delete and Customer Conversion Process
Desired Outcome	The outcome of this work is a set group of tactics or specific actions that are necessary to deliver the category business plan. They must deliver the choices made in category strategies to ultimately deliver the category objectives. This will include a recommended assortment for the category and a conversion plan for the distributor's customers in this category.
Practical Learning	This is the step in the process where you start to make decisions concerning the "right assortment" for your business. It involves both deciding which items to include in your "optimal assortment" and identifying which customer requires conversion from "old" items to the new assortment.
Key Business Questions	• What overall category strategies will help deliver category goals (based on role)? • What choices will ensure that category objectives are met to support the strategies (concerning merchandising, pricing, distribution, and inventory placement)? • How do I reduce inventory, improve service levels and lower distribution costs effectively? • How do I achieve the lowest acquisition costs while optimizing total systems costs? • How do I convert customers from one item to another through selected tactics?
Work, Tools, & Resources	• Review assessment and identified opportunities. • Prioritize opportunities in key areas: procurement, distribution, marketing, and service. • Identify possible strategies/tactics to handle focus areas. They include: 1. Strategies to build category sales/demand * Marketing tactics (e.g., promotions targeted on acquiring, maintaining, expanding customer base) * Service tactics (e.g., lower delivery minimums) 2. Strategies to reduce category costs (logistics focused) * Procurement tactics (e.g., buy in full truckload quantities) * Distribution tactics (e.g., crossdock, CHEP pallets, etc.) • Use the keep/add/delete process to make assortment decisions. • Determine what tactics (marketing or logistics or service) can be used to convert customer usage of one product to another.
Recommended Roles & Responsibilities	All pilot participants are responsible for the identification of implementation tactics. The conversion strategy must rely heavily on input from the sales force, which is charged with selling the switch. It is important to obtain sales input and draft an action plan that is acceptable from a sales perspective. It is highly recommended to include voices from the distributor's customer service personnel. The manufacturer's respective functions should work with the customer to ensure they can support tactic choices.

Key Element	Category Review
Desired Outcome	The outcome of this work: • An understanding of whether the category achieves its objectives. • An understanding of what components of the business plan (tactics) succeeded or failed and to identify the reasons why. • To provide input into future business plans.
Practical Learning	These review sessions should be in 3-month increments as checkpoints in addition to a final category review. The purpose of this is to assess how successful the pilot project has been versus objectives, and to identify any over-riding barriers that must be addressed for future work to continue. It is critical that senior management is engaged throughout all parts of the process, such that when you reach category review, they are ready to take action and work through issues/barriers for future success.
Key Business Questions	• How is the category performing versus objectives? (Scorecard) • How is the category performing versus causal measure? • What issues/barriers are still remaining to effectively implement plan or future plans? • How will this work be incorporated into future measurement systems and reward/recognition program?
Work, Tools, & Resources	• Assess the category versus its stated objectives. • Assess each component/tactic of the business plan in terms of its contribution to the category objective. • Summarize strengths and weaknesses of the business plan. • Suggest improvement to the business plan. • Identify over-riding issues/barriers that must be addressed.
Recommended Roles & Responsibilities	Both manufacturer and distributor should be available and responsible for the category review at regular checkpoints.

Key Element	Finalize Plan and Execute Tactics
Desired Outcome	The outcome of this work is an implementation plan including timeline and necessary resources, as well as required action steps that will ensure the work is completed on time, with the right resources, on budget.
Practical Learning	This is the MOST IMPORTANT STEP IN THE PROCESS. Many good business plans are never executed properly. Ownership for each step in the process must be identified and ensured.
Key Business Questions	• What is the critical path that ensures total systems implementation? • Which tactics should be implemented first? • Who is responsible for ensuring that each tactic is implemented? • What are the barriers to implementing the category business plan priorities? • What resources are available to eliminate those barriers and accelerate implementation? • What is the conversion plan for customers?
Work, Tools, & Resources	• Determine a critical path of activities with appropriate owners. • Determine an overall issues management process by which barriers/issues can be worked out. • Determine and assign additional resources necessary for each step of implementation. • Integrate action plan to ensure accountability, timing, and resource utilization across functions. • Build in checkpoints throughout the plan to ensure progress is being made. Utilize scorecard and causal measures as benchmarks. • Determine an end-date for the pilot test. • Execute the plan.
Recommended Roles & Responsibilities	Both the distributor and manufacturer own implementation of the tactics. An owner should be assigned from both companies to ensure success of the plan.