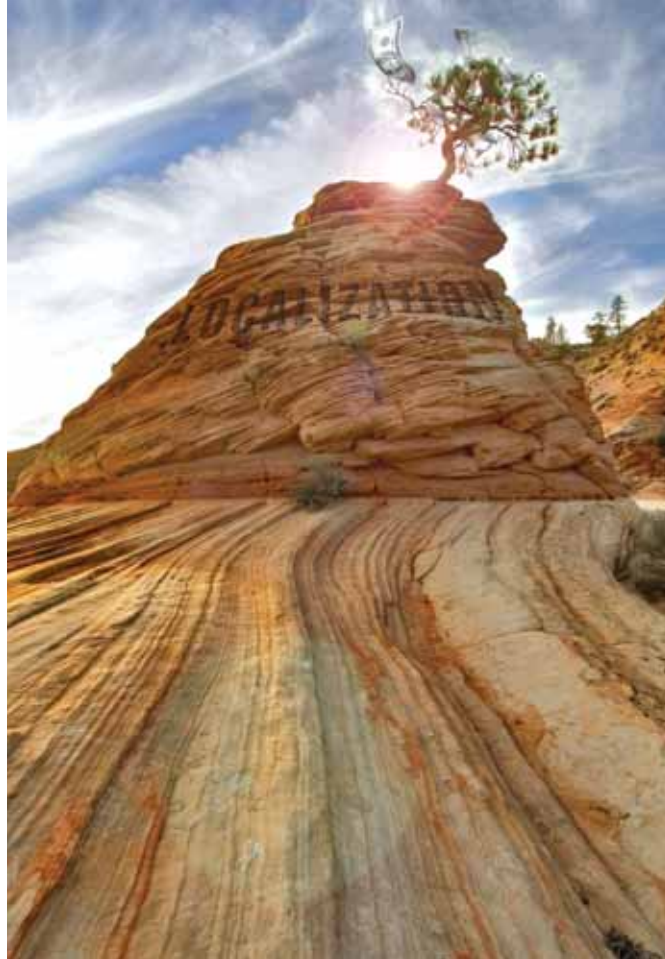


Meeting the Challenge of a New CPG

MOUNTAIN To CLIMB



By JOE CRAFTON
President, Strategic Alliances
CROSSMARK



I FIRST BECAME AWARE OF THE CATEGORY MANAGEMENT PHENOMENON IN THE MID-1990S. Looking back on it many years later, it is apparent that many of the unintended consequences — starting with a geometric increase in the workload for everyone involved — should have been predicted and dealt with. Fast-forwarding to today, I believe we are facing an even greater transformational event than the category management movement of the mid-90s. That trend is “*Localization.*” WILL WE ALL LEARN FROM AND AVOID YESTERDAY’S MISTAKES, AS WE MOVE FORWARD INTO THIS NEW ERA?



LOCALIZATION IS COMING — AND SO ARE THE QUESTIONS AND CHALLENGES: Will a display that was once negotiated for ALL stores be relegated to a targeted store list? Who is responsible for making such a decision — the empowered store manager close to the marketplace, or the well-informed category manager at corporate? Will the “big-buy” rule or a micromarketing mindset prevail?

LOOKING BACK ON IT MANY YEARS LATER, it is apparent that many of the unintended consequences of category management should have been predicted and dealt with. As the “buyers” that we knew and loved suddenly became “category managers,” we should have predicted some of the downstream consequences of such a change.

For example, since the suppliers would be called on to provide much better, fact-based consumption data, there would be tremendous separation between those who embraced the learning of new skills and those who chose not to. Turnover was inevitable on both sides of the desk.

ANALYTICAL SKILLS WERE SUDDENLY IN HIGH DEMAND. Quarterly planning became a requirement.

It sounded like a good idea at the time — and it was. But in retrospect, hardly anybody — especially at the executive level — truly understood the implications.

I remember specifically attending a conference wherein the formal seven-step category assessment process was presented: *category definition, role, assessment, strategy, tactics, plan and execution.*

During the Q&A segment, some brave soul (probably a retail operations person) stepped up to the microphone and asked a simple question:

“Who is going to do it all?”

The speaker replied: “All what?”

The questioner came back with: “Who is going to do all the work associated with the analysis and the actual implementation of the new planograms?”

“This is going to create a lot of work,” he stated. “Who is going to do it, and who is going to pay for it?”

THERE WAS NO ANSWER THAT DAY. That day, there was too much preoccupation with the big idea. In hindsight, I wish we had started then to figure that out.

We should have seen it coming.

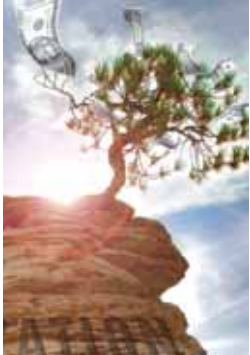
FAST-FORWARD TO TODAY. Now, I believe, we are facing an even greater transformational event than the category management movement of the mid-Nineties. This trend is “Localization.”

Why? Everyone (at least those with whom I have discussed the issue) seems to agree that the future is having the assortment and promotions that are right for *the individual neighborhood*. James Tenser of VSN Strategies calls it *Category Management 2.0*.

Large retailers operating in multiple regions will embrace assortments and promotions customized down to the store or a cluster of stores. *Give the shoppers what they want — not what represents the most efficient flow of goods.* That means that the marketers — not the supply chain — are in charge. Items that were once found in every store in the chain will now be found only in those stores that are *appropriate*. Will a display that was once negotiated for *all* stores be relegated to a targeted store list? It makes sense that it would.

Who is responsible for making such a decision? Is it the empowered store manager who is close to the marketplace? Or is it the well-informed category manager at corporate? Will the *big-buy* rule, or will the micromarketing mindset take over? Who is responsible for performing all the incremental analyses — the supplier or the retailer?

As for retailers that still rely on slotting, will the supplier be charged a lesser amount, prorated according to the percent of stores who are “traited” for the item? What about the poor supply



FORUM OPINION / MY TURN

I OFTEN ASK THIS QUESTION OF PROGRESSIVE CPG COMPANIES: "If a supplier were to identify 10 unique clusters within a chain and recommend 10 unique plans for assortment, promotion and space management, COULD THE RETAILER EXECUTE IT?"

chain person who can't justify a slot for an item traited for so few outlets? Will it not result in more variety in the whole of the enterprise?

It is logical to assume that customization would result in inefficiencies for the suppliers. Indeed, that has proved to be the case: GMA/FPA's new study, "Creating Value Through Customization" (see article, page 62), noted that fully half of all current customization programs fail to create net benefits for retailers and manufacturers.

The study, conducted by Booz Allen Hamilton on behalf of the GMA/FPA, revealed that "Companies looking to improve customization success need to focus efforts on strategic partners, work collaboratively to understand end-to-end economics, and sustain an effective dialogue about program performance and issues."

In the bestselling, and controversial, book, "The Long Tail," by Chris Anderson, the author predicts that the individual preferences of consumers will revolutionize the consumer goods industry. He states that the future of business is selling *less of more* — that is, a greatly expanded variety of goods in much smaller individual quantities, quantities that add up, however, to huge aggregate volume. Niche marketing is in, and mass marketing will decline.

MASS CUSTOMIZATION — OR LOCALIZATION — WILL IMPACT OUR INDUSTRY, TOO, IN MANY WAYS: How many versions of the planogram can be used effectively? Who will design them? Who pays for the incremental labor to reset them? Is the store willing to perform drastic remodels if the category size should be changed?

Fifteen years ago we had a "plan-o-gram book" for each retailer that fit neatly on the credenza. In

this golden book we had a copy of every planogram for every category in the store.

Eight years ago we had a filing cabinet with a drawer for each retailer. Today we find ourselves with server space devoted to every possible combination.

It is going to get even more complex.

I often ask this question of progressive CPG companies: "If a supplier were to identify 10 unique clusters within a chain and recommend 10 unique plans for assortment, promotion and space management, could the retailer execute it?"

WHAT DO YOU THINK?

How will today's salespeople and category managers be trained? Has anyone developed a seven-step process for localization yet?

The answers to these questions will be found through collaboration. Like many successful industry solutions, it will be driven by the major CPG suppliers, sales agencies and retailers.

The newly merged GMA/FPA could play a major role in hosting such a summit. On our own initiative, CROSSMARK is hosting a conference in February — "Insights In Action: Local Motion" — to bring together industry experts and work towards solutions.

BUT *HOWEVER AND WHEREVER*, retailers and manufacturers come together, in my view *the time is now*.

Unlike the category management phenomenon, where we didn't cross the bridge until we came to it — and found it to be, in many cases, a bridge we were unable to negotiate — we have the opportunity to get in front of the localization evolution — and collaborate to win. ■