Retail Management
Prof. Swagato Chatterjee
Vinod Gupta School of Management
Indian Institute of Technology-Kharagpur

Lecture - 35
Category Management and Merchandise Planning

Hello everybody, welcome to this NPTEL Swayam course on Retail Management. This is Professor Swagato Chatterjee from VGSoM, IIT Kharagpur who is taking this course for you. We are in week 7, this is lecture 35 and we will be discussing about Category Management and Merchandise Planning. So till now we have discussed about different kinds of merchandises and what are the different types.

Why cross merchandising is done, why micro merchandising is done. And we have also talked about how merchandise can play a very important role in the retail business. In this particular lecture, we will talk about category management, which is a important job role in the retail space.

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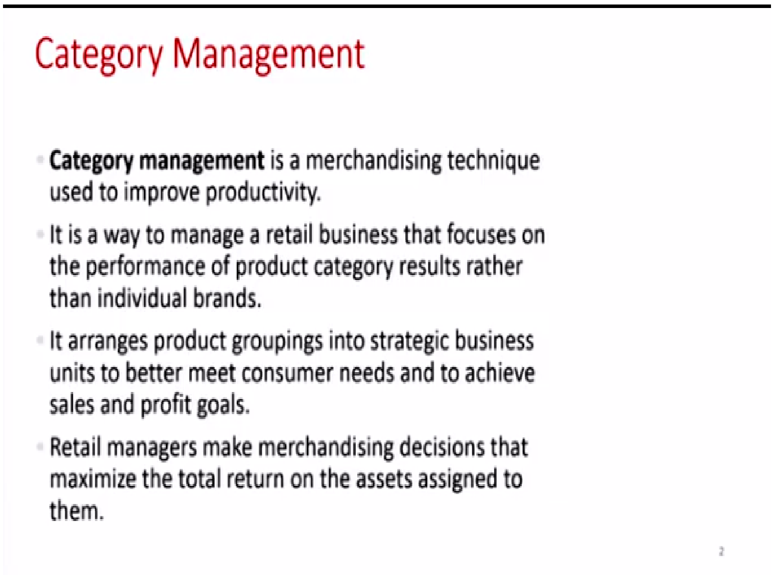

So category management is a merchandising technique used to improve productivity. Here the focus is neither buying nor, I would say getting high yield or getting high revenue, not like that. The major focus is to increase productivity. What is productivity? That means the amount that you are investing that should come out in your revenue. The revenue divided by the amount that you are investing, the cost that you are incurring probably, that will be a definition of productivity.

It is a way to manage a retail business that focuses on the performance of product category results rather than individual brands. So overall product category's focus is giving rather than one particular brand in that particular product category. For example, let us say I am talking about shampoo. So I will focus on Head & Shoulders and Pantene and etc. Separate brands I will not focus on.

I as a category manager will be responsible to focus on shampoo as a as a category, as a product category. Or let us say shampoo might be very small thing to talk about, let us say I will be more focused on personal care kind of FMCG products as my product category. And I will be responsible of the results of the productivity for the whole product category rather than a single brand.

It arranges product groupings into strategic business units to better meet consumer needs and to achieve sales and profit goals. So this grouping, this categorization of products or services in the retail context is also done in keeping the customers in mind. For example, if we go to a online retail store, you will see that this kind of grouping sits there like electronics and personal care items and home care items and groceries and food and beverage items, packet food.

And probably the non-vegetarian items etc., etc., will be kept separately. So these categorizations are done keeping the consumer's needs in mind. So when consumer is purchasing, let us say Harpic for his bathroom cleaning, he will not think about some other product. A competition of Harpic will be probably Neem and this and that which are used in cleaning product, bathroom cleaning or floor cleaning.

Now I as a customer when I am trying to buy that I will focus on either this brand or that brand within that product category. So that is why a category manager will also try to basically create lots of profit or result for the product category itself. A particular person, if this particular person is focused on a brand and then each brand has a brand manager, then the brand manager will start competing with each other.

So all the (()) (04:06) brands will start fighting with let us all the Himalaya brands. So that will create a problem. Instead of doing that I become a category manager because

I am not here for the benefit of the manufacturer. If manufacturer put somebody as a brand manager, there who talks about the brands of only that company, then that is a separate story.

There are certain people who are employed like that. Let us say if you go to a big retail store and there is certain centers of cosmetic products, you will see brand specific sellers in the floor. So that is available. However category managers are more generic. They do not fight with each other in one category manager with another category manager. Because they are trying to create as much sales for the retail store.

They are not trying to create as much sales for the brand. So these two might have two different kind of a goal, two different kind of a outcome. If you focus on the brand, you do not care whether other brand sales goes down or not. As long as your brand sales is going up, you are happy. But when you are focusing on the retail store, you want brand A plus brand B these sales should be maximized.

Brand A sales you do not want to do maximize, brand B sales you do not want to do maximize, the total sales you want to maximize. So for that you want brand A and brand B not to compete with each other, rather even if there are competition, you want them to specifically target a specific segment in your customers that are coming in the retail store. So that is why we put category managers.

We do not put band managers in retail store. We put category manager so that he focuses on the whole category. In the whole category there can be multiple brands from multiple manufacturers, but category managers will try to see that these brands do not compete a lot with each other. Specific people who have specific interest towards the specific brand can buy that and go away without cannibalizing other brands within the retail store.

So this is basically the focus of a category manager. Retail managers make merchandising decisions, means which product to buy and which product to display, those decisions that maximize the total return of assets assigned to them. So it is the total return of the assets means it can be the floor space, it can be the cell space, it can be the money that you are investing, the manpower that you are investing.

Everything together is the asset that you are investing in the sales of the product. Now retail managers make merchandising decision of they actually show such kind of products in such a volume in such capacity and such price at such time period such that the net returns goes up. Now if you see that okay, Pantene Shampoo is giving the highest amount of returns, he will not stock it up with whole cell space with Pantene.

Because you also know that Pantene will give returns fine, but when only 50 bottles of Pantene will be sold in a month. So there is no point of giving the whole shelf filled with Pantene. So he will only buy 50 Pantene bottles. Then he will go for the next one, which is the next most returning brand. It can be some other, it can be Head & Shoulder or it can be let us say Sunsilk, which is coming from some other manufacturer.

And then you can you will basically put that. So you are not focused on one brand at a time. You are basically focused on the overall category, how much they are making sales out of this particular focus. So this is a category manager's job. So they have to take decisions which are mathematical decisions then that how much to order, what time to order, what price to order, from whom you will source it.

So if it is not a product, which is FMCG kind of product or a package product or branded product, which is non-branded product, then you have to basically get it from multiple different sources and their probability of the quality failure will be there. You have to take those risks into account. You have to take the risk of non-selling into account. Because brands might probably take the return.

So if the product is not sold, they will take the products back from your cell space. But if you are dealing with some supplier who had given you supplies at a very low cost and very huge margin, they will not be interested to take it back. So that is why the forecasting techniques becomes important. So these are all part of the job of a category manager.

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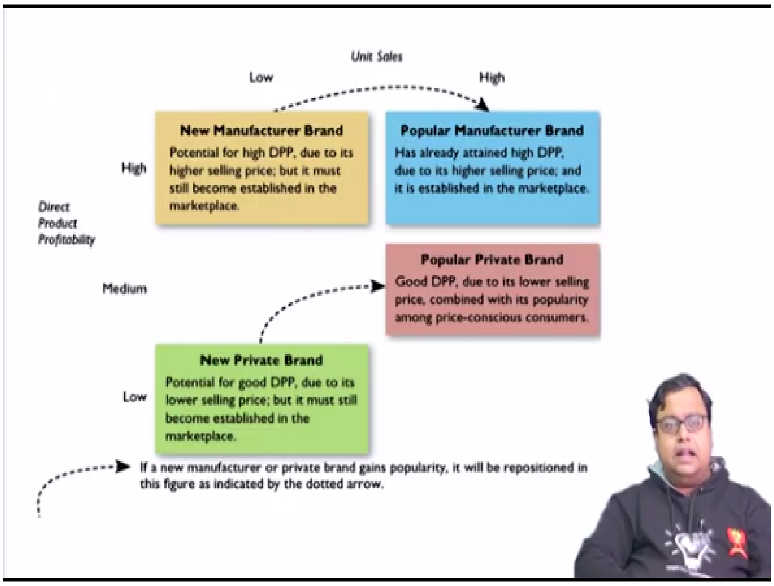

What generally category manager tries to do? So you see that, here we talk about in the left side, the direct product profitability and the under x axis it is unit sales. So when unit sales is low, and the direct product profitability is low, is basically a new private brand. Private brand means basically the retailer's brand. So potential for good DPP due to its lower selling price, but it must still become established in the marketplace.

Nobody knows it till now. However, if the same thing, if the profitability is high, then it has potential for high DPP due to its higher selling price, but it must still become established in the marketplace. So a brand which is a manufacturer, sorry which is a private brand or a manufacturer brand, as long as its sales is low, people will not know about that brand and if people do not know about the brand, the sales will not go up.

Now private brand can only become medium range profitable. And manufacturing can become high level profitable only when the sales goes up. So what then what is that? Then if I try, if I can increase the sales by doing whatever I want to do, it can become either popular manufacturer brand or popular private brand. Popular private brand has medium profitability, popular manufacturing brand has high probability, but the sales are high.

Category manager's job is to combine this, create this story where popular manufacturer brand and popular private brand at a right ratio is there present in your retail store. If a new manufacturer or private brand gains popularity it will be repositioned in this figure as indicated by the dotted arrow. So that is what is the position of the, position of the brands in the market or in the profitability cells, I would say matrix which we are trying to show here.

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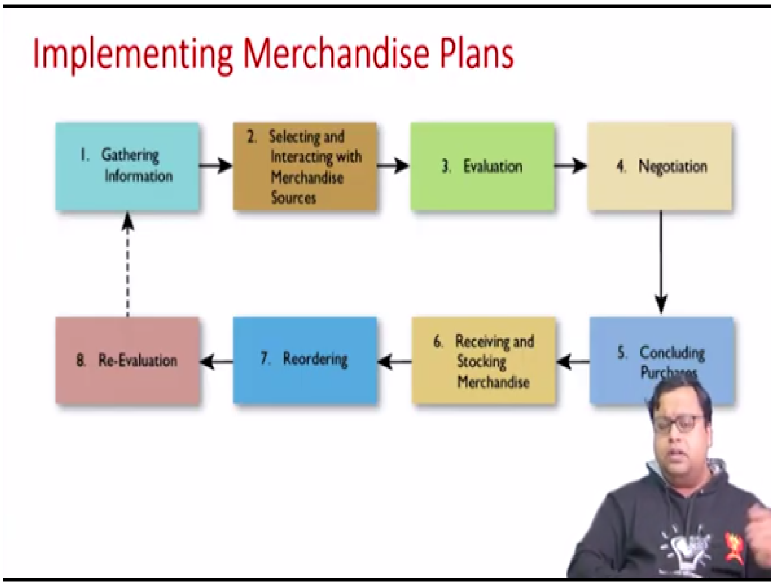

Now how to implement merchandising plans. The difference of any plan when you try to implement there are certain steps. For example, it starts with gathering information. Then selecting and interacting with merchandising sources. That means from where you will supply sources basically. From where you will be getting it. Then you evaluate the suppliers.

You do not, so this evaluation of suppliers becomes a huge problem because it is a multi-dimensional decision. There are lots of things, quality, price, delivery time, brand name, I would say image of the person, what kind of services that they will provide, whether they will give benefits of shared I would say shared advertising or not. Or whether they would invest on advertising or not.

Or they would give higher margin to you or not. All this will impact the evaluation of this suppliers. Similarly, then you negotiate. Once you shortlist certain supplier you start negotiating with them that okay I need these, I need that and they will say that okay if you need these then the price is like that. I cannot give you delivery time of 7 days but I can give you 10 days, will that be okay?

Because even if I give you 10 days my prices are almost 20% lower than your nearest competitor. So this kind of dealings, negotiations keeps on going. Then you conclude the purchase. Once your negotiations are done you decide that okay now I can purchase from this particular supplier, you purchase the product. Then you receive and stock your merchandise.

Ultimately after the purchase order goes, the product gets delivered to your doorstep, in your inventory, in your warehouse. And you have ultimately, so stocking happens of the merchandise and then you pay to the supplier. Then based on the performance of the supplier, based on the quality of the supplier, based on the services provided by the supplier, you decide whether to go for reordering or not.

Once you reorder you again do the reevaluation and this circle goes on. So it is like any b2b purchase. And in a b2b purchase context for a supplier side, there are certain things which becomes very important. In b2b purchase, economies of scale becomes very important. The larger volume you purchase the better. And that is also better for the supplier. So they can basically target for larger retailers that is number 1.

Number 2 is that if I have multiple brands to sell, if I am a supplier who has multiple brands to sell, that is sometimes preferred by the retailer. So retailers also try to buy multiple brands from a particular supplier. One is economies of scale they get that advantage. Two is that they get advantage in terms of a turnkey solution, a turnkey kind of solution.

Then they do not have to think that okay, from where will I get the shampoo, from where will I get the soap, and where will I get the kitchen care items and blah blah blah, if there is one FMCG company which can give all of these things in one go. So I can deal with the FMCG company's sales manager or key account manager or somebody who will be basically dealing with all the problems related to or all the orders related to this particular company, which can be done.

That is another advantage. Third advantage is brand name becomes very important. What brand name, what trust or reliance that you have on this particular company becomes very important data in a b2b purchase context which is also true in the retail merchandising plans. So all of these things, all the theories and factors that is important in a b2b purchasing context will come into this picture when you are talking about implementing of merchandising plan.

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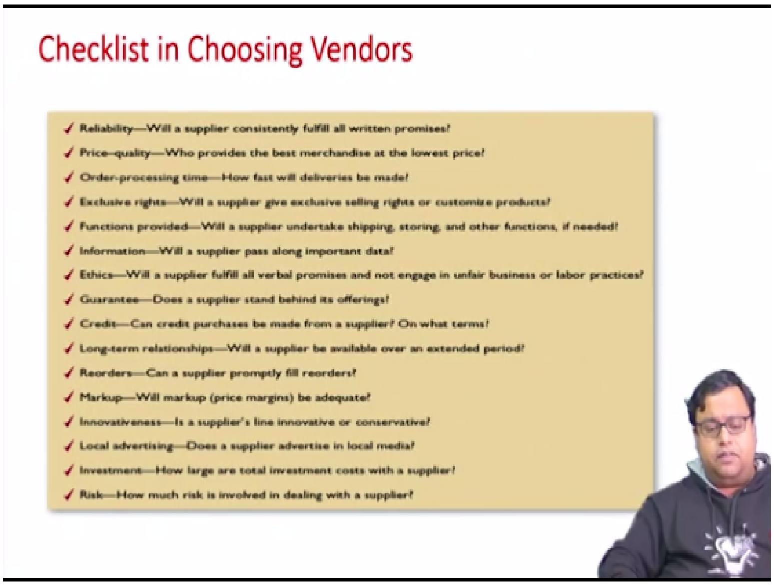

What are the various factors that you as I just telling that there are various factors multiple factors which impact which vendor to choose. What are these factors? Like reliability. Will a supplier consistently fulfill all written promises? Or price quality match. Who provides the best merchandise at the lowest price? Or order processing time. How fast will deliveries be made? Exclusive rights.

Will a supplier give exclusive selling right to a or customer products? So to customize the products for example that if I am let us say dealing with Maruti, Maruti is a manufacturer and there is NEXA is the retailer, NEXA will want exclusive selling right of Maruti in a particular geographical location. So if that is there, then I get benefit only when the brand is very strong.

What are the functions provided? Will a supplier undertake shipping, storing and other functions if needed means other than the retailing services which I will take care of other allied services, will the supplier take care of those kind of services? Because if they do not, then my prices will go up, my margin cut will go up basically. The margin that I will seek from the supplier will go up. Information.

Will a supplier pass along important data? Ethics. Will a supplier fulfill all verbal promises and not engage in unfair business or level practices because this becomes very important. When you try to sell somebody brand, let us say a basic example will be the Nestle case. So Maggie had a high amount of MSG or something like that, which got proven in some part of the excuse that they have brought in, all the brands of Nestle got affected.

And the retailers were not happy. They were not interested to keep Nestle's products. So why because then this unfairness or the question of ethics etc., comes in and retailer becomes very finicky about those stuff. Guarantee. Does a supplier stand behind its offering whatever they are saying whether that makes sense or not? Can credit purchases be made from a supplier?

This is very important. Because, so see if you cannot do credit purchase, then the problem is that you have to pay the money upfront. You have to pay the money to the supplier, then you will get the product and then you have to sell. So your money is stuck with the product. So till the product is sold you will not achieve the profitability that is required. That becomes a problem. Long-term relationship.

Obviously the longer you have relationship with the supplier that helps. Reorders. Can your supplier promptly fill your reorders because first time order they will put all the efforts they can to give the product. But next time when you reorder, generally you give first order is small, it is a testing order. Reorder is quantity becomes bigger. Whether they can fulfill that? Markup. Will markup be adequate?

Means the price margin that they are giving to you will be adequate for you. Innovativeness. Is a supplier's line innovative or conservative? Means whether they are coming up with new products or they are selling the old product. Does the supplier advertise in local media because local advertising becomes very important when you are in the retailer. You do not want national advertisements.

You are selling in Kharagpur or in Calcutta or in Mumbai in the national level whatever advertisements is happening, you do not care because your customer will come from your locality only. So whether people are focusing on locality also, whether they are investing on let us say local TV channels when they are giving advertisements or local newspapers or something like that will also make very good sense.

Investment. How large are total investments costs with the supplier? Means how much I have to pay to get their products. More this is the more concern for franchisee business. Risk. How much risk is involved in dealing with a supplier? So these are various factors. And how do we decide that on these factors. They are called MCDM methods, multi-criteria decision making methods, which we adopt.

So I will not go into this multi-criteria decision making what this is, but you can search in Google. There in YouTube, you will find very good videos on multi-criteria decision making. There Indian professors who have done quite a good job in teaching this or there are courses in NPTEL also on multi-criteria decision making. You can do that courses as well, which helps a retailer to decide which vendor to go with based on all this criteria.

Because vendor selection problem is a very common problem in a retail sector, in industrial sector, in a b2b purchase sector, which is a important problem in the category management as well.

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Now when you negotiate the purchase, there are certain kind of purchasing techniques that we talk about. One is called opportunity purchasing and one is the slotting allowances. These are two interesting things we will talk about. What is opportunistic first thing? Due to close out, bankruptcies, overstocks canceled orders, lack of a well-balanced assorted lot sizes or colors.

Sometimes manufacturer have lots of extra items. So let us say closeout happen and you want, whatever got produced in your manufacturing plant, you want to sell it off as soon as possible because closeout is happening, your manufacturing process is going to be stopped, there is some amount of unrest among the laborers.

And as the owner of the manufacturing plant or as the manager of the manufacturing plant, you want your stock to be out clean as soon as possible. So you have some amount of liquid money in your hand. So in return of liquid money, sometimes retailers stock the items for them. Now when they are doing that they are doing opportunistic buying, because they are paying much lower when they are buying the stock, because unless they buy the manufacturing is in a problem.

Similar things happens when there is bankruptcies, overstocks, canceled orders etc. While manufacturer has lots of items, which they want to dispose of as soon as possible, and that is where this opportunistic buying techniques comes up. Sometimes we just wait. Now there are certain kind of retailers who only live on this. I talked about this kind of retailers when we were talking about different categories of retail.

So let us say if I am a so in India also or in the US also there are retail stores, which are like what dollar retail store, 100 rupees retail store. Means all the products that you will find inside the retail store will be of 100 rupees. So they only do opportunistic buying. They wait for the product's per unit price going down 100 rupees. The moment it comes down to 100, below 100 rupees, they will buy in a huge bulk.

And then they will sell at 100 rupees in their retail store. So that is an opportunistic buying technique what retailers take sometimes. Then comes slotting allowances. What is slotting allowances? It is common for new products in supermarkets, in Northeast and in freezer sections. So where you do slotting of the particular product and for that you sometimes charge them.

You get allowances for particularly putting the product in a particular place. So let us say in a freezer, you want to put certain one part of the freezer will be dedicated to one particular brand only. So for that you are basically charging slotting allowances or space allowances, which is a little bit more. So we will stop here for this particular lecture.

We will come back with other plan advertisement and media planning in the retail sector how it is done in the next lecture. And I will see you in the next video.