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APPLICATION OF CATEGORY MANAGEMENT IN WESTERN BALKANS REGION

Summary: Under category of products is considered group of products which have the same functional characteristics and cohesiveness. Such group of products should be merchandised in one place on retail shelves. This merchandising has to secure the best approach to shoppers. Also, such group of products has to be managed as a business unit. Management of such group of products is called Category Management. If practiced properly, Category Management has potential to significantly improve business results, what is already proven on markets of USA and EU. Category Management based on these postulates has been introduced in markets of Western Balkans about a decade ago. Still, it is questionable if Category Management in this region is accepted at level to drive positive results. Main goal of this paper was to find out acceptance and development of Category Management on these markets after about a decade of practice. Based on this, aim was to conclude if there is additional potential for development in Fast Moving Consumer Goods (FMCG) industry based on further acceptance of Category Management. Reasons behind current situation also were one of objectives of this research. Through implemented research, responses gathered from the biggest companies in FMCG industry. Research results show that Category Management on observed markets is not sufficiently developed yet and that is still in the developing phase. However, results show that Category Management adaptation will highly accelerate in following period.

Key words: Category Management, Category of Products, Category Manager

Introduction

Significant changes have occurred in the Western Balkans marketing channels in the past decade. Retailers have gained significant power due to processes of concentration and integration (Bogetic, Veljkovic&Stojkovic, 2015). Many companies in the growing and very competitive Fast Moving Consumer Goods industry face the challenge of satisfying the consumers' needs in most effective and efficient way (Singh&Muller, 2006). We could say that, on long-term basis, not only the competi-

* dvaselic@gmail.com

tiveness of enterprises but also their survival on the market horizon depends on this. Assessment of their efforts made in process of adding value takes place in front of store shelves in just a few seconds, i.e. in the moment of making a decision about purchase (first moment of truth). These first seconds make all the difference between the successful and unsuccessful ones, between those which have a future in the market competition and those which do not, between those which have found a way to reach their customers and those which have failed (Singh&Muller, 2006).

Until 1980s, there was advantage for companies that produce goods in comparison to retail companies that resell goods. Producers had better knowledge on consumers and more effective methods of gathering data about their target groups (Karolefski&Heller, 2005). Still, recent retail concentration, development in information technologies and much closer partnerships between producers and retailers gave the same access to necessary data. Real outcome of this new way of doing business is new leverage where power shifts from producers to retailers. Key thing for this was abolishment of recommended shelf price by producers (Golijanin, 2010). Having this in mind, producers started to consider retailers as true business partners, since they could not survive without their support. So, partnership became dominant term and producers started developing this partnership being valuable partner to retail.

Following this development, the last decades of the 20th century saw the emerging of a new form of product management – the concept of Category Management. Category management is a recent retail management initiative that aims at improving a retailer's overall performance in a product category through more coordinated buying, merchandising, and pricing of the brands in the category than in the past (Suman, Murali, Mantrala&Rockney, 2001). Under category of products is considered group of products, within products family, which have the same functional cohesiveness. Belonging to a category of products suggests elements of equality that product may have with other products in the category, but points out precisely the elements of diversity compared to other products (Gasovic, 2008).

The concept was initiated in 1985 year by US retail company Schucks (Bogetić, 2007) in times of increasing retail concentration in the domestic market. It was soon adopted by the major international producers (Procter & Gamble, Unilever etc.) in an attempt to develop expertise in this area as a response to the increasing domination of retail in the supply chain. Wider acceptance of Category Management is connected with wider application of bar code scanners (Singh&Blattberg, 2001).

Adoption of the Category Management led to some important changes in business operations. Some of them are (Karolefski&Heller, 2005):

- Management based on groups of similar products and not on individual products
- Consumer is in the focus of attention
- Retailers and suppliers work together to offer the consumer higher value for invested money
- Retailers and suppliers work together to optimize their own value chain
- Power shifts from suppliers to retailers
- Creation of multifunctional teams of retailers and suppliers instead of earlier contacts through sales and purchase departments, etc.

From previous quotes is visible that relationship between retailers and suppliers is very important for Category Management. Retailers can significantly enhance category performance by allowing a key supplier to assume the role of Category Captain where the key supplier has significant input in Category Management efforts. Still this relationship has to be tightly monitored and governed by retailers in order to maximize results category management processes (Morgan, Kaleka&Gooner, 2007).

Process of Category Management

Category Management process takes place through phases of planning, organization and control and audit (Singh&Muller, 2006). Besides these three phases, some authors also contemplate implementation as a separate phase (Vaselic, 2016). In order to be closer to the Category Management practice, we will adopt that approach in this paper as well. Planning, as the first phase of Category Management process, takes following steps (Bogetic, 2007):

- Category definition
- Category role
- Category assessment
- Category goals
- Category strategy and
- Category tactics.

Assortment of products or services is group of all products or services which company sells or offers as services (Golijanin, 2010). In the process of defining category assortment the starting point are the consumers and their understanding of substitutability and compatibility of products as well as the manner of their purchasing. In order to avoid subjective defining of the category assortment it is crucial to maintain active participation of retailers and suppliers as well as including the decision making based on relevant research information about the consumers. Relevant research information is data which can be obtained from the shop panel, household panel and motivation research of the consumers.

When observing the role of categories, corporative strategy has to be supported by individual categories and the roles of categories are assigned in the light of corporative strategy. This strategy can make difference between different object formats (one format consists of retail facilities with common characteristics like number of square meters, strategy, assortment etc.) that the retailer possesses. Category cross-analysis enables four types of roles: destination; routine/preferred; occasional/seasonal; convenience (Bogetic, 2007).

When evaluating category potential it is necessary to perform category analysis, sub-category analysis, brand analysis and product analysis on the basis of consumer's, market, retailer's and supplier's perception of the category (Singh&Muller, 2006). The wish is to determine potential for growth of the category and profitability contribution of the category or, it is necessary to determine the gap

between what the category represents in present and what it might become in specific retail chain. Setting pace is the basis of strategy and tactics making for the category and it is beneficiary for future business operations and overcoming the gap between the potential and what the category currently is.

Essence of the fourth step in Category Management is establishment of category goals agreed upon by the retailer and main suppliers (Bogetić, 2007). Category goals are quintessentially set of indicators which direct category business operations and indicators which tell us whether we are moving in the right direction. Establishment of appropriate goals for the category enables drawing the conclusion whether the business operations are in the right direction and at the right pace from the regular revision of aim accomplishment. In order to make this step structured, recommendation is to use Balanced Score Card tool (Kaplan, 2008).

Category Marketing Strategies are a set of decisions about the functions of individual sub-categories in the category business portfolio as well as the plan of realization of the category role and goals (Vaselic, 2016). Thereby, roles of sub-categories in the accomplishment of category strategy are additionally stressed out, which means that only well-orchestrated cooperation of sub categories leads to synergy which is the efficient realization of category strategy. Karolefski and Heller (2005) list seven possible category strategies:

- Traffic creation: attracting the shoppers into the shop, departments and categories
- Transaction generation: increasing the value of average purchase
- Generating the profit: Profit increase
- Generating money: Improving money flow
- Creating excitement: Creating interest and enthusiasm among the consumers
- Creating image: Strengthening the image of retailer in the eyes of the shopper
- Protection of market share: strong category positioning against competition.

After category strategy defining it is also necessary to define the tactics as the final element in the product category management planning process. Tactical plan is created with the purpose of making concrete actions with the aim to accomplish the set aims of the category. That means that the actors of Category Management are presented clear guidelines for the basic tactical plan: assortment, prices, promotions, shelf presentation and shelving (Bogetic, 2016). There are noticeable systematic differences in the impact of the price, promotion and assortment variables that depend importantly on the category role that the particular category plays in the store's overall portfolio (Dhar, Hoch&Kumar, 2001). Through tactical plan must be considered not only how it affects competing brands and total category sales, but also how it could affect sales in other categories (Kamakura& Kang, 2007).

Category organization as the second phase of the category management process represents the directing of resources in order to achieve the strategic goals and planned tasks (Vaselic, 2016). Basically, directing resources means assigning tasks to specific organization units and individuals, as well as establishing responsibility for completion of tasks.

Keeping in mind the above mentioned, implementation can be observed as a special, third phase of the category management process. Primary goal of the im-

plementation phase is implementation of plans created in the planning phase through the organization established in the organization phase.

The fourth activity or function of the category management is the control and audit. Control means measurement and correction of activities with the aim to achieve goals and plans. Control is tightly connected to audit. Audit represents control and reassessment of the overall activities of a company (Bogetic, 2007).

Results achieved by retail companies in developed market economies indicate that the implementation of Category Management as a new concept of management of categories (grades, groups of homogenous products) has led to an improved turnover, profitability, market share, inventory levels, higher level of cooperation with suppliers, higher levels of consumer understanding and satisfaction (Gulenc&Araci, 2008). Moreover, it is generally considered to yield benefits for all partners within the supply chain, including adding value for consumers through improved category benefits and reduced marketing and distribution costs (Lindblom& Olkkonen, 2008).

Introduction of Category Management in markets of the region has started only several years ago. Consequently, Category Management is not a widely accepted method of product management in region so far. Specifically this was research topic which will be presented on following pages.

Application of Category Management in the markets of Western Balkans – research methodology

Research about the achievements in application of Category Management was conducted on markets of Serbia, Croatia and Bosnia and Herzegovina since these three markets are the biggest representatives of Western Balkans region. Research was conducted from June to October 2015.

It was performed by online questionnaire. In-depth interviews were performed with representatives of multinational companies present in these three markets. Interviews were performed in order to obtain qualitative data and better understanding of research topic which was used for better preparation of online questionnaire.

Aim of research was to comprehend development of Category Management practices in Western Balkans region. Besides this, goal was to perceive opinions of the industry about the potential of this concept. Through the answers obtained goal was to confirm or oppose the thesis that there is potential for the development of business operation on the ground of Category Management and that there are possibilities to have synergetic effects with other business concepts.

Addresses of 5,387 individual respondents in FMCG sector in all three markets were gathered and out of that number 220 individuals from respectable companies were selected and asked to complete online questionnaire. Regarding the fact that the presence and knowledge of Category Management is limited, this number is acceptable and more than sufficient. Expected return rate of completed questionnaires was 20% in order to be able to determine how representative was the base aggregate number.

In the end of research the number of completed questionnaires was 52 which is 26% rate out of total number. Return rate is satisfactory bearing in mind the presence of Category Management practice in three observed markets.

Besides that, we wanted to achieve balance of gathered questionnaires from individual parts of FMCG industry so we had equal number of manufacturers/suppliers, retail companies and as the third group other respondents in FMCG sector.

In the following three tables is the sample of respondents, or how the companies-respondents who completed the questionnaire were divided. They will represent geographical division, division according to companies as part of FMCG industry and division according to functional areas within the companies where the respondents are employed.

Table 1: *Geographical sample dispersion*

	Serbia	Croatia	Bosnia and Herzegovina
Collected questionnaires	36%	29%	35%

Source: *Vaselic, 2016*

Table 2: *FMCG sector branch sample dispersion*

	Manufacturer	Retailor	Supplier	Other
Collected questionnaires	51%	25%	16%	8%

Source: *Vaselic, 2016*

Table 3: *Functional sample dispersion*

	Top management	Sales	Marketing	Other
Collected questionnaires	26%	42%	24%	8%

Source: *Vaselic, Gostimirovic, 2016*

Within the sample 48% of the respondents are from the companies present in over 10 markets, 14% are present in 6 to 10 markets, 35% is present in 2 to 5 markets and only 3% of companies are present in only one market.

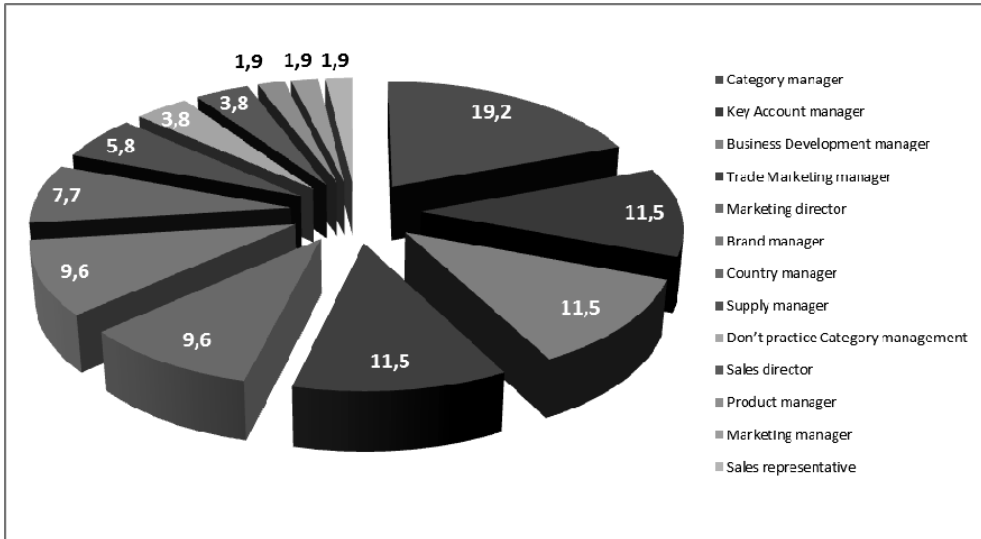
One of the requirements was also the number of employees in the companies of the respondents and following answers were obtained: 48% companies have over 1,000 employees, 25% have 100 to 1,000 employees, 23% have 10 to 100 employees and only 4% have less than 10 employees.

Application of Category Management in the markets of Western Balkans – research results

The first part of the research was aimed at finding out who deals with the category management in the companies. Answers to questions provided the basis for making conclusions about the phase of development and acceptance of the concept

on all three observed markets. All the obtained answers are presented in the following Figure.

Figure 1: *Dispersion of responsibilities for Category Management activities*



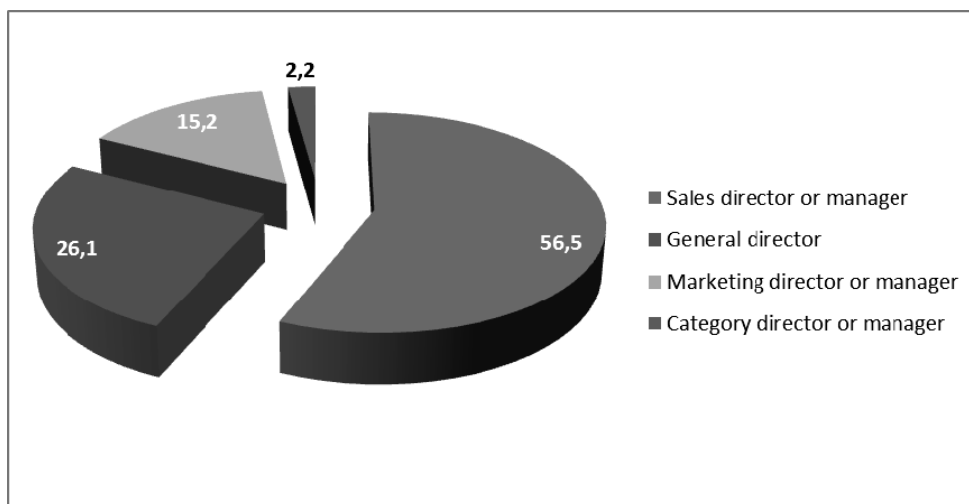
Source: *Vaselic, Gostimirovic, 2016*

It is evident from the pie chart that the highest percentage of responsibilities for Category Management is assigned to Category Manager with 19.2% answers. Category Manager is followed by Key Account Manager. Business Development Manager and Trade Marketing Manager had 11.5% answers. These positions are followed by Marketing Director (9.6%), Brand Manager (9.6%), Country Manager (7.7%), Supply Manager (5.8%) and other positions with under 5% of answers.

This is not the most favorable state for the industry considering the fact that the majority of responsibilities are on the Category Manager. It became evident from the research that Category Manager consists 1/5 of answers. Besides Category Manager who is responsible for Category Management activities on the retail side, on the producer/supplier side the most common answer is Brand Manager/Product Manager. They emerge in 11.5% of answers which is very low percentage. We can draw a conclusion from all the above mentioned that the state of Category Management on the producer/supplier side is poor and that on the retail side the situation is better.

One of the guidelines of adopting and development are organizational links within the companies themselves. That was precisely the subject matter of the conducted research and it was done for the purpose of determining organizational links for Category Management. Basic aim was to grasp to whom are organizationally responsible the persons who deal with Product Category Management in the companies. Obtained results are presented in the following Figure.

Figure 2: Organizational responsibility of employees dealing with Category Management

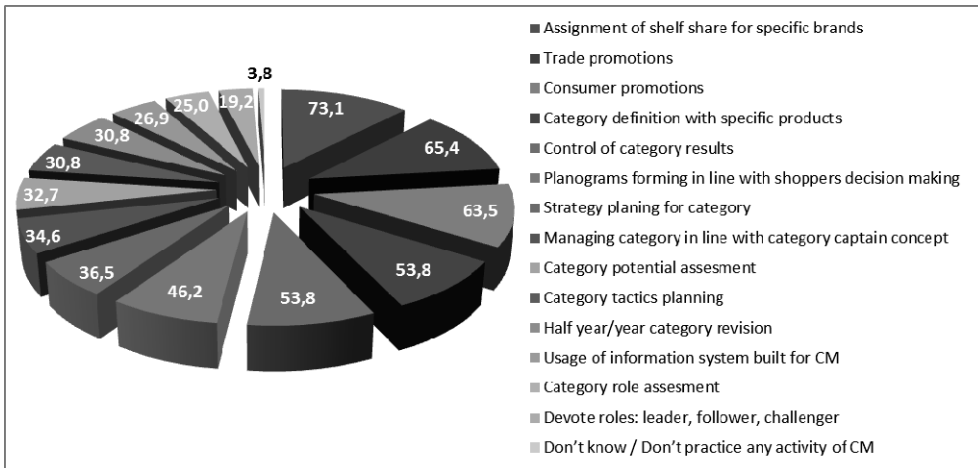


Source: *Vaselic, Gostimirovic, 2016*

It is evident that 56.5% respondents stated that the person who deals with Category Management is organizationally responsible to Sales director or Manager. In line with this is the piece of data that 26.1% of respondents stated that the organizational responsibility is to General director, whereas 15.2% stated that it is to Marketing director or Manager. Only 2.2% of respondents stated that the person dealing with Category Management is responsible to Category Director or Category Manager. We can draw the conclusion that although there are people who are performing activities of Category Management, we cannot say that there are established departments or units for Category Management within the companies or that there is strategic commitment to Category Management considering the fact that people who occupy these positions are entitled to Sales director, Marketing director or General director. When there is strategic commitment of the company to Category Management, employees who are dealing with the activities of Category Management would consist a part of an independent department or unit run by product Category Management Director.

After this part our next task was to find out which activities are performed by the professionals in the area of Category Management. The activities they perform lead to knowledge about the level of development of this concept on the observed markets. Obtained data is presented in the following Figure.

Figure 3: *Most frequently performed Category Management activities*



Source: *Vaselic, Gostimirovic, 2016*

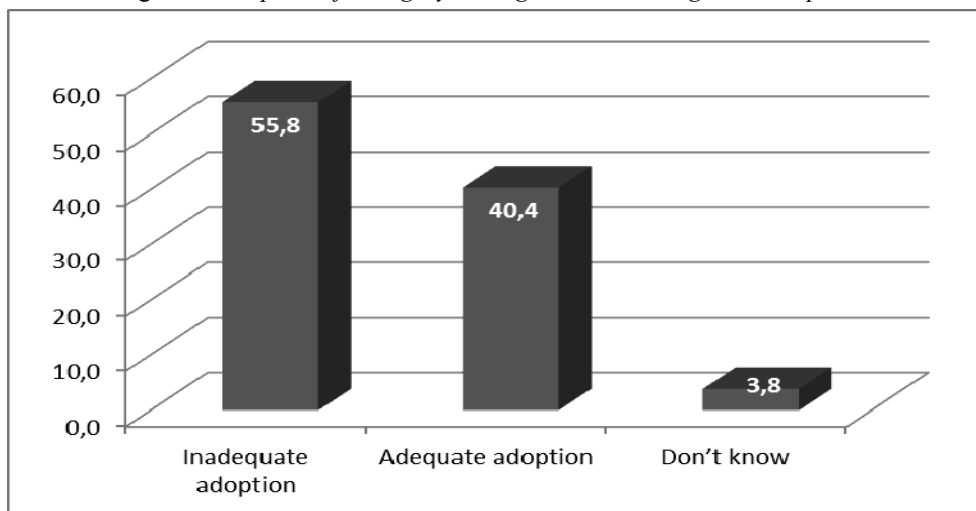
Considering the fact that in this part the task was to state all the activities performed and that a single respondent was able to provide multiple answers, it is reasonable to explain only the answers with over 50%. Such activities are assignment of shelf share for specific brands, trade promotions, consumer promotions, category definition with specific products and control of category results.

Due to complex nature of the provided answers we can draw the conclusion that only basic activities are being performed in the area of product Category Management. In other words, all the activities with 50% answers are in the group of basic or primary activities of Category Management. More complex ones like category potential assessment, category role assessment, category tactics planning etc. did not get percentage of answers.

Nevertheless, taking into account that almost all other activities were between 20% and 50% we can also draw the conclusion that there are companies which perform more complex activities but they still do not make the majority on the observed markets.

Statements from the previous parts were directly confirmed by the respondents when they were asked about the level of adopting Category Management in the companies where they are employed. Answers are provided in the following Figure.

Figure 4: Adoption of Category management in the regional companies

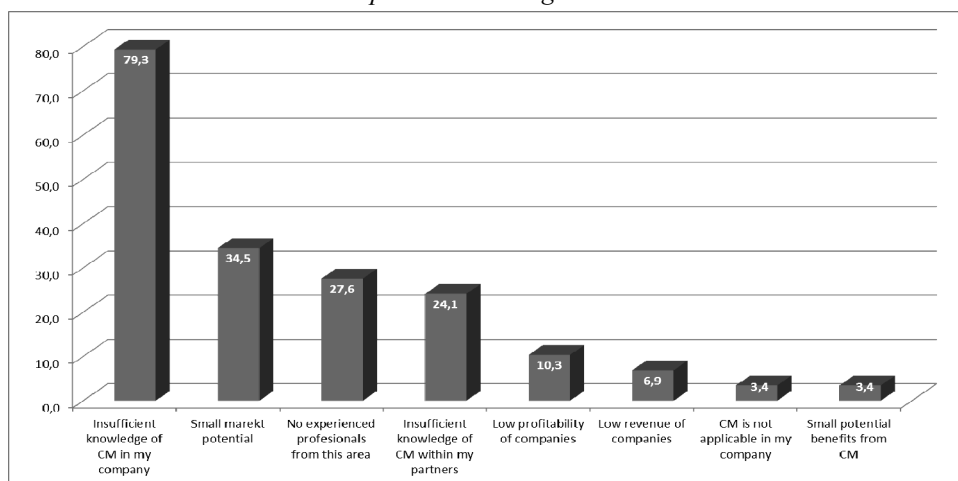


Source: *Vaselic, Gostimirovic, 2016*

We can see from the Figure that 55.8% of respondents consider that the adoption of Category Management is inadequate on the regional markets. What is surprising is that 40.4% of respondents think that the adoption is adequate. The only explanation is that the respondents are not familiar enough with the potentials and possibilities of Category Management, hence they do not see or recognize possible improvements in the application of the concept.

Confirmation of this opinion was provided in the following part where the respondents were asked what the reasons of inadequate adoption of Category Management in their companies were. Provided answers are presented in the following Figure.

Figure 5: Reasons for inadequate adoption of Category Management in the companies on the regional market

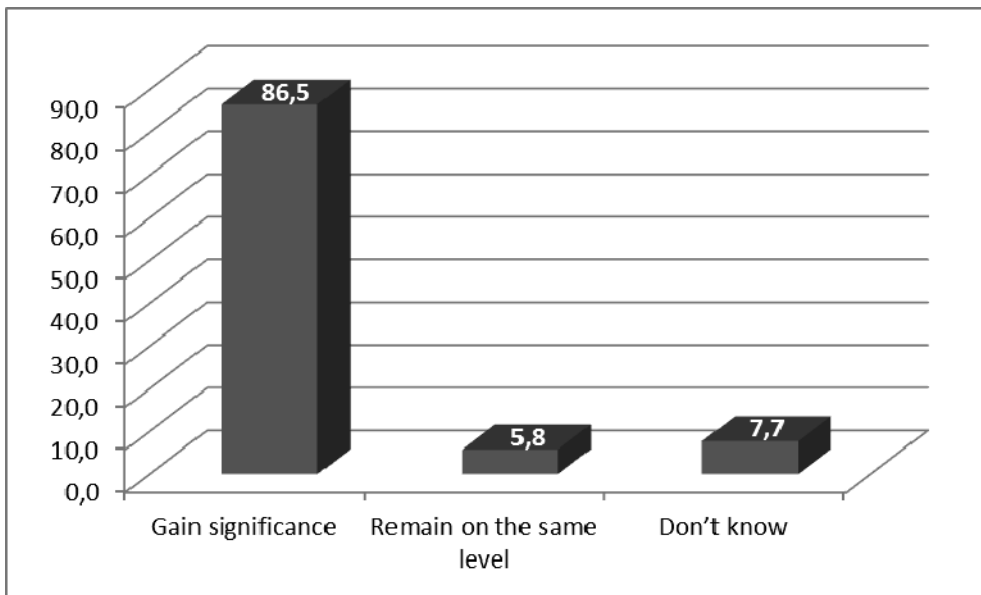


Source: *Vaselic, Gostimirovic, 2016*

It is clear that primary reason of insufficient adoption is insufficient knowledge about the concept of Category Management in the respondents' companies. This answer emerges in three quarters of the answers. Three answers which appear in significant percentage but also with the significant difference compared to the previous one are: small market potential, insufficient knowledge about Category Management within my partners and no experienced professionals from the area. Bearing in mind that Drucker proved twenty years ago that knowledge is one of key factors of economic growth (Jednak&Kragulj, 2015), then we can rightfully say that insufficient knowledge about the concept of Category Management is one of key limiting factors.

Having all the findings in mind it was very interesting to see what the representatives of the industry consider to happen in the future in the area of Category Management in the region. Respondents stated whether they thought Category Management would gain importance in the following five years. Obtained answers are presented in the following Figure.

Figure 6: *Opinions about the future of Category Management*



Source: *Vaselic, Gostimirovic, 2016*

We can see that over 80% of respondents answered that Category Management would gain in significance in the period of 1 to 5 years. Those who consider that it would remain on the same level are in negligible percentage. We can easily conclude from all the above mentioned that more significant adoption and development of Category Management is yet to come on the regional markets. It is very encouraging state and it provides us the guideline of the direction in which FMCG industry will be developed in the following middle-term period.

Conclusion

Category Management as a new form of product management started to be introduced to the markets of Western Balkans from 2005. Main reasons behind the introduction of the concept were the necessity to strengthen the competitive position and more readily welcome international competition.

Nevertheless, the concept is still not sufficiently developed on the observed markets, which is to certain extent an obstacle to faster growth and development of the industry on the observed markets.

Category Management is primarily developed to serve the function of sale and professionals in the area are often organizationally responsible to people in charge for sale. This is far from ideal situation which would mean existence of separate organizational unit for Category Management.

Category Management is in qualitative sense still insufficiently developed which is confirmed by the structure of activities performed in the regional companies.

Respondents also consider that the concept is not sufficiently adopted and that primary reason for such situation is insufficient level of knowledge about the concept in the companies where they perform their business activities. We can conclude that insufficient knowledge is one of the primary obstacles to more serious adoption of the concept and consequently growth and development of the companies.

Besides this relatively negative condition of Category Management adoption on Western Balkans markets we can conclude that more significant adoption of the concept is yet to come and that FMCG industry is yet to make more significant steps in this direction.

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ПРИМЈЕНА МЕНАЏМЕНТА КАТЕГОРИЈЕ ПРОИЗВОДА НА ТРЖИШТИМА ЗАПАДНОГ БАЛКАНА

Сажетак: Под категоријом производа подразумева група производа, за које се сматра да имају исте функционалне карактеристике и кохерентност. Таква категорија производа треба да се излаже на истом мјесту на малопродајним полицама. Овакво излагање треба да осигура најбољи приступ крајњем купцу. Такође, оваква група производа треба да буде управљана као посебна пословна јединица. Управљање оваквом категоријом производа се назива менаџмент категорије производа. Ако је практикован исправно, менаџмент категорије производа има потенцијал да унаприједи пословне резултате, што је већ доказано на тржиштима УСА и ЕУ. Менаџмент категорије заснован на овим постулатима је почео да се уводи на тржишта Западног Балкана прије десетак година. Ипак, још се поставља питање да ли је он прихваћен у овом региону на нивоу да генерише позитивне резултате. Главни циљ овог рада је да утврди прихваћеност и развијеност Категору менаџмента на ова три тржишта након десетак година практиковања. Сходно овоме, циљ је да се утврди да ли постоји додатни потенцијал развоја индустрије робе широке потрошње на темељу већег усвајања менаџмента кате-

горије. Разлози за тренутно стање су такође истраживани у овом раду. Кроз имплементирано истраживање, одговори су прикупљени од највећих ФМЦГ компанија. Резултати истраживања показују да менаџмент категорије на посматраним тржиштима није још довољно развијен и да се још налази у фази развоја. Ипак, резултати показују да ће се прихватање Категору менаџмента у наредном периоду значајно убрзати.

Кључне ријечи: менаџмент категорије производа, категорија производа, менаџер категорије