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ACHIEVEMENTS IN IMPLEMENTATION OF CATEGORY MANAGEMENT IN LEADING RETAIL COMPANIES OF THE WEST BALKAN REGION

Summary: In many modern companies, managing a product or a product range is the task and responsibility of individuals who are called category managers. Accordingly, category management is a system consisting of management of individual products, product ranges, brands or product categories. Category management is applicable in many different types of companies and different types of organizational structures, no matter if it is about consumer goods, industry products, services or something else. Category management can also be defined as achievement of goals connected with products in an efficient way through planning, organization and control. Modern companies change their organizational structures based on products by introducing category managers. Product category is a group of products within one product family, which are believed to have a certain functional coherence. Affiliation of a product with a category requires some elements of equality it can have with the other products within the same category, but the emphasis is on its elements of diversity compared to other products.

Some retail companies from former Yugoslavia region, have already completed or are still going through the process of transition. Some have become the key players in the market. In recent years, retail companies from Serbia, Croatia and Bosnia and Herzegovina have started introducing the concept of category management. International retail chains which are increasingly present in these countries apply the same concept. First results of the introduction of category management, in spite of all obstacles and limitations, are certainly encouraging.

Key words: Category Management, Product Categories, Category Manager, Product Management, Retail Companies, Application Efficiency, Turnover Coefficient, Sales Growth

Introduction

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. We could say that, on long-term basis, not only the competitiveness of enterprises but also their survival on the market horizon depends on this.

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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 decision about purchase (*first moment of truth*). These first seconds make all the difference between the successful and unsuccessful ones, between those who have a future in the market competition and those who don't, between those who have found a way to reach their customers and those who have failed.¹

Because of the modern lifestyle characterized by lack of free time of individuals and the domination of those with purchase power in the value chain, it has become must for the modern business to find a better approach to the final consumer². 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. The concept was initiated by US retail companies in times of increasing retail concentration in the domestic market³. It was soon adopted by the major international producers (Proctor & Gamble, Johnson & Johnson, Unilever...) in an attempt to develop expertise in this area as a response to the increasing domination of retail in the supply chain.

Adoption of the category management led to some important changes in business operations. Some of them are:

- Management based on groups of similar products and not on individual products
- Consumer is in 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.⁴

Up until the 1980's, the producer companies enjoyed a great advantage in doing business with retailers. They had better ideas about the consumer needs because they used more efficient methods to collect data from the market. However, the modern progress in information technologies and the partnership between producers and retailers allow both sides equal access to data about sales figures and market share. The result of these developments lies in the shift of power balance from producer companies (suppliers) to retail companies. Accordingly, modern producers, even those with powerful brands, became aware of the fact that retail needs to be treated as key customer or consumer. It is necessary to build best and closest possible relations with retail companies, just as with end consumers.⁵

Category management process takes place through phases of planning, organization and control, and audit. Besides these three phases, some authors also contemplate implementation as a separate phase⁶. In order to be closer to the category

¹ Vaselić D: "Fast Moving Consumer Goods Category Management", Master thesis, Subotica, 2009, str. 5
² www.infosys.com, Infosys: "Collaboration in Category Management", June 2008

³ Vaselić D: "Fast Moving Consumer Goods Category Management", Master thesis, Subotica, 2009, str. 5

⁴ Lehman D. and Winer R.: "Product Management", 3rd edition, Mc Grawe, Boston, 2001, str. 51

⁵ www.categorymanagement.com, Jerry Singh: "Linking Category Management to Retailing Strategy", March 2008

⁶ Vaselić D: "Fast Moving Consumer Goods Category Management" Master thesis, Subotica, 2009, str. 6

management practice, we will adopt that approach in this paper as well. Planning as the first phase of the product category management process takes following steps:

- Category definition
- Category role
- Category assessment
- Category goals
- Category strategy and
- Category tactics⁷

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. Basically, directing means assigning tasks to specific organization units and individuals as well as establishing of 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 implementation 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.⁸

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 increased sales volume, higher level of cooperation with suppliers, higher levels of consumer satisfaction and more efficient usage of invested assets.

Introduction of category management in markets of the region has started only several years ago. Reasons for the late starts of implementation of the concept are well-known. However, we must note that in this region, category management is not a widely accepted method of product management in retail and so far, only several companies have had the courage to start with implementation of this process.

Major retailers in the West Balkan region (Delta, Mercator, Konzum) have already grasped the significance of category management and they have started practicing this concept. The first results are already visible. The mentioned retailers understand that if they want to be prepared for the upcoming competition from the more developed markets, they have to master the modern business trends and thus improve their competitive abilities. By mastering the category management process as a new form of product management, retail companies in the region hope that they will have enough time to adapt this concept to their business environment, and thus be better prepared for the competition.

⁷ Bogetić P. Z.: "Product Category Management", Data status, Beograd, 2007, str. 87

⁸ Singh J, Blattberg R: "Next Generation Category Management", Datamonitor PLC, London, 2001, str. 180

Efficiency of implementation of category management concept in three major retail companies of the region

Research results undoubtedly show that the concept of category management in Fast Moving Consumer Goods sector has improved the previous management methods where procurement and sale were separated. Also, this concept unites all most important elements of retail management: product range, pricing policy and marketing activities. This enabled retail companies in the region (Serbia, Croatia and Bosnia and Herzegovina) to achieve significant growth in sales, turnover coefficient as well as profitability upon implementation of the concept (Table 1)

No.	Category	DELTA		MERCATOR		KONZUM	
		Turnover growth/reduction per annum %:	Product turnover coefficient growth/reduction per annum %:	Turnover growth/reduction per annum %:	Product turnover coefficient growth/reduction per annum %:	Turnover growth/reduction per annum %:	Product turnover coefficient growth/reduction per annum %:
1	Meat and meat products	1st: 29	1st: 8	1st: 16	1st: 15	1st: 18	1st: -14
		2nd: 11	2nd: 3	2nd: 21	2nd: 10	2nd: 1	2nd: 2
		3rd: -	3rd: -	3rd: -	3rd: -	3rd: 6	3rd: 7
2	Fresh fruit and vegetables	1st: 41,5	1st: 9	1st: 25	1st: 15	1st: 50,5	1st: -12
		2nd: 14,5	2nd: 21	2nd: 12	2nd: 11	2nd: 0,5	2nd: 13
		3rd: -	3rd: -	3rd: -	3rd: -	3rd: 13	3rd: 10
3	Personal hygiene	1st: 38	1st: -1,5	1st: 50	1st: 17	1st: -7	1st: 38,5
		2nd: 17,5	2nd: 5	2nd: 33	2nd: 17	2nd: 12,5	2nd: 5
		3rd: -	3rd: -	3rd: -	3rd: -	3rd: 16	3rd: 15
4	Household cleaning	1st: 21,5	1st: 24	1st: 38	1st: 9	1st: 9,5	1st: -9
		2nd: 14,5	2nd: 11	2nd: 20	2nd: 16	2nd: -13	2nd: -3
		3rd: -	3rd: -	3rd: -	3rd: -	3rd: 9	3rd: 7
5	Soft and alcoholic beverages	1st: 36	1st: 0	1st: 9	1st: -3	1st: 19	1st: 30
		2nd: 12	2nd: 2,5	2nd: 11	2nd: 10	2nd: -11	2nd: -26,5
		3rd: -	3rd: -	3rd: -	3rd: -	3rd: 12	3rd: 5
6	Bread and pastry	1st: 40	1st: 12,5	1st: 5	1st: 7	1st: 60	1st: -2,5
		2nd: 20	2nd: 6	2nd: 3	2nd: 4	2nd: 7	2nd: 6
		3rd: -	3rd: -	3rd: -	3rd: -	3rd: 11	3rd: 7
7	Frozen foods	1st: 49	1st: 6	1st: 29	1st: 4	1st: 54	1st: 17
		2nd: 10	2nd: 6	2nd: 20	2nd: 12	2nd: 12	2nd: 6
		3rd: -	3rd: -	3rd: -	3rd: -	3rd: 6	3rd: 11
8	Electric and electronic appliances	1st: 180,5	1st: 3,5	1st: 22	1st: -10	1st: 72	1st: -35,5
		2nd: -3	2nd: -2,5	2nd: 19	2nd: 14	2nd: 53	2nd: -14,5
		3rd: -	3rd: -	3rd: -	3rd: -	3rd: 18	3rd: 10

Table 1. Indicators of success of CM implementation in three largest companies of the region⁹

⁹ Vasilic D: "Fast Moving Consumer Goods Category Management", Master thesis, Subotica, 2009, str. 158-161

Conducted research proves that there is no “magic formula” which would undoubtedly show how a category, subcategories and segments within a category should be organized. Too narrow or too wide organization of category range can result in sales loss in the first case or small turnover coefficients in the other case. In both cases, profits will be lost. It is therefore necessary to continuously reassess the categories, collect the available data on performance of categories of competitor companies and control in detail the performance of own product categories.

Research results indicate that the category management concept was accepted by the key accounts because they realized that it is an efficient way to manage their entire product range, and that they greatly benefit from it. Also, consumers saw that the principle of homogeneousness and consistency of product range segments in stores was respected when establishing the categories. The presented turnover growth rates, even when corrected for the present inflation, are impressive and respectable. Also, all three companies experienced increased profitability in almost all product categories. This proves the justification of investment in category management.

Basing on the presented research results, we can assume for all three retailers that they made good steps forward by launching the category management implementation in their businesses. Already in the first two to three years, they experienced an increase of turnover, increase of turnover coefficient and increase of profitability in all categories. Future results should not be missing if the concept of category management is further developed and improved in accordance with their own needs and abilities, respecting at the same time the experiences and achievements of the more developed markets.

It is important to note that all three observed retailers managed to overcome the initial difficulties and that at the present moment, the attitude of their staff members in regard to category management is mainly positive. Both management personnel and in-store employees see the process as something that will provide positive business results and improve their competitive advantage.¹⁰

We must emphasize that, by increasing their competitiveness and improving their business parameters, the companies which adopted the concept of managing products as separate business units also increase the competitiveness of economy in general, so that it becomes stronger and more independent. If the producers/suppliers from the region adopt this concept on time, their chances for equal market competition with the approaching international competitors will improve.

The conducted research efforts also show that there are more possibilities to improve the practice of this concept in the region and that the most successful examples in this area are still in the beginning phase of the exploitation of positive effects from the implementation of the concept. The present practice of non-consistent introduction of category management must be avoided. Creation of category management teams must be based on healthy logic and good practice, which is certainly not the assignment of obligations and responsibility without the decision-making competences. The balance between obligations and responsibilities

¹⁰ Gostimirovic L., Ahmetašević J., E-Government Marketing, Lap Lambert Academic Publishing, str.21

on one side and the possibility to influence business on the other side must be obtained. Also, there must be balance between the tasks required by category management and the resources needed to carry out these tasks.

In response to the upcoming concentration of the retail market in the countries of this region, it is possible to offer organization of specific functions of category management for several markets in the region. In this way, it will be possible to respond to the requirements of the economy of scale (economy of scales). Also, it is possible to achieve expertise in certain fields and categories, which is currently an advantage of the companies which still intend to enter the markets of the region.

Education of the employees is one of the most important factors – preconditions for successful implementation. The necessity to clearly define obligations and responsibilities of category management teams can be highlighted as another important factor, as well as reduction of the intervening of top management in operational activities. It is recommended to focus the majority of management efforts on results. One of the most important issues observed in the conducted research refers to the necessity of improved coordination between the category management teams and the staff members in charge of implementation in stores. Consumer surveys, primarily motivation and competition surveys, will surely contribute to the improvement of significance of retail companies.

Department management as a new form of category management is familiar for the retail companies in the region, and some of them are even trying to implement the first steps of this concept. Its benefits will surely encourage the other retail companies to start with their own practice of this concept.

Critical review of the category management practice in the leading retail companies in the region

The conducted research enabled the creation of the SWOT matrix for the implementation of category management in the region. The creation of the SWOT matrix resulted in systematization of strengths and weaknesses of the category management practice, as well as opportunities and threats which the leading retailers in the markets of the region are facing. The matrix shown in Table 2 serves to easily spot the characteristics of the category management in the region.

STRENGTHS	WEAKNESSES
1. Relatively “early” introduction compared to the number of stores and market development, which enables better implementation of the concept 2. Awareness about the necessity to further improve the concept implementation 3. “Worked out” concept which was proven as successful in more developed markets 4. Existence of educated and experienced individuals who are familiar with the problems	1. Relatively “late” introduction compared to foreign competitors 2. Market fragmentation 3. Nonexistence of category management teams 4. Insufficient education of employees 5. Insufficiencies of information systems 6. Coordination between category management teams and stores 7. Insufficient cooperation with key suppliers 8. Insufficient research of competition and attitude of consumers 9. Measurement of category profitability “in the old way”

<ol style="list-style-type: none"> 1. Improvement of competitiveness through category management before the arrival of strong international competitors 2. Improvement of consumer perception through introduction of category management 3. Providing more independence for category management teams with focus on results 4. Better harmonization of training to concrete needs 5. Category management launch can be combined in the beginning with loyalty programs and department management 	<ol style="list-style-type: none"> 1. Cost efficiency of the concept implementation in light of weak economy of scale 2. Arrival of competitors with significantly larger economy of scale and longer history of category management implementation 3. Importance of prices for consumers in the region which diminishes the importance of the concept's results for the end consumer 4. Too much focus of top management on new store openings and new markets entries
OPORTUNITIES	THREATS

Table 2. *SWOT matrix of product category management in the region*¹¹

If we wish to present the shortcomings of the category management in the countries of the region, then we surely must highlight in the first place the inconsistency of category management introduction. It frequently occurs that retail companies declaratively announce the launch of business in line with category management principles, but very few aspects of their retail business methods change significantly. It happens that people who until recently have been working in procurement are appointed category managers for the product range they used to lead, while their boss becomes director of category management, the category managers get assistants from the existing resources, and that is where the transfer to the “new” way of business ends. Of course, it cannot be good for a company to conduct the adaptation to the category management practice in this way. The company cannot expect the proclaimed goals to be achieved and competitiveness improved. Also, this method of introduction is not good for the category management concept itself, because the basic values of the concept are being derogated.¹²

All of this is accompanied by the transfer of decision-making competences, obligations and responsibilities to the category managers. Namely, when the transition to category management is carried out in the described way, it usually means that obligations and responsibilities are transferred. The decision-making competences for most issues are kept at the higher levels. This creates confusion of the new category managers, because new working methods designed to improve company's business are being publicly proclaimed while at the same time very little changes in practice. At the same time, the decision-making competences are kept away from the category managers. What can be devastating for the new organization is the fact that in some companies, the new category managers are held accountable although they did not have the decision-making power. This creates frustration and the best staff members soon start leaving the organization which treats them unfairly. The best staff members are the first one to leave because they can easily find new jobs. Less

¹¹ Vaselić D:Fast Moving Consumer Goods Category Management, Master thesis, Subotica,2009, str.164

¹² Gostimirovic L.,Ahmetašević J., How often the Industries Introduce New Products to the Market: Wood Industries of FB&H Results, International Journal of Academic Research in Business and Social Sciences 2016,str.301

good staff members stay longer, which diminishes the competitive advantages of the company. Also, attracting new good employees is difficult because they all seek the best possible work environment they can find.

Designing the category teams is the next weakness in category management practice in Serbia, Croatia and Bosnia and Herzegovina. There is no clear concept of category team formation in the observed markets. The category teams usually consist of category managers and their assistants, who are in some cases accompanied by junior category managers. Such practice significantly derogates the category management practice which is incapable of delivering optimum results. The current practice in the observed markets suffers to a great extent from lack of analysts in category teams. Given their existing resources, category teams are not able to dedicate their time to the necessary analysis. High quality analysis can contribute to the improvement of practice and focusing on activities which can provide the highest increment. Therefore, we often have the situation where the product range is selected or modified without clear sales indicators or potentials of individual products. Already seen practical situations show that even the best rotating products are being removed from the product range because the category manager did not have enough time to get familiar with the performance of that product. It also occurs frequently that the suppliers are out of stock of fastest rotating products for a brief period of time. If category manager examines the sales results for that period, they will see that it is very low or non-existent, and then they proceed to remove the product from their range without analyzing it for a longer period of time. Until the removed product is listed again, sales results will suffer and customers will be dissatisfied.

The information systems used by the companies in the region are, with a few honorable exceptions, mainly inadequate. These information systems are in most cases taken over from the period before the implementation of category management. In best cases, the existing systems were upgraded but without any major structural overhauls. These systems currently mainly support the access to historical records and creation of simple comparisons of several basic parameters in given business periods. Business intelligence required by category managers is not supported by the information systems available in the markets of the region.

Calculation of profitability of category is also quite underdeveloped in the region. One of the reasons lies in the fact that ABC method of costs calculation has not been adopted by retail companies. This is why the category profitability calculations are end with approximate calculations of profits delivered by a category. In most cases, there is no calculation of all costs related to the given category. With this method of costs calculation, the fixed costs are taken into account on a very low level. The ones taken into account are calculated basing on performances of the entire companies and then allocated in certain percentages to each category. Such practice of costs calculation usually results in a distorted picture of category profitability. This is even more significant if we consider that profit rates of retail companies are very low. The described method of costs calculation can in many cases lead to the false impression that a category has operated with loss or profit in an earlier period, which might impose wrong business decisions.

All described problems in category management practice in the countries of the region represent significant weaknesses. Because of the specific characteristics of the markets in the region, some of the weaknesses are caused by objective factors. However, it is important to emphasize the introduction of category management in business operations of these companies. By taking this step, the observed companies have displayed a desire to improve their business, thus encouraging the development of practice in this region. Considering the business operations of these companies so far, there is no doubt that further advancement in practicing the category management concept will follow, and that the competitiveness and business performances will improve.

Conclusion

Retail companies improve their competitive abilities by implementing the concept of category management. By improving their competitiveness, they become stronger, more independent and less submissive to acquisitions by international companies. Besides the obvious benefits for the retail company itself, this also provides multiple benefits for the society in general. Namely, by improving their competitiveness, retail companies release the unnecessarily engaged assets, thus increasing the competitiveness of the entire economy. At the same time, the presence of local retail companies allows local producers an easier access to the space for their products on the shelves. In this way, the production sector is improved as well.

The presented facts show that the observed markets in the region have experienced relatively low concentration of retail so far. The insight in practice of more developed markets leads to conclusion that serious concentration is still to come. It may occur through opening of new stores of the exiting retailers from the modern retail chain. The other option is acquisition of stores from the traditional retail chain. The third option assumes that as the markets develop, large international retailers will enter the markets of the region. It is very likely (almost certain) that the future concentration of retail will be a combination of all three options. One of the ways to prepare for the upcoming increased competition is adoption of category management as a way to improve competitiveness.

Because of the size of the observed markets and the category management requirements in human and financial resources, it is necessary to harmonize the category management with the realistic capabilities and keep it within the framework of cost efficient investment. In this aspect, it is possible to consider the possibility of integration of certain functions at the level of multiple countries in which a certain retail company operates, which is not the case at this moment. Integration of certain functions at the level of multiple countries would result in economy of scale which would bring multiple benefits. One of the benefits would be a much faster return of funds invested in category management.

An expansion of category management teams can be expected as the economy of scale of retail companies in the region increases. This is considered one of the

essential inadequacies of the current method of category management practicing in the region. Since the low economy of scale is one of the objective factors of insufficient development of category management, it can be assumed that the increased concentration of retail market will create conditions necessary for further development of category management teams.

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ДОСТИГНУЋА У ИМПЛЕМЕНТАЦИЈИ УПРАВЉАЊА КАТЕГОРИЈАМА У МАЛОПРОДАЈНИМ ПРЕДУЗЕЋИМА У РЕГИОНУ ЗАПАДНОГ БАЛКАНА

Сажетак: У многим савременим компанијама, управљање производом или асортиманом производа је задатак и одговорност појединаца који се зову менаџери категорије. Сходно томе, управљање категоријом је систем који се састоји од управљања појединачним производима, асортиманима производа, брендovima или категоријама производа. Управљање категоријама се може примјенити у многим различитим типовима компанија и различитим врстама организационих структура, без обзира да ли се радило о роби широке потрошње, индустријским производима, услугама или нечему другом. Управљање категоријама такође се може дефинисати као постизање циљева повезаних са производима на ефикасан начин кроз планирање, организацију и контролу. Савремене компаније мијењају њихове организационе структуре на темељу производа увођењем менаџера категорије. Категорија производа је група производа унутар једне породице производа за које се вјерује да имају одређену функционалну

кохерентност. Повезивање производа с категоријом захтијева неке елементе једнакости које могу имати с осталим производима унутар исте категорије, но нагласак је на њиховим елементима различитости у поређењу са другим производима. Неке малопродајне компаније са подручја бивше Југославије већ су завршиле или још увијек пролазе кроз процес транзиције. Неке су постали кључни играчи на тржишту. Посљедњих година, малопродајне компаније из Србије, Хрватске, те Босне и Херцеговине почеле су уводити концепт управљања категоријама. Међународни трговачки ланци који су све присутнији у овим земљама примјењују исти концепт. Први резултати увођења управљања категоријама, упркос свим препрекама и ограничењима, свакако су охрабрујући.

Кључне ријечи: Управљање категоријом, Категорије производа, Менаџер категорије, Управљање производима, Малопродајна предузећа, Ефикасност примјене, Коефицијент промета, Раст продаје

