SLEZSKÁ UNIVERZITA
OBCHODNĚ PODNIKATELSKÁ FAKULTA V KARVINÉ

# Trade Organizations

## Merchandising and category management

# Merchandise mix

- Retailer‘s total  product offering is called a merchandise mix or product range.
- Two levels – strategic and operational:
    - Strategic: merchandise management includes the process of selecting the right items for the store.
    - Operational: ensuring the items are available when consumer want to purchase them.

# Category

- Items in the assortment are organised into groups: categories
- Merchandise planning encompasses selecting the right categories and the items within it.
- This selection refers to a breadth and depth of the assortment, quality level and brand portfolio.

# Stock keeping unit - SKU

- Lowest level  of detail identifying product in the retailer‘s assortment is **stock keeping unit.**
- For example pair of pants of particular brand, in particular style, colour, and size, is one SKU.
- Number of SKU varies:
  - Discount store could have only 1 000 SKUs
  - Hypermarket could have up to  100 000 SKUs

# Items in assortment

- Staple merchandise
- Fashion merchandise
- Seasonal merchandise
- Fad merchandise

# Staple merchandise

- Products that are carried permanently by the retailer and that have relatively stable sales over time.
- A hammer or a paint-brush at a DIY retailer on a jeans and white T-shirt at a department store would be example of staple goods.

# Fashion merchandise

- Products that have cyclical sales due to changing tastes and lifestyles.
- Colors and cuts of clothing change and merchandise offered this year is usually out of date next year.

# Seasonal merchandise

- Products that do not sell equally well over consecutive time period.
- Barbecue grills, skiing equipment, short pants and similar products have very high sales during one season of the year, but are not sold at all in other seasons.

# Fad merchandise

- Products that generates very high sales for a short time period. Often, toys and games, certain clothing accessories are fads.
- Tamagochis and Pokemon were classic fads. Movie merchandise also constitute classic fads.
- Price sensitivity is often very low and ensuring supply, while demand is high is crucial for success.

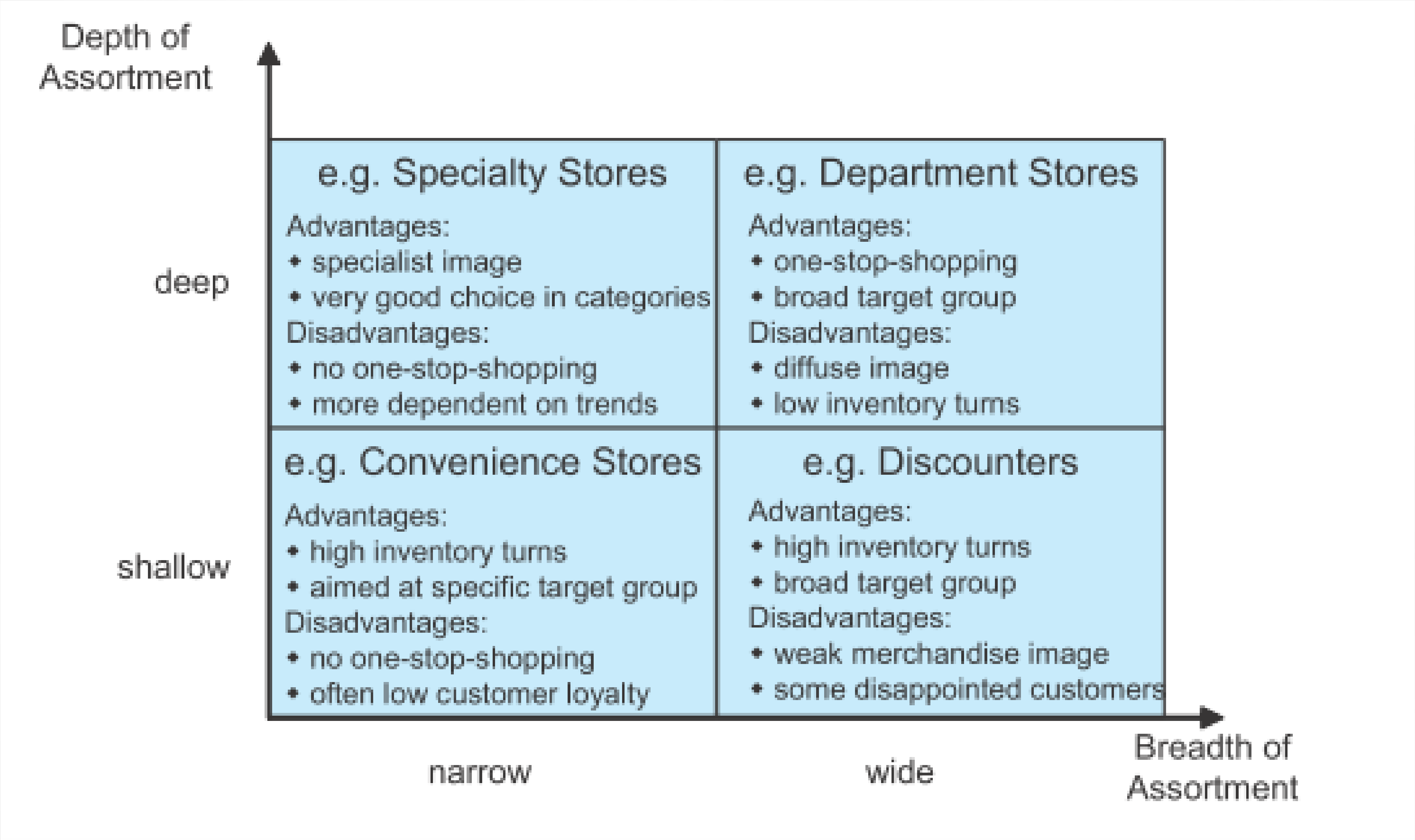
# Product portfolio / assortment

- The number of product lines (or categories) the retailer offers is referred to as the breadth (width) of the assortment.
- Wide assortment usually has the advantage of appealing to many customers and it makes one-stop-shopping possible.
- The number of SKUs in a particular category is called depth of the assortment.
- Deep assortment have the advantage of giving customer a good choice within the categories, but shallow assortment can focus better on the fast-selling items in a category.

# Product portfolio / assortment

- In the food store, the breakdown of meat and sausages, milk and dairy products, pastries, fruits and vegetables etc. is the **width of the assortment**.
- The division of milk and dairy products into milk, cheese, yoghurt, etc. is still the **width of the assortment**.
- The division of yoghurts according to flavours, brands, etc. is the **depth of the assortment.**

# Product portfolio / assortment



# Product portfolio / assortment

- Demand for items is interrelated.
- It is more convenient to do all the food shopping for the week in one store.
- Products are consumed together, and it is convenient to purchase them together because they can be matched.
- Shirt and tie.
- Paint and paint-brush.

# Category migration

- An increasing number of retailers use a combination of **specialist** and **generalist approaches** within their product offer.
- They are specialist in one or a few categories but add other categories in which they only offer a shallow assortment.
- Retailers also diversify by adding new products to their assortment, which do not belong to their traditional merchandise.
- Supermarkets sell non-food
- DIY stores offer furniture
- Sport stores offer food

# Reduction of Variety

- Variety of assortment is an important determinant of attitude towards the store and store choice, ranking only behind location and price.
- Shoppers are often looking for very specific items.
- A great variety and larger assortment increases the probability of finding what they really want.
- On the other hand, one of the most valuable assets of the retailer is selling space.
- Retailer has to make choices.

# Reduction of Variety

- An increasing number of SKUs usually increases retailing costs.
- Assortment complexity raises various cost including those of sales, shelf space, planning, advertising, inventory and logistics.
- Many alternatives within a category can lead to confusion and make the shopping process more complicated. Consumer often prefer mental convenience.

# Reduction of Variety

- Studies shown that even radical reductions of assortment do not necessarily reduce customer visits to the store and sales may remain stable.
- It is not the actual number of difference products in a category that matters, but the consumers' perception of variety that is relevant for store choice behavior.
- The elimination of different, but similar versions of the same product in the assortment is often not perceived negatively.

# Manufacturer Brands and Store Brands

- Manufacturer brands are owned, produced, managed and marketed by manufacturer.
- Store brands (also called private labels) encompass all product brands owned managed and marketed by retailers.
- Property rights for the brand in this case, are held by the retailer.

# Manufacturer Brands and Store Brands

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- Manufacturer brands usually comprise the main part of the merchandise.
- Danone, Black&Decker, Adidas, Mars, Samsung
- Two main advantages
  - Pull effect – strong brands have more customers which are slightly more loyal
  - Image transfer – retailer store image can be improved when it is associated with manufacturer brands.

# Store brands and its functions

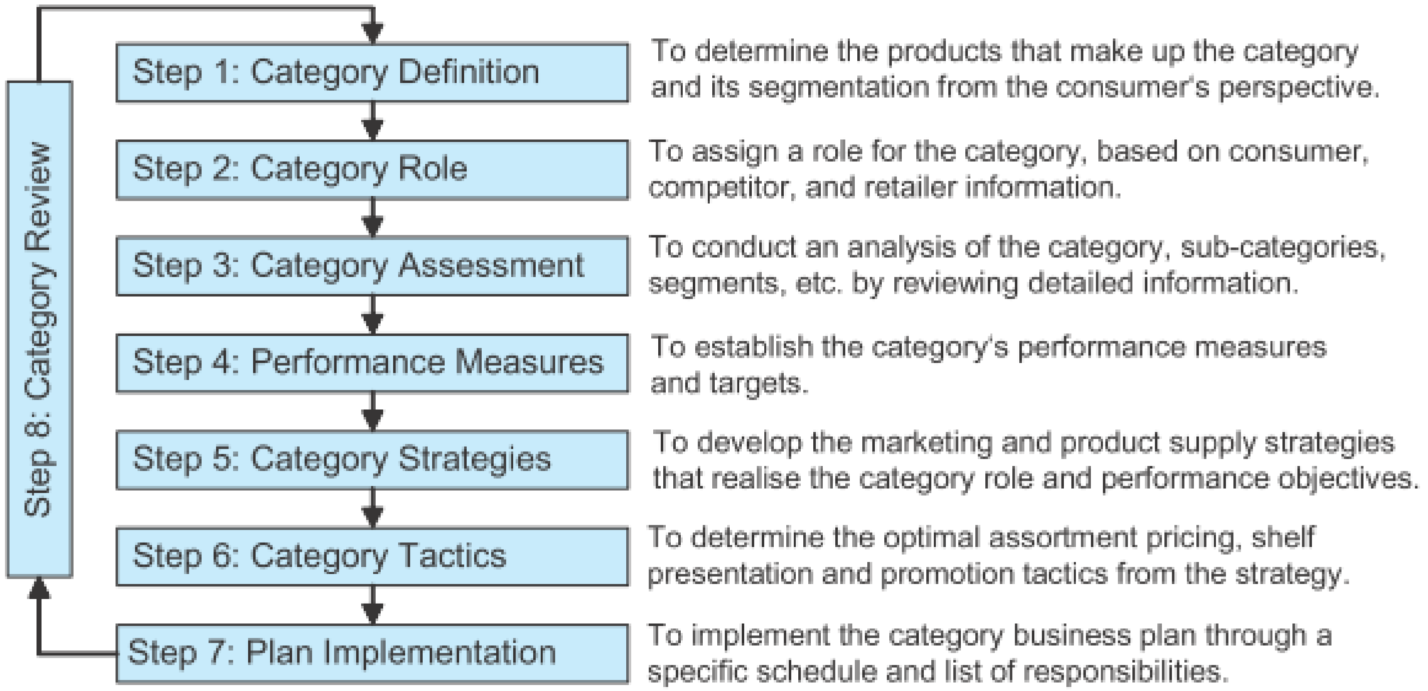
- Store brands popularity among retailers in many product categories is one of the major developments in retail merchandising strategy.
- From skepticism of customers regarding quality to widely accepted substitutes for manufacturer brands.
- Store brands around the world:
  - Around 50% of retail assortment in Switzerland
  - Around 40% of retail in United Kingdom and in Germany
  - Around 30% in Spain and France

# Category management

- Retailer-supplier process of managing categories as strategic business units, producing enhanced business results by focusing on delivering customer value.
- Each category follows a specific strategy, which is embedded in the retailers overall strategy.
- Manufacturer uses his knowledge about product possibilities and retailer uses his knowledge about customers and market.

# Category management

*The Category Management Process*




Source: ECR Europe.

# Category strategies

- **Traffic building**
- **Transaction building**
- **Profit generating**
- **Image creating**

# Category strategies – Traffic building

- **Attracting many customers to the store, for example, by offering price promotions for frequently purchased products.**

# Category strategies – Transaction building

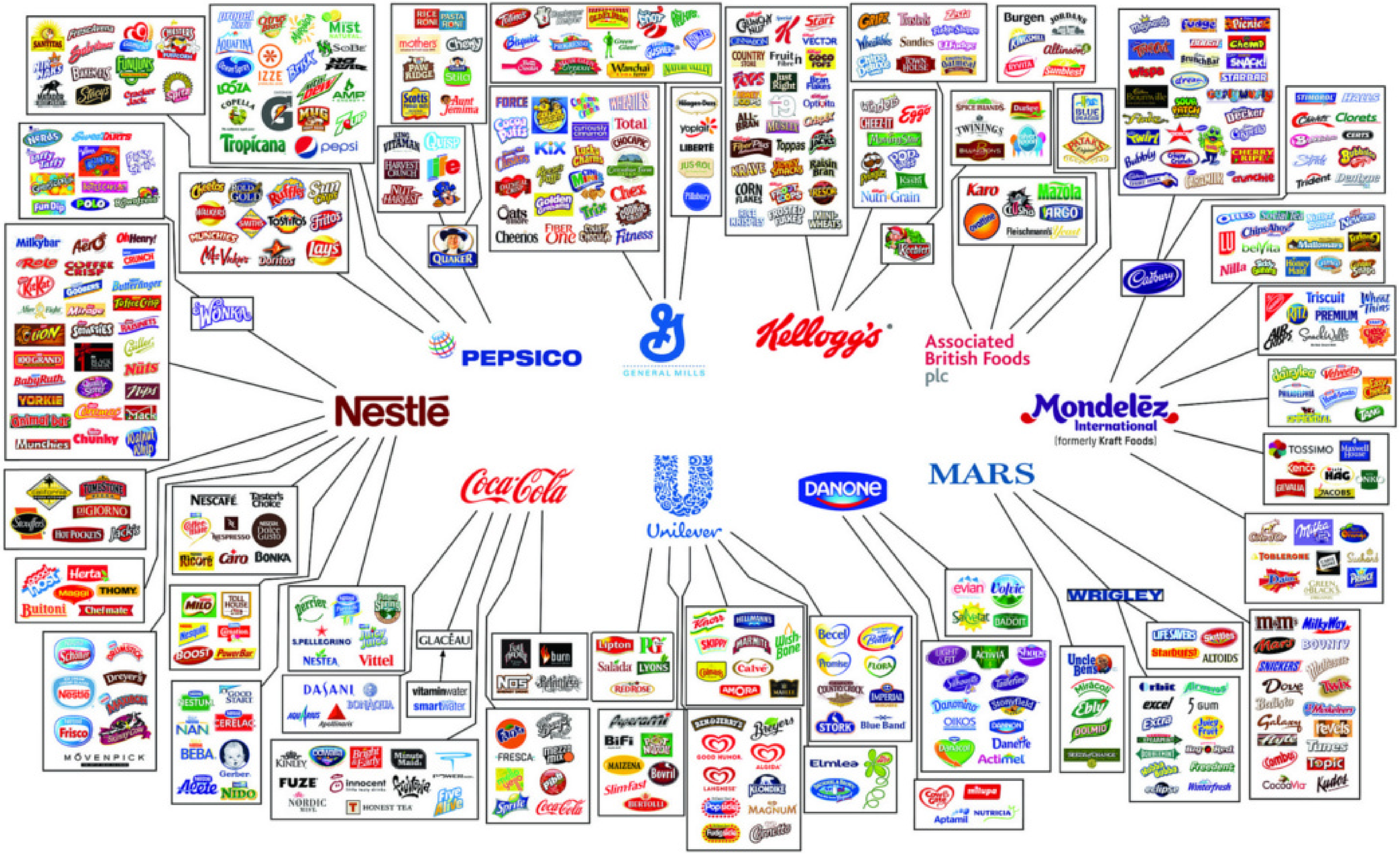
- **Enhancing the average size of the shopping basket, for example, by exploiting demand interrelationship in the space allocation in stores or encouraging impulse purchases.**

# Category strategies – Profit generating

- **Enhancing profitability of customers' shopping baskets, by offering products with high margins.**

# Category strategies – Image creating

- **Improving the retailer's image, by offering products that are sold uniquely at the retailer or offering an outstanding choice in the category.**


PEPSICO
GENERAL MILLS
Kellogg's
Associated British Foods plc
Nestlé
Mondelēz International
(formerly Kraft Foods)
Coca-Cola
Unilever
DANONE
MARS
WRIGLEY

# BCG Matrix


- Most famous portfolio analysis is Boston Consulting Group Matrix .
- Logic: profitability of different strategic business units is aligned with **share** and **growth**.
- Result: Model BCG which sort SBU

# BCG Model

| Market growth rate | | Relative market share | |
|---|---|---|---|
| 20% | High | **STARS**<br>Growing profit | **QESTION MARKS**<br>Low profit |
| 10% | | | |
| 0% | Low | **CASH COWS**<br>Highest profit | **DOGS**<br>Lowest profit |
| | | *High* | *Low* |
| | | 10x   1x | 0,1x |

Relative market share

# BCG Model

- **Stars**
  - Requieres lots of investments and managing effort
  - Strong competition in the segments
- **Cash Cows**
  - Established well functioning units.
  - Generates valuable profits for other unists.

# BCG Model

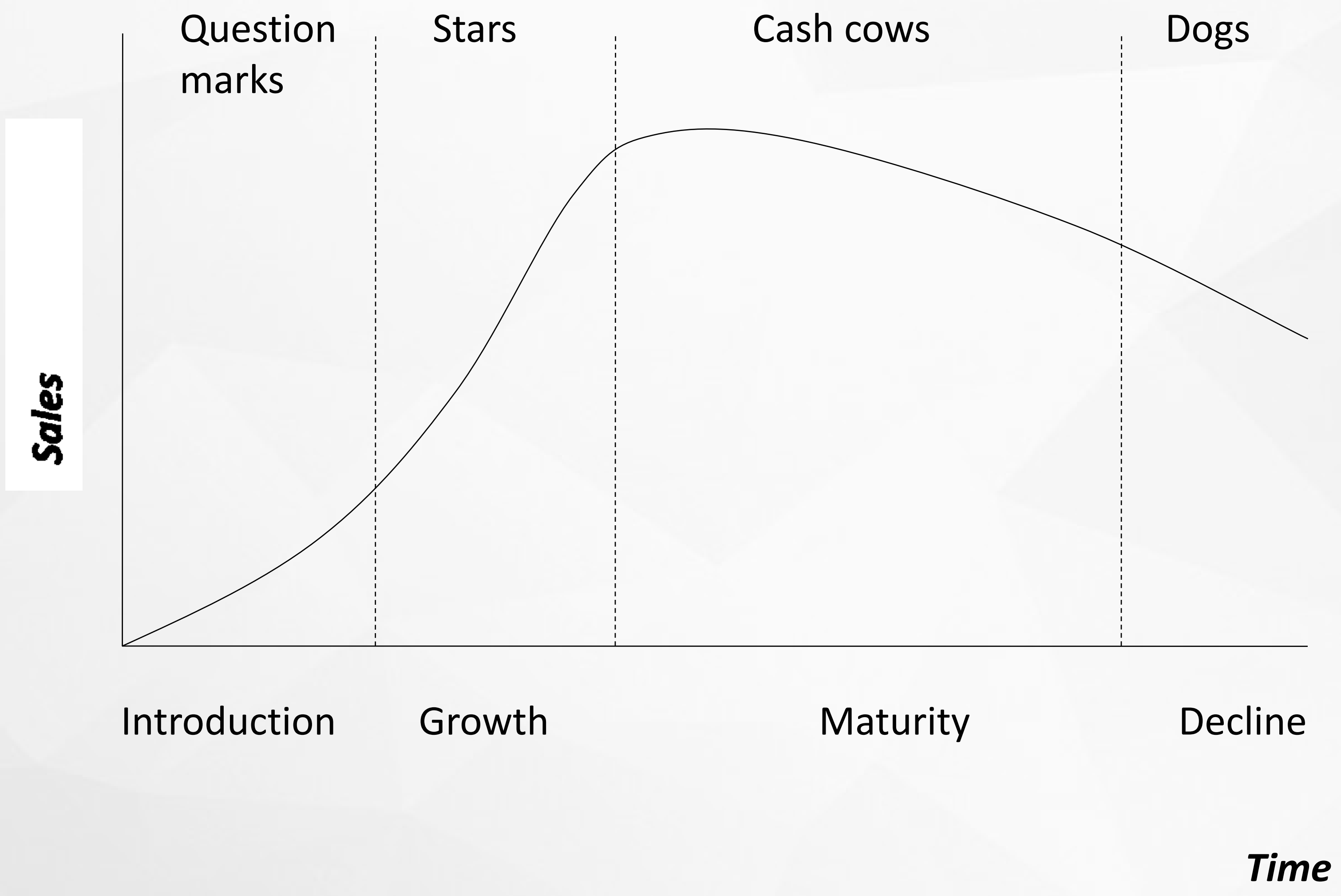
- **Question marks**
  - Requires extensive investments to maintain market share.
  - Management have to decide which of these will progress to Stars.
- **Dogs**
  - Can generate sufficient amount of profits to survive.
  - Has no bright future ahead of them.

# Excercise for BCG Matrix

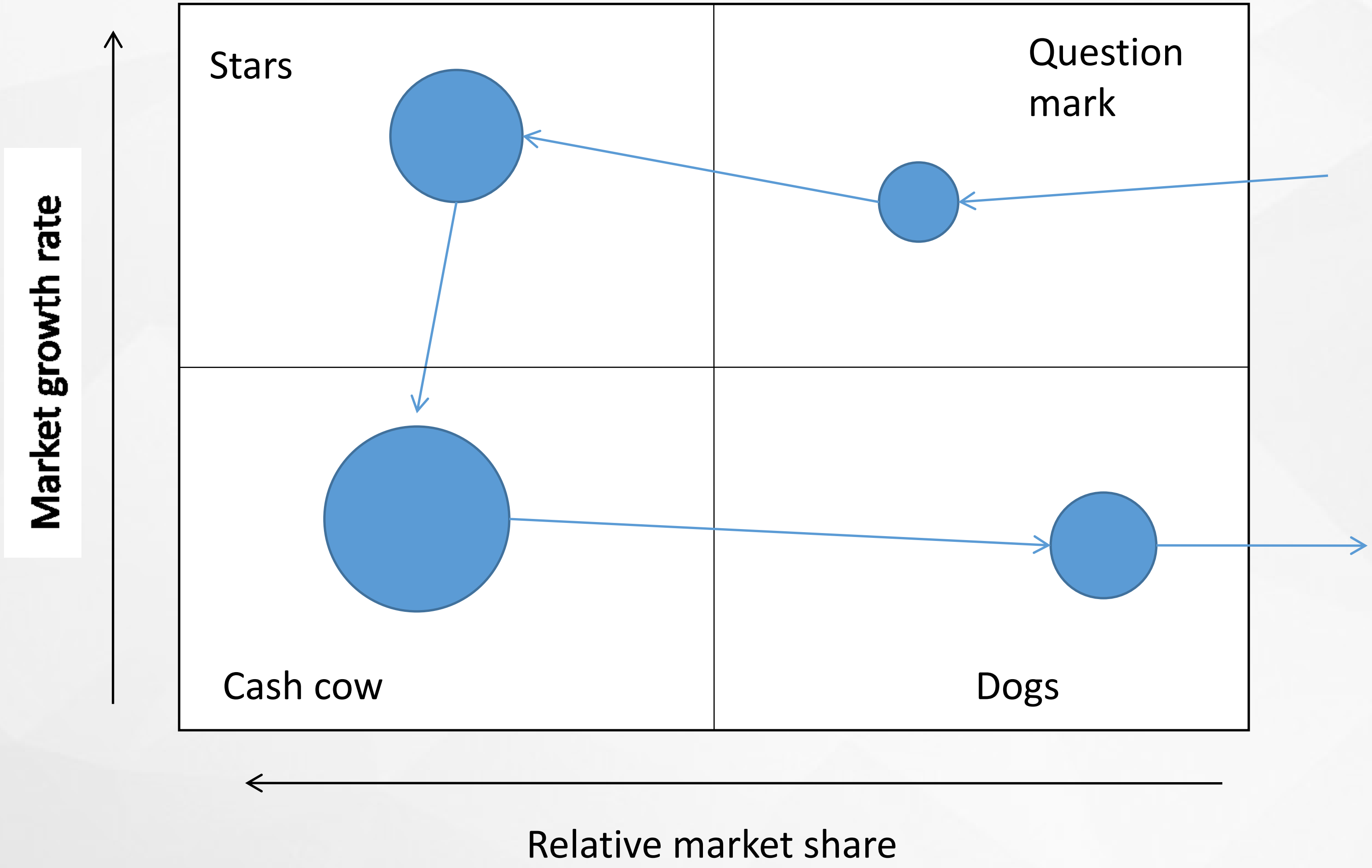
- P&G porduct portfolio:

| | Relative market share | Market growth rate | Profit | Liquidity |
|---|---|---|---|---|
| Gilette | 3,2 | 6% | 1 560 | 2,2 |
| Old Spice | 1,5 | 10% | 752 | 1,2 |
| Vicks | 0,7 | 15% | 25 | 5,7 |
| Braun | 0,2 | 2% | 44 | 4,3 |
| Garnier | 1,2 | 11% | 82 | 0,2 |
| Lacoste | 0,4 | 2% | 405 | 1,1 |

# BCG model and lifecycle



# BCG model and lifecycle



# Thank you for your attention

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