Retailer-Relevant Analysis –

By Jeff Elderton, Senior Consultant, TABS Group

Category Management is in danger … grave danger … of becoming irrelevant! While manufacturers continue to dedicate increasing resources to the notion that a greater understanding of their consumer and their sales trends will catapult them closer to their fiscal demands, a substantial slice of retail reality has been cast aside. Relevance! Retailers are collectively screaming "SO WHAT!" each time a vendor drops a Moby Dick-sized binder on their desks and politely asks for new distribution in return … there are groans of frustration each time a supplier presents a canned, auto-generated presentation of generic, and consequently irrelevant, category information … and worst of all, there's a guttural cry when an obviously self-serving Consumer Decision Tree purports to predict the category future. Relevance lies at the intersection of Category Knowledge and Retailer-Relevant Analysis. For you to be relevant, you need to find your way there. Provided are several identifiers of institutionalized irrelevance. See where your company lands.

First, here's an anecdote to bring these issues into stark reality …

While supporting a First Aid client during a category review at a major drug retailer, I experienced what many have, the inadvertent brush with the competitor. As he exited the conference room he reiterated to the buyer that his brand had a 65% dollar share and had impressive sales gains of 30% versus Year Ago, as if to say, "You certainly do not need these other guys." A quick review of the data confirmed the accuracy of the competitor's commentary. Yes, the brand did have a 65% share, but what he failed to mention was they the controlled 80% of the shelf. It was also true that the brand had grown 30% from last year, but he did not mention that their SKU count growth was up more than 60%. The information on market share and sales growth was not relevant because it did not reliably depict the true lack of strength of the number one brand. The competitor's brand was unproductive and was actually the prime candidate for space reductions. While our competitor was no doubt sharing his well-timed barb with his management, we were replacing several of his items through clear, concise, relevant communication and reliable analysis.

A confluence of factors has driven a wedge between the current practice, and original objectives of, Category Management. When manufacturers abuse consumption data an aura of distrust is formed. This abuse, which we call Category Opportunism, manifests itself as a screen through which your selling message must pass. The more erroneous your history of messages, the less of your present message survives the screen. Additionally, the scraps of your original message which do remain are at risk of being refracted into space for failing the relevance test. Who can afford that?

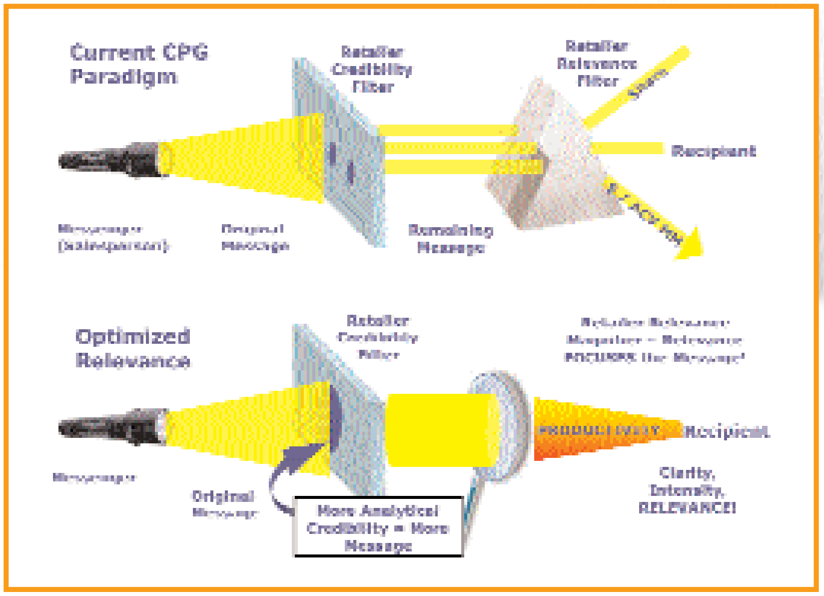
Interestingly, this "opportunism" culprit, which starts the cycle of distrust between the seller and buyer, more often is created by a knowledge deficit than devious intent. This, by the way, is good news, as it is easier to correct for knowledge gaps than scruples gaps. So what are these elements of relevance and why does empowerment matter?

Elements of Empowerment & Relevance

Empowerment is Critical! Beware the "Expert Analyst" Model – The complexity of current syndicated data interfaces has created an "expert-analyst" business model wherein a select few are trained on, and/or have access to, the actual data stream. *There are tools to push static reports and templates to the field, but they fail the empowerment test in that they do not encourage collaboration and category exploration.* Consequently, there are institutionalized gate-keeping behaviors that necessarily arise. When questions arise about the business, whether from a buyer or internal salesperson, they are typically relegated to the project list and are more often than not irrelevant when finally answered. Additionally, the "experts" are not given demanding work, but instead are dissatisfied at having to respond to more elementary requests (underutilizing their expensive skills). Simultaneously, the front line is dissatisfied at the timeliness and clarity of response (you can forget about asking a follow-up question!). Ultimately, keeping front line employees in the dark about category dynamics, whether intentional or not, has set back customers' planning and introduced an internal power relationship where there should be confidence and collaboration based on a true mutuality of goals. Your retailers see this in the form of disempowered employees and higher turnover of key sales and marketing personnel.

Maintain Perspective, a.k.a., It's Not About YOU – Retailers really enjoy hearing about *your* "share" of the category. They eagerly anticipate hearing about *your* contributions to the consumer. There's no limit to the time they have to listen to *you* congratulate yourself. WAKE UP! Few professions are under as much duress as buyers who have entire new categories dumped on them regularly. Facilitating intelligent,

It's Not About YOU



objective decision-making, while saving considerable time for your retailer partner, is a surefire path to success. You cannot achieve this if you drone on about share, $ per Million ACV, and other largely irrelevant measures. Your buyers are charged with improving performance of *their* categories – to be successful, you should be too. Provide a concise, clear roadmap with relevant measures like GMROII and Productivity and you will become a valued resource.

Be Predictive and Proactive! – Category Management eludes Retailer Relevance when it fails to identify specific, actionable business trends (Predictive) and when it fails to lead the charge to actively discover value for Retailers (Proactive). Here's an idea – stop reporting the news and draw a conclusion with the data. Retailers typically know where the business is … they want to know where it's going. If you can't get there, get help to do so. Also, why wait for a request for a category review to explore ways to improve your retailers' performance? Challenge yourself to identify three new, unsolicited revenue generators for your retailers each quarter. If you deliver just one, you are way ahead. If you are not mining the data for this express purpose, you have wasted a precious resource and have vastly overpaid for what is essentially an internal scorecarding and reporting tool.

Inefficient Data Use = Opportunity Cost – If you are making an investment in data, MAXIMIZE it! Your Operations counterparts wouldn't stand for inefficient plants, your Finance counterparts wouldn't stand for excess inventory, so why would you waste your capital investment on data by ignoring its ability to generate revenue! Close the Return on Knowledge Investment gap and you will have reclaimed abandoned investment dollars AND driven new sales and profits.

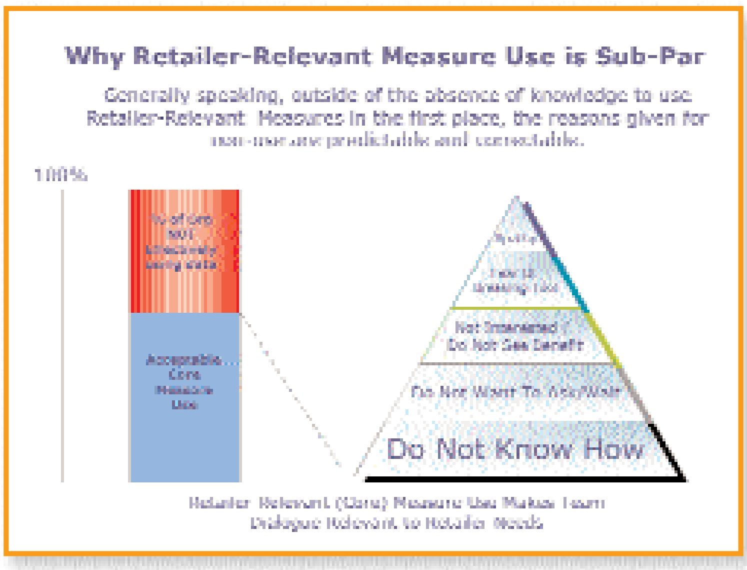
Portability and Flexibility of Data is Important – Retailers are under performance pressure and time constraints. It logically follows that the greatest path to success for a CPG supplier is to remove all barriers to "Yes" and provide consultation which is relevant, actionable and IMMEDIATE for the retailer. One such barrier is immediate access to category knowledge. Remove the "I'll have to get back to you on that," and replace it with "Actually Ms. Buyer, my brand contributes greater $ per Equivalized SKU and is more productive than three brands currently on your shelf. Changing them out for mine will yield you an incremental sales gain of X." You will discover quickly that one incremental sale offsets the cost of adding that level of credibility to your front line. Every other sale is gravy. Salespeople are happier, management is happier, buyers are happier.

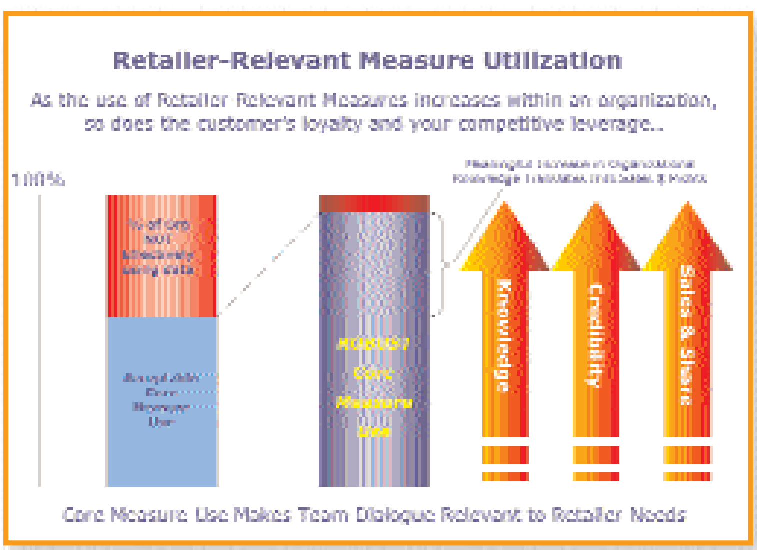
Embrace Customization – Bear with me as I am seemingly unable to avoid a sports metaphor. Imagine having to choose an all-time baseball lineup with the only information available being batting average. In all likelihood, you would end up with a team filled with outfielders – not at all functional. Overlaying the attribute of "Player Position" facilitates an intelligent decision making process. Of course from there you need to rule out anyone in Yankee pinstripes, but that's another issue altogether. Example: We have conducted several analyses of panel studies for our Cosmetic clients. Many of the resultant insights are not attributes the mainstream syndicated data providers code, like ethnicity, or price position, or location in store, or detailed product form. It is also critical to isolate "new" versus "existing" products to provide insight into who is winning the distribution battle for "new." If your tools don't have that flexibility, get new tools … you're leaving much of your data investment on the table. By considering and coding relevant attributes into your syndicated data tools, you open the door to a wealth of insights your retailer partners will appreciate.

Re-Inventing the Square Wheel – It's remarkable how often glaring mistakes are repeated. Organizational precedent is the single greatest barrier to maximizing your Return on Knowledge Investment. On a recent API (Analytical Process

Improvement) engagement a very large client with nearly bottomless resources was quite surprised to see the statistical autopsy of one of their trade ads. The brand performance claims were in no way related to the data shared on the ad. Additionally, the interpretation of the data was way off. Not only had they grievously erred, it communicated to the industry (and their competitors!) a condition of either opportunism at work, or ignorance of their own category – both of which are easily and frequently exploitable. Quite simply, this was the measure the senior executives had always used and liked to see in the trade ad. It was a meaningless twisting of data to show their position as largest in their category … not nearly relevant to retailers.

Make Your Equivalencies Relevant – Recently we were pleasantly surprised while supporting a Carbonated Beverage client. We strongly encouraged the avoidance of the industry standard Equivalization measure (case of 144 units) as we felt it failed the relevance test. Indeed, as we presented with actionable measures like productivity and GMROII and sales dollars and units, the retailer responded with gratitude for having actionable recommendations rather than an irrelevant and unusable industry standard.





Small to Mid-Size Companies: YOU CAN COMPETE! – While it is true the mega-competitors have resources you don't, it is not prohibitively expensive to obtain a degree of expertise comparable to the big kids. New technologies have offset the historical requirement of adding significant headcount to compete effectively on a category management/business intelligence front. Smaller companies often corner the innovation market, but struggle to convert that valuable advantage into revenue because they fail to communicate to retailers in a relevant manner. The days of "Isn't my widget pretty, and how are the kids, Bob?" have been replaced by "Here's a five-page fact-based presentation that quantifies the GMROII and Productivity impact my products will have, identifies the forms/types/styles/flavors to discontinue by UPC, and summarizes the financial gain realized by implementing the plan." Everything is covered, from concept to implementation.

F. O. R. C. E. – Our firm applies the "FORCE" acronym to the practice of Category Management and Advanced Analytics. Our clients have found it to be a succinct method of periodically confirming your category management bearings. Ask yourself if your message is:

<u>F</u>act-Based

<u>O</u>bjective

<u>R</u>etailer-Relevant and Reliable

<u>C</u>redible

<u>E</u>asy to Implement

So what happens if the status quo continues and Category Management continues to focus on the manufacturer's reporting needs at the expense of the retailer's objectives? Retailers will rely on objective category knowledge providers who respect their schedules and speak their language … suppliers who fail to see analytical process improvement as a strategic opportunity will find *themselves* less relevant. •

Jeff Elderton is a partner at the TABS Group, an outsourced category management and advanced analytics firm servicing the CPG, Private Equity, and Hedge Fund communities since 1998. Jeff can be contacted at jeffelderton@tabsgroup.com should you have questions or comments or wish to bash the Yankees.