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Adding consumer behavior insights to category management: Improving item placement decisions[☆,☆☆]

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Abstract

Although practitioners attribute significant sales growth to category management, many believe more potential lies untapped. This paper suggests improvements through the use of consumer behavior research as a supplement to point-of-purchase scanner information. In particular, we outline several concepts and theories with special promise in six decision areas of category management, suggesting opportunities for both future research and industry application. An empirical demonstration of one such opportunity is presented showing how two consumer behavior concepts – context effects and categorization theory – reveal insights relevant to item placement decisions within category management that would not be revealed by scanner data.

Keywords: Insights; Category management; Context effects; Categorization theory

Since the early 1990s retailers, most notably grocers, and manufacturers alike have increasingly embraced a new process strategy – category management – which shifts the manager's focus from individual brands to the overall performance of a product category. The *Category Management Report*, prepared by the Joint Industry Project on Efficient Consumer Response (hereafter, *CMR* 1995), states that this change produces enhanced business results by focusing on delivering consumer value. Supporting this new strategy, academic researchers have modeled and predicted increased profits (Zenor 1994; Basuroy et al. 2001). These predictions are being realized in the industry where significant dollar sales growth is attributed to its adoption—an average of 16 percent for retailers and 10 percent for manufacturers (Cannondale Associates 2003). However, these gains are largely attributed to stripping waste from the system and shifting volume across brands or time periods, rather than driving incremental consumption or trading shoppers up to higher value, higher margin items (Cannondale Associates 2002). Hence, category management is still seen as striving to reach its potential (Gregory 2001). One area where changes may improve performance is the structure of the relationship between the retailer and its lead supplier (Gruen and Shah, 2000). This paper suggests that more progress is possible through the use of consumer behavior research as a supplement to the insights derived from point-of-sale scanner data.

Table 1 provides an overview of this perspective. The first two columns are adapted from the *CMR* (1995) and summarize the decision stages a manager faces in applying category management. As noted in column two, the completion of each stage requires significant insight into the motivations, perceptions, and behaviors of the target consumers. To address these requirements, we add a third column which points to particular theories and concepts that could be incorporated into studies that would reveal the influential factors arising before, during and after the consumer enters the store. For managers, the insights may provide greater illumination of

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[☆☆] For an expanded version of the paper with greater detail concerning the consumer behavior theories relevant to the various steps in the Category Management process, the experimental study and its limitations please contact the first author.

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Table 1
The category management process: opportunities for consumer insights[a]

Management process stage	Needed consumer insights	Illustrative consumer behavior concepts
1. Definition of the Category: To determine the product classes which comprise the category	Apply an understanding of how consumer habits, needs and desires lead to uses of complementary products as well as various product forms, flavors, price options, sizes, and so forth, when they buy	• Motivation and need recognition • Pre-purchase processes • Goal-directed categorization
2. Role of the Category: To assign a purpose to the category based on an analysis of the consumer, distributor, supplier and marketplace	Capture the consumer's shopping-occasion behavior, which typically includes purchases from multiple categories, to gain an understanding of the factors influencing store choice decisions. Then apply this understanding to determine the priority and importance of the category to the consumers	• Post-purchase processes • Pre-purchase processes • Motivation • Need recognition • External (economic) influence recognition
3. Assessment of the Category: To conduct an analysis of the category's opportunities based on consumer, distributor, supplier and market information	Some of the key questions that need to be answered reveal the consumption trends of the category, why do consumers buy in this category, who buys, when do consumers buy, how do they buy in this category, and where do they buy in the category	• Consumer roles • Consumer decision rules and heuristics • Influence of reference groups and friends
4. Scorecard for the Category: To establish the category's goals for the qualitative/quantitative measures of the plan's execution	Consumer measures such as satisfaction, percentage of target consumer/household purchase occasions and dollar purchases (market share), average units per transaction, average revenue per transaction, store traffic, and so forth, determine if the plan is achieving the consumer-related goals and strategies	• Consumer-related goals • Consumer decision-making
5. Strategies for the Category: To develop the marketing, product supply and, if necessary, the in-store service strategies for the category	Managers must understand the qualitative and quantitative benefits of the category to the consumer before an idea becomes a strategy	• Situational influences • Influence of reference groups and friends
6. Tactics for the Category: To determine the optimal category assortment, pricing, shelf presentation, promotion and product supply tactics that enable achievement of the role, strategies and goals	Areas of concern regarding consumer perceptions and reactions include (1) variety and what it reveals to the consumer, (2) pricing and the value and store image it communicates, (3) promotion and how it impacts quantities and the retailer's image, and (4) the shelf presentation, whether it differentiates the retailer from the competition and meets the needs of the target consumers	• Consumer Information processing • Perception process • Decision process • Product class and brand choice involvement • Inference making

[a] Columns 1 and 2 adapted from *CMR* (1995).

the problem at hand, thereby providing additional, different solutions that, ideally, enhance results. For academics, this third column highlights fertile areas of future research.

To illustrate one such opportunity, we present an empirical demonstration of how two particular consumer behavior concepts – context effects and categorization theory – reveal insights relevant to item placement decisions (Stage 1 – category definition – in the category management process of Table 1) that would not be revealed by scanner data. Before presenting the demonstration and discussing its implications, the next section will review the relevance of these two concepts within the retail setting.

Theoretical background

The challenge of item placement

An age-old retail decision is which items to carry within each product class. The category management process complicates this decision by requiring that it be made for each location (category) in which a product class is placed. (For example, the item mix of ketchups selected by the retailer in the condiment aisle may differ from that in the picnic aisle.) Further, as the product classes that make up the traditional categories change and a raft of new categorizations are utilized (e.g., picnic and party) this Stage 1 category management problem is exacerbated.

This category-specific item selection process complicates issues for manufacturers as well. In fact, product, package and advertising design decisions with a particular positioning (category) in mind may prove beneficial. Also required is a more informed and nuanced sales pitch in order to influence the retailer not only to carry the manufacturer's items, but also to present them most propitiously. Importantly, given the complexity of these item selection decisions, retailers typically look to manufacturers for guidance. This reliance provides a huge opportunity to impact item placement decisions and develop a more profitable long-run relationship with the retailer.