CATEGORY MANAGEMENT vs. DISCOUNT RETAILING PRACTICES:

A CASE FROM TURKEY

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Abstract

This paper outlines the comparison of category management (CM) principles versus hard discount practice in the retailing environment in Turkey. Category management principles are explained and applications are compared and contrasted with operational practices of a major hard discount chain which has been very successful since its foundation.. The paper adopts an exploratory method based on an interview with a senior executive of the company. The authors aim at practical findings as to provide implications for the category management application in Turkish retail sector in general.

Keywords: Category Management, Retailing, ECR, Hard-Discount, Turkey

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Introduction

Category management (CM) concept originated in the early 1990s in the USA when diminished margins forced grocery retailers to look for new ways. Rising factors like new products, more demanding & diverse consumers and new retail formats like Wal-Mart's super center which combined traditional general merchandise store with a full-line grocery store under one roof necessitated a dramatic change.

As retailers sought ways to improve margins and compete more effectively, they wanted to reconnect with consumers and satisfy their needs in order to stop eroding of shopper base. They wanted to ensure that their shelves were stocked with products that consumers wanted to compete with an endless variety of new products. Shortly, they wanted to stay in business.

Noticing availability of data that could be drawn from their POS systems, progressive retailers and manufacturers started testing a process called CM that was developed in the early 1990s by The Partnering Group (TPG), a consulting firm. TPG's process, which is now considered as traditional form of CM, consists of eight steps:

1. Category definition
2. Category role
3. Category assessment
4. Category scorecard
5. Category strategies
6. Category tactics
7. Plan implementation
8. Category review

CM aimed at being a method of turning marketing basics into an organized process. CM is all about finding out what shoppers want and providing it better than the competition can. In that way, the process answers to a key problem, shopper erosion. If retailers select the right products for target customers and then price and merchandise them appropriately, the result should be a satisfied consumer who remains loyal.

Although there have been drastic changes in economic, social, political and technological conditions since then, the number of published books on CM is still very low. The area is generally dominated by research and consulting companies and the technical information about specifics is not disclosed.

Taking these sources as well as existing body of knowledge of published articles and recent environmental dynamics into consideration, this paper will attempt to compare & contrast CM system applications with the daily practices of a Turkish hard discounter. Within the general context of the Turkish retailing sector, one of the highly successful hard discount chains will be subjected to a through analysis as to yield similarities or differences.

The conceptual article will be based on a semi-structured in-depth interview with an executive of the retailer as well as publicly available data. The paper is organized as follows: an introduction of CM followed by a literature review of CM & the discount concept, an overview of the Turkish retailing sector, results of exploratory research based on semi-structured interview, the conclusion and related managerial implications and limitations.

Emergence of Category Management

In the late 1990s, Efficient Consumer Response (ECR) led to a grocery-revolution through a paradigmatic shift in focusing on the consumer as well as a new form of cooperation between retailers and suppliers (Kahn and McAlister, 1997). ECR conceptualizes this consumer focus through Category Management (CM) defined as: '. . . a distributor/supplier process of managing categories as strategic business units producing enhanced business results by focusing on delivering consumer value' (ECRE 1997).

Whilst optimizing categories has always been an objective within retail management, the specific term of CM appears in the early 1990s in the USA as part of the ECR-strategy 'Efficient Store Assortment' and 'Efficient Store Merchandising' (Food Marketing Institute 1993).

The concept of CM is generally acknowledged to be a marketing control system under which the objective is to maximize performance of a large collection of competing brands or products (i.e., the category) rather than individual brands. (Zenor and Zerrillo, 1995)

This approach contrasts sharply with the product management strategy wherein dedicated managers are charged with the responsibility of maximizing returns from individual products. CM aims to overcome shortcomings of this system like internal competition. Another benefit has to do with the assortment of products whereby the assortment can favorably affect product sales in one of two ways, either it can enhance the number of units sold or it can help positively influence the price of products sold by providing synergies. A third reason is in valuation of time, where buyers analyze supplier relationships to minimize transactions and handling costs.

8-step CM is regarded as the most important element of ECR by the vast majority of retailers and suppliers in the grocery industry (Schmickler and Rudolph, 2002).

Evolution of Category Management

At first, CM started a revolution in retailing and CM became a widespread phenomenon. Later it became evident that the process was too complicated for many retailers. There were too many details and variables and it was very hard to coordinate many departments as well as finding people capable of managing CM. As a solution, larger manufacturers restricted CM to their largest customers (larger retailers), with smaller chains receiving less interest and support.

In time, many retailers and manufacturers became more familiar with CM. A shortened '4-step process' denoted by ECR as 'day-to-day Category Management' (ECRE 2000) was developed, aiming at reducing complexity and transforming CM from a project basis to a process which can be integrated into firms' daily operations. Also in line with increased consumer focus, the process became less product-centric and more consumer-centric.

Literature Review

CM has been extensively discussed in literature dealing with Supply Chain Management, Retailing, and Marketing. The majority of articles are based on single case studies or recommendations from consultants and practitioners (Dewsnap and Hart 2004). The number of research papers based on rigorous empirical studies is still quite limited. In order to give a structured overview of this very heterogeneous field of publications, Holweg et al (2009) has identified seven research streams in literature review, highlighting two points: Firstly, CM, as per ECR, assumes that it is suited for all categories Yet studies of CM rather indicate that CM is best applicable for categories containing packaged products (Dhar, Hoch, and Kumar 2001). Approximately one third of a retail store's turnover comes from fresh fruit or in serviced food categories like fresh bakery products or meat (ACNielsen 2006a). Secondly, articles do not critically discuss CM per se or provide empirical evidence for the CM model. (Holweg et al, 2009)

Discount Store Concept

The discount store is defined as a 'retailing establishment selling a range of rapid-turnover, cut-price goods and with virtually no floor-service at all' (Eurostat, 1993). Institute of Statistics and Economic Studies-France defines a hard discount store as 'an outlet for sale of foodstuffs on a self-service basis, under a specific ensign with a surface area of 400 to 800 m2.'

Burt and Sparks (1994) classify food store formats in Europe into four categories: limited assortment discount, discount supermarket, extended range discount, and warehouse club according to four factors: variety, price, convenience, and quality;

While the United States is widely regarded as the origin of many innovations like retail formats and marketing techniques, contribution of Europe must not be overlooked. While the origin of discount retailing is associated with self-service in the United States in the mid-1950s, discount stores first appeared in Germany in 1960s when Albrecht brothers returning home from POW camps created Aldi in a post-war country (Brandes, 1998). The hypermarket format was also introduced by Carrefour group in 1960s (Durand & Pache, 2005).

The market share of the hard discounters in Germany is about 26,9 %. (GfK Report, 2009). The same evolution is also observable in other countries, as discount format retailers expand at the cost of traditional retailers by offering very competitive prices, a very high percentage of own brand private labels and a smaller number of stock-keeping units per category.

Barth (2002) points out three strategic elements of pure discounting; 1) Simplified narrow assortments limited to the customers' central needs, 2) Price advantages customers would consider as dominant and long-lasting, 3) Consistent cost leadership.

The basic concept of hard discount stores relies on four main factors: low prices, almost no branded products, a limited product assortment and a Spartan presentation (Filser et al. 2001). As a common characteristic, discount stores identify themselves as EDLP (Every Day Low Prices) operators and rely heavily on private label products. They employ a strategy to keep the format as simple as possible and monitor costs aggressively. As a result of this strategy, they prefer secondary streets with lower rents, keep assortment & store bigness at an optimal size and provide the lowest amount of service possible.

In addition to saving money, spatial proximity and the highly functional nature of the retail format are the major motivations for shopping there. In terms of customer base, these not only include low-income families but also a large number of higher classes who wish to save money and buy convenience goods as quickly as possible, a task hard to achieve in the hypermarket format (Durand & Pache, 2005).

This leads Chétochine (2005) to differentiate between *homo-consomatio*, who consumes, and *homo-cliens*, who buys. Inside the store, consumers are driven by two antagonistic and interactive forces: the need to find a product and purchasing time. *Homo-cliens* no longer wants to wait at checkout counters (about 25% of the time spent in a store), or look for parking space.

Over time, in line with the model of the wheel of retailing, the hypermarket format went beyond discount positioning by offering an increasing number of consumer services (Filser & Paché 2005). As a natural consequence, price levels went up. As an alternative, only one retail format has a real low price strategy: the hard discount store. Mermet (2004) reports that 75 per cent of all new openings in France are now as hard discount retail formats.

Following the 1994 economic crisis, first discount stores in Turkey appeared in 1995. The hard discounters were able to build successfully on the 1999 and 2001 economic crisis, supported by increase of consumers buying private label products as the rate increased from 39% in 1999 to 55% in 2004 (PWC Report, 2007). As evident from the summary table below, discount store format has been consistently growing in Turkey.

Table 1: Top Turkish Hard Discount retailers

Retailer	Started operations	Store number	Share (%)
BIM	1995	2675	55.5
ŞOK	1995	1087	22.6
DiaSA	1999	500	10.4
A101	2008	500	10.4
ONUREX	2007	55	1.1

Source : Cevik & Yalman (2010)

Turkish Retailing Sector

The development of supermarkets was pioneered by state initiatives in 1950's. Following economic liberalization of 1980s, 1990s witnessed rapid development of the retail sector as modern formats increasingly replaced traditional, mom & pop style grocery retailers, called *bakkals*. These outlets were characterized as being small-scale, capital-weak, independent, single location and family-owned (Samli, 1964; Kaynak, 1976).

These outlets had a market share of almost 50 % in 1999 but the share of modern formats has been continuously increasing at their expense (see table 2).

	1999	2001	2003	2005
Hypermarkets (over 2,500 m^2)	6.5	9.5	10.0	8
All supermarkets (100-2,500 m^2)	17.0	25.0	31.0	37.5
Markets (50-100 m^2)	12.5	9.5	9.0	8
Bakkals (< 50m^2)	49.5	42.0	36.0	35.5
Others (convenience stores, kiosks, gas stations)	14.5	14.0	14.0	11

Source: Sirtioglu, 2004:3 and Sirtioglu, 2007:4.

Table 2 Retail food sector trends (market share in % according to outlet)

The irreversible trend of the expansion of supermarket chains in developing countries was driven by similar factors in different countries (Reardon et al., 2004) and Turkey is no exception. Some of the drivers of the Turkish retail market's transformation are as follows:

Urbanization: As a cause of rural–urban migration; percentage of population living in province and sub-province centers is 75 % in 2009 vs. 35 % in 1970.
Changing Life Style: Urbanization ultimately changes shopping behavior of consumers as consumption patterns, family structures and work conditions change.
Increasing per capita income: Per capita gross domestic product (GDP) reached around 10 thousand US dollar in 2008 which is 4.7 times higher than per capita GDP in 1980.
Education level: The general level of schooling has been continuously increasing, supported by increase of compulsory schooling to eight years as well as better provision of education opportunities. (University graduates are now 25 %, vs. 1,3 % in 1951)
Government policies: Government has been supporting modern formats with the intention of reducing the level of unrecorded commerce as to increase tax revenues
Foreign direct investments (FDI): Important changes occur in retailing when large foreign companies with state of the art applications invest in modern formats.

During the 1990s, large retailers like Metro & Carrefour[1] entered Turkish market, stimulating extension of domestic chains as to defend local turf. Share of bakkal outlets dropped from 91,6 % in 1996 to 82,8 % in 2008. (Appendix 1) Yet, turnover market share of bakkals is 33%, with cumulative market share of supermarket formats at 45,7 % (BIM constituting 6,3 %). However the picture changes drastically when tobacco product turnover is taken out: total share of markets is 65,4 % , with BIM share 10,9 %.

Discount store format has been very successful in the case of BIM (Appendix 2). BIM has about 2910 stores scattered throughout the country. BIM has been number 9th fastest growing retailer worldwide between 2003 and 2008 (Deloitte Touche, 2009). While BIM is most probably the biggest retailer of Turkey by now, Migros and Carrefour are Turkey's other large retail grocery chains (Appendix 3).

[1] A detailed profile & history of the major large retailers can be found in Koc et al., 2009 and Celen at al, 2005.

THE FUTURE

Over the last fifteen years, number of bakkals has decreased from 176,000 to 113,000 as it has become very difficult to compete against modern format retailers (Aslan and Aslan, 2008). Whilst there have been law proposals to regulate the retail sector, given factors driving modernization of retailing and the silent consent of the state, it is very unlikely that such a law will pass. The findings suggest that in addition to other effects, modernization of retailing:

1) Enhances productivity (3:1 ratio – Mc Kinsey, 2009)
2) Decreases prices i.e. inflation (Basker (2004)
3) Increases employment (Basker (2004)

In line with wheel of retailing and with historical developments, hard discounters are well positioned to take advantage of new trends as hypermarkets start losing their status in the eye of the consumers as the cheapest retail format. Consumers want to spend less time for shopping (Durand & Pache (2005) and do not want to deal with large product assortments. Primary (convenience goods) and secondary (specialty goods) retailing consumers do not see any real difference between the product assortments. Hard discounters who put "customer civilization" over the "product civilization" by stating "everything for you" instead of "everything for everyone" are redefining the retailer/consumer relationship (Ritzer 2005).

The Study

Through a case study approach, management practices of a hard discounter in Turkey are compared to CM practices. Based on the book "Customer-Centric Category Management" by AC Nielsen, Karolefski and Heller (2006), a semi-structured interview was prepared as to provide a guideline to assess the strengths and weaknesses of discount retail practices compared to CM.

The interview was conducted with an executive manager of the company and it is composed of six main parts to consider different aspects of discount retail practice. It was held in a conversational manner to facilitate understanding and interpretation of questions and responses. Records of the interview were decoded and then re-classified into related subjects and headings. Finally, this information is compared step by step to CM practices.

Part I: Defining Categories According to Needs of Target Market

CM PRACTICE

Categories are considered and managed as individual strategic business units. CM practitioners put emphasis on proper definitions of categories and utilize sophisticated research tools like Market Structure and Preference Segmentation analysis and consumer decision trees.

Karolefski and Heller (2006) state market structure explores the product attributes constituting the category structure. It builds the product attribute hierarchy that drives household purchases and explains substitution and complementary effects between competing products. Preference Segmentation explores small consumer groups that don't reflect the overall purchasing model for the category, though they represent significant opportunities in the market.

The use of third party consumer research data provides detailed mapping of shopper preferences in the form of consumer decision trees. Depending on this structure a retailer may well define the categories and evaluate brand alternatives (national brands versus private label).

Not all retailers have a chance to employ a market research agency to define their own category structures customized to their target customers. Conventional wisdom plays an important role in small scale retailers in defining categories. Alternative methods can be to observe stores of big players, rely on their past experience and observe their shopper portfolio.

DISCOUNTER PRACTICE

The discounter does not employ a market research agency and did not base its category definitions on consumer research data. The definitions from discount retailer Aldi are adopted with some minor revisions for cultural differences. These revisions are partly inspired from other leading retailers in Turkey and partly from consumer insights supplied by the manufacturers.

Ongoing updates and revisions in the category structures are justified by periodical analysis of POS Scan Data. This approach has some deficiencies due to its limited coverage and deficiency in providing consumer insight from a wide perspective. The discounter tries to overcome this deficiency through manufactures' feedback and also sends its category managers to international trade exhibitions and retailing events periodically.

Category managers regularly visit competitor stores and collect information about new products and categories and present them at quarterly management meetings. Selected items in those meetings are launched in particular regions for field tests. This way, the discounter updates the assortment in accordance with development of the market.

The discounter operates with a very narrow product portfolio (total number of permanent SKUs is six hundred) and targets the mass market, which make it impossible to focus on small consumer groups and niches. Hence, contrary to CM, applying preference segmentation analysis is not necessary. Product assortment of the discounter is organized in sixteen distinct categories.

Part II: Assign a Role to the Category That Best Supports the Retailer's Strategy

CM PRACTICE

Specific roles are assigned to categories that would best contribute to retailer's strategies. Ultimately, the role translates to the purpose of existence for that category in the store. While - savvy retailers are already quite conscious of how different categories play specific roles, what CM brings in as a difference is to turn this role assigning process into an analytical approach, utilizing various customer-centric analytical tools such as "Household Panel Data", "Basket Analysis", "Occasion Analysis" and "Frequent Shopper Data" (Karolefski and Heller, 2006).

There are two commonly used category role matrixes. The one developed by TPG defines four different roles by considering purchase frequency and household penetration as two different dimensions. The other one, developed by Blattberg (2005), defines six different category roles by considering sales volume and gross margin as two different dimensions (appendix 4& 5).

DISCOUNTER PRACTICE

Although there are no systematic role classifications, almost all categories are attributed with some relevant role features. Functions of the categories in expected contribution to the overall objective are clear. The discounter adopted built-in category roles from Aldi. POS Scan data is used to revise roles in accordance with local shopping differences whenever necessary.

There is a big emphasis in adopting weekly purchased articles and categories into the product assortment. Less frequently purchased articles and categories are not preferred to be kept in the assortment. Role mapping is largely focused on higher purchase frequencies by default.

Seasonal, occasional and convenience role items are generally presented to shoppers once a year in the form of a limited assortment, at very attractive prices, targeting very high sales volume per SKU. These items constitute the 16th category. These temporary articles are not kept in inventory. A selection of these composes the main part of weekly activity brochures. Occasional analysis is handled through pilot studies in different regions with different product portfolios. Results are compared and most successful items are adopted into the portfolio.

Assortments for occasions like religious festivals, Valentine’s Day or New Year are systematically prepared and items are contracted a year before. Some other less important occasions are handled by local managers. Certain insights about shopper behavior that have already been empirically proven are communicated and exchanged between area managers within the course of regional management meetings. An interesting example is the booming demand in yogurt and fresh dairy products during rainy days.

Examples of roles are Core Traffic (milk, tissues), Flagship (high quality private labels), Cash Machine (nuts, cosmetics) etc. A role-map is provided in Appendix 6 for a selection.

The discounter does not run loyalty programs and no individual shopper data is collected. Individual differences and customized solutions for the shoppers are not sought. General characteristics of discounter’s own shopper portfolio are considered through evaluation of POS scan data and regional sales tests regularly applied to new products. Financial analysis is strictly applied on categories, brands, category segments and items. Most important and frequently used financial analysis consider sales, margin, inventory turn and payment term measures.

Part III: Assessing the Category for Improvement Opportunities

CM PRACTICE

One of the crucial steps in CM is to assess categories and find untapped opportunities to improve performance. Some analytical tools used in this step are POS Scan Data, Household Panel Data, and Space Management Software Data.

Such assessment helps to identify growth opportunities —the gap between current performance and what could be— through considering multiple perspectives that provide an objective view of the category compared to the outer world. Those five perspectives are consumer, market, retailer (distributor), supplier and private label.

Consumer Assessment: Household panel data is a key resource in profiling category buyers and their purchase behavior. It is crucial to dig into details of shopper behavior not only in retailers own stores but also get information about the competitors' or the market place as a whole.

Market Assessment: Third-party data from market information providers play an important role in evaluating retailer's share of category, brand, and item sales compared with the overall market.

Retailer Assessment: This is an inward look at how well the category performs in retailer's stores and how that category contributes to profitability, store image, and brand equity. POS Scan Data and Space Management Software Data provide valuable analysis opportunities.

Supplier Assessment: Category managers evaluate the performance of suppliers' products. As an objective resource third-party research data on categories and brands provide valuable tips on supplier's investment and contribution into retailer's product mix, profit and image. Media and marketing investments of suppliers are also a part of this evaluation.

Assessment of Private Labels: Retailers shall assess their own private labels in the same way as they assess suppliers' brands. They need to investigate how retailer's own brand adds to retailer's image, profitability or meet the needs of its customer portfolio.

DISCOUNTER PRACTICE

Consumer Assessment: The discounter does not employ third party consumer research data. Household penetration, purchase frequency, household spending measures are not used in daily practice. Insight about purchase drivers and when the category is purchased are totally derived from the analysis of own sales data and feedback from customers and employees. Differentiation between impulse purchase and planned purchase products are based on trial and intuition.

There is no systematic measurement or research data provider in analyzing category or brand loyalty. The basic measure used in decision making is sales data. For example, the decision to swap a national brand with a private label is made through 80% sales achievement compared to original sales of that national brand.

Market Assessment: The discounter keeps to date with market trends through a continuous field test procedure. There are 27 operational regions. These regions acts like different companies in terms of distribution organization. For every product category there are partner regions (regions assigned to try new products for related categories) and at each region approximately 2 products are tested every month. This makes around 700 products that are experimented every year.

There is an internal benchmarking system comparing sales of regions and stores against each other. Cross-comparison yields crucial findings similar to that of a gap analysis. If sales of one region are lower than other benchmarked stores, improvement/corrective actions are taken.

Price benchmarking is a common application. Although there is no regular data provider employed to supply competitors' prices, the discounter quarterly collects prices of competitors in the market for the key 150 articles and targets to have the lowest prices in the market consistently. Those 150 items are also deemed to have the best price/quality ratio. The assortment of the discounter is so narrow that 150 items cover about 25% of total permanent items.

Promotional activities of the competitors are monitored and temporary items are handled and promoted through weekly feature ads to respond. Shelf presentations and shelf space allocations of the competitors are not paid much attention as the retailer does not have enough shelf space to create excitement or a differential atmosphere.

Retailer Assessment: Category sales and profit trends are the most carefully tracked performance indicators through year to year and cross-regional analysis. Similar emphasis is given to items. All SKUs compete with each other as to be kept in the assortment. If an SKU fails to succeed in turnover, it is immediately replaced with a new item that succeeded in regional field tests. The assortment size is fixed and if a new one comes in, the other should go out.

There are some rules as to maintain productivity of shelf space allocation. Items are displayed in boxes on the shelves and number of items in a box shall not exceed a maximum of two weeks sales quantity. The variants and flavors of an item are displayed in the same box. In such a case, the supplier is asked to provide a mixed box solution.

Overall pricing strategy of the discounter is to maintain Everyday Low Price (EDLP). Temporary price reductions (TPR) are not used. The discounter principally does not operate high-low pricing. Any price reduction is a direct result of a cost reduction whether from a decrease in prices of inputs of a product or from economies of scale. Reduced prices in permanent assortment are announced through weekly feature ads and the reduction is kept permanent even after the feature action.

There is no return on investment calculation and target. The discounter operates with negative working capital. Operation on limited SKUs and minimal inventory levels provide a very dynamic business structure.

Supplier Assessment: Annual factory audits and quarterly product ingredient analysis assure the compliance of suppliers to quality standards. General sales trends of suppliers' products are tracked through supplier meetings and market store checks.

The suppliers are assessed on a set of five criteria: Product quality, Service time, Price, Competition support and Innovative capacity. Alternative suppliers are contacted in many cases to achieve better regional logistics or sometimes to reduce the overall supply risk in terms of unexpected price increases, quality variations and force major situations.

Private Label Assessment: The set of criteria used to assess the performance of private label products are reported as follows:

- Quality index at least 95 % compared to national brands.
- Price index 75 % max compared to national brands.
- PL should be over the average category profit target.
- PL should succeed in sensory testing (blind tests).
- PL should succeed in several quality analyses.

Part IV: Dealing with Performance Targets and Measuring Progress

CM PRACTICE

In this step retailer establishes targets for itself and its key suppliers to achieve the category business plan. A well designed scorecard reveals vital information about how the category is performing and highlights strengths and weaknesses. Scorecards are established in consideration to specific characteristics of a retailer and its environment. Targets should be realistic and attainable, though they might be somewhat stretching and challenging.

Technology and automation are very important factors to facilitate easy implementation of scorecards and subsequent evaluations. The metrics that are incorporated into a category scorecard typically includes sales, profit, return-on-investment, sales per square-meter, market share, shopper penetration, purchase size, purchase frequency, conversion, service level and other key performance indicators for the category.

DISCOUNTER PRACTICE

Category performance is mainly evaluated on sales volume and gross margin measures. Targets are defined in comparison to previous year results and cross-regional evaluations are taken into consideration. The discounter benchmarks the performance directly with itself. It grows aggressively, with double digit growth rates achieved during the last years.

Sophisticated consumer measures such as shopper retention, purchase frequency and satisfaction ratings are not applied. Instead, global measures such as number of shoppers per store and average basket size per store are monitored.

Stock levels and stock-out information is one of the key issues in discount practice. There is a highly sensitive stock monitoring system and stock levels are communicated to all management levels daily. Stock-outs are not tolerated. Failures in supply are handled instantly and flawless supply is a key success criterion for all suppliers.

There are general rules of the thumb for average inventory levels. The discounter strives for an efficient inventory management. Inventory turn targets are very strict. Warehouses are expected not to exceed 7 days in stock turn, with stores expected not to exceed 14 days.

Category scorecard system is not used. Category performance evaluations are made on a quarterly basis. Sales volume, gross margin, inventory turn and payment terms are the most important measures in the evaluation.

Limited assortment strategy enables a simplified measurement practice. Each category manager is responsible from about one hundred permanent items where performance of each item can easily be managed. In comparison to hypermarkets that keep thousands of items in inventory, the discounter clearly has an advantage of reduction of complexity. The need for sophisticated performance monitoring systems is less important in such a simplified business environment.

Part V: Creating Strategy for Categories

CM PRACTICE

Defining the best fit strategies for categories allow retailers to achieve category roles and score-card targets and guide retailers in allocation of resources. Karolefski and Heller (2006) identified marketing strategies and supply chain strategies within the scope of CM.

Marketing Strategies: A well-known map developed by ECR Europe – TPG (1997) relates category purchase dynamics to marketing strategies where they defined seven common marketing strategies. Those category marketing strategies are shown in appendix 7.

Product Supply Strategies: Product Supply strategies are set to move products in a cost effective manner from suppliers to retailer's store shelves. They include acquisition, product handling, inventory management, and order / payment transaction and transportation strategies.

DISCOUNTER PRACTICE

Category marketing strategies have been adopted from Aldi. Each category has a marketing strategy that it related to the role of that category in contribution to retailer's overall strategy. For example, dairy category is assigned "Traffic Building" role. The 16th category of permanent articles is assigned "Image Creating" and "Excitement Creating" roles. A map of marketing strategies across categories is shown in appendix 8.

Specific sourcing strategies are implemented for farm products such as rice, apricot, dates etc. These are bought on a contractual basis a year before in order to secure supply and price. In case of local supply, general agreements are made through the central office and orders are placed through regional procurement managers.

Warehouse layout, adopted from Aldi, is designed to improve product handling. Warehouse shelves are organized in the same order with that of retail stores. This enables an ease of collection of ordered items onto pallets and subsequent easy offloading onto shelves in stores. Own truck fleet is used for distribution. Order and delivery schedules for each store are fixed to improve efficiency and achieve lower logistics costs.

The discounter does not carry consignment stocks. Payment terms are decided on inventory turn rates. Orders are created in the system automatically, subject to final manual approval of category managers. Orders are communicated by EDI to compatible suppliers.

Part VI: Tactical Decisions

CM PRACTICE

Roles justified by category strategies are formulized into real life tactical decisions.

Assortment Tactics: Category managers decide to maintain, decrease or increase the number of items in a category. Similarly, they decide to swap an item with another or launch a private label. These decisions are made through analysis of Space Management Software data, third party consumer and market research data, internal sales, profitability data as well as considering category role and category strategy, retailer's image and overall target.

Pricing Tactics: Tactical choices in CM pricing decisions are made through some analyses (Karolefski and Heller, 2006) that include: a. Analysis of fiscal measures such as profit, sales, market share. b. Contribution to margin and quadrant analysis, c. Pricing gap analysis, d. Price elasticity/sensitivity analysis, e. Retail pricing audits.

Promotion Tactics: Software tools enable pre-event forecasts of sales gains, case allowances, return on investment, and other important measures, as well as post-event analysis.

Merchandising Tactics: Selling space is a finite asset and retailers shall pay the utmost attention to manage it utilizing the ratio of sales to space. Shelf presentation provides the ways to use shelf space in the most efficient manner. Space management software tools have built-in measures for efficient space allocation and presentation. Isles and shelves in a supermarket are rated in accordance with position: right/left, front/end, or bottom/top.

Supply Chain Tactics: CM pioneered best practices that implied tactics related to sourcing, purchasing, order/payment, product handling, transportation and inventory management.

DISCOUNTER PRACTICE

Assortment Tactics: The formula for the optimal size of the assortment is inspired from Aldi. The number of articles in permanent assortment is fixed at six hundred. Temporary assortment for “in and out” business consists about seven hundred items. In addition, field tests and regional products are considered as additional assortment with limited distribution.

The discounter does not calculate and collect slot allowances. Item sales performance is the most important factor. If an item succeeds to create a significant turnover during field tests it is automatically considered as a prospect to enter into the assortment. Incremental contribution of each SKU is tested through regular evaluations (Exceptions: salt and cotton). Similar items (substitutes) satisfying same consumer needs are not allowed to enter into the assortment.

The decision to launch a private label is based on substitution analysis where the brand and private label is presented on the shelf next to each other. If the turnover of private label item reaches to 80 % of sales of the national brand then the national brand is replaced.

Pricing Tactics: Overall pricing strategy of the discounter is to maintain EDLP. Private label items are priced at 70% index compared to national brands and overall prices are targeted around 85-90 index compared to general market. Pricing is based on cost plus method. Value based pricing is strategically not preferred and not used.

Ultimate aim of the discounter is to provide best prices to the shoppers. Any kind of gap analysis or price elasticity / sensitivity analysis are not applied. If there is an opportunity to reduce the price, the discounter prefers to exercise it to improve its best price image.

Promotion Tactics: Permanent assortment is not used to create promotional response against competitors since permanent articles are operated on a “Everyday Low Price” strategy. Another reason is that it is not preferred to reduce and then increase a price which is a risky practice in consideration of the overall image of the discounter.

There are only two instances for promotion. The first instance is a reduction in the price of a permanent assortment item. These reductions are communicated to shoppers through feature ads and reduced price becomes permanent thereafter. The second instance is related to the items in the 16th category. Those are image and excitement creating items that are handled once a year or once in a season. They are announced through feature ads and sold out at one shot.

Merchandizing Tactics: There is no special merchandizing activity except weekly featured articles. In-store environment is quite simple and straight forward. The company follows a rigid layout design, subject to a standard planogram, which is handled and updated centrally. Space management tools are not used. Intuition and conventional wisdom is effective in updating the planogram. Proximity and convenience are the key factors taken into consideration.

Supply Chain Tactics: There are always alternative suppliers for key assortment items. This is also another logistics requirement for the products that have a very high logistics costs such as tissue and paper products. The company takes the advantage of economies of scale in global sourcing and cooperates with international suppliers.

Manufacturers are forced to remove the logistics cost to offer the lowest cost of goods. In some cases, manufacturers develop exclusive items for the discounter to reduce the transportation and handling costs. Payment terms are kept at average 45 days, with payments effected on due dates in order to get better price from suppliers. There is a bonus system for warehouse personnel to improve product handling and logistics costs. Size of trucks, visit frequency and daily routes are designed to optimize these.

Conclusion

IMPLICATIONS FROM DISCOUNT CONCEPT FOR CATEGORY MANAGERS

CM practitioners can benefit from taking a look at very successful hard discounter applications. Some key findings and implications are listed here below.

Power of Simplicity: The hard discounter’s success story is a lesson in simplicity. Although customer orientation, asceticism, rigor and discipline are essential discounter features, simplicity is the company's real secret. It is incredibly difficult to be simple. So what does hard discounter's principle of simplicity mean in practice? To answer this question, it is important to understand that simplicity and thoroughness are not mutually exclusive. Hard discounter's simple solutions, founded on basic ideas & principles, are supported by carefully planned practical arrangements.

Asceticism: Hard times and enforced frugality demand avoidance of waste. The principle is that: less is better than too much. This is applied to capital, personnel, floor space. Shortage of resources inspired and created the idea of the century in retailing as the discount concept. We would put asceticism at the top of the list of cultural values at a discounter. Asceticism in the sense of doing without is perhaps the most important core characteristic of the company.

Experimentation Instead of Endless Analysis: Discounter people are doers. Everything is tried out, as fast as possible; there is no need to get tied down in endless, in-depth analyses. Experimentation enables overriding of different agendas and functional silos. Using the "trial and error" method the discounter succeeds in avoiding major catastrophes and mistakes. All new ideas, developments of a technical or organizational nature, introduction of new items, quality/size changes are tested before extensive application.

Regional Tests: These tests are used to try out the potential success of new items or changed package contents and the like. This kind of test reveals fairly accurately nearly everything needed to be known with lowest possible effort. Value of tests should not be underestimated because the shortcomings of planned measures often do not show up implementation. The answer is in the doing, not the theorizing - a rapid, radical, but rigorously simple approach.

Quality is Paid Utmost Importance - Private Label Strategy: One of the success factors, aside from the principle of the lowest possible prices, is quality and - associated with this - a rigorous private label strategy. Suppliers know the hard discounter quality requirements and they work hard to meet them. Since suppliers do not have long-term contracts, the discounter can terminate business relationships without lengthy legal procedures. The presence of additional suppliers as alternatives also strengthens the discounter’s position. .

Another point for the hard discounter's success is rigorous quality control. Blind tasting of the hard discounter’s private labels and the leading brand labels take place every day. Private labels are treated in the same process with the same that of national brands.

Cost Cutting and Price Stability: The discounter strives for minimizing cost base. Cost cutting practices range from improving lamp design and saving power to keeping office rooms as humble as possible and avoiding any kind of luxury in the offices. It is the principle of the discounter to keep frugality in every aspect of the business and reflect it onto suppliers to ask for the same to allow for best prices in the market.

IMPLICATIONS FROM CATEGORY MANAGEMENT FOR DISCOUNTERS

There are many implications for discounters in our qualitative research study. The most important points are listed and discussed below.

Consumer Research Data: Our research reveals that the discounter does not cooperate with consumer research agencies. The basic claim behind this policy is the lack of need for detailed consumer insights from a third party. An additional concern is the lack of trust on the robustness and reliability of findings of research agencies. Noting these concerns on one side, we consider that it would be a simple job to deal with the research on a limited assortment policy. Findings will be much more meaningful when only main stream articles are targeted in such a research.

Market Research Data: Market Research is another tool that is considered unnecessary by the discounter. Internal competition and self referencing is preferred. It is correct to an extent that the firm focuses on its own business. In our case the discounter preferred to trust on employees' insights and intuition on competitive positioning. Market research on the other hand is a well-accepted tool that delivers regular and systematic data about market and competitors. Well targeted and focused research data from a well briefed research agency can provide powerful feedback in a limited assortment environment.

Price Audits: Current practice with direct involvement of category managers is quite beneficial for keeping up to date with competition. Yet, the importance of regular data flow should not be overlooked. A systematical approach in obtaining data will add to the power of the discounter. This will also solve inconveniences faced by category managers in gathering competitors' prices.

Software Tools: The increased value by automation which increases overall efficiency via simpler, more user-friendly and efficient software can be adapted. Contribution of software improvement in real life business results and efficiency should not be underestimated.

Frequent Shopper Programs: Basic philosophy of a discounter is to provide best prices to all shoppers. Complex processes are not preferred. These two points prevent the discounter to launch a frequent shopper program. Such a program is evaluated as bringing extra benefits to some shoppers while increasing the costs for others. Any kind of inequality in prices to shoppers is contrary to discount concept. The other concern is unavailability of data-mining tools and personnel to analyze collected data. The discounter shall find a way to tap this very rich internal resource of data.. The assortment is so narrow and possibilities are so limited that simple and practical analysis software may provide practical insights to category managers.

Rational Space Management: Limited space automatically implies that shelf space allocation is a key issue for a discounter. The relative value of shelf space is much higher for discounters. It will add to success of a discounter to plan and execute a rational space allocation policy supported with a simple analytical tool.

Limitations & Further Research

This study aimed at pioneering research in this area by adopting a case study approach. As this company has a rather strict approach to revealing information to outside, the main source was an interview with a senior executive in addition to publicly available data. Further studies in the future should aim at in-depth cross-company analysis to yield a wider perspective comparing different hard discounters.

Comparison of the application of CM across different retail formats (hard discounters with hyper market format retailers) would also be helpful in contributing to research in this area. The CM applications from the perspective of the producers and producer-retailer relations within a CM context are also possible venues for further research.

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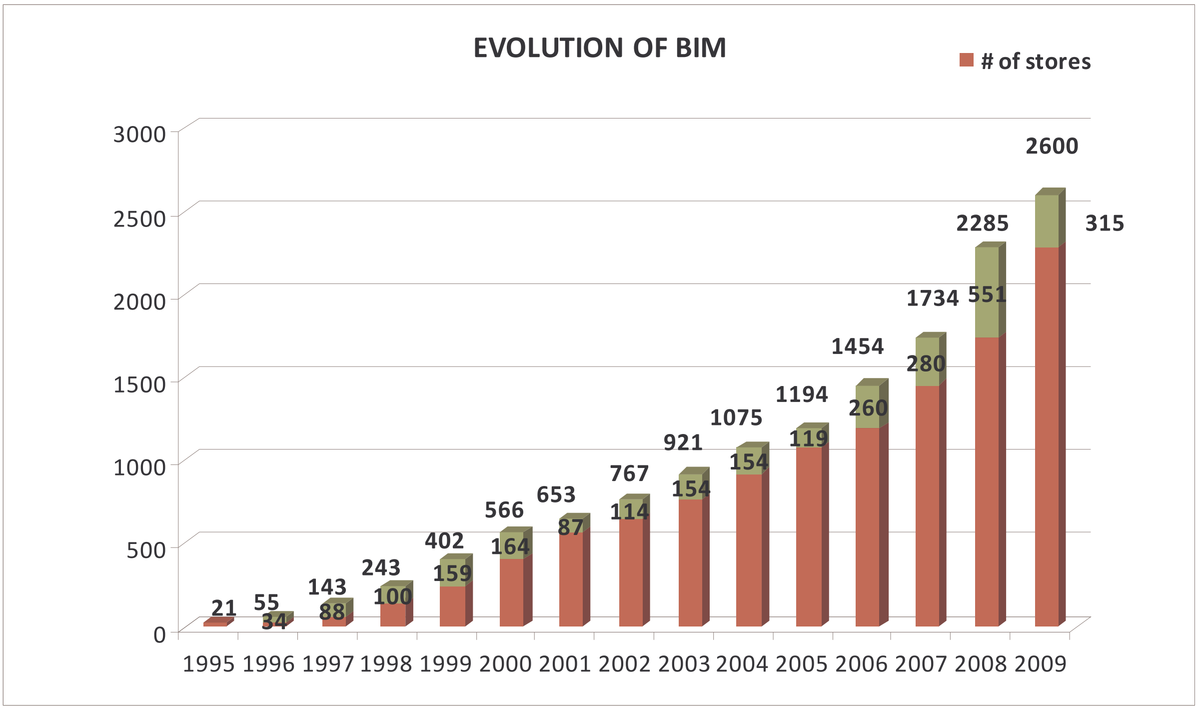
APPENDIX-1: Evolution of the number of food retail outlets in Turkey (1998–2008)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Hyper, Chain and supermarkets	2,135	2,421	2,979	3,640	4,005	4,242	4,809	5,545	6,474	7,221	8,252
Hypermarkets >2.500 m^2	91	110	129	149	151	143	152	160	164	178	183
Big Supermarket 1000–2500 m^2	210	251	306	357	368	367	396	454	504	568	623
Supermarket 400–1000 m^2	464	567	726	835	909	968	1,082	1,258	1,567	1,712	1,902
Micro supermarket ** < 400	1,370	1,493	1,818	2,299	2,577	2,764	3,179	3,673	4,239	4,763	5,544
Mid-size market 50- 100 m^2	12,192	13,247	13,232	13,210	13,555	14,537	15,197	15,076	14,775	14,876	15,273
Grocery <50 m^2	155,420	148,925	136,763	128,580	122,342	124,283	122,781	120,397	116,857	115,220	113,295
Total organized firms	169,747	164,593	152,974	145,430	139,902	143,062	142,787	141,018	138,106	137,317	136,820

Source: Nielsen, 2005, 2007 and 2009 (Fast Moving Consumer Goods-FMCG Retail Market Reports).

APPENDIX-2: Evolution of BIM – Number of Stores



Source: Compiled by the authors

APPENDIX-3: Top Three Retailers

	EBITDA	Turnover	Gross Profit
Migros	372.163.000	5.476.357.000	1.372.266.000
BİM	314.200.000	5.323.000.000	944.889.000
CarrefourSA	-118.876.609	2.326.449.164	554.474.109

Source : 2009 Annual Reports

APPENDIX-4: Category Roles

DESTINATION
To be the *primary* category provider and help define the retailer as the store of choice by delivering *consistent, superior* target consumer value.

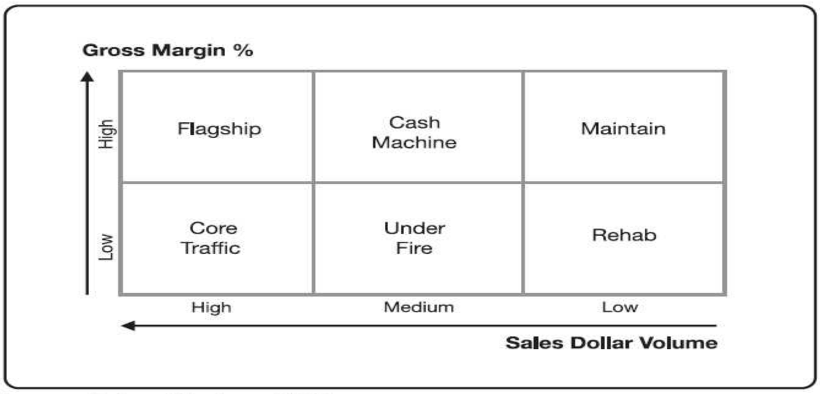
ROUTINE
To be one of the *preferred* category providers and help develop the retailer as the store of choice by delivering *consistent, competitive* target consumer value.

OCCASIONAL/SEASONAL
To be a *major* category provider, help *reinforce* the retailer as the store of choice by delivering *frequent, competitive* target consumer value.

CONVENIENCE
To be a category provider and help *reinforce* the retailer as the full-service store of choice by delivering *good* target consumer value.

Source: The Partnering Group, Inc.

APPENDIX-5: Alternate Category Role Matrix



Source: Robert Blattberg, PhD.

APPENDIX-6: Role Map

category name	According to TPG's category roles	According to Blattberg's category role matrix
	category roles	
drinks	routine	core traffic
cosmetics	convenience	maintain
cleaning products	routine	core traffic
dried fruits	destination	cash machine
milk products	routine	core traffic
frozen products	destination	cash machine
confectionery	destination	cash machine
spot products	occasional/seasonal	flagship

APPENDIX 7-: Matching Category Strategies with Category Purchase Dynamics

Category Strategies	Category Purchase Dynamics
Traffic Building	High Share, Frequently Purchased, High % of Sales
Transaction Building	Higher Ring-up, Impulse Purchase
Profit Contribution	Higher Gross Margin, Higher Turns
Cash Generating	Higher Turns, Frequently Purchased
Excitement Creating	Impulse, Lifestyle-Oriented, Seasonal
Image Creating	Frequently Purchased, Highly Promoted, Impulse, Unique Items, Seasonal
Turf Defending	Used by Retailers to Draw Traditional Customer Base

Source: The Partnering Group, Inc.

APPENDIX-8: Matching Category Strategies of the Discounter

category name	marketing strategies		
	1	2	3
drinks	cash generating	turf defending	-
cosmetics	profit generating	image enhancing	transaction building
cleaning products	cash generating	transactio building	-
dried fruits	profit generating	image enhancing	turf defending
milk products	cash generating	turf defending	-
frozen products	profit generating	-	-
confectionery	cash generating	-	-
spot products	traffic building	excitement creating	transaction building

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