

## SALES & MARKETING PERFORMANCE ANALYTICS IN A CATEGORY MANAGEMENT STRATEGY

### Introduction

Efficiency improvements remain an important focus for many retailers and suppliers. However, once efficiency improvements have been made, these will inevitably become industry norms and hence not an opportunity for continually creating competitive advantage in the marketplace. Category Management, on the other hand, is directed at the more consumer-oriented strategies. Certainly the most compelling argument for Category Management is that while efficiencies in the supply chain are likely to go unnoticed by the shopper, they will notice and become more loyal customers of those retailers who cater better to their shopping needs.

Some will argue that there has been a recent shift away from Category Management as it has not produced viable returns. However, we would argue that Category Management is viable but that it needs to be done better. To achieve this the process needs to be consumer-led, with a need for understanding of not only which 'need states' a consumer has at the time of purchase, but also which shopping 'mode' they are in. Our experience shows, perhaps surprisingly, that only two main shopping 'modes' exist - a convenience mode and a leisure mode.

Customer knowledge is essential to Category Management. Profitable sales growth means not just building sales - the goal must be profitable sales that carry with them a long-term image enhancement for both the retailer and the supplier. This demands retailer-specific consumer research down to the category level. This is of course where the supplier comes in.

The benefits of Category Management for a supplier organization are maximized when there is a purchase marketing strategy in place for the category. Purchase marketing is essentially using the store as a marketing medium, via the in-store tools. Hence we need to understand what each tool can accomplish for each brand.

Traditionally in-store tools have been used at the prerogative of the retailers who own the stores. It is the challenge for the supplier to provide compelling arguments for the retailer to adapt, refine or even change the way they use the tools for the category - to benefit the category as a whole and (hopefully) the supplier's position within it. In this way the business interests of both parties are satisfied, but this process has proven to be difficult as the store owner's and supplier's interests are often not compatible.

### Developing a Category Purchase Marketing Strategy

Category Management is a device for developing a category purchase marketing strategy for an individual retail account that best meets the consumer's needs and, in the process, determines the best approach for influencing that account. Crucial to this is an understanding of the importance of the purchase environment relative to the pre-purchase environment for the category.

The pre-purchase environment includes typical marketing tools which influence the consumer's brand choice before they go into the store; for instance: product and packaging design, above the line advertising, direct promotions to the consumer. The in-store tools with which to influence consumers in the purchase process are availability, shelf position/space allocation, communications and in-store promotions. Whether or not the supplier has influenced the in-store activity for the category, each of the various in-store tools will in some way impact on the shopper - not just in terms of behavior, but also in terms of their perceptions of the category as a whole and the individual brands within it.

Once the role of the purchase environment vis a vis the pre-purchase environment has been determined, the next step for the supplier is how to use (for the specific account), the in-store tools that are available. To do this we need to understand what each tool can accomplish for each brand.

Critical to all of this is an understanding of the consumer as a shopper for the category in the specific retail accounts.

Retailer scanner data will provide category sales data down to SKUs. With careful analysis, it may be able to indicate the effect on purchasing (as measured by sales) of different shelf layouts, different pricing strategies or different promotions. With access to key account data, we may even be able to look at the effects for specific retailers. However, this data cannot tell us which consumers are being affected by the activity and in what way their purchasing is being influenced.

Consumer panel data provides a valuable source of information on consumers' purchasing behavior, both overall and for specific retail accounts. It can tell us which products and brands are bought together, how often and in which pack sizes and variants. What it still won't tell us is about the vital information behind the purchase, which is crucial to developing a full understanding of a category. For instance, what were the shoppers' needs driving the purchase; why was a specific retailer used for the purchase; whether the purchase was planned or impulse; what prompted the impulse purchase; why was a planned purchase not made; whether anything else was considered; etc.

## Sales & Marketing Performance Analytics

Sales & Marketing Performance analytics should support both your strategic initiatives and day-to-day management activities. Silvon Stratum is a comprehensive analytical solution that presents summarized sales, order, forecast, budget, promotional spending, market spending and market consumption information to users across functional areas. Executives may start by viewing sales activity at the total business level, while buyers and category managers may begin with the categories and SKUs for which they are responsible.

With Stratum, companies have a complete view of their Key Performance Indicators (KPIs) and consequently are able to make smarter, fact-based decisions. Stratum supports the strategies established by both Efficient Consumer Response (ECR) and Efficient Foodservice Response (EFR). Each of these initiatives suggest that companies manage product categories as strategic business units while focusing on providing end user value and enhancing business results. EFR estimates that the foodservice industry would eliminate \$2.1 billion in non-value-adding costs, when companies implement a Category Management strategy. A recent Category Management pilot conducted by EFR resulted in an average 25% reduction in SKUs per category, increased turns and reduced inventories.

The following chart details the core competencies of Silvon Stratum as part of a category management strategy.

	Sales & Marketing Performance Analytics	Business Benefits
Efficient Assortment	<b>Category Performance Analysis</b> <ul style="list-style-type: none"> <li>• Category/Product Ranking</li> <li>• Profitability Contribution</li> <li>• Average Selling Price (ASP) Trending</li> <li>• Under-Performing Products</li> <li>• Product Duplication</li> </ul>	<i>Improve Category profitability by understanding the impact of each product's performance to the bottom line.</i> <ul style="list-style-type: none"> <li>• Compare Categories and Products with a relative ranking.</li> <li>• Identify which of your products are driving company revenue.</li> <li>• Rapidly pinpoint trends in Average Selling Price (ASP).</li> <li>• Isolate under-performing products and evaluate impact of discontinuing.</li> <li>• Understand performance of like products (by margin, revenue, ASP)</li> </ul>
	<b>Customer Profitability Analysis</b> <ul style="list-style-type: none"> <li>• Sales Contribution</li> <li>• Margin Ranking</li> <li>• Growing/Declining Profitability</li> <li>• Customer Discounting</li> </ul>	<i>Focus company efforts on boosting sales to your most important (profitable) customers and identify practices that are eating into company profits.</i> <ul style="list-style-type: none"> <li>• Identify which customers are driving company revenue.</li> <li>• Evaluate customer revenue alongside of margin to locate the most profitable customers and true cost of doing business.</li> <li>• Recognize growth or decline in customer profitability and drill down through data to determine why this change has occurred.</li> <li>• Track customer discounting history and avoid profit erosion.</li> </ul>
	<b>Product/Category Consumption</b> <ul style="list-style-type: none"> <li>• Market Analysis</li> </ul>	Understand market dynamics that might have an effect on decisions to keep or remove products from a category. <ul style="list-style-type: none"> <li>• Evaluate current product consumption; determine if relevant relationships exist between product/category sales and other dimensional levels, such as market, segment or customer.</li> </ul>

Sales & Marketing Performance Analytics	Business Benefits
<p><b>Evaluate Market Potential</b></p> <ul style="list-style-type: none"> <li>• Market Analysis</li> <li>• Identify Opportunities</li> </ul>	<p><i>Utilizing external market data, comprehend market dynamics to focus resources on product introductions that have the highest probability of success within the most receptive markets or segments.</i></p> <ul style="list-style-type: none"> <li>• Determine where product needs are not being met in the market.</li> <li>• Isolate market factors that match consideration criteria for new product introduction.</li> </ul>
<p><b>Sales Forecasting</b></p> <ul style="list-style-type: none"> <li>• Create Forecasts</li> <li>• Pricing Analysis</li> </ul>	<p><i>A successful new product launch starts with a solid sales forecast. Increase new product profitability by carefully planning forecasts and performing a "What If" pricing analysis.</i></p> <ul style="list-style-type: none"> <li>• Create forecasts by dollar amount, units, and/or equivalent units. Forecast by region, territory, channel, and more, to drive production needs and establish performance metrics.</li> <li>• Validate forecasts by comparing them to purchased market data research on like products.</li> <li>• Determine the optimal pricing strategy for your new product by understanding effects of pricing on expected revenue and gross margin. Explore impact of changing price on expected margin.</li> </ul>
<p><b>Promotional Activities Creation</b></p> <ul style="list-style-type: none"> <li>• Create Plan for Promotional Funds</li> <li>• Allocate Funds to Promotional Programs</li> </ul>	<p><i>Plan market/trade funding to align with company marketing strategies and set the foundation for measuring post-promotion performance.</i></p> <ul style="list-style-type: none"> <li>• Establish one plan for all promotional/trade fund spending. Plans may be defined in dollars, rates, units, volume, or other business-defined measurements.</li> <li>• Allocate funds by any promotional program type (invoice-related discounting, after-invoice rebates, lump sum payments, allowances, co-op advertising, marketing collateral, etc.) and even by territory, broker, product group, product, and market segment.</li> <li>• Funds, Commitments and Spends are now stored in <u>one</u> application to minimize redundancy and data entry errors – yet they are available to all participants in the process.</li> </ul>
<p><b>Forecast Analysis</b></p> <ul style="list-style-type: none"> <li>• Forecast vs. Sales</li> <li>• Sales Lift</li> <li>• Promotion as % of Sales</li> </ul>	<p><i>Evaluate the success of your new product launch.</i></p> <ul style="list-style-type: none"> <li>• Compare forecast vs. actual sales, and drill down through data to uncover the root of any discrepancies.</li> <li>• Determine areas of successful growth for new products and target similar markets/channels.</li> <li>• Assess the impact of trade funds/promotional spending on sales. What was the sales lift and how does the incremental margin compare to promotion monies spent? How many new customers did the product launch attract to the category?</li> <li>• Monitor and adjust promotional spending, as a percent of sales or margin, to remain in line with company guidelines.</li> </ul>

		Sales & Marketing Performance Analytics	Business Benefits
Growth Opportunities	<b>Cross-Sell &amp; Up-Sell Analysis</b> <ul style="list-style-type: none"> <li>Evaluate Customer Buying Patterns</li> <li>Exclusion Reporting</li> <li>Suggestive Selling</li> </ul>	<i>Increase revenues by introducing new or complimentary products to existing customers. Introduce higher margin products, where applicable, to increase profitability across multiple areas of the supply chain.</i> <ul style="list-style-type: none"> <li>Analyze and understand your customers' purchase behavior — by product and category — over any time period (week/month/quarter/year).</li> <li>Understand what cross-sell and up-sell opportunities are available by identifying what your customers AREN'T buying, by product and category.</li> <li>Identify complementary products that customers are not buying, as opportunities for cross-selling to customers.</li> <li>Compare customers' purchases to other similar, premium, higher-margin products that your broker/sales rep can then up-sell to customers.</li> </ul>	
	<b>Channel Growth</b> <ul style="list-style-type: none"> <li>Channel Performance by Sales and Margin</li> <li>Forecast Promotional Activities by Channel</li> </ul>	<i>Maximize channel growth by better understanding your most profitable channels.</i> <ul style="list-style-type: none"> <li>Identify channel profitability over any time period. Determine channels to expand with business development efforts.</li> <li>Define promotional activities that support channel growth strategies and forecast sales growth and margin impact of these promotions.</li> </ul>	
	<b>Geographic Growth</b> <ul style="list-style-type: none"> <li>Performance by Region, Territory, Market Area</li> <li>Alert for X% Change</li> </ul>	<i>Understand geographic factors that influence category and product profitability.</i> <ul style="list-style-type: none"> <li>Review and compare category and product performance by region, territory, market area, or other geographic grouping.</li> <li>Stay on top of changes in geographic performance. Drill through data to identify cause of any changes.</li> <li>Maximize performance by immediately identifying areas of trouble/success.</li> </ul>	
	<b>Market Analysis</b> <ul style="list-style-type: none"> <li>Market Share</li> <li>Actual Shipments vs. Market Consumption</li> </ul>	<i>Anticipate market trends and compare market consumption data to your actual shipments to identify discrepancies.</i> <ul style="list-style-type: none"> <li>Review consumption data next to your product and category sales, to compare high and low performing products/categories. Evaluate sales and share trends over any time period.</li> <li>Highlight any discrepancies between your shipment data and market consumption data. Understand product movement across markets.</li> </ul>	

	Sales & Marketing Performance Analytics	Business Benefits
Profit & Loss	<b>Revenue &amp; Profitability Analysis</b> <ul style="list-style-type: none"> <li>• Revenue &amp; Margin Growth</li> <li>• Handling &amp; Freight Impact</li> <li>• Rebate Effect on Margin</li> </ul>	<p><i>Review a complete snapshot of company revenue and profitability across key business areas.</i></p> <ul style="list-style-type: none"> <li>• View company revenue and profitability by any business combination: customer, category, product, channel, territory and more. Compare this year versus last year to identify trends.</li> <li>• Evaluate impact of Handling and Freight costs on margin, and determine when costs exceed expected levels.</li> <li>• Identify change in margin due to manufacturer's rebates, so that profitability can be more accurately understood and evaluated.</li> </ul>
	<b>Contribution Analysis</b> <ul style="list-style-type: none"> <li>• Top/Bottom Performance of Customers &amp; Categories/Products</li> <li>• Ranking Analysis of Customers &amp; Categories/Products</li> </ul>	<p><i>Identify your most profitable customers and categories/products</i></p> <ul style="list-style-type: none"> <li>• Pinpoint your top-performing customers, products and categories that are the most profitable. Identify what % of your business they account for.</li> <li>• Similarly, view the 10 highest and 10 lowest ranking customers and products/categories.</li> </ul>
	<b>Order Management</b> <ul style="list-style-type: none"> <li>• Open Order Analysis</li> <li>• Sales Potential</li> </ul>	<p><i>Track Open Orders to understand effect on revenue and on supply chain relationships.</i></p> <ul style="list-style-type: none"> <li>• Quickly identify credit hold orders to analyze impact on current and future revenue stream.</li> <li>• Evaluate current period sales potential and compare to forecast and budget to assess company performance.</li> </ul>
	<b>Returns Analysis</b> <ul style="list-style-type: none"> <li>• Returns as % of Sales &amp; Gross Margin</li> <li>• Returns by Customer, Product, Region</li> </ul>	<p><i>Minimize the impact of returns on profitability and supply chain relationships by monitoring trends and tracing underlying causes.</i></p> <ul style="list-style-type: none"> <li>• Analyze returns as a % of sales and gross margin, and evaluate trends in returns by customer, product, category, region and reason.</li> <li>• Improve sales and margins by identifying and eliminating quality control problems.</li> <li>• Improve supply chain relationships by identifying and resolving returns issues.</li> </ul>

	Sales & Marketing Performance Analytics	Business Benefits
Promotional Activities	<b>Promotions Planning</b> <ul style="list-style-type: none"> <li>• Create Budget for Promotional Funds</li> <li>• Allocate Funds to Promotional Programs</li> <li>• Average Selling Price (ASP) Analysis</li> </ul>	<p><i>Plan market/trade funding to align with company marketing strategies. Set the foundation for promotion performance measurement.</i></p> <ul style="list-style-type: none"> <li>• Establish one budget for all promotional/trade fund spending. Budgets may be defined in dollars, rates, units, volume, or other business-defined measurements.</li> <li>• Allocate funds by any promotional program type (invoice-related discounting, after-invoice rebates, lump sum payments, allowances, co-op advertising, marketing collateral, etc.) and by territory, broker, product group, product, and market segment.</li> <li>• Funds, Commitments and Spends are now stored in <u>one</u> application to minimize redundancy and data entry errors – yet they are available to all participants in the process.</li> <li>• Analyze ASP by product by period for a range of periods to understand trending.</li> </ul>
	<b>Promotions Evaluation</b> <ul style="list-style-type: none"> <li>• Spends vs. Plan</li> </ul>	<p><i>Gain a true picture of market/trade funding. Identify any remaining funds and minimize overspends.</i></p> <ul style="list-style-type: none"> <li>• Review fund commitments versus spends, by channel, category, product, territory and more.</li> <li>• Shift funds among promotions, as needed, to maximize impact.</li> <li>• Identify when individual fund allocations have been met, to avoid overspending.</li> </ul>
	<b>Promotions Effectiveness</b> <ul style="list-style-type: none"> <li>• Sales Lift</li> <li>• Spend as % of Sales &amp; Gross Margin</li> <li>• Baseline Analysis</li> </ul>	<p><i>Evaluate the impact of market/trade funding on sales and consumption to repeat successful promotions.</i></p> <ul style="list-style-type: none"> <li>• Determine promotional sales lift and evaluate changes in post-promotion sales and consumption patterns.</li> <li>• Calculate market/trade funding by program, as a percent of promotion sales or gross margin.</li> <li>• Evaluate promotion effect on baseline (expected sales without promotion).</li> </ul>

Sales & Marketing Performance Analytics		Business Benefits	
<b>Scorecard</b>	<p><b>Forecast Accuracy</b></p> <ul style="list-style-type: none"> <li>Forecast vs. Sales, by Geography, Category, Product, Channel</li> </ul>	<p><i>Keep a close eye on forecasts and modify as changes in business dictate.</i></p> <ul style="list-style-type: none"> <li>Track forecast accuracy by any relevant business level.</li> <li>Uncover root cause of variations from forecast so that inconsistencies can be evaluated and eliminated.</li> </ul>	
	<p><b>Budget Achievement</b></p> <ul style="list-style-type: none"> <li>Budget vs. Sales by Geography, Category, Product, Channel, Customer</li> <li>Budget Maintenance</li> </ul>	<p><i>Establish budgets and monitor achievement performance.</i></p> <ul style="list-style-type: none"> <li>Track sales against budget by any relevant business level. Uncover root causes of variance so that actions can be taken to maximize performance.</li> <li>Create, validate and store budget information for use in performance measurements. Budgets can be defined at a high, medium or low level and then "rolled" up, down or out to any other level that meets your business definitions.</li> </ul>	
	<p><b>Revenue Growth</b></p> <ul style="list-style-type: none"> <li>Revenue Growth by Company, Geography, Category, Product, Salesperson</li> </ul>	<p><i>Evaluate sales growth.</i></p> <ul style="list-style-type: none"> <li>Review revenue growth and performance across any time period, by company, geography, category, product, salesperson and more.</li> <li>Identify trends in product sales by comparing current sales to historical data.</li> </ul>	
	<p><b>Profit Goals</b></p> <ul style="list-style-type: none"> <li>Margin Analysis</li> </ul>	<p><i>Alert to situations where gross profit falls below established goals.</i></p> <ul style="list-style-type: none"> <li>Review gross profit across any time period, by category, product, salesperson and more to determine where profitability does not meet established minimums.</li> <li>Set alerts based on profit targets so that inconsistencies are readily apparent.</li> </ul>	
	<p><b>Inventory Turns</b></p> <ul style="list-style-type: none"> <li>Product Turnover</li> <li>Inventory Trending</li> </ul>	<p><i>Track inventory turns to evaluate product movement.</i></p> <ul style="list-style-type: none"> <li>Understand what products are NOT moving or which products are under-performing relative to accepted corporate standards.</li> <li>Identify products to be targeted for promotional activity or those to be further evaluated for potential elimination from the category.</li> <li>Compare inventory levels across different time periods to view inventory fluctuations as they relate to actual sales.</li> </ul>	

## About Silvon Software

Silvon Software is a global supply chain-focused business intelligence solutions provider headquartered in Chicago with more than 1,500 customers globally. The company's Stratum™ suite of enterprise performance management applications is designed to help companies strategically plan, analyze and manage the performance of their enterprises and supply chains. The product suite features hundreds of pre-built analytical views, KPIs and reports; forecasting and collaborative planning functionality; exception management capabilities; plus, a number of flexible information delivery options for sharing data internally and with external supply chain partners. For more information, visit [www.silvon.com](http://www.silvon.com)



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