Using Point of Sale (POS) Data to Deliver Customer Value in the Supermarket Industry through Category Management Practices

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The rapid proliferation in the use of technology through Point of Sale (POS) data by supermarket retailers has resulted in delivering value to consumers. This paper assesses how POS data is utilized by supermarkets implementing category management practices to deliver value to consumers. An interview was conducted with a category manager at a Northeast supermarket chain and examples are provided of how that chain uses POS information to enhance the value proposition to their customers.

INTRODUCTION

Providing customers with value has emerged as a dominant theme for business success for 21st century companies. Innovative companies that create maximum value for their customers will survive and thrive and will carve sustainable competitive advantages in the marketplace. Firms that do not provide adequate value will struggle or disappear (Weinstein & Johnson, 1999).

Gaining loyal customers by providing unique value is the essence of successful marketing. Today, a more careful attempt is being made at understanding how a firm's customers perceive value and then actually creating and delivering that value. Customer value, for the purpose of this paper, is the unique combination of benefits received by targeted buyers that includes quality, convenience, on-time delivery, and both before and after-sale service at a specified price (Kerin et al., 2011).

To enhance the delivery of customer value, category management has evolved into a core business practice in the supermarket industry. Category management (CM) is a process that manages product categories as business units and customizing them store-by store, so as to meet consumers' needs (ACNielsen, 1992). The objective of category management is to maximize the sales and profits of a product category while meeting needs of consumers.

Detailed data from Information Management Systems has been a key factor fueling the uptake and rapid progress of category management (Sharif, 2009). Since CM basically is driven by data, information technology (IT) offers an important enabling component (Gonzalez-Benito et al., 2008).

The rapid advances in information and communication technology provide greater opportunities for businesses today to institute, nurture, and sustain long-term relationships with their customers than ever before. The main objective is to transform these relationships into greater profitability by reducing customer acquisition costs, increasing repeat purchases, and charging higher prices (Winer 2001).

Point-of-sale (POS) scanner data provides category managers with a unique opportunity for analyzing consumer packaged goods trends and patterns by data mining techniques. Decisions of increased complexity are made possible by the amount of data available and marketing decision-making in the consumer packaged goods area benefits from advances in the collection of electronic scanner data.

The purpose of this paper is twofold: (1) To assess how POS data is utilized by supermarkets implementing category management practices to deliver value to consumers and (2) To provide examples from an interview conducted with a category manager at a supermarket retailer located in the Northeast part of the United States that implements category management demonstrating how using POS data results in delivering value to customers for that chain of stores.

DELIVERING CUSTOMER VALUE WITH CATEGORY MANAGEMENT

According to ACNielsen (1992), the benefits of using Category Management (CM) for supermarkets are the increases of the supermarket's awareness of consumers' needs and the change of their business strategies. CM involves finding what consumers want and providing it better than competitors. If retailers choose the right products for target customers and then price and merchandise them appropriately, a satisfied consumer should result who remains loyal to the store. Category management has evolved into being less product-centric and more consumer-centric and business executives understand that consumer behavior changes categories. The new mind-set of retailers is that if they are not getting a fair share of the category, they probably are not doing a good job of understanding consumers and satisfying their needs.

Category management is more than a way to manage a category as a business in today's business world as it is essential to operating a successful retail operation. The category management process can provide retailers a powerful competitive advantage if executed properly. The winners in the marketplace will be companies that are able to satisfy consumer needs by knowing how to blend data with insights and merchandising savvy (ACNielsen, 2006).

This trend has resulted in increasing the pressure on retailers to differentiate their offering from competitors by developing a reputation as the place to shop for certain product categories. If implemented successfully, differentiation can equate a retailer's name with brand equity by establishing a clear connection in consumers' minds between the name and the fulfillment of certain needs (ACNielsen, 1992).

"Category management empowers an individual within a company to operate a category like a business," says Ronald Ziegler, president and chief executive officer of the National Association of Chain Drug Stores. 'Through this process, you can identify the optimal product mix and stock each store with the specific products that demographics indicate customers wish to purchase" (ACNielsen, 1992).

Category management expertise certainly can lead to a competitive advantage by empowering retailers to make better business decisions that enable them to achieve financial objectives. Well-managed categories will enable retailers to keep their present shoppers and attract new ones as the nature of the grocery business today demands this (ACNielsen, 2006).

The changing marketplace is insisting on strategic programs by both retailers and manufacturers so both groups can increase their understanding of today's consumers and match product categories with consumers' diversified needs. Category management allows retailers and manufacturers to accomplish these objectives and improve sales and profitability (ACNielsen, 1992).

Category management is essentially comprised of determining what shoppers want and providing it better than competition. In this regard, the category management process solves the key issue of shopper erosion. If retailers offer the correct products for target customers and then merchandise and price the products appropriately, the result should be a satisfied consumer who remains loyal to the store (ACNielsen, 2006).

Category management is an essential component to the success of a retail operation and it is difficult to envision a retailer winning in the marketplace without relying on the direction that category management provides._Category management practices have proliferated because demographic and socioeconomic trends have fragmented the consumer packaged goods marketplace into numerous segments. Retailers have become largely interchangeable in consumers' minds due to a variety of stores offering similar merchandise, and individual retailers must work harder than ever to differentiate themselves from others. A retailer must establish an identity as the business that provides a particular shopping experience, and, in the process, must strive to make their organizational name a brand name (ACNielsen, 1992).

Increased implementation of category management is also the result of the new-product explosion in recent years. This has created a need for a scientific method which retailers can allocate finite amounts of shelf space and can determine the optimal product mix for a particular store. Category management provides retailers with a manageable and effective way to sort through the new-product explosion to determine which offerings and deals best serve their customers in specific categories and best support their company's overall mission, image and objectives (ACNielsen, 1992).

Benefits of POS Data to Category Managers

Retailers and manufacturers, to make sense out of the growing amount of market data now available, have increasingly relied on information research companies to help them gain a competitive advantage and to implement efficient strategies such as category management. Technological advances, applications and information not only have helped retailers understand their customers better, but also have given them greater power in their negotiations with suppliers. Seeking to increase profits by cost reduction, retailers are using scanner data to become more category-focused and to make smarter buying decisions (ACNielsen, 1992).

"Implementing category management without using scanning equipment in your stores is like trying to sell frozen foods without a freezer". The category management process works ideally when the category manager relies on an information system combining internal scanning data with third-party analyses and manufacturers' expertise. Internal scanner data can provide historical, chain-wide statistics on what products were sold, in what quantity, when, where and for what price (ACNielsen, 1992).

The role of managing categories entails a full amount of data consisting of points of sale, demographics, psychographics and a myriad of other types of data. Category management in essence is a data-driven, fact-based, analysis intensive business process. With a multitude of changes, category management is becoming increasingly hard to keep an eye on bottom line profits. The enabling element to help manage the category management process is information technology (IT). Establishing databases is a way to gain vital knowledge on the consumer, within the limits of information overload and invasion (Bessen, 1993).

Supermarkets must acquire the best possible consumer's knowledge if they want to be successful with their programs. With better knowledge of consumers, supermarkets can develop and design products that better satisfy consumers' wants and needs. Many stores are analyzing their scanner data to learn about their customers' shopping habits such as what products they buy, where and how often products are purchased. In order to personalize this information about 50 percent of grocery store retailers have implemented card-based electronic customer loyalty programs aimed at targeting services toward their best customers (Blair, 1999).

POS data offers several benefits to retailers in the following areas:

(1) Assortment Planning: Assortment planning functions utilize POS data to better plan the retailers' future account activities by looking at past performance. An assortment plan is designed to meet the retailers' sales and inventory turn goals and is a key to creating the appropriate product mix based on the customers' desires and shopping patterns. The result of an efficiently developed assortment plan for retailers is increased sales, fewer markdowns, and improved margins.

(2) POS Sales Analysis: POS Sales Analysis provides manufacturers with quick access to data about its products' sales at the retail level.

(3) Sales Forecasting: POS data offers benefits for sales forecasting processes by improving forecast accuracy. Pos data is more stable than retailer order data and shipment data and is based on actual consumption.
(4) Replenishment Plans: Vendor Managed Inventory (VMI) replenishment programs optimizes supply chain performance in which the supplier has access to the customers' inventory data and is responsible for maintaining the inventory level required by the customer. POS data is a key part in Vendor Managed Inventory replenishment programs allowing manufacturers to ship product to the retailer when the POS inventory balance triggers a replenishment order without guessing when the retailer will order products (Tolbert 2008-2009).

The key to success for all of the listed uses of POS data is to incorporate the data into the forecasting and planning process to benefit both the retailers and manufacturers. Benefits to retailers include reduction in stock-outs, improved inventory turns, increased sales, and improved merchandise assortment for a customer. Manufacturers benefit because of improvement in forecasting and replenishment planning, sales increases, lower markdown dollars paid to retailers, and lower retailer returns. In addition, manufacturers gain loyalty with its retail customers and the retailer gains loyalty with its own customers (the end consumers) by having the right products on the shelves strengthening the relationship between the two (Tolbert 2008-2009).

Retailers implementing category management utilize information and technology to listen to their customers similarly to the same way their predecessors took advantage of the neighborhood grapevine and over-the-counter chats with customers. Retailers are learning as much, and sometimes more, about their customers as the early storekeepers of the early 1900s knew about their customers by using electronic checkout scanners, computerized programs that provide local demographic profiles, computer databases that track consumer purchase behavior and software programs that integrate sales data with pricing, promotion, merchandising, and consumer data (ACNielsen, 1992).

With the increased use of information and scanning technology, a growing amount of other retailers are recognizing the benefits of category management and are implementing it to maximize sales and profits. POS data results in inventory management benefits and represents retailers' emphasis on providing fewer stockouts to customers with less inventory. This underlies retailer desire to improve inventory velocity and response to changes in market demand (Weber & Kantamneni, 2002).

Interview with a Supermarket Category Manager

An interview was conducted with a category manager at a supermarket chain located in the northeast with annual sales exceeding $3.0 billion annually to determine how POS data is used to deliver value to consumers. The supermarket retail chain has over 100 stores dispersed over New England states and is representative of typical United Sates national grocery markets.

Category management is implemented at this Supermarket retailer with the Grocery Department divided into 157 distinct and measurable product categories. The categories are divided based on consumer purchase patterns of similarities among products and key objectives of each category manager is to increase sales or profits of each category along with private label sales penetration.

There are several areas that POS data delivers value to consumers that patronize this particular supermarket:

(1) Assortment Planning- POS data is used by category managers to plan product assortments. Sales and profitability rankings of all sku's in a product category are gathered to ensure that high velocity items are provided with adequate shelf space and slow moving items are discontinued from future shelf sets. By using POS data for assortment planning, consumers benefit by having a selection of items demanded available and in stock. In addition, POS data is also used to determine the shelf location of products and the amount of space allocated to each sku.
(2) Sales Forecasting- The supermarket for this paper uses POS data to forecast future demand for items selling at regular retail price and at promotional prices. POS data facilitates

collaborate planning sessions between retail category managers and supplier partners to ensure adequate product is available to support consumer demand. This supermarket utilizes a high/low promotional pricing strategy and POS data allows for increased product availability to meet dramatic fluctuations in consumer demand during promotional periods while ensuring a low level of residual inventory after the sale ends.

(3) Shared data with suppliers- The supermarket used for this paper shares POS data with suppliers by using Vendor Managed Inventory (VMI) systems. By having access to POS data, suppliers are able to enhance the replenishment of product resulting in a higher fill rate and increased inventory turns. This process delivers value to consumers as products are in stock when demanded.

CONCLUSION

This paper has recapped the benefits that POS data provides category managers in delivering value to consumers. Category management is a customer-centric practice used to understand and meet consumer needs and is an essential component contributing to the success of a retail operation. As businesses seek to differentiate themselves from competitive offerings in the minds of consumers, progressive retailers realize that there is gold in the reams of data available from retail POS systems.

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