# 11 Merchandise and Category Management

**The purpose of this Chapter is to explain the different attributes of a retailer's merchandise mix and the aspects to be considered in merchandise planning. The Chapter deals with the merchandise mix, the development and importance of store brands and the integration of merchandise planning into the broader process of category management.**

## 11.1 Merchandise Mix

Product assortment is at the core of the retailing offer. A retailer's total product offering is called its merchandise mix or product range. At a strategic level, merchandise management includes the process of selecting the right items for a store and, at an operational level, ensuring that they are available when customers want to purchase them. The latter function is discussed in more detail in Chapters 16 and 17.

Items in the assortment are organised into groups called **categories**. **Merchandise planning encompasses selecting the right categories and the items within them.** The selection of the appropriate items for a store refers to the breadth and depth of the assortment, quality levels and the brand portfolio.

The lowest level of detail identifying a product in the retailer's assortment is the **stock-keeping unit** (SKU), which identifies a particular item. For example, a pair of trousers of a certain brand in a particular style, colour and size is one SKU. The number of SKUs at various retailers varies tremendously. While hard discounters often carry around 1,000 SKUs, a supermarket has 10,000-15,000 SKUs. A typical hypermarket assortment reaches around 80,000 SKUs. A DIY store can have around 50,000 SKUs and *IKEA*, as an example of a home accessories and furniture store, has 9,500 SKUs in a store.

Items in the assortment can be grouped by many different criteria. Product life cycle is one important classification criterion (Berman/Evans 2010, p. 392):

- **Staple merchandise** consists of those products that are carried permanently by the retailer and that have relatively stable sales over time. A hammer or a paintbrush at a DIY retailer or jeans and white T-shirts at a department store are examples of staple goods.
- **Fashion merchandise** refers to products that have cyclical sales because of changing tastes and lifestyles. Colours and cuts of clothing change, and fashion products offered this year are usually out of date next year.

J. Zentes et al., *Strategic Retail Management,* DOI 10.1007/978-3-8349-6740-4_12,

- **Seasonal merchandise** consists of products that do not sell equally well over consecutive time periods. Barbecues, skiing equipment, shorts and similar products have very high sales during one season of the year, but they are not sold at all in other seasons.
- **Fad merchandise** generates very high sales for a short time period. Often, toys and games, certain clothing accessories or certain music CDs are fads. *Tamagochis* and *Pokémons*, for instance, were classic fads. Movie merchandise (e.g. *Spiderman* accessories) also constitutes typical fads. Price sensitivity is often very low and ensuring supply, while demand is high, is crucial for success.

The product life cycle of merchandise is relevant because it emphasises that all products in the assortment need to be replaced after a (varying) period of time but that the time span to realise sales also varies. It also has a substantial influence on the ability to forecast demand.

Another frequently used categorisation of products in general is **food**, **near-food** and **non-food** items. Non-food refers to non-perishable general merchandise such as clothing, electronics, toys and so on. Near-food products are products such as detergents, toothpaste and shampoo, which are not food (e.g. they usually have no expiration date) but which are bought in a similar way to fast-moving consumer goods.

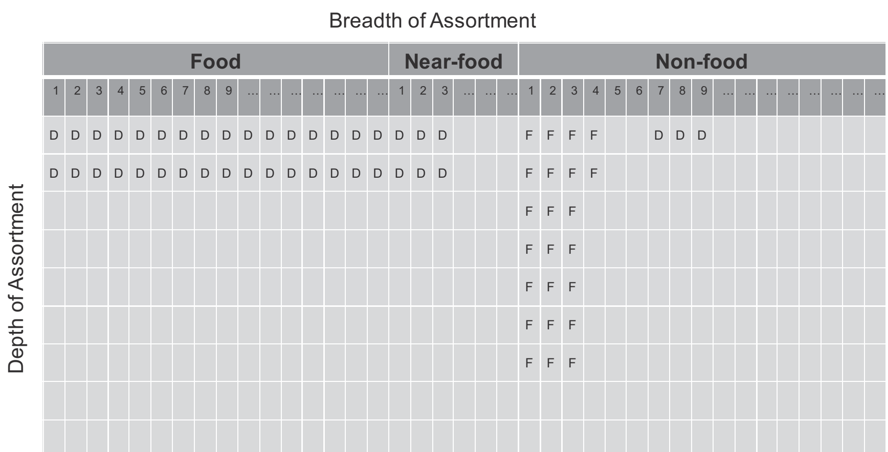
Merchandise can also be considered by **quality level**, which is closely related to **price positioning** (see Chapter 12). Should the retailer focus on premium products and target high income customers, should it offer standard products or focus on lower quality, less expensive items to target mainly (but not only) low income customers? Another strategic option is to cover different quality segments and thereby approach a broader target group. For example, while discount apparel stores (e.g. *KIK* in Germany or the Dutch *Zeeman*) focus on the low quality segment, clothing boutiques focus on the high quality segment and department stores usually cover different quality levels.

The breadth and depth of the assortment are the most commonly used criteria for structuring the merchandise mix:

- The number of product lines (or categories) the retailer offers is referred to as **the breadth (width) of the assortment**. Breadth is generally depicted on a scale from **narrow to wide**. A wide assortment usually has the advantage of appealing to **broad target groups**, and it makes **one-stop shopping** possible, i.e. the customer finds most of the merchandise he or she wants "under one roof". A drawback is that very wide assortments often result in a diffuse, unspecific store image.
- The number of SKUs in a particular category (e.g. brands, colours, tastes, sizes) is called the **depth of the assortment**. Depth is mostly measured on a scale ranging from **shallow to deep**. Deep assortments have the advantage of giving the consumer a good choice within the categories that appeals to customers with high product involvement. Shallow assortments may lead to a weak merchandise image, but a shallow assortment can often focus better on the fast-selling items in a category. Deep assortments often lead to many items with low inventory turns. When a category assortment is deep, it usually covers different quality and price levels.

Specialty stores and category killers are typical examples of retailers that have rather narrow but very deep assortments. Food discounters, by contrast, usually have a rather wide assortment (they cover all relevant food categories, some near-food categories and a few non-food categories) but they are characterised by a very shallow assortment, as illustrated in **Figure 11.1**. Traditional full-line department stores have both: a very wide and a rather deep assortment.

**Figure 11.1** The Merchandise Mix: Breadth and Depth of Assortment




D: Discounter (Food), F: Women's Fashion Boutique

However, retailers do not only have a choice between four different strategies, as a combination of these two dimensions (depth/breadth) would imply on first sight. As the example in **Figure 11.1** shows, a women's fashion boutique may carry a deep selection of a few fashion categories (such as evening dresses, blouses and trousers) and, in addition, a small selection of shoes, handbags and accessories.

## Complementary Demand

For the assortment decision, demand interrelationships have to be considered in merchandise planning. The consumer usually buys a shopping basket. The demand for certain items is interrelated. This can be the case simply because it is more convenient to do all the food shopping for the week in one store. However, complementary effects within the assortment can also arise because products are used together and thus there are advantages to purchase them together because they can be matched. Shirts and ties or paintbrushes and paint are typical examples of complementary goods.

As a practical consequence, retailers usually try to cross-sell to customers by placing such products next to each other, so that it is more likely that latent demand complementarities manifest in a joint purchase.

## Category Migration as a Trend

An increasing number of retailers use a combination of specialist and generalist approaches within their product offers. They are specialists in one or a few categories, but add other categories in which they only offer shallow assortments (Varley 2006, p. 10). Temporarily or permanently, retailers diversify by adding new products to their assortments that do not belong to their traditional merchandise (Zentes/Morschett 2004b). Supermarkets sell non-food products, DIY stores offer furniture and sports stores offer travel packages and food to list just a few examples. This development results in a blurring of retail sector boundaries.

There are a number of reasons for this trend. The average store size has increased continuously over recent decades, giving retailers more space to enter new categories. Many product categories have stagnated, making a move into new fields attractive. And some retailers wish to exploit their high customer frequency rates by selling new product ranges. Furthermore, from the perspectives of food retailers, non-food items often provide higher profit margins; thus, exploiting the customer frequency that has been created by their food offer to sell more profitable products is a reasonable way to enhance average margins.

This strategy is sometimes called **product scrambling** because it bears the risk of diluting the retailer's image (Varley 2006, p. 10). The concept of category migration can be compared with **brand extension** by a branded goods manufacturer. New categories that are related to existing ones, therefore, offer more potential with less image risk. Accordingly, successful category migration usually follows one of two diversification routes (Zentes/Morschett 2004b, p. 163):

- New categories and services are offered that are closely related to the core assortment. Examples include furniture stores that offer accessories, DIY stores that offer garden furniture and sports stores that offer skiing trips or sports nutrition. This even enhances the competence of the retailer in the eyes of the consumer and strengthens its image as a specialist.
- Or retailers diversify the assortment into new categories that appeal to the core target group of the retailer. Clothing retailers for young fashion that add cosmetics or music CDs to their assortments are good examples.

## Reduction of Variety as Emerging Trend

Adding new items to the assortment or eliminating items from the assortment is a fundamental and ongoing process for retailers. Studies of retail patronage have found repeatedly that the variety of an assortment is an important determinant of attitude towards the store and store choice, ranking only behind location and price. Shoppers are often looking for specific items. A greater variety and larger assortment increases the probability of finding what they really want. Consumers may also like variety because of a simple desire to purchase different alternatives rather than the same thing each time (Zentes/Morschett 2004b). This has led to many retailers continuously increasing their product assortments.

However, one of the most valuable assets of a retailer, which poses a severe resource limitation, is selling space. Thus, the retailer has to make choices. Furthermore, too much variety in the assortment also has some disadvantages (Hoch/Bradlow/Wansink 1999, p. 528):

- From the perspective of retail operations, an increasing number of SKUs usually increases retailing costs. Assortment complexity raises various costs, including those of sales, shelf space, planning, advertising, inventory and logistics. Discounters, for example, are very successful with a strictly limited assortment.
- From the consumer perspective, a large number of alternatives within a category can lead to consumer confusion and make the shopping process more complicated. Often, consumers would, instead, prefer "mental convenience".

Recent studies have shown that even radical reductions in assortment do not necessarily reduce customer visits to the store and sales may remain stable (see the overview by Boatwright/Nunes 2001). It is not the actual number of different products in a category that matters but the consumer's perception of variety that is relevant for store choice behaviour.

The elimination of different but similar versions of the same product in the assortment is often not perceived or evaluated negatively by the consumer. Therefore, many retailers are currently analysing their assortments and rationalising each category by eliminating underperforming items and brands (Zentes/Morschett 2004a, p. 2739).

## 11.2 Manufacturer Brands and Store Brands

### 11.2.1 Brand Ownership and Brand Management

In defining their merchandise mixes, retailers also have to decide on the mix of manufacturer brands (e.g. *Ariel*, *Nestlé*, *Philips*, *Ferrero*) and their own brands, so-called **store brands**. While manufacturer brands (in older literature often referred to as **national brands**) are owned, produced, managed and marketed by manufacturers, **store brands (**also called **private labels** or **own brands) encompass all product brands that are owned, managed and marketed by retailers**. The property rights for the brand in this case are held by the retailer.

### 11.2.2 Functions of Manufacturer Brands in the Assortment

For many retailers, manufacturer brands comprise the main part of their merchandise. *Danone* in food retailing, *Bosch* and *Black & Decker* in DIY retailing, *Adidas* in shoe retailing and *Sony* in consumer electronics are just a few examples. Retailers include manufacturer brands in their assortments for several reasons. The two most important ones are the pull effects and image effects exerted by manufacturer brands (Zentes/Morschett 2004a, pp. 2725-2731):

- **Pull effect:** strong manufacturer brands often enhance customer frequency in stores, because strong brands have loyal customers and their store choice is influenced by the availability of brands. Manufacturer brands are often heavily advertised in the media, so consumers have clear images of them. Brand equity has been built up from which retailers can benefit. Strong manufacturer brands are said to pull customers into the store, so that other selling efforts by the retailer can be reduced.
- **Image transfer:** the images of the manufacturer brands in the assortment influence the retailer's image. A retailer's store image can be improved when it is associated with manufacturer brands that are evaluated positively. The number of available manufacturer brands as well as strong anchor brands in the assortment can affect the retail brand positively (Mulhern 1997, p. 110). Positive effects can be expected to raise the perceived quality level and enhance certain intangible brand features such as brand character. A store carrying a good range of *Camel Active* clothing, *Levi's* and *Timberland* will be associated with other characteristics than will a store carrying mainly *Prada* and *Gucci*.

Furthermore, manufacturer brands are still often **innovation** leaders. Manufacturers invest heavily in R&D and introduce new products into the market. The examples of *Apple*, *Nike* or even low-tech products such as nappies from *Pampers* demonstrate that new product introductions with innovative technologies or features very often still stem from manufacturer brands. However, the suppliers of strong brands are well aware of these benefits and their heavy advertising investment has to pay off. They have a strong negotiation position with retailers, which often results in unfavourable procurement prices for the latter. Therefore, manufacturer brands usually yield rather **low profit margins** for the retailer (Ogden/Ogden 2005, p. 265).

### 11.2.3 Functions of Store Brands in the Assortment

The proliferation of store brands in many product categories is one of the major developments in retail merchandising strategy (Burt/Davis 1999; Mulhern 1997, pp. 109-110). Once viewed with scepticism by consumers in terms of quality, in most countries store brands are now widely accepted substitutes for manufacturer brands and regarded as being of comparable quality (Varley 2006, p. 82). The store brand market share (by volume) reached almost 50 % in Switzerland, more than 40 % in the United Kingdom and in Germany and more than 30 % in Spain and France (www.plmainternational.com), with an increasing trend.

The major argument of retailers for the introduction of store brands is the profit margins. For example, *Metro* announced in 2009 that one of the most important instruments to increase its profit margin in its hypermarket chain *Real* would be to enhance the sales share of its standard store brand *Real Quality* from 7 % to 14 %.

### Differentiation

Beyond the lower profit margins of manufacturer brands, one of the most important disadvantages of a manufacturer brand for a retailer is **ubiquity**, meaning that many other retailers offer these brands. Store brands, by contrast, provide an opportunity for differentiation. They are available at one retailer only and can, therefore, be used to distinguish the retailer from its competitors. The brand image of a store brand must be established by the retailer itself, but the brand can match the retail brand image of the retail company perfectly. The positive effects of store brands on retail image and retail profits have been proven in many studies (see, for example, Dhar/Hoch 1997, Corstjens/Lal 2000).

### Enhancing Customer Loyalty

Customer loyalty can more easily be built on store brands than it can on manufacturer brands. If a customer is satisfied with a store brand and intends to repurchase it, he needs to revisit the retailer. Conversely, if he is satisfied with a manufacturer brand, he can still switch stores and buy the product elsewhere. At the same time, store brands are not easily comparable across retailers. Therefore, price competition may be less severe. This factor, combined with lower procurement or production and marketing costs, often results in better profit margins for store brands (Corstjens/Lal 2000, p. 281).

For those retailers that carry manufacturer brands and store brands, a general trend can be observed towards reducing brand selection in order to avoid consumer confusion and enhance efficiency. Only the best manufacturer brands are kept in the assortment, while the others are systematically eliminated or replaced by store brands.

## 11.2.4 Positioning and Labelling of Store Brands

The first store brands were **generics**, that is very low cost commodity products, with no brand-like labelling, but plain white packages that contained only the name of the product ("sugar" or "milk"). Value store brands such as *Tesco Value* or *M-Budget* today often still have this appeal and clearly signal their no-frills positioning.

However, store brands today exist in all price and quality segments (see **Table 11.1** for examples). Store brands also cover different segments with different attributes, for example, organic food or healthy eating. For value store brands and standard store brands, price still plays a dominant role. The standard store brands are usually positioned as being of as good a quality as is the manufacturer brand, but for a lesser price, and are targeted at the price-conscious customer segment (Dhar/Hoch 1997, p. 211).

Premium store brands, by contrast, are often positioned above the manufacturer brand. Currently, many retailers are establishing a premium store brand segment. While all store brands have an impact on the retail brand, the premium store brands in particular have been introduced to improve the profile of the retailer and shape retail brand image.

## Creating Store Brand Portfolios

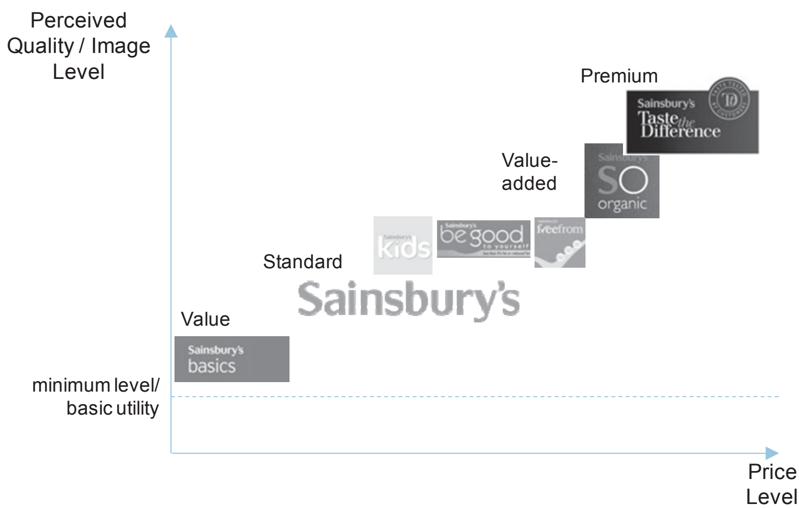
A recent trend in this field is the increasing segmentation of store brands to address even small target groups by offering several sub-brands that appeal to a wide spectrum of consumer needs. These store brand portfolios then help fulfil the heterogeneous objectives of store brands with a portfolio of different brands. For example, many food retailers now offer store brands for vegetarians (e.g. *Coop Delicorn*), for people with allergies (e.g. *Tesco Free From*) or for children (e.g. *Casino Famili*). Some retailers have introduced store brands that emphasise sustainability (*Tesco Greener Living*).

**Table 11.1** Examples of Differently Positioned Store Brands in the Portfolios of Four Retailers

| Positioning | Tesco (Food) | Coop (Food) | Castorama (Home Improvement) | Group Casino (Food) |
|---|---|---|---|---|
| Premium | Tesco Finest | Coop Fine Food | Colours, Form, MacAllister, Soltera, TorQ, Bodner & Mann, | Casino Délices, Casino Désir |
| Value Added | Tesco Organic, Tesco Free From, Tesco Greener Living | Coop Naturaplan, Coop Naturafarm, Coop Pro Montagna, Coop FreeFrom | | Casino Bio, Terre et Saveur, Casino Fairtrade Max Havelaar, Wassila (Halal) |
| Standard Segmented | Tesco Healthy Living, Tesco Kids, Tesco Carb Control | Coop Delicorn, Coop Weight Watchers, Coop Jamadu, Coop Betty Bossi | Performance Power | Casino Famili |
| Standard | Tesco | Coop | Casto | Casino |
| Value/Budget | Tesco Value, Country Barn (cornflakes), Creamfields (cheese), Daisy (washing liquid) | Coop Prix Garantie | 1er Prix | Premier Prix Casino |

Thus, the portfolio contains store brands whose main task is to improve the margins of the retailer (often the standard store brand), others who have the main task to improve the retailer's image (often the premium brands, the organic products and the fair trade products) and others who mainly should signal the price competitiveness of the retailer (often the value store brands). Others should attract specific target groups and build their loyalty (e.g. gluten-free products). **Table 11.1** shows the store brand portfolios of four selected retailers and **Figure 11.2** illustrates the store brand portfolio of Sainsbury's.

**Figure 11.2** Food Store Brand Portfolio of Sainsbury's




Source: adapted from Zentes/Morschett/Krebs 2008, p. 96.

*Castorama*, in a strategic restructuring of its store brand portfolio a few years ago, announced its intention to develop a clear three-layered portfolio: *1er Prix* as its budget brand, *Casto* and *Performance Power* as its standard store brands (*Casto* across many categories and *Performance Power* for power tools) and *MacAllister* (power tools), *Colours* (paint and decorative products), *Form* (storage solutions), *Soltera* (garden furniture), *Bodner & Mann* (electrical products, heating, etc.) and *TorQ* (gardening equipment) as its exclusive and upscale store brands. Whether all these brands are, however, perceived by the customer to be premium brands is not clear.

As with every portfolio, it is important that such a portfolio is balanced and that interrelationships are considered. If a portfolio is overfragmented, then cannibalisation may be strong and the critical mass within each different product brand segment may be too low. If the portfolio is too small, there may stay substantial niches that are not addressed.

## Choosing a Brand Name for Store Brands

As part of the branding strategy, it also has to be decided how closely the store brand should be associated with the retail brand. Sometimes, the retail brand is used as an umbrella brand for the store brand products (for example, *Tesco* uses *Tesco Finest*, *Tesco Organic*, *Tesco Value*, among others, as store brands), while in other cases the store brand is not directly connected to the retail brand. *Anna's Best*, the store brand for pasta at the Swiss retailer *Migros*, or *Kenmore*, a store brand of Sears for its home appliances, are examples. *Aldi*'s store brands are all of this type.

Considering labelling, there seems to be a clear trend towards using the retail brand as an umbrella brand for the store brands as well. For example, in 2008 *REWE* converted its former store brands *Erlenhof*, *Salto* and *Today* into "*REWE*" products and its ecological line was relabelled from *Füllhorn* to *REWE Bio*. *Carrefour* renamed its value brand line from *Numéro 1* to *Carrefour Discount*. *Migros*, in 2010, followed this trend and announced a new *Migros* store brand *M-Classic* that would comprise many established products that were in the past offered under different store brand names.

The reasons for this trend are evident: no retailer has an advertising budget that would allow establishing store brands alongside manufacturer brands in terms of strength. Fragmentation renders this attempt almost impossible. But by uniting the store brand products under an umbrella brand, the store brand can be strengthened and can be managed similar to a strong manufacturer brand. Furthermore, linking the store brand to the retail brand leads to a cross-fertilisation of both brands. Launching new products under the established brand name is easier and, simultaneously, a successful store brand is much better for the image transfer to the retail brand.

The downside of this strategy is that the image transfer is strong and – as with umbrella brand strategies in general – there is a risk that a single product with quality problems deteriorates the image of the total store brand portfolio. Furthermore, using the retail brand as an umbrella brand for differently positioned store brands may lead to stronger cannibalisation.

In particular for value brands, the optimal strategy is not yet clear. Some retailers link these store brands to the retail brand (such as *Tesco Value*, *Carrefour Discount*, *Coop Prix Garantie*) but others avoid it (such as *REWE*, which just labels these products *Ja!*). In a well-noted move, *Tesco* established a so-called discount brands range in 2008 (besides its *Tesco Value* range) in response to the success of discounters such as *Aldi*. These brands are not branded as *Tesco* but as, for example, *Country Barn* cornflakes, *Daisy* washing up liquid or *Creamfields* cheese. Different from the no-frills value store brand, these products are positioned as (much) cheaper alternatives to manufacturer brands and their packaging is simple but more upscale than that of *Tesco Value*.

### Category-specific vs. Cross-category Store Brands

Retailers generally have the choice to establish store brands specifically for each product category or across their total product range. The category brand strategy has the advantage that the brand message can be focused on specific product features and that a clear positioning compared with other product brands in this category is easier, while the second strategy has the advantage – as described above – that advertising spending can be bundled across many different categories.

In food retailing, the trend towards common store brands for different categories has already been described. In non-food retailing, store brands are often focused on specific categories, as the *Castorama* example above showed. *Walmart* and its subsidiary *ASDA*, as a further example, use the store brand *George* for their clothing assortment (separating this brand from, for example, a store brand that is used for yoghurt seems logical). *Sears* has a number of different store brands, among them *Kenmore* that is used for home appliances and which is by far the market leader in the USA, and *Craftsman* that is used for tools and power tools and which is also among the strongest brands in these categories.

## 11.3 Category Management

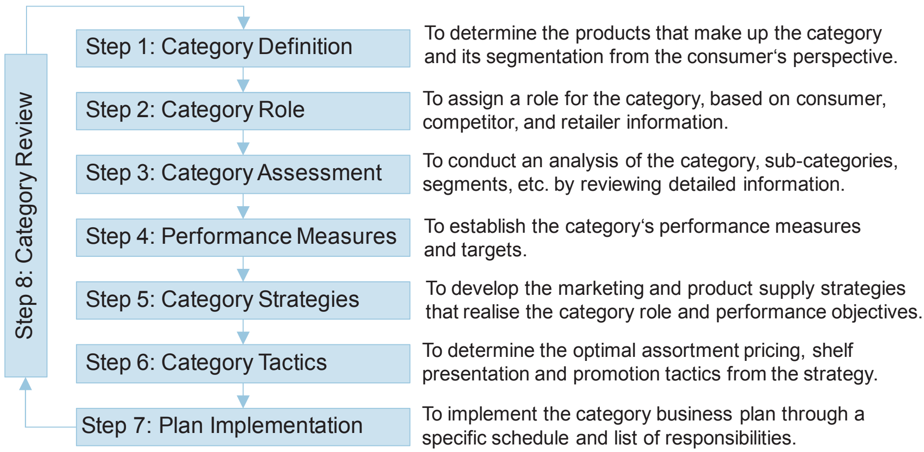
In recent years, the merchandising process has often been integrated into a more holistic management approach to retailing, so-called *category management* (see e.g. A.C. Nielsen 2006; ECR Europe 1997). **ECR Europe (1997) defined category management as a retailer/supplier process of managing categories as strategic business units, producing enhanced business results by focussing on delivering consumer value** (www.ecrnet.org). Each category follows a specific strategy, which is embedded in the retailer's overall strategy.

Category management has developed as a stepwise planning process for categories, and was first proposed by the consulting company *The Partnering Group* in the mid-1990s. Over the past decade, it has developed into a standard industry process, which has been promoted by national and international ECR initiatives. Standard processes support an easy knowledge transfer across different retailers and/or suppliers. The basic process is shown in **Figure 11.3**. This is still the most applied process, even though over time simplified processes have also been developed.

The first steps in the **category management process** are the most innovative because they include formulating a clear strategic objective for each category. These first steps distinguish the new process of category management from the traditional, more operational way of merchandising, because they position the retailer by providing a clear profile in its merchandise mix.

**Category definition** involves determining the specific SKUs that constitute the category, based on which products consumers perceive to be interrelated and/or substitutable. The primary aim is to develop a category definition that is based less on the procurement perspective of the retailer and more on the consumer perspective. Within the category definition, the category is also segmented into sub-categories. This segmentation should be based on the consumers' **decision tree** when purchasing in the category, that is the sequential consumer choice process. For example, the category "wine" could be segmented at the first level by price categories (premium wines, standard wines, budget wines), countries (French wines, Italian wines, German wines), colours (red wine, white wine, rosé) or brands. Another classical example is the question of whether baby lotions should better be placed in a category with other lotions (e.g. for women) or grouped with other baby products into one common category.

**Figure 11.3** The Category Management Process




Source: ECR Europe.

In the next step, a **category role** is assigned to each category, namely the purpose of this category for the retailer is identified. Therefore, it is analysed how the category fits into the retailer's company strategy. This facilitates managing categories according to their importance and allocating resources (such as marketing budgets, shelf space and management capacity) optimally. The four roles in the category management approach are shown in. Before assigning a role to a category, the category's importance to the consumer, retailer and competition should be analysed (A.C. Nielsen 2006, pp. 79-93).

After a more thorough analysis of the category and sub-categories (**category assessment**), category targets are set and relevant performance indicators (**category performance measures**) selected because different roles lead to different target indicators. The so-called **fair share** is an important indicator. This is the market share of a retailer in the category compared with its overall market share. This is an indicator of retailer performance in this category relative to overall performance.

**Table 11.2** Category Roles

| Role | Share of Categories | Role Description |
|---|---|---|
| Destination | about 5 % of categories | To be the primary category provider and help define the retailer as the store of choice by delivering consistent, superior consumer value. |
| Routine | 55-60 % of categories | To be one of the preferred category providers and help develop the retailer as the store of choice by delivering consistent, competitive consumer value. |
| Convenience | 15-20 % of categories | To be one of the category providers and help reinforce the retailer as the full-service store of choice by delivering good consumer value (i.e. to support the customers wish for one-stop-shopping). |
| Occasional / Seasonal | 15-20 % of categories | To be a major category provider, help reinforce the retailer as the store of choice by delivering frequent, competitive value. |

Source: The Partnering Group.

The next step is to decide on a marketing **strategy** for the category. Many different strategies are possible, including:

- **Traffic building**, attracting many consumers into the store, for example, by offering price promotions for frequently purchased products
- **Transaction building**, enhancing the average size of the shopping basket, for example, by exploiting demand interrelationships in space allocation in stores or encouraging impulse purchases
- **Profit generating**, enhancing the profitability of customers' shopping baskets by offering products with high margins and/or higher inventory turns
- **Image creating**, improving the retailer's image, e.g. by offering products that are sold uniquely at the retailer or offering an outstanding choice in the category.

At the level of **category tactics**, operational decisions on the assortment, pricing (see Chapter 12), space allocation (see Chapter 13) and other retail marketing instruments are derived from the strategy and the other steps in the process. The final steps of the process are **implementing** the plan and a regular **review** of the category's performance, including plan adaptation

## Cooperation of Retailers and Suppliers in Category Management

In such a category management approach, the importance of working together with the suppliers of a category has been emphasised from the beginning. One reason is that manufacturers usually have a deeper knowledge of the peculiarities of their categories because they frequently offer only products in one category and can invest time, efforts and money into gaining intensive consumer insights into it. By contrast, the retailer has knowledge of its customers' behaviour across categories, so that the two can merge their knowledge in the pursuit of mutual goals.

In the initial conceptualisations of category management, a far-reaching idea was that retailers could literally "outsource" the management of categories to specific suppliers, so-called **category captains**. These are leading suppliers in a category that would then manage the category (including their own products as well as competitors' products) on behalf of the retailer for the benefit of both partners. This concept has rarely been used in practice, however, because of the obvious risk that the supplier would strongly prefer its own product sales, even at the expense of its retail partner. However, retailers still often have preferred suppliers in a category, perhaps those that have the best contact with the retailer in terms of providing the retailer with information and making recommendations. These **category consultants** have a stronger influence on the retailer but the final decisions are still taken by the retailer. It is still essential for retailers to maintain (and enhance) the competence to manage their assortments. Retailers and manufacturers may have some common objectives in certain situations but, after all, they are still two independent companies with potentially diverging objectives.

## 11.4 Conclusion and Outlook

As with many other facets of retail management, merchandising is becoming more strategic and more fact-based because retail information systems provide the necessary data for analysing the effects of merchandise changes. Some trends have emerged in the past few years:

- Retailers are increasingly adding new categories to their merchandise (category migration).
- Retailers are reducing the depth of their assortments in each category, focussing on leading brands and eliminating underperforming manufacturer brands.
- Retailers are increasingly adding store brands to their assortments and store brand portfolios cover all segments, including the premium segment.
- In many cases, merchandising planning is integrated into a category management process, which supports the strategic retail positioning by assigning defined roles to a category and systematically deriving subsequent marketing decisions from the role.

The merchandising process is determined by the retailer's most valuable and limited resource: shelf space. For Internet shops, however, this constraint does not apply. Therefore, merchandise planning for e-commerce is different. Assortments can be larger and structured differently. Products can be placed in more than one category because this does not use shelf space, and constitutes an alternative way of finding the right product. More than one consumer decision tree can be modelled.

Increasingly, Internet shops customise their product offers to specific customers (e.g. *Amazon*). Even though Internet shopping has still not reached considerable market share in most retailing sectors, these merchandising processes could also have an impact on store retailing. Consumer expectations are changing because of the new technology. At the same time, multichannel retailers can use their Internet merchandising to gather knowledge about consumer behaviour (e.g. demand interrelationships) and subsequently use that knowledge to improve the merchandise management in their stores.

### Further Reading

A.C. NIELSEN (Ed.) (2006): Consumer-Centric Category Management, Hoboken/NJ.

VARLEY, R. (2006): Retail Product Management, 2nd ed., London et al.

## 11.5 Case Study: Decathlon[1]

### 11.5.1 Profile, History and Status Quo

In 1976, Michel Leclerq opened the first *Decathlon* store in Englos near Lille/France. Leclerq was a member of the Mulliez family that controlled retail chains such as *Auchan*, *Leroy Merlin*, *Pimkie* and *Boulanger*. However, these retail companies operated independent of each other and they were only linked via ownership. Upon their introduction, *Decathlon* sports stores were innovative and they had a great indoor area in order to test the products sold in the store. Leclerq's idea was to sell a wide assortment of goods under the same roof for nearly every type of sports and sportspeople; independent of age and power stage. The retail brand "*Decathlon*" was used to signal this wide assortment to customers. Furthermore, *Decathlon* had the aim to offer the products at the best possible price.

Only ten years later, *Decathlon* opened its first sports store outside France in Dortmund/Germany. Even though expansion into Germany was not a great success, **internationalisation** was further followed and the company expanded successfully into many different countries. Furthermore, the *Decathlon* **manufacturing company** was founded in 1986 to develop and produce products under the brand *Decathlon*. In 1996, *Decathlon* started its first so-called "passion brands" *Quechua* and *Tribord*.

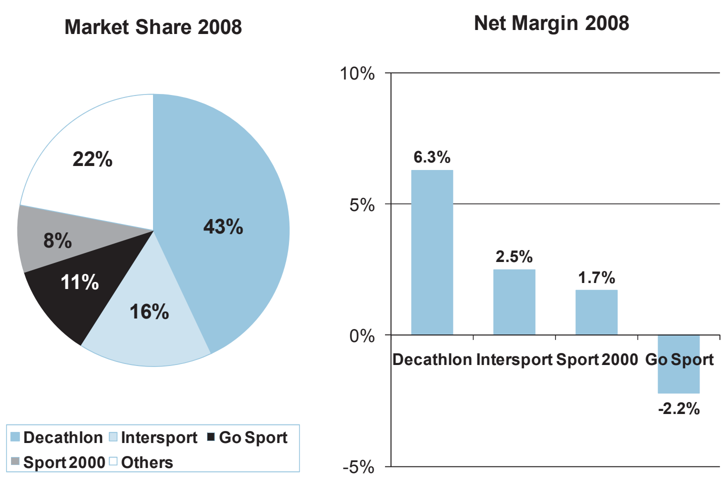
In 2011, *Decathlon* runs 535 stores with more than 40,000 employees in 17 different countries on four continents. It is among the top three sports retailers in the world. Moreover, *Decathlon* is now part of the *Oxylane* holding. Until 2008, all company activities were under the *Decathlon* brand but then a holding was created. "Oxylane brings together two different activities: creating international sports products and brands, and local and on-line retail" (Oxylane 2010, p. 2). *Oxylane* operates different retail brands. Besides *Decathlon*, which is

[1] Sources used for this case study include the websites http://www.decatlon.com, http://www.oxylane.com and various reports, presentations as well as explicitly cited sources.

still by far the most important retail chain of the holding, these comprise *Koodza*, *Cabesto*, *Chullanka* and *Terres & Eaux*. *Oxylane* also acts as a producer of sports products and owns the store brands of *Decathlon*.

In 2010, *Oxylane* achieved a turnover of 5.98 billion EUR (excl. VAT), which was an increase of 9.9 % on the previous year. In the five years between 2005 and 2010, the company grew revenues by almost 70 %. Even more impressive is the company's standing in its core market France where it achieves 47 % of its revenues. Here, the company has a market share of 43 % and, at least partially as a result of its store brand strategy, a net margin of 6.3 % which is more than double that of its closest rival.

**Figure 11.4** Performance of Decathlon in France




Source: Tanguy 2009, p. 37.

## 11.5.2 The Structure of Decathlon`s Assortment

In its standard format, **category specialist stores**, *Decathlon* has a sales area of approx. 5,500 m² on average and it offers ca. 35,000 articles. The assortment of *Decathlon* is organised into categories and each category refers to one sport. The categories of *Decathlon* are listed in **Figure 11.5**.

Considering the merchandising in each store, *Decathlon* is highly information-driven and rather centralised. Different from many of its competitors who decentralise such decisions to the store, *Decathlon*'s headquarters carefully analyses the catchment area of each store and based on this the depth of a category and its sub-categories are decided centrally. Those responsible for a specific department in a store then only get to choose a prefixed number of SKUs from a preselected product range. This strongly drives efficiency through a higher level of **standardisation** throughout the store chain, while adapting each store to the specific local context.

*Decathlon* offers a broad variety of goods at different price and quality levels to its customers. The merchandise mix of *Decathlon* is a mixture of **manufacturer brands**, for example *Adidas*, *Puma* or *Nike*, and **store brands,** which are now owned and coordinated by the Oxylane holding. Today, more than 60 % of *Decathlon's* sales stem from store brands compared with only 15 % at *Intersport*, its main competitor in France (Magaud 2009).

This strong focus on store brands was initially not the intended strategy of the company. Initially, it tried to sell manufacturer brands but had a problem sourcing them. Since the stores were considered not "chic" enough (Tanguy 2009, p. 38), brand manufacturers did not deliver or delivered late. For example, the renowned bicycle manufacturer *Peugeot* decided not to deliver at all. Thus, the **supply problems** forced *Decathlon*, in 1986, to create its first own brand, "*Décathlon*". At that time, it targeted the low price end of the product range but it took off and within ten years the brand stood already for one-third of *Decathlon*'s sales. In 1997, the store brand strategy changed and category-specific store brands (which *Decathlon* calls "**passion brands**") replaced the umbrella brand *Decathlon*. *Quechua* for mountain sports and *Tribord* for water sports were the first of this type of brand. Increasingly, the store brands are pushing manufacturer brands from the retailer's shelves.

Today, the remaining manufacturer brands serve *Decathlon* to take advantage of their pull and image effects towards the customer. Furthermore, customers simply expect global and well-known brands such as *Adidas* or *Nike* in a sports store. They also enhance customer frequency in the stores. The impressive power that manufacturer brands in sports have today can be seen in the annual *Interbrand* ranking, which estimates a global brand value of about 13.7 billion USD for *Nike* and 5.5 billion USD for *Adidas* (Interbrand 2010). However, from the perspective of *Decathlon*, at least two arguments may overcompensate the pull effect of manufacturer brands. First, *Decathlon*'s passion brands are not just cheap copies of manufacturer brands but they have developed into "real" brands themselves. Second, at least partly because of the high percentage of store brands in its assortment, *Decathlon* can earn higher profit margins, as **Figure 11.4** clearly shows.

In 1976, Michel Leclerq opened the first Decathlon store in Englos near Lille/France. Leclerq was a member of the Mulliez family that controlled retail chains such as Auchan, Leroy Merlin, Pimkie and Boulanger. However, these retail companies operated independent of each other and they were only linked via ownership. Upon their introduction, Decathlon sports stores were innovative and they had a great indoor area in order to test the products sold in the store. Leclerq's idea was to sell a wide assortment of goods under the same roof for nearly every type of sports and sportspeople; independent of age and power stage. The retail brand "Decathlon" was used to signal this wide assortment to customers. Furthermore, Decathlon had the aim to offer the products at the best possible price.

Only ten years later, Decathlon opened its first sports store outside France in Dortmund/Germany. Even though expansion into Germany was not a great success, internationalisation was further followed and the company expanded successfully into many different countries. Furthermore, the Decathlon manufacturing company was founded in 1986 to develop and produce products under the brand Decathlon. In 1996, Decathlon started its first so-called "passion brands" Quechua and Tribord.

In 2011, Decathlon runs 535 stores with more than 40,000 employees in 17 different countries on four continents. It is among the top three sports retailers in the world. Moreover, Decathlon is now part of the Oxylane holding. Until 2008, all company activities were under the Decathlon brand but then a holding was created. "Oxylane brings together two different activities: creating international sports products and brands, and local and on-line retail" (Oxylane 2010, p. 2). Oxylane operates different retail brands. Besides Decathlon, which is still by far the most important retail chain of the holding, these comprise Koodza, Cabesto, Chullanka and Terres & Eaux. Oxylane also acts as a producer of sports products and owns the store brands of Decathlon.

In 2010, Oxylane achieved a turnover of 5.98 billion EUR (excl. VAT), which was an increase of 9.9 % on the previous year. In the five years between 2005 and 2010, the company grew revenues by almost 70 %. Even more impressive is the company's standing in its core market France where it achieves 47 % of its revenues. Here, the company has a market share of 43 % and, at least partially as a result of its store brand strategy, a net margin of 6.3 % which is more than double that of its closest rival.

## 11.5.3 The Architecture of Decathlon's Store Brand Portfolio

As mentioned before, *Decathlon* offers a broad variety of store brands to its customers and covers different segments. Different from many other companies that clearly associate their store brands with the company name and that use an umbrella brand strategy across different categories, *Decathlon* has structured its store brands into categories; every single store brand stands for one form of sport and the brands do not overlapping within the assortment. Also different from other retailers, *Decathlon* uses the same store brand to cover different quality and price levels within the category. **Figure 11.5** shows the store brands of *Decathlon* and important manufacturer brands in each of the 17 categories. Each store brand focuses clearly on customer needs in the specific category, as the descriptions of some of the brands nicely illustrate (Oxylane 2009, pp. 13-19):

- "*Quechua* ('Mountain sports for all!'): in the realm of the mountains, *Quechua* couldn't have a more appropriate name than that of the courageous people dwelling amidst the peaks of the Andes in South America. Hikers, skiers, adventure racers, trail runners, climbers, mountaineers. Whatever your discipline, *Quechua* aims to make your mountain sport more enjoyable and safer."
- "*b'Twin* ('The cyclist's favourite brand'): creating a bike, at home on roads and pathways, comfortable, affordable, reliable and enjoyable: an impossible challenge? It would

seem not, because this bike already exists and it's called the *b'Twin*! It is also the name of *Oxylane*'s specialist cycling brand, which designs high performance, good-looking and hard wearing products for cyclists of all abilities. What better name to embody the brand's much cherished values: autonomy, passion and pleasure?"

- "*Kalenji* ('Find your rhythm, enjoy your run'): with every stride, an ounce of energy harnessed from the renowned runners of the high Kenyan plains transpires into *Kalenji's* products. The latter are designed to enable runners, whatever their ability, whatever their rhythm and wherever they run (urban or nature) to run free from the constraints associated with the sport, to run with pleasure."
- "*Simond* ('Chamonix – Since 1860'): since 1860, at the foot of Mont Blanc in the Chamonix valley (France), *Simond* has been designing and manufacturing ice picks, crampons and karabiners. These products are safe, ergonomic and enjoyable to use. The brand is a reference in mountaineering circles. It invented the modular blade ice pick for example. *Simond* is the *Oxylane Group*'s latest Passion brand."

The brand *Simond* has to be highlighted since it deviates from *Decathlon*'s usual strategy. In this case, the brand was not created by *Decathlon* but an established manufacturer brand in a specific domain (climbing material) was acquired and turned into a store brand.

*Decathlon* separates its store brands by using different names for every single brand. Each brand has a clear and distinct **brand personality**. Furthermore, *Decathlon* presents its store brands as a manufacturer would. Often, customers are not even aware that these brands are store brands. This gives them uniqueness but separates them far enough from *Decathlon* that brand-affine consumers that may generally dislike store brands still buy them. By separation, each one can be clearly positioned against the dominant manufacturer brands in the category. For instance, each store brand has its own website.

## Figure 11.5 The Categories of Decathlon – Store Brands and Manufacturer Brands

| | | |
|---|---|---|
| **Nutrition**<br>Store Brand:<br>aptonia<br>Important Manufacturer Brands:<br>Isostar, Weider | **Racket Sports**<br>Store Brand:<br>ARTENGO SERVING YOUR INSPIRATION<br>Important Manufacturer Brands:<br>Head, Prince, Wilson | **Cycling**<br>Store Brand:<br>b'twin<br>Important Manufacturer Brands:<br>Shimano |
| **Fishing**<br>Store Brand:<br>Caperlan<br>Important Manufacturer Brands:<br>Rive, Jaf, Havel | **Fitness/Competition Dancing/Martial Arts**<br>Store Brand:<br>DOMYOS<br>Important Manufacturer Brands:<br>Dupont, Tecno | **Equestrian sports**<br>Store Brand:<br>FOUGANZA<br>Important Manufacturer Brands:<br>Cherrier |
| **Archery/Dart/Boules**<br>Store brand:<br>GEOLOGIC<br>Important Manufacturer Brands:<br>- | **Golfing**<br>Store brand:<br>INESIS<br>Important Manufacturer Brands:<br>Callaway, Wilson | **Running**<br>Store brand:<br>Kalenji<br>Important Manufacturer Brands:<br>Adidas, Asics, Mizuno |
| **Team Sports**<br>Store brand:<br>KIPSTA<br>Important Manufacturer Brands:<br>Adidas, Nike | **Swimming**<br>Store brand:<br>nabaiji<br>Important Manufacturer Brands:<br>Adidas, Speedo, Arena | **Walking**<br>Store brand:<br>newfeel<br>Important Manufacturer Brands:<br>Adidas, Kappa, Asics |
| **Roller and Ice Skates**<br>Store brand:<br>oxelo<br>Important Manufacturer Brands:<br>Bauer, Bladerunner, Rollerblade | **Alpine Sports**<br>Store brand:<br>Quechua<br>Important Manufacturer Brands:<br>Petzl, Mammut | **Hunting**<br>Store brand:<br>SOLOGNAC<br>Important Manufacturer Brands:<br>Merlet |
| **Aquatic Sports**<br>Store brand:<br>TRIBORD DESIGNED BY WATER<br>Important Manufacturer Brands:<br>Liquid Force, Mares | **Snow Sports**<br>Store brand:<br>Wed'ze<br>Important Manufacturer Brands:<br>- | |

Overall, *Decathlon* heavily invests in advertising its store brands. In 2008, the company spent about 60 million EUR on advertising its brands, which is six times more than *Adidas*' advertising spend in France (Tanguy 2009, p. 38).

### 11.5.4 Developing and Producing Decathlon's Store Brands

The *Oxylane* holding controls the entire value chain for its store brands, from the product idea, to design and engineering, testing, production, logistics and sale to final customers through the retail network. To develop its store brands, *Decathlon* created a design department in 2001. This unit today employs 120 designers, recruited from the major international and French design schools. The portfolio of store brands was extended from the ten store brands that existed in 2001 by developing further brands, following the strategy of developing specific competences and lines by *Decathlon*. Furthermore, *Decathlon* created long-term partnerships with sportspeople in specific disciplines to develop and test the respective store brand products against the most advanced requirements of a champion (Pederzoli 2011, pp. 424-425).

One of the critical success factors of *Decathlon's* store brands is the R&D department, which introduces around ten major innovations every year. Its **innovations** are an important way of differentiation for *Decathlon's* store brands (Lecoq 2008, pp. 50-51). Some major innovations over the years have been:

- The "*2 seconds*" *tent* product line, launched under the *Quechua* brand. The tent will deploy in only two seconds when it is thrown into the air
- *Diabolo*, roller skates with an integrated braking system, launched under the *Oxelo* store brand
- *The Kage*, a foldable football goal launched under the *Kipsta* brand
- *Ygolf*, a golf kit to play everywhere, launched under the *Insesis* store brand.

Thus, while store brands are often characterised by lower innovation potential than are manufacturer brands, this is not true for *Decathlon*'s brands. For example, *Tribord* spends about 5 % of its sales on R&D. In 2008 alone, *Decathlon* obtained about 15 patents. Since its creation, 44 design prices have been won. The innovations even get imitated and plagiarised. For instance, *Decathlon* noticed 40 copies of the successful *2 seconds tent* (Magaud 2009).

After the turn of the millennium, the management of *Decathlon* decided to **decentralise the R&D activities** and relocate the R&D teams of the particular store brands to locations more specific to the kinds of sports concerned. This choice was motivated by the wish to give the different teams an environment that was more suitable to the specific kinds of sports than the headquarters near Lille/France (Magaud 2009; Pederzoli 2011). The first store brand team that was located away from the headquarters was the team of *Quechua,* which is now based in Domancy in the Mont Blanc valley. This area is the perfect place for designing and testing mountain sports products. The *Quechua* brand employs more than 150 people including 100 who live and work in the Mont Blanc valley. The following activities of *Quechua* are based in the Mont Blanc area: research, prototyping, quality, design, communications, merchandising, finance and administration, textile unit, hardware unit and glacier hiking unit. *Tribord*, the store brand for water sports, is located at Hendayle/France near the

Atlantic sea. A total of 120 team members work there on product creation and design, prototype development and industrial production, in the training centre and the store. *Solognac*, the store brand for hunting, and *Caperlan*, *Decathlon's* store brand for fishing, share a headquarters together in Cestas, close to Bordeaux/France. The Gironde region offers many different fishing and hunting environments. The *Solognac* and *Caperlan* headquarters occupies an 18 ha. site with a 6,000 $m^2$ building – including a 3,500 $m^2$ store for hunting, fishing and archery goods – a 1.5 ha. lake and 9 ha. of conservation forest. The site of the headquarters invites customers to try out the products. The headquarters hosts the design and supply operations of *Solognac* and the engineering office as well as the quality, design, communication and merchandising, purchasing, finance and administration departments of *Caperlan*.

In 2007, *Decathlon* slightly revised its strategy. Every brand team should still have its own specific location, but whenever possible and adequate for the specific sport, this should be within a radius of 50 km of the central headquarters in order to share synergies concerning competencies of R&D. Furthermore, all store brand headquarters obtained a store, where only the specific brand is sold, as well as spaces for playing sports, open for customers (Pederzoli 2011, p. 426). Following this revised strategy, *Domyos*, the fitness store brand of *Decathlon*, opened its headquarters in 2008 in Marcq-en-Baroeul near Lille/France. The heart of the complex is a fitness centre. The aim was to create an area where a great number of people could practice fitness sports and have fun. Furthermore, the *Domyos* design team can take advantage of the contact with fitness enthusiasts and develop new ideas and products.

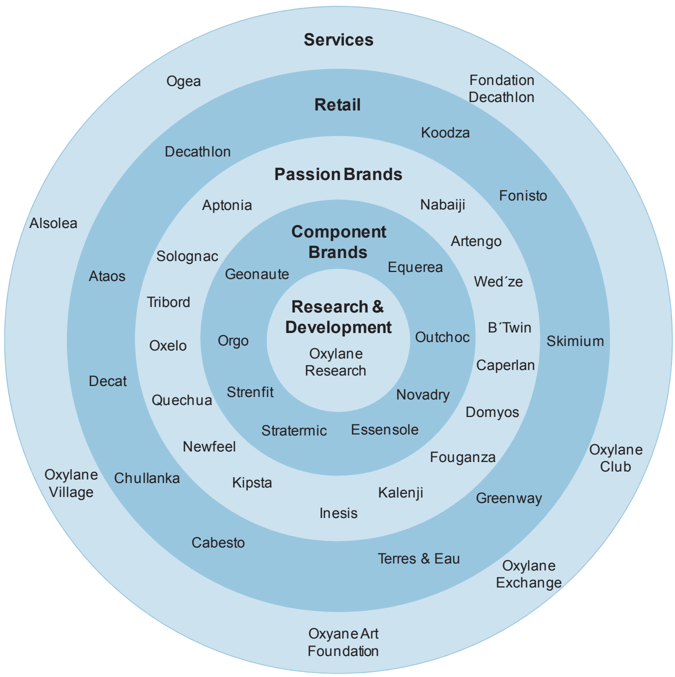
These examples show the focus on the optimisation of each store brand. Through the intensive contact with customers and professionals in the appropriate form of sport, the designer and developers of each store brand can better react to consumers' needs and learn what customers really want. Furthermore, the employees in the companies regularly practise the sport of the store brand they are working for.

Most articles of the store brands, more precisely two out of three, are produced in Asia, especially in China, Vietnam and Bangladesh, where *Oxylane* sources from over 250 **contract manufacturers**. This highly efficient production system with low cost locations also allows *Decathlon* to have gross margins of about 25 % for its own brands compared with about 15 % for manufacturer brands such as *Adidas* or *Reebok* (Tanguy 2009, p. 40).

## 11.5.5 An Innovative Strategy: From Retailing to a Product-centred Company Network

Beyond the store brand-focused merchandising strategy of the *Decathlon* retail stores, there is the highly innovative strategy of the company. In 2008, the *Oxylane* holding was established, which shifted the focus from being a retail company with strong store brands to being a company that creates sports products and brands and sells them via different (own) retail channels. R&D has been defined as its core competence (see **Figure 11.6**). Building on the strong image of the existing store brands and, furthermore, on the strong development competence for products and brands, the company now intends to grow its business around these product brands. Given the enhanced requirements for functional clothing in sports, so-called "component brands" (ingredient brands that label functional materials) provide an additional layer in the competence circle. An example is *Stratermic* for light-weight materials with thermal insulation.

**Figure 11.6** The Activities of the Oxylane Holding




Source: adapted from Oxylane 2010, p. 4.

The store brands that had formerly been exclusively sold at *Decathlon* are now in part of the merchandise mix of the other retail brands of the holding as well. These include *Terres & Eaux*, *Decat'*, *Cabesto* and *Koodza*. *Decat'* is a small format for town centres and shopping malls and the chain offers a 100 % "passion brand" range in a shop-in-shop layout that is build around the different brands. The most successful retail chain of the holding, besides *Decathlon*, is the sports discounter *Koodza* that mainly offers the store brands of the holding and that has 46 stores in eight countries as of January 2011. In addition to physical retail stores, a number of online shops have been created that target different customer segments.

Overall, this enables the company to follow a **multi-format strategy** without the risk of watering down the clear positioning of each retail brand (see Chapter 9).

This development is not at the core of the present case study because it goes far beyond a pure merchandising strategy. As a company strategy, it is probably unique in the world but it clearly confirms the general trend towards verticalisation and towards **retailers as network coordinators** (see Chapters 1 and 6).

### 11.5.6 Summary and Outlook

*Decathlon* was forced early in its history to build its strategy around store brands. From an umbrella brand strategy that offered low price products under the name "*Décathlon*", the company switched to category-specific brands and invested heavily to give its store brands real brand appeal. The terminology ("passion brands") indicates the emotional approach.

With its store brands, *Decathlon* covers almost all segments of its assortment and offers a wide range of products at different price points, from beginners right up to professionals, closely related to the aim to offer an appropriate price. More than 60 % of its revenues today stems from store brands. The rest of the assortment is filled with well-known international brands such as *Adidas* or *Nike*, which are still must-haves for a retailer and generate customer frequency.

Obviously, *Decathlon*'s strategy is observed with scepticism by manufacturer brands. The CEO of *Lafuma*, an outdoor brand whose sales at *Decathlon* have fallen from 20 million EUR to 5 million EUR in a few years states: "The stores do nothing to put us forward" (Tanguy 2009, p. 40).

*Decathlon* indeed has greatly reduced its dependency on manufacturer brands through its store brands. With these store brands, the company has managed to differentiate itself from its competitors and to create added value for its customers while achieving attractive profit margins.

## Questions

1. Why do you think, Decathlon has decided against a strategy of cross-category store brands? What would you recommend for the future?
2. What are the advantages and disadvantages of owning factories or coordinating production by contract manufacturing for a retailer? Discuss.
3. Do you think that store brands in the sporting sector are a future-safe strategy? Explain.