

Developing a Sustainable Competitive Advantage



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As I write this article, the Winter Olympics are being held at Turin, Italy. I am struck by the skill level of the participants, their competitiveness and how closely their events are contested. Races are being decided by tenths of seconds and in some instances by hundredths of a second.

These slim margins of victory are not limited to Olympic events and are seen in other athletic events such as professional golf, where winners are often determined by one stroke after four days and 72 holes of competition.

One can make the case that this degree of competitiveness and resulting margin of victory is evident in the business world, where U. S. companies, including those in the home improvement industry, continue to face many challenges including industry-wide consolidation, new technology and the leveling effect of increased globalization.

It is interesting to note that over the years certain manufacturers continue to grow, rising above these challenges and increasing their sales and profits with their current products while adding new products to their line. This raises the question—what are they doing differently to achieve these results?

This is a central topic examined in the popular business book *Good To Great* in which author James Collins and his team of researchers identified 11 companies that dramatically elevated and then sustained their performance. These companies

“generated cumulative stock returns that beat the general stock market by an average of seven times in 15 years, better than twice the results of a composite index of the world’s greatest companies, including Coca-Cola, Intel, General Electric and Merck.”

The good-to-great companies were evaluated against specific comparison companies that did not perform at that level as a means of identifying differences.

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The universal distinguishing characteristics of the great companies are described throughout the book. Also included are pertinent observations regarding the importance and use of information. For example, “the good-to-great companies displayed two distinctive forms of disciplined thought. The first is that they infused the entire process with the brutal facts of reality. The second is that they developed a simple, yet deeply insightful frame of reference for all decisions.”

SUSTAINABLE COMPETITIVE ADVANTAGE

It is apparent that information and its use in a frame of reference or process go hand-in-hand and can provide the basis of a sustainable competitive advantage.

Companies that previously were able to differentiate themselves on the high quality of their products now need to look elsewhere as the level of quality has risen across brands. Acceptable/high quality is now the price of entry into the marketplace.

In a world of increasing competition and consolidation, the currency of choice is access and influence. Information and its usage are key to both. They are found in the category management process, which is defined as managing product categories as strategic business units by focusing on the consumer through data-driven decisions on product mix, pricing, merchandising and shelf placement. (A further description of the category management process is found at the end of this article.)

Category management can be thought of as an overall road map that focuses on meeting the consumer’s needs by utilizing the available appropriate information. Purchase behavior is monitored using point-of-sale technology, while market research provides a gauge of consumer perceptions to determine if strategies are building the proper consumer image. It requires that the strategic role of each category and the market potential of each store or cluster of stores for each category be understood and managed. It operates on the principle of maximizing the categories profitability relative to inventory and space investments by providing the common language among participants throughout the channel to reduce costs and make more informed business decisions.

An important objective for manufacturers is to work with their channel members, e.g. distributors and retailers, to build profitable volume for the category in a manner consistent with their brand’s objectives and strategy. There is growing thought that today’s manufacturers have to be organized

to help their channel members sell to consumers. It is not just about reducing price. A manufacturer's service capabilities are becoming as important a component of its relationship and its product. It is predicted that service will become a primary factor in differentiating manufacturers in their ability to improve the marketing and merchandising efforts and profitability of their

customers. Category management represents a significant opportunity for manufacturers by establishing a relationship on a basis other than price, by offering market (and marketing) knowledge.

For the distributors and retailers, category management is a data-based decision process designed to significantly increase category volume on the top side and reduce operating costs on the bottom side to maximize profits on a store by store or store cluster basis. It is a means of using point-of-sale data and demographic information to, in essence, market the stores to consumers.

Shelf space planogramming is an important element in category management because it determines 1) what items to carry, 2) in what quantity, 3) at what price, 4) in what stores, 5) supported with what promotions, 6) and

at what location in the store.

It is becoming increasingly clear that in the home improvement industry, category management, when properly employed by the channel members, provides a clear and practical means to generate and sustain incremental category sales and profits.

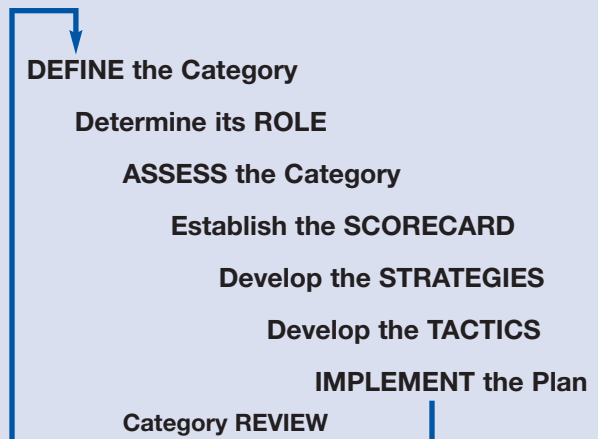
The building blocks necessary to implement the category management process are already in place as it is fueled by market information, technology and software applications. Importantly, there is sufficient critical mass of these key components to enable category management to be further implemented today throughout the home improvement industry.

Each year the ranks of channel members utilizing category management grow a bit larger. This trend will continue and, one might predict, will accelerate as channel members recognize the increased importance of this process and its fact-based decisions—particularly in light of a slowing housing economy, growing margin pressure and the need to increase comp-store sales.

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Category Management Process



Each of the steps in the process and the inherent use of information is briefly described below:

DEFINITION—the purpose is to determine and agree on which products/SKUs are to be included in the category and major sub-segments. It is important to include the consumer's perception of the products and the degree to which they are interrelated and substitutable when establishing the definition.

ROLE—determines how the category is to be positioned. For example, how does the retailer want the consumers to view this category in their store? Possibilities include Preferred, Destination Convenience and Seasonal.

ASSESSMENT—includes the acquisition, analysis and conclusions derived from appropriate information and should include the perspective of the consumer and channel members.

SCORECARD—establishes the performance measures in order to evaluate program execution. It includes such measures as sales targets, gross margin, return on inventory goals, service levels and promotional measures.

STRATEGIES—develops specific category marketing, product supply and even in-store service strategies. Options include Traffic Builder, Transaction Builder, Profit Generator, Excitement Creator, Image Enhancer and Turf Defending.

TACTICS—determines the optimal category Assortment, Pricing, Shelf Presentation, Promotion and Supply Tactics that enable the channel members to achieve their objectives.

IMPLEMENTATION—builds and implements the business plan for execution, including specific accountabilities and action timetables.

REVIEW—managing the intended results of the overall plan.