# Category Management: Challenges Inherent in Current Practices

BREWERS ASSOCIATION

Category captains funded by individual beer suppliers have a central role in the beer category management decisions at the nation's largest retail chains. The goal of this category management is to choose and display beer in a way that maximizes profitability for the retailer. Yet the category captainship practice contains the inherent risk that the captain will unduly favor its own company's products in product selection and placement decisions, in order to control a larger and better part of retailers' shelf sets than is objectively warranted.

While retailers may be able to mitigate some of this risk by remaining highly engaged in category management decisions or engaging a competitive supplier to act as a category validator, the fact remains that the interests of the captain and the retailer are not 100 percent aligned. This misalignment of objectives may lead to shelf sets that overlook some of the retailer's key priorities. For example, retailers relying on category captains may find that their shelves retain products that are no longer driving profitability, or that their shelves omit emerging brands requested by customers, that show the retailer is in touch with current trends and/or that offer the consumer a variety of price points to choose from. The outcome may be a shelf set that serves the interests of category captains at the expense of consumer choice and retailer profitability.

Retailers who make their own decisions without a category captain ensure that their shelves are set with their own objectives in mind.

## Effective Category Management Practices

- **Not every SKU from a "power brand" is a "power SKU."**
  While there are so-called power brands that deserve ample shelf space, not every SKU from a power brand is a power SKU. Retailers should consider the merits of each SKU individually. Slow-moving SKUs within power brands may be replaced to the benefit of the retailer. In many cases, alternate SKUs from alternate brands would perform better than superfluous package formats or line extensions.

- **Craft has significantly higher profit per case, market basket value and drawing power than premiums.**
  Retailers should give strong consideration to the compelling data behind craft beer. Craft products provide benefits that extend beyond their higher average profit margin. Craft brings new customers into the beer segment and, on average, craft drinkers purchase beer more frequently and at a higher volume per visit than standard beer customers. Furthermore, craft leads all other beer segments in profit margin per case and has higher in-basket rings than the beer category in general.

- **Retailers should consider incremental profit for the craft category and by brand.**
  Retailers should consider which segments are contributing a higher percent of profit than the percent of space they take up on the shelf. It might be helpful for them to ask what brands or segments are helping them grow their overall beer category profits and devote more space to the specific brands that are driving these incremental profits. Craft is a big winner in terms of these criteria and the benefits accrue directly to the retailer.

The Brewers Association urges chain retailers to become aware of the risks of unchecked category management practices. By introducing measures such as objective performance standards applied uniformly to all suppliers, carefully vetting category captain recommendations, or even utilizing in-house category management, retailers can better ensure that their shelves are set in accordance with their own goals.