

THE AUSTRALIAN CENTRE FOR  
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# Retail Therapy

Strategic Issues in Retail: Category Captaincy



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## Strategic Issues in Retailing: Category Captaincy

*Many retailers look to strategic partnerships to increase operational efficiency and drive sales. One such strategy is category captaincy arrangements, or strategies that involve outsourcing category management to one dominant supplier. However, these arrangements can be less than satisfactory in terms of expected strategic benefits, with research suggesting that careful management of one's network position may be crucial to ensuring positive outcomes of such arrangements. In order to shed some light on these captaincy arrangements, the ACRS conducted a series of qualitative interviews with category managers to gain an understanding of some of the associated benefits and disadvantages. We find that with careful management and a focus on strategic management, these arrangements can result in mutually created benefits.*

### **What is Category Captaincy?**

Category captaincy is defined as “an arrangement through which one supplier takes on a significant role in the retail management of the category, including the brands of competing suppliers” (Desrochers et al. 2003, p. 201). These arrangements effectively see a given retailer outsource the responsibility for managing supplier relationships (and often category strategies) to one key supplier. This status allows the category captain to acquire knowledge about the entire category, from sales volume to shelf-space allotments. These arrangements may give the category captain a dominant position and a greater degree of power when compared to other suppliers (Hoyt, 1999), therefore making their responsibilities increasingly more complex given they have to act in the best interest of the entire category, while also improving their own position and that of their own brands.

### **Who employs Category Captains?**

Category captaincy is commonly found in Grocery retailing, however, it is also found in other retail sectors such as DIY, Cash and Carry, Pharmacy, Book retailing, and even apparel. Ryan (2004) notes that Greensboro, NC-based VF Corp., historically lead the charge in Apparel retailing, being awarded category captain status in the jeans category with a number of its retail partners. Pat Garvey, VF's business process manager for retail floor space management, says the trend toward category management should be a boon for an apparel industry that juggles countless new styles each season. Category management methods have improved inventory management in the grocery/consumer products industries. "It's much more complex in apparel, due to the number of SKUs," says Garvey.

Internationally, Wal-Mart (and a growing number of other retailers) appoint category captains to manage the shelving and marketing decisions for an entire family of products. Wal-Mart then requires all other producers of this class of products to cooperate with the new captain. One obvious result is that a producer like Colgate-Palmolive will end up working intensely with firms it formerly competed with to find the mix of products that will allow Wal-Mart to earn the most it can from its shelf space. If Wal-Mart discovers that a supplier promotes its own product at the expense of Wal-Mart's revenue, the retailer may name a new captain in its stead.

### **Issues associated with Category Captaincy arrangements**

Concerns arising from category captaincy arrangements are generally derived from the position of power that a category captain is seen to achieve as a result of such arrangements. Internationally there are a number of concerns that have been raised by Governments or in the trade press, here we look at three of these issues and discuss a strategy that has been employed by retailers in an attempt to overcome these issues.

The first concern is often related to the resulting competitive environment. These concerns tend to be in two main areas: (1) a dominant manufacturer may use its role to exclude rivals or significantly increase their costs of competing, and (2) these arrangements may facilitate collusion among manufacturers (or even retailers) to fix prices and harm consumers. The captain may serve as a gatekeeper for the retailer, and create unfavourable conditions for other brands to operate freely.

A second issue relates to competition law. In the UK, the legality of category management has not been closely analysed, despite being discussed in a couple of merger cases. At one stage, it was planned to deal with it in the Supermarket Code of Practice but that has not happened to date. The issues involved in the practice of category management that could raise competition law concerns are:

- The supply by the retailer to the category captain of confidential information on all its suppliers in the category;
- The potential for misuse of the confidential information of its competitors by the category captain;
- The possibility that the agreement between the retailer and the category captain is a restrictive agreement in breach of competition law.

A third issue relates to the unlawful provision of information. For instance, in order to carry out its role effectively, the category captain needs information on what products the retailer is selling and whether the overall sales volumes for the category are appropriate. This in turn means category captain needs to know which are the poor performers in the category. The reason for poor performance could be price related or it might be poor quality, or it may simply be related to the way the category is displayed in the store or it might relate to bad publicity for products of the type in the category. The category captain may need to know more about prices of products and about complaints relating to the category and particularly for any poor performers within it. In order to assist the retailer with getting the most sales for the category, the captain will need to know about future trends. It may want to know about new product launches of its competitors. This can result in the category captain acquiring confidential trading information of its competitors.

In an attempt to overcome these issues, several retailers have employed a strategy of category captaincy validation. In these instances, retailers bring in another manufacturer/brand (generally, the second leading brand), to verify and validate the captain's plans and recommendations. In some cases, retailers may also hire third party advisors, with no vested interest, for a second opinion. A retailer may also decide to hire a category captain as a mere advisor, and keep all decision making to itself.

### **Insights from local retailers**

In order to shed some light on the issue of category captaincy locally, the ACRS conducted a series of interviews with retailers employing category captaincy arrangements in Australia and New Zealand. We spoke with a variety of large retailers, including supermarkets, department stores and large format bulk retailers (note that we provide anonymity to our interviewees in order to allow them to feel free to engage in frank and open discussion). Each interview lasted about 25 minutes and was conducted with the individual responsible for category captaincy strategy within the organisation. From our discussions, three specific insights arose, which seem important in the development of category captaincy arrangements:

- The need for category captains to 'come from the World of the consumer',
- The need for a captain to take a holistic category view, and
- The benefit to retailers of gaining access to consumer (category) insights through the category captain.

We briefly discuss these three insights and provide some relevant quotes from our respondents.

### *Come from the World of the consumer*

First and foremost, our respondents discussed the need for category captains to come from the World of *the consumer*, rather than the World of *the brand*. This often required the supplier to change their perspective and become willing to grow the category as a whole. This perspective is demonstrated in the following passage:

*“I think what we need to do is we need to be putting them [the category captains] in a position, and we will use Coke as a hypothetical example, where we are saying “Guys, how do we relay our carbonated beverages isles,” and obviously they’re coming around with all the world according to Coke, and we’re saying “Hang on a sec, let’s think about the world according to the consumer.” [...] So in other words let’s focus our whole drive toward the consumer. Because if we can keep our consumer happy, we can keep them coming back, surely that’s going to be more sustainable for us than just literally selling more Coke. And what we tend to do is take them all back a few steps, and drive the consumer view into them [the supplier]. By doing that we hopefully get to some kind of common ground whereby we can agree. Then we can start farming out plan-o-grams.”*

Whilst issues such as the competitive environment and competition law were not mentioned by our interviewees, they did suggest that the best category captaincy arrangements took place when more than one captain was involved in the process. One respondent preferred the team ‘Category Collaboration’ as a descriptor for the partnership that they, as a retailer, sought from their suppliers.

*“What we tend to do and we’ve found very beneficial is we don’t give everything to one [Category captain]. So if pet care is the example, we have one that does the cat plans, we have another that does the dog plans. [...] We’re about to do something the cereals, Kellogs and Sanitarium being the two big players, will be absolutely both involved. And the chance we will bring somebody like Hubbard in just to get a third view. And they’re absolutely aware of the fact that we’re talking to all three [...] To me category captaincy is all about taking your key suppliers, there’s no one that’s more important than the other, it’s about bringing them together in as much as they know you are, they you know you are sharing all data, so all data is transparent, and at the end of the day you have to make the final decision, that final call, and it’s getting them to support it.”*

### *A holistic category view*

A second insight from our interviews was the need for category captains to take a holistic view of the category. This was described as being important to drive the category as a whole.

*“Unfortunately when you start getting into the nitty-gritty, [category captains] know how to grow it from where they stand [but not the whole category]. [For instance] with Purina when you started to talk to them about pouch cat food, which is about 25% of the cat food market, they haven’t got a clue. When you start talking to them about our dog rolls, which is the wet dog roll market, which is about 47% of total dog, they haven’t got a clue. And then you turn around to them and say “But guys, you want to be the category captains, but we’ve already acknowledged that almost half of dogs, and 25% odd of cats you haven’t a clue on. So how can you be the category captain?” And then they turn around and say “But you shouldn’t be selling that rubbish.” And all of sudden you go down those type of roads, which doesn’t benefit anybody. So I think the reality is you’ve got to take each category, and it’s not going to be about category captain, it’s about the key stakeholders within that category.”*

### *Access to consumer insights*

A third insight derived from our interviews, and a significant benefit to retailers, is the access to consumer insights which are available from suppliers. Several respondents noted the fact that suppliers were often able to invest significantly more in market research insights for a particular category, and access to this information could often be invaluable to the retailer in driving sales.

*“The biggest benefit is being able to tap into their marketing arms, which do a lot of different marketing versus our marketing arm. Ours is all about pushing and researching our own brand, but obviously theirs is pushing their brands. I think one of the interesting things we learnt about beverage, we wanted to know if when a consumer walks in does he want Coke, and then he decides it’s got to be cola, or does he decide he wants cola, and then he decides it’s going to be Coke? I mean, just that process is a massive differencing way of laying out shelves. Because if the consumers say “I want cola, and it must be Coke,” then we would be putting all our Colas together. But if a consumer says “Hang on a sec, I want Coca-Cola brands,” which could include Fanta and Sprite, we’d be putting those together. It’s just one of these, that somewhere along the line one’s almost got to go and watch consumers yourself sometimes.”*

While this insight was often discussed in terms of consumer insights, a few retailers noted their limited resources in other areas that could be supplemented by category captains. The following passage demonstrates how one retailer has a lack of internal capability for space planning, hence draws on the ability of their category captains.

*“One area is the lack of resource within the retailer, so the retailer doesn’t have let’s call it a credible space planning ability. For example we have no space planning people, so we use the supplier, bring the supplier in, share the information with them, develop the relationship and for that they actually received credible space planning. Now lack of information by the retailer so that they don’t have their own insights department or really understand what the market is doing, it’s also obviously, not obviously but to some degree shared responsibility where the retailer is saying ‘come in to our business we need to work collaboratively to develop the category going forward.’ So there’s an opportunity to get insights from other channels both locally and overseas to develop the retailer.*

### **Implications for Retailers**

While this study draws on a small data set and is exploratory in nature, it does suggest that careful and planned management of category captaincy arrangements can result in mutual benefits to retailers and suppliers. It is obvious that such close collaboration between two organisations can bring competition issues into question. However it is apparent that retailers are looking to category partnerships to overcome these issues and drive benefit to the category rather than the brand. Strategic management of these relationships can bring significant new knowledge into a retail organisation and can expand the retailer’s access to consumer insights that are category, rather than brand, specific.

#### **About the author**

Sean is a Research Fellow at the ACRS and is involved in the centre’s commercial research activities. These activities include one-off commercial research pieces for retailers and suppliers, large collaborative industry research (such as the annual Retail Thought Leadership series) and academic research projects for the University. Sean’s background is in commercial market research across Asia-Pacific, having previously worked for TNS and Chant Link & Associates.

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