

CATEGORY MANAGEMENT FOR CHEESE

USDEC Summary: Dairy Case Management Toolkit

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As consumers' purchasing power increases, eating patterns change and demand for cheese rises. Consumers appreciate cheese because it's versatile, functional, convenient, tasty, nutritious and a good value. That presents an opportunity for all segments of the supply chain — manufacturer, distributor, retailer — to work together to expand sales and profits. Through the use of category management, retailers can properly align the cheese case to serve their customers.

UNDERSTANDING CATEGORY MANAGEMENT

Category management is defined as “a joint retailer-supplier process for evaluating and managing categories as separate business units by focusing on delivering consumer value and developing and monitoring targeted strategies for profitable growth.”

In short, category management is an evaluation tool that helps retailers understand the relative profitability of current and new

products. Understanding the category gives retailers insights into trends that can help increase sales.

Because shelf space is so precious, savvy retailers use category management to make decisions about products in the context of an overall strategy. For instance, if their strategy is to increase traffic, category management can help identify the best way to do so. Or, if their strategy is to boost the size of transactions, category management can reveal that as well.



THE CATEGORY MANAGEMENT PROCESS

Category management comprises an eight-step process:

1. Define the category
2. Identify the role of the category
3. Assess the category
4. Measure and monitor the category
5. Develop strategies
6. Develop tactics that are consistent with the strategies
7. Implement the plan
8. Review progress and adjust if necessary.

Common strategies include building traffic, increasing the size of transactions, generating profit, enhancing the store's image and creating excitement. These strategies can be addressed through different methods of pricing, promotions, merchandising and product assortment.

Category management brings together all the available information on product mix, promotional plans, retail pricing, space management and merchandising to create a process that can maximize sales and profitability. With this knowledge, retailers can answer key questions about product and category performance, competitive analyses, the effectiveness of promotions, the amount of shrink and many other aspects of marketing.



UNDERSTANDING THE CHEESE CASE

The dairy case is one of the most important sections in the store; more than two-thirds of U.S. shoppers buy something from the dairy aisle when they visit the supermarket.

Further, the appearance of the dairy case plays a big role in where consumers buy their food. Most consumers will shop at another store if the selection and cleanliness of the dairy case isn't satisfactory. That means retailers must demonstrate good sanitation practices, eliminate out-of-codes and communicate their quality assurances practices to consumers.

Cheese accounts for almost one-quarter of the dollar sales and profits in the dairy department of U.S. supermarkets. Cheese generates gross margins of 35-40%. Moreover, because it's relatively inexpensive to handle, the net margin on cheese (gross margin minus costs associated with stocking and selling product) is the highest in the dairy case — as much as 30-35%.

Because of its profitability, retailers continue to allocate more shelf space to cheese. A few years ago, 1.2-meter sections were the norm. Today, many stores have sections of 7 meters or larger. In the United States, the average supermarket carries 304 SKUs (stock-keeping units) of cheese.

In the United States, two-thirds of cheese sales are American, cheddar and mozzarella styles. However, the strongest growth in recent years has come from specialty varieties, driven by increased exposure to ethnic and other specialty cheeses in restaurants.

By volume, about one-third of retail cheese sales are slices and another third is sold as chunks. However, the fastest-growing form is shreds, which now make up more than 20% of sales.

About 80% of cheese sold in the United States is full-fat or regular type. About 16% is lowfat and just 4% is nonfat. Nonfat is declining in popularity, as consumers shun products that don't measure up to their expectations on taste, texture and functionality.

UNDERSTANDING THE CHEESE CUSTOMER

It's critical to understand where the growth in the cheese case is coming from, what the growth potential is and how to capture that growth. Part of this process is knowing who the typical shopper is, understanding current lifestyle trends, and being able to determine how these trends affect the category.

U.S. retailers face three major challenges in cheese marketing:

1. Less traditional meal preparation;
2. More competition for the food dollar;
3. Shifting demographics.

For instance, in the United States:

- Consumers are pressed for time and want to simplify their shopping trips. They're looking for shortcuts. They want home-cooked meals, but they often don't have time to make them, so they're redefining "home-cooked" by using components that cut preparation time. This is boosting demand for shreds and fresh-grated cheeses. Significantly, consumers are willing to pay a premium for this convenience. This trend is driven by greater numbers of women working outside the home, as well as longer commutes and the rise in single-parent families.
- Busy consumers are making fewer visits to the supermarket. And on average, shoppers spend just 44 seconds shopping the dairy case. Therefore, retailers' in-store merchandising must grab shoppers' attention.
- Consumers spend less time scanning newspapers for coupons and circulars. They also are less inclined to stock-up on bargains. Instead, they're looking for alternative discounting methods, like frequent-shopper programs.



- Consumers are increasingly more willing to experiment with different flavors and textures. New specialty items and varieties with a stronger flavor profile are demonstrating strong growth in the cheese case, warranting greater shelf space.
- The most important cheese purchase factors are freshness and flavor. Price is secondary if flavor and quality are assured.
- More than 80% of cheese purchases are planned. However, snack cheeses are considerably more likely than other types to be bought on impulse.
- Cheese is consumed both for snacking and as an ingredient. Therefore, retailers often promote snacking items on impulse displays and use cross-merchandising with other foods to promote use of cheese as an ingredient.
- Bulk cheeses are the most price-sensitive types of cheese, so they will respond best to aggressive pricing.

Cheese consumers in each market have different characteristics. For instance, in Asia, knowledge of cheese is limited to slices, pizza cheese and cream cheese. Meanwhile, in Mexico, cheese is consumed every day in a variety of applications by all age groups.

Consumers' lifestyle changes cause changes in their shopping behavior. Retailers who pay attention to these changes can adapt their cheese cases to meet the needs of their customers.

MERCHANDISING CHEESE EFFECTIVELY

Effective merchandising can facilitate planned cheese purchases, as well as encourage impulse buys. There are six vital components to effective cheese merchandising. The key is to link merchandising tactics to the demographics of the store's consumers. What works in one store or area will not necessarily work in another.

1. *Space/shelf management:*

Retailers must allocate the right amount of shelf space to specific products and determine the correct positioning of products within the category to maximize sales and profits. Basic strategies include arranging items into family groups; positioning stronger products or groups at the beginning, center and end of the case; mixing fast- and slow-moving items; and providing variety in the case. With the proper strategy, retailers can minimize out-of-stocks and out-of-codes and increase sales. Removing slow-turning items and replacing them with fast movers can boost sales, too.

2. *Displays:*

Cleanliness is essential for the dairy department, which is cited as the number-two department in the store for portraying store image. Therefore, cheese displays must be clean and organized. Secondary displays can be placed at the end or middle of an aisle to capture unplanned purchases, a tactic best used for snack and specialty cheeses. Cross-merchandising is another sales-booster; cheese can be paired with wine, crackers, chips, fruit, vegetables or pasta to create "meal solutions" that simplify meal preparation for shoppers.



3. *Point-of-purchase (POP) signage:*

POP materials are like “silent salespeople,” working to capture shoppers’ attention, educate consumers, encourage impulse purchases and generally add excitement to the department. Signage is used to highlight prices and promotions, convey preparation ideas and provide nutrition information. The more information shoppers have about a particular cheese, the more likely they are to make a purchase.

4. *Promotions:*

With the huge number of products on supermarket shelves today, promotions help make individual products stand out. Many stores use price promotions, coupons, frequent-shopper discounts, in-store specials, cross-merchandising and recipe ideas to draw attention to cheese. Frequent-shopper discounts, or loyalty-marketing programs, are gaining in popularity because they allow retailers to develop customer-specific marketing tactics. Retailers use loyalty marketing to identify their “best” or top-spending customers and appeal directly to their shopping habits. It rewards customers for desired behaviors and encourages changes in behavior that can benefit underperforming products and categories.

5. *Seasonality:*

Cheese can be merchandised and consumed at a variety of special occasions, such as major holidays, sports events, family gatherings, even changes of season. All these events provide opportunities to build cheese marketing programs that draw attention to the dairy case. For instance, in the United States, retailers promote sliced cheese at the beginning of barbeque season, snack cheese before major football games or back-to-school month, ethnic cheeses during cultural holidays and specialty cheeses at Christmas.

6. *Sampling:*

Sampling is the best way to introduce a new cheese product to consumers, particularly in overseas markets where the variety or brand of cheese may not be familiar to local shoppers. Consumers are far more likely to purchase a new cheese variety if they can sample it first. Further, properly trained demonstrators can answer consumers’ questions about the origin of the cheese, its characteristics and how it is used. Snack cheeses may be served plain, in cubes, or as part of a cross-promotion, such as with crackers. Ingredient cheeses are usually sampled as part of a cooked dish, so shoppers can understand how the cheese is meant to be used. Additional point-of-sale material, like recipe cards, also play an important role in introducing new products in a market.

Merchandising Checklist

Cases are neat, clean, well-lit
Cases are fully stocked
Signs are visible, neat and clean
All products are properly priced
Ad item signs are up
Soiled and out-of-code products are removed
Products are properly rotated
Secondary displays are set up and well-stocked
Sales order plans are set for coming weeks



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