

Coordination & Interaction of Trade Enterprises in the Process of Category Management

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Abstract. The paper aims to present the results of doctoral research hold by the author. Detailed management theory analyses were completed and were complimented by thorough trade industry analysis and finalized with survey arranged between wholesale and retail trade enterprises in Latvia. The results of the research approved that the wholesale organization management is able to favor from cooperation with retailer trade organization implementing category management principles. The survey was held beside wholesale and retail trade organizations. Statistical data analyses approved the hypothesis that during the organizations development process the effective use of category management principles is possible only in case when organization is following the quality management approach. The combination of quality management techniques and category management principles implemented in management processes of trade enterprise leads to performance enhancement.

Keywords: category management, retailers, wholesalers, TQM, management tools

1. Introduction

The goal of the author's research was to develop a practicable, easy in use and clear methodology that helps business executives to enhance the performance of trade enterprise. For the purpose of research the empirical and theoretical research methods, surveys and statistical analysis methods were used. The expert interviews and questionnaires were used to define the most popular management tools within the management of Baltic enterprises. Additionally the interviews helped to gather further necessary information and helped to clarify the opinion of business operating managers about different theoretical perspectives.

By bringing together the approved quality management theory principles with innovative techniques of customer relationship management and business units' partnership principles, the study provide an innovative, theoretical model, which gives the executives valuable methodology to arrange and develop management of organization under the proposed scheme and build competitive trade enterprises.

2. Theoretical Perspectives

During the research various theoretical perspectives that present the information about the classic management tools available for the managers, the tools that lead to improvement of coordination of interaction processes of trade enterprises were analysed. The statistical data analyses show that the role of wholesale companies within the Baltic States appeared to be already not so important as a couple of years ago. In order to keep and develop the position on the consumer market today it is very important for trade enterprise to develop the company's competitiveness. The improvement of the coordination within the interaction process in its turn helps the enterprise to enhance the performance of the organization. The management tools applicable in trade organization like retail and wholesale trade companies are of the most interest within the held research.

Different classic management tools as Fayol's approach discussed by scientists (Raid, 1995), (Morgan G. , 2006), SWAT analyses debated by researches (Slocum, McGraw-Hill, & McGill, 1994), (Weinhrich, 1982), Porter theory presented in works of experts (Porter M. ,1998), (Teece, 1997) (Wang W. , 2009) and

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McKinsey seven S model (Rasiel & Friga, 2002) observed. The discussion continues with the description of recent trends in management sciences and principles of modern management tools used by executives of organizations in order to enhance the performance of organization. Within the discussion the author glanced at the essence of such management tools as Balanced Score Card (Kaplan & Norton, 1992), (Brown & McDonnel, 1995), Knowledge management (Nonaka & Takeuchi, 1995), (Hazlett Shirley-Ann & Seamus, 2005), (Wang W., 2009), Growth strategic approach (Rigby D. K., 2009), (Majumdar, 2008), Activity Based management (Ghikajanu, 2008), (Trotta, 2003), Downsizing (Vollman) and more detailed attention was given for Category Management tool that ought to be one of the most popular tools within the executives of trade enterprises and different perceptions of this tool by researches (Vitek, 1998), (ACNielsen, 1992), (Hamister, 2007).

The special attention of author takes the Total Quality Management (TQM). While some of the researches recognize the TQM as one of management tools the author considers that TQM should be perceived as more than simply a management tool. TQM approach combined most of the characters presented in most popular management tools and contains also some additional features. The most important peculiarity of TQM is continuous improvement as a result of focus on quality. The author sees three basic directions of TQM features: strategy generation, continuous improvement and performance measurement via cost minimization and process optimization and finally focus on customer and performance enhancement via customer satisfaction. The author concludes that the use of TQM concept should be used as a primary philosophy for the creation of management policy of the enterprise. The manager should choose the most successful combination of management tools following the TQM concepts (Martinez-Costa & Jimenez-Jimenez, 2009), (Shewhart, 1931), (Charantimah, 2011), (Bergman & Klefsjo, 1994), (Deming, 1986), (Juran, 1995), (Kondo, 1993).

3. Trade Industry Analysis

Thorough trade industry analyses were held within the perceived research. The overview of world retail market presents the processes of globalization in retail industry and peculiarities of grocery retail and further narrows the analyses to Grocery retail in Eastern Europe and current situation in Baltic Grocery retail industry. The analyses of retail industry highlights the peculiarities of Latvian Retail grocery industry were almost half of the market share takes only to biggest retail companies. Additionally it is observed the tendency of constant growth of retail turnover and a high tendency of growth of turnover per one retail store. At the same time also sales area in squire meters per one shop also is constantly increasing.

The industry trends in world and Baltics' wholesale industry overview narrows to indication of wholesale industry in Latvia. The analyses of structure of wholesale industry in Latvia, wholesale turnover dynamics and official statistical data changes over the years in the retail and wholesale industries in Latvia completed with conclusion that in a parallel with total increase of retail turnover and increase of turnover per retail shop on a Latvian market it is obvious the tendency of concentration of wholesale suppliers that is faced by significant decrease of number of wholesale companies as you can see on Figure 1.

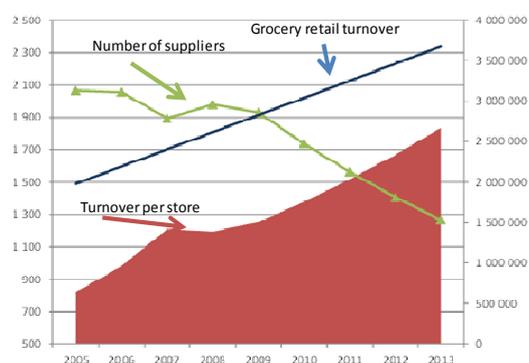


Fig. 1: Further trends in wholesale and retail trade (author prepared data analyses).

The sales turnover of grocery retail shops is increasing together with the trend of turnover growth in

whole grocery retail industry. Surely the world economic crises negatively influenced also the retail turnover growth, however still we can observe rather confident trend of growth in this industry. At the same time the number of suppliers' to retail industry is rapidly diminishing due to the mergers and acquisitions between the grocery wholesalers and manufacturing companies and on the other hand due to the substitution of home purchases from local wholesalers to the direct import purchases from the foreign manufactures.

In order to survive in the mentioned conditions the suppliers ought to find the possibilities to increase the competitiveness of the company. In the conditions of presented market situation it is obvious that wholesale companies should find the appropriate management tools in order to keep the market position, to develop competitiveness and enhance the performance of enterprise. Mentioned market conditions requires from executives to use TQM as a basic philosophy. Additionally Category management tool should be used as a basic management tool for the performance enhancement of the organization. In order to perform the successful coordination of interaction processes the author proposes the model of usage of Category management that together with effective coordination of interaction processes within the retailer and wholesaler organizations is based on logical objective to maximize the profit within the category of products and possibility for wholesale to increase the market share.

4. Research Findings

The research was held beside the managers of retail and wholesale organizations in Latvia. The aim was to define the awareness of managers about the management tools that help to increase the competitiveness of the organization. Within the research the awareness of 23 different management tools were tested. And the answers of suppliers (wholesalers) and retailers were compared.

The category management tool lied in a specific attention of the author as a specific management tool for trade organizations. It appeared that the Category management technique is helpful management tool to increase the competitiveness of wholesale enterprise. According to the survey results 36% of retailers and 57% of wholesalers are satisfied with the use of category management. Additionally the growth of employees beside those who ought to use category management principles and those who do not use the tool was observed and concluded that that the percentage of those who regularly or sometimes use the category management principles is higher beside companies were number of employees increased.

However some additions it is necessary to take into consideration. Firstly the implementation of category management is not enough for the successful result. It is necessary to take into consideration the basic principles of the quality management are essential for the development of competitive business. Following the TQM principles it is possible to divide also management tools into three basic categories – strategy generation, cost minimization and process optimization and performance enhancement by focus on customer satisfaction. While category management is a tool that helps to improve the performance of wholesale organization it is necessary to supplement the methodology by strategy generation tool and cost minimization and optimization tool in order to reach the successful result.

It is suggested for trade enterprises to follow the collaboration process between the wholesaler and retailer following the category management technique and implementing it as a retailer/supplier process of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer value as it is proposed by former researches. It is recommended for retailers to pay a special attention to category management process as managing strategic business units, thus aiming to increase the profit of a whole category. The suggestion for wholesaler in its turn is to remember that the aim of retailer is to maximize profit in a category. Taking this aspect into consideration and maximizing profit in a category for the retailer the wholesaler is able to increase turnover share in a specific retailer turnover category and as a result positively influence the turnover share of a wholesaler on a whole market.

Aiming to test if usage of TQM and Category management tools in organizations is dependent on number of employees and turnover of organization the statistical method T-test for independent samples was used. The t-test is the most commonly used method to evaluate the differences in means between two groups. The groups can be independent or dependent. The p-level reported with a t-test represents the probability of error involved in accepting our research hypothesis about the existence of a difference. Technically speaking,

this is the probability of error associated with rejecting the hypothesis of no difference between the two categories of observations (corresponding to the groups) in the population when, in fact, the hypothesis is true. (Wooldridge, 2003)

In the research sample 179 respondents were divided into two parts: the organizations where the number of employees/ or turnover is less than margin value k and those where they are over the margin value k . It is settled the hypothesis that the relative frequency of TQM or Category management usage in organizations under margin value k and over k statistically similar, that is equal. In case it is not possible to reject the settled hypothesis, then we are not able to assure that the relative frequency of TQM or Category management usage differs in organizations if we would choose as a break point number of employees/level of turnover k .

This conclusion of statistical tests allows us to assume that the highest break point for the existence of difference of relative frequency of usage of TQM in organizations (organizations with higher number of employees use the tool relatively more frequently) is 100 employees. At the same time testing frequency of Category management tool usage in organizations it was found that it is only 20 employees.

Similarly the dependence on turnover was tested and brought to conclusions that the highest break point turnover level while the difference of relative frequency of TQM usage exists is 1 000 000 LVL (1 422 871 EUR). But relative frequency of usage of Category management tool in organizations is 100 000 LVL (142 287 EUR).

It is obvious that coordination of processes in organization increasing the number of employees and turnover requires more difficult procedures. The most important peculiarity of TQM as it was already mentioned - is continuous improvement as a result of focus on quality. While Category Management is an effective management tool that is helpful for trade organizations with 20 and more employees and yearly turnover over 100 000 LVL it is already not enough to implement only Category Management in big organizations during the development process. The complex approach that is usage of TQM as a basic philosophy in combination with Category management is the effective techniques for the performance enhancement of trade enterprise with number of employees over 100 and yearly turnover that exceeds 1 000 000 LVL for trade enterprises in Latvia.

5. Conclusions

As a result the following conclusions were made by author:

1. The basic condition that requires enhancing the competitiveness of organization was defined. The market situation brings to the continuous decrease of wholesale companies and tough concentration on a wholesale market.
2. Concentration on the trade market of strong retail chains and biggest wholesalers lead to loose of competitiveness of smallest wholesalers and retailers.
3. Contemporary executives are lack of knowledge about available management tools.
4. Wholesalers are more ready to work with retailers with higher market share and do not wish to make an investments in cooperation with small retailers.
5. Category management is an important management tool that enhance the competitiveness of organization
6. The success of category management principles implementation is dependent on quality management principles compliance.
7. The opportunity of organization to strength and develop the desired position on the market and enhance the competitiveness of organization is dependent on the level of development of quality management in the organization.
8. By use of combination of TQM and Category Management approach principles is possible to reach competitiveness.

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7. References

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