

## What's in a Category?

Setting up the most appropriate categories and sub-categories in your point-of-sale (POS) computer system is one of the single, most important steps you should take to ensure that you get value out of your system.

If you get this step wrong, or don't carry it out at all, the retail reporting that your system can do will be rendered almost useless. It is worth investing some time and effort in this process, because any inadequacies in the category / sub-category structure will grow over time as new SKU codes are added.

The most common errors we see retailers make are:

- Failing to set up categories and sub-categories with logical relationships (e.g. 300 sub-categories and no categories)
- Setting up too many categories (these should be limited to not more than 30)
- Category names relating to manufacturer rather than the end-use of the products. (e.g. "Adidas" rather than "Cross Trainers"). A separate Supplier Name field should be used to produce reports or orders for one supplier's products.
- Category names relating to ingredients rather than the end-use of the products (e.g. "Minerals" or "Herbs")
- Categories that are too broad (e.g. Medicines). It is ideal to have individual categories that are not larger than 10% of sales.

It is a good rule to ensure that your POS system category tree relates to physical product locations instore. This makes sales and stock performance reports more meaningful and able to be used for category management (i.e. ranging and pricing to satisfy customers needs).

Another useful rule is to separate products that have significantly different pricing or margins into different categories (e.g. Digital Cameras and Digital Printing rather than a single Photographic category).

Once Categories and Sub-Categories have been established, it is important that these are well understood by staff, so that new products are added with the correct codes.

A category tree review should be carried out at least once a year so that new emerging categories are added and small or declining categories merged. One of the advantages of using RPM for performance reports is that historical results are dynamically updated to reflect any changes made to categories in your POS system.