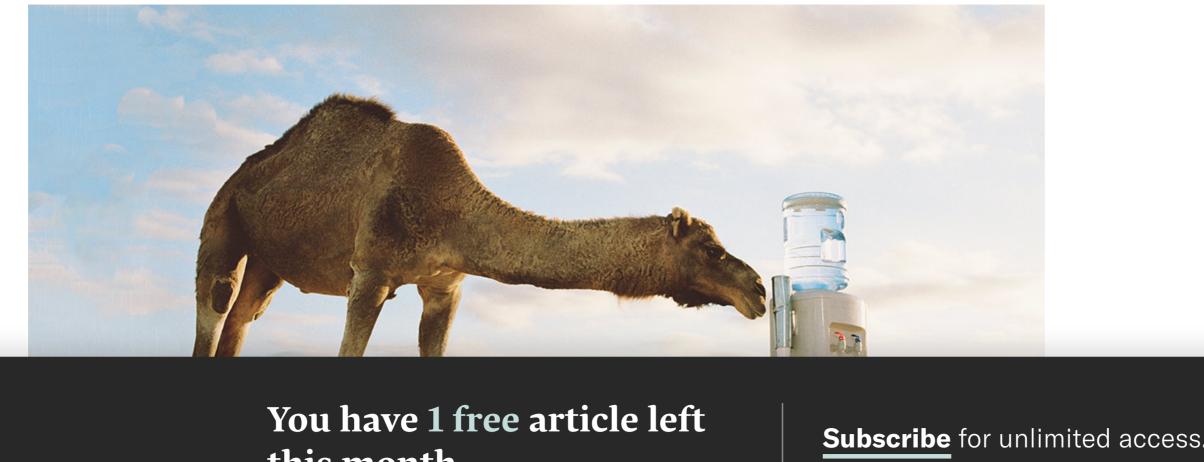
Case Selections

Diversity

## **Are You Ready to Change Your Target Customer?**

by Graham Kenny

March 28, 2019



Tim Flach/Getty Images

this month.

mistake, as Australian DIY Chain Bunnings found to its detriment. Bunnings' venture in... more

**Summary.** Companies expanding into new markets often purchase a local player and convert it

to their existing strategy, often changing the customer focus in the process. This can be a costly

## Successful businesses know exactly who their target customers are.

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They strive to cater to specific and strategic customer needs. They focus on the most important customers to the business, and sometimes even refocus on a more lucrative target market. But it's not uncommon for even successful businesses to become unfocused as they seek to grow by catering to a broadening spread of customer demands. And even with a conscious refocusing there are pitfalls; changing target customer isn't easy and it doesn't always go to plan. Take the highly successful Australian retail hardware chain Bunnings,

which dominates its regional market, with 330 trading locations across

Australia and New Zealand. Its target customer is a man involved in do-

it-yourself (DIY) building and repairs, or one working in a trade. This doesn't mean that women aren't catered for, they're just not "core." Bunnings' key differentiator is price. Its advertising slogan, "lowest prices are just the beginning," has been drilled into every Australian's head. In 2016, Bunnings thought: if our formula works well in Australia, why not in the U.K. and Ireland? Bunnings' holding company, Wesfarmers,

purchased the struggling U.K. hardware and homewares chain

the chain of 280 Homebase stores to the Bunnings model.

Homebase for \$AU705 million (about US\$503 million) with plans to

spend up to \$AU1 billion (about \$US714 million). The aim was to convert

But Bunnings' model, so successful in Australia, utterly failed in the U.K., and in May 2018 Bunnings' holding company announced that it was withdrawing from the U.K. and that it had sold Homebase for just £1 (about US\$1.30). Hilco Capital, the purchaser, has since announced that it will revert to the Homebase strategy. (Wesfarmers will also receive 20% of any proceeds from the subsequent sale of Homebase by the purchaser, Hilco Capital.)

The answer is that Homebase's customer was quite different from

What went wrong?

described by Homebase as "the home and garden enhancer: generally female customers/households with children, of ABC1 demographic, with above average income." (The ABC1 demographic makes up about 53% of the UK population and is described as higher, intermediate and junior managerial positions and professional occupations.) It's clear that Bunnings stripped out popular concession brands such as Laura Ashley far too quickly and ended up with a poor line in kitchen and bathroom products. Of course, it is quite possible to shift customer focus without disastrous

Bunnings' traditional target. She (note the gender change) has been

a key business question: Who is our target customer? We had all sorts. Large companies that built hundreds of homes a year; mid-size builders who constructed several homes per annum; and "mums and dads" doing small projects who shopped mainly on Saturday mornings. After some agonizing we narrowed our target customer down to "the professional builder." Out went the mums and dads. They were a distraction. As a result, our product range shrank beautifully. I say

"beautifully" because this refocus enabled us to reduce the stock of

timber in our warehouse, thereby releasing cash and cutting our

expenses. This refocus was one of the key ingredients in the

results. Some years ago, I was CEO of a company that made trusses and

frames for houses. The company was losing money and I had to confront

turnaround's success. The leading Australian retail department-store chain, David Jones, had a similar experience. DJs was in a slump some years ago and the CEO turned the business around by refocusing on its target customer. She was defined as the "30-to-54-year-old higher-income woman." She was already a customer, but she was not catered for sufficiently. DJs' core store offering had moved off message by trying to focus on everyone.

men weren't looked after; they just weren't the focus. The core customer was chosen because she was a big spender, i.e. profitable, and DJs brand, style and culture appealed to her. As a result, DJs received a profit boost. But there's a big difference between these examples and the Bunnings

experience in terms of the degree of change required in the customer

DJs began to concentrate on her. This is not to say that teenagers and

base. In the case of the truss and frame manufacturer we lopped off a sub-set of customers. In DJ's case they refocused the business on a set of customers they already had. Bunnings venture was quite different. It required a monumental shift in a customer base, from female home enhancer to male DIY builder, that affected multiple components of the company's strategic positioning. Take **brand**. Customers were used to the Homebase brand. Its colors are soft green and white. Bunnings' brand colors are dark red and green —

"brash" and "masculine" you might say. There's no mistaking the

Consider **product range**. Homebase's traditional customers couldn't

help noticing the sudden alteration in range from bathroom and soft-

change. It was literally in your face.

resonate with Homebase's ABC1 customer.

furnishings to home-improvement. Out went the china, homewares, installation and planning services. Bunnings admits it stripped out popular concession brands such as Laura Ashley far too quickly and ended up with a poor line in kitchen and bathroom products. Then there's **price**. Bunning's slogan, "lowest prices are just the beginning" has been a big winner for it in Australia where it dominates

the hardware market. The problem was Bunnings' price-focus didn't

Another impact: when you shift target customer you also shift the

competitors you confront. Homebase had endeavored to steer away from its biggest competitor, B&Q, which describes itself as "DIY supplies and accessories." It carries a low-price message. Guess what? Bunnings' drive to emphasize low price put it up against not only B&Q but Wickes — a U.S. hardware chain that has been established in the U.K. since the 1970s. Both cater for the type of price-sensitive customer that Bunnings was now shooting for. (The irony is that Homebase had previously moved away from this very target customer.)

Given that Bunnings underestimated the degree of strategic shift that

the new customer focus required, it was perhaps unsurprising that they

moved too fast to implement it. The plan had been to open some Bunnings branded stores as pilots and test different formats. Only after that would the proven model be rolled out across the network. Instead, the management brought in from Australia sacked the entire Homebase management team and about 160 middle managers as soon as they took over and immediately proceeded to convert the Homebase stores (by the time the consequences had become apparent, they had remodeled about 24 stores). Sticking to their original plan would have given them the option to pivot before much damage was done. As it was, they made a bad strategy worse. Identifying the target customer is a key part of strategic planning. The

choice determines how what you sell, how you brand it, what price you

charge, and whom you're competing with. And as your strategy evolves,

you may well discover that the customer focus of your business has

shifted as well. It can happen without knowing. You cater for this acquisition here, you adapt to those regional markets there, and soon you're trying to be all things to all customers. Or, as we saw with Bunnings, you may make a change in customer focus without carefully considering the ramifications, and end up losing a packet because the strategy that goes with your new target doesn't fit the new market you're in. Either way, not paying attention to your choice of customer and what it implies is a recipe for strategic failure. Graham Kenny, CEO of Strategic Factors, is a recognized expert in strategy and performance measurement who helps managers, executives, and boards create successful organizations in the private, public, and not-for-profit sectors.

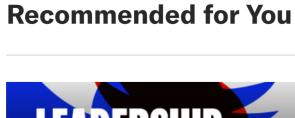


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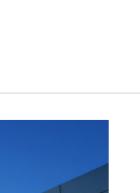
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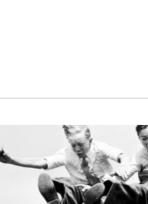
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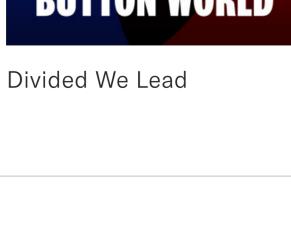
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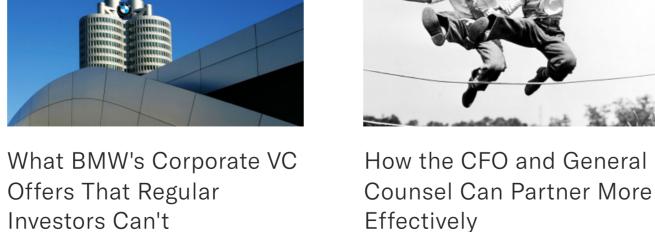
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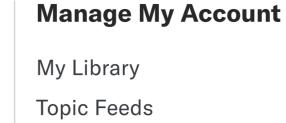
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