

Re-inventing Categories by getting inside the mind of the customer

You can never get ahead solely by studying the competition. In fact, the risk is that you not only do not beat the average, but only do as well as the below average since you may not execute as well. Any business which does not realize that a winning formula will be obsolete in a short time is doomed to extinction. Society and technology change and create new opportunities and new threats. The growth of the automobile accelerated the growth of the transistor radio. Introduction of alkaline-manganese batteries enabled the Sony Walkman to be practical.

In any category there is opportunity to change as long as the company's management focuses determinedly on the customer. This series will review how a few companies have seized opportunities to re-invent a category. We start by looking at retail, which like many other businesses has suffered from companies which have resisted change. Retail is a physical location where business is transacted. As a result, many businesses, from groceries to cable companies have a retail component. A subsequent paper will cover on-line retailing.



The UK retailer, Tesco in the 60s and 70s, still run by its founder, Jack Cohen, who set up a market stall in 1919, was very much of the “pile it high and watch it fly” mentality. Price was the only driver in its presentation to the customer. It was busy trying to climb the ranks and compete with supermarket chains such as Sainsbury. While it steadily improved its stores and supply chain economics, its real change tool place in 1994 when it decided to back a small husband and wife

team who come to Tesco with a new way to analyze customer data. Clive Humby and Edwina Dunn had the idea of analyzing behavior to determine what kind of person you are. Tesco has 13 Million Clubcard members. By analyzing purchase patterns the company can micro-segment and target very precisely. In its communications with customers, it sends out 6 Million versions of each. This means that some segments are segments of one. In addition it tailors its stores to the customer make-up. Are there an unusually high proportion of South Asians who shop there? Change the product assortment. Are there more than usual Senior Citizens? Lower the shelves.

Target took a different approach to re-inventing itself. Seeing that Wal-Mart had advantages of scale and superb supply-chain systems, it realized that it could not compete head on initially. So although it has done much to improve supply chain, it decided to create a differentiation which would be difficult if not impossible for any competitor to match or beat – consumer relevance and differentiation. By associating itself with selected designers and developing attractive store designs it created a shopping destination. It costs the same, or little more to execute a good

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design than a poor one. By showing its wares in a desirable environment, it allowed consumer of all income levels to enjoy the shopping experience. It recognized that low price does not have to be symbolized by ugly stores.

Apple – while Best Buy gets over \$900 per square foot, and Tiffany around \$2,500, Apple exceeds \$4,000. Now in 2001, when Apple first introduced its retail stores, almost all experts predicted ignominious failure. It did not happen,

and now, six years later, Apple has become the fastest growing retailer in history to hit \$1 Billion. When Apple decided to enter the retail business it was determined to neither ignore the expertise which already existed in the industry, nor to be bound by it. The company hired some leading retail experts,

but also built a mock-up store inside a huge warehouse (a tack used by Tesco in its US venture), test new ideas.

Among these they wanted to make the store a destination, and recognizing that customers want to buy, they wanted to make it easier. So Apple stores had the “Genius Bar,” in-store demonstrations



and freeing customers up from having to find a payment point, they equipped store employees with wireless, portable P.O.S. units so that customers can be checked out wherever they are.

Banks tend to copy each other. They have also focused on getting customers out of there in the



least possible time, with the minimum of interaction with staff. Commerce Bank of New Jersey took the opposite approach. Now with over 330 branches, management decided to welcome customers and get them involved in the location. For example, most banks hate change and make it difficult for customers to deposit it – usually requiring it be in rolls. Commerce

Bank designed and mass manufactured 10,000 low cost pinball machines. These were placed in the retail locations and customers were invited to play pinball. This brought them in to get rid of

their change and have some fun while they were doing it. After you have finished playing you get a receipt and can get the money back in bills, or deposit it. Commerce Bank does not keep bankers hours – it is open 7 days a week. It does not think as its locations as “branches,” but as “stores.” Commerce Bank does not look to other banks as role models, but to retailers, though ultimately it is driven by customers. The business has doubled in size every few years, and has expanded from its New Jersey roots to New York and Washington D.C.

Trader Joe has carved out a unique position in grocery retailing. Essentially it is a limited assortment, deep discounter (owned by Aldi, the world’s leading deep discounter), but it has positioned itself as something very different. While its prices are extraordinarily low, and most of its products are private label, it has positioned itself as upscale on a natural/organic heritage. The company develops new products itself, to create distinctive ones. It carries a wide range of fresh produce, meats, and dairy. Its staff members are all dressed in Hawaiian shirts and are smiling and friendly. If a check-out line becomes too long, another check-out is opened. Staff members are well-paid, but expected to do everything there is to do in the store.



Each of these examples shares two common characteristics. We could easily pick another five examples which have achieved as much, but if we kept on trying to add to the list we would find that they represent a tiny proportion of all retail operations. The two characteristics they share are:

- Willingness to learn from, but not use competitors as role models. Understanding that, as Alan Kay said, “the best way to predict the future is to invent it.”
- Fanatical focus on the customer. The customer is the source of all the money a business makes, so treating the customer so that they want to return is key. For example, too many “loyalty” or retention programs try to keep the customer prisoner. Few companies make a real effort to get inside the mind of the customer.

Re-inventing a category is not just an option, but a necessity. The average length of life of a Fortune 500 company is down to 18 years. Yet few companies even set out to create new paradigms. Most managers assume that “business as usual” will do just fine. This may have worked 200 years ago, but it does not now. Top management can and should get inside the minds of customers. In each of the companies above, that is a key function of the leadership, not just middle management.

The Partners of Max Brand Equity have many years of experience creating game changing strategies and with executing them. We have tools and techniques as well as the experience and creativity to add insight to analysis and data.

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