

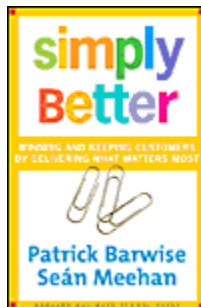
Bullseye: Target's Cheap Chic Strategy

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Target's outside-the-box strategy made it the No. 2 discounter behind you-know-who. "Tar-zhay's" success is examined in this excerpt from the new book *Simply Better*, from Harvard Business School Press.

by Patrick Barwise and Seán Meehan

In 2002 the Minneapolis-based Target Corporation leapfrogged Kmart to become the United States's second-biggest discounter behind the \$218 billion giant Wal-Mart. According to the *New York Times*, every successful step that Target took brought it into closer confrontation with the formidable leader of the \$430 billion general merchandise store industry.² Even with sales topping \$40 billion in 2002, Target could not achieve the same economies of scale as Wal-Mart. Still, the company was performing spectacularly well. Revenues had grown about 6 percent per year over the previous ten years, and Target had just posted a record operating profit margin of 8.4 percent in 2002 versus Wal-Mart's 7.6 percent. Target was carrying the same categories as Wal-Mart and Kmart. Despite its smaller size, it was able to thrive and coexist profitably with Wal-Mart while Kmart hobbled toward bankruptcy. Target's success was attributable to two key factors: the right kind of differentiation and distinctive marketing communications.



An early strategic choice to build a brand around the Target name fostered the company's steady growth. Gerald Storch, Target's vice chairman, explained that the company had faced three strategic choices to tackle the increased competition in the retail market: "to specialize, to become the low-cost producer, or to differentiate [itself]."³ The first choice would have thwarted future growth, and Wal-Mart was already a low-cost producer, so Target chose the third option and decided to reposition itself as a mass merchandiser of affordable chic goods.

Achieving the right kind of differentiation

In retailing, the brand is the full experience plus value for money. Great advertising might get shoppers into the store once—but only once if the experience and value for money do not meet expectations. Target avoided competing against Wal-Mart head-to-head and was perceived as outperforming it on specific dimensions: cleanliness of stores, shopping environment and experience, and shorter waiting time to pay (see [Figure 5-1](#)). Those criteria must have been important to all shoppers, especially those for whom price was not everything. It is hard to believe Wal-Mart did not also pay attention to those factors.

Interestingly, despite Target's dedication to match Wal-Mart's prices on like items, the company was still perceived as weaker on both everyday prices and advertised prices, as well as on variety of merchandise.⁴

Evidently, those perceptions have not held Target back. It has built a very attractive clientele. Compared with those of other discounters, Target's customers, referred to as "guests," are on average younger, better educated, and more affluent. The company has successfully associated its name with a younger, hipper, edgier, and more fun image than its competitors. Target is often

Wal-Mart spends 0.3 percent of its revenue on advertising. Target spends 2.3.

pronounced in faux French, "Tar-zhay," to connote its trendy sensibility. To understand how Target has achieved that reputation, we need to examine its successful branding activities.

Successful design partnerships and clever advertising

Target's business objective was to create an alternative to Wal-Mart's price leadership. It planned to do so through upscale discounting, a concept associating style, quality of products, and price competitiveness. This "cheap-chic" strategy enabled Target to become a major brand and consumer-shopping destination, articulated around two main interrelated branding activities: designer partnerships and clever, creative advertising.

Target entered high-profile design partnerships across merchandise lines, from apparel to kitchenware to food. In apparel, it partnered with Mossimo and Isaac Mizrahi and launched new lines that complemented its own private labels, such as Cherokee, Merona, and Xhilaration. Each brand has a specific positioning so that Target's overall assortment appeals to a broad customer base. Target's home assortment also includes brands created by famous designers that are available only in its stores. Philippe Starck's Starck Reality line was introduced in May 2002, followed by Michael Graves' Design assortment, which includes home and office decor products. Recently, in partnership with chef Ming Tsai, Target introduced Blue Ginger, a line of original food products combining Western dishes with a hint of Asian flavors.

Although many retailers have design partnerships, each partnership is unique. With a few exceptions, what matters is not that you have some exclusives with specific designers, but rather how you exploit them. For Target, its design partnerships provided a theme for its advertising, and creating synergy between the two main strands of its branding: design and advertising.

Wal-Mart spends 0.3 percent of its revenue on advertising. Target spends 2.3 percent. With the help of more than half a dozen agencies, it regularly comes up with innovative ad campaigns—a singular strategy for a discount store. Through consistent marketing and communication, Target has transformed its signature bull's-eye logo into a lifestyle symbol. The bull's-eye is recognized by 96 percent of American consumers and considered a brand icon in a class with Nike's swoosh and McDonald's arches.⁵

In 1997 Target ran a twelve-month national campaign in unusual spots: the Sunday magazines of the *New York Times*, *Los Angeles Times*, and *Chicago Tribune*, among others. Ads could also be seen on walls of buildings in New York and in bus shelters from Miami to Philadelphia.⁶ One showed a woman riding a vacuum cleaner through the night sky. Another featured a fashionably dressed woman holding a waffle iron with which she had apparently crimped her hair. Both ads used the tagline "Fashion and housewares" in the lower right corner.

Target is often pronounced Tar-zhay to connote its trendy sensibilities.

More recently, the "bull's-eye world" spots, displaying a funky retro pop culture place where happy blondes serve red bull's eye-shaped Jell-O molds, was awarded the Marketer of the Year award by *Advertising Age* nineteen years after Wal-Mart won.⁷

Target has also engaged in "dimensional advertising"; using unconventional marketing programs to reinforce its message. In 1998 it launched a bridal registry program, Club Wedd. The registry quickly became the largest in the world, surpassing Macy's long-established program and confirming Target's upscale positioning relative to Wal-Mart and Kmart. Other successful programs include:

- Sponsorship of the restoration of the Washington monument
- Take Care of Education program
- Partnership with Coca-Cola in the Color My World red line campaign
- Sponsorship of the CBS program *Survivor*

The success of Target illustrates the importance of distinctive communications in achieving long-lasting differentiation on anything other than price. Target is still a mass merchandiser, providing category basics such as low prices, comprehensive assortment, and shopping convenience. It is not a niche brand, but, through its commitment to design and innovative marketing communications, it has managed to depart sufficiently from Wal-Mart in terms of image and branding to build loyalty among a large and attractive segment of the American population and to grow its business extremely profitably. [WIK](#)

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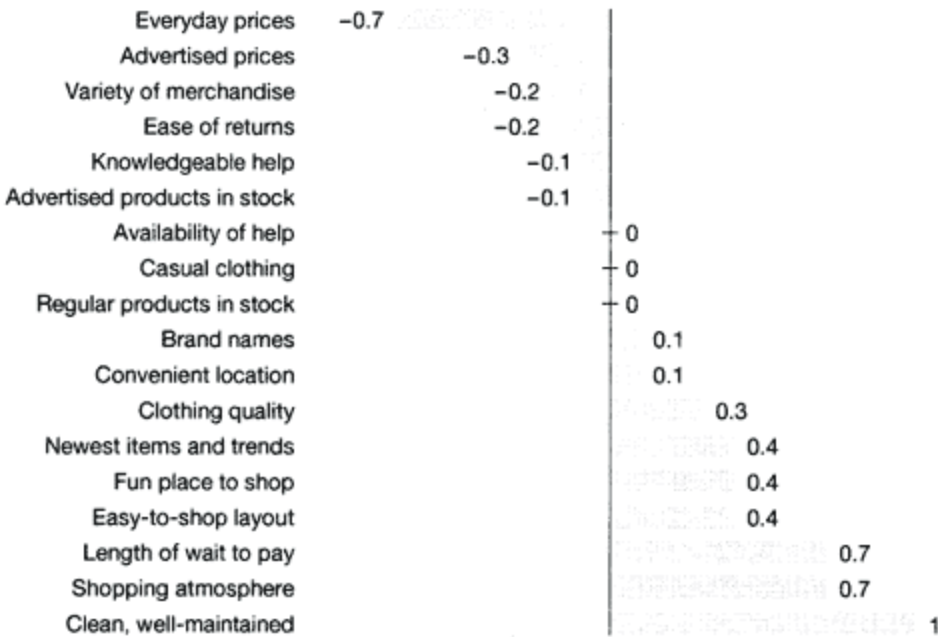
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Customer Perceptions chart

FIGURE 5-1

Customer Perceptions, Target vs. Wal-Mart



Source: Robert S. Drbul, "Target Corporation: Review of Retail Seminar Presentation" (Lehman Brothers, 7 May 2003).

2. Constance L. Hays, "Can Target Thrive in Wal-Mart's Cross Hairs?," *New York Times*, 9 June 2002.
3. "Business: On Target," *Economist*, 5 May 2001.
4. This figure is from a presentation by Doug Scovanner, EVP and CFO of Target, to Lehman Brothers Sixth Annual Retail Seminar (reviewed by Robert S. Drbul, of Lehman Brothers in "Target Corporation: Review of Retail Seminar Presentation," 7 May 2003, New York, 7) in which, among other topics, he described what consumers liked and disliked about Target relative to Wal-Mart. It is based on a 2002 survey of Target and Wal-Mart shoppers. All differences above 0.2 percent are statistically significant.
5. Alice Z. Cuneo, "Francis's Mission: Shore Up Target's Sales by `Owning Red,'" *Advertising Age*, 24 February 2003.
6. Robert Berner, "Image Ads Catch the Imagination of Dayton's Hudson's Target Unit," *Wall Street Journal*, 3 October 1997.
7. Alice Z. Cuneo, "Marketer of the Year: On Target," *Advertising Age*, 11 December 2000.