Why Distinctive Customer Targeting Is a Smart Strategy

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When former NBA superstar Magic Johnson was opening Starbucks coffee shops and a TGI Fridays restaurant in Los Angeles in the 1990s, he made changes to the product offerings. "I had to take the scones out of my Starbucks and put [in] sweet potato pie, pound cake, sock-it-to-me cake, peach cobbler," he told attendees of the October 2015 Stanford University Graduate School of Business "View from the Top" speaker series. "I was the first Fridays in the nation to ever serve Dom Pérignon, Cristal, and all the high-end liquors…. That's what my customer base wanted."

Here's what Andy Jassy, founder and current leader of Amazon Web Services (the Amazon business that rents out computing power and data storage), told the *Financial Times* about how he built that business: "We were targeting developers and startups who were not very well-served at the time [2003]." He went on to explain that he **design**ed AWS to be pay-as-you-go because his target customer could not afford an expensive monthly subscription, which was then the standard model.

These examples both illustrate an aspect of smart strategy that companies often overlook: choosing a unique definition of their target customer to gain a competitive edge or minimize head-to-head competition.

For example, AWS now accounts for half of Amazon's profits and is the company's fastest-growing revenue stream. This was hardly a sure thing when Jassy was asked to start the business. As he told the *FT*, "If one of the old-guard technology companies had built something like this and had been first to market, it would have been much harder for us to come in later." By 2010 every large IT company — from **IBM** to **Oracle** to **Google** to **Microsoft** — had caught on. But Jassy had a seven-year head start, in large part because he chose a target market that allowed him to stay under the radar.

Likewise, Magic Johnson chose to target minority neighborhoods that were underserved by popular chains. As Johnson told his audience at Stanford, "We were short retail options. We were driving an hour…outside our community to shop." Southwest Airlines created a distinctive growth path for itself by defining its target customer as bus and car travellers priced out of air travel. Sir Brian Pitman, the former **CEO** of Lloyds TSB, turned Lloyds from the U.K.'s banking laggard to its leading bank by being the first retail bank in the country to carve out "high net worth" clients as a separate business and to drop large companies as a target customer. When everyone else was focused on the wealthy few who could afford an automobile in 1910, Henry Ford turned his company from an also-ran into the industry leader (with more than 60 percent market share in 1921) by focusing on making a car for the little guy.

Of course, sometimes strategy works in the other direction: You choose your value proposition and let customers self-select. Consider Starbucks. Howard Schultz built the company by offering high-quality espresso and milk drinks in a comfortable setting that could serve as a "third place" between office and home, and he invited anyone and everyone to join in. He essentially let consumers decide for themselves whether they were his target customer. Sam Walton did something similar with his **Walmart** superstores strategy: He built massive, full-line warehouse stores with the lowest everyday prices and let the customers roll in.

Sooner or later, though, this approach to strategy will require sharper thinking about target customers — as both Starbucks and **Walmart** learned. In the early 2000s, Starbucks accelerated store openings and added a broader food menu, making it look, feel, and smell increasingly like a fast-food joint. When McDonald's and Dunkin' Donuts then added premium (but affordable) coffee drinks to their fast-food format, it exposed Starbucks for its high prices and comparatively mediocre food offerings. That's when Starbucks had to think harder about its true target customer. Schultz temporarily eliminated menu options such as breakfast sandwiches until the company figured out how to ensure their aroma didn't overpower the smell of coffee. He also banned automatic expresso makers, and re**design**ed stores to feel unique and sophisticated. It's worth mentioning that this was a bold choice, made in the immediate aftermath of the 2008 financial crisis, when consumers had become ultra-price-sensitive. But it worked, and today, Starbucks is as strong as ever.

For a similar reason — chasing profit growth — **Walmart** created a problem for itself in the late 2000s with its "win-place-show" policy. This policy entailed stocking merchandise so that only the three leading **brand**s in a given product line would get shelf space. Because these were the **brand**s most in demand, the company believed, **Walmart** could get away with charging higher prices and thus increase its margins (which were under pressure). But the policy put the company into more direct competition with Target, which seeks price-conscious affluent consumers — a somewhat higher-income demographic that prides itself on finding good deals. In fact, the executive who instituted the policy had previously worked at Target. But the new policy was a bust, and a few years later he left **Walmart**. Well-defined thinking on customer targeting would have helped him distinguish between smart strategy and plain ole financial engineering.

The best strategies always include a sharp definition of the target customer. And the more unique it is, the better. For example, if your competitors define their target customers by where they are — say, in certain parts of the world or in particular parts of town — you could instead define them by one or more of the following:

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- How they buy (perhaps through specific channels)
- Who they are (their particular demographics and other innate characteristics)

- When they buy (for example, on particular occasions)
- What they buy (are they price buyers or service hounds?)
- For whom they buy (themselves, friends, family, their company, or their customers).

The possibilities are infinite. They key is to distinguish your strategy, and give your business a competitive edge.