

Poor Target Market or Poor Positioning?

The following case study outlines a new retail store concept, which has proved somewhat disappointing for the two owners.

Your task in this activity is to evaluate, in your opinion, whether they adequately identified a viable target market and also to evaluate the appropriateness of their positioning.

Hot Coffee, Cool Clothes

The Beginning

Julie and Anna opened their store – “Hot Coffee, Cool Clothes” - just 12 months ago. The concept was based on a store that they saw when they visited New York on holidays in 2010. The idea of the store is quite simple – they wanted to combine a gourmet coffee shop and a lady’s clothes shop into the SAME store. They believed that this new type of store would be highly suited to young fashion-oriented females, who regularly shop with friends as a social activity.

Their Research

As this was to be a major financial investment for them, they gathered the following information prior to deciding to open their first store:

- There were only a few smaller stores in Sydney that had a similar approach to combining a coffee lounge and a fashionable clothes store
- It appears that around 30% of young females (15-30 years) could be described as “recreational” shoppers (that is, they enjoy shopping)
- Research with a small sample of their friends (25 in total) indicated that their target market spends around 4 hours per week clothes shopping and spend from \$100 to \$200 per week on clothes – they also buy around 5 gourmet coffees per week
- There was research to suggest that the atmosphere (that is, the layout, feel, colors, lighting, music, and so on) of the store could influence the consumer to shop longer and generally purchase more
- Chain coffee stores were rapidly increasing their outlet numbers.

The Decision

While Julie and Anna understood that they would face substantial competition from both specialist coffee stores AND specialist fashion stores, they believed that their store was actually meeting a new need in the marketplace – a store where customers could “meet, shop, relax and chat” and a store where “they would always feel welcome”.

So armed with a little bit of research and a lot of confidence, the two women borrowed \$500,000 (half from their families and half from borrowing against their apartments) to invest in the business venture.

The Set-up

They considered the choice of location to be fairly important to the success of the store. However, they also recognized that they had limited financial resources. Therefore, they eventually decided upon a street location in a trendy suburb of Sydney. They hoped that this store would provide access to their particular target market, while avoiding the high rental costs of a shopping center complex.

To ensure that the store had the right “look and feel” they spend \$300,000 on the fit-out of the store. This included: special lighting, an expensive music system, a top-quality coffee machine, various refrigerators, quality display cabinets, stylist racking systems, several comfortable fitting rooms, leather lounge chairs and small wooden tables.

Their goal was to make the store appear elegant and stylish (to communicate the store’s high fashion) and also to appear inviting and comfortable (to communicate the store’s meeting place aspect). They spent a further \$100,000 on clothes to sell. They chose three well-known and popular brands that are generally considered trendy and modern by their target market. These brands are also priced at the upper end of the market.

On average, each piece of clothing had a unit cost of \$50, and would have a retail price in the store of \$100. This left around \$100,000 that they decided to keep in the bank for working capital to be used as needed (most probably for the rent and staff costs in the first few months of the venture).

The Outcome

The first 12 months didn’t go as well as anticipated. While they had a loyal core of customers, which had grown through word-of-mouth promotion, the number of purchases was much lower than initially forecasted. This was because most of their customers appeared to make coffee purchases only and very few of their customers bought clothes.

As this situation became apparent, Julie and Anna tried a number of things. Firstly, they invested \$10,000 in radio advertising, however this did not appear to be effective as sales did not increase sufficiently to cover the cost. They then introduced a loyalty program. It gave customers who bought 10 coffees and free coffee AND 10% off clothes purchases. Unfortunately, only a small percentage of customers regularly used the program.

The Future

Julie and Anna are concerned about the future of the store. Although the store is profitable, they have to split it two ways and they are both able to earn more in a normal job (particularly given that they have a major loan to repay). However, for the time being, they had another four years of their lease to run. In the back of their minds, they had the idea of eventually franchising the store.

However, they needed the store to be more successful for this to be a serious option. The question was how they could make it more successful?

Student Discussion Questions

1. Did they gather appropriate (research) on the market prior to their launch?
2. Do you think that have identified a true/valid target market?
3. Do you think that have selected an appropriate marketing positioning?
4. What do you think they should do now (that is, continue or revise their strategy)? If revise, how?