

# AN/ETHNIC STRATEGY REMAINS A SOURCE OF COMPETITIVE ADVANTAGE

Good reason for the excitement at Kmart is the changes taking place in its ethnic marketing strategy. Many of the changes taking place are new initiatives in uncharted waters—changes that have the potential to boost the retailer's sales and create a competitive advantage. But not all of Kmart's operating principles need an overhaul. Kmart's deliberate marketing strategy focusing on the urban/ethnic consumer hasn't changed since Conaway's arrival and still stands as one of the company's best chances at solidly differentiating itself from the competition.

Unlike the company's primary competitors on the national level, which have deliberately steered away from a store expansion strategy, Kmart is right at home in its urban and suburban markets and takes every opportunity to turn its ethnic marketing strategy to its advantage.

It's particularly important because Kmart bases its marketing strategy on the pursuit of the ethnic consumer. Eric Beder, an analyst with Ladenburg & Kneller, noted that Kmart continues to be a top choice of Hispanic and African-American consumers. Kmart's internal research has determined that the company is the first or second department store choice among both ethnic groups and both demographics demonstrate a high level of shopper loyalty than any of its other competitors. Beder attributed this to Kmart's focus on urban and semi-urban locations, as well as its well-known private-label programs and its reputation.

Beder also noted that the company expects Hispanics to remain as the company's No. 1 customer segment in terms of core shopper demographics by 2005 and African-Americans No. 2 by 2025. Therefore, Kmart has an opportunity to continue to grow by focusing on ethnic customers who are flocking to its stores.

Moreover, Kmart continues to reach out to new consumers. In November 2000, for example, Kmart opened its fifth store in the Denver area. The store, which debuted in this satellite city of Aurora, took pains to make its ethnic customers feel welcome. Kmart estimated that one third of its customers are Mexican-American, so the store included a Mexican specialty food department with eight varieties of bulk pinto beans, jumbo packs of eggs and a substantial floral department. All of those elements were included to boost the store's appeal to the ethnically inclined Mexican-American customers.

Kmart's efforts didn't end there, though. At the store's opening, Doug Meisner, vp of Kmart's Denver Division, said that with about a third of the



Hair care is one segment that is particularly ethnically sensitive, a fact that hasn't gotten lost at Kmart, which tailors its product line to reflect local demographics.

of the local demographics.

Kmart has continually developed products and services that keep the ethnic customer in mind. Kmart has been forging closer ties to its suppliers, in part, to help it market more effectively right down to the store level. Even something as big as establishment of a single food supplier has implications beyond creating financial efficiencies. Michael Exstein, a Credit Suisse/First Boston analyst, noted recently that the Fleming deal was "aimed more at creating a competitive food offering" than trimming costs. One area where Kmart feels it can be competitive, as the new Aurora store demonstrates, is in ethnic merchandising.

Wayne Hood, an analyst with Prudential, noted that Kmart's partnership with Fleming will give it more tools with which to reach the ethnic consumer. "The Fleming relationship is a way to find better ways to flow goods to the stores and to fine tune assortments down to the zip code," he said.

Among Kmart's other adaptations to place and

ground not only for products aimed at Latin American consumers, but for young people as well.

Having grown up with a wide variety of cultural influences through contact and the media, young people today have been influenced by the popularity of Latin food, music and fashion, among other cultural attributes. Thus, Nagler said, Estilobrand well have an appeal beyond the Hispanic customer. From its start in girls, the brand has entered new segments and is poised for broader distribution in juniors. Additionally, a young men's line developed under the Estilobrand banner—a line that is only in Puerto Rico—is under consideration for a broader rollout.

"One assortment does not fit all," she said. "It is a lot of studying that goes on by brand, by point, and one nice success we've had is the Estilobrand. It means style in Spanish. We started with a test in our Puerto Rico stores, and it has expanded out to a little over 600 stores. It started about a year and a half ago in girls; it rolled to boys. We'

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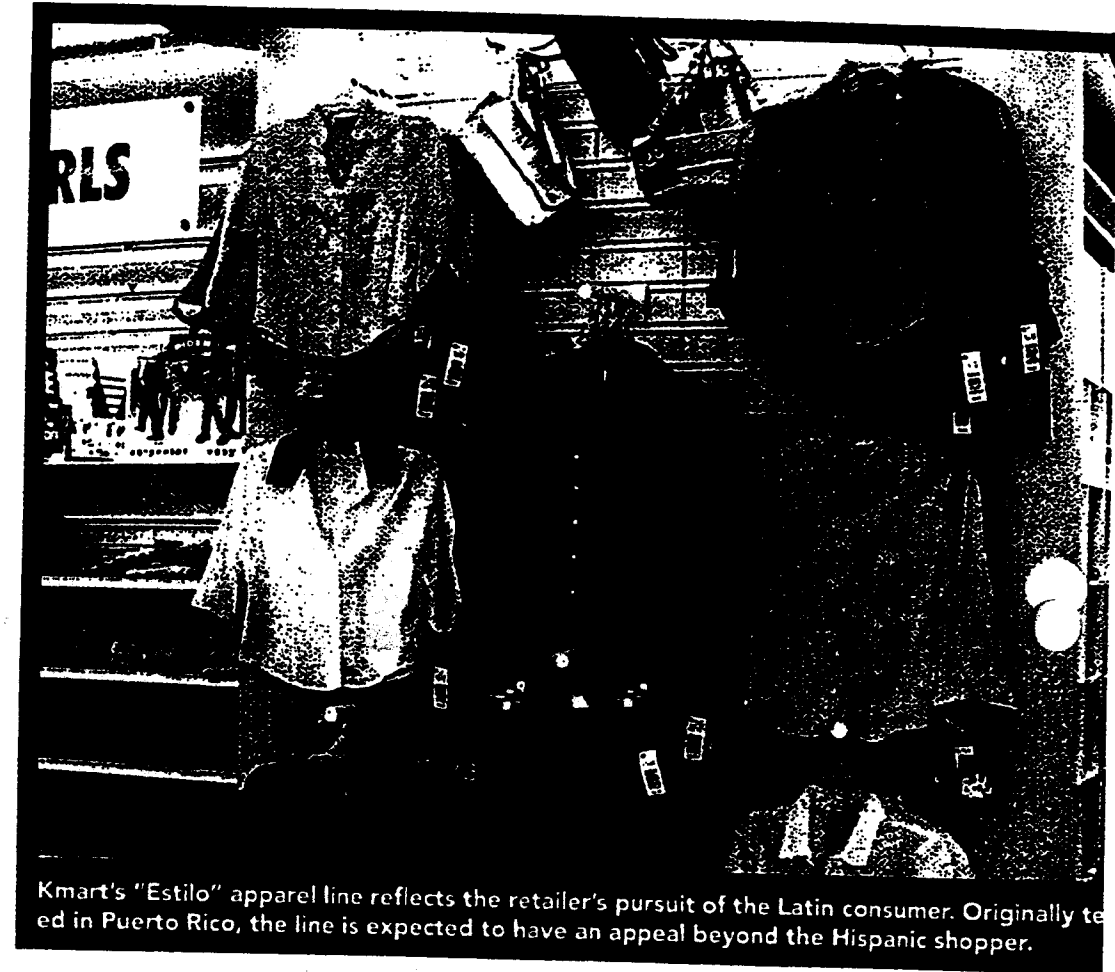
sly, then, Kmart's urban and ethnic initiative applications well beyond the narrow sometimes associated with those terms. Many's efforts may turn out to be both a tactical success and a general advantage in its place.

however, should pursue its ethnic/urban with some urgency, said Hood. "Kmart has a lead," he said, "but, if you look at Wal-Mart, it is going into some MSA [Metropolitan Statistical Areas] and Target is in, too. Both Target and Kmart are going to have to expand in the near future."

Kmart and Target may lead Kmart in some respects, but they have generally been less than enthusiastic about the urban environment. Indeed, particularly the denser urban agglomerations in the Northeast and upper Midwest, are the last frontier of the discount store business.

Not only, Kmart isn't alone in recognizing the advantages offered by operating downtown. Before the recent economy dragged it down into liquidation, Kmart had been pursuing a strategy based on operating stores in downtown districts and densely populated suburbs. Ames also has seen the city as an opportunity and has enjoyed its success in recently opened stores in Boston, Washington, D.C., Pittsburgh and the greater Philadelphia area.

Target has opened stores in major cities, but is very selective in where it locates. In New York, for example, Target operates a store in College Point, just across the bay from LaGuardia Airport. The retailer is also developing a somewhat differently configured unit in a landmark former store nearby. The under-construction location is built up from the almost well-known



Kmart's "Estilo" apparel line reflects the retailer's pursuit of the Latin consumer. Originally tested in Puerto Rico, the line is expected to have an appeal beyond the Hispanic shopper.

and the Bronx and one each in Staten Island and Brooklyn. With Bradlees' demise, Kmart has additional Gotham opportunities. Bradlees operated stores in Manhattan and Staten Island.

Kmart, however, has established a presence.

More than that, it has made a commitment. The company has made strides in developing an ethnic component within its overall marketing and mer-

chandise, was on hand at the Bronx store; he devalued how important the urban marketplace and the customer was to Kmart. Success in the urban environment, Hall said, requires a commitment to people and their aspirations. "You go into the community with respect, make donations to the impoverished, employ people in the market, and not just in the entry level," he said at the time.

With a population of 1.3 million, Hall said he thought the Bronx could accommodate as many as five Kmart stores and the New York City metro area as many as 85.

Hall said that the Bronx Kmart location has several major advantages and was expected to do more than the then chain average of \$27 million square foot in sales. Specifically, he said the Bronx neighborhood where the Big K store is located had few large supermarket chains; a dearth of major chain specialty stores. Given the environment, he said that the pantry would

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including Macy's occupied for years on Queens and merchandising functions designed to make it particular-