

## WORKING PAPER

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### Hometown Hardware Embryo Case

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## Abstract

This paper outlines the case of a small, hometown hardware store which must react to the threat of the entry of a large ‘category killer’ competitor into its market. It outlines the strategies deployed by the smaller competitor.

## Introduction

Hometown Hardware specializes in supporting local construction contractors as well as the general public in a mid-sized Midwestern town. It is owned and operated by Frank and Betty Pressly, and has been in the Pressly family since it opened in 1927. In 1990, Hometown Hardware affiliated its operations with National Hardware, a national supplier of local hardware stores. This affiliation has allowed Hometown Hardware to reduce its cost of goods sold, as well as to leverage National Hardware’s generous co-op advertising program.

Hometown Hardware’s customer base consists of 60% local contractors and 40% individuals, or “do-it-yourselfers”. Until recently, their only competition was The Lumber Yard, a regional chain which primarily supplied lumber and other construction materials to local contractors and walk-in customers.

## Home Land Hardware: Invasion of a Giant

Just over one year ago, Hometown’s competitive environment was invaded by a large national chain – a “category killer” named “Home Land”. Home Land was located near the interstate highway which bisects the town. Table 1, below, briefly summarizes the primary differences in the marketing mixes deployed by Hometown Hardware and Home Land.

**Table 1: Comparison of the Marketing Mix for Hometown and Home Land**

Marketing Mix	Hometown	Home Land
Product	Less extensive product line. However, did sell individual units of many items	More extensive product line. However, virtually all items are in packs.
Price	Due to affiliation with National Hardware, pricing comparable to Home Land on most items.	Generally advertised and perceived as a low price provider.
Promotion	Very limited promotional activities. No TV and sporadic advertising in the local paper.	Significant promotional activities. National TV advertising and inserts in the local paper nearly every week.
Distribution	Located one block off of the town square (in the interior of the town)	Located on the feeder road near the highway that bisects the town.

The entrance of Home Land to the market area had an immediate adverse impact upon Hometown’s sales, as individuals and contractors alike tried the new hardware vendor. Frank and Betty were forced to modify their business and marketing approach – or face losing the family business.

## Strategizing for Survival

### Cooperation with a Competitor

One of the first steps the Pressly’s made was to discuss the situation with their counterparts at The Lumber Yard. Jointly, it was decided that Hometown Hardware would eliminate its (limited) line of lumber, while The Lumber Yard would eliminate its (limited) line of hardware. As a result, both competitors sharpened

the focus of their sales activities to the areas where they possessed core competencies. Further, both were now better positioned to refer contractors to each other.

### Modifying The Target

The Presslys observed that their walk-in business from individuals appeared to be the most fickle. They decided to make changes to their marketing mix which would emphasize the further development of their contractor business. In addition, they brainstormed for tactics to retain the “fair-weather” walk-in customer. In regard to the latter, they came upon a compelling idea. Leveraging their unique status as a long-time member of the community, Hometown decided to be a provider of some of the larger hometown groups, such as the local scrapbook hobbyists, the local YMCA and Boy Scouts, and local sports teams.

Pursuant to their “hometown” approach, the Presslys rededicated the space that had been used for lumber to offering unique items for these groups which were not carried by Home Land, such as scrap booking supplies, Pinewood Derby and fishing supplies, and sporting wear, noisemakers and sporting supplies embellished with local team colors and logos.

### Making Changes to the Marketing Plan

With a revised business strategy and targeting approach, Hometown Hardware needed to create a new marketing plan.

The primary objectives of their revised marketing plan were:

- 1) To leverage its unique status as the traditional hometown hardware alternative,
- 2) To avoid competing directly with Home Land, and
- 3) To instill increased loyalty in its regular customer base.

## The Revised Marketing Strategy for Hometown Hardware

### **Target Market:**

Hometown Hardware continued to focus on the local contractors who made up 60 % of their business prior to the arrival of Home Land. However, in regard to the individual, walk-in business, Hometown was no longer satisfied with an undifferentiated segmentation approach. The Presslys created a list of local organizations, ranging from the Boys Scouts to the Little League teams to the scrap booking clubs. Their intention was to select specific targets and begin to appeal to them with customized product and service offerings and grass-roots promotional programs.

### **Product/Services Strategy:**

The Presslys reviewed their product offerings relative to Home Land. They found that, thanks to their affiliation with National Hardware, their pricing was similar to or better than Home Land for most items. They noticed that Home Land was not nearly as flexible in providing items that the local contractors preferred, and adopted a strategy of never offering the same items as Home Land, but, rather, offering specific brands and items preferred by the local contractors but not offered by Home Land.

Related to the consumer market, Hometown carved out a specific space in the center of its store and began to use this area to merchandise seasonal items of interest to specific target groups. For example, the month of May was dedicated to the boy Scouts and teaching young people to fish, so they stocked the area with fishing equipment and provided in-store seminars on how to use the gear. In contrast, the month of October was geared to the PTA and involved the making of jack-o-lanterns, scarecrows, and other Halloween items utilizing tools offered by Hometown.

### **Pricing Strategy:**

Hometown continued to monitor Home Land's pricing through a "mystery shopper" program. They determined that they could afford to price their goods at a slight premium to Home Land, due to the specialized nature of their offerings and the new-found loyalty they were engendering in their customer base.

### **Promotion Strategy:**

**With their new targeting strategy, the Presslys found that they could reach their targets more efficiently with low-cost, grass-roots marketing than ever before. Over time, they eschewed trying to compete directly with Home Land in the local paper, and rededicated their insert funds (the largest portion of their traditional marketing budget) to higher-quality mailers to their contractor and individual customers. These mailings included the use of small premiums, such as inexpensive tape measures and bottle openers bearing the Hometown name and logo.**

### **Distribution Strategy:**

While Hometown did not open up any additional retail outlets, they did find that it was profitable to take their in-store promotions (such as the aforementioned Halloween promotion) and bring the materials to the schools or churches where these groups regularly met. They not only made sales at these remote locations, but it tended to drive follow-up business in the stores throughout the month.

Similarly, Hometown found they could obtain similar results with contractors if they would go to the contractors location to display and demonstrate specific tools and building materials.

### **Living with a Giant**

In summary, Hometown Hardware finds the competitive marketplace more challenging since Home Land entered over a year ago. However, Home Land has reenergized Hometown's entrepreneurial spirit. They have a sharper focus on both their customer base and their competitors. They are experimenting with their marketing mix and achieving positive results. They are finding that the entrance of a new national competitor does not always spell disaster for the local hero.

### **Questions:**

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