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Strategic Audit: Target Corporation

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Abstract

Target Corporation is a notable publicly traded discount retailer in the United States. In recent years they have gone through significant changes including a new CEO Brian Cornell and the closing of their Canadian stores. With change comes a new strategy, which includes growing stores in the United States. In order to be able to continue to grow Target should consider multiple strategic options. Using internal and external analysis, while examining Target's profitability ratios recommendations were made to proceed with their growth both in profit and capacity. After recommendations are made implementation and contingency plans can be made.

Key words: Strategy, Target, Ratio(s), Plan

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Background Information

Target Corporation was founded in 1902 by George Draper Dayton as Dayton Dry Goods Company on Nicollet Avenue in Minneapolis, MN (Target.com/history). The store continued to grow through this time and in 1911 with the product range increasing, Dayton renamed to Dayton Company, also known as Dayton Department Store. Then in 1953 Dayton's opens a commercial interior department known as Target Commercial Interiors. With the continued growth Dayton Company decided to move into discount retailing, and in 1962 the new discount retail store is named Target and given an initial Target logo (Target.com/history). The first actual Target store opened in Roseville, MN the same. At the end of this decade, in 1969, Dayton continues the expansion by merging with the J.L. Hudson Company of Detroit to create the Dayton-Hudson Corporation. This merger places Dayton-Hudson Corporation in the 15 largest non-food retailers in the U.S. Dayton-Hudson continues to go through changes, the last Dayton's hand over management responsibilities by 1978, and then in 1979 Target reaches a 1 Billion dollars in annual sales (Target.com/history). Throughout the 1980s Target continues to open stores and the last Dayton retires from the board of directors. The 1990s continue with in-store product expansion and services. In 1995 Target starts offering credit cards and at the end of the century in 1999 Target moves online.

At the start of the century, Dayton-Hudson decides to align with the brand and renames itself as a Target Corporation. By 2001 Target corporation has opened stores in 47 states. With all of the growth and change to attract customers, Target exceeds $50 billion in annual sales in 2005 (Target.com/history). After over a decade of offering credit cards in 2013 Target announces a data breach with its REDcard. The same year Target and Facebook develop a partnership with a digital coupon application titled Cartwheel. After both a low and a high in 2013, the current CEO Brian Cornell is appointed in 2014 (Target.com/history). Target continues to grow and develops many partnerships from 2015 and on, including with CVS Health for pharmacy care, the beauty brand Sonia Kashuk and opens the kids clothing line Cat & Jack (Target.com/history). Last year in 2018, Target introduced a few changes, such as remodels of 1,000 stores across the nation and customer convenience-focused add ons such as Shipt, Drive Up, Target Restock and delivery from a store in select markets. Overall, Target through its history Target has tried to serve its consumers with constant improvements, sticking to its mission statement of "Expect More. Pay
Less."

External Analysis

Opportunities

The current opportunities Target has are the growth of e-commerce, new product launches, expanding the retail market in the United States, and strategic partnerships. The first opportunity is the growth of e-commerce. Since the conception of Target online in 1999 the number of consumers shopping online has significantly increased, accounting for 5.5% of Target's overall sales (Marketline, Target Corp SWOT Analysis, 4). Target has continued to grow its technological platform to make online shopping even more accessible for it customers, including items such as the Target app, which includes Cartwheel their digital coupon application, and then also in 2017, they launched a mobile payment service. Over the last year, Target has also had new product launches. Starting in January of 2018 the company began an exclusive fragrance brand title Good Chemistry. Then in March of the same year, Target and

AddStructure developed a partnership to produce a product to compete with the Amazon's Alexa. April of 2018 was a big month for Target including them introducing eight new cosmetic brands to serve women with medium to dark skin tones, and they launched their new Drive Up service at 270 locations (Marketline, Target Corp SWOT Analysis, 5). Target is expanding its Retail Market in the US, including opening 32 new stores during the fiscal year ending in 2018 (Marketline, Target Corp SWOT Analysis, 6). Lastly, in 2018 Target developed a number of strategic partnerships including Walmart, AddStructure, Hint, Hunter, and Honeyfund (Marketline, Target Corp SWOT Analysis, 6).

Threats

The current threats target is facing are increasing labor costs in the United States, stringent regulations, and their dependence on third parties. Target during the fiscal year ending in 2018 employed 345,000 people and increasing labor costs could affect stability and operational efficiency. The current Federal minimum wage is $7.50, but most states and municipalities have minimum wages well above that, meaning Target is paying a hefty price for labor. This will continue to be a strong factor Target will continue to face due to the fact that in June of 2019 they are raising their minimum wage rate to $13/hr and plan to have it at $15/hr by the end of 2020 (Reagan, 2019). Stringent regulations are getting very expensive for the company. Based on their 2017 financial statements Target spent $363 million in interest and penalties for late tax payments (Marketline, Target Corp SWOT Analysis, 6). There are also the factors of having a majority of its revenue coming from California, Texas, Florida, Minnesota, and Illinois and the company sources most of the merchandise from China, meaning they are subject to trade policy and other global factors. Lastly, Target has a significant dependence on third parties for services such as technology development and systems, digital platforms and distribution network operations, and credit and debit card transaction processing Marketline, Target Corp SWOT Analysis, 7). If there would be a failure of the contract with any of the third parties could significantly affect the operations of Target, failure of third parties can impact things such as data security, reputation, and sales.

PEST Analysis

Political and legal issues that Target has faced first is the data security breach in 2013, where information of 70 million people had been released, with 40 million of those being credit/debit card information (Abrams, 2017). Target settled by paying $18.5 million to 47 states and the District of Columbia, and then an additional $202 million in legal fees. Also mentioned in threats Target is also struggling with regulations in Taxes, as stated before they paid out $363 million in interest and penalties related to taxes during the financial period associated with the 2017 financial reports. The current economic environment is good for Target considering there are higher levels of disposable income, causing Target to see an increase in store traffic and online purchases (Thomas, 2018). Target is currently in alignment with many consumer trends including ethically sourced products and fast fashion. They have partnered with many natural focused brands, and even in their 2018 Corporate Responsibility report, they discuss sourcing natural resources and sustainable processing them (Target, 2018). With fast fashion, they have partnered and developed new clothing lines, such as Ava & Viv for women and Cat & Jack for children. Part of Target's strategy is to be innovative with technology using artificial intelligence, machine learning, and data analytics, which they have done the last couple of years

(Gharib, 2017). The only downside to this is that Target uses third parties for a lot of there technology.

Porter's Five Forces Analysis

The threat of new entrants for Target can be assessed at low considering that the market is already pretty saturated with retailers for these goods. Power of buyers would be considered high because since competition is high for many of the products Target sells, consumers could choose to shop elsewhere. The power of suppliers would also be regarded as high because based on who Target has contracts with, determine the products and brands that they have to sell, and whether or not suppliers individually are selling to multiple retailers or just Target. The threat of substitution for Target Corporation is high considering that there are numerous retailers such as Walmart, Amazon, Kohl's, and Macy's who are selling similar products just with different shopping experiences. Based on the threat of new entrants, the power of buyers, the power of suppliers, and the threat of substitution the overall competitive rivalry for Target would be high because of the high power of buyers and suppliers and high threat of substitution.

Internal Analysis

Strength and Weaknesses

The internal factors affecting Target currently are their strengths which include their operational network, inventory turnover ratio, and their revenue growth; and then also their weaknesses which is their current liquidity position. Target currently has 1,822 stores and 41 distribution centers, which help with proximity to customers in the United States to provide quick, reliable service. Also with providing online retailing Target can reach more people. In alignment with the increase of online shopping and their operational network , Target ships most of online orders from stores, which saves them about 40% in shipping cost (Edelson, 2019). Based on the 2017 financial statements 5.5% of sales were online, even between the 2016 and 2017 financial reports digital sales grew by 27% (Marketline, Target Corp SWOT Analysis, 4). Another strength is their inventory turnover ratio, which is 5.9 based on the 2017 financial reports. This ratio is higher than Macy's, Inc. of 2.9 and Kohl's Corporation of 3.4, which are Target's two major competitors. Based on this inventory turnover ratio, Target takes about 62 days to sell its inventory (Marketline, Target Corp SWOT Analysis, 4). The last current notable strength of Target is their revenue growth; their 2017 generated revenue was $71,879 million was higher compared to their $69,496 million in 2016, showing annual revenue growth of 3.4% (2017 Annual Report). 1.3% of the increase in revenue is contributed to comparable sales and the opening of new stores (Marketline, Target Corp SWOT Analysis, 5). Currently, Target's biggest weakness is their liquidity position, based on the 2017 financial reports their liquidity ratio was 0.9, which is significantly lower than the industry average of 1.5, meaning Target is struggling to keep up with paying off their short-term liabilities (Marketline, Target Corp SWOT Analysis, 5). Overall, Target's internal factors seem to be leaning more favorably based off of the 2017 financial statements.

Competitive Advantage

Brian Cornell in a speech for the National Retail Federation said that Targets most significant competitive advantage is their stores because they are "service centers, fulfillment hubs, and incredible showrooms" (Cornell, 2019). Also he stated in an article for Women's Wear Daily, that 90% of shopping is still done in stores, so there is an importance to having nice stores and great teams maintaining the stores. (Edelson, 2019). More specifically within Target stores, they have a competitive advantage with their supportive staff and their layout/displays within the store. Target staff is often usually more visible/easily recognizable on the floors compared to their competitor Walmart, and their staff is often showing a willingness to help customers with any questions (Leinbach, 2014). The store layout is also a competitive advantage for Target because its layout strategy also helps with convincing shoppers to buy more than the expected. For example, every Target you walk into has the seasonal trinkets and novelty section with items that are cheap daily easy impulse purchases at the front of the stores in bins ranging from $1-$5 (Leinbach, 2014). This section is often very disorganized and picked through making shoppers feel a need to grab it now; otherwise, they will miss their chance. Having this section at the beginning of the store immediately convinces consumers to buy something they did not intend on possibly. Next is Target's "racetrack" layout, which means there is the main aisle raping around the store with more aisles running on the in and outside (Target Corporation, 2013). This layout design provides a more open layout that is easy to navigate for consumers; also unlike traditional department stores with very segregated departments, this layout allows customers to pass many more sections of items they could end up purchasing (Target Corporation, 2013). With this layout, they are also focusing on convenience putting essential daily items near the front of the store. Overall, with their staff and their strategic floor layout, Target shows that their most notable competitive advantage is their stores.

Leadership Fit

The current CEO of Brian C. Cornell, who has been the CEO since August 2014, before Target, Cornell was the CEO of PepsiCo Americas Food from March 2012 to July 2014 (2017 Annual Report). Coming in just after the data security breach, he had to find footing to rebuild a strong reputation for Target. Since his start, his primary strategy has been reinvesting into the company and innovation. Cornell has invested in technology such as artificial intelligence, machine learning, and data analytics. He has also implemented a refurbish plan worth $7 billion for 1,800 stores and a revamping of digital operations (Gharib, 2017). Two significant differences Cornell has right off the back from past Target CEOs is that Cornell was an outsider, he did not work for Target before becoming CEO, and second was that he is visible to the public and employees (Kumar, 2014). The most significant decision Cornell had to make when he started in 2014, was the decision to close stores in Canada, which was losing the company $3.1 million a day in the two years they were there (Group, 2015). This decision, in the end, was right for Target to focus on rebuilding the brand, especially after some residual effects of the 2013 data breach. By trying to focus on the reputation of the store and the experiences customers were having, Brian Cornell has done an excellent job in leading the organization to provide exceptional customer experiences, showing that he is a good fit for a leadership role for Target. His goals in improving the store align with Target's current competitive advantage being their stores, showing that in the present moment he is leading Target in a direction where it is having Success

Strategy Alternatives [1]

Strategy alternatives Target could implement are continue to focus on developing a great customer experience through their stores and staff, concentrate on improving their online retail experience or maintaining what they are doing but not open any more stores. Their current strategy of focusing on developing a great customer experience through their stores and team is currently working. Target has increased the number of stores and the number of employees, with this the number of consumers entering Target stores having increased, online sales have also increased. With this, they have also improved the technology that staff and customers are interacting with, whether it be there app Cartwheel with coupons and item locations, the team using technology to locate different items in inventory or even self-checkout. Target has also implemented Shipt in 2017, which is same day delivery,[1] available currently in 40 states (Target.com/history). In 2018 the implemented Drive up to allow customers to shop on their terms, utilizing both their stores and online. They also have free two-day shipping on orders over $35+ or when shoppers use their REDcard. Under their current strategy, revenue has grown by 1.3%. The company's return on invested capital has increased from 15% to 15.9%, meaning they are creating value with what they are investing in (2017 Annual Report). The net margin increased to 4.1% for the 2017 financial reports, compared to 3.9% on the 2016 financial statements. The increase in net margin is probably due to a decrease in income tax, considering that the operating margin decreased from 7.15% to 6%. Their gross margin also dropped from 29.3% to 28.9%. The return on equity increased from 24.98% to 25.06% and the return on assets increased from 7.31% to 7.52% (2017 Annual Report). Based on all of these calculations besides operating margin and gross margin, most of Target's profitability ratios increased during for the 2017 financial report under the current strategy.

With their current strategy Target has already implemented multiple items that have also impacted consumers online retail experience with them. The only struggle with pushing the online retail experience is that one of their strongest competitive advantages is a customers experience in the store. By moving more online Target would need to shift a focus on also providing a great experience without staff and the physical appeal of the store. To add to the online retail experience Target could allow their Cartwheel coupons to be used online also, speaking from experience currently Cartwheel coupons can only be utilized in stores, which is an incentive in their current strategy to get customers in the door. Target's website and app are already pretty users friendly in terms of online shopping, so there is much to add to those. By moving more online Target is following the increase in online shopping.

Part of Target's current strategy is opening new stores every year, but this is expensive, and the cost of labor is only increasing since they decided to raise their minimum wage to $13/hr and plan to rise to $15/hr. By focusing on their current stores, they could continue to improve the customer experience through the implementation of new technology and training of current employees.

Evaluation Criteria

Based on the industry life cycle Target would be somewhere in the Maturity stage considering they have been around as a discount retailer since 1962. They are following the maturity stage considering that revenue, profit, and cash are only slightly growing every year, getting to the leveling out period. Revenue grew by only 1.3% , operating profit grew from $2,737 million to $2,934 million, and cash grew from $2,512 to $2,643. All of this growth is still significantly less though then the growth between 2015 to 2014, where revenue grew from $72,618 million to $73,785 million, operating profit grew from ($1,636) million to $3,363 million, and cash grew from $2,012 million to $4,046 million (2017 Annual Report). Considering that there was significant growth between 2014 and 2015 when their current

[1] math for profit ratios is below in appendix

strategy was implemented and that now the data is leveling out is a sign that they are in the maturity stage, but their current strategy is working to create profit and other growth. Also, Target's return on invested capital, assets, and equity also increased from 2016 to 2017 showing that their profitability is continuing to grow.

Strategy Recommendations

Based on their profitability ratios from the 2017 annual reports and other growth factors Target should continue what with their current strategies but consider not extending the process of opening new stores around the United States. Their current business unit is to provide excellent customers service through their stores, which they continue to open in locations around the United States. There functional strategies underneath that are using both their staff and the layout/displays of the store to then provide an exceptional experience to the customer. This strategy is suitable for Target considering that their stores are their primary competitive advantage over other discount retailers like Amazon and Walmart. Target has seen increased foot traffic but it has also seen increased online sales by 5.5%, and since their stores are a significant part of their distribution process for online sales it is essential that they continued to be maintained. Most of their profit ratios did increase, and their inventory ratio of 5.9 is significantly higher than most of its competitors. Then on the other side of this recommendation is not opening new stores, which would help reduce operating costs. Based on their website, Target currently plans to open twenty-four stores in 2019, fifteen in 2020, two in 2021, and one in 2022. Also with their current plans to increase their minimum wage to $13/hr and then $15/hr they are significantly increasing their salaries expense by adding these forty-two stores. There is a possibility that with the increase in online sales than any benefit they could have received from these new stores, could be recovered. If more capacity is needed for revenue, they could consider opening another distribution center. Ultimately, what Target is currently doing is working but in the long run using the strategy of continuing to invest in new stores, especially with more shopping moving online, may not be the best long term strategy.

Implementation of Plan and Contingency

The first part of the plan would be deciding, which planned new stores that have not started new construction and have not already had resources invested in not to open. Then with the resources that would have been used to those stores, they can decide how to implement the resources into existing stores, whether that be new technology, store improvements, or training for current employees. When determining what to implement Target should perform significant research on the cost benefit to see if those specific ideas are worth it for the corporation. An example of technology they could apply in stores is a type of technology or software that shoppers can use on their phone or technology provided around the store to match specific items and brands to what the shopper is looking for. Shoppers can do this online quickly with the refine tool and customer reviews, but in-store people will usually look at every item and its ingredients to determine if that is what they want. A lot of times a store will have what a customer is looking for, but they get so frustrated looking at all the choices and not knowing which is best for them that they end up leaving empty-handed, so by having this Target will help customers make decisions quicker. Store improvements can be as simple as updating areas such as the dressing rooms or providing new displays. By giving extra training opportunities for their current employees, Target can ensure that customers are getting the service that they expect.

A timeline for this plan would be first to dwindle the 2019 opening list for new stores hopefully, then to take out the openings of the stores in 2020 and 2021. Then would be to research new technology that will innovate how Target is providing excellent customer service, after the research and determining how resources can be allocated to this then there will be a discussion of which stores to test the technology out at. The sample stores should range from both Super Targets to the smaller Express Targets. If the technology is a success at the sample group of stores, then comes the overall implementation into all Targets. By implementing this technology, Target could hope that customers are always leaving with all the items they intended on instead of what was easy or convenient for them to find. With resources that are leftover or still want to be reinvested, Target can then decide how to improve/renovate the stores and how to improve employees ability to provide customer service.

If profit were to drop with implementing the new technology instead of opening the new stores, the best option would be to utilize then whatever is left of resources intended to reinvest in the company and use it to open the initially expected stores. Their current plan is still showing signs of steady improvement and keeping them in a safe range, so continuing with it would be the best second alternative. Also if shopping drastically shifts to online and consumers are no longer looking for an in-store retail experience, Target might want to look into providing a great online experience, whether that be through easy shopping, excellent customer service support, convenience, quick delivery or any other relevant experience online shoppers are looking

Appendix

Return on invested capital (found on page 29 of 2017 Financial report)
ROIC 2016 = 3,392/22,608 = 15%
ROIC 2017 = 3,528/22,152 = 15.9%

Operating Margin 2016 = 4,969/69,495 = 7.15%
Operating Margin 2017 = 4,312/71.879 = 6.0%

Net Margin 2016 = 2,737/69,495 = 3.9%
Net Margin 2017 = 2,934/71.879 = 4.1%

Return on Assets 2016 = 2,737/37,431 = 7.31%
Return on Assets 2017 = 2,934/38,999 = 7.52%

Gross Margin 2016 = 20,754/71.879 = 28.9%
Gross Margin 2017 = 20,350/69,495 = 29.3%

Return on Equity 2016 = 2,737/10,953 = 24.98%
Return on Equity 2017 = 2,934/11,709 =25.06%

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