Monday, December 9, 2024 / Target misses the mark

[HALF SECOND OF SILENCE]

[BILLBOARD]

SCORING <Sneaky Pete>

*<*[*CLIP*](https://app.webinar.net/ZW5L1eZXOnd/on-demand?token=NmE2NDRmMjYtZDRjYy00YjMzLThlYmYtOTkxYjUwZDg3NWMwO2RxM2NseW5rNXIuMTczMzUwMjgwMzAyOEByYW5kb20ud2ViaW5hci5uZXQ7NjcyY2JjNTQ3M2NiZmQyYWEyMGYyZTVh)*> TARGET EARNINGS CALL 11/20: Ladies and gentleman, thank you for standing by. Welcome to the Target corporation third-quarter earnings release conference call…*

NOEL KING (host): The next 68 minutes of that call in November were a mess. Oh, sure, Target’s CEO talked about having confidence “in our proven long-term strategy” but the company’s earnings had missed their mark – their target, if you will. Americans seem to have fallen out of love with Tarzhay.

*<CLIP> WSJ REPORTER SARAH NASSAUER: They've just haven't seen their sales, you know, bounce back at all from sort of the post-COVID era.*

SCORING CHANGES TO <Triangle Time>

NOEL: But why? Well, on another November earnings call, just across town (not literally) Walmart’s CEO Doug McMillan was GLOATING.

*<*[*CLIP*](https://www.youtube.com/watch?v=FrQ_g7d9QIc)*> WALMART EARNINGS CALL: All three segments of our business performed well. Sales for Walmart International grew 12.4% in constant currency… <fade>*

NOEL: Coming up on *Today, Explained*: retail wars! How Walmart ate into Target’s business.

[THEME]

*<CLIP> Attention all shoppers, there is a clearance at – Today, Explained.*

NOEL: Sarah Nassauer, you’re a retail reporter for the Wall Street Journal. I think I first heard the Target name when I was maybe 19 or 20 or 21. And my friend very earnestly said “Tarzhay.”

SARAH NASSAUER (*The Wall Street Journal* retail reporter): <laughs>

NOEL: And I was told that it was a fancy thing, like it was like it was an event to go shopping there. So that would have been early, 2000s. Where did Target start and how did it expand?

SARAH: Yes. So the first Target store opened in 1962 in Roseville, Minnesota, which happens to be the town I grew up in, primarily. <laughs>

NOEL: Ooh!

SARAH: And that was the year that the very first Wal-Mart store opened, also – to the south, in Arkansas.

NOEL: Huh.

SARAH: And they were both, you know, open in this era of discounting, sort of the rise of the concept of a discount store. The difference for Target is that it was a department store. And so Target approached the sort of idea of a big-box discount store with a department store’s mentality…

*<*[*CLIP*](https://www.youtube.com/watch?v=ZeJDddD4GXM)*> 1970 TARGET AD: Target is a fun place to shop. <music under>*

SARAH: …which meant from the beginning it was a little higher-end. They were really trying to draw people in with specialized merchandise and they were less concerned about being sort of the very lowest price on a commodity item.

*<*[*CLIP*](https://www.youtube.com/watch?v=ZeJDddD4GXM)*> 1970 TARGET AD: Target! <boing> is a fun place to shop.*

NOEL: I did not realize it started all the way back in 1962. I would have guessed, honestly, the 80s, maybe? The, the early 90s? How does Target go from being a department store in Roseville, Minnesota, in 1962 to being literally everywhere in the country?

SARAH: <laughs> Well, you know, over time – really that, that 80s period where it's in your brain –that is the expansion era of discount stores. Right. This was one sort of experiment, right, in 1962. Right. It was just an experiment, one store. And they found that it worked. Right. And so they gradually opened more and more stores. Eventually, they added food into the mix. Originally, there was no food in a Target store. And, you know, now they're up close to 2000 stores around the country.

NOEL: 2000 stores around the country. And to this day, they're selling the food. They're selling some department store stuff. What else has Target added over the years?

SARAH: Well, you know, they have added and also subtracted. You know, there's been a few iterations. Like, you know, when the food concept first came to be at Target, they sold things like fresh sushi at one point…

NOEL: No… No…

SARAH: Yes. Yes. So there's been lots of iterations of what food could mean at Target and also lots of iterations of what things like fashion could mean. But this idea that, like, is very familiar to all of us, right? Like, you go to the store and I kind of know I can buy toothpaste. And also I'll look at a look, maybe some clothes, but I need a gallon of milk. Like that kind of shopping experience, that's – that's been around for decades now.

NOEL: And you will also buy a candle and you will also buy a throw pillow. You don't need either one, but you will definitely pick them up at Target on that same trip.

SARAH: That is the model and what they, like, really hope that you do, right, is that you walk in there and you're trying to spend 20 bucks and you walk out and you've spent 100.

NOEL: And truthfully, I mean, Target is not just… it's not just a store. I mean, like SNL has that character, the Target lady.

SARAH: <laughs>

NOEL: It's like a piece of Americana at this point.

SARAH: For sure. For sure. Yeah. I mean, everyone kind of has, like, a feeling about Target, right? That means it's like that's a big brand. That's a big, like, part of culture when everyone has a opinion and an idea about what it means to them.

*<*[*CLIP*](https://www.tiktok.com/@ryankassim/video/7347909813273267502?q=target%20personality&t=1733501997060)*> TIKTOK: This is my personality in a Target grocery haul….*

*<*[*CLIP*](https://www.tiktok.com/@benjigreenn/video/7317837951604477226?q=i%20love%20target&t=1733501664481)*> TIKTOK: Same store, different day, ohmygosh I’m back.*

*<*[*CLIP*](https://www.tiktok.com/@garzacrew/video/6935572642338442501?q=i%20love%20target&t=1733501664481)*> TIKTOK, MOM: Hey hey, we have another question: What is your favorite store?  
 BABY: I! Love! Target!   
 MOM: <laughs> Me too.*

NOEL: So. So given all of this, all of its successes in making me buy things I need and don't need, what's going on? Why is it not doing well?

SARAH: Well, there's a few things going on.

SCORING <Neutral Aparna>

SARAH: One is, so we're still in a period where even though inflation has cooled a little bit for most people, things feel really expensive. They are a lot more expensive than they were a few years ago. And so that's things that you need to buy, like food and child care and rent. And people are still spending more on that stuff than they were a few years ago. And Target tends to have a little bit of a disadvantage in that environment because more of their sales are based on what they call discretionary items, which really just means things we want but might not need.

*<*[*CLIP*](https://app.webinar.net/ZW5L1eZXOnd/on-demand?token=NmE2NDRmMjYtZDRjYy00YjMzLThlYmYtOTkxYjUwZDg3NWMwO2RxM2NseW5rNXIuMTczMzUwMjgwMzAyOEByYW5kb20ud2ViaW5hci5uZXQ7NjcyY2JjNTQ3M2NiZmQyYWEyMGYyZTVh)*> TARGET EARNINGS CALL 11/20: Consumers tell us their budgets remain stretched and they're shopping carefully, as they work to overcome the cumulative impact of multiple years of price inflation…*

SARAH: So in this environment, you know, a traditional grocery store or a Wal-Mart, which is the country's largest grocer, tends to do a little better because we need to spend more on groceries and a little less on throw pillows and candles. So that's part of it. However, you also see, especially in their last results, that they're starting to get – they’re a little bit out of step with the market, which means that their sales are pretty flat while other folks that are selling similar things, in some cases their sales are growing a little more. And that means they're probably also making some operational missteps and losing market share.

SCORING OUT

NOEL: Have you done the retail reporter thing where you run around the parking lot of the Target and you ask customers like, ‘Why don't you like it as much as you used to?’

SARAH: <laughs> I've done that, though. I also do it in stores. I try to get in the store where it's warm.

NOEL: Do you ever get kicked out?

SARAH: Ummm… I don't know if I've ever gotten kicked out of a Target. I have definitely gotten kicked out of malls. I've gotten kicked out of many stores over many years –

NOEL: I got kicked out of a Ralph's in Los Angeles once. It was like, it was like a violent ejection. Um… But I had a microphone. Yeah, I guess it wasn’t…

SARAH: Yeah, that makes it harder. I usually am just going in with my notebook and it's – I'm a little bit more subtle. And also, the thing is, I always tell people who I am, right? And I always explain to the security guard or whoever, like, if people don't want to talk to me, they don't have to talk to me, you know? And…

NOEL: So, what are, what are customers actually saying about their… What is, what is the nature of their discontent?

SARAH: Well, a lot of them are saying sort of a combination of things. One is, ‘Hey, I've just, you know, noticed some products are out of stock,’ right? ‘Like I go in, I know that there's this Target thing that I like, like this certain brand of like, mixed nuts or whatever it is, and they don't have it. And then that's really annoying. And then I have to make a second stop.’ People are talking about longer checkout lines, which is a perennial retail problem, right? And they feel they've gotten longer in some cases because Target has been making some changes with how they do self-checkout as an anti-theft measure.

NOEL: <grumbles>

SARAH: Some people don't like that more products are locked up as an anti-theft measure and then some people sort of have more of a just general sense that the products aren't as exciting or interesting and tempting as they used to be. And that makes it a little less fun.

*<*[*CLIP*](https://www.tiktok.com/@butthatsmyopinion/video/7335349992447806766?q=target%20checkout%20terrible&t=1733503984624)*> TIKTOK: Has anyone else noticed the absolute dumpster fire that Target is slowly becoming?*

*<*[*CLIP*](https://www.tiktok.com/@shaneelmore253/video/7275554250716040494?q=target%20everything%20locked%20up&t=1733503817742)*> TIKTOK: Bruh, this is crazy… They’re locking up the toothpaste.*

*<*[*CLIP*](https://www.tiktok.com/@cadyebs/video/7156309404998995242?q=target%20out%20of%20everything&t=1733503308485)*> TIKTOK: We ended up not even getting anything, because everything I went in there for is completely out of stock… <laughs>*

*<*[*CLIP*](https://www.tiktok.com/@butthatsmyopinion/video/7335349992447806766?q=target%20checkout%20terrible&t=1733503984624)*> TIKTOK: I feel like we’re witnessing the downfall of what used to be a really nice grocery store into something that’s more like a Walmart.*

SARAH: The thing is, all of these are just common retail challenges, right? Like lots of stores have a, you know, face these things from time to time. People feel they're getting a little bit worse at Target. But also, Target is a place that, again, you go because it's kind of fun, not necessarily just to buy cheap groceries. So people's standards for some of this stuff are a little bit different because it's supposed to be a fun place to shop, right?

*<CLIP> 1970s AD REPRISE: Target… is a fun place to shop.*

NOEL: Yeah, I want to have a good time. So what is Target doing to try to combat this problem?

SARAH: We don't know, for sure…

NOEL: Oh.

SARAH: … because they aren't defining their problems in this way.

NOEL: Ohh.

SARAH: We heard them talk about on the last earnings call that their customer service scores over the last quarter are better than they were the same period last year. Right. So they say things like checkout wait times like customers, experience of those moments is improving, but they're not telling us exactly how they're improving or how bad their internal data shows that those things are. They're telling us that it's on a road to improvement.

*<*[*CLIP*](https://app.webinar.net/ZW5L1eZXOnd/on-demand?token=NmE2NDRmMjYtZDRjYy00YjMzLThlYmYtOTkxYjUwZDg3NWMwO2RxM2NseW5rNXIuMTczMzUwMjgwMzAyOEByYW5kb20ud2ViaW5hci5uZXQ7NjcyY2JjNTQ3M2NiZmQyYWEyMGYyZTVh)*> TARGET EARNINGS CALL 11/20: Net Promoter Scores for wait times at checkout lanes, satisfaction with team member interactions at both checkout and while shopping, ability to find products, and the cleanliness of our stores are all up year over year.*

SARAH: One thing that they have talked about when questioned by analysts or investors about what they're going to do about the sales decline is, they do try to emphasize that they have tried to lower prices this year. They said they have lowered prices on…

*<*[*CLIP*](https://app.webinar.net/ZW5L1eZXOnd/on-demand?token=NmE2NDRmMjYtZDRjYy00YjMzLThlYmYtOTkxYjUwZDg3NWMwO2RxM2NseW5rNXIuMTczMzUwMjgwMzAyOEByYW5kb20ud2ViaW5hci5uZXQ7NjcyY2JjNTQ3M2NiZmQyYWEyMGYyZTVh)*> TARGET EARNINGS CALL 11/20: …5,000 everyday items earlier this year. We reduced prices on an additional 2,000 items to drive traffic and help celebrate the holidays.*

SARAH: They realize that shoppers want cheaper stuff. Right? They want lower prices. So they're focused on that. And then they're sort of matching that with what they call a sort of distinctive product. Right. They know that people come to them because they want something cool and interesting. So they're trying to redouble their efforts on that front as well.

NOEL: And so the feeling about Target among people in your profession who know what they're doing is it's still there's still some madness here. There's still some potential problems here. Is this a Target problem or is this a problem for every store that is like Target?

SARAH: Right now, it's a Target problem.

SCORING <Frogs Not Hopping>

SARAH: Target is a place that does sort of attract this like… <laughs> You know, people love to shop there, right? It has, like, this…. this emotional attachment for a lot of people, especially, I think moms that want to like, get away from their kids and browse the aisles is a story I hear about often….

NOEL AND SARAH: <laugh>

SARAH: You know, that's not gone. We're not at a place where, like, Target’s going out of business and they're the next Sears. Like we are not there yet. Right. But we are at a place where you see their sales kind of getting out of step with broader trends. And that's the thing. I think that – like, that's why you saw the stock drop 20% after earnings. It's unexpected and it's a little out of step.

SCORING BUMP

NOEL: *The Wall Street Journal*’s Sarah Nassauer.

Coming up: WalMart’s brilliant strategerie. It is stealing Target’s higher-income customers. It’s going organic. It’s coming for Whole Foods! It’s rolling back DEI. Can ONE single store appeal to … EVERYONE? Walmart's gonna try.

[BREAK]

[BUMPER]

NOEL: We’re back with the Wall Street Journal’s Sarah Nassauer who reports on retail. Alright, let's talk about Wal-Mart. I have long been under the impression that Target is fancier than Wal-Mart, possibly even fancy. But maybe I'm just a rube. Are Walmart and Target comparable stores?

SARAH: The annoying answer is yes and no.

NOEL: Ooh.

SARAH: They're comparable stores in that they're both a place where you can go and get lots, like a wide variety of things, right? Like the gallon of milk, the toothpaste and the throw pillow. But Target has always had a slightly higher income core shopper, a different real estate footprint. And again, remember, they have those department store roots. The whole model has always been about a little bit fancier product, a little bit trendier product and attracting people into the store for that. Wal-Mart has been a discounter, a low price player, the country's largest grocer, and people associate Wal-Mart with a low price.

*<*[*CLIP*](https://www.youtube.com/watch?v=BDHfnAs2hlQ)*> 1979 WALMART AD: Walmart’s super inflation buster sale blasts through the inflation barrier with big discount savings on hundreds of everyday items, like Conair’s … <fade>*

NOEL: And like Target, Walmart also reported earnings recently. What's going on there?

SARAH: Walmart is doing really, really well. They're growing really fast. It should be noted Walmart is a much larger company than Target. You know, people compare them. But Walmart is massive compared to Target. So when they report positive sales growth of around 5% in the U.S. like they did last quarter, they're growing really fast. Right. Compared to Target, they're just like grabbing a lot of business.

NOEL: Hm

SARAH: And the thing that's happening at Walmart is also sort of in the post-pandemic era. They have really made a conscious effort to try to attract higher income folks because, like, you know, everyone shops at Wal-Mart in America in some capacity at some times, even if it's like you just go there once a year when you're on vacation and someplace and you don't know where else to go, right? You'd still go to Walmart. And so they're it's hard for them to grow. So they've made an effort to go after higher income folks with their apparel selection, their food selection and that and even like their marketing - the style of marketing.

*<*[*CLIP*](https://www.youtube.com/shorts/NweylZeVRKk)*> YOUTUBE SHORT: Walmart just launched a new private label brand called Bettergoods. Bettergoods has a really interesting lineup of products, including plant-based cheeses.*

*<*[*CLIP*](https://www.youtube.com/watch?v=pwWRk_IKwag)*> CBS: They’re saying that they’re going after the Whole Foods customer…*

*<*[*CLIP*](https://www.youtube.com/watch?v=9pn4kd3D1Gs)*> SPON CON: … I’m a fashion and style content creator, and today I’m gonna share all of my favorite fall finds – <music cuts> – all from Walmart.*

SARAH: So that's more of a direct threat to what Target does.

NOEL: Yeah, I always thought of Wal-Mart as the place you go when you're broke, and Target as the place you go when you're flush. Walmart wants to eat up Target’s flush customer. What counts as an upper income earner these days?

SARAH: Well, Walmart defines that as households earning $100,000 or more a year.

NOEL: Wow. Okay, so you're making six figures, but you're still shopping at the Walmart, maybe even for like, clothing and food. What is, what is Walmart doing to attract six figure earners?

SARAH: Well, the first thing they did to attract six figure earners is just to be Walmart at a time when inflation is killing people's wallets. Right. So that like it was sort of this moment where you remember during the pandemic when they were all competing to get that big roll of toilet paper and everybody was just rushing around like a chicken with their head cut off trying to get toilet paper. Well, like all the retailers benefited, right? Walmart, Target, everyone saw this huge surge in demand, were buying throw pillows and like backyard grills and all this stuff. Right. And people are flush with stimulus dollars. So there was just like a huge influx of business for a lot of retailers. Walmart, you know, coming out of that inflation was such a huge role that lots of high income households are going to Walmart just to get cheaper groceries. Right. Or, you know. And so what Walmart is trying to do now is keep those folks even when they start to feel flush or even when they feel flush again. Right. It's about just naturally who they are kind of draws people in down times and Target struggles. But Walmart wants to keep those people now and has done a few things to try to do that.

NOEL: What what has it done? What would I find at Walmart today that maybe I wouldn't have a couple of years ago?

SARAH: They've worked hard to improve like a fresh produce. So just the quality of the fresh produce, more organic food, probably a little bit more distinctive brands like, you know, the sort of unique hot sauce that you might not think you could find there. They've tried to go a little bit higher end on their apparel. You know, the the price points can be a little higher on those items. And you're used to seeing at Walmart, but still relatively good deal there. Try to make those things like home goods and apparel look a little trendier. I don't think that, you know, they're quite the same. You know, Target is more universally trendy and stylish when they're trying to design goods, so they're not the same thing. But if you're going for cheap groceries, you might think, well, this is good enough. And the other thing Walmart is doing is leaning into some of their e-commerce stuff, like buy online, pick up in a store parking lot. Those types of systems have gotten just smoother and that is appealing to a lot of people as well.

NOEL: Walmart still does have a traditional kind of customer, and that traditional customer does not make a hundred grand or more a year.

SARAH: Correct.

NOEL: Is there any risk of losing your, you know, your sort of legacy customer if you're like, let's go after the the richer ones?

SARAH: Yes. Yes, definitely. And that's always the the tricky play. And that has actually been a problem. Walmart has tried to do this, you know, like grab and keep the higher income shoppers for decades. Right. There's been waves of that. Depending on who's in charge. And there's sort of an apocryphal tale in Walmart world where back in the day they tried to go higher end and compete with Target on apparel and brought their apparel offices to New York. And really, they just sold a lot less stuff overall because they ate into the sales of like the socks and the undershirts. And, you know, for years there was sort of this like traumatic response. You know, when you talk to folks about that experience. And that they knew they should stay in their lane. So what we're seeing now is kind of a revival of that thought and a different era, right, of of doing that same thing.

NOEL: After the election, Wal-Mart made some very big news about its plans for DEI. What happened there?

SARAH: So basically, the week before Thanksgiving, Wal-Mart said that it was going to roll back some of its DEI initiatives, along with, you know, some of its broader policies that conservative activists would call sort of woke policies in corporate America.

*<*[*CLIP*](https://www.youtube.com/watch?v=5SZ-LftrlyY)*> WFAA: The company says it’s ditching its $100M commitment to diversity, equity, and inclusion programs, after pressure from conservative –*

*<*[*CLIP*](https://www.youtube.com/watch?v=DRSZSb7YfrI)*> CBS: – conservative activists. A few of the changes: phasing out the term DEI, winding down the Center for Racial Equity, no longer giving priority treatment to suppliers based on race or gender diversity… <fade>*

SARAH: And it was an interesting moment for me because I've I've covered a few of these announcements from companies, but none as big as Wal-Mart. So when Wal-Mart does something like this, it sort of has a different kind of effect on corporate America and response from shoppers and workers and all of those things. And from a company perspective, the concern is we're going to lose shoppers, right? We're going to lose shoppers or not be able to hire as many people if people perceive us this way. That said, this is part of a yearslong sort of turn away from even the term DEI. Like last year, Wal-Mart started to use the word belonging. Right? That doesn't mean that the policies change necessarily, but the corporate titles and the report that you get every year now has the word belonging in it. So there's you know, it's it's acute, but it's also sort of a a drip, drip, drip that we've seen in recent years.

NOEL: All right. So the story of retail is one of ebb and flow. Sometimes you're up, sometimes you're down, sometimes you're fancy. Sometimes the other guy is eating into your fancy clientele. Target is not in a great spot right now. Walmart is booming. What is the takeaway here?

SARAH: Well, I think the takeaway is that Target has long been in a tricky spot when folks are feeling less flush. Right. Just what they do. It's not you're not going to splurge as much when you're feeling less flush. And so that's sort of a long term challenge for the company in downtimes. What we're seeing now, I think, is another round of that where they have to decide, hey, can we be distinctive enough? Right. Can our products be so cool that people will come to us? And that's just a very tricky thing to do. I think the takeaway is, if your thing is selling cheap groceries like Walmart or an Aldi or someone else like that, it's easier to have kind of a steady eddy business, at least when it comes to demand.

SCORING <NOW It’s a Mystery>

SARAH: I think that Target is in a place where what people love about them is this fun thing. This like, I am just going to go to Target and browse the aisles and it's almost self-care. Yes, it's consumerism and I'm picking up milk, but I really enjoy it. That is the thing that I've heard about Target, you know, my whole life, really. And I remember when there was the first Target that opened in Brooklyn where I used to live, and it was just mobbed. It was like, you know, I don't know, like every like I don't know, people hadn't eaten in months or something and they were swarming this Target when it was open. So there's this kind of, like, fervent emotional attachment, part of Target that I find really interesting. But that means that right now, when you see that Target is struggling to draw people in with its products, if it's not cheap food. Right. It means that it's hard. It's going to be hard for them to… it's hard to maintain that level of engagement with people in that way. And so they're just in a tricky spot right now. And time will tell whether or not, you know, they can sort of get back on track.

SCORING BUMP

NOEL: Sarah Nassauer, *The Wall Street Journal*.

Today’s episode was produced by Amanda Lewellyn, edited by Matthew Collette, fact-checked by Laura Bullard, engineered by Patrick Boyd and Rob Byers, and hosted by Noel King.

[10 SECONDS OF SILENCE]