

RESEARCH PAPER



Target Corporation: Retail store catching up with Digital future

Shreyaskumar kathiriya, N19548810

Management of Technology

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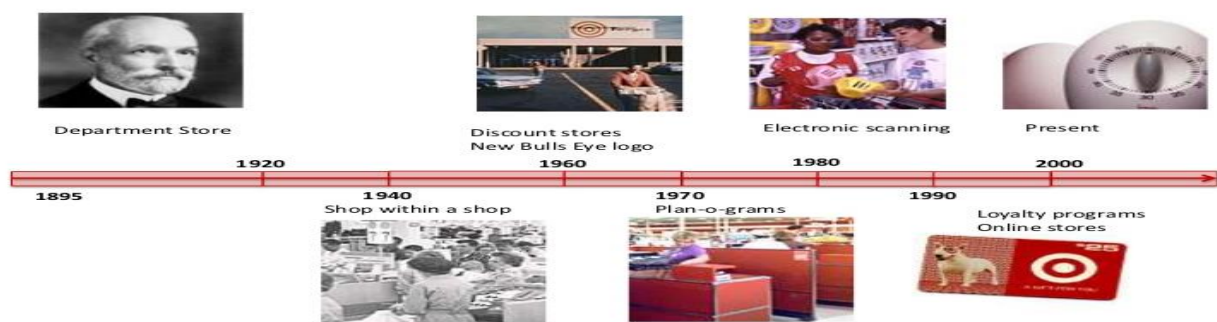
Abstract:

We have come a long way from the era of brick and mortar companies competing to have more number of stores opened, covering every corner of the city to digital stores taking over them. Online stores with the convenience and many more perks that outweighs the downfalls of traditional physical store. This has forced numerous traditional companies to shut dozens of stores around the world, and the fever only appears to rise. With the technological discoveries like machine learning, AI and blockchain it is only stupid to stick to only physical store business model. Technology has revolutionized the whole shopping experience with AI chat bots that helps the customers without actually needing a human, Deep learning voice assistance, blockchain technology that lets you track your fruit from the farm to your house and convoluted machine learning product suggesting systems that finds you the best product of your personal taste and preference. In this paper we will talk about Target corporation, how it started as a brick and mortar presence with sprawling store fleets, has been evolving with the change in technological waves and customer preferences.

Introduction:

Target corporation is recognized by its bulls-eye logo and for being second largest discount retailer. It was found in 1902, and had its IPO in 1967, first store opened in 1960 since then it has reached 1844 stores in 47 states of North America by 2018, with more incoming stores in 2019. Target's mission statement is to "make Target everyone's go to shopping destination in all channels by delivering a wide range of value packed products, unstoppable innovation and outstanding customer experience with the tag line of "Expect more, pay less". Target's success lies with its clear vision of where to go and what to do and its strong brand image. It has changed

strategies to get equipped for the changing market behavior. Comparing with Walmart, which mostly competes at low prices, Target has made its different position with the affordable yet fashionable products. Target's late arrival to the digital market has given rivals a head start, but with Target's digital efforts and aggressive strategy, and with investment of billions in right places has let it narrow the gap with its rivals Walmart and Amazon. Target is redesigning its store keeping contrasting customer behavior in mind. Target has introduced buy online/pickup and further Drive Up services to bring together physical stores and digital market at its best. Pushing forward its payment and delivery services has helped it lessen the gap with Amazon even further. Target sets an example for industries that come from being a big-box retailer with wide spread stores to the modern customer changing demands and convenience, and its future only appears brighter. Even with the significant delay in the entry to the digital market, Target.com has managed to be the most-visited retail website in the US.[1, 2]



11th position in “Most Innovative company in 2019”:

Target is not only a retail giant but also has a significant control over the fast moving online shopping market too, and it has extensive product lines from the in house brands. It is no surprise to see Target listed in the most innovative company 2019 with a whopping sales and revenue

numbers from its in house products made in Minneapolis-based design lab. Target has launched more than 20 private-label lines, coving all sorts of products. The sales from just six of these lines has reached 1 billion in its inaugural year 2017 itself. One of their lines, Cat & jack, became a 2 billion business in the matter of couple of months. Another line made business of 3 million pairs of pants in first 12 months. Stores had 5% high traffic in the year 2017 and nearly one third of the revenue in 2017 was from its own brands. Target not only spikes sales but it also builds loyalty with customers with these in house brands.[3]

The 3 box solution:

This solution method was put forward by Vijan Govindrajan in his New York Times bestselling book. He calls it the ultimate strategy for leading Innovation. He puts forward the idea of breaking the company's long term objectives in 3 boxes, "Manage the present", "Selectively forget the past" and "Create the future".

Box 1: Manage the present:

Target always has been a brick and motor retail store chain and it continues to be that with a little hybridization as per the change in customer behavior. In the hustle to climb atop the online market, Target also needs to keep their customers in mind who prefer traditional way of going to stores and shop. It is important to manage their gigantic physical stores and keep them flourishing with the customer traffic and necessary changes that it demands.

Store remodeling:

Target is spending \$250 million to remodel 28 of its Twin Cities stores and has claimed to reimagine more than 1000 stores by the end of 2020. The reason behind this transformational step as per Mark Schindele, senior vice president, being that Target has always prioritized customer

shopping experience and this remodeling will not only add new features that highlight the assortments considering the specific need of the local guests, but will also help Target understand their clients and keep a check on the behavioral and social change and adapt with it . They are believed to go big with the remodeling ideas in states like Los Angeles, New York and Chicago. The remodeling comprises of small details, like even the music that plays in the background, the aesthetic design, merchandise presentation and area that would show trending products in the stores. The significant changes to be noticed will be like bigger order pickup counters/ Drive Up lane for faster online order processing and the whole new concept of two entrance store is implemented in a way that one entrance will have quick grab items i.e grocery items and other will have an inspirational item like brand displays and apparels. [4]

Target India :

Target extended its headquarters in India for its affluent and cheap supply of engineers. India supports Target's global strategies ranging from technology, marketing, human resources, finance, merchandising, supply chain, analytics, and reporting. Target India is an engineering focused organization, it closely corporates with global teams and is driving change across all the businesses. [5]

Opening small format stores:

Target is known for its huge stores that stretches to great area, but they are seen to have some different plans for the upcoming future of Target stores. Target has started opening small format stores from 2017, which are a perfect fit for urban dense markets and college campuses. This stepping in new store format has two big perks attached to it, not only small format stores lets guest have their online orders picked from one of these small format stores in their neighborhood

but it also let target reach places and customers they could not before with those huge store formats and bigger budgets, which were not perfect for all demographics.[4, 6]

Box 2: Selectively forget the past:

The box 2 emphasizes on evolving with the changing surrounding. Target's box 2 would without any doubt be its age old traditional way of doing business with focusing only on its physical stores. Target learned it the hard way with drop in sales year after year, which forced it to shut down several Target outlet stores. The past that Target had to keep behind was the mindset of having only physical store business model will keep them alive and growing in this rapidly changing digital world.

Box 3: Create the Future:

This box is for experimentation, and stepping on the breakthrough ground keeping in mind the change in trends. Box 3 holds uncertainty as it has not been tried before and there isn't any historical result to refer to. Target has an unending list of technologies and strategic changes it is working on for the future growth, away from their physical store business model.

Growth of E-Commerce:

Target joined the e-commerce race a little later than its rivals, and since then it has been working on getting to the top of the chain. Target has been growing magnificently on its driving digital transformation, one of the significant change was integrating its store supply chain with the digital inventories and developing capabilities to stay atop online orders. Hundreds of stores serving as fulfillment centers, making hundreds of online deliveries throughout the day.[2, 7]

Enterprise Data and Business Intelligence:

Shopping at Target is no more just restricted to stores but has moved to online website as well. In the world of competitive retailing, data plays a significant role in providing customization on shopping experience for the customers based on their history. Data thus plays important role in providing a better shopping experience. Target India has listed down three vital objectives: usage of data as a utility, optimizing operations and usage of data as an asset. Target India is using Hadoop over the traditional Data storage to further automate the subject area. Target uses data to create a recommendation system which starts knowing the guest by their preference and shopping behavior and makes everything automated using machine learning. Target not only uses data to understand customers but also uses it to improve overall inventory positioning for efficient use of warehouses.[5]

Use of cloud Models:

Target extensively uses cloud storage and demands any code written by an engineer to be cloud ready. This further simplifies the deploying process and scale the product effortlessly, it also expedites the delivery of the product to the global business teams than the traditional application development. [5]

Use of AI & Analytics:

Use of AI and machine learning has built the strong foundation for digital Target stores, and shopping experience. Target is believed to be using AI widely way before it was in popular in the industry to personalize the content of the website according to the user, providing a seamless experience. Target has been using sensor data to change the lighting and temperature of the store to enhance the experience for the customers on the basis of the popularity of the section of the store. [5]

Autonomous AI distribution warehouse:

In long run automation is the only solution that helps overcome limitation on the supply chain. Target has implemented a fully- autonomous distribution warehouse, planning to build multiple such warehouses. These automation drastically cuts on the operation cost as well as reduces warehouse space. Automation helps big retail industry to save a big deal on labors. Target AI automation distribution-center helped reduce labor costs by 80% and operate warehouses that are 25% to 40% smaller as per wall street journal. [8]

Mobile Payment:

Target launched mobile payment integrated with their mobile shopping app in 2018. This mobile app further makes the shopping experience seamless, and provide a much faster check out for customer who comes to target for some quick shopping and wouldn't want to wait in the payment queue.[4, 7]

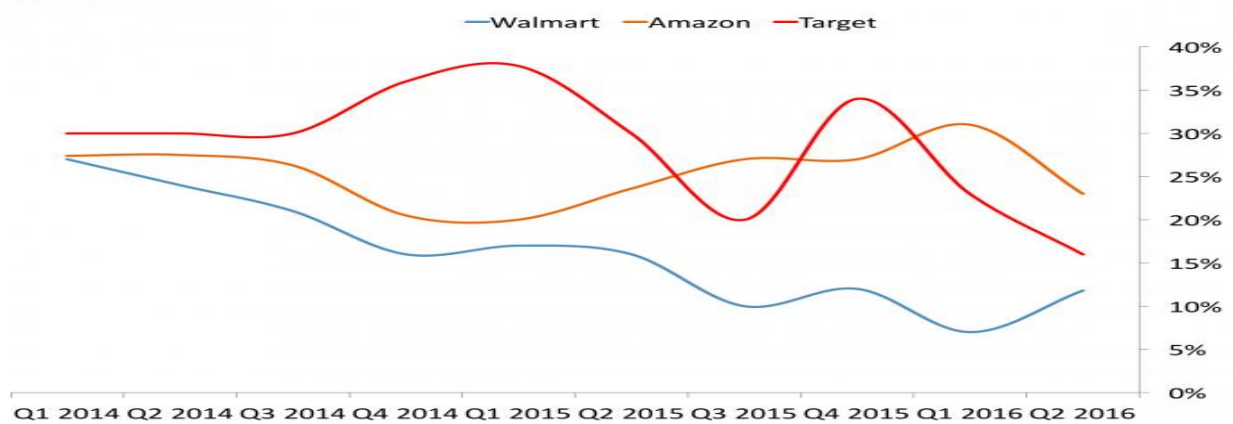
Market Competition from rivals:

Target's top rivals would be Walmart and Amazon for two completely different reasons. Walmart is a multinational retail corporation with 11,718 stores in 2018, just like Target with the business focus being seamless store shopping experience for the customers. Walmart is spreading its reach in e-commerce market like Target , it dominates the market with 26% share compared to Target's 1.4%. Unlike Walmart, Amazon is an electronic commerce and cloud computing company. It has a strong customer base and the benefit of being an internet influencer with the base business model being online shopping. Amazon is also having talks of spreading its physical stores. Target is competing in both, physical stores and online shopping, with the rivals like Walmart, which is a

top player in brick and mortar business model, and Amazon which is a top player in e-commerce shopping platform.

	Target	Walmart
Product	40%-Household products 20%- consumable	45% consumable
Price	1-2% more than Walmart	Aggressively low
Promotion	2.3%	0.3%

Year-Over-Year (YoY) Global Online Retail Sales Growth



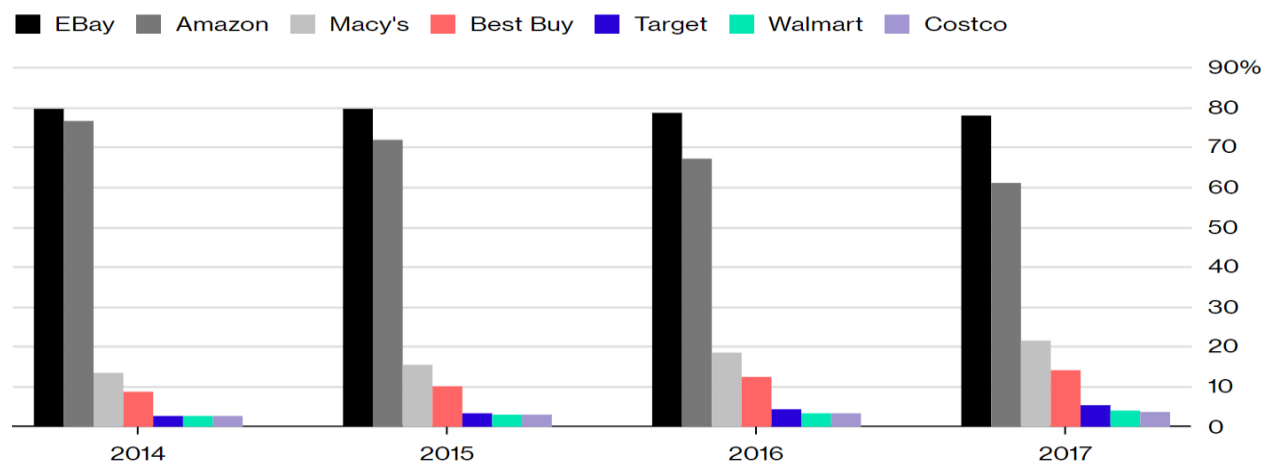
Target beating the Rivals:

Walmart might be quite bigger than Target, but size doesn't tell how well the company is doing or how efficient they are operating. Comparing the profitability may give a better insight to how well a company is doing.

	Wal-Mart	Target
Gross Margin (TTM)	25.35%	31.15%
Gross Margin - 10 Year Average	25.23	29.22
Net Profit Margin (TTM)	-0.67	4.49
Net Profit Margin - 10 Year Average	1.02	4.19

What Target has in abundance over Amazon is the emotional connection and loyalty from the customer. A consumer perceives Amazon as a convenient shopping experience which lacks

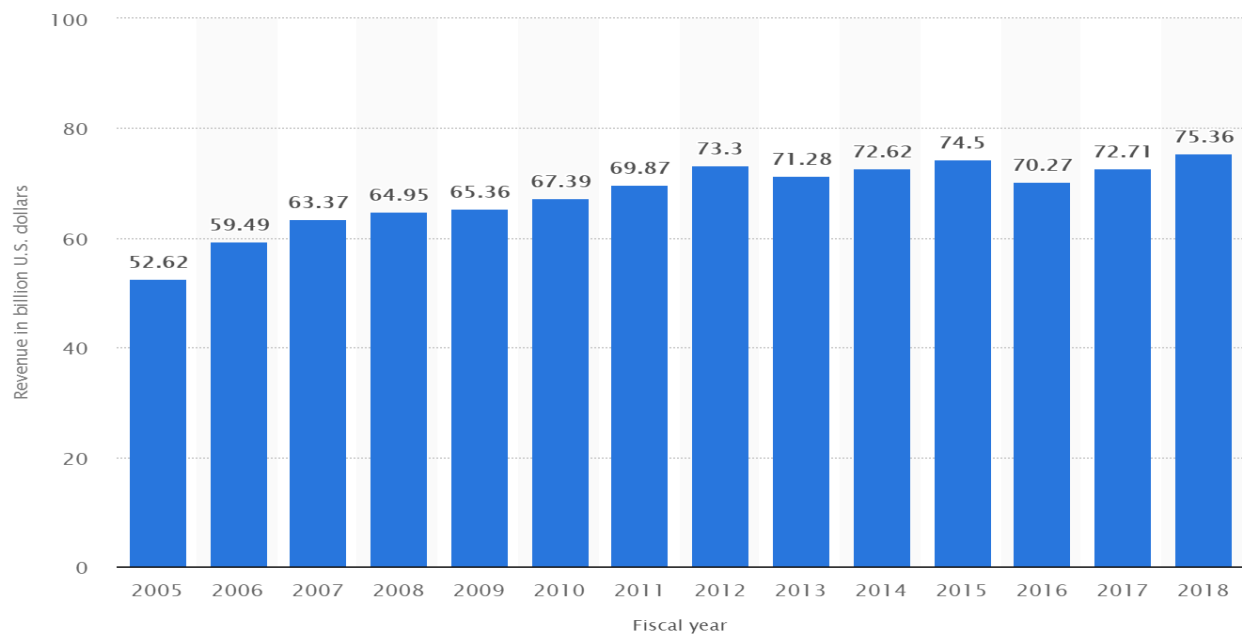
personal connection. Retail business demands customer's emotion towards the company. Also, Target is planning to launch Target+, a marketplace for third-party sellers and brands like Amazon. These third-party brands can only participate if they are invited by Target, unlike Amazon where any third party can sell their products. Target's invitation based third-part market gives it an advantage of effectively policy keeping.[9, 10]



Final Analysis:

Target's aggressive business strategy in year 2018 has launched it from mass merchant to the top retailer chain, thanks to its investment in 3 key areas: Private label, small-format stores and delivery. Target's urban appeal, and its unique order online but store pickup has given them a competitive advantage over Amazon and Walmart. Target Acquired Shipt delivery provider to give same day delivery services. Target invested a \$7 billion to improve its digital presence. Target's CartWheel mobile app has grown to 27 million shoppers, and this app saves \$600 million at checkout. Average visitors on Target.com daily are 1.2 million with average number of pages per visit being 6.7, average time spent is 4 minutes and 63% of them are female. Target reported stores traffic growth from 3.7% to 6.4% from May 2018 to Aug 2018 and strong quarterly growth

in over 10 years. Target sales are breaking all time records with second quarter increased by 6.5%, while digital sales grew by 41%. In the third quarter, sales again grew by 49%. "It's our stores that are enabling our digital growth and strategy," CEO Brian Cornell told Retail Dive at a media event in October. Target has projected to grow rapidly with their attitude to readily change with the innovation and customer needs.[10-15]



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