Target

Case Study report

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# Key Marketing Issue

What’s Target’s strategy in dealing with the grocery business, to abandon it, to scale down it, or to outsource it? The grocery business has been so difficult with such a low gross margin that Target should figure out a strategy about its grocery business.

# Alternative Solution A

To abandon grocery business totally.

## Pros

* Release of floor space to non-perishable staples which have a higher margin rate.
* Release of staff and equipment of grocery. So the operation cost is also reduced.

## cons

* Lose the confidence of some loyal customers who are used to Target’s grocery
* Target’s private label for grocery will also be abandoned
* Lose the confidence of employees because the employee of grocery will be laid off
* High remodel cost of $3 million per store. That’s $5.37 Billion for 1792 stores.

# Alternative Solution B

To outsource to some grocery chain store who is good at the management of grocery.

## Pros

* No remodel cost
* Target can earn the rent
* Keep Target’s loyal customers and keep target’s employees in grocery
* Target’s private label for grocery might also be kept

## cons

* It is hard to find an appropriate supermarket chain to work with Target because the chain may have their own stores competing with Target
* Can not release more space to the higher margin segment like clothing

# Recommendation

Solution B is recommended

## Quantitative analysis

* This table indicates the grocery sales of each chain. We try to figure out which chain is the most appropriate and possible partner to work with. Don’t think of Walmart because Walmart has its own chains everywhere. Don’t think of warehouse (Costco, Sam’s club) because of different operation model.



* Of the three main grocery chains, Kroger already has dense coverage, and Albertson’s and Safeway just finished their merge in Jan. 2015.
* Publix is the potential partner to work with. By the partnership with Target, Publix will have its grocery sales to 33 + 34.3 = $67.3 Billion in the first year, making Publix the #2 in grocery chain. There is no quicker way for Publix to raise its position.
* To calculate how much earning each store earned by grocery, we assume Target operated grocery as well as Kroger who had 2.8% of profit rate. This table shows grocery contributes profit of only $45K monthly to each store. That means, rent rate of grocery space at monthly $45K can make Target a good deal.



* Among the 3 approaches of scale down, abandon, and outsource, Target will spend $1.8 Billion in scale down, and $5.4 Billion in abandon. Only outsource can help Target make money. Assuming Target rent the space at monthly $100,000 each store (annual $1.2 million per store), then Target can earn 2.15 Billion each year just by rent. That’s 40% of Target’s 2015 earnings.



* With the same grocery space, Target can earn 2150.4/960.7 = 2.2 times by rent.

## QuaLitative analysis

* With this approach, Target can not only earn 2.2 times with the same grocery space, but also reduce its operation cost.
* And, Target can keep the customer traffic to its stores. Because grocery is daily necessity, keep grocery can keep customer’s traffic.
* By keeping customer’s traffic, Target can appeal more transactions on its apparel, hardline, and décor business.

# Implementation Plan

* List the top 10 grocery chains in the US with Kroger #1, Albertson’s-Safeway #2, Publix #3, and so on.
* Contact Publix firstly for the possible partnership, detailing the benefit for Publix, and dealing with the agreement.
* If Publix can not rent all of Target’s 1792 stores, it is OK to rent partial of 1792 stores. Target can set the bottom % for Publix to rent, e.g., Publix must rent at least 50% of all 1792 stores.
* Then contact the #4 grocery chain for the remaining stores, setting the bottom rent % at 25%. Keep the process until all 1792 stores are rented.
* When dealing with Publix or other chains, remember to ask the partners to utilize Target’s current employees in grocery and keep the loyal customers who are used to Target’s private label.