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Executives

John Mulligan - Chief Financial Officer

Analysts

Robert Ohmes - Bank of America Merrill Lynch

Robert Ohmes

We are going to get started. I feel very lucky that we were able to get Target to do our conference this year particularly with the timing of their Analyst Day yesterday. There was a great presentation they gave and they are giving us an opportunity for followup questions the day after. So most of you probably know John Mulligan, sitting to my right, the CFO of Target and I think a lot of you probably know John Hulbert very well from IR at Target.

So, with that, let me let John make maybe some very brief comments, but then we'll go right into Q&A.

John Mulligan

So, great to be here this morning, I think we had a good day yesterday. We talked a lot about where we're headed as a company, and we talked a lot about our five key priorities and those are the things we're going to focus on and Brian and I talk all the time that we're going to probably bore you to death with the same type of things over and over again for a few years here.

Driving digital sales, incredibly important, the digital sales were nice, but we really that's about engagement with our guest; our guest just becomes more engaged. Our signature categories and that's about driving the categories that the guests hold the stakes expect us to deliver and how we can differentiate from some of our other competitors and that's around style, incredibly important there with apparel, home, beauty, areas where again we can differentiate them and some of the capabilities we have. Baby and kids, those are real ways that the guests kind of enter their relationship with Target and then maintains it as we go through kids, so really important. And then given the nature of our guests, wellbeing, another one that's really, really important for us.

I also talked about localization, personalization and that's just about delivering what the guest wants, when they want it, in the store or online, being able to do that in the data and analytics that's sit behind that. And then fourth, again going where the guest is with urban locations, either City Target a little bit larger format, smaller than our existing stores, but a little bit larger and then TargetExpress much, much smaller.

And then fifth, a little bit to fund all of it we think there's a significant opportunity over the next couple of years to take out $2 billion of expense, 25% of that in cost of goods, the rest of it in SG&A, really a way for us to become leaner, more efficient and more agile as an organization and fund all of those investments.

And so, I look forward to taking your questions today.

Question-and-Answer Session

Q - Robert Ohmes

Great, I'll kick it off and please raise your hands after if you have any questions. There was a, John, I forgot the exact numbers, but I think part of the long term plan had some reductions in expenses in certain areas, or a big expense reduction number and can you remind me this sort of the corporate part of that and is it, are you, but I think you are actually also hiring people at the same time and I got a little confused, are you reducing the size of corporate or is it staying the same and can you just maybe give us your understanding there?

John Mulligan

Sure, I think broadly we looked across the entire enterprise at expense and I think a little bit of this is lessons learnt from what we do in the stores. They were very efficient, constantly driving productivity, investing in that with technology to ensure we're taking out work, helping our store team members become more efficient and so there are lots of opportunities. I think the headquarters kind of became the focus yesterday because we talked a lot about simplifying and becoming more efficient in how we work. And I think that is important for us to move faster, become more agile, more efficient and push accountability down in the organization.

We talked yesterday about there's going to be, we've said the word thousands of positions at headquarters that will be eliminated. I think your point is right on Robby [ph] there are some others where we will continue to invest. We're going to continue to hire data and analytics individuals, engineers and technology, places we have to invest, there are some places in risk we need to continue to invest, but net-net when all is said and done, we will have a smaller, leaner, more agile headquarters and central operation to support both our channels.

Robert Ohmes

Then another area and this is, you know, I know Kathee is not here, but a bit of we'll give you a shot at it, so food, so food is not one of the pies, but food is still going to have changes. Remember beer, remember Greek Yogurt, remember candy…

John Mulligan

I remember beer.

Robert Ohmes

And I think healthy snacks and I think just one or two others, can you help us sort out how we should envision at least from right now how you think food is going to evolve?

John Mulligan

Yes, I think food is, when you split that from all of it, kind of classic, really frankly classic mistake right? We sit in the middle. We're not really special and we're not a full grocery and so we're sitting in the middle of no man's land and our guest says that they're like, you're not [indiscernible] for me. So a lot of, we did a lot of research, lots of conversations with our guests and the clear message is, look we expect Target to be specialized, just like the rest of the store. It should be more like the rest of the store. So we're not going to be at least today, Brian said yesterday, never say never, but we're not going to be the broad line grocery store in most of our formats, SuperTarget a little bit different.

And so, in food we heard the feedback very clearly, be more specialized and there it is about wellbeing. Drive the assortment through wellness and wellbeing and that's why yogurt, healthy snacks, some of the other things we talked about along with improving our perishable offering. And so there's a lot of work to do in food. A lot of testing is going on and Kathee talked yesterday about testing in Chicago. There's a couple of other markets where we're doing some tests around supply chain that's sits behind our food offering, but it is about moving toward wellness.

And then the other thing is tying it to the rest of the store and really being able to connect food to occasions and we can put together a whole dinner party for you. We can put together your whole Christmas for you with everything else we offer in the rest of the store and so tying food into the rest of that and really being able to offer something that a grocery can't offer. Right? We can give you your dress, we can give you the invitations, we can give you the tabletop and give you all the decorations and the food, that's something that we need to focus on as well.

So a lot of work to do in food and that will be the longest journey. We talked about that yesterday, a lot of testing in 2015 we'll try and no, we won't try, we'll make some short run improvements here in our supply chain to improve quality and freshness, but really got to be something more 2016 you'll start to see changes and that's a several year journey to improve our food offering.

Robert Ohmes

And then another follow up question from yesterday, in terms of the guidance you gave on the same-store sales side, and sort of maybe tie this in there with some positive things, I think you guys were saying about driving traffic.

Can you help us sort through when we think about the 2015 guidance, is it a consistent sort of comp quarter-to-quarter that you're shooting for and maybe as we're looking through the first quarter versus other quarters was there or way beyond the easy comparisons from the credit breach and so what gives you the confidence in what the actual underlying traffic trend is?

John Mulligan

Yes, I think two things kind of are opposing each other here as we think about it, one as you look at the year last year, certainly our comps improved every quarter last year and then culminated in a very strong fourth quarter, very strong traffic in the fourth quarter both in-stores and online, but notably very strong traffic in stores. So comp-ing against that, we would expect as we go along those comps become more difficult to cycle against.

The other part of that though is, as we talked about all the initiatives we're doing, the further we get into the year, the more we will have. Right? When we think about the signature categories, when we look at the back half of the year some of this product is coming in home we're really excited about some of the changes in apparel we're really excited about.

We're also rolling out the new merchandizing fixtures, packaged in apparel with mannequins. We look to roll out probably by sometime late in the fall at least to 250 stores the new home set. So there are some things swinging the other way that as we get further into these initiatives they'll begin to drive traffic. So it's a little bit of both, we think that net-net probably relatively consistent as the year goes on from a comp perspective, but we're really excited as we go along.

And I think the point we tried to make yesterday, and hopefully did is, this is going to take some time, all these initiatives will take time and we're just at the very early stages. And so, as we implement them, we think we'll start to see traffic build, we'll see the digital channel continue to grow quickly, but in-store we'll start to see traffic build as the year progresses and in the next year.

Robert Ohmes

We're going to make sure there are not questions out in the audience.

John Mulligan

We answered all the questions yesterday.

Robert Ohmes

We, and I got you leaving a little late, but the REDcard, can you help us understand how REDcard is going to stay the same and where it might transition or be different? I think you guys talked about maybe incorporating it more into some of your mobile initiatives and things like that?

John Mulligan

Yes, that was a great question, I think we love REDcard, we think it's a great product for us, the guest response to it. Clearly there is no getting around we saw the impact and the bigger breach on the REDcard growth particularly on the debit side. We've sort of come past that now and we're starting to see growth resume again as we talked about and that's great to see.

But I think, more broadly, the question for us is around what are we doing in loyalty. And historically the REDcard has been the focus of our loyalty program that's tender based and the reality is that some of our guests, some consumers, they just don’t want tender to be the thing that ties them to a store.

And so, we're doing some tests in Raleigh-Durham right now we call it REDperks, it's a nontender based loyalty program. And really the challenge for us what we're thinking through and testing through is, how do we take a broader loyalty umbrella, because we have the REDcard, we have Pharmacy Rewards, we've got the Cartwheel [ph] that looks a lot like a loyalty program that's very focused offers there and then we've got REDperks which will be the umbrella.

And that's what we're trying to test here, but we think REDcard is an important feature that really is going to need to be broader than that. Again, all with the intent to communicate to our guests become much more personalized in our offerings and much more engaged with them as they engage with Target.

Robert Ohmes

Sure, nobody asking anything? Okay we've got a question.

Unidentified Analyst

Thank you, just a follow up on your loyalty initiatives, could you give a sense for the timelines for the rollout, like when do you expect to have initial results from the tests and when would you see a full rollout of that? And also more broadly, how would that be differentiated from the other nontender based loyalty programs that have been introduced like in the marketplace, TJX, Kohl's and others?

John Mulligan

Yes I think, that's the question right? I would tell you first from a timing standpoint we're very early. We just put it in the Raleigh-Durham market in late January, so it's only been there five, six weeks or something like that, so we're very early. And there is great take up which we're excited about, but to see the behaviors and I think part of it gives to exactly what you said. What are the offers? How do we make that different from what everyone else sees and it's not just another high low loyalty program? That is the challenge for us.

So, we're testing some things and I don’t think you'll see us go really fast here. There's a lot for us to learn and again how we connect it all back to the several pieces we've got, REDcard, Pharmacy Rewards, Cartwheel. So there's a fair bit of testing that we're going to need to do here and I wouldn’t expect to see us doing anything dramatic certainly before next year because I think we have a lot of work to do.

Sorry, I don’t have the answer to your question about how we'll be different because we're testing into that today. What kind of offers makes sense and how can we engage that guest in a different way than others do and that's what we're working through right now.

Robert Ohmes

I had another question just on versus sort of a historical or maybe to give us context, so Brian Cornell said a lot of things, but I remember towards the end when he was talking about the merchandising approach and I don’t want to, but I don’t remember exactly what he said, but it was something about we want to make merchandising decisions that are sustainable. And I guess my question is can you just help us understand the sort of change in the merchandising approach? What would have been like the barrier in the past to Kathee or the merchandising team making good and sustainable merchandising decisions that's not there now?

John Mulligan

Yes, I think if you look back at when we were on top of our game from our merchandising perspective, there was a fair bit of risk taking that went on and not big risk, just lots and lots of little risks across the company and putting things into the store that were a little bit different. And I think we lost some of that. As we look back, the way we behaved there was a great appetite for very large risks and we took some of the large risks trying to convert the website in two years when everyone told us three and the way we approached Canada was a large risk. We got comfortable with that.

We got very uncomfortable and we're taking smaller risks and I don't know if you saw GE's annual report. I love the way they put it, if you want to see where things go to die, look at the second or third level review. Die, and we have a little bit of that and it gets back to the leaner and more agile. And I think our merchants got put through a lot of rigor when they want to change the way they are presenting things or they want to bring in product that was a little bit different.

And we've put in place controls or governance that really inhibited that. And so moving a lot of that to the side and we've been working on that now for probably approaching nine months getting through some of that and changing and letting them try some things.

I told somebody a week ago, I went and met with Bob Ulrich, who was our CEO about seven or eight years ago and he talked a lot about letting the merchants just do some things and forcing them to do some things. And when we put in men's blazers we forced them to put in light green ones and bright blue, just because they were different and they would catch your eye when you walk by instead of just seeing grey, black whatever that everyone else offered. Put some things in there that are different and the merchant came back and said hey, we actually sold some of those green ones or whatever and he would just like oh that's unimportant, but the point was just put some things out there.

And so I think getting back to that and you can see the energy our merchants have about that. And if you have a chance go back and look at some of the presentations from yesterday because you'll really see the product and how its evolving and our PD&D team kind of taking the handcuffs off of them and letting them design where trend is going and getting back to the things that we do well from a product standpoint and then I think a lot of it is just removing the shackles.

Robert Ohmes

Another question I had was on the term localization is come up a lot since Brian came in. Can you sort of where are Wal-Mart, sorry where are Target's systems today? Wal-Mart is good at it. So, localization, yes. So where are Target systems you know, maybe versus Wal-Mart's on ability to move towards it, what has to change to really execute localization and how soon could we see that and is there – are there any cultural barriers to the localization for Target?

John Mulligan

I think we have a long way to go. We are unlike you know, first starter up and the first thing as it relates to localization, we do some around climate and that's about the extent of it. I think for us it is understanding there's all different kinds of ways to localize and our systems aren’t where they need to be to support that, because we come from a place where and I think it's the right place you want to make sure every guest gets that what we think about this Target brand experience.

The store looks, feels the same and I think we took that to an extreme where that meant the product had to be the same in every store. It's funny because Brian, he was in Florida a week ago and he saw a run of mittens and hats and it's like, well it's already 75 degrees down there. We're shipping in mittens and hats. We're basically buying markdowns and by the way the guest looks at it that way. What are you doing here? And when we pull paddy-o [ph] out in July when we pulled it out the rest of the chain and it's like, you know, its paddy-o [ph] year round in Florida.

So that's climate, but that's just a very nascent easy PD&D stuff that we still don't do well. So we have a long way to go here. But to support that to make sure that we can merchandise across if you know, today we do 30 planograms for whatever set we need to do 500 planograms. We have some technology that will allow that. I think the harder thing is allowing our merchandising teams to manage all the skews and that's what we're focused on, setting up the background so that they can manage all of that effectively.

And then the other part is the data analytics behind that to say this is what should go there. This is what the store looks like or this store looks like these other 350 stores, those 350 should all be merchandised the same and that's where we really have the opportunities, building models behind it to allow us to know what goes where and how and when. And then naturally we have some catch up to do. Brian makes the point. There's nothing new about localization and it's just new to us. You know the great thing is we've seen how to do it. We know others can do it and it's got upside for us as we implement it, but we've got a long way to go there.

Unidentified Analyst

Hey guys, long time no see. A quick question on the opportunities online, in the financial plan yesterday you referenced 40% I believe compound annual growth, which I think would probably get you to that 20% of total target sales in five years if I'm doing my math correctly?

John Mulligan

It's not gross level high maybe, but gross…

Unidentified Analyst

How is the infrastructure scale for that and what has to happen at the various distribution points like store level and DCs etc. over the five years beyond the near-term?

John Mulligan

Yeah, that's a great question because I think the supply chain and the way we need to evolve our supply chain is a critical piece of driving that growth.

Broadly speaking, the way I think about the supply chain is becoming much more flexible and it starts with when vendors ship to us all the way through to our stores and thinking about that entire supply chain as an opportunity to ship directly to the guest.

And for 50 years our supply chain has geared toward doing one thing, moving product as efficiently as possible from the vendors out the front door of the store and now you think about it's more of a web, any direction, any time. So our upstream distribution centers can ship direct to guests, our distribution centers can ship directly to a guest. Our stores can ship directly to our guest.

I think the most powerful piece that we think about as we model going out and the way we can avoid really large capital investments in building fulfillment centers is the stores. There is significant capacity there. And if you look at our store portfolio much like everybody's it is above curve of volumes and on the lower end of that volume curve there's a great opportunity to increase their overall return on invested capital by allowing them to ship from the stores.

A part of that needs to be getting prepositioning web only items in those stores and so we call that enhanced shipping stores and showing that those web-only products in some of those stores and then using the balance of the store inventory to fulfill the rest of the product. So we think that's the major driver and as we model that we can think that can be a significant portion of the supply chain for us and again a great opportunity to be very close to the guests, be very fast and to be very efficient because we are only shipping the last mile, so a great opportunity for us and we think that is where the focus will be for capital investment.

We went last year from 3 to 136 stores and shipping from store we have three, what we call enhanced shipment stores. So they are prepositioned to web-only items. We'll go to somewhere around 480 before the fourth quarter of this year. We'll also expand the enhanced shipment store this year and that really gives us a lot of flexibility as we think about gearing up for the fourth quarter because we really only need that 136 to get within a day or two of 90% of the population.

So as we add stores, that really just gives us flexibility to move around where those orders are coming from, to balance inventories and to create capacity, and even at you know, 480 we're still only at about 25% of our stores. We will have capacity to do everywhere or the day we do it everywhere. We may or may not do that, but if you think about the capacity that is there, it’s really enormous. And the guests love it because it is quick, I guess it is funny.

The workers back of the stores, the stores love it. We have some stores that are running one comps prior we couldn't ship from store, and all of a sudden the store is running at 10 comp and they love it. So it's a great opportunity to engage the store and really let them see that this is about both channels working together. So it is great culturally, it is great from an efficiency standpoint and it's a great win for our guests.

Unidentified Analyst

Just to repeat the question. How does the competition structure change around that?

John Mulligan

Yeah, I wish we could report out sales as we record them internally, because everyone gets credit for everything. The digital team gets credit for a sale that's shipped out of a store because it originated in a digital channel. The store team gets credit for shipping a sale out of their store. We want to make sure that the impediment is not that we have any other teams vying for where that sale actually comes from. Everybody gets credit within their own P&L for those sales and we think that's appropriate.

I think more broadly the things we've done this year around incentives, which is a positive is particularly around merchandising with all changes going on there in the category roses, so you know what, if you are the lifestyle buyer, we're not going to penalize you because you are not going to get a lot of investment. You're going to set the lifestyle set and you're going to make sure you're in stock and you are going to have a great assortment to drive gross margin and that's different than if you are the apparel buyer, women's apparel, you're going to get a lot of resources.

You know, we're going to reset the stores, we're going to give you a lot of marketing, the star campaign, you all saw that. So I think we're going to make sure that everyone feels like they are a part of in the same boat, swimming the way and they'll are be for this year anyway, they are all going to be compensated on total company sales. Are we driving the company sales? And I think that's incredibly important for us, especially in merchandizing, that they all feel like they are part of what we are doing here, even depending on which category they are in. Nobody feels like they are disadvantaged or can't win because it's really about the company winning.

Unidentified Analyst

Can you just help us with a build up to the 3% sales growth target, especially in the context of the 40% in e-commerce CAGR if we look out a few years, e-commerce growing at 40% would be greater than 3% of total company sales growth, so any help that you can give us and how you came up with that 3%?

John Mulligan

Well, the 40% growing faster than the 3%, that's a few years out there and certainly not in over the horizon we were looking at. As we look at the 3%, 1% just comp sales within the existing stores. So I think for us the important message there is, we think it’s really important that the stores are growing as well, but those traffic into the stores could ultimately [audio gap] that's the real power here is, the store is growing. 40% digital and I think this year that will mean about half of our comp increase that will grow overtime.

You're right, but we think over the next five years it will be the dominant piece of the comp, but still only gets us to like a 2.5 total comp increase, 1 from the stores, 0.5 from digital with the 40% growth and then another 0.5 growth from net new assets. And we think the primary really that will grow through time is probably TargetExpress. We got a lot of testing to do there to ensure that's the case and where that will be successful. But we think ultimately through time about 0.5 a point of total sales growth coming from net new assets, but I think it's the other two is about making sure the stores continue to grow. As you know, they don't just decay away and then the plus from the digital.

But the reason the digital is so important, obviously it's important because there's channel shifting going on and there is an element that we need to capture those sales, but for us as we look at it, the reason it is so important is that guest becomes so much more engaged with us. And we talked about that yesterday. They'll buy online, but when they buy online they get a little bit more than two times the number of trips in the store.

So they just become more engaged with Target in total. So driving digital is about driving digital that is also ends up driving the store and that’s why that channel is so important. And you know there is a lot of, I read a lot last night and this morning about the aggressiveness about 40% perhaps we need to invest behind that and make sure that we get people lean into the shop digitally, but that's incredibly important because that becomes, the spin wheel that drives the store sales and that's why we are focused on that.

Unidentified Analyst

Target was one of the leaders in terms of data analytics and understanding behavioral modeling and being able to anticipate peoples shopping patterns based on trends in lifestyle or life stage, can you give us a sense for how you're thinking about that going forward and any implications it might have for your promotional resource allocation, perhaps whether digital or what are you looking at on a forward looking basis?

John Mulligan

Yes, I think that’s a great question. We are going to invest a lot indeed in that. You are right, we started out, we're the leader and I would say we kind of got caught up in doing things across in different areas of the company and lost the cohesive view of the guest is one example. There are many others. We've gone back and said, we're going to centralize all those resources. We are going to bring in some additional data scientists, who can help us think through that in a better way and utilize more data beyond what we have internally right.

You can bring in other data that helps to augment your own. I think if you look back on Jeff's presentation yesterday, you'll see us as we communicate with the guest moving from broad channels like a Sunday circular to very focused channels like e-mail, ads, switching through to communicate directly to the guests and all of that driven by the personalization of the data we have.

We hired some individuals last year and in six months they put together the data and built a personalization engine. We thought we would test our way into that. We put it in the third quarter, we felt we'd test our way into that over a relatively extended period of time, but by the middle of third quarter was clear. It was performing better than the personalization engine we were using from a third-party provider and by fourth quarter we switched to our own personalization engine.

We are continuing to refine that. They kind of own that as a product and they continue to refine the analytics around that and we're going to start applying that to e-mail, to social media, to Cartwheel offers, everywhere we communicate to the guest to make sure it's much more relevant, much more personalized. And you're right we were good at this. I would say we kind of fell behind, but this is a huge, huge opportunity for us to continue to communicate with our guest in a more individualized way.

Unidentified Analyst

Just on the CapEx, you talked yesterday about $1 billion of the $2 billion related to IT related. How much of that is related to just omni-channel spending? And then if we think about the CapEx over the next several years that you've given some sense of how does the mix of IT spend within that change?

John Mulligan

The portion that's related to omni-channel, it's a little bit hard to break out, because there is certainly the part that's easy to understand right. This is about mobile and this is about the desktop and this is about the supply chain and making it more effective. But a lot of the IT spend that's on our, the core infrastructure of the company, that's about making it more omni-channel capable.

So things like right now we're in the middle of combining two inventory systems and the order management system into one place so the merchants can only manage one set of inventory because those like a lot of retailers those kind of grew up separately. I think you know, the digital business started on its own, so it didn't get squashed by the big gorilla, but now you actually have to integrate it back on the back side and that's true for inventory, it's true for guests, we just talked about that, it's true for item.

Several of the large systems that underpin a retailer has to be combined in the background and we're in the process of that. So that's a big portion of that spend as well. So it's really hard to parse upon what omni-channel and what's not because ultimately it's all about omni-channel.

I think as we go forward we spent 50 years building stores and that was our engine of growth and the reality today is, there is not going to be a chance, a place and I got asked this two or three times yesterday, where that IT spend comes down, because that is really the engine of growth. There's always been next guest facing thing. There is always the next capability that we're going to need to build because that’s where the guest is going.

And IT really becomes that engine that helps us drive that. We said overall $2 billion to $2.5 billion over the long term, the two kind of base spend, $2 billion to $2.2 billion, half of that is technology and supply chain today. I would expect that to continue to grow. Another big part will be continuing to reinvestment in the stores and making sure the experience is great across the merchandise categories.

And then the thing that would move us to the top end of that range would be acceleration of store formats and likely TargetExpress and the great thing is those are relatively capital light. We could do 50 of those and it will be $300 million to $400 million. So that would be to the high end of the $2.5 billion of CapEx. But overall we got $2 million to $2.2 million significantly dominated by technology and the supply chain.

Unidentified Analyst

Hi good morning. The company spent approximately five years rolling out the P-Fresh remodels and all that touched multiple areas of the store. The big focus was brining in some produce offering. That said, the produce offering that's in the stores is pretty small, it's fairly focused. And so, when you talk about the new strategy which is to bring in more organics and more wellness and really lead with that, how do you do that on the existing pad that you have, is when you go to a specialty grocer they really lead with the produce and it's just a much, much larger assortment, so how do you have credibility in that category vis-à-vis your competitors with the existing store formats that you have?

John Mulligan

Yes, I think in aggregates we think the size of the food offering is appropriate. It's about a little bit more than 20% of our sales. It takes up about that much of the store, a little bit more than that much of the store. The question is, how do you assort within that pad and do we have too much of the grocery terms, middle of the store stuff and not enough for the perimeter? And I think that is the opportunity we're testing for that. And I think, like Kathee said yesterday, it will be about refining whereas space goes within categories you know, the same is true in apparel.

We've done a reset of that, we didn’t change the total pad for apparel, but we reset the way that looks, the way it's textured and what we're presenting to the guest. I think we have the same opportunity improved and I don’t know how much perishable product will add to the store. Clearly to your point we need to add some, but I think that's about rebalancing the pad within grocer, not adding incremental space to the grocery area within or the food area within our stores.

Robert Ohmes

I'm going to throw one in first. Just the wage crashed in I think everybody is confused, maybe I want to give you another chance to sort of tell us where Target is on wages versus Wal-Mart and TJX?

John Mulligan

Yes, I think you know, it seems that everyone is waiting for us to throw out a number that we're going to match and here's what I'd say. If for instance, I threw out and said we’re going to pay $9, I can tell you there are stores in North Dakota that would say, are you kidding me. And in the stores of North Dakota are the highest paid stores we have in the chain, because of the labor situation in North Dakota.

So, our goal has been and will be, we're going to be competitive on wages, whatever that means, wherever that means. And to give you an arbitrary number that some flat rate that we’re going to pay across the country that’s just not reasonable. In New York City $9 wouldn’t be reasonable as a starting wage rate, because we wouldn’t be able to attract anyone to our store.

So, and perhaps we haven’t been clear enough, I think this is something that we do all the time, all the time wages are changing. There were lots of minimal wage laws in the states that enacted this year. We are prepared for all of that, but we are going to be locally competitive and we are going to pay what we need to pay to get a great team.

I mean the differentiation we get from our team is incredibly important to us. And the way we develop that team is incredibly important to us. It always has been. You know our team leaders in the stores 60% of them started it are really team members for us. And so, how we met development culture and ensuring me pay the right wages to get them in the store in the first place and being able to draw the right talent to Target is incredibly important, but fixating you know and perhaps this is just the way we think about it that we're not clear, fixating on some single number to us on average number is unimportant.

It’s about being competitive locally at a store level within a marketplace that is important and we’re going to be competitive and we’re going to pay and we’re going to get the great team and as we look at that and we assess, you know what others are saying about what they are going to do with wages and we know that will have impact on us. We just don’t think its material and it certainly it has not changed the way we think about the year. So, I'm probably still being unclear, but that’s the way we think about it.

Unidentified Analyst

How do you think about the existing store base over the next five years, because as someone referenced yesterday that 20 years ago the customer was the baby boomer, suburban house, but now the customer is increasingly urban, diverse interests, diverse ethnicity etc., and you lay over that the fact that you will be doing pick up from store and so how do you prioritize the stores in terms of who gets the remodel capital, how many of them do you think may be marginalized over time?

John Mulligan

Yes, it’s a great question and when we think we spend a lot of time thinking about how, where do certain reinventions go. Where should home go first and we'll get the 1000 stores of mannequins very soon here and how many of the remaining 800 are going to get it or not. I think the challenge as we think about it is, if you don’t reinvest it’s paid a comp like for many stores, right, because they just, they will slowly just die off, so we don’t want to do that.

And as we think about underwriting stores we've had a long history of ensuring as we underwrite them we underwrite them knowing that at certain periods of time we are going to remodel that store and ensuring that we have a relatively complex algorithm that looks at store traffic and age, and many other things besides, hey this store we need to go back and refresh and this store we need to go back and refresh.

As we think about rolling out the merchandise initiatives, clearly we’re going to start with the most high volume urban stores and then we work our way down the list and often we will do something like P Fresh when we got to the last couple hundred stores, we didn’t spend $3.5 million that we spend on average. We spent about $1.5 to $2 million on those stores. So there are ways you can become more efficient as you get to the lower volume stores.

I think the other think that we think about is, the opportunity for those low volume stores and we’ve seen this as they start to procure products on behalf of the digital channel and they become much more productive and so stores that perhaps through time ultimately we may have found a different location for outlet closed, they just become much more important and that return on invested capital improves significantly by utilizing as more of a fulfillment center.

So, it’s a really complex question. We deal with it all the time. We look at it every year. We are not shy about closing stores. You know a year ago; two years ago we closed about a dozen, last year about a dozen. We've had a long history of having financial discipline about moving away from assets that no longer make sense. We'll continue to do that. But we think it’s really important to invest in the stores in making sure that the experience is great, because if you don’t you know the outcome. The outcome is predefined because that store will slowly just drift away.

Robert Ohmes

Great, we have run out of time. I want to thank John for a great, for his great Q&A session. I really appreciate your coming here today.

John Mulligan

Sure Robby, thanks.