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Target: The Epic Search for Equilibrium

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Introduction

In March 6th, 2008, Gregg Steinhafel, the CEO of Target Corporation, unveiled the new attachment to grocery: PFresh. Taking up about 1,500 square feet, PFresh was designed to add several extra grocery components to the existing discount store, including an expanded fresh produce, dairy, and meat section. The PFresh stores hold 50 to 200 percent more food products and are intended to be more consumer friendly. Apparently the consumers loved it, because it caused earnings to increase 18.6 percent in August 2009. Although successful, Target's PFresh visions came with a steep price, investing $1 billion in the widespread rollout. Nonetheless, Gregg Steinhafel was extremely pleased with his announcement. ("Target to Add 'PFresh' Grocery Concept at 350 Stores")

Although the opening launch of PFresh was groundbreaking, it shouldn't have hit anyone by surprise. Target had been planning this for quite some time, with building their own food distribution center specially designed to store perishable items like dairy, meat, and produce. In addition, space in the discount stores was made from the closing of the garden section. Target's garden business wasn't terribly profitable due to its strong competitors, Walmart and Home Depot, and due to its lack of knowledge in the business of gardening. All in all, it was short lived. Lastly, Super Targets have already implemented a PFresh section in their massive 220,000 square foot stores, which tells us their distribution centers have potentially geared up for this transition already.

Let's take a step back to briefly discuss the groundbreaking SuperTarget. In 1995, Gregg Steinhafel announced the first SuperTarget, making this Target's first time including PFresh items into their stores. The mission behind the addition of a massive grocery section was to supply guests with the convenience of a one-stop shopping experience. Once again, Steinhafel was pleased with his unraveling.

Fastforwarding to January 13th, 2011, Gregg Steinhafel introduces yet another billion dollar idea: Target's first ever international expansion into Canada. Steinhafel acquired 133 stores previously belonging to Zellars, a Canadian chain retailer, for $1.8 billion, which at the time seemed brilliant as it gave Target the opportunity to not build any stores from the ground up. On the surface, this was a deal of a lifetime. However, after digging a bit deeper, Gregg came to realize the Canadian Targets were infested with problems. For starters, most Zellers stores were quite dilapidated, and were in areas not frequented by the middle class consumers Target attracted. Secondly, the distribution and inventory planning became a logistical nightmare. Opening 133 stores in a small period of time is a recipe for disaster, and disaster it was. Stock outs were constant, and shoppers became impatient. Produce, if available, would arrive brown in color and unappealing to the guest, leading to a poorly viewed PFresh. Last but not least, Target offered Canadian products, however Canadians demanded U.S. products, something Target was not expecting. Canadians already had Walmart surrounding them with lower prices, so they didn't want to be bombarded with any more cheap Canadian products. Overall, the store's botched expansion was a "spectacular failure". This time around, Gregg Steinhafel, absolutely appalled and speechless, was not terribly pleased with his plans. The Canadian collapse led to his resignation in 2014.

With Steinhafel's resignation arose a man by the name of Brian Cornell, a former CEO of Sam's Club and Michael's. Although Target Corporation was skeptical about hiring an outside leader for the first time, Cornell had a certain sparkle to him, a new-age way of thinking that symbolized a new beginning for Target; a chance to leave the Canadian misfortunes behind and start fresh. The first thing on Cornell's to-do list: get rid of all Canadian Targets. In his words, "Our Target Canada business had reached the point where, without additional funding, it could not continue to meet its liabilities. Simply put, we were losing money every day," Cornell said in a blog post. (Wahba)

After making the first step into the right direction, Cornell had quite a bit on his mind. What should his next move be? Knowing that the PFresh expansion wasn't cheap and the grocery department as a whole wasn't exceeding expectations, he must make some changes to improve sales in the grocery department. Brian doesn't want to make the same mistakes as Steinhafel did in Canada, so what can he do to avoid failure and improve sales in grocery?

Brian Cornell

Brian Cornell was born in Queens, New York City, where he was brought up predominantly by his grandparents. His father passed away when he was 6, and his mother was living on welfare due to her severe heart disease. As a teenager, he helped pay his mother's bills through working at entry level positions. His adolescent life was in no way glamorous, however even in his tough upbringings, he still had a strong self-motivation to get a degree. Cornell graduated from the University of California, Los Angeles in 1981 where he got his bachelor's degree, and continued to go to school to graduate from the Executive Program at the UCLA Anderson School of Management.

Even with humble upbringings, he began making a name for himself. Cornell worked his way up to a leading position as the Chief Marketing Officer and the Executive Vice President of Safeway Inc. from 2004 to 2007, but he didn't stop there. He held several escalating leadership positions at respectable companies, including 3 CEO positions at Michaels from 2007 to 2009, Sam's Club from 2009 to 2012, and PepsiCo Americas Foods, a subsidiary of Pepsico, from 2012 to 2014. When Steinhafel stepped down in 2014, Cornell saw an opportunity. As chair of the board Roxanne Austin reported, "As we seek to aggressively move Target forward and establish the company as a top omnichannel retailer, we focused on identifying an extraordinary leader who could bring vision, focus and a wealth of experience to Target's transformation." (Malcolm)

Food Retail Overview

The U.S. retail food section is a complex network that together provides food for the whole nation. When food retail stores first began, they were mostly small, family-run stores. But now, as the world has advanced, food retail has grown into large stores, including a whole multitude of suppliers, distributors, and retailers. It has developed into hundreds of different companies in millions of different locations.

The first phase of food retail came about in 1900 and lasted until around 1916. This early phase focused only on one aspect of food retailing: dry grocery items, which included canned goods and other non-perishable staples. Since the store sizes tended to be less than 1000 sq. ft., the butchers and produce vendors were separate entities, although they tended to cluster together for convenience's sake. This era of grocery stores was partially credited to the establishment of the Great Atlantic & Pacific Tea Company (A&P), which allowed for easier transportation and expansion of staple goods. At the end of this era popped up the "Piggly Wiggly" food retail format, which introduced America to self-service shopping. These stores were equipped with a cafeteria-style eatery, the first of its kind to have a dry grocery items complemented with a cafeteria section.

By 1920, chain grocery stores were rapidly expanding throughout the United States. Kroger, American Stores, and National Tea began to rise and be a prominent name in the food retail industry. A&P became national, operating over 10,000 stores by the end of the decade. That being said, these large chains still remained small and did not include meat or produce sections. By the late 1920's, large chains were beginning to form through mergers. For example, the birth of Safeway came about in 1926 through a merger of smaller grocery companies, such as the Piggly Wiggly stores, Skaggs Cash stores, and several others. These mergers were used as a way to tax smaller stores out of existence, which is a key tactic for gaining market power today.

The third phase of the food retail industry came about around 1930 due to a groundbreaking advancement; the creation of supermarkets. This was a new type of store structure that merged dry goods, fresh produce, and a meat department into the existing dry grocery section. The reason for this movement can be partially credited to Michael Cullen, who established America's first supermarket called King Kullen in 1930. Michael Cullen was a former executive for Kroger and A&P. He took his knowledge from his previous positions and applied them towards King Kullen, where he strategized and developed a key competitive advantage by offering lower prices than other grocery stores. This was possible due to the high-volume bulk of groceries they brought into the stores. By the late 1930's, A&P started transitioning their thousands of small stores into big supermarkets, keeping in mind Cullen's model. They saw as their number of stores reduced by half, their sales nearly doubled. Eliminating four to five small stores and replacing them with one large supermarket was often the solution, and became a progressive trend across the national grocery chains. Around 1935, the industry reached its peak number of stores, however the number sharply declined later on through consolidation. The 1930's-1940's showed a transition from smaller convenience stores to larger, one-stop-shop supermarkets, which established this era as an interphase.

When the 50's arrived, the "Golden Age" arrived with it. The transition from small grocery stores to supermarkets was largely complete, and the migration to suburban locations began. The 1950's-1960's was considered the "Golden Age" for supermarkets because of the success this format saw. As supermarkets flourished and became widely popular, grocery chains began to focus on the image of the store. Stores were being redesigned into recognizable and iconic buildings, like A&P's colonial-themed stores, Safeway's glass arch-shaped designs, and Lucky's towering pylon signs, just to name a few. Because of the popularity of these stores, national chains began moving towards the suburbs to capture the market share in those areas, which lead to a massive breakthrough in food retail: the supercenter.

Before we discuss the birth of the supercenter, we must first touch on its father, the discount supermarket. Around 30 years after the expansion of supermarkets took off across the United States, a new phenomenon was exploding, the discount supermarket. These stores put a major emphasis on cost-cutting procedures, such as reducing operating hours and minimizing advertising costs. These store types became hugely successful during low economic periods as they met customer demands for low cost items. The birth of the discount supermarket can be credited to Kroger's first "superstore" prototype, with its low prices, specialty departments, and its orange, gold, and green color theme. While some kept up with the new trend, others could not. A&P, a massive grocery chain leader, crumbled in attempt to become a discount superstore. On the other hand, one major leader in this store category is Walmart. Walmart, now the number one leader in discount supercenters, started as a small department store and has since then expanded into groceries and many more aspects of the retail sector. Walmart saw its success in the early 90's, when grocery chains began to find their "niche". Target emerged around the same time as Walmart, competing for overall dominance since their first grand opening. Target has kept up with Walmart, however Target's market share in grocery is rather small compared to Walmart and the other food retail giants. While Target is the second largest discount retailer, it is only the seventh largest food retailer. Clearly, Target has some room to grow if they want to gain a larger market share.

While Target and Walmart found their niche, the grocery chains did too, however realized they could not all transfer into a supercenter format, so they began to increase vertically rather than horizontally. From the 1980's into the 90's, several mergers and acquisitions took place. Lucky was acquired by American stores, which then turned into Albertsons. Safeway and Kroger slimmed down and took themselves private to avoid a hostile takeover, however later on in the 90's, took back some lost territory, making these three chains the dominant players in the industry, along with Walmart. These mergers forced the middle-range stores to disappear, which then lead to traditional supermarket chains to go more upscale, while low-end stores moved more towards a warehouse model. Using Walmart and Target as an example, the food retail industry started small and, through time, continued to expand vertically and horizontally. ("A Quick History of the Supermarket")

Company Background

Target Corporation (Target) is the second-largest discount retail store in the United States, directly behind Walmart. And believe it or not, it didn't originally start out with the iconic red, bulls-eye. In fact, the store has had a total of five different names over the succession of its history. Nevertheless, Target owes the majority of its credit to a man by the name of George D. Dayton, who in 1902 took sole ownership of the company that would one-day transition into Target Corporation. Dayton purchased a pre-existing department store in Minneapolis and quickly renamed it "Dayton's Dry Goods Company." However, this store title didn't last long as it was swiftly developing into a nationwide retailer. In 1911, the store was once again renamed "The Dayton Company" as it began evolving from a small store into a nationwide retailer. The original title was then considered unfit as they transitioned into a department store adding an assortment of goods and services to its existing dried goods section.

After much success in the department sector, the company decided they wanted to start branching out and differentiate themselves further. In 1953, it shifted gears and opened its first commercial interior section. This meant furniture, fabrics, and decorations for businesses. In hopes to reach a new consumer segment, they looked into a new store logo and came to the conclusion that "Target Commercial Interiors" addressed a much older and more business-like sector of the population. By 1962, the first Target discount store opened claiming "a new idea in discount stores" and with that, the birth of the Target Empire was born. ("Target Through the Years") It didn't happen overnight, but the success of the company was growing rapidly.

By 1967, the company had taken growth on a national scale. They transitioned from a private company to an IPO as of October 18th, 1967. They were managing five corporate divisions: Dayton Department Store, Target Stores, B. Dalton Bookseller, Dayton Jewelers, and Dayton Development Company. Within the next two years, they had developed the first distribution center and entered into a new partnership with J.L Hudson Company. This merger created the Dayton-Hudson Corporation, which made them one of the 15 largest non-food retailers in the nation. Target Stores soon became the No. 1 revenue producer between all divisions of the Dayton-Hudson Corporation. Nonetheless, as the company continued to grow, it eventually becomes too much for direct family management and, in 1983, the Dayton's retired ending 80 years of family tradition.

That being said, Target's success didn't stop; they have continued to advance in many areas. In 1988, they took a major leap in technology, as they became the first mass merchandiser to introduce UPC scanners in stores and distribution centers. This not only helped speed up check-out time but also helped with internal organization. The next ten years were crucial in the development of what Target is today. In the 90's, Target was by far the leading store among its parent companies, therefore Dayton-Hudson focused most of their time and effort there. By 1995, Target opened its first Super Target in Omaha, Nebraska. This meant a full-scale grocery store inside a standard Target store, including a fresh produce, dairy, and meat section. This was a huge step for Target as they transitioned away from strictly a department store and into the one-stop shopping experience.

By 2000, the Dayton-Hudson Corporation is renamed as the Target Corporation, as Target continued to be the biggest successor. A year later, the corporation had spread to 47 states. While Target was making great accomplishments throughout the states, they were still looking to advance their product loyalty among customers in order to get a larger permanent return rate. As a solution for this, they started to produce multiple lines of private labels. The advanced product lines encouraged Target Corporation to also begin the process of shifting store formats. Today, Target has reached 49 states in the United States, (excluding Vermont) manages 1,803 stores, 38 distribution centers, and a team of 341,000 employees. Target has continuously been adjusting and improving its products and stores in the goal of achieving full customer satisfaction over the years, and its success has been proven by being the second largest discount retailer in the nation.

Target Grocery Overview

As Target stores were expanding like wildfire through the states, the grocery industry was making some dramatic shifts in structure. Less people were doing their grocery shopping in conventional supermarkets and were instead looking for quick, specialized markets. Target saw this as a great opportunity to advance its store formats to include a fresh produce section. As mentioned above, this new section was named PFresh and carried fresh vegetables, fruits, dairy, and meats along with the standard dried goods. Among this new addition, they included multiple lines of exclusive private labels. The first line, Archer Farms, debuted in 1995 as a grocery staple line and included bread, milk, pasta, and bottled water. In 2001, Target introduced Market Pantry, which ranged from candy to chopped nuts. By this time, Super Target created their own tagline of "Eat Well. Pay Less" to represent the grocery section. Then in 2005, they created a line of premium chocolates called Choxie. Following this release came Target's crucial advancement in 2006: going organic, as they became one of the 1st organic produce retailers in the country. Continuing down the organic path, they unveiled a health line called Simply Balanced in 2013. It included products free of artificial flavors, colors, preservatives, and 105 common food additive ingredients. Many products were produced with organic ingredients or without GMO's, however they weren't exclusively organic. Today, Super Target carries more than 600 organic items and thousands of other products. The Super Target grocery industry is a new and advancing sector to the Target format.

Target Store Format Overview

It is a well-known fact that Target believes in the idea of "Expect More. Pay Less," but they also believe in flexibility and diversification. As it seems, Target has experimented with multiple different formats among their stores throughout the years. In 2012 they introduced a new format known as "flex format" and created two store types called City Target and Target Express. The flex format allows each store to vary in size, based on the urban location, and assortment, based on local demand. While these store structures allow for product variation and local tastes, they still continue to carry typical Target staple goods, like beauty products and grocery staples. They are typically much smaller in square feet than a conventional Target store, with a City Target averaging around 80,000-100,000 square feet and a Target Express averaging around 21,000 square feet. So far, these store structures have shown promising results and continue to expand.

Although these new, cityscape store structures are rapidly growing in popularity, they have not replaced the standard Target store or even the Super Target. It is easy to differentiate a Super Target because they commonly have in-housing bakeries, deli's, or coffee shops within the 220,000 square foot store. The goal of the Super Target is to have any item that any person could want, including their products from the in-store dollar store section, called Bullseye's Playground. While the size of Target stores has historically been increasing, the Target motto will forever be "Expect More. Pay Less."

Current Market Situation & Competition

Target has always been known for selling affordable fashion products as well as household essentials. However, over the past few decades, Target has become fairly prevalent in the $560 billion grocery market. Although there is vast amount of opportunity in this market, Target does not seem to be hitting the numbers that they had quite hoped for. According to Nasdaq, the company earns around one-fourth of its revenues from food & consumables, and has found it extremely hard to attract grocery buyers due to fierce competition from its cheaper counterpart, Walmart. Although their grocery revenues are up from previous years, the market section has caused somewhat of a drag on their overall profits. This issue is mostly due to the fact that most people do not view Target as a primary place to purchase groceries, and instead use it as a "fill-in" store, which essentially means Target's grocery department is complementary to the other goods already provided. More simply put, the groceries simply supply convenience to the shopper, and adds to the one-stop shop experience. The downside to being a "fill-in" store is perishable foods are not purchased as often by customers, and in turn go to waste. This problem seems to be Targets biggest struggle in the grocery section right now. "We sit in the middle," John Mulligan, the company's chief operating officer, said in March 2015. "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" (Safdar).

Another aspect of the perplexing issue with perishables is that their supply chain was not originally designed to transport items with a short shelf life. "We know we need to operate the food business differently and it's a much bigger task than simply reconfiguring part of the store," a Target spokeswoman said. "We are still in the early stages of our food repositioning effort," which "includes evaluating how we get fresher foods to our guests faster and finding ways to better leverage our distribution centers and partners" (Safdar). This has left them with shortages of certain products as well as large amounts of spoilage, as we saw at a heightened level in Canada. According to Brody Day, the Group Operations Director in charge of all national distribution for Target, the company has begun to fix the issue by having daily deliveries to almost every store in the country. This is a huge step for Target, as it will help stores order more efficiently, improve store in stocks, and provide better quality of in-store goods, which consequentially would increase overall profitability in the market section.

As Target expands within the grocery retail section, they also are diversifying their stores around the country in order to better accommodate their customers. To stay competitive in the market, Target has been opening different types of stores to provide the same style experience for customers in different neighborhoods all over the country.

Target Discount Store

This is Target's most well-known store that is seen all over the country. It contains everything including apparel, home decor & furniture, outdoor supplies, fresh food and much more. As of 2009, almost every one of the 1,803 Target's has a PFresh inside in order to provide their customers the ability to buy everything they need in one trip. Standard Targets are 135,000 square feet. on average, and are in every state except for Vermont (for reasons unknown).

Super Target

Target's largest store, averaging 220,000 square feet, intends to contain everything that a shopper might need in one trip, thus capitalizing on the one-stop shop philosophy. This includes everything from household appliances to sporting & work equipment to a full grocery section. There are currently 270 Super Targets in the U.S. and Target is not planning on building anymore in the near future.

PFresh - Grocery Section

PFresh is Target's take on expanding into the grocery and fresh food market. The PFresh expansion gives Target a competitive edge, and allows them to compete more successfully with other food retail giants. The grand opening of Super Target in 1995 gave light to the idea of PFresh and foreshadowed its debut in 2008, which triggered its expansion into every Target in the nation in 2009. Although Target wants to supply as much as they can in these sections, they do stress that the PFresh is mainly for fill-in trips and is not meant to supply all fresh produce needs.

Flex Format

This is Target's newest and most versatile store format that is used to provide unique shopping experiences for consumers in mostly urban locations. Target has opened 14 of these flex format stores since 2012 and plans to open many more in the coming year as the flex format model has proved to be the most profitable type of Target store.

Legacy Stores

Targets smallest stores that are located in remote areas in the U.S. They tend to carry the most basic merchandise and groceries for people to purchase. There are only 80 stores throughout the entire U.S., with no future plans to create any more.

Target believes that by maximizing the assortment of stores in different areas, profitability would sharply rise. In their eyes, it is better to adjust to the consumer than make the consumer adjust to them.

Competition & Challenges

Target is improving on its market section every day, but they still have a long way to go before they catch up with their number one competitor, Walmart. Currently, Walmart is generating roughly 56 percent of its income from its grocery section, where Target only brings in about 25 percent. Although Target arrived a bit late to the "produce party", it is very evident that they need to make some serious changes in order to match their competitors. However, this task is not nearly as easy as it sounds. With several other large grocery retailers in the market, Target must find a way to have their grocery section stand out in order to draw in more customers specifically to the market section. Currently, Target is rated as the 7th largest grocery retailer in the U.S. market with a share of only 2.2%. It falls behind Walmart (24.5%), Kroger (12.9%), Costco (7.6%), Safeway (6.2%), Publix (4.3%), and Albertsons (3.9%) "Food Market Share Grocery Retailers."

Although the numbers are fairly low for Target at the moment, there is a glimmer of hope. When we compare Inventory Turnover, Asset Turnover, and Receivables Turnover between Target and Walmart, we see that Walmart has a higher ratio in both categories, meaning that they are more efficient in business operations, as well as operational dollar generated per asset (Investopedia). However, if we compare the financial aspect of the companies and look at the Gross Margin and Net Profit Margin, we see that Target actually has a higher ratio in both these categories. This means that, from a financial perspective, Target appears to be the more profitable company with its larger GM and NPM. This is probably due to the fact that Walmart has an everyday low price guarantee strategy that causes them to cut prices constantly, where Target has a high-low pricing strategy that causes them to select deals which make the most economic sense for them and their customer. That being said, although Walmart has a much higher Inventory, Asset, and Receivables turnover, Target overall is more profitable.

Walmart's everyday low price guarantee is something that is undoubtedly a big attraction for consumers who are looking to save money. Recent studies on price comparisons between Walmart and Target show that the average basket price at Target is 5%-15% more expensive than the average price at Walmart (Petersen). This price difference is usually a determining factor of where people are going to shop when deciding between Walmart and Target. However, what many people don't know is that with Target's REDCard, customers save

5% on every purchase which actually puts their average basket price 1.4% lower than Walmart and most other competitors (Moskowitz). Although this sounds like a no brainer to any frugal shopper, Target is still struggling to get the word out about their promotions and their REDcard amenities, which is causing a substantial lack of foot traffic in their grocery section.

According to Cornell, “our No.1 problem is traffic.” (Wahba). Although this sounds like a fairly compatible issue, there are several other areas of improvement that lead to the root issue. For example, the lack of promotion and low pricing advertisement in the market section contributed heavily to the reduction in foot traffic. Target’s grocery model is designed for the guests’ convenience, but with the decrease in traffic compared to other retailers, Target is losing those unplanned purchases and suffering smaller basket sizes due to guests who do their grocery shopping elsewhere. In addition to low foot traffic, they have been criticized for the lack of selections that full grocers offer, as well as the “high prices” compared to Walmart. It’s because of these problems that, according to John Mulligan, the company’s COO, Target is “in the middle of no man’s land” when it comes to their food retail competitors (Tuttle).

Cornell has stated multiple times that grocery is not one of their signature categories, yet in the wake of Walmart and other grocers taking over the market, it is clear that Target must do more in order to stay competitive in both the grocery and retail industries. While their market section generates upwards of a quarter of the company’s entire revenue, profitability must increase if they are to challenge Walmart for the nation’s most successful discount retailer. With that being said, Target refuses to emulate the Walmart model of becoming a full grocer, with the not-so-fresh prepared foods, bakers, chefs, etc., and reiterates that their market is for complementary purchases in addition to the guests intended purchases. This leaves the Target executives with a difficult and complex question; How can we better utilize the market section in order to capture more market share to further compete with Wal-Mart?

Possible Opportunities

Option 1: Be Patient

With all the steps Target has taken so far, CEO Brian Cornell believes we just need to be patient to see the changes take place. In fact, as he told reporters in September 2016, “It’s just going to take time for us to get credit for those changes.” (Wahba). Although there have been several improvements that have been very substantial to their development, Target has never intended to be a full service grocer, so they are content with waiting for their changes to be realized. Target’s intentions were always to complement what guests are already buying, not to become their primary grocer. That being said, Target has made subtle yet significant adjustments to support that philosophy.

In order to appeal to a growing, diet-conscious consumer base, Target has pushed to make gluten free, organic and other fads more prevalent in their stores. Target has seen nearly 1,000 new food items implemented into the stores to bring in a wider range of guests. In addition to increasing their offerings, adding several items to their shelves has established them as a competitor to the average grocery store. New items aside, Target has invested over $1 million in 25 stores in LA alone to modernize the look of the market section, while also improving inventory management and saving money with energy efficient displays.

Currently, Target's produce section is a bit uninviting to the consumer eye. It gives off a corporate feel, with its bright white lighting, stark white floors, and a cheap banner that displays "fresh grocery", when in reality the items may not appear entirely fresh. Overall, the section has no alluring factor. That being said, Target has noticed this and made some improvements to the produce section. Some prototype stores in LA have shown advancements to create an overall cozier, more genuine supermarket feel. Some advancements seen have included a trellis overhead with warmer lighting attached, brown crates along with dark floors to emulate market chains, and the cherry on top of it all, the "fresh and organic" sign overhead to further emulate the warm & local feel.

These enhancements add more than just sprucing up the look of the aisles, but it also highlights all of the changes that Target has made leading up to the fresh new look. Stores have designated certain teams to oversee the grocery section in order to appeal to and also educate their hungry guests. In order to add even more attention to the revamped market, Target has also began to introduce mid-week deals in their coupon books for market specific items. These are both ways Target has been able to invest in the category without a big capital contribution.

There have been several other seemingly small, yet important contributions to the market section. For instance, the installation of motion activated occupancy sensors inside the refrigerators saves energy by dimming or brightening the LED lights. Also, the implementation of the "My Device", an Apple iTouch which helps further track products, can now allow team members to better assist guests with any issues they may have. Lastly, the improvement to the overall look and branding of Target's private label lines, like Archer Farms and Market Pantry, is a simple, yet crucial contribution to help further spice up the grocery section.

Although progress has been seen throughout the years due to the company stressing more importance to the particular category, the business still hasn't made any meaningful contribution. In 2008, when PFresh was first introduced, Target saw its overall grocery revenue contribution rise to 16%. Today, grocery makes up a quarter of Targets total revenue, which has shown a 10% increase over the past seven years. That being said, these numbers still remain significantly lower than Walmart's majority share of over half their total revenue.

Option 2: Distribution Revamp

Having an efficient distribution system in place is essential to any industry that sells perishable goods, or any goods for that matter. In August 2015, John Mulligan, Target's Chief Operations Officer, was brought on largely to fix one issue; develop a supply chain that would sufficiently stock Target stores with the fresh produce and meats they require. The lack of a constant inventory of fresh products leads to guests not shopping frequently enough for the freshness of the perishable goods to be appreciated and sold. Developing a better suited food distribution network will help stores order more efficiently and improve their in-stocks, all the while giving their guests a better quality food.

One of the root causes of this perishability problem is the fact that Target's distribution centers are not designed for short shelf life items. With their current system, out of the four food distribution centers owned by Target, perishable foods are only delivered through one. A renovated distribution system will significantly improve the profitability of their grocery business.

Since Mulligan was promoted, Target has dabbled with a few different ways to tackle this problem. Last year, investors were told that Target was prepared to spend $1 billion in order to fix the distribution network, but corporate did not disclose how that money would be spent. Two clear routes that Target can go to utilize this investment is to expand the whole network in order to match up with their counterpart, Walmart, or to increase spending on third party distributors.

In comparison to Walmart's 44 grocery distribution centers, Target's mere four FDCs simply cannot compete with their rivals. Along with the generally low number of centers, the frequency at which Target stores across the nation need to fill their in-stocks suggests that the solution is to build more distribution centers. Much like Walmart's system, the idea is to build stores around existing distribution centers so it is accessible to all stores nearby, and then to spider web out. This process is known as the hub and spoke distribution network, an old tactic where the idea is to keep both the centers (hubs) in close proximity with the stores (spokes). Ideally, following this system would allow Target to ship fresh produce and other items to stores more frequently, thus improving product quality and creating less stock outs, which consequentially overall boosts sales. Unfortunately, this strategy requires significant investments and would be a lengthy project, making this a tough goal to achieve.

In their current strategy, Target relies heavily on outsourcing their distribution to several third parties. Advancing this philosophy would move Target in the opposite direction compared to other retailers and could introduce more problems. Perishable goods must be delivered to their destination in a timely and regular manner, which means Target must continually place the burden of product sanctity on an outside vendor. There have been many instances where this caused the retailer problems such as damaged or shorted goods, late deliveries, and incorrect shipments. However, if Target is able to properly execute this strategy, they would potentially be saving billions of dollars on capital investments, while maintaining their stance on not relying too heavily on grocery.

A third and often-overlooked solution to their supply problems is simply to order less. Traditionally, Target has achieved high turnover rates, in part by occasionally under-ordering for their anticipated demand. Limiting the amount of product on the shelves and in storage will add to their turnover rates, while also cutting down spending and saving capital. That being said, this could lead to stock outs and dissatisfied customers, making this a tricky solution.

Option 3: Expand Specialty Format Stores

In the words of Brian Cornell, "bigger isn't better." (Page). In 2012, Target opened its first flexible format store with the intention of designing a smaller store for convenient grocery trips, unknowingly getting a head start in the newest grocery fad. For the past three years, the average size of grocery stores has been decreasing nationally, and Target has capitalized on this movement.

In tightly packed urban areas, accessibility to your average grocery store becomes very difficult, especially for those on-the-go purchases. This is where the small store format becomes a very big player. A store that's tailored specifically towards the guests' wants can reap huge benefits. As a Target senior VP stated, "a traditional Target store would have an automotive department and here in Tribeca we know people aren't driving." (Jones). In other words, why waste your corporate dollars on items that your guests won't buy?

Unlike Walmart, which opened several of their own smaller flexible stores in suburban and rural areas, Target focused on a different approach by penetrating densely populated areas. Target has now entered into 32 new untapped markets, previously unreachable with the larger discount stores, due to the introduction of these flexible format styles in urbanized areas.

Due to its smaller size, flexible format stores increase corporate savings by allowing smaller order sizes while providing guests with more specialized products. By customizing these stores to cater to a local taste, Target is able to tweak its product offerings and pinpoint the customers' wants, thus being able to take full advantage of their specific niche market. With these specialized products, Target is able to increase their profit margins on numerous items in the store. In addition, some of these local products are just that: local and nearby, thus reducing costs at the transportation and storage level.

Since its introduction, flexible format stores have shown promise, so much so that the sales performance in these stores is already surpassing the company average. Because of its success, 16 new stores have been planned to open in 2017, bringing the total to nearly 50 of these smaller, unique stores. One core reason why this format has taken off was due to Target's slow and methodical approach to introducing these stores, unlike the failed Canada project. After five successive years of surpassing company goals, it could be in the company's best interest to speed up this process incrementally and implement more express stores around the nation, thus greatly improving the profitability of the grocery section.

Appendix

Exhibit 1: Target Company Information

Target Company Statistics	Data
Total number of Target employees	347,000
Total number of Target stores	1,934
Number of SuperTarget stores	239
Number of Target pharmacies	1,519
Total combined Target store square footage	222,420,000 sq ft

Source: Statistic Brain. "Target Corporation Company Statistics." Statisticbrain.com. N.p., 15 Jan. 2016. Web. 13 Dec. 2016.

Exhibit 2: Target Revenues

Target Revenues	
2014	$72.618 billion
2013	$73.5 billion
2012	$69.8 billion
2007	$63.4 billion
2001	$33 billion

Source: Statistic Brain. "Target Corporation Company Statistics." *Statisticbrain.com*. N.p., 15 Jan. 2016. Web. 13 Dec. 2016.

Exhibit 3: Target's Stock Profile

Historic Target Stock Prices	
Historic High - July 2015	$84.69
Historic Low - January 1978	$0.81
Current value of $1,000 in Target stock purchased in 1987 (1,234 Shares)	$96,148

Source: Statistic Brain. "Target Corporation Company Statistics." *Statisticbrain.com*. N.p., 15 Jan. 2016. Web. 13 Dec. 2016.

Exhibit 4: Grocery Market Share

Source: "Food Market Share Grocery Retailers." Statista. N.p., n.d. Web. 7 Dec. 2016.

Exhibit 5: Target & Wal-Mart Efficiency

	Wal-Mart	Target
Receivable Turnover	71.64	64.72
Inventory Turnover	7.96	5.99
Asset Turnover	2.41	1.72
Gross Margin	24.85	29.67
Net Profit Margin	3.37	3.69

Source: Elvin Mirzaye. "Target Vs. Walmart: Who's Winning The Big Box War?" Investopedia. N.p., 07 July 2015. Web. 7 Dec. 2016.

Exhibit 6: Target Store Size Comparison

Source: Google Images

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