On Target
How the World's Hottest Retailer Hit a Bull's Eye
by Laura Rowley

Target's low prices, hip products, innovative store designs, memorable promotional campaigns and commitment to the community draw people back time and again. Founded in 1962, the store's popularity exploded in the 1990s and has developed a cult-like following among American discount shoppers today.

In On Target, award-winning business journalist Laura Rowley shares the strategies Target has used to become one of the most successful retailers of the new millennium. She reveals the values, business decisions and the compelling management lessons that keep Target ahead of the curve. Whether or not you're in a retail business, you can learn a lot from their success.

Integrity and Values

Target was born as a discount division of the Minnesota-based upscale department store chain Dayton-Hudson, now known as Marshall Field's. The store's business strategies were based on the philosophy of Dayton-Hudson founder George Draper Dayton, who believed that business integrity meant "doing the things you ought to do, as you agreed to do them, when you agreed to do them." Dayton was a scrupulously honest man.

Dayton's five grandsons, all of whom had learned the business from the ground up by starting in the stock room or on the sales floor, took over the company's operations in 1950. The brothers opened Dayton's branch stores, constructed the first enclosed mall in the country, and began opening Target stores as a response to the emergence of Wal-Mart and K-Mart.

By sticking to its roots and to the Dayton family values, while taking risks and innovating, Target has become a key player in the retail world.

Innovative Products

Target stays on top of the high-end discount business through a multi-prong approach. First, the company works with respected brands such as Eddie Bauer and Tupperware to develop exclusive, affordable collections for Target. Second, it manufactures its own private label goods. Finally, Target arranges licensing deals with innovative designers like architect Michael Graves and fashion designer Todd Oldham, to differentiate itself from other discounters.

The store's relationship with Graves, in fact, was its first foray into cutting-edge design, back in 1999. This winner of numerous architectural awards designed a line of home décor, kitchen utensils and small appliances for Target. The success of this partnership pushed the chain into "hyperdrive," and many more design
alliances followed. According to Rowley, It was a win-win situation; Target became known as a trendsetter, while the designers and manufacturers gained access to a lucrative market.

Despite the variety of manufacturers and designers with whom Target works, the company has a unique branding strategy: Target itself is promoted as the brand. Thus, brand names are subordinated to its own, ensuring the strength of the Target name.

Every business can learn a lesson from Target's creative partnering and branding strategies.

The Appeal of Low Prices

Target really reached its height of popularity when low-priced fashion finally became socially acceptable. "In 2001, for example, Target operated more than 1,050 discount stores and had about $34 billion in sales; Macy's, by comparison, had around 250 stores with $9 billion in revenues."

There's a psychological high, Rowley says, that comes from saying: "I saved money," no matter the income of the buyer. Target is popular among bargain hunters because the store offers trendy clothing and home fashions that imitate items consumers may have seen in magazines, but at a much lower price.

Also, studies show that labels and logos are losing their influence among consumers, but value is still important. Target is successful because they provide designer quality without designer prices. Target has filled the void for price conscious consumers who aren't willing to sacrifice style.

Creative Advertising and Promotion

One of the keys to the chain's marketing success has been its visually potent store logo, the red bull's-eye, which has become as recognizable as the Nike swoosh. Trendy television commercials, billboards and magazine ads showcase the logo without using the Target name. "This is the ultimate emotional connection — when your message is so powerful and so unique that visual expressions can stand alone," according to branding expert Marc Gobé of Desgrrippes Gobé Group.

Target's ads have not only won numerous marketing awards, but more importantly they are driving buyers into the stores and taking market share from their competitors. Surveys conducted by America's Research Group show that between 2001 and 2002, GAP/Old Navy lost 22 to 24% of their shopper base and a third of those who left went to Target.

Target has also created innovative programs such as its Club Wedd bridal registry and The Lullaby Club baby registry to "bring in millions of dollars into the company in perpetuity." Target challenged the critics who believed that nobody would
register for gifts at a discount store. The bold move paid off handsomely: Target claims that Club Wedd is one of the largest registries in the world.

The retailer also sponsors major fashion and celebrity charity events such as "Seventh on Sixth," the annual fall fashion shows by Seventh Avenue designers. Associating itself with celebrities and style mavens has further strengthened its image as a "hip" retailer in the minds of consumers. Target was also the first retailer to sponsor a professional sports arena — the Timberwolves stadium in Minneapolis — setting the stage for similar sponsorships by competitors.

Innovation is truly the key to Target's marketing success.

**Philanthropy**

Marketing in the Target organization is integrated with philanthropy. The store gains the favor of trendsetting consumers by sponsoring celebrity charities, such as Broadway Cares: Equity Fights AIDS in Times Square, an annual fundraiser that includes free performances from major Broadway shows. Target also has a "Take Charge of Education" program, which enables charge card customers to donate a percentage of their purchases to support local schools.

The Dayton family has always demonstrated responsible corporate citizenship in its support of various charities. For example, in 1946, the company began donating five percent of its stores’ pre-tax profits, the allowable limit by federal law at that time; and in 2002, Target contributed some $100 million to economically disadvantaged families and similar causes.

The goodwill created by all this giving was evidenced most dramatically for the Dayton family in 1987, when the citizens of Minneapolis rallied together to help the company avoid a hostile takeover attempt by The Dart Group.

According to Peter Hutchinson, head of the Dayton Hudson foundation, prior to the Dart challenge there was a serious discussion about whether the company should continue to donate 5% of its profits to charity. After the community’s response to the takeover Hutchinson remarked: "It was, I thought, the best living proof in this country that being a good corporation in every sense — good to your customers, good to your employees, good to your communities — would be good for you. I don't think companies often get the chance to learn that; it's an act of faith in more cases than not. Here was living proof it worked."

**Customer Focus**

Customer service is of the utmost importance to Target, and in 1989 the company created "Target University," based on many of Walt Disney’s principles of training and customer service. According to the CEO at the time, Floyd Hall: "All good ideas are meant to be stolen, and Disney was considered then — and now — one of the best at customer service."
To further support its goal of high levels of customer service, Target changed its mission statement declaring itself as an "assisted self-service" company, rather than strictly self-service, like many discount retailers. To fulfill this promise Target ensures that there are always ample employees on the floor to assist customers and these employees are empowered to make customer service decisions, such as offering rain checks. Target workers are also taught to project an enthusiastic attitude, to understand customer motivation, and to "schmooze."

Staff are closely monitored to ensure they deliver on the Target promise of "fast, fun and friendly." Stores report daily to headquarters concerning issues like response time to phone inquiries and checkout efficiency, and the company interviews customers twice a year about their treatment in the stores.

Technology

In recent years, Target has spent hundreds of millions on technology to enhance customer relationships. Indeed, Target was one of the first retailers to roll out a real-time customer relationship management (CRM) system to continually improve its service. CRM helps Target determine who their best customers are, as well as how to get more money out of these customers' wallets.

Another component of Target's strategy is its website. Rather than focusing on selling over the Internet, Target first used its web presence to simply bolster brand awareness. Websites, believed Target Vice Chairman Gerald L. Storch, are about "deepening the relationship with the customer." Of course Target has now taken the next logical step and is selling goods on the web through a 2001 partnership with online retailing giant Amazon.com.

Guides for Growth

During the 1970s, Target's vice president of strategic planning, Norm McMillan, created a document called "Guides for Growth." The manifesto contains about a dozen strategies that describe how the company will do business.

Among the first was that Target would be an "honest-dealing" store. To them, that meant offering quality products at good prices with a money-back guarantee, and being completely truthful in its advertising and accounting. Quality was ensured by numerous rounds of testing and sacrificing products that didn't make the cut. When there is a commitment to quality — in any type of business — word of mouth follows. Likewise, poor quality gains a lot of attention, but the wrong kind of attention.

In this document, Target also reiterated their original aspiration — to be the discount store with style. This solid differentiator helped define their market. Target accomplishes this goal by offering what it feels customers are after — fashionable merchandise in clean, stylish stores. Your products may be high quality and low-priced, but consumers won't buy them if they are out of style.
Target further defined their market niche by focusing on serving the needs of young families. They showed their commitment to this group by removing highly profitable adult magazines and other adult-only content from their stores and offering new shopping carts that could accommodate three children.

**Challenges**

Like any company, Target is experiencing obstacles along the road to its long-term goals. For instance, some activists are filing lawsuits against large retailers, charging mistreatment of workers in overseas factories. The challenge for companies like Target, who use overseas production facilities, lies in closely monitoring foreign manufacturers to ensure proper practices are upheld so they can maintain their reputation as a good corporate citizen.

Another challenge facing retailers is that consumers are fickle and finicky, and staying on trend is a delicate balancing act. According to Marc Gobé, Target will need to reinvent itself within a couple of years, or risk losing its edge. "Brands," he says, "need to be elected by people every day…if you forget that your survival depends on the consumers voting with their wallets, you’re dead."

Gobé continues to say that: "Target's story of survival is to be the hippest version of Wal-Mart — if they lose that, there's no reason for anyone to go there." Like every other company, Target must innovate or die.

**Conclusion**

Not only does Target provide consumers with a unique discount shopping experience in terms of products and customer service, but the retailer also offers the human touch, which in today's world is a rare commodity. By essentially reinventing the discount store concept, and finding a distinctive way to connect with its customers, Target has carved out a niche for itself that has enabled it to thrive even in the shadow of Wal-Mart.

Target delivers the four elements of a winning business model — product, service, image and philanthropy, all of which provide the emotional experience that modern consumers are seeking. And they have found a way to communicate their values to consumers. When quality products are offered at a fair price, it implies honesty; when a store is clean and well organized it implies respect for your time and when products are stylish it implies that everyone — not just the wealthy — deserves to look good.

On Target uncovers the history, strategies, motivations and leaders behind the Target phenomenon, and examines how they have led to the store's runaway success. With its management style, welcoming environment, sophisticated technology, innovative merchandising and marketing, and corporate responsibility, Target has hit the bulls-eye.