

## **Target Stores' Differentiation Strategies**

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## Target Stores' Differentiation Strategies

*"What Target did was figure out how to eke out a position on that [retail] landscape that was not about solely playing the cost game, they went a very different direction from Wal-Mart."*<sup>1</sup>

**- Nancy Koehn, a Harvard Business School professor and retail historian.**

*"Clearly there is a certain drive to be creative. They see ways of doing business that are based on taste and ideas, not just price. Doing that is even more difficult today than in the past because of all of the pressure to perform on both a long and short-term basis by Wall Street. That Target has been able to proceed the way it has speaks to the company's creativity and vision."*<sup>2</sup>

**- Marvin Traub, former chairman and CEO, Bloomingdale's<sup>3</sup>, commenting on Target.**

*"Branding is one of the things they (Target) do a good job of, and it represents where they want to be in the market"*<sup>4</sup>

**- Chris Merritt, principal at Kurt Salmon Associates, commenting on the branding strategies of Target.**

### TARGET THE UPSCALE DISCOUNTER

In March 2005, Target Corporation (Target) had 1,330 retail stores in 47 states of the United States. Even though it only had a fifth of the sales and profits of Wal-Mart<sup>5</sup>, it had a loyal customer base that was looking for a trendy, yet, affordable range of merchandise. Target's customers, whom it referred to as 'Guests', were younger and more affluent than that of its rival Wal-Mart.

Target's positioning was based on more than just pricing; it encompassed quality, style, and trend. This was the differentiation strategy that was consistently applied since the launch of the chain. Target positioned itself as an upscale discount chain. It differentiated itself from its competitors by offering trendy merchandise at affordable prices. Target used attractive marketing promotions to communicate this message to customers. By 2002, the company became the second largest discount retailer in US. The differentiation followed by the company and its effective communication programs helped it to continuously increase its revenue and net income (Refer to Exhibit I).

### BACKGROUND NOTE

The first Target Store was opened by the Dayton Company in 1962, in Roseville, a suburb of the twin cities Minneapolis-St. Paul, Minnesota. The Dayton Company was started by George Dayton who opened his first store called Goodfellows in Minneapolis in 1902. In 1903, he changed the corporate name to The Dayton Dry Goods Company and in 1910 he changed it to The Dayton Company (Dayton). By the 1940s, it was a thriving family business that operated department stores called Dayton's in the upper Midwest region of the U.S. In 1956, Dayton opened Southdale, the world's first fully enclosed two-level shopping center, in Minneapolis.

<sup>1</sup> Schlosser, Julie, "How Target Does It," www.fortune.com, October 18, 2004.

<sup>2</sup> Arlen, Jeffrey, "Why Is Target So Cool?," www.findarticles.com, April 2, 2001.

<sup>3</sup> Operated by Federated Department Stores, Inc., Bloomingdales is a chain of 36 retail stores in US with sales of \$2 billion in 2004.

<sup>4</sup> "Mass Merchants: Aggressive and innovative," www.internetretailer.com, December 2002.

<sup>5</sup> Net sales and net income for Wal-Mart for 2004 was \$285200 million and \$10300 million respectively.

In the 1950s, the discount store retail format was taking shape and the pioneers of this format were just establishing themselves. After the success of its department stores, Dayton began exploring the possibilities of starting its own chain of discount stores. John Giesse (Giesse), who was a vice-president at Dayton, was extremely interested in the discount retail format and was even contemplating leaving Dayton to open his own discount stores. Executives at Dayton, who knew about Giesse's ambitions, pointed out to him that he would need capital for the project. Dayton had the capital, they said, and asked Giesse to submit a report on his observations and ideas for a chain of discount stores. Giesse, who studied the existing discount stores, was of the opinion that there was a place for an upscale discount store. Dayton decided to launch a discount store chain as a subsidiary and named it Target. In 1962, Dayton launched the first Target in Roseville, Minnesota, and three more in Crystal, St. Louis Park, and Duluth, Minnesota, the same year.

The first four stores made about \$11 million in sales but did not make any profits in 1962. Slowly, sales began increasing and in 1965, sales were worth about \$39 million. In the same year, another Target was opened in Minneapolis. In 1966, Target decided it was time to open stores outside Minneapolis. It opened two stores in Denver. In 1967, Target's parent company Dayton, went public. The same year, two stores were opened in Minnesota, bringing the total number of stores to nine, and by 1968, Target opened two more stores in St. Louis.

A major change occurred at Dayton in 1969 - Dayton merged with the J. L. Hudson Company to form the Dayton Hudson Corporation (DHC). The J. L. Hudson Company operated a chain of department stores called Hudson's in Detroit. Also in 1969, Target decided to open stores without supermarkets. Even though Target believed that providing discount groceries was essential to providing a one-stop shopping experience to the customer, it decided to open its new stores with only general merchandise.

By the end of the 1960s, Target had opened stores in Texas and Oklahoma, and a Northern Distribution Center in Fridley, Minnesota, which had a computerized distribution system. In 1970, it expanded into Wisconsin and the next year into Colorado and Iowa. For its expansion in Colorado, Iowa, and Oklahoma, it acquired 16 Arlans stores and converted them into Target Stores. In addition, it opened six new stores in these states. In 1972, Target started testing electronic point-of-sale terminals with two Minneapolis stores and four stores in Dallas the next year. However, in 1972, the operating income and profits of the Target Stores started declining. Target's top executives had limited experience in the discount retail business and they found the rapid expansion to 46 stores by 1973 difficult to manage. They had problems such as high inventory costs and stale merchandise arising from overstocking, which in turn led to lower sales and lower operating income. In order to improve Target's performance, Stephen L. Pistner (Pistner), a vice president at DHC, was made the CEO of Target. Kenneth A. Macke (Macke) who had worked with Pistner, was made senior vice president and merchandise manager of soft lines.

In 1973, Target's new management decided to slow down expansion to concentrate on its existing stores' merchandising and operations, so they planned to open only one store the next year. The management also made the decision to make huge markdowns on the excess stock to clean out the existing inventory. In 1974, Target decided to develop Decision Guides, the operating policies and philosophies for the chain's future growth. By 1975, Target's performance had improved and it became DHC's number one chain in terms of revenue. In 1977, Macke became the chairman and CEO of Target and Pistner became the president of DHC. By the end of the 1970s, Target had 80 stores and had crossed the billion mark with \$1.12 billion in sales.

In the 1980s, Target rapidly expanded into different markets such as California, Detroit, Tennessee, and Kansas. At the end of 1980, Target acquired the Ayr-Way chain of 40 stores and also got the Eastern Distribution Center in Indianapolis as part of the deal. These 40 Ayr-Way stores were converted into Target Stores in 1981. In the same year, Target opened its Southern Distribution Center in Little Rock, Ark., and ventured into Louisiana. Macke became president of

DHC and Floyd Hall (Hall) replaced him as chairman and CEO of Target. In 1982, Target acquired 28 FedMarts<sup>6</sup> in Southern California, four in Arizona, and one in Texas. It also made Los Angeles its regional headquarters and opened a Distribution Center there. By the end of 1982, Target's sales had crossed the two billion mark with \$2.41 billion in sales. The FedMarts it acquired were converted to Target Stores by mid-1983.

Bruce G. Allbright (Allbright), who was the vice chairman and chief administrative officer of Target, became chairman and CEO after Hall left the company in 1984. Another major development at DHC that year was the merging of the two department store chains, Dayton's and Hudson's, to become 'Dayton's Hudson's'. Even though Dayton and the J.L. Hudson Company had merged as far back as 1969, the two department store chains were being operated separately. The same year, Robert J. Ulrich (Ulrich), who was the head of the Dayton Hudson Department Stores (DHDS) group, became the president of Target. By the end of 1984, Target had 215 stores and sales were about \$3.55 billion. Target decided to create a new look and layout for its future stores, so it developed a new prototype store and this was introduced in 1985. The new store had three separate merchandising environments: Fashion World of apparel, Home World of home goods, and Basic & Leisure World of hard lines.

Continuing its expansion in Southern California, Target acquired 54 Gemco Stores (Gemcos)<sup>7</sup> in 1986. The acquisition of the Gemcos made it the largest retailer in Southern California. In 1987, Ulrich became the chairman and CEO of Target, while Allbright became the President of the DHDS group. Target continued to drive growth through acquisitions in 1989 by acquiring 31 Gold Circle and Richway stores in Georgia, Florida, and North Carolina.

In September 1990, Target opened Target Greatland, a superstore, which occupied more than 160,000 sq. ft., in Apple Valley, Minnesota. In 1991, Target opened 43 new stores under five different prototypes. Of the five, two of the prototypes with sizes of 135,000 sq. ft. and 120,000 sq. ft. were designed for the Target Greatlands category. Of the other three prototypes meant for the typical Target Stores, a 115,000 sq. ft. prototype was designed for a standard Target Store, a 85,000 sq.ft. prototype designed for smaller county seat markets, while a 90,000 sq. ft. prototype was a scaled-down version of the typical Target Store. In addition, Target updated the retailing technology in its stores. It installed an In-Store Information Systems program that used hand-held scanners in a pull system and started using EDI with vendors that accounted for more than two-thirds of its volume. By the end of 1991, Target had 463 stores with sales of more than \$9 billion. (See Table I for Target's growth in sales and stores from 1962 to 1991).

**Table I**  
**Target's Growth in Sales and Stores**

Year	Sales in US \$ millions	No. of Stores as of Year end
1962	20	4
1968	130	11
1973	375	46
1978	899	67
1983	3,118	206
1988	6,331	341
1991	9,041	463

Source: [www.findarticles.com](http://www.findarticles.com)

<sup>6</sup> Headquartered in San Diego, California, FedMart was founded in 1954. The retail chain sold groceries, clothing, and home furnishings.

<sup>7</sup> Target purchased 54 Gemcos from Lucky Stores for \$440 million in 1986.

In 1992, Target decided to enter a new area of merchandising - apparel specialty stores. In 1992, Target test marketed its new apparel specialty store, Everyday Hero, in St. Louis Park, a suburb of Minneapolis, Minnesota. Everyday Hero was modeled on mass market specialty apparel retailers such as The Gap, and carried private labels owned by Target. However, after the first store opened, Target scrapped its plans of developing a chain of Everyday Hero stores. In 1994, Target decided to develop its own super center stores<sup>8</sup> like its two major competitors Wal-Mart and Kmart. Target opened its first super center called SuperTarget in 1995, in Lawrence, Kansas. The store covered about 200,000 sq. ft. and Target intended to test different sizes for other SuperTargets. In 1998, DHC acquired Rivertown Trading Company (RTC), a catalog and e-commerce company, and The Associated Merchandising Corporation. By 1999, it had opened 15 SuperTargets and doubled the number by the year 2000.

In 2000, DHC changed its name to Target Corporation (Target Corp.). In addition, it formed Target.direct, a new business unit to oversee its electronic retailing and direct marketing efforts. Target.direct consisted of two subsidiaries of Target Corp. - RTC and Target.direct LLC. RTC managed brands such as Wireless, Signals, Seasons, ILoveADeal and other brands. Target.direct LLC supported Target Stores, Marshall Field's, and Mervyn's e-commerce initiatives. In all, Target.direct operated seven websites: target.com, marshallfields.com, mervyns.com, wirelesstoo.com, signals.com, seasonshop.com, and Iloveadeal.com.

In 2003, Target developed yet another prototype store called P2004. In this prototype, the layout was modified and store space was reallocated to scale back some categories such as men's apparel, automotive, and hardware while expanding better performing categories. The first store of the P2004 prototype was opened in Greeley, Colo., at the end of 2003.

In July 2004, Target sold its department store chain Marshall Field's to the May Department Store Company (May Co.) for \$3.240 billion in cash. May Co. acquired all the assets that comprised Marshall Field's, which included 62 stores, inventory, customer receivables, and distribution centers. As part of the sale, May Co. also acquired the real estate of nine Mervyn's store locations in the St.Paul-Minneapolis area. By the end of 2004, Target had about 1,275 stores, including SuperTargets in 47 states.

## DIFFERENTIATION STRATEGIES

From the very beginning, Dayton's strategy was to position Target as an upscale discount chain at which the prices would be just above the lowest prices. To achieve this upscale image, it offered trendy and stylish goods in an environment that was bright and attractive, unlike other discount stores of the time. To be able to offer the most up to date styles and trends to the customers Target focused on merchandising. Recognizing that just having the goods in the stores was not enough, Target also worked on conveying this image to the customer through its store layouts and displays, and through marketing and promotions. It consistently used its famous Bullseye logo and tag line, 'Expect more. Pay less.' in its marketing and promotions. According to an article<sup>9</sup> in *Advertising Age* in 2003, its logo was recognized by 96% of Americans. Unlike other discounters, Target itself had become a brand because of its successful merchandising strategies, marketing, and advertising.

### Merchandising

Target's positioning as an upscale discount chain was reflected in its merchandising strategy as well. Target managers felt that they needed to be constantly in tune with what the customers wanted and anticipate trends and demands. Warren Feldberg, Target's executive vice president of merchandising, tried "looking at the world as our shopping basket and finding ways to bring that basket to the average customer"<sup>10</sup>.

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<sup>8</sup> Super centers are discount stores that are larger than the regular discount stores and also sell groceries like a supermarket.

<sup>9</sup> "Francis' Mission: Shore up Target's Sales by 'Owning Red'."

<sup>10</sup> Lettish, Jill, "A Bloomingdales approach to the discount market," www.findarticles.com, September 17, 1990.

Target developed an image and displayed products that matched its customers' lifestyles and created enhanced merchandise displays. It offered a mix of private labels and national brands in creative and innovative layouts and displays. In the early 1990s, Target had several private labels with merchandise at all price points. 'Favorites' was its opening price point label offering basics and its 'Honors' label was priced just above that. The label 'Sostanza', was a better quality, more European look for the younger customer, and was all predominantly ladies' ready-to-wear lines. Target also had 'Pro Spirit', which was an active wear label. Its 'Greatland' label was positioned as an outdoor wear label. "There's no question we want to continue to take advantage of our own brands. We built some very successful brands that are well identified by our own customers. We also know that we, in the company strategy, believe in brands, so we will obviously balance those two approaches as we go forward"<sup>11</sup>, said Feldberg regarding Target's view of private labels versus national brands.

One of the strategies that most retailers used to create an upscale image was to implement the shop-within-a-shop concept. However, Target had a different approach. In the early 1990s, it decided that it needed to bring in more brands and labels that were associated with department stores and create 'focus areas' for them. These focus areas or 'stripe points' as Target called them would highlight the merchandise, yet be in line with the aesthetics and interiors of the entire store. Target's vendors were appreciative of its merchandising strategies. Charlie Becker, marketing director for E.S. Originals, a footwear company, said E.S. Originals had benefited from the concept of focus areas, which were highlighted through the use of lighting and signage. Alan Silverman, executive vice president of Kid Duds, which manufactured sleepwear for Target, said, "What Target does is purchase long, deep, and narrow. There is a lot of planning at the corporate level, more than in many discounters"<sup>12</sup>.

In 1990, Target established a 'Quick Response Task Force' made up of Target officials and vendors. It identified trends and purchasing patterns so that it could quickly develop and implement micro-marketing programs. "The key to success with Target is to be a good listener. They have so much information they are willing to give. There is an unprecedented level of openness and of confidentiality between Target and its vendors"<sup>13</sup>, said Larry Reiner, sales manager for JIK Ltd., an apparel firm that supplied Target with private label knitwear.

Target used a product development team, which was known as one of the best in the industry, to determine what kinds of products to carry and what kind of image to project. In 1996, Louis Padilla, Senior VP and GM Merchandising, soft lines, Target, made a mention of how product development at Target had shifted from being trend-driven to focusing on elements of brand management where each brand had been uniquely positioned for the guests and profiled different product looks. Target applied this approach to all brands, whether national or private. However, it focused more on its private labels as they accounted for over 50% of its apparel and domestics mix. By doing this, Target could more readily offer unique fashions and exert greater control over pricing and the overall look of its stores. Using this approach, it launched several lines of apparel and domestics in 1996. Everything in 'Utility', a line of young men's active apparel, was designed internally at Target while in the case of 'Cherokee' an updated young women's line, Target maintained tight control on its exclusive direct license with Cherokee.

Target applied the same merchandising strategies across all categories of merchandise. "We want to be a leader with the right trends now, not just in apparel, but in home furnishings, home improvements, really across the board", said Ulrich<sup>14</sup>. In the early 1990s, Target developed a house brand of coordinated bedding. It was first called 'Country Estates', then 'Estates', and later 'Garden Estates' as the style and patterns evolved.

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<sup>11</sup> Lettish, Jill, "A Bloomingdales approach to the discount market," www.findarticles.com, September 17, 1990.

<sup>12</sup> Lettish, Jill, "A Bloomingdales approach to the discount market," www.findarticles.com, September 17, 1990.

<sup>13</sup> Lettish, Jill, "A Bloomingdales approach to the discount market," www.findarticles.com, September 17, 1990.

<sup>14</sup> Halverson, Richard, "Target: fighting a two-front war - Target Stores fights national and regional competition," www.findarticles.com, April 18, 1994.

With its advertising and in-store presentation Target consistently conveyed the message that the apparel and domestics collections were clean, fresh, and in style, not likely to go out of fashion soon. In addition, it stressed the fact that the goods were priced right, not just in terms of dollars and cents, but in terms of convenience. These messages were clearly conveyed through its circulars, TV ads, point-of-sale signage, and merchandise displays. Thus, Target added more value by reducing the time spent by the customer in trying to figure out where to find what and easily make buying decisions. It was convenient, especially for the time-pressed customer who wanted to spend less time in the stores. Another advantage of efficient communication was an increase in average purchases per visit. An example of this was the 'Destination Sun' theme in spring 1995. It started out as promotions for summer wear especially swimwear, but spread out into other departments. The 'Destination Sun' art and logos were applied to all of Target's summer seasonal items such as swimwear, beach towels, beach toys, tanning lotions, and plastic picnic dinnerware.

Target used point-of-sale tools such as signage on focal fixtures, end caps, ceiling banners, and other visuals to cross-merchandise hard and soft lines across numerous departments without moving products around. Thus, the customer could easily identify and locate all the items needed for the summer or a beach vacation. The same concept was also applied to items related to home decoration across various departments, using a theme called 'Target At Home Collection'.

In the late 1990s, Target began using another strategy to reinforce its upscale image and provide quality products to its customers. It began forging partnerships with recognized designers and design houses to bring affordable designer goods to its customers. In 1999, Target introduced the 'Michael Graves collection', a home goods collection designed by Michael Graves exclusively for Target. In the early 2000s, Graves designed the 'Coach's Whistle teapot' priced at \$35, a lot cheaper than the expensive kettle he did for Alessi, an Italian design firm. In 2002, Graves followed up with a home office collection that included hardware designed by him, but manufactured by established vendors such as Lexmark. The collection featured a shredder, wireless keyboard and mouse pad, inkjet printer, alarm clock/calculator combination, and a PC speaker system. He also designed a dartboard, poker chips, and a bedding collection in coordinating solids and prints, and kitchenware such as a waffle iron.

In early 2000, Target entered into a licensing agreement with Mossimo, Inc., (Mossimo) a designer and manufacturer of men's and women's sportswear run by the designer Mossimo Giannuli. According to the licensing agreement, Mossimo contributed design services and licensed the Mossimo trademark to Target in return for royalties with substantial guaranteed minimum payments. Target collaborated with Mossimo on design and was responsible for product development, sourcing, quality control, and inventory management. Initially, Target sold women's, men's, and children's clothing under the Mossimo brand. Later on, a line of bath and body products, and men's grooming items was added. A line of maternity wear was also added to the Mossimo brand. Target went on to add product lines exclusively designed for Target by designers such as Isaac Mizrahi<sup>15</sup>(Mizrahi), Liz Lange<sup>16</sup>, and Sonia Kashuk<sup>17</sup>.

One of the most successful designer partnerships made by Target was with Mizrahi. Mizrahi designed women's apparel, footwear, and accessories for Target under the Isaac Mizrahi label. Mizrahi, a recognized designer, was forced to file for bankruptcy in the late 90s when his ready-to-wear clothing lines did not perform well. All his clothing lines were discontinued except for his licensed footwear line. However, his lines for Target, which were considered highly fashionable

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<sup>15</sup> A well-known fashion designer in US who has also appeared in documentaries and movies.

<sup>16</sup> Liz Lange is known for designing maternity wear.

<sup>17</sup> Sonia Kashuk is a make-up artist for Target.

yet affordable, turned out to be a huge success. An article about his lines was published in *Vogue*, a leading fashion magazine. Mizrahi's success with Target even helped him launch a new line of couture clothing at Bergdorf Goodman, a department store. In the early 2000s, Target began selling a brand called 'Swell', which was exclusive to Target and target.com. Swell was created by fashion designer Cynthia Rowley (Rowley) and her friend Ilene Rosenzweig<sup>18</sup> (Rosenzweig). The brand encompassed a variety of products such as jewelry, sunglasses, sleepwear, bath, bedding, window coverings, rugs, table linens, and accent furniture.

In 2002, Target also added a line of exclusive kitchenware, and cooking ingredients and specialty foods. The line, called 'Blue Ginger', was created by celebrity chef Ming Tsai, who also owned a restaurant by the name 'Blue Ginger'. The specialty foods and cooking ingredients were East-West, a genre based on the ingredients and cooking techniques of Chinese, Southeast Asian, Korean, Japanese, French, and American culinary traditions.

In 2003, Target added another exclusive designer collection to its stores. The collection called 'Sunny Patch' was designed by David Kirk, author and illustrator of the 'Miss Spider' series of children's picture books. It was a collection of garden products, home décor, and apparel highlighting new and existing characters such as Miss Spider, Lily Ladybug, and Huck Grasshopper.

### Advertising and Promotions

In 1975, Target started publishing an ad circular in the Sunday edition of leading newspapers. The circular was bright and colorful with information on the latest offerings from Target. It was very different from the usual coupons of the other discount stores, as it was like a style section of a newspaper. The circular focused on trends and fashion and the must-haves rather than prices. Thus, it was able to project an image of style and sophistication to the consumers.

Target's wide and clean aisles had artful displays. In the late 1990s, Target represented a merchandising style that has been described as Andy Warhol<sup>19</sup> inspired pop art. In contrast to its competitors who focused on price in their advertising, Target attempted to give an impression that there were great finds at Target at great prices. It created a stylish and trendy image for everyday household items, even something as mundane as a lawn mower or a clothes iron. In 2004, Target won the gold, silver, and bronze awards in several categories for advertising and marketing presented by the Retail Advertising and Marketing Association (RAMA) to mass merchandisers. Also in 2004, one of Target's print advertisements used in 2000, was displayed at a design exhibition called "National Design Triennial: Inside Design Now" at the Smithsonian's Cooper-Hewitt, National Design Museum.

In 1999, Target and Collegestudent.com<sup>20</sup> signed an advertising agreement to enhance their online presence. The deal was made to facilitate Target's entry into the college market. A joint marketing campaign was launched, which consisted of an interactive contest, Collegestudent.com promotional events, and an advertising campaign. Target was the sponsor of Collegestudent.com's Housing section and was also featured as a site sponsor for the duration of the marketing campaign. Collegestudent.com links were featured on the Target website. In addition, Target sponsored a contest called "I Need Help!" where students submitted letters online describing why their apartment should be selected as the most in need of decorative help from Target. The winners received free room or apartment makeovers from Target specialists.

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<sup>18</sup> Former Deputy Style Editor for New York Times.

<sup>19</sup> Andy Warhol employed mass-production techniques to create art works that erased the traditional distinctions between fine art and popular culture.

<sup>20</sup> Collegestudent.com, which developed localized online campus communities, was online in almost 350 campus communities in 1999. The company shut down its operations in 2000.



In August 2000, Target launched its joint marketing and promotion initiative with America Online, Inc. (AOL). A special edition CD-ROM of the AOL ISP service was co-branded with Target. The service offered 500 free hours of Internet surfing every month, and a free T-shirt. Other features of this service included a customized tool bar and a 'favorites' folder, which had links to target.com and other favorite sites. The co-branded CD-ROMs were available at in-store kiosks. Customers could also order a CD-ROM online at target.com. Customers who subscribed to the AOL service through Target were entitled to a 10 percent discount for up to one year on merchandise purchased at target.com. Other than the co-branded CD-ROM, target.com was made available in the Shop@AOL online shopping destinations and other areas across AOL.

In December 2002, Target did a promotional event in the Manhattan area of New York to assess the feasibility of opening a store there. Its ad agency, Kirshenbaum Bond & Partners, came up with the idea of running a store in a boat at Chelsea Piers. The floating shop was named 'U.S.S. Target'. Target employees wore red shirts that had "Target crew" written in front and 'U.S.S. Target' on the back. The Target crew members were sent out on scooters covered in Target logos to hand out boarding passes in New York City. At the pier where the boat was docked, Target's red-and-white bullseye logo was displayed prominently all over the place. There were several tents, where the Target crew greeted customers and offered them free hot cider to warm up. They also handed out a flyer and "How to Shop" cards, which explained to the customers how to buy the items they liked when they got on the boat.

The store on the boat offered only 92 special holiday items for sale. The items were sealed off behind clear plastic in white structures meant to look like icebergs and printed Post-it notes were placed next to each of these items. When a customer wanted to buy an item, he or she had to take one of the printed Post-it notes next to the item and stick it to the flyer that was given on the way in. After selecting the items customers had to hand their flyers to a Target employee, who would gather the selected items in a basket and give it to them. Thus, Target created a unique shopping experience for its customers. It also took the opportunity to create high visibility for its logo and promote brand recognition.

In 2003, Target organized more temporary stores in New York. Target ran a Mizrahi Target boutique for six weeks in the Rockefeller Center and sold Mizrahi's latest collection for Target Stores. Then in the summer, Target ran a campaign called "Deliver the Shiver". Two bullseye branded trucks were parked at two separate locations in the city to sell air conditioners. Over a thousand of them were sold for \$75 each. In 2004, Target opened another temporary shop, this time at Times Square. All the proceeds from sales were designated for breast cancer research. Target ran another promotion in New York in 2004, but did not offer any merchandise for sale. It just sent out thirty-five clones of Target's mascot, a white bull terrier named Bullseye, to the New York City Fashion Week in February. In the same year, it ran a similar promotion in Washington, D.C., where no merchandise was offered. During the Cherry Blossom Festival<sup>21</sup>, rickshaws decorated with Target's bullseye logo roamed around the Jefferson Memorial.

In May 2004, Target opened another temporary store in the state of New York, but this time it was not in the city. It was a special five-week summer store called Bullseye Inn set up at the Bull's Head Inn in Bridgehampton. The store offered various items specially designed for the season. According to John Remington, vice president of events marketing and communications at Target, "With the Bullseye Inn, we want to surprise and delight our guests by bringing everything they need for summer fun directly to them at a favorite summer spot, The Hamptons. The Bullseye Inn represents the best of the best in summer fare and makes Target even more accessible to our guests in New York"<sup>22</sup>.

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<sup>21</sup> The festival marks the celebration of the original gift of the 3,000 cherry trees from the city of Tokyo to the people of Washington, DC in 1912.

<sup>22</sup> "Target at Home in The Hamptons," www.casualiving.com, May 10, 2004.

### Partnerships for an Enhanced Shopping Experience

In 2000, Target signed a deal with E\*Trade<sup>23</sup> to operate a co-branded website, www.target.etrade.com, which would promote E\*Trade to Target and target.com customers and vice versa. As part of the program investors were given a \$100 Target gift card when they opened an E\*Trade account with \$1,000. By January 2001, another agreement was made to open E\*Trade financial service centers in SuperTargets. These centers, called E\*Trade Zones, offered banking and stock trading services. This agreement was signed after running a test E\*Trade Zone in a SuperTarget in Roswell, Georgia (Ga) in September 2000. Said Jerry Storch, vice chairman of Target, "When we launched the Roswell, Ga. test last year, we did so in an effort to complement, strengthen, and enhance the financial services we already offered our guests through the Target Guest Card. The success of that Zone indicates that our guests value Target as a financial services partner and destination"<sup>24</sup>. By the end of 2001, there were 22 E\*Trade Zones and there were plans to open 43 more in 2002.

In 2001, Target signed an agreement with Visa U.S.A to provide Target smart Visa cards to its customers. Prior to making it available throughout the country, market tests were conducted in three markets. "The national roll-out of the Target smart Visa card provides a significant opportunity for Target to deepen our relationship with our guests. This revolutionary new card offers our guests a credit vehicle with greater convenience, broader utility, increased value, and expanded rewards programs", said Storch.<sup>25</sup> The Retailers National Bank<sup>26</sup> started issuing the cards at the end of 2001 and installed point of sale terminals that accepted chip payment in all Target Stores in 2002. Target was the first U.S. retailer to introduce smart Visa cards (a new, innovative payment card platform with multi-function capabilities powered by microchip technology). According to Storch, "Adding a smart chip and providing chip readers in our stores underscores our commitment to introduce creativity and excitement to our guests. This innovative new card reinforces Target's differentiated brand image and 'Expect More. Pay Less' promise"<sup>27</sup>.

While the Target smart Visa card enhanced the shopping experience of customers when they were in the stores, Target forged another partnership to enhance the online shopping experience of its customers. In 2002, Target moved all of its brands to a common website, Target.Direct, powered by Amazon. The combined site allowed cross shopping in all three Target brands (Target, Mervyns, and Marshall Fields) and on Amazon.com. All purchases, from the Target Corp. brands or Amazon.com, could be made using the same shopping bag. Throughout the site, at the top of every page, the colored logos of all three Target brands and Amazon's appeared prominently next to the shopping bag. There were links for personalized services such as checking order status and viewing recent shopping history at the bottom of every page.

On the website, customers could create a personalized 'My Store' page, which carried the customer's name. For example if the customer's name were Jane, it would become 'Jane's Store'. The page showed products from any brand on the site that the customer viewed. It also provided links to a Gift Reminder and a Wish List for registering gift ideas. A section called 'The Page You Made', gave more details on the most recent items browsed. "We believe this alliance with Amazon will further strengthen our brand and deepen our relationships with our guests," said Storch<sup>28</sup>.

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<sup>23</sup> The company, which provides brokerage and banking services, had a net revenue of \$1.52 billion in 2004.

<sup>24</sup> Saunders, Christopher, "E\*Trade aims at Target shoppers," Click Z News Network, January 26, 2001.

<sup>25</sup> "Target Becomes First U.S. Retailer to Offer smart Visa Card," www.usa.visa.com, June 19, 2001.

<sup>26</sup> Later renamed as Target National Bank. Target National Bank issues Target Visa and Target Card.

<sup>27</sup> "Target Becomes First U.S. Retailer to Offer smart Visa Card," www.usa.visa.com, June 19, 2001.

<sup>28</sup> "Mass Merchants: Aggressive and innovative," www.internetretailer.com, December 2002.

### **Not Playing the Pricing Game**

A major contributor to Target's success was its decision not to compete only on pricing. Target recognized that value was a function of quality, trend, and price, not just price. Many retailers played the pricing game and eventually went bankrupt and/or were acquired by other retailers. Target also recognized the importance of an attractive shopping environment when other retailers were focused on offering goods at the lowest prices, paying little attention to the environment (the stores) they were offered in. The stores had a bright and colorful signage and displays to guide customers through them. According to Target, a pleasant shopping experience would encourage a customer to come back to the stores. When it came to advertising and promotions, Target used creative advertising campaigns and promotions, making customers aware of the latest trends and designs available in all categories of merchandise, from apparel to home goods. Whether it was make-up or kitchen appliances, Target used style and creativity in its promotions. In merchandising, Target applied the concept of 'design for all', which again was in line with its image of a trendy and stylish discounter. It collaborated with many recognized designers to offer exclusive merchandise to its customers. Thus, Target's success could be attributed to its consistent merchandising, marketing, and branding efforts to convey its positioning and image to consumers.

**Exhibit I**

**Financial Summary of Target Corporation**

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Revenues (Million \$)	\$46,839	\$42,025	\$37,410
Earnings before Interest and Taxes (Million \$)	\$3,601	\$3,210	\$2,861
Net Earnings (Million \$)	\$1,885	\$1,651	\$1,407
Net Earnings per share, Diluted	\$ 2.07	\$ 1.80	\$ 1.54

Source: [http://www.corporateir.net/ireye/ir\\_site.zhtml?ticker=tgt&script=11906&layout=0&item\\_id='factcard\\_39.htm'](http://www.corporateir.net/ireye/ir_site.zhtml?ticker=tgt&script=11906&layout=0&item_id='factcard_39.htm')

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