

# Targeting IT Opportunities at Target

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*The goal of this paper is to develop a case study that involves a thorough analysis of the strategic and operational impact of the implementation of IT at Target. The paper examines the following aspects of Target: (1) History and background, (2) Organization structure, (3) Business model, (4) Business and competitive environment, (5) Information technology architecture, (6) E-commerce systems, (7) IT deployment and assessment, and (8) Conclusion and lessons learned. Value chain, SWOT, strategic matrix, and the competitive forces models are used to assess the impacts of IT implementation on the corporate competitiveness, organization structure, decision making, systems integration, streamlining and automation of operations, and control.*

## **INTRODUCTION**

Target Corporation has a long history in the United States. Founded in 1902 by George Dayton in Minneapolis Minnesota, it was originally the Dayton Dry Goods Company. After 60 years of business, Dayton Dry Goods Company opened a new store, Target, to further their expansion into the discount retail industry which was subsequently created. The “Target” name was chosen for the purpose that, “As a marksman’s goal is to hit the center bulls-eye, the new store would do much the same in terms of retail goods, services, commitment to the community, price, value and overall experience” (Target.com, 2010). From 1962 on, Target has grown substantially, going public in 1967 and eventually urging the Dayton Hudson Corporation to change the company name to Target Corporation in early 2000 (Datamonitor, 2010).

Target operates about 1,740 stores in the United States and the District of Columbia. Target is the second largest discount retailer next to their competitor, Wal-Mart, and employs 351,000 people including full time, part time, and seasonal help. The company had revenues of over \$65 billion USD in the financial year ending in January 2010 (Datamonitor, 2010). Target offers a variety of merchandise in categories such as household essentials, hard lines, apparel and accessories, home furnishings and décor, food and pet supplies, and frozen food. The corporation utilizes 38 distribution centers across the United States to allocate products and services to stores and home delivery (Target.com, 2010).

## **Culture**

Target distributes merchandise through a perspective considered “unique” in the retailing industry. Based on the ideals of founder George Draper Dayton, Target creates a “higher ground of stewardship with dependable merchandise, fair business practices, and a generous spirit of giving” (Target.com, 2010).

Target Corporation as a whole strives for better assistance within any given store; they are a “smaller” company within the industry and are thus better able to control the level of service received by customers, attempting to retain a higher level than all other competitors. Target merchandise is regarded by the general public as superior in quality compared to that of Wal-Mart, K-Mart, or Costco, all of which are considered leading competitors (Target.com, 2010). Target adheres to fair business practices in all aspects of the company and continues a long history of giving back to society. Since 1946, Target has donated five percent of their income to the surrounding communities in which they are located, which currently averages to about \$3 million USD a week (Target.com, 2010). Additionally, in April of 2010 the company launched permanent recycling stations in each of their 1,740 stores as a commemoration to the 40<sup>th</sup> Anniversary of Earth Day (Datamonitor, 2010).

The distinctive culture represented in their “teams” on every store floor is one and only to Target. Store leaders quote Target as, “a fast, fun and friendly environment; this is our key buzz line”. They work towards creating a diverse work environment for their employees, and put forth the effort to embrace differences to make a strong, learning enhanced atmosphere to expand employee development not only in their occupational aspects, but in community and life as well. Each team member realizes that these qualities are unique, valuable, and above all else contribute to the success of the company.

### **Communication**

Target’s mission statement is as follows: “Our mission is to make Target the preferred shopping destination for our guests by delivering outstanding value, continuous innovation and an exceptional guest experience by consistently fulfilling our ‘*Expect More. Pay Less.*’ brand promise” (Target.com, 2014).

Target strives to fulfill the expectations of their guests in all aspects. The key to addressing this goal lies within the communication channels of the company. Target employs many different avenues to achieve this objective. The Target website hosts all of the available products in their stores, in addition to a wider variety of merchandise, sizes, colors, etc (Target.com, 2014). They utilize e-mail, newsletters, posters, brochures, executive speeches, Facebook, Twitter, LinkedIn, and other avenues as a personal level of communication. In addition, Target advertises in magazines, on billboards, and in weekly ads for stores to achieve a higher level of communication and reach as many consumers as possible (Target.com, 2014). Word of mouth about their service, offerings, and quality of products is very substantial to their business as well.

## **SWOT ANALYSIS**

### **Strengths**

#### *Technology*

Target uses technology in many areas of the corporation. It was among the first discount retailers to utilize the radio frequency identification (RFID) tags to track its inventory. The RFID tags were attached to bar codes and pallets to track the products from the warehouse to the store (Target Corporation, 2010).

In addition, Target also uses their technology to fill orders from various distribution centers. For the online store, the company uses a single fulfillment center to fill only internet orders. This ensures accuracy and timely deliveries on all orders (Target Corporation, 2009). Target has also recently introduced mobile updates for gift cards and the ability to redeem coupons and gift cards via consumers’ mobile devices (Target Corporation, 2009).

#### *Store Organization*

Target strives to keep their stores clean and their design and layout visually appealing to consumers. The layout of the store is continuously modified to “offer an engaging, easy-to-shop environment” (Target Corporation, 2009). In 2009, Target enhanced the Beauty, Jewelry, Home and Electronics departments to make them more suitable and inviting to the customers. Target has been noted as outperforming other “big box” stores such as Wal-Mart on cleanliness, shopping experience, and a shorter

waiting time in the checkout lines (Barwise & Meehan, 2004). In addition, Target uses sales patterns, categories, and individual products when optimizing the layout of the store (Haus, 2010). Within this constant research and analyzing of data, Target strives to “cluster” their products so that items are surrounded by other complementary products. Within all of these changes and examination of customer trends, Target executives stress the importance of testing on a small scale before implementing throughout the entire company (Haus, 2010); this is very important and the success of these processes demonstrate their success in the retail market.

### *High Quality Products*

Target has done well to meet the needs of their customers by carrying quality, well-known brands, which include private brands as well as national brands that are highly recognized. By keeping the shelves stocked with the popular and quality brands, customers are always satisfied and able to find what they are looking for (Target Corporation). Target must be continually innovative with their products in order to maintain a competitive edge. In addition, Target prides itself on the design of their stores as well as their products. The stores offer seasonal products for “key life events” such as back to school and back to college. These products are offered at a low price but designed in ways that are convenient and eye-catching to attract the middle and upper-middle class that they aim to attract.

### *Credit Card and Online Segment*

Target’s credit card segment is available for those customers who qualify for credit with Target. The credit card, also known as REDCards, enables customers to purchase the big ticket items without having to clear out their bank accounts (Target Corporation, 2009). This helps Target move inventory and make sales that otherwise would not go through; it also aids in overall customer satisfaction and trust with the corporation (Haus).

Target’s online segment is considered a part of the retail segment of the corporation. The online store was implemented for the ease and convenience of Target customers. It also offers most of the same merchandise and sections of a physical retail store. The main products not offered online consist of produce, PFresh products, and other household staples (Target Corporation, 2009).

### *Sustainability and Corporate Responsibility*

Target is now offering a 5-cent discount on all purchases for each reusable shopping bag used. This is an effort to protect the environment and remain socially responsible (Target Corporation, 2009). Green initiatives have become increasingly popular over the last five years. Consumers have come to expect reusable shopping bags and other simple initiatives that go a long way in terms of environmental consciousness. Offering an incentive for customers to purchase and utilize the reusable shopping bags will benefit Target both in public image and in the overall bottom line: less money will be spent on plastic shopping bags throughout the year as this new incentive program is likely to catch on quickly among Target customers. Stores are also designed to have a low environmental impact by using energy-efficient LED lights, building with locally manufactured and recycled materials and incorporating green roofs (Target Corporation).

## **Weaknesses**

### *Fewer Stores and Smaller Selection*

Overall, Target does not profit much on groceries and other household commodities that consumers continue to buy despite the slowing economy (Burr, 2009). Consumers are still going to other retailers like Wal-Mart for typically household items because of the lower prices and wider selection of brands. Target excels in clothing and home fashions which account for 41 percent of revenue; both segments have been hurting since the economy took a hit (Burr, 2009). Target also has fewer stores nation-wide as compared to most of its competitors. Currently there are only 1,740 locations compared to over 3,000 Wal-Mart locations (Albright, 2010). Although the company emphasizes the value and quality of its products, having fewer locations makes it difficult for customers to shop at Target when a store is not

located a convenient distance from their homes. In addition, the higher prices and high-quality image of Target may push potential customers to other retailers with lower prices.

### *Higher Prices*

Although Target deems itself as an “upscale discount retailer,” its prices are still higher than that of its main competitor, Wal-Mart. Despite the company’s dedication to matching Wal-Mart’s prices on similar items, Target is still viewed by consumers and experts alike as “weaker” when it comes to everyday low prices (Barwise & Meehan, 2004). Target does not have a strong low-price image (Burritt, 2009). Because of Target’s efforts to be considered the upscale discount store, the prices of its products are typically higher or perceived to be higher than its competitors (Heller, 2010). This tends to hurt Target especially when the economy is in a recession. Recently, Target has reorganized their advertising and marketing campaigns to show customers that they are still a discount store (Chang, 2008). Overall, the perception that Target has higher prices will continue to hurt the company’s sales until they are able to recover the customers they have lost to Wal-Mart and the recession.

## **Opportunities**

### *Urban Markets*

Most urban markets currently do not allow “big box” retailers such as Target or Wal-Mart into the cities. However, over time many cities have begun to allow Target and other discount retailers into their downtown areas in order to bring jobs into the cities. This is a great opportunity for Target to penetrate these unsaturated markets. It will give the corporation a chance to expand not only the amount of stores throughout the United States, but also their products and targeted clientele (Barwise and Meehan, 2004).

### *E-commerce*

Technology is constantly expanding and changing to make complex procedures more efficient. Opportunities always exist for expansion and innovation within current retail technology. Target is able to be at the forefront of the changing e-commerce due to Target.com and its online store. In addition, Target recently launched a mobile website and an iPhone application to make shopping faster and more convenient for guests. This application can show the customer availability of the product as well as the aisle where it is stocked (DataMonitor, 2010).

### *Expansion*

Aside from expanding into urban markets, Target also has the opportunity to expand its current stores with its PFresh brand. PFresh is the produce and grocery segment of Target’s retail business and has proved successful thus far. In addition to adding PFresh to current stores, Target could also open fresh markets to attract a different segment such as those looking for only organic or fresh food. Target has yet to go international with its chains, but it is currently looking into opportunities that may exist in Canada and Europe; this would also allow Target to take on new niche markets and gain a competitive edge against other retailers (Target Corporation, 2014).

## **Threats**

### *Economy*

As with most companies at this point in time, Target is struggling with the current economic situation. Many consumers perceive Target to have higher prices than its main competitor, Wal-Mart. This makes it difficult for Target to attract new customers and retain their loyalty so the customers return. The current customer perception also makes it more difficult for Target to retain its loyal customers when prices may be lower at another retail store. In addition, many customers may leave Target to buy household staples from Wal-Mart where the prices are lower and the selection is wider. Although consumers are in a tough economic position, they are still expecting more and more from discount retailers such as a wider selection of brands and lower prices overall (Target Corporation).



### *Competition*

For Target, competition will always be a threat at the forefront of their strategy. Wal-Mart has almost two times as many stores as Target and has also mastered its supply chain management. Although Target does well to maintain its supply chain, there are still many discrepancies between Target and Wal-Mart. Wal-Mart strives for low prices first and foremost, whereas Target looks for the low priced-value out of everyday products. Over the next several years, Target will need to decide if it wants to strive to keep up with Wal-Mart, or stay on its own differentiated path emphasizing design and luxury for a low price. As always, information technology will aid Target in making this decision with consumer reports and other means of gaining customer feedback so that the company moves in the right direction to gain the most consumers and keep them satisfied with Target overall (Target Corporation).

## **IT ARCHITECTURE**

### **Managerial**

The human/managerial architecture of the Target's Information Technology is also known as Target Technology Services (TTS). This division of the company consists of many different positions and teams. Some of the teams that make up TTS are the IT Strategy and Enterprise Services, Guest Development, Supply Chain Development, Corporate Systems Development, Business Intelligence, Marketing Technologies, Target India, and Target.com, and the Infrastructure and Support division (Target Corporation, 2014). All of these departments work with other branches throughout Target and are vital to their success.

The IT Strategy and Enterprise Services is a team that drives technology strategic planning as well as the organization of common IT practices. The ITSES team does so by identifying and running the correct technology practices that Target uses. It is responsible for helping to maintain a close relationship between the strategies of the business as well as the investments in Information Technology. Some specific areas in this team include Technology Strategy & Planning, PMO (Product Managing Officer), and Enterprise Architecture (Target Corporation, 2014).

Another branch of TTS is the Guest Development team which supports key guest functions and the development of applications that focus on customer service. This team does so by supporting Target's internal teams such as their stores, Target Financial Services, Point of Sale, and Health Care Systems. The Guest Development team does this in order to create an even better competitive advantage for Target Corp (Target Corporation, 2014).

The Supply Chain Development team is part of the TTS as well. Supply Chain Development helps Target keep its competitive advantage by using key functions and application development. This group also supports other teams, including Distribution, Merchandise Planning, Merchandise Presentation and Product Design & Development (Target Corporation, 2014).

An additional component of TTS is Corporate Systems Development. This team is responsible for key headquarter functions and application development needs using innovative technology and methods. These members support other teams including Finance, Payroll, Property Development, Assets Protection and Corporate Intranet (Target Corporation, 2014).

Another division of Target's Information Technology is the Intelligence Division, Marketing Technologies Division, Target India, and Target.com. This team is a rather new department formed to create a competitive advantage for Business Intelligence, Marketing, and online initiatives through innovative use of technology (Target Corporation, 2014).

The Infrastructure and Support team is responsible for engineering and implementing infrastructure solutions, and provides production systems assistance for all of Target's properties. This department consists of the Enterprise Support Services, Client Services, Distributed Database, Operations, Technology Acquisition, and Vendor Management (Target Corporation, 2014).

As stated earlier, the human/managerial architecture consists of many different departments. All of these different teams or departments not only work closely with one another, but also with nearly all of the other departments that make up Target Corporation. This close collaboration of departments and

teams is one of many things that have helped Target become one of the biggest and most successful retailers in the United States.

**Technological**

Target Corporation uses the Microsoft .NET Framework 2.0, Windows Server 2003 and Microsoft SQL Server 2005. These software systems help deliver the Microsoft Smarter Retailing strategy for connecting people, information, systems, and devices (Redmond, 2006). These software systems help Target cut costs by simplifying its IT architecture.

One way it does this is by making the tools easier to use. “These cost savings will enable us to invest in additional innovations that will enhance the store experience for our guests,” said Janet Schalk, Chief Information Officer at Target (Redmond, 2006).

Target Corporation selected Microsoft .NET Framework-based technologies because of the ease of integration, flexibility, reliability, and manageability. This not only helps the company with their existing systems, but also helps them meet their future plans for growth and innovation. This strategy is known as Smarter Retailing, which is a type of IT architecture that intertwines much of their software to not only make performing day to day business easier for the company, but also provides better customer service to their guests by making their experience better (Redmond, 2006).

As stated earlier, Target’s decision to use these software systems to solve problems and make the company more cost effective is an example of what is known as Microsoft Smarter Retailing, which is “an initiative designed to help retailers improve how they sell and operate” (Redmond, 2006). More specifically, Smarter Retailing works by having software that is integrated with each other and in turn, “eliminates the need for a complex services model and allowing retailers to focus on the issues that drive value” (Redmond, 2006). The integration of this system is a major asset that has assisted Target Corp. in becoming one of the leading retailers in the United States. The Smarter Retailing strategy has not only helped Target through improving the processes at their stores, but also improving the Target website. It has done so by cutting down the delivery time of items ordered online. This in turn has increased internet sales. Furthermore, this system is so beneficial is because if Target ever decides to change its strategy, the Smarter Retailing system can easily be modified to fit their new strategy (Redmond, 2006).

**FIGURE 1  
IT USE AND ASSESSMENT**



The Strategic Grid is a company matrix that categorizes how a company uses its information technology. It consists of four quadrants: factory, strategic, support, and turnaround. The y-axis

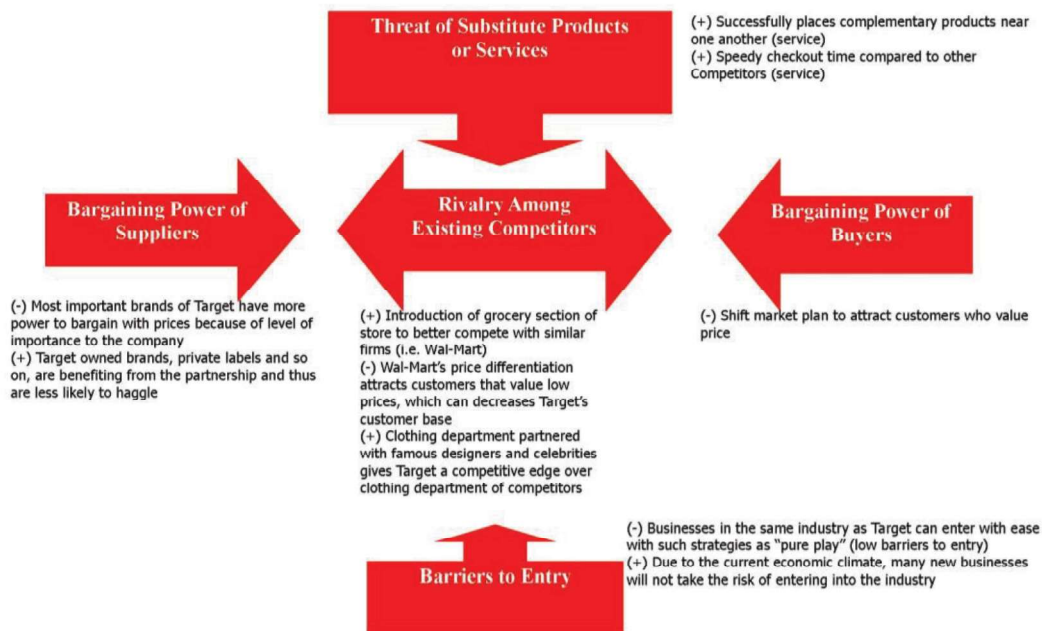
represents the need for reliable information technology within the company and the x-axis represents the need for new technology within the company (Applegate, 2003).

Support companies have a low need for both new and reliable information technology and are usually companies that use IT as a back-office support. Strategic companies have a high need for both new and reliable information technology and use the technology not only as a way to run operations within the company, but also as a way to implement new strategies to stay competitive.

The factory quadrant represents a company with a high need for reliable information technology but a low need for new information technology, meaning they consistently use IT for all of their business operations. Turnaround companies are typically not consistently in the turnaround stage, and usually companies within this quadrant are moving from the support quadrant to the strategic quadrant (Brown, 2012).

Based on the team’s analysis, Target fits within the strategic quadrant. Target accrues many sales transactions on a daily basis, so they require reliable information. This reliable information includes how many items are in stock, when to order new items, and what items need to be switched out. These transactions are very important to the business and would take too much time and effort if done solely by a single employee. Also, it is important for Target to stay up-to-date on new information *technology* in order to remain competitive with other discount retailers such as Wal-Mart, whose low-cost strategy takes a larger percent of the market share. New information technology is important whether it be information to better predict the demands of customers with specific characteristics, the changing demands based on season or economic status, or simply information technology that captures internal data quicker or more efficiently, saving the company time and money.

**FIGURE 2  
COMPETITIVE FORCES**



Target utilizes online shopping to attract a broader mix of customers. To aid competing with other “green” firms in its industry, Target has remodeled their stores to use LED lights and motions sensors in refrigerated cases and low wattage fixtures on the sales floor. To save in overhead expenses, they also use specially-designed heating, ventilation and air-conditioning systems for maximum efficiency (Target.com, 2014).

RadioShack Bullseye Mobile kiosks have also been added in most of Target’s stores in the United States (Kaufman, 2010); other companies that Target partners with are KODAK, Shutterfly, and PhotoBucket, which allows Target to more readily compete with stores who offer outside services within their physical store, much like Wal-Mart (DataMonitor, 2010). Target guests can use KODAK Picture Kiosks to access and print online photo albums directly from their Facebook or KODAK Gallery accounts, setting Target above their competitors who utilize social networking sites like Facebook and Twitter solely to market their products (June 2011).

Target advertises ClearRx in their pharmacy department; this program uses clear, simple labels and a label magnifier with the ability to add personalized color rings to help customers identify which medication is which (Target Corporation, 2010).

Target Corporation’s customers can now store gift card account data electronically and make payments at the point of sale with their personal mobile phones. Sara Moore, a Target spokeswoman, mentioned Target’s realization that mobile phones are a key part of their guests’ lives. In addition, people can manage their Target gift cards through the mobile service. Lastly, when one wants to make a transaction with the card, they can log into their account on their phone, which will then load the card’s barcode for the employee to scan for the transaction (Wade, 2010).

**FIGURE 3  
VALUE CHAIN**

<b>Support Activities:</b>	<b>Firms Infrastructure:</b>		Community culture		
	<b>Human Resource Management:</b>		Promote from within, online recruitment		
	<b>Technology Development:</b>		Overhead savings, green technology, just-in-time inventory		
	<b>Procurement:</b>		Higher quality private labels		
<b>Primary Activities:</b>	<b>Inbound Logistics</b>	<b>Operations</b>	<b>Outbound logistics</b>	<b>Marketing and Sales</b>	<b>Service</b>
<b>Examples:</b>	RFID tags	36 distribution centers	RFID tags, automated order processing	Online shopping, PFresh stores	Quick checkout

### **FUTURE RECOMMENDATIONS**

Target is an extremely successful discount retailer and despite the fierce competition in its industry, the company is able to remain a leader, second only to Wal-Mart. However, Target cannot afford to get comfortable and refrain from changing with the trends and customer preferences. Although there are many routes that a Target manager could choose, enhancing its current service offerings and expanding into new markets and product selections are the most viable options to continue Target’s success.



## **Enhance**

Because Target is a discount retail store, the company should focus on enhancing its current service offerings in order to improve overall performance of the existing business. Target already excels in customer service; however there are a few areas that could be improved. The stores are over 100,000 square feet which can make it difficult to find certain products, especially sale items, in a timely manner. In order to alleviate this problem, small kiosks could be located throughout the store to point customers towards the product and section they are looking for. Improvements could also be achieved by adding more employees to peak shifts to direct customers; however, the cost of adding employees mainly to direct the shoppers could turn out to be a high expenditure. A more cost effective way to solve this problem lies in mobile applications for smart phones. Target recently launched an iPhone application that locates stores and enables customers to start shopping lists from their phones. Target could augment the application by adding a GPS locator or virtual map of the store to ensure that customers find what they are looking for in the most efficient and convenient fashion.

Another way to enhance Target's service offerings lies in the online segment. More and more customers are shopping online for the convenience of not having to leave the house. Most customers shop online for items they need in the future but not right away. Faster delivery will encourage customers to shop online for everyday products if the delivery time is more convenient.

## **Expand**

Although Target is a highly successful discount retail store, there is always room for improvement. In this case, expansion is an extremely viable option for the future of the company. Currently, Target does not have as wide of a selection of products as its competition. Many consumers find a brand of product that they prefer over the others and the wider the variety of brands that a store carries, the more customers it will attract.

Target carries many of the most popular brands but widening the selection to include more generic brands would help to attract customers that may not otherwise shop at Target. Holding a more varied selection of brands could also help change many consumers' perception that Target has higher prices. This is an opportunity for Target to show customers that there is very little price difference between Target and other discount retailers.

In addition to product expansion, Target should also expand into foreign markets such as Canada or Europe. In order to keep up with the competition, it is important that Target move into foreign markets and gain a strong market share. Wal-Mart has already moved into Canada and has opened a different store format in Europe to appeal to the most consumers. Target should follow suit and find innovative ways to appeal to the European segment. Once success is found there, it can move on to other countries and continue expanding.

## **LESSONS AND CONCLUSIONS**

After analyzing the Target Corporation's information technology structure, it is found to be extremely important to a company. In many cases, the IT structure sets a foundation or base for the continued maintenance and operation of the business.

IT is used throughout all departments: marketing, operations, human resources, and procurement, which enhance the value chain network. Within each department, the various systems and IT solutions are used by each and every employee, whether they are part-time, using the technology for daily transactions with sales, or executive members, who use decision support systems to analyze and help make companywide decisions.

The extent of detail and breakdown that is involved with technology was also acknowledged through the analysis of the Target Corporation. Each attribute or facet of technology used within the business helps to make the overall company run more effectively and efficiently.

The use of technology also aids to increase the economies of scale within Target and other companies. An increase in the economies of scale occur when technology solutions are developed to

assist in lowering the cost per unit through, for example, lower labor costs, increased productivity, or larger facilities.

Through our research and analysis, we determined that even though Target's strategy is not to compete with Wal-Mart's low prices, Target will maintain its strong market share. This successful positioning is due to Target's higher quality image and their strategic use of IT.

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