SuPerior Returns

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TARGET

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Target's Strategy vs. Rival's Strategies

Target's goal is to compete with its competitors in the retail industry on experience and brand differentiation not just on prices on products

While other retailers focus on discounts or operational efficiency, Target has built its competitive position in the retail industry by creating a superior shopping experience.

Walmart

- Walmart's focus is on everyday low prices, and to be profitable through cost-efficiency and its broad accessibility
- Their core competency is to have the lowest prices across all categories which is appealing to all the price sensitive customers

Costco

- Operates on membership-based model, with stores being warehouse-like
- They focus on having customer's bulk purchase products, in addition to extremely thin margins.
- Competitive advantage comes through limited SKU availability (creates luxury feel), and a steady membership fee income.

Target's Core Competency

Target's core competency is to deliver a differentiated, design driven and brand focused shopping experience by combining style, select merchandise, and strong guest loyalty while having products competitively priced

"Expect More. Pay Less"- helps show the design and quality of products with a great shopping experience, backed by their competitively low pricing.

Focus for their guest profile:

- College-educated women
- Has children at home
- More affluent that typical Walmart customer
- Values style, quality, and brand image

Target's Core Competency (continued…)

How Target draws its core competency.

- **Brand Positioning and Awareness**- through strong marking campaigns and differentiated identity
- **Select Product Assortment-** the use of private and exclusive brands that help give them design credibility
- **Store Presentation-** Aesthetic layout that supports impulse buying
- **Understanding Core Guests-** strategy upon who they are serving and why

Target's Financial Performance vs. Walmart's

Walmart has over 6 times the revenue that Target has in the recent financial data. ($315.7 Billion compared to $52.6 Billion)

Walmart is far more ahead with

- Greater purchasing power
- Stronger supplier leverage
- Larger geographic footprint
- Broader products

Scale is what separates Walmart and Target the most.

Target's Financial Performance vs. Walmart's (continued...)

Target does have a slightly higher EPS than Walmart despite being smaller in scale ($2.73 compared to $2.68)

The focus on brand, curated assortment allows them to have solid margins despite much smaller revenue than the large-scale Walmart

Walmart may win on revenue and volume, but Target still generates strong earnings performance compared to its small scale

Target's Financial Performance vs. Walmart's (continued...)

WALMART DEBT: $38.8B

TARGET $9.9B

WALMART CARRIES MORE DEBT, BUT BOTH ARE STABLE COMPARED TOP THEIR SIZES.

WALMART BETA: 0.80

TARGET BETA: 1.05

WALMART IS MUCH LESS VOLATILE AND STABLE DURING DOWNTURNS THAN TARGET, WHICH MAKES SENSE AS WALMART'S GROCERY-HEAVY MIX PROVIDES STABILITY, AND TARGET DEPENDS ON MORE DISCRETIONARY CATEGORIES LIKE APPAREL AND HOME GOODS

CEC's Capital Expenditure

- Relied heavily on following financial metrics:
  - Net Present Value (NPV)-projects needed positive NPV
  - Internal Rate of Return(IRR)- compared against hurdle rates
  - Cash Flow Projections- 10-year forecasts
  - Sensitivity Analysis- assumptions like sales growth and operating margins

  Other factors include:
  - Strategic fit
  - Competitive positioning
  - Demographic trends
  - Real estate considerations

Whalen Court

- Best Case NPV - $25,875,000
- Best Case IRR – 9.8%
- Expected NPV - $2,295,000
- Expected IRR - 8.35%
- Investment- $119,263,000
- Population Growth (2000-2005)- 3%
- 45 Target stores currently in the market
- Leased property

Gopher Place

Best Case NPV - $16,755,000

Best Case IRR – 12.3%

Expected NPV - $9,189,500

Expected IRR - 10.15%

Investment- $23,016,000

Population Growth (2000-2005)- 27%

5 Target stores currently in market

Expect Wal-Mart to add 2 stores in the area

The Barn

- Best Case NPV - $20,527,000
- Best Case IRR – 16.4%
- Expected NPV - $14,945,000
- Expected IRR - 13.5%
- Investment- $13,017,000
- Population Growth (2000-2005)- 3%
- Rural, new market for Target

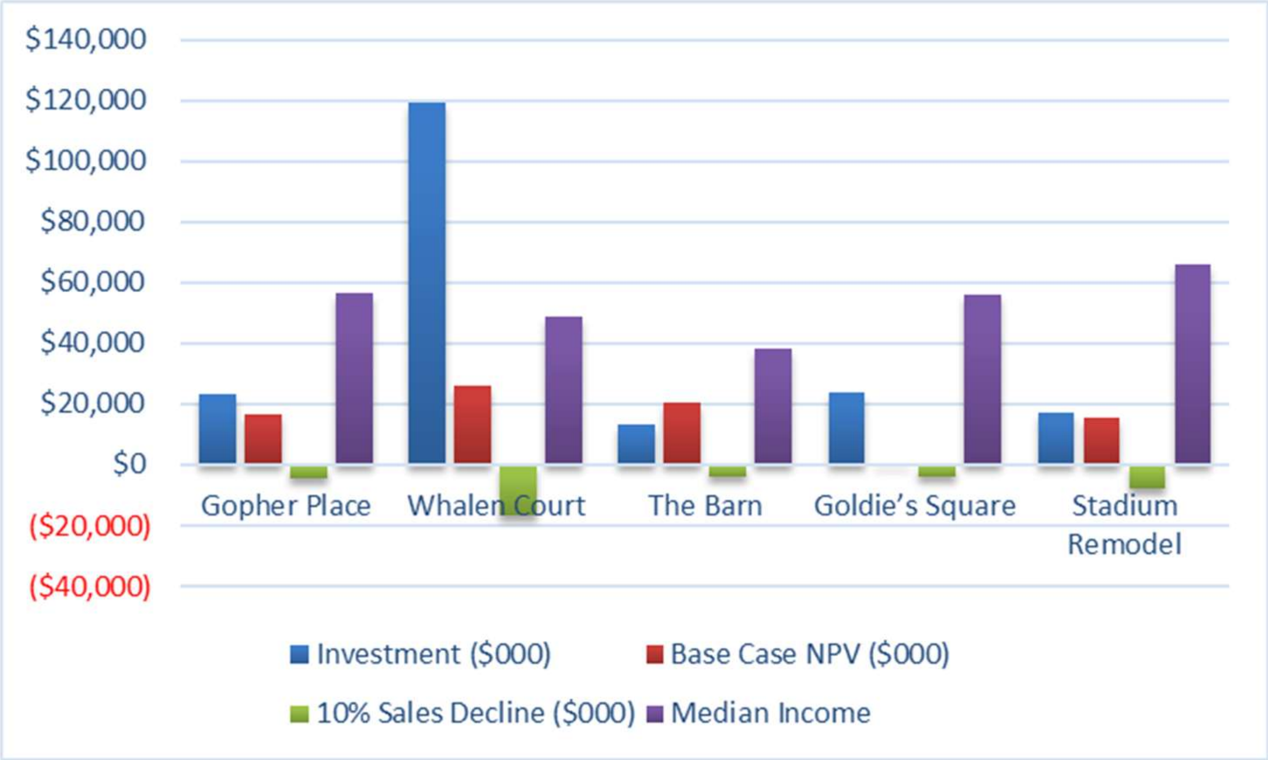
Goldies square

- Best Case NPV - $317,000
- Best Case IRR – 8.10%
- Expected NPV - ($4,419,000)
- Expected IRR - 6.85%
- Investment- $23,939,000
- Population Growth (2000-2005)- 16%

Stadium Remodel

- It has a proven market (standing since 1972).
- This project has brand stability and economies of scale.
- It has a strong demographic base.
- Effective cost is reduced by the tax benefit of $0.4M
- Maintenance risk will be low as a result of operational upgrades.

Summary Of Project Proposals



Recommendations

- We recommend doing all the projects except for Goldie Square. We also want to point out the added risk of Whalen Court

Risks/Isssues That Might Affect CEC's Decision

Macroeconomic & Consumer Spending Risk

- -The growth in Target (and other retail stores), seemed to be slowing down between 2006-2007.
- -Customers were compelled to spend more due to the rising of interest rates.
- -The housing market crisis was creeping in during this period.
- -Target, unlike Walmart, didn’t offer their customers a variety of products (focus was on home and apparel).
- -**Implication**: an overstatement of growth could be the result of CEC not taking into account how customers have become more conscious about their spending habits. Therefore, carrying out heavy expansions will place Target in a vulnerable economic position.

Risks/Issues That Might Affect CEC's Decision *continued*

- Competitive Pressure from Walmart
- -While Target relied more on design differentiation, Walmart was strengthening their grocery penetration, and also their price leadership.
- -Despite the fact that Walmart had low profit margins, they were still able to sell their products in high volumes which made their low profit margins appear insignificant.
- -**Implications**: Target's CEC cannot adopt Walmart's approach, because they would have to consider the realistic effects of operating like them. The can't expect their traffic to be on par with Walmart's due to an increase in product volumes, they also will have to consider how to still generate profits that are more or less on par with its competitors.

Summary

Using Independence, we should go with the ranked order of

The Barn

Gopher Place

Stadium Remodel

Whalen Court

We do not recommend Goldie Square.

THANK YOU