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COMPANY PROFILE

Target Corp

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COMPANY OVERVIEW

Target Corp (Target) is a general merchandise and food items retailer. The company's product portfolio include baby products, beauty products, clothing, electronics equipment, furniture, grocery, health items, home products, pet products, school and office supplies, shoes, sports and outdoors, toys and sports equipment. It also offers various services such as food courts, clinics and other amenities, home delivery, coupons and photo service. Target markets these products under company owned brands and exclusive brands. Its owned brands include Archer Farms, Simply Balance, Boots & Barkley, Embark, Gilligan & O'Malley, Ava & Viv, Sonia Kashuk, Market Pantry, Merona, Room Essentials, Smith & Hawken, Spritz, Sutton & Dodge, Threshold, up & up, Wine Cube and Xhilaration. The company's stores are categorized as Target general merchandise stores, expanded food assortment stores, SuperTarget stores and CityTarget stores. Target is headquartered in Minneapolis, Minnesota, the US.

The company reported revenues of (US Dollars) US$71,879 million for the fiscal year ended February 2018 (FY2018), an increase of 3.4% over FY2017. In FY2018, the company's operating margin was 5.8%, compared to an operating margin of 6.5% in FY2017. In FY2018, the company recorded a net margin of 4.1%, compared to a net margin of 3.9% in FY2017.

KEY FACTS

Head Office	Target Corp 1000 Nicollet Mall Minneapolis Minnesota Minneapolis Minnesota USA
Phone	1 6123046073
Fax	
Web Address	www.target.com
Revenue / turnover (USD Mn)	71,879.0
Financial Year End	February
Employees	345,000
New York Stock Exchange Ticker	TGT

SWOT ANALYSIS

Target Corp (Target) is a general merchandise and food items retailer based in the US. Operational network, steady revenue growth and inventory turnover ratios are the company's main strengths, whereas liquidity position remain major areas of concern. In the future, dependence on third parties and increasing manpower costs in the US could affect its growth. However, expanding retail market in the US, growing online retail market in the US, new product launches and strategic partnerships are likely to provide growth opportunities to the company.

Strength Operational Network Inventory Turnover Ratio Revenue Growth	**Weakness** Liquidity Position
Opportunity Growth of E-Commerce New Product Launches Expanding Retail Market in the US Strategic Partnerships	**Threat** Increasing Manpower Costs in the US Stringent Regulations Dependence on Third parties

Strength

Operational Network

The company leverages its extensive operational network to tap immense market potentials in the US market. Strong and diversified operational network allows Target to enhance its top line performance and maintain a dominant market position. As of February 2018, the company operated 1,822 stores in the US with total retail area of 239,355 thousands sq. ft., of which 1,526 were company-owned stores, 136 leased stores and 160 owned building on leased land stores. Of the total 1,8222 stores, Target operates 274 stores with a retail area of over 170,000 sq. ft., 1,500 stores with a retail area between 50,000-169,999 sq. ft., and 48 stores with a retail area between 0-49,999 sq. ft. This extensive retail network helps the company increase its proximity with its customers. Its extensive store network receives support from the company's robust distribution network consisting of 41 distribution centers including 33 owned and eight leased distribution centers in the US with a total area of 51,831 thousands sq. ft. The company also retails its products through its online business site, Target.com. Its online site offers a broad assortment of similar merchandise categories available in its stores, except food items and household essentials. In FY2018, the company reported 5.5% of the total sales through digital channel as compared to 4.4% in FY2017. Its comparable digital channel sales grew by 27% in FY2018 over the previous year.

Inventory Turnover Ratio

The company reported an increase in the inventory turnover ratio during the period under review. The decline in the turnover ratio and higher inventory turnover days signify that the company incurs high inventory carrying costs, which could affect its profitability. In FY2018, the company reported inventory turnover ratio of 5.9, which was higher than that of two of its major competitors, Kohl's Corporation (Kohl's) and Macy's, Inc. (Macy's) which reported values of 3.4 and 2.9 in FY2018. With the given inventory turnover ratio, the company takes 62 days to sale its inventory, whereas Kohl’s takes 107 days and Macy’s takes 126 days to sale its inventory in the market.

Revenue Growth

Growth in the revenue provides confidence to the company’s management for future. Target exhibited a steady revenue growth during the review year. In FY2018, the company generated revenue of US$71,879 million as compared to US$69,495 million in FY2017, with an annual growth of 3.4%. Increase in revenue was primarily due to 1.3% increase in comparable sales and opening of new stores.

Weakness

Liquidity Position

Target recorded a decline in its current ratio during the review year. Limited liquidity position may put the company at a disadvantage while funding any potential opportunities arising in the market. At the end of FY2018, the current ratio of the company was 0.9. The company's current ratio was below its competitors such as Kohl's Corporation and Macy's, Inc., which reported values of 2 and 1.4, respectively during the same year.

Opportunity

Growth of E-Commerce

Target stands to benefit from growing online retailing, which provides consumers the convenience of shopping from home. Apart from its brick and mortar stores, the company also sells products through its online retail platform. Successful execution of its online business strategy may help the company attract new customers and generate higher revenue. In FY2018, the company launched its own mobile payment service to enable customers to pay for goods using an application on the mobile phones. Target sells merchandize through its website Target.com. E-commerce is the fastest growing retail market in the US. Therefore, growing e-retail market in the US could offer it further growth avenues. Increasing popularity of internet usages along with technological advancement and improving economic situation majorly driving the growth in the market. According to the report published by the Census Bureau of the Department of Commerce in February 2018, the estimated retail e-commerce sales in the US for the fourth quarter of 2017 was US$119 billion, which shows an increase of 3.2% over that in the third quarter of 2017. The retail e-commerce sales in the US for the fourth quarter of 2017 reportedly increased 16.9% over that in the fourth quarter of 2016. E-commerce sales in the fourth quarter of 2017 accounted for 9.1% of the total sales.

New Product Launches

Product innovations and introductions could help the company to build its brand equity, and drive its top-line. Frequent product launches, which are supported by out-of-home, social media and digital promotional campaigns, will also strengthen its position in the critical on-trade and off-trade channels. In April 2018, Target introduced new eight cosmetics brands to its beauty section designed for women with medium to dark skin tones. This could strengthen the company's beauty products segments. In April 2018, the company launched a new service, Drive Up, into 270 stores in Florida, Texas and the South-East in the US, which allows customers to get order delivered to their car. In March 2018, Target and AddStructure partnered to launch a product as a competitor for Amazon's Alexa. In January 2018, the company launched Good Chemistry, an exclusive fragrance brand. This brand offers beauty products. This could improve company's beauty products category.

Expanding Retail Market in the US

Target retails general merchandise and food items to its customer in the US. The company offers various products including baby products, beauty products, clothing, electronics equipment, furniture, grocery, health items, home products, pets products, school and office supplies, shoes, sports and outdoors, toys and sports equipment. Therefore, growing retail market in the US could offer it further growth avenues. In FY2018, the company opened 32 new stores. These expansion initiatives help Target to expand its presence in the US. According to in-house research, the retail sales in the US expected to reach US$3,722.4 billion in 2020 growing at a CAGR of 3.1% during 2015-2020. Food and grocery is expected to lead with a share of 47.7% of overall retail sales, followed by apparel, accessories, luggage and leather goods (15.9%), home and garden products (14.9%), electrical and electronics (9.3%), furniture and floor coverings (3.6%), Books, news and stationery (2.6%), Sports and leisure equipment (2.7%), health and beauty (2.5%), and Music, video and entertainment software (0.8%) in 2020.

Strategic Partnerships

The company forged new strategic partnerships recently that could help in driving its future growth. Strategic agreements could help the company in expanding its product portfolio and improving its top line performance. In April 2018, Target and Walmart partnered to launch electric vehicle charging stations at its stores. In March 2018, Target and AddStructure partnered to launch a product as a competitor for Amazon's Alexa. In March 2018, the company was selected by hint, to launch its new sunscreen spray, hint sunscreen, in Target stores. In March 2018, the company and Hunter partnered to provide its lifestyle collection at Target stores and website. This could increase company's products assortments. In February 2018, the company partnered with Honeyfund to launch a honeymoon registry startup, Shark Tank, to offer guests with best wedding registry experience.

Threat

Increasing Manpower Costs in the US

Increasing manpower costs could have an adverse effect on the company's margins. In FY2018, target employed 345,000 associates for conducting its business operations. Increasing manpower costs could impact its stability and operational efficiency. The tight labor markets, government mandated increases in minimum wages and a higher proportion of full-time employees could result in an increase in labor costs. The federal minimum wage rate in the US, which remained at US$5.15 per hour since 1998, increased to US$5.85 per hour in 2008. It further increased to US$6.55 per hour in 2009 and to US$7.25 per hour in 2010. Though the average minimum labor wages remained same in 2018, many states and municipalities in the country increased minimum wage rates even higher than the federal minimum wage rate due to the higher cost of living. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA). As of January 2018, the minimum wage rate in the US was US$7.5 per hour. The minimum wage rate in 29 states and the District of Columbia is more than the federal rate. These wages range from US$11 in Massachusetts, US$8.25 in Florida, US$8.25 per hour in Illinois, US$9.25 per hour in Michigan, US$9.25 per hour in Maryland, US$10.1 per hour in Hawaii and Connecticut and US$10.5 in California. The minimum wage in the District of Columbia reached US$12.5 per hour.

Stringent Regulations

The company is required to comply with stringent regulations at the federal, state and local levels. For instance, Target pays income based on the tax statutes, regulations and case law of the various jurisdictions. In FY2018, the company paid US$363 million in terms of interest and penalties for the late payment of taxes. It operates it majority of stores in the US and the revenue depends on macroeconomic conditions and consumer confidence in the US. The significant portion of revenue comes from five states: California, Texas, Florida, Minnesota and Illinois, in the US. The company sources majority of its merchandise from outside the US with China is the largest provider of its merchandise. The company may face the shortfall in the merchandise due to political or financial instability, trade restrictions, the outbreak of pandemics, labor unrest, transport capacity and costs, port security, weather conditions, and natural disasters with the country. It also gets affected by change in global and changing workforce.

Dependence on Third parties

Target highly depends on third parties to support a variety of business functions and a disruption in relationships with third parties could adversely affect its business operations. It majorly depends on third party sources for technology development and systems, digital platforms and distribution network operations, and credit and debit card transaction processing. It also utilizes the third party resources for extension of credit for the 5% REDcard Rewards loyalty program, infrastructure supporting guest contact centers, and aspects of the food offerings. Any failure of contract with third parties having the specialized skills needed to support those strategies or the failure of third parties to meet performance standards and expectations primarily with respect to data security, the reputation, sales, and results of operations of the company could be affected.