

Introduction: The Invasion from Online Retailers

Nowadays, every single physical retailer is facing the challenges from online retailers. According to Forrester's research, online retail sales will reach \$327 billion by 2016 (\$200 billion in 2011). In addition, 53% of the U.S. population purchased online in 2011 and will grow to 56% by 2016¹. These data show that online shopping is a trend that no one can stop/change.

Figure 1 Forecast: US Online Retail Forecast, 2011 To 2016

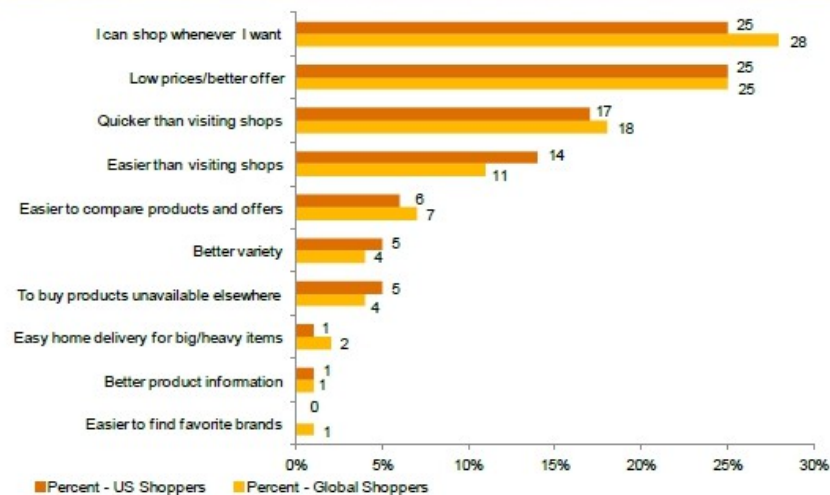


Source: Forrester Research Online Retail Forecast, 2012 To 2016 (US)

60672

Source: Forrester Research, Inc.

Fig. 4: When it comes to online shopping, the convenience factor rules



According to PwC's research, the primary reason for online shopping's growth is that shoppers can shop anywhere and anytime. Cheap pricing is only the secondary reason. Other

¹ Forrester's Research Online Retail Forecast

reasons may include avoiding checkout lines, and researching while shopping using the internet.

How physical retailer reacted

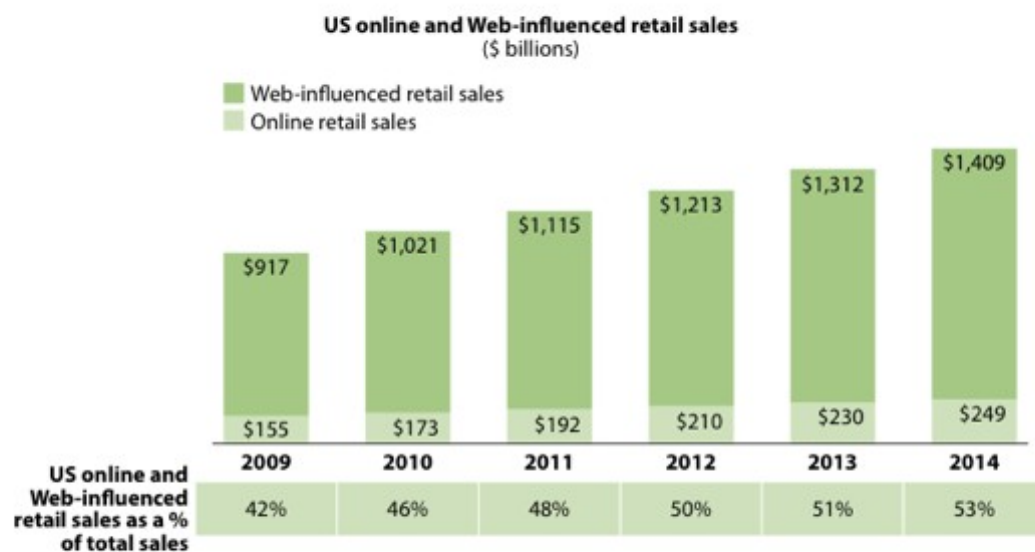
The success of the online retailers is a sign telling traditional physical retailers to change. However, online shopping is not their enemy but the weapon to fight for market shares. Many people may think online shopping is not new; but the truth is the whole idea of online shopping is still very immature. Online shopping is still in the growing/developing period as the consumers are leading the way in multichannel shopping with many retailers lagging behind when it comes to meeting consumers' needs². From 2011 to 2012, only 54% of U.S. companies had an overall mobile strategy in place and only 41% had invested in 2G technology. This shows that most of the companies are running the online and physical store separately. The ability of truly combining online and physical retailing becomes essential. The idea of “site-to-store” shipping by Walmart, is a good way to connect online retailing with physical retailing. However, due to the not fully synchronized inventory, Walmart’s “sit-to-store” shipping can cause customers troubles. Sometimes the purchase you have made will be canceled because the product is out of stock even though the website shows “in stock.”

Having an online presence also boosts sales in the physical store. It is estimated that in-store retail sales worth \$917 billion are “web-influenced.” This suggests that as long as a physical retailer can use multichannel effectively, they should have no problem using it to increase their overall sales. Using multichannel effectively is not only referring to advertising, but also being able to “push” people to the physical store (like the “site-to-store” shopping). This “pushing” can increase sales because customers are very likely to make some purchases during that visit. Of course, mastering it may require large amount of capital. But once the retailer has

2 PwC: Understanding how U.S. online shoppers are reshaping the retail experience

mastered how to effectively use multichannel shopping, it will be very easy to replicate in other territories (from different states to different countries). This is a competitive advantage that's worth spending money and times on.

Figure 2 Forecast: US Online And Web-Influenced Retail Sales, 2009 To 2014



Source: Forrester Research Web-Influenced Retail Sales Forecast, 12/09 (US)

56551

Source: Forrester Research, Inc.

Part 2: Target

The Advantages

Some of the clothing Target sells is designed by well-known brands and designers. One year ago, Target worked with Jason Wu to produce some sophisticated clothing which was sold in a few hours³. Also, the C9 by Champion generated more profit than all other product lines of Champion. These have proved that customers like buying clothes from Target. In fact, according to a survey done by The American Affluence Research Center (September 9, 2011), Target was

3 <http://abcnews.go.com/blogs/business/2012/02/jason-wu-for-target-sells-out-in-first-morning-2/>

voted to be the brand for the best value⁴.

In 2011, Target took the 21st spot out of a list of 46 retailers ranked for their customer service (Walmart was 27)⁵. This shows Target is doing a better job than its major competitors. Sometimes retailers overlook the importance of customer service, especially in the area of checking out. Studies show that people (especially wealthier and busier people) are willing to pay more for a better shopping experience (like wider aisles, less crowding and less waiting time in line while checking out).

The Disadvantages

Comparing to Target's major competitors, Walmart and Kmart, and other online retailers (for example, Amazon), we cannot deny the fact that the price of Target's goods are relatively higher. If the economy is not that good or the neighborhood is not wealthy, low-cost strategy will be the best strategy retailers can use.

Another disadvantage is fewer distribution centers. If the distribution lines are not good enough, some unnecessary cost may be added to the production cost which either lowers the profit margin or has to be passed to the customers. Either way will hurt Target's image and its profitability.

High turnover with the employees is one major weakness of Target too. This can be a huge problem for a retailer who emphasizes good customer service.

A major opportunity and threat

56% of Target's customers have completed college. This can also be comprehended as most of the Target's customers know how to use a computer. This allows Target to expand its online shopping without wasting any money, since that can benefit its original customers. On the

4 <http://apparel.edgl.com/case-studies/Survey--Affluents-Say-Target-Offers-Best-Value-for-Designer-Apparel82151>

5 <http://retailingtoday.com/article/target-makes-grade-customer-service>

other hand, if Target failed to make its online shopping experience better, there was a possibility that Target might loss some of its customers.

Red = Lose

Yellow = Middle

Green = Win

| | City Target | Online Shopping | <u>Walmart</u> |
|---------------------------|---------------------------------|---------------------------------------|--|
| Shopping Cost (not price) | Tax | Shipping, Returning, Tax (Amazon Tax) | Tax |
| Shopping Cost (price) | Higher | Mostly lower | Low |
| Shopping Time | Store hours | Anytime (with the help of technology) | Store hours |
| Selection | Limited but carry unique brands | Anything | Larger selection (website's marketplace) |
| Customer Service | Staff (mostly good) | Depend on retailer | Staff (bad) |
| Instant Help | Yes | Depend on retailer | Like none |
| Easiness to Shop | Depend on store | Yes | Time consuming checkout process |

Our ideas for Target in general

Target should not try to compete with low cost unless there is going to be an economic downturn. Because of the “made in China” products, many consumers believe that “lower price equal to lower quality” and a lot of people use this myth as a guideline when shopping. Indeed, some people refuse to buy cheaper products in certain category (for example, pets and children related products) to avoid unnecessary risks.

The more important thing is, trying to combine online and physical shopping together. The very first thing to achieve this is, increase the quality (easier to use, clearer information, etc.) of Target's website. According to Consumers Reports, there are some consumers complain that

Target's website was not especially easy to use⁶.

Our idea for City Target: All in one customer service center

We suggest that Target should turn City Target into a “All in one customer service center”. Other than the basic function, a place where customers can buy what they want; City Target should also be a place where customers can pickup and return their online orders. The term online order is not limited to “site-to-store” order, but also purchasing in store items online. In addition, when there is a product that a customer want is not carried in the City Target (one of the City Target's weakness, limited brands and items), the staff there should be able to help the customer order it online so that the customer can pick that up later in store.

City Target is a smaller version of normal Target store located in urban areas. This allows Target to cover areas that their competitors cannot (because of the store size) and provide products for the people in those areas, most of whom are engaged business people. Try to imagine this situation: You are a very busy person and you need to buy groceries for dinner. Instead of spending at least half an hour to shop and wait in the checkout line in a supermarket, you can now spend 15 minutes to do your shopping and checkout online. All you need to do is bringing your receipt to City Target and pickup whatever you have bought.

In order to turn City Target into a customer service center, the very first thing is well trained employees. There will be two group of employees specify in two jobs. The first one: employees who can correctly and nicely pack up customers' online order. The second group: employees who know the store inventory very well and can help customers ordering what they need online. The ability of the first group of employees can affect how successful the customer service center is. They have to know more than just packing the order correctly. They may need

6 Consumer Report March 2012: Where to buy almost anything

to be trained so that they will never pack any less quality groceries products for the customers.

Certain area (ideally on the ground floor) to be marked as “online order area” will be needed too. That area will allow customers to pickup and return their online orders as well as a checkout point when they want to buy something in store (can avoid long checkout line).

A better website that can show different store's inventory clearly so that the customer can have no difficulty to order what they need online according to the store they prefer. In order to do that, the very first thing is a synchronized inventory. This may require specific web pages for each City Target store.

Conclusion

Turning City Target into a “All in one customer service center” should be a great way to compete with Target's competitors as well as fulfilling Target's brand promise (“ExpectMore. Pay Less”) because it can combine the advantages of online and physical retailing in one. With the staff helping online ordering, it also remove the weakness of limited in store product. Since the economy of the U.S. is getting better, Target should have no problem to compete with a little higher price but extremely good customer service and products' qualities.

City Target's SWOT Analyze

by comparing to online retailer

Before Proposal

| | INTERNAL | EXTERNAL |
|----------|--|---|
| POSITIVE | Strengths <ul style="list-style-type: none"> ● Great Reputation from Target in Customer Service and Products Quality ● Unique Brands/Designers ● Having Actual Stores for Customers ● Small Size to Cover High Density Area | Opportunities <ul style="list-style-type: none"> ● Large Numbers of Potential Customers ● Changing of Customers' Buying Pattern ● Take over Competitors' Market Share in Area They Cannot Cover |
| NEGATIVE | Weaknesses <ul style="list-style-type: none"> ● Higher Price ● Limited Selection ● Limited Shopping Time | Threats <ul style="list-style-type: none"> ● Market Share Being Taken ● Changing of Customers' Buying Pattern ● Need to Work Very Hard to Maintain Its Images (low cost and stylish) And Promises (great shopping experience) |

City Target's SWOT Analyze

by comparing to online retailer

After Proposal

| | INTERNAL | EXTERNAL |
|----------|--|---|
| POSITIVE | Strengths <ul style="list-style-type: none"> ● Great Reputation from Target in Customer Service and Products Quality ● Unique Brands/Designers ● Having Actual Stores for Customers ● Small Size to Cover High Density Area ● Shop 24/7 with Online Inventory ● Free Shipping and Free Return | Opportunities <ul style="list-style-type: none"> ● Large Numbers of Potential Customers ● Changing of Customers' Buying Pattern ● Take over Competitors' Market Share in Area They Cannot Cover |
| NEGATIVE | Weaknesses <ul style="list-style-type: none"> ● Higher Price | Threats <ul style="list-style-type: none"> ● Market Share Being Taken ● Changing of Customers' Buying Pattern ● Need to Work Very Hard to Maintain Its Images (low cost and stylish) And Promises (great shopping experience) |