

IRI
Growth
Insights

C-SUITE
SERIES

Target's **Pandemic** **Playbook**



July 16, 2020

IRI's Growth Insights C-Suite Series

of conversations with CPG and retail industry leaders includes valuable insights and best practices to better meet the needs of consumers now and in a post-COVID-19 world.

Our inaugural interview features **Brian Cornell, chairman and CEO of Target Corp.** This is an edited version of the conversation with Brian, highlighting some key strategies that reveal what the future of retail will look like. We hope you consider this brief, as well as our C-Suite Series, as an invitation to further the conversation on the future of our industry. As you'll learn from Brian, we all win when we approach our work as good students, listening and learning.



What Brian Is Reading: "The Killer Angels: The Classic Novel of the Civil War," by Michael Shaara (Ballantine Books, 1987). Brian's comment: "I thought under the circumstances it was a good time to take a look back."

Favorite Target Brand Product: Cat & Jack kids clothing, launched under Brian's leadership. He also has grandchildren, so the discount probably helps.

Summer Ritual: Under normal circumstances, Brian likes to ride bikes with his wife, golf with his son, and grill with his daughter and other family members. For the summer of 2020, it's Zoom calls.

Last Cultural Event Attended: UCLA football game in fall 2019.

Best Quality in a Leader: Humility. Stay grounded and be humble. Be a great listener.

IRI: Target has been lauded for its quick, decisive response to COVID-19. Did you have a pandemic playbook?

Brian Cornell: I don't think any of us scenario-planned for this environment. When we started to see the changes in the environment in February going into March, I think we had to quickly step back and write that playbook. We were preparing for our annual investor conference, which took place on March 3; originally, we were going to have it in New York City. And then we started to see some travel restrictions and said, "Well, let's do it virtually over webcam," which is something that now we do every day. But when I was on that call talking about our strategy, talking with our investors, we only had one call-in question about the pandemic. And that was how it was affecting our supply chain in Asia.

Literally, it seems like once we finished that call, the world changed, and we saw the pandemic begin to impact nursing homes in the Seattle area; we saw a travel ban being put in place. Schools were closed, all the major sporting events stopped, and we had to step back and think about how we can operate in this environment. We recognized that...

if we were going to **BE AN ESSENTIAL RETAILER** and serve the needs across America to take care of our guests, we had to **START BY TAKING CARE OF OUR TEAM AND PUT A PREMIUM ON SAFETY**. We're going to put a premium on ensuring that our team was taken care of from a pay and benefits standpoint. And it seemed like every week we had to make some changes, some adjustments from a safety standpoint.

We started by saying we're going to put dedicated team members in our stores who were cleaning surfaces from 10 o'clock in the morning until 10 o'clock at night. Then we recognized we had to do more and started putting plexiglass shields up and putting social distancing markers on the floor.

We started metering the number of guests who could be in our stores. We provided our teams with masks and gloves every day – anything we could do to provide our team and our guests with a safe shopping environment. But we also recognized we had to invest even more in our team. And we put premium pay in place, providing our frontline team members in stores and in supply chain positions a premium of two extra dollars per hour. For our team members who might've had a preexisting condition, were pregnant [or] were 65 or older, we provided paid leave for four weeks. For those who had children at home, we offered backup care. Throughout the pandemic, we said the first thing we have to do is create an environment that's safe for our team; take care of our team members as they were taking care of America and making sure we were doing the things that for Target were important to the Target guest.

IRI: The pandemic is spiking again in some Southern states. We are also in the middle of a civil unrest, which you've addressed publicly; we're in a recession; and it's a presidential election year. Given all these forces at work, what is essential for retailers and CPG manufacturers?

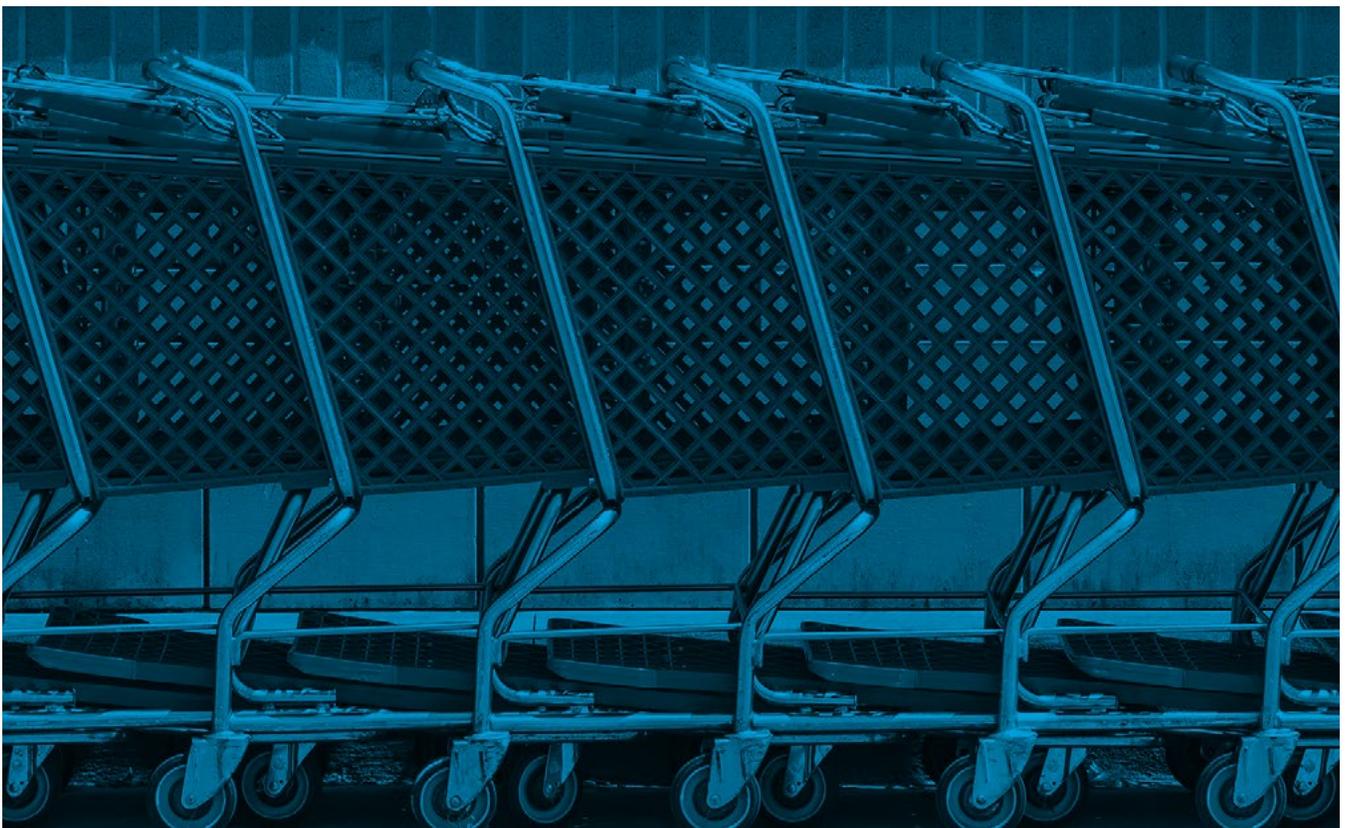
BC:

As I think about our **SUCCESS IN THIS VERY UNUSUAL ENVIRONMENT**, we put a premium on flexibility, adaptability, a willingness to continue to learn and iterate, listen to our teams, listen to our guests, but recognize that what works on Monday might actually need to evolve by Thursday or Friday. And what was right in March might have to look very different in July and August.

With so much uncertainty, so much volatility, we've had to learn to operate differently and adapt and flex, and make sure we're really putting a premium on agility in an environment where there is so much uncertainty. For us,

WE REALLY PUT A PREMIUM ON MAKING SURE WE'RE LISTENING. We're listening to our guests; we're listening to our team members. We're listening to the experts because we don't have all the answers, and we've got to make sure we're really good students, and we're adapting and learning along the way.

And applying that learning to how we're operating the business, taking care of our team and certainly taking care of our guests.





COLLABORATION

IRI: What do you expect from your CPG partners in the coming months and years or until there's a vaccine? The whole business model is changing, from adding an incremental margin SKU to how we approach promotions and pricing.

BC: One, we put a premium on transparent communication as we're iterating and adjusting and learning. We've got to make sure we're sharing and learning that information. Also, we all need to put a premium on getting the fundamentals right. Part of that is simplifying the operating model, making sure we get the basics in place each and every day. We need to put a premium on making sure we're looking at the data, the analytics, the information that's going to help guide some of the decisions, but there are some great examples with some of our CPG vendor partners that I think we're going to continue to lift up for years to come.

I won't name names, but for a few of our really big partners and one in particular, we might've had 700 of their SKUs in stock, in distribution, at Target at the start of the pandemic. Today, we've said we need to get 70 of them on the shelf available for the guests shopping in store or online every single day.

SO LESS BECOMES MORE, and getting those most important, most relevant items in stock and flowing through our DCs, flowing through their manufacturing systems, is very important.

I think we're going to see some SKU rationalization take place with our vendor partners. And our big CPG players are saying, "All right, what are the most important items that I need to make sure are running through my lines constantly and are supplied to my retail partners, and ultimately to the consumer that they serve, on a regular basis?"

THIS SITUATION HAS FORCED ALL OF US TO HAVE REALLY TRANSPARENT DISCUSSIONS, make sure we're looking at the data and the analytics carefully, getting the fundamentals right. And **WE HAVE TO SIMPLIFY THE BUSINESS MODEL** and put a premium on the most important things for the consumer and the guests we serve.

IRI: How does that change **joint business planning**?

BC: Projecting forward, we recognize that **stores are going to be vitally important**. While we've seen enormous growth from a digital standpoint, those local stores are still very important and play a critical role, so we've got to make sure we're still running great stores. We've got to deliver **amazing value** every time the guest shops. As we think about both the pandemic and the economic downturn, value is going to be critically important. We talk to our vendor partners about how **ease and convenience** fit into the new model. When you think about the results that we talked about in our first quarter, growing our overall comps

by just less than 11%, our digital business grew 141%, but a lot of our same-day fulfillment options, including order online, pick up in store, drive-up, having a personal Shipt shopper bring it right to your door – those services grew by almost 300%. So how do we make it easy, convenient and have the most important products available, no matter how the guest wants to shop?

With our partners, we were thinking how to **blend value, ease and convenience**, and then one of the things that we own is making sure we're creating a safe shopping environment. And if we get those elements right, **promotions are still going to be important**, but back to the fundamentals. We've got to have **great everyday value**; we want to make sure those most important items are in stock every day; we need to make it easy and convenient to shop, no matter how that consumer or guest wants to shop at Target. And then we better create a really safe environment when they're shopping in our stores or using any of our fulfillment services.

IRI: How is that affecting the physical space in Target stores? Are you prioritizing certain departments or changing your approach in any way?

BC:

ONE OF THE THINGS THAT SEPARATES US FROM OUR COMPETITION IS THE UNIQUE MULTI-CATEGORY PORTFOLIO THAT WE HAVE and the fact that you can shop our stores or shop our online services for apparel, for home products, for electronics and toys, for food and beverage, and beauty and household essentials.

Let me walk you through what we've seen during the pandemic. I go back to those early days late in February and early in March, and there was a huge spike in demand for medication, household essentials, paper products, disinfectants and cleaning products, but also for those core food and beverage products that were so important. As we watched the pandemic evolve, while those

essential items were critically important to America, as we started to learn about sheltering in place and working and educating from home, we suddenly saw changing guest behavior. They were still shopping for the essentials, but they were now looking for office supplies and new printers and ways to entertain and educate their kids. They were cooking at home, and obviously food consumption was moving from away from home to back in-home. So, sales of small appliances and anything kitchen related was exploding. And we'd had to adjust along the way as some restrictions eased. We saw growth again in beauty and in apparel and in other parts of our business, but we've had to react to changing consumer trends.

Fortunately, with our multi-category portfolio, **WE CAN FLEX BASED ON THE CHANGING TRENDS AND USE THE DATA AND ANALYTICS TO GUIDE HOW WE ALLOCATE SPACE** and what we're putting on endcaps, but it's changed rapidly.

And we might not have been ready when all of a sudden America said, "Well, we're sheltering in place."

We didn't know that term a few months ago – people learning how to turn on Zoom cameras and work from home and educate their children and find ways to entertain at home. In April, we started to see in certain parts of the country that sales of outdoor items were starting to grow rapidly because some people wanted to get out of the house, get into the yard and ride a bike and find any way to keep the family engaged and entertained in this confined time. We've had to adjust store space and how we're allocating inventory based on these changing needs. And I'm sure it's going to change again as we finish the summer and go into the fall season. The insights and data analytics are really, really important in guiding those decisions.

IRI: These past few months have also included some holidays. What are some changes you've seen with how people observe holidays, and how are you adjusting to those changes?

BC: We take it one week at a time and learn from past holidays. We recognize that while holidays have been celebrated differently, there are still holidays. People celebrated Easter, Mother's Day and Father's Day, Memorial Day and the Fourth of July. I think America is celebrating those moments differently. And there might be a Zoom call involved with family members, but you're celebrating with your family differently. There's still a desire for connection, and consumers are still looking for that connection, even if it's a video conference or a Skype call. As we think about the future,

I expect there's still going to be a **HOLIDAY SEASON**, but we will **EXPECT THE CONSUMER TO SHOP DIFFERENTLY AND CELEBRATE DIFFERENTLY.**

We're hearing there's going to be school in certain parts of the country, and in others we'll see if it's going to continue to be educating from home.

Some college campuses are saying they're going to open; others are looking at remote learning. Not only do we have to be flexible week by week, I think we also have to adjust to changing trends market by market, because what might happen in Florida could look very different in the state of Washington. What we might do in Minnesota could look very different to what happens in Texas. We've got to be agile from a macro standpoint, but market by market we have to understand local trends. It's going to put much more pressure on our merchants, our marketers, our store operators and our supply chain. But I think...

for all retailers right now **WE'LL NEED TO PUT A PREMIUM ON WEEK-TO-WEEK AGILITY AND ADJUSTING TO CHANGING MARKET TRENDS** and the data and the insights that go along with it.

IRI: Target, along with other retailers and certainly a lot of brands, has gained new buyers during the pandemic. How will you retain them?

BC: Again, we've been fortunate because of our multi-category portfolio. Our physical and digital capabilities have led to significant market share growth across our entire portfolio, which has led to new shoppers, new guests at Target. I talked about the fact that we saw 5 million new guests use Target.com. Over 2 million new guests discovered our drive-up services. We've received tremendously positive response to our small stores in urban markets, some of which opened during the pandemic. So now we've got to continue to make sure that we build greater engagement with those new shoppers and guests, make sure they understand all the different assets we have to offer them.

We've got to continue to make sure we're building a stronger connection with those new Target guests, making sure they understand our portfolio, the great value we offer, our combination of style and essentials, and making sure if they want to shop in a store on a Monday, they know we're going to provide a great experience, but if they want to come by on Thursday and just place an order and pull into a drive-up lane, we'll put their purchase in their trunk in two minutes, contact-free, and let them drive home. We will continue to focus on earning their trust. I think...

WE'VE BUILT TREMENDOUS TRUST DURING THE PANDEMIC, making sure new guests know we're putting a premium on a safe shopping experience.

We're thinking about how to make shopping safe for them, whether they're in our stores or using our other fulfillment options, **but we need to use the data and analytics to extend that relationship.** We're fortunate now with our Target Circle program – we have over 70 million members who have signed up. So how do we make each one of them feel special and make sure that they know we're there to support them during this very unique time in all of our lives?





IRI: Years ago, Target gained a reputation for cheap chic, “Tarzhay.” We’re in a recession now and the Dollar channel has been investing heavily over the past 10 years, opening new stores and growing assortment. How are you preparing Target to compete in this new recession?

BC: When I think about the road to bring that Tarzhay magic back to our guests, I really think about...

THE POWER OF “AND.” It’s an important part of what differentiates Target from many of our competitors.

We want to make sure we’re blending a great store experience and a great digital experience. We want to make sure we blend those style categories like apparel and home and beauty, and those important essential categories like food and beverage and all of the household cleaning products that we offer each and every day; we’ve got to make sure we deliver a great quality and great value. That’s where our vendor partners play such an important role, especially with the challenges that I think lie ahead.

We've got to make sure we're true to our overall brand promise and are bringing in the "expect more" part of our brand promise together with the "pay less" component.

As we think about the competitive environment, many consumers are clearly going to face some financial challenges as the PPP runs out and we continue to see high unemployment, so we've got to make sure that with our vendor partners we're bringing the consumer what they're looking for. And I think it's going to be a combination of quality and value, style and essentials, the "expect more" and the "pay less" part of our portfolio. And I think in today's environment, we've got to work with our vendors to make sure we're delivering both from a physical store standpoint and from a digital standpoint, to make it as easy as possible for America to shop for the products that they want and need.

IRI: Target invested heavily in its owned brands program by consolidating under the Good & Gather banner ahead of the pandemic. What are some of the opportunities you see for owned brands, particularly in this recession?

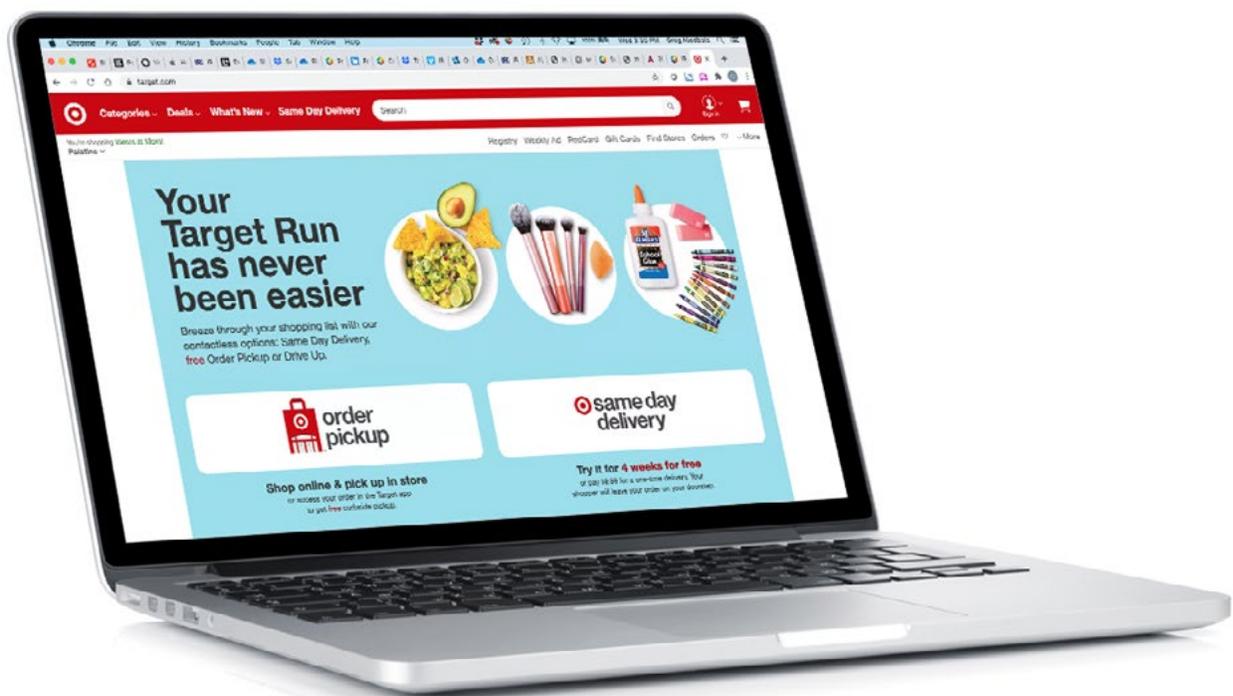
BC: This brings me back to the power of "and," because when you look inside of our strategy, it's the blend of our owned brands and great national brands, and the great limited-time partnerships that we bring forward for the guests. So,

WE'RE AT OUR BEST when we're bringing both great national brands **AND** our owned brands together.

This provides differentiation from many of our competitors, and bringing our guests those unique, limited-time offerings drives excitement and benefits both our national brand portfolio and our owned brand. It's got to be a balance, category by category. We've got to listen to the consumer and the guest to understand what they expect from Target.

AT OUR VERY CORE, WE'RE CURATORS, and we've got to make sure we're carefully curating category by category on behalf of the guests.

And it's what our merchants do exceptionally well. They make those decisions on behalf of the guests and find the right blend between our owned brands that provide great differentiation and those national brands that are so important to the guests we serve each and every day. It comes back to the power of the "and" in our equation and how we bring that to life category by category, one 4-foot section at a time across our store.





ASSORTMENT

IRI: Do you see some of your owned brands playing specifically in the digital channel?

BC: We do, and we're constantly looking at and evaluating our owned brand portfolio over time, deciding when it's time to refresh or even when it's time to retire some of our owned brands; when we need to bring some new innovation to those spaces, just like we do with national brands. From a physical versus digital standpoint, we are starting to **very selectively work with new vendors** to bring brands to Target Plus [online selection] that we don't offer in store, because we want to provide a **curated approach to expanding our online assortment**. We do it differently than our competition. We actually invite vendors in rather than creating a marketplace that anyone can try to participate in. We're very careful in curating, again on behalf of the guests, and making sure that we can assure our guests that we're going to deliver the right value and quality that they expect from Target. You will see...

OVER TIME MORE BRANDS THAT ARE ONLY AVAILABLE THROUGH TARGET PLUS that you wouldn't see in our stores...

but extend our footprint even further through the digital channel.

IRI: What are some of the steps and investments that you made during the last five and a half years that really kicked in during the pandemic?

BC: I would never say that we built our strategy for this pandemic environment, because there was no scenario planning that we did that ever imagined what we're facing today, including the impact of the pandemic or the economic downturn. But for five or six years we've been very focused on executing a very specific strategy, and we talked about this very openly, starting in February of 2017. At a time when many were moving away from physical stores and starting to rationalize their footprint, we took a very different path. As we listened to guests, as we listened to the consumer, there was still a very important role for physical stores to play. In fact, our entire strategy pivots around our stores. We've committed to investing billions of dollars to remodel stores across America, and we'll continue to remodel those stores and create an inspiring and easy shopping experience.

We've been opening new smaller-format stores across the country, and we've opened over 100 at a time when others were moving away from those markets. We invested in our owned brands to provide differentiation, and we took a very different digital path, using our stores as fulfillment hubs, and using stores is really the center of our digital fulfillment strategy. We're putting a great amount of effort into building out order online, pick up in store, rolling out drive-up across America, which has been perhaps one of our fastest-growing ways to meet the needs of the consumer during this pandemic. Our guests still come to Target, but they pull up and within two minutes we've put their purchase in their trunk and they pull away.

We acquired a regionally based company called Shipt back in December of 2017, and back then they were largely in the Southeast. Now we have almost 200,000 personal Shipt shoppers across the country. We actually went from 100,000 to 200,000 during the pandemic because we saw the need for immediate personal shopping, where you can have a Shipt shopper go to a Target store or other retailers that we service, and within two hours we'd bring it to your doorstep, ring the doorbell, and you had your order fulfilled without any contact with a shopper. In many ways, our strategy prepared us for the pandemic, but I think the most important investment we made before and during the pandemic was in our team. When we go back to that day in February of 2017, I talked about the fact that we're going to put billions of dollars of capital to work in our stores, to build new stores and expand fulfillment capabilities, but I also said we're going to invest a billion dollars in our team, in training and more hours and higher wages. And we made a commitment back then to get to a starting minimum wage of \$15 by the end of 2020. We announced just a few weeks ago that starting in July, our starting wage would be \$15 an hour. Throughout this journey,

while we've made important investments in technology, in data science and analytics, in our stores, in capabilities, **THE MOST IMPORTANT INVESTMENT HAS BEEN IN OUR TEAM.**

And I think the reason we're sitting here today with so much momentum, with growing levels of trust with our guests, with market share gains that you report each and every week, is because of the work that our teams are doing at our stores, in our supply chain, at the headquarter level, to make the right decisions on behalf of the guests and create this dynamic shopping environment where we can give our guests what they want, what they need, in an easy and inspiring and safe shopping environment. And that investment in our team is probably the single thing that differentiates Target from our competition today.

Let's continue the conversation. We invite C-Suite leaders to share their perspectives on the changing CPG retail demand curve in an upcoming episode of Growth Insights. Please contact your IRI representative or [email us](#).

About IRI

IRI is a leading provider of big data, predictive analytics and forward-looking insights that help CPG, OTC health care, retailers and media companies to grow. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI guides over 5,000 clients globally in their quests to remain relentlessly relevant, capture market share, connect with consumers and deliver growth. IRIworldwide.com

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