

LOOK AHEAD

● Low energy prices will be a hot topic at J.P. Morgan's Energy Equity Conference on June 27

● Nike will announce its fourth-quarter earnings on June 29

● Delta Air Lines' annual meeting on June 30 could give a hint about future travel demand

1

BUSINESS

13



Target Slips Up

The retailer has talked of increasing its food sales for a decade. Now Amazon could leave it in the dust

Amazon.com Inc.'s \$13.7 billion bid for Whole Foods Market Inc. sent shock waves across the retail industry: Investors and rivals suddenly had to ponder how quickly the dominant online merchant might turbocharge a struggling chain, known for pricey hand-butchered meats and \$30 emu eggs, to challenge U.S. supermarket leader Wal-Mart Stores Inc. But a bigger uncertainty surrounds a retailer not involved in the deal: Target Corp. The No. 2 U.S. discounter has been losing shoppers despite an expanded food offering that includes more fresh produce, gluten-free and organic products, and

grab-and-go items. Now Target will likely face a reenergized Whole Foods that's backed by a deep-pocketed parent-to-be already challenging the company in apparel and beauty products.

Amazon's march into brick-and-mortar groceries comes just as Target embarks on a three-year, \$7 billion turnaround plan that includes slashing prices, refurbishing more than 600 stores, and opening more than 100 smaller outlets in cities and on college campuses. Food is supposed to be an integral part of the stores' redesign, which Chief Executive Officer Brian Cornell unveiled in ►

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◀ February after the retailer's worst holiday season in several years.

It's more than bad timing, though: Target's food business has always paled in comparison to its apparel, beauty, and home decor departments, the so-called signature categories. Cornell's hand-picked grocery chief quit last year after 18 months on the job, and the CEO's turnaround plan didn't include any bold ideas for fixing its food business. Some analysts think Target should just outsource its grocery aisles to a supermarket specialist as it's done with its pharmacy business, which since December 2015 has been operated by CVS Health Corp.

Target stands to fare even worse once Amazon applies its digital know-how—pricing algorithms, customer-preference data, free shipping—to Whole Foods' portfolio of antibiotic-free meats, organic kale, and hopped-up craft beers. The Amazon-Whole Foods combination "is a significantly damaging competitive blow to Target," says Simeon Gutman, an analyst at Morgan Stanley. "Whatever competitive pressures were out there before today are now accentuated with this move."

Retailers from drugstore behemoth Walgreens Boots Alliance Inc. to discounter Dollar General Corp. have been adding more food to their stores because it keeps shoppers coming back week after week. Target could certainly use some help in boosting frequency. Its customer traffic has declined in three of the past four quarters, and now fewer than 1 in 3 U.S. households shops there once a month, according to researcher Kantar Retail. That's down from about half of the nation's households a decade ago. Says Patrick McKeever, an analyst at MKM Partners LLC: "Food is a key traffic driver and a business Target needs to get right."

Target says it's moving to do just that. "We are on a journey to create a differentiated experience in food and beverage," the retailer said in a statement. "While the work won't be done overnight, we are committed to getting it right for the long term."

Yet at just 20 percent of sales, food remains a sideline at Target. Groceries account for more than half of Wal-Mart's U.S. revenue, allowing it to press suppliers for the lowest prices and exclusive deals. Wal-Mart is also rolling out curbside pickup of online grocery orders, offering discounts on some web items picked up in-store, and even paying its employees extra to deliver some items using their own cars.

While Amazon recently tried to woo Wal-Mart's lower-income shoppers with discounts on its Prime membership, it will probably find it difficult to make inroads among Wal-Mart's core customers. That's because Wal-Mart lately has been aggressively cutting prices in response to the expansion into the U.S. by Germany's giant Aldi and Lidl discount chains.

"Wal-Mart's grocery business is relatively well-differentiated vs. where Amazon and Whole Foods is likely to go," says MKM's McKeever. But Target

is positioned as more midmarket—closer to where some analysts figure Amazon may slowly reposition Whole Foods' offerings after the buyout.

Even before Amazon's grocery bid, Target was struggling to keep up with the e-tailing giant. Its biggest online idea this year is Restock, a facsimile of Amazon's three-year-old Prime Pantry service, which delivers a box full of different household essentials for a flat fee. Restock is so far only available in Target's hometown of Minneapolis. Unimpressed investors have sent the retailer's shares down 30 percent this year. Perhaps most worrisome for Target is that its customers are also fans of Whole Foods and Amazon. Almost 1 in 4 of Target's grocery shoppers also shops at Whole Foods, according to consultant Magid, compared with fewer than 1 in 10 for Wal-Mart and supermarket chain Kroger Co. More than two-thirds of moms aged 27 to 51 who shop at Target also use Amazon Prime, vs. 42 percent of all consumers.

Those are the busy soccer moms most likely to embrace whatever time-saving digital deals Amazon and Whole Foods have to offer, particularly in categories such as apparel and beauty products that are moving online. "This gives Amazon Prime members just one more reason not to go to Target," says Leon Nicholas, an analyst at Kantar. —*Matthew Boyle*

THE BOTTOM LINE Retailers are adding groceries to their mix because they keep customers coming back. But Target gets only 20 percent of sales from food, while Wal-Mart gets 56 percent.

● Share of primary household shoppers surveyed who made a purchase at each retailer in the prior four weeks*

