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Target's Woes Run Deeper Than A Data Breach And Canada

As Gregg Steinhafel leaves Target, the retailer's troubles extend beyond a massive data breach and challenges in Canada.

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When Target Corporation CEO Gregg Steinhafel resigned (http://tcbmag.com/News/Recent-News/Breaking-CEO-out-in-top-Target-management-shakeup) Monday morning, the connection between his exit and the massive data breach disclosed in December drew the most attention. But digging into the company's numbers, it's clear that beyond the headlines, Target has long been facing other significant challenges in a rapidly changing retail landscape.

Granted, contrasting the company's 2012 to its 2013 is not exactly an apples-to-apples comparison. For example, fiscal 2012 included one more week of sales than its fiscal 2013. In March 2013, Target sold its credit card portfolio (http://tcbmag.com/News/Recent-News/2012/October/Target-to-Sell-$5-9B-Credit-Card-Portfolio-to-TD-B) to TD Bank Group. According to Target, credit card revenues contributed $1.34 billion toward its top line in fiscal 2012. The company still gets profit sharing as part of its deal with TD Bank ($653 million in fiscal 2013), but is now reporting it as part of its new U.S. segment.

Target's fiscal 2012 counted its U.S. retail operations and credit card revenues. The 2013 numbers count U.S. and Canadian stores. For fiscal 2013, the company's overall retail sales were actually up 0.9 percent, but sales in the fourth quarter were down 3.8 percent.

In its latest fiscal year, Target opened 124 stores in Canada, "marking the biggest single-year store opening cycle in the company's history and first year of international retail operations," according to the company's annual filing. The Canadian stores brought in $1.3 billion in revenue, but were not in operation for the full year.

But Target's annual filing put the total losses from the Canadian stores at roughly $1 billion—a big hit to the company's earnings.

During the fourth quarter, Target recorded $61 million in expenses related to the data breach, but the company expected to get $44 million in insurance proceeds related to the breach, which would put the net expenses at $17 million. The company has said that it can't yet estimate future expenses related to the data breach.

The company's annual filing also noted $64 million in expenses, including "a $23 million workforce-reduction charge primarily related to severance and benefits costs, a $22 million charge related to part-time team member health benefit changes (http://tcbmag.com/News/Recent-News/2014/January/Target-Cuts-Hundreds-Of-Jobs,-Drops-Insurance-For), and $19 million in impairment charges related to certain parcels of undeveloped land."

The Troubles Run Deeper

But beyond the data breach and troubles with the Canadian launch, the bottom line issue for Target is that it's losing some shoppers. Target's numbers show that comparable store sales—a key measure of sales in stores open for at least a year—declined 0.4 percent in its latest fiscal year. Target also reported that the overall number of transactions in its stores declined 2.7 percent.

"I think Target has been having some challenges for awhile now. It's not just the data breach; it's not just Canada," Amy Koo, a senior analyst with Boston-based Kantar Retail, told *Twin Cities Business*. "Target has been losing shoppers for the last few years."

Koo said that some shoppers are migrating to Wal-Mart, while others are turning to online venues like Amazon. "Or they're shopping less," added Koo.

Koo is not alone in her assessment of Target's challenges.

"I think they've been losing their spark with consumers for quite a while," Beth Perro-Jarvis, a partner with Minneapolis-based Ginger Consulting said in a phone interview.

Perro-Jarvis said that the company's move into selling groceries has meant that they've had less space to devote to fashion, traditionally a strong draw for the retailer.

“It’s not a fun place to buy clothes anymore, like it maybe once was,” Perro-Jarvis said. “There are plenty of other good places to go for clothes. There’s obviously a lot of other places to go grocery shopping . . . but that’s all kind of boring.”

Perro-Jones says that there’s nothing special about the food at Target: “I think Trader Joe’s makes groceries exciting and I think Whole Foods makes groceries exciting, but I don’t think Target makes groceries exciting.”

Perro-Jarvis added that Target’s online shopping site does not seem to work as smoothly as that of Amazon or other competitors. And she noted that the company seems to have lost its once-savvy knack for generating marketing buzz.

“They really used to be known for their marketing prowess. They don’t seem to have the marketing successes that they once did,” Perro-Jarvis said. “It’s just not as much fun to shop there anymore.”