

# Target: Putting Customers First?

## INTRODUCTION

Target has a history of strong leadership that has led to its reputation as a “chic” and “compelling” retailer. During its heyday in the 1990s, it was not uncommon for trend-spotters to walk through Target aisles coming up with new product ideas. Target had adopted a more decentralized corporate culture—managers at individual stores had more freedom to adopt products and make decisions independently.

However, the onset of the recession and recent ethical snafus have tarnished Target’s reputation for putting the customer first. Its decentralized corporate culture began to be affected due to costcutting and an emphasis on low-margin products such as groceries. An expansion into Canada has so far proved unprofitable due to supply-chain issues and the shopping patterns of Canadian shoppers. The biggest ethical challenge that Target has encountered is a credit and debit card data breach thought to exceed \$700 million—the biggest retail hacking in U.S. history to date. While this is serious, what is even more disheartening is that Target had clear warning signs that hacking was occurring, but due to inaction the hacking continued unabated.

This case examines the challenges that Target has faced in recent years. We start off with a brief history of Target. Target has been known for its strong mission and corporate responsibility initiatives, so we examine these next. We then go over ethical challenges Target has encountered in recent years, including negative changes to its corporate culture. This is followed by the credit-card and debit-card breach scandal. We conclude with Target’s response to the incident and some of the measures it has promised to implement to prevent a similar hacking scandal in the future.

## A BRIEF HISTORY

Target was founded in 1902 by George Draper Dayton as Dayton Dry Goods Company. Dayton was a real estate broker and banker, who upon several years of exploration into Midwest markets decided that Minneapolis exhibited the greatest potential for growth. Dayton purchased Goodfellow Dry Goods Store in Minneapolis and changed the name to Dayton Dry Goods Company. Several more name changes would follow, with the eventual decision to name the company Target in 1962, based on the idea that much “as a marksman’s goal is to hit the center bulls-eye, the new store would do much the same in terms of retail goods, services, commitment to the community, price, value and overall experience.”

Dayton founded the company based upon a set of principles, including his belief in strong ethical stewardship. This fit with Target’s goal of “hitting the bulls-eye” in terms of the company’s commitment to providing high-quality, affordable products and an unmatched experience to customers. Dayton’s ethical leadership shaped Target’s culture, and a commitment to the principles he set continued after his death in 1938. This strong ethical leadership was continued by future leaders, including Robert Ulrich, who took the reins of CEO in 1984. Target became known for its chic products, and under Ulrich’s leadership, senior executives struck a balance between complying with Target’s overall mission and being allowed to experiment with new products and practices.

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In 1960, Target officially entered into the discount retailing market that it continues to maintain a presence in today. The idea is to appeal to price-conscious consumers who value quality products and experiences. Target attempted to differentiate itself from other discount stores by combining qualities one would come to expect from a department store—fashion, quality, and great service—with low prices the average consumer could afford. An emphasis on customer satisfaction became a top priority for Target, and Target adopted a new store concept of being "fun, delightful, and welcoming to the entire family." Target's slogan, which is referred to as its brand promise, "Expect More, Pay Less," was officially unveiled in 1994, further emphasizing the company's commitment to providing customers, or "guests," with high-quality products at affordable prices.

Beginning in 1950, Target began its regional expansion. Eventually, it developed a nationwide presence. In 1999, Target transitioned into an online presence as well with the opening of Target.com. However, for many years Target outsourced its website to Amazon.com. In 2004, Target expanded on its "Expect More, Pay Less" tagline in 2004 with the slogan "Eat Well, Pay Less" to go along with the opening of SuperTarget locations across the nation. SuperTargets were intended to complement Target's compelling and affordable merchandise with unique and affordable grocery items. However, this would become a problem later as groceries became less of a complement and more of a replacement.

In 2011 Target began international expansion with its first store locations in Canada, and the chain opened 127 stores in one year. Today Target enjoys the title of one of the nation's largest retailers, with 1,797 stores in the United States. Throughout its expansion from a single location in Minneapolis to a growing international presence, Target has maintained a reputation of providing "guests" with high quality products, exceptional service, and of-the-moment fashions at affordable prices.

## CORPORATE RESPONSIBILITY

The retailer has placed a continued emphasis on giving back and making the communities it operates in better for all. Target's website declares that the company stands for "A Legacy of Giving and Service"—the company donates 5 percent of all profits to local communities (a practice which began in 1946). Target also allows customers using its credit card, termed REDcard, to choose a school to which Target will donate 1 percent of the person's purchases made on the REDcard. One-fifth of customer purchases are made with Target's REDcard. Additionally, employees volunteer hundreds of thousands of hours in local communities every year.

These corporate responsibility initiatives reveal who Target considers to be its most important stakeholders—customers (including the communities in which they live) and employees. An examination of the company's "Stakeholder Engagement" webpage confirms this assessment—among its primary stakeholders listed, which it refers to as "partners," are education partners, environmental partners, well-being partners, safety and preparedness partners, and diversity and inclusion partners. Target also reflects its commitment to employees and customers by frequent engagement with its various stakeholders.

## MISSION AND VALUES

Target's ethical culture is values-based because it relies on an explicit mission statement. Target's mission statement is "to make Target your preferred shopping destination in all channels by delivering outstanding value, continuous innovation and exceptional guest experiences by consistently fulfilling our Expect More. Pay Less® brand promise." The company strives to achieve its mission through the promotion of its core values. These values include Design for All, stressing that great designs should be accessible and affordable to everyone; Great Guest Service; More for Your Money, further emphasizing the company's "Expect More, Pay Less" philosophy; and A Fun and Rewarding Place to Work. Target tries to make the workplace an enjoyable environment for employees by investing in the growth and development of its team members. Target's investment in its employees also suggests an integrative corporate culture, in which employees are considered to be invaluable to the company and vital to assisting the company meet its performance criteria. For instance, in addition to regular benefits Target offers fun events such as happy hours, team member networks, and tuition reimbursement. In 2014 Target was listed as number 29 on *Fortune's* "World's Most Admired Companies." Target stresses the importance of investing in its team members so that they may provide exceptional customer service to its guests.

## MAJOR CHALLENGES

Despite its corporate social responsibility initiatives, there have been many challenges that Target has faced throughout its existence. Between 2000 and 2001 four African-American applicants brought cases against the retailer who argued that they were denied management positions because of discrimination. Target was also accused of failing to retain documents of job applicants' records as required by law. In 2006 a court overturned an initial 2004 ruling that threw out the complainants' cases, stating that Target did not sufficiently prove that it did not forgo hiring the applicants based on discriminatory practices. Target ultimately agreed to pay over \$510,000 to the four complainants as well as make changes to their document retention policies.

In 2007, Target's oversight of its international suppliers was also called into question when it was discovered that the retailer was one of many stores across the country that had sold lead-tainted children's toys originating from Chinese suppliers in China. Target disclosed that two of the products it had placed on store shelves, David Kirk Happy Giddy Children's Garden Trowel and Sunny Patch Safari Children's Chair, had hazardous levels of lead and had been sold until discovered in August of 2007. Target ultimately recalled the tainted products and stressed that it was company policy to demand lead-safe products from its Chinese suppliers. However, members of the Energy and Commerce Committee and other stakeholders questioned whether Target was doing enough to test imported products for lead contamination.

Target has also been accused of being against unions, which some would say contradicts the company's message of valuing and investing in its employees. In 2011, the United Food and Commercial Workers International Union unsuccessfully attempted to unionize Target workers in Valley Stream, New York. Target subsequently released what many called anti-union videos. Critics believe these videos suggest that employees could jeopardize their job security by joining a union.

Target also encountered difficulties after it took over its website, which it had previously outsourced to Amazon. Knowledge regarding how to integrate the online and in-store experience

was sorely lacking at Target, and Steinhafel believed that too much of an emphasis on e-commerce would compromise in-store sales. In 2011, an influx of customers tried to purchase products from fashion brand Missoni online, but the website crashed. Some consumers' orders were delayed or even cancelled. This caused a public relations issue for Target as it struggled to placate angry customers.

Finally, Target has come under fire for its decision to cease providing healthcare coverage to parttime workers in response to the passage of the Affordable Care Act. Target states that 36,000 of its workers who were previously covered by part-time insurance had coverage discontinued as of April 1, 2014. These workers were instead sent to the newly established healthcare exchanges, where some will have access to subsidized coverage. Target responded with an attempt to ease the transition for its part-time workers dropped from Target insurance coverage by giving each a onetime \$500 cash payment. It also maintained that it would not reduce the hours of its full-time employees. Some argue, however, that Target should raise wages since it no longer pays for some of its employees' health insurance.

## CORPORATE CULTURE

In 2008 CEO Robert Ulrich retired and was replaced with Gregg Steinhafel. The time was a challenging one for the company due to the economic recession. Customers were not adding as many add-on products to their purchases, and some were forgoing Target altogether, turning instead to lower-priced retailers such as Dollar Tree. According to employees, management at Target became more bureaucratic as emphasis was placed on cutting costs and moving merchandise. Steinhafel made the decision to focus more upon groceries, which sell well but are low-margin items.

Others complained that Target's corporate culture was losing what once differentiated it from other retailers. For instance, store managers seemed to have less opportunities for making decisions. Events that were once under the purview of store managers, such as hosting happy hours for employees, became more of a mandated requirement. Additionally, Target was taking on fewer new items and started to sell shelf space to the highest bidder. Television advertising expenditures decreased. Target was also complacent regarding information security, as the next section demonstrates.

## THE HACKING SCANDAL

The largest scandal in Target's history resulted in the theft of over 40 million credit and debit card numbers used by Target customers in the period between November 30 and December 15, 2013. In addition to the 40 million stolen credit card numbers, Target admitted in early January, 2014 that thieves had possibly stolen the personal information (addresses, phone numbers, etc.) of over 70 million additional customers. This scandal has not only called Target's security protocols into question, but has potentially tarnished the company's reputation for putting its guests' needs and comfort first.

Six months prior to hackers infiltrating Target's security system, Target had begun installing a \$1.6 million malware detection tool it purchased from a computer security firm called FireEye. Target employed a security staff of over 300 people, a tenfold increase since 2006, and had a billion-dollar IT infrastructure in place. This was much more extensive than other retailers. While Target was

therefore seemingly prepared for hacking attacks, the best technology and security team in the world cannot do much if the company fails to act on their findings.

It is believed that hackers were able to infiltrate Target's network by using an HVAC vendor's credentials. When they gained access, they installed a pair of malware programs. The hackers then sent malware designed to steal credit card numbers to cashier stations in every domestic Target store, and on November 30, 2013, FireEye was alerted to the presence of the malware. Target's security teams in Bangalore were immediately notified of the potential breach. FireEye had the ability to automatically disable the malware, but Target had turned this feature off. FireEye also alerted Target on December 2 after hackers released a new version of malware. If Target had immediately reacted to the warnings, very little damage would likely have occurred.

However, Target reportedly did nothing to respond to warnings from FireEye. It had also received warnings from its own antivirus system, Symantec Endpoint Protection, regarding suspicious behavior around Thanksgiving. By December 2, 2013, credit card numbers began pouring into the hackers' U.S. "staging point" servers before flowing into Moscow. Target did not directly respond to the attack until federal investigators alerted the retailer of the massive data breach. By this point it was nearly impossible to trace the passwords or user names of the hackers. On December 15, 2013, the company removed the hackers' malware, but the damage had been done.

Many questioned Target's lack of immediate response to the situation. Target claimed that it had suffered a data breach despite its best efforts, but it was later revealed that it had been alerted more than once about the possibility of potential problems. Its own investigation uncovered the FireEye alerts in its computer logs. As a result, Target clearly neglected its responsibility to protect customer information.

Target also waited six days after it was informed to tell consumers about the hacking attack, and about a month before it revealed the extent of it. More than 90 lawsuits have been filed against Target by both customers and banks, and Target's profit during the holiday shopping period dropped 46 percent from the previous year. A lawsuit was also filed against Trustwave Holdings Inc., a private Chicago firm that handles most payment-security checks in the country, including Target's.

## TARGET'S RESPONSE TO THE SCANDAL

Target spent a total of \$61 million through February 1, 2014 responding to the massive data breach. Target's customers were sent an email with general security tips and were offered with one year of free credit monitoring and identity theft protection. Additionally, Steinhafel assured customers that they would not be held liable for any fraudulent charges made to their credit cards as a result of the hack. Customers were offered 10 percent off in-store purchases following the data breach.

In response to arguments that Target was not taking its customers' security seriously, the company referred to the fact that Trustwave Holdings informed Target in September that its payment security system met industry guidelines. However, this does not negate the fact that Target ignored warnings when the breach was occurring. Target has joined the Financial Services Information Sharing & Analysis Center in an attempt to improve information protection for their customers. Target also announced that it would begin to release credit and debit cards with chips instead of magnetic strips on the back of the cards by 2015. These chips have been adopted in Europe and are

reportedly harder for criminals to copy. The company has invested \$100 million in registers and technology that will be able to read the new chip cards.

Additionally, CEO Gregg Steinhafel stepped down. The new CEO hired is an outsider named Brian Cornell. The selection process differed from Target's selection of leadership in the past, which was mainly internal. Target believes it needs a fresh perspective to address these challenges. Part of the agenda Cornell will face includes restoring Target's "chic" image, bringing back new products, addressing losses from their Canadian stores, and focus on improving online sales.

## CONCLUSION

Target continues to face many obstacles. Its Canadian operations suffered \$1.6 billion in losses, and there is a perception among Canadians that the prices of Target's goods are too high compared to the United States. Although Target is working on restoring its brand image and customer relationships, it cannot undo the damage done from the massive data breach. Target is working hard to reassure consumers, but in order to succeed it will have to prove that it can demonstrate proper oversight over information security. Only then will it be able to restore its reputation for putting customers first.

## QUESTIONS

1. Describe some of the ways that Target engages in corporate social responsibility.
2. Why did Target neglect its duty to customers with the massive data breach?
3. What changes is Target making to reestablish its reputation?

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