

# TARGET'S IN

THEY'RE BRILLIANTLY CREATIVE. THEY'RE ENVIABLY DOWN-TO-EARTH.  
OF THE MOST CHALLENGING PERIODS THE

BY JENNIFER REINGOLD PHOTOGRAPHS BY DAVID YELLEN



FORTUNE

# INNER CIRCLE

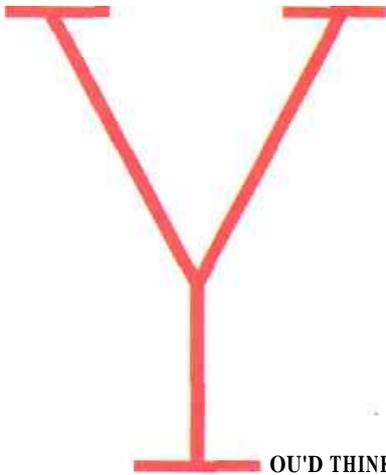
THEY'RE UNIVERSALLY IMITATED. AND THEY'RE ENTERING ONE COMPANY HAS FACED IN 46 YEARS. (NOT EVEN BULLSEYE WOULD DISPUTE THAT)



**THERE'S NO "I" IN TARGET**

FROM LEFT TO RIGHT, DOUGLAS SOCVANNER, CFO; MICHAEL ALEKIN, VP, SOFT LINES PRODUCT DESIGN AND DEVELOPMENT; JODEE KOZLAK, EVP, HUMAN RESOURCES; GREGG STEINHAFEL, PRESIDENT; MINDA GRALNEK, VP, CREATIVE DIRECTOR; ROBERT ULRICH, CEO AND CHAIRMAN; BULLSEYE, KAREN GERSHMAN, SVP, MARKETING; MICHAEL FRANCIS, EVP, MARKETING; WILLIAM SETLIFF, VP, STRATEGY, INSIGHTS AND INNOVATION

STYLING BY LIA WATKINS; SET BUILDING BY JOSEPH FLORIO



**YOU'D THINK ROBERT ULRICH** would be warming up for his victory lap right about now. The soon-to-retire CEO of Target Corp. should be easing into a lavish farewell tour filled with teary thank-yous, champagne-soaked sendoffs, and a book of leadership secrets. After all, in his 23 years at Target (almost 14 of them as CEO), Ulrich has transformed a Midwestern discounter into one of the most admired and imitated companies in the world. Target now ranks 33rd on the Fortune 500—making it bigger than Microsoft, Pfizer, and PepsiCo, and more than double the size of Cisco Systems.

There's just one thing: Though everyone knows Target, hardly anyone's even heard of Ulrich. In fact, those who think his name rings a bell are most likely picturing Robert Ulrich, the deceased actor from television's *Vegas* and *Spencer for Hire*. Even Ulrich's own employees often don't recognize him during his twice-monthly store walks, when he strolls the aisles dressed in Target's standard red shirt and khakis. Neither he nor his company has ever before graced the cover of a major magazine—highly unusual for a corporation its size. In fact, Ulrich has deliberately stayed so far under the radar that Bob Thacker, a former Target marketing executive now at OfficeMax, dubbed him the "silent Sam Walton." Says Thacker: "He has no public persona."

Ulrich's longtime No. 2, Gregg Steinhafel, is equally reticent.

During a recent interview in his tidy, light-filled office at Target's Minneapolis headquarters, Steinhafel's Midwestern reserve fluctuates between polite and downright uncomfortable. But then I cross the line. The offense: asking how Steinhafel, 53, who will take over as CEO from Ulrich on May 1, differs from his longtime mentor. The room grows silent. His mouth gets thin. Arms cross. "This isn't about me," he says. Long, awkward pause. "We're all a little bit nervous when we are talking too much about [ourselves]," he allows, finally. "It should all be about the brand."

Thanks to the efforts of this mysterious Minneapolis-based crew, it has been. Target has been around since 1962, but in the past decade its red-and-white circles have become as instantly recognizable as the swoosh or the bitten apple. A recent survey showed that an amazing 97% of Americans recognize Target's target, which they see everywhere from the web to New York's Museum of Modern Art to the company's 1,613 stores dotted across the U.S., thanks to the \$1.2 billion Target spent on ads in 2007. Facebook is filled with groups declaring their love for the chain (and their hope that it will build a store in Seminole, Fla., or Davis, Calif.). Even Bullseye, Target's beloved bull terrier, is so popular that it is the only animal besides Lassie to be enshrined in Madame Tussaud's Wax Museum. By tweaking the discount model, "they found a niche in what was supposed to be a nicheless world," says Richard Tedlow, the Harvard Business School professor and author of *New and Improved: The Story of Mass Marketing in America*.

That niche has certainly been an enviable one: Over the past decade, revenues have increased at an annual rate of 12%, to \$63 billion. Since 1994, when Ulrich became CEO of what was then the parent company, Dayton Hudson, Target stores' operating margins have jumped from 5.4% to 8.6%, while Wal-Mart stores' have flattened, from 8.1% to 7.3%. The stock has returned 795%, compared with 284% for the S&P retail index and 354% for Wal-Mart.

Behind Target's rise, however, is a series of intriguing inconsistencies, such as an allergy to public attention at a company for which image is the be all (and where the longtime leader minored in journalism) is just one. Target is a company that is

## Moving Target

DESCENDED FROM A FABLED DEPARTMENT STORE, TARGET HAS LONG BEEN A TRENDSETTER

<p><b>1903 Dayton</b> Dry Goods store opened by banker and real estate developer George Draper Dayton.</p>		<p><b>1956 Dayton</b> opens Southdale Center, the world's first fully enclosed shopping center.</p>	<p><b>1967 Twigg</b> comes to the U.S. and visits Dayton's department store.</p>	 <p><b>1968 Bull's-eye</b> logo takes on current appearance.</p>		
	<p><b>1946 Dayton</b> begins giving 5% of pretax profits to charity.</p>		<p><b>1962 Dayton</b> opens its first Target in Roseville, Minn., the same year that Wal-Mart and Kmart launch.</p>		<p><b>1969 Dayton</b> merges with the J.L. Hudson Co. to form Dayton Hudson.</p>	<p><b>1974 Target</b> introduces "plan-o-grams" that determine consistent look-in every store.</p>



**ATTENTION-SEEKING BEHAVIOR** THE TARGET BRAND IS RECOGNIZED BY 97% OF AMERICANS, THANKS IN PART TO STUNTS LIKE A VERTICAL FASHION SHOW IN MANHATTAN, COLLABORATIONS WITH DESIGNERS LIKE ERIN FETHERSTON AND ISAAC MIZRAHI, AND A TARGET-SPONSORED INDY CAR.

remarkably open to outside inspiration while at the same time so top-down that the CEO personally interviews candidates for the top 600 positions and can identify a misplaced screw on a gazebo. It markets itself to the Lexus set as a designer haven, while at its core it makes money selling commodities such as bleach and cereal. It is a big-box retailer that causes gasps of collective ecstasy when it announces a new location as competitors are vilified. Even the company's vision statement—"Expect more, pay less"—is somewhat contradictory.

Now those contradictions are coming to the fore as Target enters what promises to be one of the most tumultuous periods in its 46-year history, starting with a leadership change as critical as Sam Walton's retirement was to Wal-Mart in 1988 or Jack Welch's departure was to General Electric in 2001. According to company bylaws, Ulrich must step down after he turns 65 in April. (He will stay on as chairman until January 2009.)

Such transitions are difficult in the best of times. "Sam Waitons and Bobs are not replaceable at the same level of intensity," notes Luis Padilla, a former Target and Sears executive who now runs retail trade-show operator ENK International. Target's changeover, however, is happening against the backdrop of a weakening economy—which favors Wal-Mart's low-price strat-

egy. During the past two recessions Wal-Mart's U.S. stores bested Target's in same-store sales by an average of 2.5 percentage points, according to estimates from Goldman Sachs's Adrienne Shapira. In 2007's fourth quarter, Target's same-store sales slipped below Wal-Mart's for the first time in more than four years. (To be fair, Target's prior year comparisons were tougher to beat.) Last July prominent activist investor William Ackman, who is best known for taking down the bond insurers, took a nearly 10% stake in the company and is pushing management for changes. The stock has dropped 27% since then, vs. a 2% rise for Wal-Mart. Says CEO Douglas Scovanner: "It is as difficult to grow as it has been in my [14-year] history here."

It might look bleak—until you understand that Target's real competitive advantage isn't a logo or a line of designer purses or a catchy slogan. It's the team that created them.

**THE SECRET MISSIVES ARRIVE** via spontaneous e-mails and thoughtful reports, wending their way to Target marketing guru Michael Francis's desk from all over the globe. Like a CIA agent's field documents, they provide on-the-ground intel—dissecting, for example, anime culture in Tokyo or heralding the return of a more vintage look for Christmas in London.

 <p><b>1984</b> Robert Ulrich named Target Stores president.</p>	<p><b>1995</b> First SuperTarget opens in Omaha.</p> 	<p><b>2000</b> Dayton Hudson renamed Target Corp.</p>	 <p><b>2002</b> Target launches temporary floating store in New York.</p>	<p><b>2004</b> Department store chains Marshall Field's and Mervyn's are sold off.</p> 	<p><b>2007</b> Target misses third-quarter earnings estimates.</p>
<p><b>1994</b> Ulrich becomes CEO and chairman of Dayton Hudson.</p>	 <p><b>1999</b> First line of products by designer Michael Graves launched.</p>	 <p><b>2003</b> Target overtakes Wal-Mart in same-store sales growth.</p>	<p><b>2006</b> Target launches Go International fashion collections.</p>	<p><b>2008</b> Ulrich announces he will retire in May, to be replaced by Target president Gregg Steinhafer.</p>	

# EVENTEMERLINDOESN'TKNOWWHATOTHERGROUPMEMBERSAREUPTO, BECAUSE UNLIKE ALMOST EVERY OTHER "CABINET" ON THE GLOBE, TARGET'S NEVER ACTUALLY MEETS.

The dispatches come from Target's unique "creative cabinet," an elite, secret team composed of a dozen people of all ages, interests, and nationalities. Selected on a rotating basis by Francis, the members are paid annual retainers and either file reports or are on call when needed to discuss a strategic plan. "We identify them, and we cultivate the relationship," says Francis, a stylish former Marshall Field's buyer with bright eyes, a shock of dark hair, and such brimming enthusiasm that he looks as though he might eject out of his seat at any moment. Cabinet members were recently asked to weigh in on such initiatives as Go International, a series of clothing lines by high-end designers sold for up to go-day stints, and a new, slimmed-down cereal box with a self-locking top.

One cabinet member who agreed to be named is 80-year-old Liener Temerlin, founder of agency Temerlin McClain. Temerlin's qualification for membership: Francis was struck by "the way his brain worked." Temerlin suggested that Target become the founding sponsor of the AFI Dallas International Film Festival. The company signed on, and the festival, now in its second year, features a Target filmmaker award, a Target documentary prize, and—natch—the Target Festival Lounge. Target's bull's-eye will be on prominent display for the expected 45,000 film watchers and stars like Charlize Theron, and the festival's 700 volunteers will be wearing red jackets with Target logos. "Michael likes ideas that have legs," says Temerlin.

Even Temerlin doesn't know what other group members are up to, though, because unlike almost every other "cabinet" on the globe, Target's never actually meets. "There's no power in bringing them together as a body," Francis says. "The power is in their working independently. We're the cross-pollinator. We're the integrator."

That structure perfectly illustrates the Target approach to innovation: highly creative yet tightly controlled. Far more than

other discounters—and most companies of any kind—Target uses an enormous web of outside contacts to help it figure out what belongs on store shelves. It is Target's ultimate goal to walk that razor-thin line between the possible and the practical—a dichotomy you see all over its sleek, modern-art-filled downtown Minneapolis headquarters. Welcoming you to the product design and development department is a whimsical display of metallic tote bags fashioned into shimmering daisy petals. But hanging from the ceiling there's a huge bank of red neon screens showing the company's real-time in-stock levels (the amount of product in stores relative to plan). The message is clear: There is a free spirit expressed in Target's hopeful slogan, "Expect more, pay less," but it is always tethered to reality.

Francis's job is to make sure everything the public sees lives up to that motto. As such, the 1,400-person-strong "marketing" division he oversees actually encompasses everything from the Target Foundation to publicity, strategy, Target.com, and "guest" (i.e., customer) insights. Every single thing that Target's logo appears on—from the donation of \$1,000 to an elementary school to the look of its private-label garbage bags—goes through Francis. His team, naturally, put together the manual of approved looks for Bullseye, the



**MUST LOVE DOGS** STEINHAFEL (LEFT) OFFICIALLY TAKES OVER FROM ULRICH IN MAY. BULLSEYE HAS BEEN TARGET'S MASCOT SINCE 1999.

Target mascot (using a Jack Russell terrier rather than a bull terrier is forbidden; black eye circles rather than red are unthinkable!).

Like many people at Target, Francis, 46, has never worked anywhere but at Target and its former parent, Dayton Hudson, which also owned Marshall Field's and Mervyn's until 2004. And although marketing executives are famously transient, not one of his top reports has left for a competitor in more than 16 years. "The energy that flows through here is just amazing, and it's fun," says Karen Gershman, senior vice president of marketing and a 35-year veteran, who started as a proofreader when there were just 42 stores. Another key member of the group: Minda Gralnek, a voluble, stripy-haired 17-year veteran who has headed up many

of the company's best-known campaigns, including "Design for All" and the current "Hello Goodbuy." Working closely with them, though he reports to Steinhafel, is Michael Alexin, a relative newbie from Eddie Bauer, who in six years has built an internal product design group of 300. "They never know when they walk in if they are going to be working on branded beef or the newest designer from Bergdorf," says Francis.

Each of Francis's reports—and, in fact, everyone at Target—is expected to constantly grow his or her own web of networks. To spot emerging young designers, for instance, Target has for years contributed to design education projects sponsored by the Council of Fashion Designers of America (CFDA). When bag and shoe designer Jessie Randall of Loeffler Randall became a finalist for the CFDA's Swarovski Award for Accessory Design in 2005, a marketing executive named Sally Mueller invited her to Target to talk about a collaboration. Randall was particularly surprised that the company was willing to accommodate her designs, even giv-

ing in to her preference for woven material that was actually—shocking for a discounter—woven. "Everyone said it would have to be embossed, and I said, 'Please just try,'" she recalls. "They always said, 'We don't want you to think about what we might like. We came to you because we want your aesthetic.'" Randall's collection just ended a go-day run in Target's stores.

To encourage, or rather ensure, a steady Stream of bold new ideas, even managers with a proven record of hits must duke it out for portions of their budgets every year. So although the events team won a big chunk of the 2007 pie with its idea for a holographic fashion show—featuring virtual, not real, models—it had to come up with something equally compelling if it wanted funding this year. "We hold a huge percent of our dollars back," says Francis. That helped generate such out-there ideas as a temporary store floating in the Hudson River and a vertical fashion show, where acrobats "walked" down the side of a building. That element of surprise, it turns out, has been part of Target's DNA for some time.

**ON A SUMMER AFTERNOON** in 1921, farmers attending the Minnesota State Fair were hit by a freak storm of blue, red, and yellow feathers—one million in all, dropped from a biplane. Once they fluttered to the ground, fair-goers could see that each feather was marked "Dayton's" after the Minneapolis department store. The

stunt was just one of many dreamed up by banker and real estate developer George Draper Dayton, who happened into retailing after he leased space in a downtown building to department store R.S. Goodfellow's in 1902. The next year he bought the outfit and renamed it the Dayton Dry Goods Co., creating a store known for high quality and great salesmanship. There were cooking classes and concerts, and Dayton even once cleared out an entire floor to exhibit a famous biplane called the Curtiss Airship. In 1909 he opened a discount section in the basement.

Dayton, who died in 1938, was not a native Minnesotan but quickly took to the straightforward, ultra-polite, and nonshowy "Minnesota nice" culture that still permeates Target today. "Buy and sell only merchandise of dependable quality and honest value at its level," he preached. He was succeeded by his son and grandsons, who, in addition to creating the first enclosed shopping mall, established a company mandate to give away 5% of pretax profits every year (a policy that continues today, with a focus on com-

munity, arts, and education). Impressed by the success of the basement store, grandson Douglas Dayton decided to open a discount arm. The first Target, whose name was chosen because it suggested value and also had visual impact, opened in Roseville, Minn., in 1962—amazingly, the same year both Kmart and Wal-Mart began.

It was just five years later, in 1967, that Robert Ulrich signed on as a merchandising trainee at Dayton's, fresh out of the University of Min-



**MASS APPEAL** AN EARLY TARGET STORE IN MINNESOTA. THE CHAIN OPENED IN 1962, THE SAME YEAR AS WAL-MART AND K MART.

nesota. A Minneapolis native and the son of a 3M executive who is equally conversant in African art, musical instruments, and Indy car racing, Ulrich rose quickly, becoming president of the 215-unit Target Stores division in 1984. Ulrich was not—and has never been—the typical backslapping corporate leader. So lean as to resemble a scarecrow, with a slightly red face and a predilection for cowboy boots, he abhors small talk, isn't big on golf, and is quick to make a decision—hence the handle "Bullet Bob." Ulrich's words, when they come, aren't always in order, partly because his brain seems to be firing faster than his tongue—which is pretty darn fast. "He's just impatient," says Thacker, the former Target marketing exec. "He doesn't suffer fools. If somebody's doing stupid things, he doesn't tolerate it." Nor does he like to lose. "He is the most competitive individual I have ever met—ever," says George Jones, CEO and president of Borders Books and a Target executive in the rgSos, remembering casual Ping-Pong games at

"SOME PEOPLE TRIED TO DO THE DANCE ON BOTH SIDES," SAYS ULRICH. "AS WAL-MART GOT BIGGER AND BIGGER, [RIVALS] STARTED EMULATING THEM MORE. IT'S THE CLASSIC MISTAKE."

Ulrich's house that became bloody battles. "He would dive for a ball and literally run into the wall."

That competitive streak heated up in the mid-igSos, when Wal-Mart first made inroads into Target country. With its everyday-low-price strategy, Wal-Mart began eating into Target's sales while spending far less on marketing than Target, which produced colorful—and costly—Sunday advertising sections. Alarmed, Ulrich approved a test in 1985, converting 50 Target stores in Albuquerque and Knoxville, Tenn., to emphasize low prices. Quickly, Target found that it did okay in new stores but abysmally in places where people were trained to expect that circular. "We realized that we wouldn't ever be able to convert the entire chain," says Jones. "And we couldn't really run a bifurcated strategy."

Target faced a choice—one that easily might have put it in the same spot as doomed chains like Caldor or Bradlees (see chart). "Some people tried to do the dance on both sides," says Ulrich. "As Wal-Mart got bigger and bigger, [other rivals] started emulating them more, but they were still trying to appeal to an upscale guest. They'd pile shit in the middle of their aisle and then throw in some merchandise that wasn't the right quality for the store level. It's the classic mistake."

Instead, Ulrich's steam saw an opening: If Wal-Mart was striving to be the king of logistics, with enough muscle to force vendors to deliver on price, Target could deliver on a great store experience and a product that was exciting and unique. "Wal-Mart's strategy is in many ways more simple than ours," says Ulrich. "It's more about price and more about mass quantities. It's a hell of a competition, but ours is more dependent on innovation, on design, and on quality."

What Target did have, thanks to its department store sisters, was access to people who anticipated desires. So Ulrich started a trend department, bringing over fashion scouts from Dayton

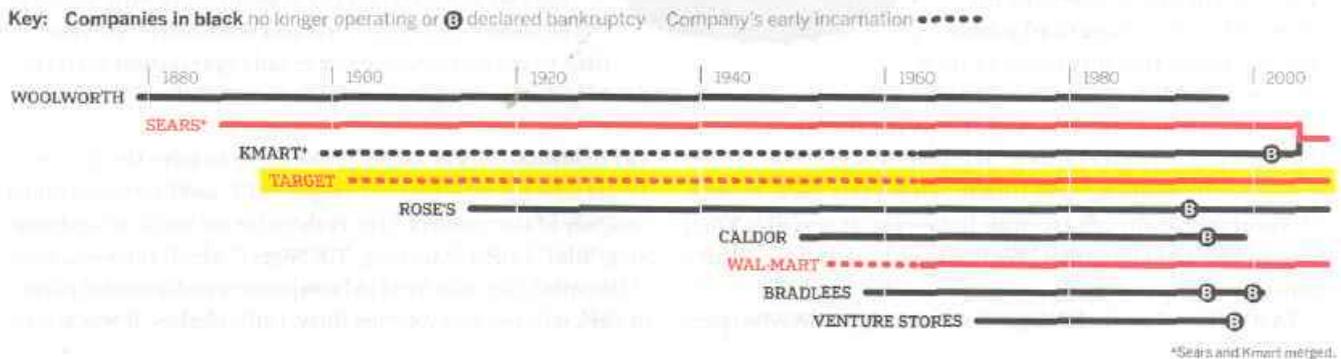
Hudson, who started by expanding the color palette for T-shirts. "I can remember all the skepticism," says Jones. "No one in mass had anything like this." In 1987, Ulrich became CEO of Target Stores, and the chain's efforts grew bolder, thanks in part to John Pellegrine, a onetime theater major who arrived in 1988. He set about creating a marketing message that dared to suggest that shoppers could get joy from buying a broom or a toothbrush. Pellegrine's imagery, ki effect, helped Target spearhead a giant self-esteem program for the middle class. No longer did people with limited budgets have to buy clothing that looked cheap or dish towels that didn't match. They deserved—and now could afford—more. In 1994, Ulrich's creative team turned that idea into a company motto that is, even today, the strategic filter through which everything must pass: "Expect more, pay less."

Target now had an increasingly public image to keep up—both inside and outside its stores. In 1998 the company agreed to give money to support the renovation of the Washington Monument. But during an early visit to the site Thacker, then vice president of marketing, was horrified: The sacred Target logo was plastered next to rotting scaffolding and ripped plastic. After much brainstorming, Target decided to sponsor an architectural competition to build scaffolding. The winner was a well-known architect named Michael Graves, who proposed an elegant, lighted structure made of flexible PVC foam. During one meeting, Thacker says Graves pulled out a stack of product designs "the size of a phone book." "Do you think Target would have any interest?" he asked.

Thacker, thunderstruck, took the idea to his boss, Ron Johnson. Johnson, who left Target in 2000 and has since rolled out Apple's wildly successful retail store strategy, immediately saw the potential. Later that year Graves' iconic, affordable tea kettles

## Discounters' Graveyard

RETAILING ISN'T EASY, AS MANY OF TARGET'S COMPETITORS LEARNED.



and kitchen gadgets hit shelves. "People have within themselves a paradox," says Robyn Waters, a former Target executive who now runs consultancy RW Trend. "Fit in and belong, and also stand out and be unique." With Target's designer wares, shoppers could do both. The company followed up with "mass/class" collections by the likes of Philippe Starck and Todd Oldham, and started to market Target as a destination for design.

These collaborations boosted Target's brand, but its bottom line ultimately depended on people buying their basics there. So in 1995 the company followed Wal-Mart's Supercenter lead and opened its first SuperTarget. The new format featured more consumable items such as food and toilet paper, to persuade customers—80% of whom are women—to do most of their basic shopping there. Early results were disappointing; most experts thought Target would never be competitive with Wal-Mart in food. But Target persevered. The hope was that this would smooth out economic cycles, but it was also a move into a lower-margin, more commoditized business.

**I AM WATCHING** from behind a two-way mirror as two people struggle to assemble a \$299 Grill King gas grill. Next to me is a camera crew filming the event, along with Target's buyer for lawn and patio, Paul Bein, who is scribbling notes. Already Bein has noticed that the screws are falling off the screwdriver and will ask the vendor to magnetize them, and he wants to have the customer service number listed more clearly on the instructions.

We're in Target's user-experience research center (ULab, in Targetese). And it's here, in this windowless warren at headquarters, that Target works on the practical side of its strategy. At the ULab, Target enlists real "guests" to test anything they interact with in the store, from free sanitizing hand wipes or gel (wipes won), to the company's latest shopping cart (now being tested in Minneapolis and Tulsa, it has handlebars that let you push it from any side), to new product prototypes like ITSO, Target's affordable storage system that hits stores in June (the name stands for "It's so fabulous!").

The ULab is just one of the ways Target has tried to make sure that the creativity gets results. "It certainly is possible to over-emphasize innovation," says Ulrich. A few years back, he says, "it was almost as though everyone in every store was like, 'Oh, I have an idea and I'll try that.' We had to go back and say, 'Wait a minute, we're operators.'"

That's where Steinhafel comes in. A Kellogg MBA who spent

two decades at Target merchandising everything from toys to stationery, Ulrich promoted him to president in 1999. By his own admission Steinhafel is a bit of a wonk. "I talk a lot about gross margin rate and the key drivers to improve our metrics and performance," he says. While it's easy to cast him as a B-school suit, that's not totally fair: He literally grew up in retail, working at the family store, Steinhafel's Furniture, in Milwaukee. By all accounts, Steinhafel is well liked both inside and outside the company, and he seems to consider Target a second home. In fact, he met his wife of 25 years there.

"I'd love to tell you I'm a swashbuckling entrepreneur like Richard Branson or Larry Ellison and have this exciting life beyond Target and my family," he says. But it wouldn't be true.

Steinhafel is also lauded for his deep understanding of vendors and store layouts. Says Deutsche Bank Securities senior retail analyst Bill Dreher, who recently visited a store with him: "He was speaking like a real dyed-in-the-wool garmento, not just some manager." Having a feel for how the products are presented is essential: Top management reviews initiatives before they launch, a process that takes place in the Status Room, a special area at headquarters that is home to a constantly rotating display of goods.

Ulrich, Steinhafel, and Troy Risch, EVP of stores, each walk with Francis through the room every ten days, checking out everything from table tents for Target's cafe to Cherokee's new underwear line and giving feedback. Recently Ulrich energized a print ad featuring wine. "Can we make this more interactive?" he asked, suggesting the bottle pour wine rather than just sit there. Once the trio has signed off, Francis brings in his 150 marketing managers, along with company lawyers, PR representatives, and even the training folks, to talk them through the marketing strategy behind every item. "We micromanage and we think and sweat about every little aspect of the guest experience," explains Steinhafel. "We take the time to communicate to our broad organization what they do, why they're doing it, how it fits the whole."

**YET COMMUNICATION ALONE** is not going to solve the problems Target is facing now. Last fall Target, MTV, and Go International designer of the moment Erin Fetherston put out a two-minute-long "film" called "Morning, Till Night," which showed a bevy of beautiful girls who lived in brownstones and attended parties in sleek white spaces wearing flirty, ruffly clothes. It was aspira-



**ELEMENTS OF STYLE FROM TOP:**  
 A NEW LOOK FROM CONVERSE, ITSO STORAGE SYSTEM, CONVERSE ONE STAR SNEAKERS, TARGET'S NEW CEREAL BOX, A WOVEN HANDBAG FROM LOEFFLER RANDALL

tional, of course, and that was the point. But on the floors, under fluorescent lighting and hanging close to busy checkout lines, Fetherston's clothes seemed to promise a bit less. That's the reality of shopping at any discounter—but at image-obsessed Target, that disconnect can be jarring. "They've had inconsistent merchandising, and sometimes [it] doesn't live up to the marketing," says one former Target senior executive who walks the stores regularly.

In February, Citigroup managing director and analyst Deborah Weinswig polled shoppers and found that though Target consistently underprices supermarkets on groceries by about 10% to 15%, shoppers perceived the opposite: that Target's prices were a full 20% higher. Moreover, though prices at Target average out to within 1% to 3% of those of Wal-Mart, 87% of respondents said they shopped at Wal-Mart because it was the cheapest. "The problem could be that some of these stores are so clean that you just assume you're paying more," says Weinswig.

Another issue may be that Target's pioneering efforts, like its partnership with high-end fashion designer Isaac Mizrahi, which recently ended after five years, have become commonplace. To wit: Stella McCartney for H&M, Vera Wang for Kohl's, Norma Kamali for Wal-Mart, and countless others.

Steinhafel says Target is making adjustments in the current environment, but radical changes are not in the works. "A strategy is a strategy," he insists. "Sometimes we focus a little bit more on the 'pay less,' sometimes on the 'expect more,' but the guardrails are here." Target has revised its internal model to assume 2008 same-store sales growth of 2% to 3% per month rather than the 5% of recent years. Target also has changed the "messaging" in those famous circulars to emphasize price, particularly in food and commodities, and they've also adjusted worker hours to reflect lower traffic. Steinhafel has high hopes for the company's Converse One Star partnership, which he says is "above plan." Every five years Target rolls out a new store prototype, and in October it will start testing the larger 2009 iteration, which further emphasizes food, electronics, and pharmacies. (Consumables and commodities make up 34% of sales, up from 30% in 2005.)

Target continues to open about 100 stores a year, a feat made easier by the fact that it has thus far managed to avoid the barrage of bad press Wal-Mart has suffered. In part, that's because of Target's very public philanthropy (no good deed goes uncircled here), but it's mostly because Target will never be the biggest target—Wal-Mart is six times its size. "Bentonville is a behemoth," Ulrich says, with a wink. "We're just a nice, modest, little, average [company] trying to get to a reasonable scale so that we

can take care of things for our guests and give them good value." Yet some have noticed that both Target's and Wal-Mart's average pay in Minnesota, for example, falls below the \$12.24-per-hour that advocacy group Jobs Now calls a living wage. "We feel they are worse than Wal-Mart because they are masquerading as this benign employer," says Bernie Hesse, director of special projects for Local 789 of the United Food and Commercial Workers Union in St. Paul, which has unsuccessfully tried to unionize local Target employees (no Target employees are unionized). "They have gotten this pass because they have set up this foundation and have this chic look, and that's more cruel than Wal-Mart. Wal-Mart doesn't pretend."

The labor issues have thus far remained behind the scenes, but a more pressing issue is the emergence of William Ackman, founder of Pershing Square Capital Management. Ackman, a very public activist investor, took a nearly 10% stake in the company last July. Even though his cash investment (most of the stake is in options) is down 15%, he says he considers Target "the best-managed retailer" around. Thus far he's met with Ulrich, Steinhafel, and Scovanner to urge them to spin off part of the credit card business and boost stock buybacks. (Target upped its buyback and on March 12 announced it is in negotiations to sell half its credit card receivables for about \$4 billion.)

Taken all together, it's a tough situation for any new CEO to walk into. Certainly it's fair to say that if successors typically fall into two categories—those representing continuity, like Steve Ballmer at Microsoft, and those representing change, like Jack Welch or even Ulrich, Steinhafel is poised to be the former. "There are always choices for succession," says Anne Mulcahy, CEO of Xerox and a longtime Target board member, "and I think one of the [deciding factors] was Gregg's ability to carry on the collaboration. Their ambition is about the company; it is not about themselves as individuals."

And that, in fact, has always been the point. "Ulrich has done his successor a service," notes business historian Tedlow. "Sam Walton was an icon at Wal-Mart, and it's much easier to succeed somebody who isn't." Says Ulrich: "I know there are some people who have sort of this twisted concept that they can't do it without me, but that would obviously be the worst legacy that one could possibly leave." Instead he has built an organization designed to outlive him—and his successor. "We're going to be here for 40, 50, 60 years," says Steinhafel. There's a decent chance Target will still be a household name then. But there's an even better chance its CEO won't be. ■

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PRIME TARGET ACTIVIST INVESTOR ACKMAN TOOK A BIG STAKE IN THE COMPANY LAST JULY. HE'S PUSHING FOR CHANGES BUT HAS THUS FAR BEEN FRIENDLY.