

Target ramps up spending on supply chain

March 2 2016, by Anne D'innocenzio



Target Chairman and CEO Brian Cornell speaks to a group of investors, Wednesday, March 2, 2016, in New York. Target's annual meeting comes as the discounter is making progress in reinvigorating its business and winning back shoppers under Cornell, CEO since August 2014. (AP Photo/Mark Lennihan)

Target Corp. is stepping up spending on capital expenditures this year, primarily in its supply network and technology, as the retailer aims to be more nimble in an era of online shopping.

The Minneapolis-based discounter told analysts Wednesday at its annual

meeting it plans to spend \$1.8 billion for the current year and ramp that up next year to up to \$2.5 billion. In the last fiscal year ended in January, the company spent \$1.4 billion in capital expenditures.

The spending comes as Target, like other retailers, grapples with an infrastructure that has been stretched with shoppers buying in different ways. That has left Target struggling to keep basic products on the shelves.

Target also sees a key revenue measure increase at a faster clip for next year. The retailer now believes that the key revenue measure will be up 3 percent and more, compared with this year's projected rise of 1.5 percent to 2.5 percent. In its last fiscal year, it posted a 2.1 percent increase.

Target is also forecasting 10 percent growth in earnings for next year. That's on top of the \$5.20 to \$5.40 per share it expects for the current fiscal year.

The gathering in New York comes as Target has made solid progress in reinvigorating its business and winning shoppers under CEO Brian Cornell, who took the helm in August 2014. He is launching a reinvention plan to regain the retailer's cheap chic status and make Target more nimble after a series of headline-grabbing setbacks, including a major debit and credit card breach that hurt sales and profits for months.

During the Great Recession, the company lost its mojo as a trendsetter when it expanded aggressively into groceries.

Under Cornell, the company closed its Canadian operations last year and shook up its leadership ranks. It's focusing on key merchandise categories like fashion, baby, home furnishings and wellness products.

The company has spruced up its presentation and added mannequins to display its clothing. It has created vignettes to feature its home furnishings. Target is also overhauling its grocery area to offer healthier, fresher options. As a result, Target recorded its sixth straight quarter of increases for the key revenue measure and posted an uptick in customer traffic for the fifth quarter in a row.

Target also saw online sales surge 34 percent during the latest quarter, after online sales jumped 30 percent in the third quarter.

But overhauling the supply network is an essential part of Target's reinvention as it needs to ensure the right product is online and on store shelves when shoppers want it. The discounter has made some progress, finishing the year with the out-of-stock issues improving by 40 percent year over year.

As part of the strategy, Target named Amazon heavyweight Arthur Valdez to lead the overhaul of its supply network. The company said Tuesday that he will start March 28.

Target is trimming the number of products it carries on the shelves, focusing on the best-selling brands. It's redesigning shelf presentations to put even more product on the sales floor, and it's also working with suppliers to send case packs that match each product's rate of sale and allotted shelf space.

Shares of the company closed up 14 cents at \$81.10.

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