



# Surfing the Digital Wave

## Situational Analysis

The digital media industry, including digital music, video, e-books, online gaming and other formats, continues to be a bull market in the U.S. and abroad. One shining example is the global digital music market, where sales nearly tripled from 2004 to 2005, reaching estimated revenues of \$1.1 billion. This growth along with the emergence of the digital video market is now serving notice to traditional brick-and-mortar retailers – it's just not good enough to only offer physical-format products. To be successful in the future, experts predict that brick-and-mortar retailers are going to have to start selling “digital experiences” that integrate their products with services. Support for this assertion can be found in the recent success of the Apple's iPod and iTunes Music Store, which reportedly now ranks within the top 10 leading U.S. music retailers in terms of unit sales (NPD Group Report; 12 track downloads = 1 physical CD sale).

## Project Question

How can Target use digital media to complement, and drive additional sales of, existing entertainment and electronics products? What “digital experiences” can Target offer in its stores that the digital media consumer can not get at home?

## Project Parameters

Develop an innovative growth strategy that will make Target a leader among brick-and-mortar retailers in the digital media landscape. Focus on delivering this strategy by leveraging Target's Merchandising Strategy and core shopping experience that is delivered in store.

Utilize the Suggested Topics section as a guide by exploring the most relevant topics, and supporting proposal recommendations with information that addresses the why's behind each explored topic.

Include in this proposal a SWOT analysis (Internal: Strengths/Weaknesses, External: Opportunities/Threats) of the current situation Target faces in the digital media environment as well as a second SWOT analysis based upon implementation of the proposal.

## Suggested Topics

- **Product:** How can digital media be used to add value to current entertainment and electronics products? What digital media products should Target stand for? What is the right mix of different digital media categories?
- **Price:** What factors influence price? How does the guest assess value?
- **Presentation:** How does presentation drive sales? How can Target use presentation to better educate guests? How can products be merchandised together to increase guests' basket size?



- Promotion: How can Target use digital media to market in-store purchases? What sort of digital media promotion vehicles should be employed?
- Services: What product/service combinations will create Target brand “digital experiences”? What services should Target stand for? What services can be driven offline and/or online? What services will establish loyal guests?
- Guests: Who is the digital media guest? How does this guest shop? What needs to be provided to attract this guest? What excites this guest?
- Competitors: Who are competitors in the industry? What are other brick-and-mortar retailers doing? Who should Target benchmark?
- Brands: What brands are hot in the industry? Who should be strategic partners going forward?
- Trends: What are emerging trends in the industry? What’s the next big thing? Should Target be a first mover on these trends? What trends might not be sustainable?
- Economy: What factors in the economy can and will drive change in the digital media landscape?

### Company Information

#### What is Target?

Minneapolis-based Target serves guests at more than 1,600 stores in 47 states nationwide by delivering today’s best retail trends at affordable prices. Target is committed to providing guests with great design through innovative products, in-store experiences and community partnerships. Whether visiting a Target store or shopping online at Target.com, guests enjoy a fun and convenient shopping experience with access to thousands of unique and highly differentiated items. Target (NYSE:TGT) gives more than \$3 million a week to its local communities through grants and special programs. Since opening its first store in 1962, Target has partnered with nonprofit organizations, guests and team members to help meet community needs.

#### What is the Merchandising Strategy?

Target’s Merchandising mission is to drive profitable market share growth by fulfilling its “Expect More. Pay Less.” brand promise. Specifically, the Merchandising team focuses on the following five areas to remain relevant to guests over time and sustain a competitive advantage:

- Team: Promote continuous learning in a diverse environment where high-performing teams excel.
- Value: Provide outstanding value through price, quality, and great design.
- Differentiation: Create excitement with distinctive, exclusive and innovative offerings.
- Reliability: Drive sales by having what guests want, when they want it, where they shop.
- Frequency: Increase shopping frequency by creating a convenient shopping experience that meets guests’ wants and needs.



### Who is the Typical Guest?

Our guests are young, well-educated, moderate-to-better income families who live active lifestyles. The median age of our guests is 42, the youngest of major discount retailers. They have a median annual income of \$60,000, 51 percent have completed college and 33 percent have children at home. Also, we have one of the strongest brands in the marketplace. Our Bullseye is recognized by 97 percent of American consumers, even nudging out Apple and the Nike swoosh.

### How Quickly Has Target Grown?

Target opened its first store in Roseville, Minnesota, in 1962. More than 100 new Target stores are opened each year during three cycles in March, July and October. New store prototypes, ranging in size from approximately 127,000 square feet to 174,000 square feet utilize advancements in technology and design to better respond to Target guest needs. Total store square footage of Target Stores is more than 210 million. Target currently operates 26 regional distribution centers (RDC), four import warehouses and one Target.com distribution center.

### What is Target's Role in the Community?

Since 1946, Target has given five percent of its income to support and enrich the communities we serve. Today that equals over \$3 million every week to support education, the arts, social services and volunteerism. In addition to our financial support, Target team members and retirees, along with their families and friends; have contributed millions of volunteer hours to community-based projects. To learn more about our programs and community partners, visit [Target.com/community](http://Target.com/community).

### Industry Notes

The emergence of digital media has really begun to take its toll on traditional forms of entertainment. Specifically, album sales, which declined nearly 3% last year, are expected to continue to lose market share year-over-year to digital downloads. The pace of DVD sales increases are also expected slow, with an expected growth rate of just 2% in 2006, compared to double-digit growth two years ago. This combined loss of market share is now paving the way for on-demand service, such as Tivo, MP3 downloading, and gaming services, which continue to grow at a healthy rate.