Assessment highlights 2021

Business

Internal assessment 3

Extended response — feasibility report

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Assessment overview

Context

In this assessment, students investigated repositioning strategies for an Australian department store chain that is in the post-maturity stage of its business life cycle. The department chain is experiencing declining sales and due to changes in the retail environment, is having difficulty maintaining market share.

In preparation for the assessment, students were provided with a case study and stimulus materials that included a profile of the department chain, financial data, information about other Australian retailers, articles about the influence of online shopping and industry reports.
The syllabus specifications require students to prepare a feasibility report between 1500–2000 words. In the preparation of their response, students should implement the inquiry approach and develop their own structure for organising and sequencing ideas within the feasibility report.

Task

Students were required to use the stimulus material provided and conduct further research about the department chain, the associated industry and business competitors, and create a feasibility report for the business directors of the parent company that owns the department chain.

In the feasibility report, students were required to use information from the stimulus material and additional research to:

- describe business environments and situations relating to repositioning a business in the post-maturity phase of the business life cycle
- explain business concepts, strategies and process relating to influences for repositioning the business
- select data and information relating to repositioning a business to analyse the business situation of the department chain using two analytical tools
- interpret relationships, patterns and trends from the analytical tools to draw conclusions about the implications for repositioning the department chain
- evaluate at least two, and no more than three, repositioning strategies using specified business criteria to make decisions and propose recommendations.

Student response

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Target Feasibility Report

Report to: Business Directors of Wesfarmers

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1.0 INTRODUCTION

Currently in the post-maturity decline stage, Target is an Australian department store owned by their parent company, Wesfarmers (Target, 2021). This report will focus on business evolution, specifically the influences and implications of Target's repositioning strategies. In order to assist Target in reaching steady state, instead of decline, repositioning strategies will be evaluated and recommendations will be proposed.

2.0 BUSINESS SITUATION

Having been trading for the last 95 years, Target is experiencing a decline in sales; earnings have dropped from $90 million to a $50 million lose in the FY16 (Source 3). Target's difficulty in maintaining market share is a result of changes in the retail environment. Economically, the retail market are seeing a decline in sales, with customers struggling with low wage rises, concerns about job security and worries about falling house prices (Source 10). Furthermore, due to environmental factors such as COVID-19 and the changing consumer shopping habits, online sales have taken a rise. With online shopping growing at such a rapid rate, it was anticipated to hold 15% of the total retail market by the end of 2020 (Source 6). However, this online platform has also encouraged entry of new competitors, threatening Target to lose its market share. With such intense competition and financial pressure, Target's employees are bearing the burden of low wage growth and job losses as the company cuts back to subside pressure on their profits (Source 9).

3.0 REPOSITIONING STRATEGIES

The main influence on Target's repositioning is the hostile competition of the retail industry, with online retailers and other department stores capturing their market share. Target is losing their differentiation point and market position, with customers no longer understanding what the business represents (Source 5). Due to the lack of a distinct USP, Target is at risk of losing customers and sales, especially to their sister brand, Kmart.

Another influence is the increase of online competitors. Online purchases are growing at a rapid rate, with 22 million people buying online and the e-commerce market penetration rate reaching 85.2% by 2021. Especially online department and variety stores, who are the fastest growing ecommerce segment in Australia (Source 8).

Due to these influences, Target has implemented repositioning strategies in an effort to gain back their market share, differentiate themselves from competitors and satisfy consumer's needs and wants.

Table 1. Target's repositioning strategies

Business Function	Current Repositioning Strategies
Human Resource	• **Restructured 80 head office roles** + redeploying these staff into other parts of the business or into the wider Wesfarmers group (Source 12) —> **GOAL**: Improve quality of overall offer • **Employee redundancies** due to Target's store closures (LaFrenz, 2020) —> **GOAL**: reduce costs to minimise financial pressure + improve efficiency
Operations	- **Reduce Target's physical storefronts** + replace with Kmart stores instead —> **GOAL**: allow Kmart and Target to compliment each other instead of competing for space and customers (Source 12)
Marketing	• Using **familiar advertising campaigns** that leverage the considerable brand equity the business has built over time —> **GOAL**: renew relationships with old customers and ignite interest of new customers (Source 5) • Transformation to **offering higher quality** apparel, soft homewares and toys —> **GOAL**: compete against more speciality and middle-market offerings and differentiate from Kmart (Source 12)
Finance	- **Spending money on ROI** and breaking down projects to improve short term and long term problems (Source 13) —> **GOAL**: a positive ROI shows success and profitability, Target aims to become profitable

4.0 SWOT ANALYSIS

The following table presents a SWOT Analysis regarding Target's business situation, focusing on their repositioning strategies.

Table 2. SWOT Analysis

Strengths	Weaknesses
• **Operating since 1926** (Target, 2021) —> considerable brand equity and established brand recognition among consumers • Participates in **philanthropic responsibilities** such as donating to charities (Wesfarmers, 2021) —> builds positive brand reputation • **Reduction of costs** due to store closures and employee redundancies	**1.** **Reducing** 20% of Target's **physical stores** —> losing in-store sales due to decrease of physical accessibility **2.** **Issuing redundancies causes employee dissatisfaction and angst** —> negatively influences organisational culture and employee productivity 3. $50 million **loss** in FY16 (Source 3)

Opportunities	Threats
• Technology: focus on **continued app advancement and improved website** (Wesfarmers, 2021) —> increased online retailing/platforms encourages profitability and online growth • Sociocultural: investing in **customer research and experiential studies** to figure out most effective points of communication (Source 13) —> increases customer loyalty • Environmental: **adopt ethical and sustainable business practices** such as sustainable e-commerce packaging (Source 7) —> align with consumers' wants for environmental consciousness • Legal: employee redundancies must be done accordingly to **Fair Work Act** —> avoid ruining brand reputation and media scrutiny • Economic: reducing employees allows **funds to be invested in other renewal opportunities** —> achieve growth and efficiency	• **Losing sales to online retailers** as the ecommerce industry rapidly continues to grow • **Legal/ethical threats** regarding employee redundancies if Target does not follow legal requirements —> ruins brand reputation • **Losing in-store sales** due to stores closures and/or being converted into Kmart outlets (Sharples, 2021) • **Losing customers/sales to Kmart** as Target has lost their market position, with customers no longer understanding what they represent (Source 5)

Interpretation of the SWOT analysis shows that Target must make strategic decisions to avoid losing their differentiation point, declining in sales and become profitable again. As the ecommerce industry rapidly continues to grow, Target may experience online retailers/ competitors capturing their market share. To overcome this threat and encourage online growth and profitability, an opportunity would be to grow their online platforms and retailing.

Similarly, Target is also losing sales to their sister brand, Kmart, as customers understand what Kmart represents but no longer understand what Target represents (Source 5). This is combined with the threat that Target physical stores are being shut down or converted into Kmart outlets, which consequently lowers Target's in store sales as physical accessibility is limited. In addition to this, these store closures will result in employee redundancies. In order to avoid employee angst and dissatisfaction and possibilities of legal and ethical threats, Target must manage this in a careful manner and follow required legal considerations.

In order for Target to regain their point of differentiation against Kmart, opportunities stem from investing in customer research and studies, researching and making strategic decisions that align with customer's needs and wants. By doing so, it allows Target to create a differentiation point that will successfully attract customers.

5.0 PORTERS FIVE FORCES

The following table presents the Porter's Five Forces, which assesses how Target is positioned competitively within the competitive market.

Table 3. Porter's Five Forces

Threats of Substitutes **HIGH**	**High threat of substitution** due to: • Online shopping expected to hold 15% of total retail market by end of 2020 (Source 6) • Online department and variety stores saw a 29.6% growth (Source 8) • Similar products purchased at cheaper prices in discount stores or sister brand, Kmart —> no switching costs required • Clothing, homeware and toys are highly substitutable

Bargaining power of suppliers **MODERATE**	**Moderate threat from suppliers**: - Target may experience difficulty paying leases due to their continuous lose in earnings
Rivalry amongst competitors **HIGH**	**Highly competitive industry** due to: 4. Potentially lose $400 million in earnings to Amazon (Source 3) 5. Amazon expected to gain 15% of department store market share by 2026 (Source 3) 6. Online-only retailers use pop-up stores in increase their brand awareness (Source 7) 7. Online shopping increasing at a rapid rate 8. Target's target market (middle market) has become hyper competitive, as it is being dominant by the likes of global fast fashion retailers who provide new products constantly, have quick cycles of fashion, at relatively low prices (Hall, 2019). Target repositioning themselves to differentiate from their competitors by creating better quality products at a more affordable price.
Bargaining power of buyers **HIGH**	**High threat of buyer power** due to: 9. Buyers tend to purchase similar items at cheaper prices —> if discounted/cheaper at other stores, Target loses sales 10. 80.8% of customers in Australia shop online (Source 8) 11. Consumers keeping wallets shut due to economic reasons —> retail sales fell (Source 10) 12. Consumers no longer understand what Target represents (Source 5)
Threats of new entrants **MODERATE**	**Moderate threats of new entrants** due to: - New entrants are online, however, online-only retailers are increasing their brand awareness through pop-up stores

Porter's Five Forces analysis reveals Target's industry position requires improvement. The retail industry is extremely hostile, with constantly changing conditions that make it difficult for Target to maintain market share. There is high rivalry amongst competitors, including online retailers, global fast fashion retailers and other middle-market speciality stores. Especially with Amazon anticipated to gain 15% of the department store market share by 2026; Target expected to lose market share as a result. Target is fighting to keep their business from declining further; their point of differentiation and market position is at risk, with customers no longer understanding what they represent. If such decline continues, Target will be at risk of being unable to pay their lease for their physical stores. This risk is combined with the high bargaining power of buyers and the threat of substitutes. As no switching costs are required, customers are shopping elsewhere, whether at cheaper stores or online.

The retail industry is under competitive threat. In order for Target to reach steady state, it is important that Target focuses on developing their USP through introducing higher quality products at a more affordable price. Developing and advancing their online retail is also especially important, as majority of buyers are shopping online. This gives Target the opportunity to gain profitability from online sales and allows them to be competitive among the increasing amounts of competitors.

6.0 IMPLICATIONS OF REPOSITIONING

Target must seek strategies that align with the current trends such as the increase in online shopping, especially when online department and variety stores are seeing a 29.6% growth. Target must implement continuous improvement on their online platforms and retailing in order to grow online sales and become more competitive. If not, Target will find it difficult to achieve the goals of profitability and growth, as their sales would be lost to the increasing amounts of online competitors.

Furthermore, Target is reducing their bricks-and-mortars locations. A relationship can be identified; when physical stores close down, physical accessibility also decreases. Consequently, Target may experience a lose in in-store sales. This makes it even more important for Target to develop a stronger online presence, as their physical locations are getting shut down. If the business does not have a strong physical nor online presence, it becomes extremely difficult to reach steady state.

Additionally, these store closures result in employee redundancies. In order to avoid employee angst, dissatisfaction within the workforce and legal threats, redundancies must be handled in a careful manner. However, on a positive note, reducing employee salary costs will allow the business to invest those funds into other renewal opportunities such as customer research and experiential studies. By gaining more knowledge on their consumers, it allows Target to reposition in a way that will satisfy customer’s needs and wants.

7.0 EVALUATION

Table 4. Evaluation of Target's repositioning strategies

Repositioning Strategy	Stakeholder Satisfaction	Effectiveness	Competitiveness
Offering higher quality products at a more affordable price	- **Customers**: increased customer satisfaction —> receive better quality products for a more affordable price - **Business Owners:** increased customer satisfaction = increase sales/profitability - **Shareholders**: seeing Target reposition and invest in improvement is reassuring	- Attracts new or broader target market - Reaching the goal of satisfying customer's needs and wants - Profit goals not reached —> Target's sales declining despite repositioning (sales declined by 2.6% and expected to be unprofitable in 2021).	- Allows Target to compete against more speciality and middle-market offerings —> **Competitive advantage:** more affordable products compared to competitors - Keeps Target and Kmart from cannabilising one other's sales (Source 12) —> avoid possibility of losing sales to Kmart
Close Target bricks-and-mortars locations or convert to Kmart outlets	- **Wesfarmers' business owners:** converting to Kmart stores may increase overall earnings - **Competitors** (i.e. Kmart): receiving more in-store sales and increase in store locations - **Customers**: some customers unsatisfied with store closures; some may prefer Kmart stores instead - **Shareholders**: concerned store closures will decrease Target's sales/ profitability - **Employees**: impacted by redundancies —> results in employee angst	- Reducing Target stores limits the negative impact on Wesfarmers' earnings —> the decline in Wesfarmers' earnings is predominantly driven by Target (Wesfarmers, 2021) - Target's sales decrease due to store closures —> profit goals not reached - Save money on renting unprofitable locations and allows Target to focus their attention on the more profitable locations	- Target sales declined of 2.6%, yet Kmart sales growth of 5.4% —> losing sales and market share to competitor - Closing stores —> decrease in physical accessibility —> lose local customers

8.0 RECOMMENDATIONS

Decision: Increase their offerings of higher quality products at a more affordable price.

Justification:

- Target currently lacks a distinct USP and at risk of losing market share to online retailers and other department stores.
- Offering higher quality products at a more affordable price allows Target to become more competitive as it gives them a competitive advantage
- Having a competitive advantage = lower risk of losing customers and market share to competitors
- Allows Target to compete against more speciality and middle-market offerings and keep Kmart and Target from cannibalising one another's sales

Recommendations:

- Grow/improve online retailing platforms (i.e. app and website) to encourage online growth and profitability
- Invest in customer research to determine the business areas that require improvement or whether they should introduce additional products/services that aligns with customers' needs and wants

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