

GROCERY HEADQUARTERS

512

AUGUST 2016

TARGET on GROCERY

Target sets its sights on building food sales.



CENTER STORE
OIL'S WELL

FOCUS ON FRESH
**SUSTAINING
SUSTAINABILITY**

SELLING WELLNESS
KIDS SNACKS

NONFOODS FOR PROFIT
**TOBACCO
TRAILBLAZERS**

EQUIPMENT DESIGN
& OPERATIONS
COLD CASES

AIMING TO BE AMERICA'S GROCER

TARGET IS DOUBLING DOWN ITS GROCERY EFFORTS BY REMODELING STORES, STRESSING PERISHABLES AND LISTENING TO ITS "GUESTS." BY RICHARD TURCSIK



Cassandra Curtis had an unexpected visitor stop by her Once Upon a Farm baby food company booth at the Natural Products Expo West convention in Anaheim, Calif. this past March. It was the baby food buyer for Target.

"It was just a simple conversation and he definitely wanted to bring it in," says Curtis, co-founder and COO of San Diego-based Once Upon a Farm. "He approached us in March and we were on the shelves in May."

Once Upon a Farm manufactures a unique 10-SKU line of vegetarian and vegan baby foods made with healthy fats, including avocado, coconut milk, coconut oil, flaxseed and hemp seed. The company uses HPP (high pressure pasteurization) instead of traditional heat pasteurization, allowing it to offer a baby food with higher nutrition content and fresher flavors than traditional shelf-stable jarred baby foods, Curtis says.

Since it is minimally processed, Once Upon a Farm has to be kept

refrigerated. The brand has also been picked up by Whole Foods, Wegmans, Costco's San Diego division and some natural independents, all of which merchandise it in the dairy case.

Target, however, which is testing Once Upon a Farm in 65 stores in greater Los Angeles, Minneapolis and Houston, did something different.

"Target's refrigerators are in the baby aisle, which is pretty revolutionary, considering that up until now, most—if not all—baby food sections did not have refrigerators," Curtis says. "These are big refrigerators and they really stand out in the aisle. They have a number of other refrigerated baby food items in them as well, such as baby juices and yogurts."

Initial results look very promising, Curtis says.

"We are doing really well in there since we launched," Curtis says. "Target is a great partner to work with, and I think it is going to continue to do well. Moms love Target, so it is a good place for us to be."

Selling refrigerated baby food in the baby care aisle is just one of the revolutionary things Target is doing to revitalize its \$18.5 billion



grocery business in a quest to become America's grocer.

The chain has been meeting with its shoppers—called guests—in focus groups and even in their homes. It has repackaged and relaunched its flagship Market Pantry private label line. Target buyers prowl trade show floors looking for the latest trends and cutting-edge unique products. Target regularly meets with its manufacturing partners and offers useful critiques when it comes to packaging, ingredients and tastes. It even works with them to develop unique flavors to be sold initially exclusively in its stores.

However, the biggest change is that Target is changing its assortment. It is stocking more local and craft products and has stepped up to the plate when it comes to expanding organics. Target is also increasing the quantity and quality of its fresh foods offerings. To do so, Target has hired perishables experts from leading supermarket chains, such as Safeway, and reset its grocery departments to make perishables front-and-center and easier to shop.

This can best be seen in Los Angeles where Target has taken 50 of the top enhancements it has been testing across the country and put them together under one roof in 25 stores, in a pilot project dubbed LA25.

"Our goal is to see how we can improve the guest experience and grow sales when all of these elements are working together," Brian Cornell, chairman and CEO of Minneapolis-based Target Corp., said at a Thomson Reuters Streetevents Financial Community Meeting in early March.

"Grocery is a critical component that we are leveraging as part of Target's overall strategy," Anne Dement, senior vice president, merchandising for grocery, at Target, tells *Grocery Headquarters* in an exclusive interview. A 25-year retail veteran, Dement has held key

positions at Kowalski's Markets, Supervalu, Safeway and PetSmart over the course of her career. "Today, grocery is our biggest individual unit and it accounts for one-quarter of our sales, but it represents more than half of our total transactions, meaning that more than half of our transactions have a grocery item in the basket."

During his Thomson Reuters talk Cornell noted, "Last year, we promised we'd redefine our position in food. While our guests certainly have told us they appreciate the convenience of having fresh foods, we also heard that too often they were leaving underwhelmed and disappointed."

As a result, company officials realized that repositioning grocery would be a bigger task than just reconfiguring a few aisles.

"Looking across categories, we found out our market share was out of balance," Cornell said. "We were strongest in the categories with the least growth potential. Too much of our assortment is in the center of the store while the true growth opportunities exist around the perimeter. We found we were touching product far too often, driving up operational costs and complicating our out-of-stock position."

To build share and please its guests, Target is improving its perishables—starting with produce.

"We are doubling down on food fundamentals," Cornell said. "We know, given where we are starting, given where we are today, we've got lots of room for growth and while this won't start with a big, one-time reset, a one, big-time reveal, we think we will transform virtually every element of the business."

"This year you'll see us working to earn more credit for organics and dramatically improving freshness across the assortment," Cornell said. "We are moving through the assortment item by item, starting in the



fields and carrying it all the way to the sales floor.”

The strategy is already paying off, he said.

“Our guests are noticing a better experience every time they shop,” Cornell said. “They are noticing that we are adding more organics, more specialty items, more exclusives. They’ve noticed that freshness is improving. Overall, our comps in grocery outpaced the rest of the store in both the third, and again in the fourth quarter.”

LA25 STORY

The change is most apparent in LA25 stores.

“The layout is different. The LED lighting is different. Even in clothing it looks like a Macy’s,” says Angela Rosenquist, senior business development manager and central region manager for InnovAsian Cuisine, based in Tukwila, Wash., who has visited some of the stores.

“The layout is more dynamic and in grocery they’ve done the same thing,” Rosenquist says. “From a customer service standpoint, they have snack shelves at the Customer Service counter and online pick-up. They’ve taken a very smart approach to each section of the store. With grocery they are highlighting produce and organic offerings, using LED lights, just really making a splash with each department. It intensifies the shopping experience with grocery, which I think is important.”

The LA25 stores are being watched closely by management in Minneapolis.

“We definitely have a very local focus, and we prioritize categories of focus,” Dement says. “You’re going to see things like a heavy emphasis on craft beer, which is really catering to our L.A. guests.

“The great thing is that we’re building a really exciting partnership with our stores and store teams,” Dement continues. “My team and the store teams are working closely together to curate an assortment that’s

really, really relevant in the marketplace.”

Fixtures have been changed. A wooden arbor hangs from the ceiling over produce and the walls have been painted a calming seafoam green. New produce bins have also been installed.

“They are really showcasing abundance,” Dement says. “The other great thing is that they are very guest friendly, they look great, but they are also easier for our stores to execute. They are more mobile and modular in format.”

#TARGETRUN

Dement says a shopper walked up to her when she was in one of the LA25 stores recently and offered this unsolicited critique: “I have some feedback on grocery. I just had no idea that you had so many great brands. I live two miles from this store and I love this format.”

Dement then spied what was in her shopping cart. “She was shopping for her eight-year-old’s birthday party and had hot dogs and buns, strawberries and whipped cream, some pita items, and also candles, placemats, cups, bowls and plates. I said to myself, ‘Now that’s a #TargetRun.’ It is the greatest example of why it is so uniquely Target in that experience because she could get everything she needed for that party, including food and products for the home,” Dement says.

The move is paying off with the retailer’s middle and upper income customer base, say industry observers.

“Target is tending to present themselves more like a grocer than Walmart,” says James Lamberti, chief marketing officer at Quiri, a San Francisco-based market research firm focusing on in-store merchandising and conditions. “Target has a lot more variety and creativity of displays in the store. You are going to see a mix of different types of displays, whereas Walmart is pretty much focused on pallets and half-pallets. We

also see that they are doing a better job of having those displays outside the home aisle,” he says, citing that 68 percent of Target beer displays were outside of the beer aisle, compared to 60 percent at Walmart.

“We know that is a big driver of lift for impulse purchases,” Lamberti says. “If a retailer is putting their off-shelf displays in the home aisle, consumers already know that aisle. Therefore, the retailer is not going to necessarily get the disruption and lift that they want.”

Aside from sharpening its in-store displays, observers say Target works closely with its vendors, prodding them for the latest market and consumer trends.

“The people at Target are wonderful to work with and very collaborative in terms of working with their vendors and trying to find the best optimal solution for the Target audiences and the products that they put out,” says James Foster, senior market manager for Clear Lam Packaging, an Elk Grove Village, Ill.-based packaging solutions firm that does HPP processing for several Target vendors.

Target provided key insight in the development and launch of InnovAsian’s new Lemongrass Kitchen frozen Vietnamese meal kits line.

“We brought Lemongrass Kitchen to the Target buyer, early,” says Rosenquist. “We like to involve him early in the process and get his feedback because Target is very in-tune with their customers. We tasted all the dishes, had them all prepared and discussed it as kind of a round-table. We discussed the food, packaging, layout and how the program would look,” she says.

InnovAsian officials value Target’s input so much that they brought in the product and packaging while both were still in development.

“Target definitely makes an impact in the market and is very collaborative so we brought them our product before it was finalized,” Rosenquist says. “They give really good feedback, so it only works to our advantage.”

Matt LaCasse, co-founder and CEO of Birch Benders Micro-Pancakery, a Denver-based pancake mix manufacturer, tells a similar tale.

“Target is really, really great to work with,” he says. “They have a very high standard for their vendors. We have to do everything according to their processes. They took a little while to get ramped up with, but once you got it, it was a very streamlined system. They even pick everything up from our warehouse.”

Birch Benders relationship with Target is little more than a year old.

“We first met Target at the Winter Fancy Food Show in San Francisco,” he says. “They were in the process of discontinuing their private label pancake mix, so we got really lucky in terms of timing. That was in January 2015. Then we met them again in March 2015 at Expo West, and we shipped nationally to them by September 2015, so we moved really, really quick,” he says.

“Target has been a really great partner—a fun and innovative partner as well,” LaCasse says. “They’ll throw ideas at us and then we’ll turn around and make a new pancake flavor for them. Last year we launched our Pumpkin Spice Pancake Mix with them. It was a one-year exclusive

for the fall harvest season. This year we are contributing a Sweet Potato as an exclusive for them, alongside the Pumpkin Spice.”

Another upside is that Target has the volume to make an exclusive flavor worthwhile. “If I was only going to sell to 100 stores, it is really difficult to do that with an exclusive product,” LaCasse says.

Chameleon Cold-Brew, an Austin, Texas-based manufacturer of refrigerated, concentrated and ready-to-drink cold-brew non-dairy coffee is another young manufacturer that has found success dealing with Target. This partnership, however, did not come about as a result of a trade show.

“About two years ago Target reached out to a broker who was then tasked with finding a cold-brewed coffee for them,” says Chris Campbell, founder, CEO and president of Chameleon Cold-Brew. “Target had already identified this as a hot category and wanted to see some brands. The broker called and asked if we would like to fly up to Minneapolis to do an eight-minute pitch to a panel. Then we got called back. Then we got called back again. Then we got a P.O. (product order) for Super Targets in Texas.”

Chameleon Cold-Brew did so well that Target gradually added it to



its other regions. It is just launching into the chain's final 200 stores, Campbell says.

Target stocks Chameleon's 32-ounce Original Black, Vanilla, Mocha and Caramel, which was a Target exclusive for its first six months.

"The way the Caramel flavor came about was very organically collaborative," Campbell says. "We were talking with them about how we know we always need to innovate. They said that salted caramel has been hot for a while, that caramel is a popular flavor, and could you do a caramel flavor for us? We said, sure, we'd try. They saw our packaging, gave us feedback on taste, and we put it together and launched it."

Manufacturers say that being carried by Target also helps swing open the doors at other retailers.

"To be able to say that we're in Target and that we've been in Target for a few years certainly will calm the fears of other retailers as we talk to them about selling a coffee product that doesn't have milk in it," Campbell says.

LaCasse agrees, saying that "Having data showing we've been a success in Target has added to our sales story for other retailers, and makes it easy to show them that our best placement is next to the Aunt Jemima."

A benefit to dealing with Target is that they look at the overall value of the brand being offered and its impact on the category for the long haul, says Rosenquist.

"Target looks at the whole schematic, the whole grocery shopping experience, and asks, what is best for their consumers' baskets?" she says. "What do our customers come here for? How can we 'wow' them? It is like they take care of things. They like to put something out there that pops, gets their guests' attention and is something special."

Due to its size Target has to be extra careful, Lamberti cautions.

DEMANDING ENTHUSIASTS

IN REDESIGNING THEIR GROCERY DEPARTMENTS officials at Target really did their homework. That included sitting down with shoppers for some one-on-one market research.

"For the past 12 months we have been doing extensive deep dives across the entire portfolio, including doing some really deep dives with our guests," says Anne Dement, senior vice president, merchandising, grocery at Target Corp., based in Minneapolis. "We spent a lot of time talking to our guests. We went to their homes. We talked to them about their habits, routines, families and their values. They really opened their homes to us. It was an amazing experience," she says.

"They let us look in their cupboards and in their refrigerators. We watched them create their grocery lists and search for products online, post ideas on Pinterest," Dement says of the research, which was done in Dallas.

Dubbed "demanding enthusiasts" by Target officials, the researched guests were loyal Target shoppers with high expectations.

Dement says Target will do similar guest interviews in other markets. "We are going to continue to talk to our guests and we're going to continue to gain insight," she says. "This is not a one-and-done. We should always stay very in tuned to our guests and their needs and understand their behavior and the changing dynamics."

"As Target goes after this grocery format as its focus, especially going after variety and tapping into the Millennial trend, the execution is going to become key," he says. "With the scale in which they operate, and the size of the stores that they run, can they keep the execution where it needs to be to really feel all the benefit to that approach in merchandising?"