

Target Corporation - Rebuilding the Store Around the Guest

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Decision scope: Sequencing and governance of Target's announced 2026 investment across store experience, labor and reliability, and digital/fulfillment

Case convention: This author-created decision exercise does not represent private deliberations or an actual Target decision. Use only information available by the cutoff. All company forecasts are management targets, not outcomes.

The decision

On March 3, Target announced more than \$2 billion of incremental investment for 2026: more than \$1 billion in additional capital expenditure and \$1 billion in operating investment. The plan emphasized merchandise authority, guest experience, technology, and the team and communities. Management described store payroll, training, reliability and technology as parts of the effort. The announcement did not disclose a complete initiative-by-initiative allocation. [S2-S4]

Eight days later, Target filed its FY2025 Form 10-K. The report put the operating challenge in sharper relief: net sales had declined 1.7%, comparable sales 2.6%, and operating income 8.1%. Store-originated comparable sales fell 4.0%, while digitally originated comparable sales rose 3.1%. [S1, Item 7, pp. 28-30]

The channels also depended on each other. Target reported that stores fulfilled 97.6% of merchandise sales. That measure includes ordinary in-store purchases and digitally originated sales served through store shipping, pickup, Drive Up and same-day delivery. It is not the share of digital orders fulfilled in stores. Target said stores fulfilled the majority of digitally originated sales. [S1, Item 7, p. 30]

You are a senior operating and finance leader asked to recommend how the company should govern and sequence the announced investment. How should Target balance merchandise-led store experience, labor and operating reliability, and digital/fulfillment capability? What evidence should trigger expansion, redesign or a pause?

The case does not establish that fulfillment work has weakened store service, or that declining store-origin sales prove an operational failure. Merchandise relevance, value perception, macroeconomic conditions, competition, channel migration and execution may all matter. Your task is to recommend a disciplined investment process under that uncertainty.

What is known-and what is not

Target ended FY2025 with net sales of \$104.780 billion, down 1.7%. Comparable sales decreased 2.6%, traffic fell 2.2%, and average transaction amount declined 0.4%. GAAP operating income was \$5.117 billion, down 8.1%, with a 4.9% operating margin. FY2025 ended January 31, 2026. [S1, Item 7, pp. 28-30]

The channel measures point in different directions, but they do not isolate causes:

FY2025 measure	Reported result	What it measures
Store-originated comparable sales	−4.0%	Comparable sales attributed to store origin
Digitally originated comparable sales	+3.1%	Comparable sales attributed to digital origin
Digital-originated share of merchandise sales	20.6%	Sales attributed to digital origin
Merchandise sales fulfilled through stores	97.6%	All merchandise sales served through stores, including in-store purchases

Source: [S1], Item 7, “Comparable Sales by Channel” and “Merchandise Sales by Fulfillment Channel,” p. 30. Origin and fulfillment describe different dimensions and should not be combined into a single channel share.

Target cautioned that a broad mix of macroeconomic factors, competition, consumer behavior, sales mix and transfer across channels makes further decomposition of channel metrics infeasible. It reports one operating segment. Public disclosures do not show store-level service, labor hours, customer switching, fulfillment cost per order, or the incremental contribution of digital orders. [S1, Item 1, pp. 2-8; Item 7, p. 30]

The operating system

At January 31, Target operated 1,995 stores with 250.5 million retail square feet and 70 supply-chain facilities. [S1, Item 2, p. 23; Item 7, Store Data, p. 31] The footprint supports in-person shopping and a range of digital fulfillment options. The same store can host a shopper, hold inventory, pick an order, stage a pickup and support same-day delivery.

The network creates strategic choices. A store can provide discovery and service while also serving as a fulfillment node. Digital convenience can complement a store visit, and store inventory can make online promises more reliable. At the same time, order picking and staging use labor and space; the public record does not show whether, where or when that load competes with guest-facing work. Local conditions and product characteristics may change the answer.

Management said technology investment in recent years had tilted toward digital growth and announced additional focus on payroll, training, reliability and guest experience while continuing digital momentum and team-facing technology. This is management's diagnosis and stated direction-not independent evidence that digital fulfillment caused store-service deterioration. [S3, CEO remarks, pp. 5-6]

Target's March 2026 plan described four priorities: merchandising authority; guest experience; technology; and team and communities. Management also forecast approximately 2% net-sales

growth and improvement in adjusted operating margin rate for FY2026. These statements are priorities and forecasts; the case provides no subsequent results. [S2-S4]

Investment context

Target spent \$4.611 billion on capital expenditures in FY2025. It expected approximately \$5 billion of capex in 2026 for store experience and remodels, supply chain and technology, and new stores. The March 3 announcement separately described more than \$2 billion of incremental investment-over \$1 billion of additional capex and \$1 billion of operating investment. The disclosures do not reconcile every scope; do not add these figures together or assume the full amount is a discretionary pool available for reallocation. [S1, Item 7, p. 35; S2-S4]

The reported cost-of-sales category “supply chain and digital fulfillment costs” was \$7.531 billion in FY2025; SG&A was \$21.535 billion. These broad accounting lines do not disclose variable cost per digital order or a complete channel profit split. [S1, Item 8, Notes 3 and 27, pp. 52, 72]

The decision is therefore about the governance and sequence of a broad, announced investment, not a precise comparison of store and digital returns. An appropriate process could stage some initiatives, target bottlenecks or clusters, or deploy complementary investments together where service and fulfillment rely on the same capabilities.

What research suggests

Research offers mechanisms to test rather than an answer for Target. A stylized model of buy-online-pick-up-in-store finds that inventory information and convenience can attract demand, while channel shifts and fulfillment cost can erode profit under some conditions. It also highlights the risk of incentives that reward one channel while imposing costs on another. [A1, pp. 2483-2492]

A field study of one specialty retailer found store traffic and sales rose around a pickup launch while online sales fell; the authors discuss both cross-selling and channel migration. Its setting differs from Target, and the accessible full text is an author manuscript. No effect size should be transferred. [A2, published abstract; manuscript version and access limits in source register]

A working paper on an unnamed retailer links payroll, in-stocks, employee knowledge and checkout execution with customer satisfaction and sales. Its modeled payroll opportunity is specific to that retailer, not a Target estimate. A separate inventory model finds value in coordinating store and distribution-center inventory and fulfillment under specified conditions; it does not show that every order should be fulfilled from a store. [A3, results and conclusion; A4, Chapter 2]

Your assignment

Prepare a two-page decision memo that recommends how Target should sequence and govern its 2026 investment across:

1. **Merchandise-led store experience:** assortment presentation, newness and remodel or store-environment work.
2. **Labor and reliability:** payroll, training, in-stocks and guest-facing execution.

3. **Digital and fulfillment:** technology, inventory visibility, order picking, pickup, Drive Up, shipping and delivery.

Choose a governance approach. You may recommend broad deployment, focused investment around identified constraints, phased pilots, or a justified hybrid. Specify what should be funded or tested first, what should proceed together, who owns the cross-channel scorecard, and what evidence would support expansion, redesign or pause. Do not assume the public record identifies a single cause of weak sales.

Your recommendation should address:

- Which customer and operating outcomes matter across store and digital journeys?
- How will you distinguish channel origin from fulfillment method and account for customer or sales migration?
- What baseline, comparison group, pilot duration and decision thresholds would you use?
- How will you protect service, product availability and fulfillment reliability during tests?
- What new data should management collect before scaling?
- What would cause you to change your recommendation?

The company has not disclosed local store or order economics. If you use numerical targets or thresholds, label them as proposed decision rules or case assumptions-not as Target data. You may leave threshold values open and identify the baseline evidence required to set them.

Sources available by the cutoff

Company sources

- **[S1]** Target Corporation, FY2025 Form 10-K, filed and accepted March 11, 2026, accession 0000027419-26-000016. [SEC filing](#). Relevant locators: Item 1 pp. 2-8; Item 2 p. 23; Item 7 pp. 27-39, especially p. 30 (channel and fulfillment), p. 31 (store data), p. 35 (capital expenditures); Item 8 Notes 3 and 27, pp. 52 and 72.
- **[S2]** Target, Q4/FY2025 earnings release, March 3, 2026. [Release](#). See 2026 outlook and financial tables.
- **[S3]** Target, 2026 Financial Community Meeting transcript, March 3, 2026. [Event and transcript](#). CEO remarks pp. 3-6; resource allocation and outlook remarks/Q&A.
- **[S4]** Target, “Strategic Plan for a New Chapter of Growth in 2026 and Beyond,” March 3, 2026. [Company release](#).

Academic sources

- **[A1]** Fei Gao and Xuanming Su (2017), “Omnichannel Retail Operations with Buy-Online-and-Pick-up-in-Store,” *Management Science* 63(8), 2478-2492. [Article](#).
- **[A2]** Santiago Gallino and Antonio Moreno (2014), “Integration of Online and Offline Channels in Retail: The Impact of Sharing Reliable Inventory Availability Information,” *Management Science* 60(6), 1434-1451. [Published record](#). The accessible full manuscript and its version caveat are described in the research source register.
- **[A3]** Marshall L. Fisher, Jayanth Krishnan and Serguei Netessine (2006), “Retail Store Execution: An Empirical Study,” Wharton working paper. [Full paper](#).

- **[A4]** Aravind Govindarajan, Amitabh Sinha and Joline Uichanco (2021), “Joint Inventory and Fulfillment Decisions for Omnichannel Retail Networks,” *Naval Research Logistics* 68(6), 779-794. **Published record.**