

## Commentary: Is a Target, Walmart Price War About to Break Out?

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In light of Target shares dropping 15% after their latest earnings announcement, Target CEO Brian Cornell said executives would be detailing moves for greater pricing aggressiveness and increased merchandise differentiation, both tactics that Target has been known for historically. Cornell's pricing reference led to speculation about a price war with Walmart, which many experts surmise Target simply can't win. Speculation aside, is a price war poised to erupt between these two mega-retailers?

To start, let's review why Target would need to become more price competitive to keep up with Walmart, which has been enjoying a recent run of strong revenue reports and stock performance. Their success can be largely attributed to two major developments in their omnichannel growth strategy: the acquisition of Jet.com and an uptick in online grocery performance.

The acquisition of Jet, and more recently, Modcloth, has given Walmart a tremendous boost in its ability to reach online customers and ramp up its assortment to establish an essentially endless shelf. By doing so, they can compete very aggressively in certain areas on price, reinforcing the perception of price leadership, while also enhancing their reputation as a one-stop shopping destination.

Walmart's dedication to growing their grocery business – online and in-store – has also been integral to their success, with the company now generating over 50% of all U.S. sales from this one category. To win more grocery shoppers and drive repeat store traffic, it's reported that Walmart has gone back to their suppliers once again seeking deeper cost cuts to keep retail prices low. While grocery margins are typically thin, Walmart knows these same shoppers, once in the store, are more likely to buy higher-margin goods from other departments boosting basket sized and overall profitability.

In general, Walmart's grocery strategy appears to be aimed at the likes of global discount supermarket chains like Aldi and not more traditional competitors like Target. However, the effect on Target's business is evident. Target's grocery foray has been lackluster to date with this category contributing only roughly 20% of revenue. So to compete more closely with Walmart, as well as Aldi and now Amazon, pundits are speculating whether Target should go all-in on lower prices.

Unfortunately, engaging Walmart in a pricing war would be a losing battle for Target. The retailer should return to their legacy ability to compete with exclusive and affordable 'fresh' product offerings coupled with engaging shopping experiences.

What many commentators have missed is the key second part of Cornell's statement, about differentiated assortments, because that's already such a key part of Target's strategy. But it's one that works – and it keeps Target from engaging in an all-out race to the bottom in pricing and fits their brand persona of slightly higher-tier retail than Walmart.

Retail is facing a tipping point where the divide between the "haves" and "have-nots" is growing wider. Retailers know they won't be able to match Walmart or Amazon dollar for dollar on every product. What they can do, and must do, instead is find and reinforce their identities as providers of the goods and experiences that differentiate them from the competition. Target is well positioned to take a leadership position in this area, and we're looking forward to seeing how they balance price and assortment to regain their competitive edge.