

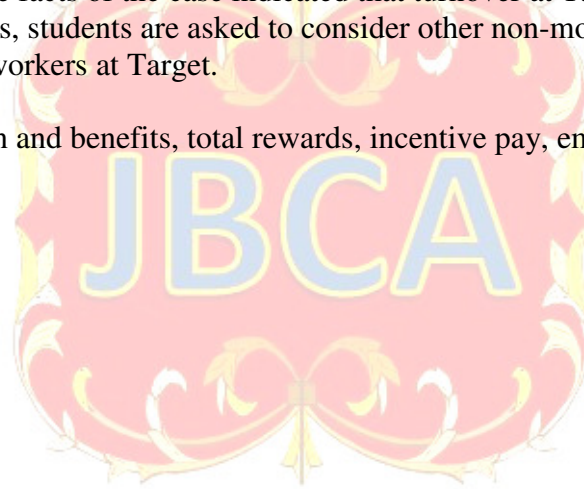
Target Corp.: making work fun, fast and friendly¹

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ABSTRACT

This is a decision case involving Target Corporation. It is based on a field study of a Target store in Houston, TX, including several interviews with its Human Resource Team Leader, its Store Team Leader, and two Executive Team Leaders. Additional data were obtained from Target's website as well as two other websites providing pay information. High turnover among employees in the retail industry is well-known. In this case study, the problem was illustrated by Target's need to maintain high levels of customer service and its desire to increase customer participation in its "REDcard" credit card program. The Human Resource Team Leader noted in the case study that Target paid its cashiers less than what they could earn at other nearby retail stores. However, the facts of the case indicated that turnover at Target was not greater than the national average. Thus, students are asked to consider other non-monetary rewards that would attract and retain workers at Target.

Key words: compensation and benefits, total rewards, incentive pay, employee motivation, employee turnover



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Martin White,² Human Resources Team Leader for a Target store in Houston, sat at his desk on a Monday morning in February, 2015, and read the termination report from the previous week. Three cashiers had quit and only one newly hired cashier was scheduled to start that week. "Pay at Target is the main complaint that employees raise," said White. "It is difficult to retain good employees when we pay only \$9.00 an hour and employees know that they can go across the street and earn \$10.00 an hour." White was convinced that the lower than average pay at Target was the main reason why cashiers, especially the part-timers, quit. Yet, when he read a recent report on turnover of part-time employees in the retail industry, he realized that turnover at Target was about the same as the national average. He began to think that perhaps he needed to think outside the box to improve retention of his employees. "How can we make work fun, fast and friendly for all our employees," White wondered.

COMPANY INFORMATION

Target Corp. was a U.S. based retailer headquartered in Minneapolis. In 2015, it employed over 360,000 people in the U.S. in over 1,900 stores. However, in that same year, Target announced that it would close the 133 stores it had opened in Canada just two years earlier, suffering a \$5.4 billion loss. Previously, Target had grown steadily, especially in 2007, when total revenues increased sharply by opening 118 new stores, including 33 Super Target stores. Martin White's store had approximately 200 employees.

In addition to being one of the fastest growing companies in the United States, the company earned rave reviews for employee and customer satisfaction. In 2015, Target was ranked number 29 in Fortune's list of "World's Most Admired Companies." Target also won numerous accolades for its diversity and inclusion policies; for example DiversityBusiness.com ranked Target number 18 on its 2014 list of the Top 50 Organizations for Multicultural Business Opportunities.

Target highlighted the importance of customer service in its mission statement on its website. It read: "Our mission is to make Target your preferred shopping destination in all channels by delivering outstanding value, continuous innovation and exceptional guest experiences by consistently fulfilling our Expect More. Pay Less. ® brand promise." The aspect of its mission that Target trusted to its employees was the provision of an "exceptional guest experience." The site also promised "friendly service from team members ready to assist with your list ... and a speedy checkout process -- and that's just the start." Customers expected nothing short of the best customer service that they could imagine.

EMPLOYEES AT TARGET

To encourage employees to provide excellent customer service, Target's motto was Fun, Fast and Friendly. White noted that the intangibles of the encounter between the team member and the customer, like smiling, were very important to Target in the day-to-day operations of the store. The challenge for Target was how to insure that this very human and unpredictable aspect of its business went as well as possible. Since no manager can hear and give feedback whenever a team member encounters a guest, recruiting and staffing was critical. According to White,

² Names have been changed.

Target strived to “hire friendly, not train friendly.” Applicants had to undergo a rigorous three-stage interview process order to determine whether the candidate possessed the personality and attitude that would make the customer feel welcome. “As the final decision-maker of whether to hire a cashier,” White said, “I ask myself whether this person is someone who I would want to check me out.” Once a cashier was hired, he or she attended 15 hours of training followed by on-the-job mentoring with a senior team member. In addition, Target was committed to continuous evaluation of and feedback to its employees, rather than the typical year-end review. This allowed management to identify both strengths and weaknesses and offer opportunities for team members to improve.

In designing its pay structure Target followed a “total rewards” approach, emphasizing work-life balance and a family atmosphere. For example, employees were permitted flexible schedules to meet their personal responsibilities. According to White, many of the cashiers at his store were part time employees, typically students, people needing a second job, and retirees. However, the starting pay for Target cashiers was relatively low when compared to its competitors, as shown in the following table:

Table 1: Average Hourly Salary for Cashiers in Houston, TX	
Cashier	Average Hourly Salary
Target	\$9.00/hour
HEB Supermarkets	\$10.00/hour
Hobby Lobby	\$10.00/hour
Home Depot	\$10.00/hour
Hourly Mean - Texas	\$9.26/hour
Hourly Mean - Houston Area	\$9.48/hour
Hourly Mean - General Merchandise Stores	\$9.92/hour

(Glassdoor, HEB, Hobby Lobby, Home Depot, 2015). In addition, according to interviews with Target employees the typical annual raise was around \$0.20/ hour per year, which amounted to a 2% raise (Glassdoor, 2015). This was a sore point for some employees who pointed to the 40% raise Target’s CEO received in 2014. In April 2015, when Target’s biggest competitor, Wal-Mart, announced that it was raising entry level salaries to \$10.00 per hour, Target said that it would not increase wages. According to Chief Financial Officer John Mulligan: "We're all the time assessing the marketplace to determine competitive wages and making adjustments and we feel very confident that we pay the teams appropriately" (Berman, 2015).

Target employees also complained that promotion opportunities were limited and that the company would prefer to hire managers from the outside. Target team leaders such as White and Team Store Manager, Jack Arnold, disagreed with this position, citing many team members who started as cashiers or stockers and had been promoted to team leaders or even higher positions. Target managers also explained that while starting pay may be lower than average, Target compensated employees in other ways such as flexibility, benefits, and a friendly atmosphere. For example, most employees were given at least one weekend day off, except during the busy Christmas season. Monthly meetings were held where refreshments were served, birthdays were celebrated, and team members were recognized for outstanding performance. White also noted that all employees were given opportunities to succeed and that pay for positions other than entry level jobs was more competitive (see Appendix 1). In addition, each store manager had a fixed

budget of about three percent of total payroll to award discretionary rewards to recognize exceptional employees' contributions. Thus, while base pay was fixed by Target headquarters, each store manager could provide additional compensation as incentive pay.

Target also offered many benefits to its part-time employees, which was not typical in the retail industry (Birken, 2013). Target's part-time employee benefits included a 10-20% employee discount, medical/dental/vision/prescription drug benefits at a cost lower than the premiums paid for health insurance provided under the Affordable Care Act including free preventive care, 20% off employee's phone bill, gym membership discount, discounts at various retailers, and a life resources hotline. Employees working more than 32 hours were eligible to receive full-time employee benefits which included even more perks such as a five percent employer match in the 401(k) plan. In contrast, Wal-Mart provided benefits to only 48% of its work-force, and employees had to wait two years before becoming eligible for medical benefits, which covered only 65% of costs. In addition, the 10% employee discount offered to Wal-Mart employees did not cover food items or items on sale. Appendix 2 provides a list of employee benefits offered by Target. Despite the comprehensive benefits available to employees, White noted that many part-time employees did not elect to purchase or be covered by Target's plans. They either had health insurance from another source (students were most likely covered under their parents' insurance, employees with second jobs were covered under their other employers' plans, and retired workers were covered by Medicare) or simply were not interested in the benefits offered.

TARGET REDCARD

Target's subsidiary, Financial and Retail Services, issued Target's debit cards known as the Target REDcard. The debit card allowed customers to save five percent on each purchase including pharmacy purchases. In 2015 Target was the only retailer to offer a discount automatically on nearly every item at the time of purchase, online or in a Target store. Target management knew that customers who had a REDcard shopped at Target more often and generally bought more while they were there than other customers. Thus, management was very interested in increasing the number of customers holding the card and offered many rewards and benefits to REDcard holders including: free shipping, an additional discount on prescription drugs, and the ability of customers to designate a portion of their purchase to the elementary, middle or high school of their choice.

Target management also knew that the point of contact between the customer and the Target team member was generally the cashier. Thus, they encouraged cashiers to ask their customers whether they would like to apply for the REDcard. The cash registers were programmed to capture the number of customers who applied for the REDcard and the total number of customers. At the end of the month, cashiers who signed up the most customers were eligible to receive prizes and were recognized at employee meetings. Further, there were no negative consequences for cashiers not meeting their REDcard goals.

EMPLOYEE TURNOVER

According to a 2012 report from the Center for American Progress (CAP), the average voluntary turnover rate in the retail industry was 25%, costing employers on average of 16% of pay to replace each employee who quit (Broughey & Glynn, 2012). For part-time employees the turnover rate was more than double that percentage, at 67% (Bjerke, 2012). The CAP report

further noted that employees who quit said that poor pay, lack of benefits, and their companies' failure to address work and family conflicts were the primary reasons for leaving their jobs.

Average employee turnover at Target stores was similar to that of the national average, although turnover at this Target store was lower than average, according to Jack Arnold, Store Team Leader. However, based on exit interviews with cashiers who had tendered their resignations, White knew that many of the cashiers felt uncomfortable asking customers to apply for the card or were simply too busy to take the time to explain the benefits of the REDcard. They felt that Target was asking too much by insisting fast and friendly service and at the same time, requiring them to explain the benefits of the REDcard to each customer, and this was one of the reasons for leaving the company. However, White also knew that his year-end bonus would be in part dependent on how many new REDcard customers were signed up at his store and wanted to insure that the new goals were met.

Part of White's job was to improve the retention rate of his employees, especially part-time employees. He knew that he did not have much control over base pay or benefits as those were controlled by corporate headquarters. What other rewards could he establish that would be favorably viewed by part-timers and would make Target a fun place to work?

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APPENDIX 1

Position	Compensation	Average*
Cashier	\$9.00/hour	\$9.93./hour
Sales Floor Team Member	\$9.00/hour	\$12.38/hour
Backroom Team Member	\$10.00/hour	\$11.59/hour
Team Leader	\$16.00/hour	\$17.26/hour
Business Analyst	\$57,978	\$55,000
Executive Team Leader	\$58,590	\$42,190
Store Team Leader	\$100,000	\$98,530
Store Manager	\$106,042	\$101,650

*(Bureau of Labor Statistics, 2015).

APPENDIX 2**HEALTH RELATED BENEFITS**

TYPE OF BENEFIT	PROGRAM DESCRIPTION
Medical	<ol style="list-style-type: none"> 1. Coverage to Team members and families 2. Full time and part-time employees were eligible to enroll in different plans
Dental	<ol style="list-style-type: none"> 1. 100% coverage for preventive care services 2. Team members selected plans that cover Dental Work
Vision	<ol style="list-style-type: none"> 1. Vision examination plan (part of Target Medical Plan) 2. Vision Eyewear Plan
Prescription Drugs	<ol style="list-style-type: none"> 1. 10% discount for team members when using Target Pharmacy 2. 4\$ Co-pay on generics
Preventative Care	<ol style="list-style-type: none"> 1. Know your Biometric Health Numbers 2. Understand Health Status 3. Dedicated webpage 4. Health Screenings 5. Rewards for Healthy Actions!!
Well Being Educational Resources	Events, Workshops, Webinars towards well-being goals
Nurse Lines	Get your Health Questions Answered (24*7)
Employee Assistance Program (EAP)	<ol style="list-style-type: none"> 1. Team Member Life Resources 2. Well Being Captains

TYPE OF BENEFIT	PROGRAM DESCRIPTION
Disability	Option to enroll for long-term disability coverage
Tobacco Cessation Program	Medical plan included a free program to help team members and dependents quit smoking
Maternity Support	Resources and support 24/7; additional discounts and gift card for enrolling in program

FINANCIAL BENEFITS

TYPE OF BENEFIT	PROGRAM DESCRIPTION
401(k)	Plan Your Future
Life Insurance	Company Paid Life Insurance
Vacations, National Holidays and Personal Days	6 National Holidays, Personal Holidays
Employee Discount	10% off on almost all items sold in the store
Educational Assistance Program	Reimbursement for job-related courses at accredited technical schools, colleges or universities.
Adoption Assistance Reimbursement	\$5,000 for eligible adoption fees
Child care discount	Access to discounted rates on primary childcare at select childcare centers nationwide.
Home Loans	Customized financing to meet specific needs
Commuter Benefits	Team members paid for commuting costs – such as the bus, rail, trolley, ferry, vanpool or parking – with before-tax payroll deductions
Additional Perks and Discounts	<ol style="list-style-type: none"> 1. Fitness Centers 2. Mobile Phone Plans 3. Brand Name Computers 4. Clothing 5. Flower Purchase and delivery 6. Tickets for movies