Security & Simplicity: Partnering with CSC to Enhance the Target Experience
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November 13, 2014
1275 E 10th St
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Brian Cornell, Target Chief Executive Officer
John Mulligan, Target Chief Financial Officer
Bob DeRodes, Target Chief Information Security Officer
1000 Nicollet Mall
Minneapolis, Minnesota 55402

Dear Mr. Cornell, Mr. Mulligan, and Mr. DeRodes,

SUBJ: EXECUTING SEAMLESS MOBILE STRATEGY VIA PARTNERSHIP WITH COMPUTER SCIENCES CORPORATION

Atlas Consulting appreciates the opportunity to collaborate with Target Corporation in positioning the company as the leading omnichannel retailer. Entering into a strategic partnership with Computer Sciences Corporation (CSC) provides Target ample opportunity to enhance its current mobile omnichannel platform resulting in the premiere seamless shopping experience for guests. The following report details the current status of the omnichannel retail industry, Target’s position within the industry, why partnering with CSC will catapult its position, and a comprehensive implementation plan to successfully execute the strategy.

Guests within the current omnichannel landscape continue to demand integrated shopping and payment platforms between mobile, online, and in-store settings. Through connecting the REDCard to the central Target app, integrating guest-focused mobile payment platforms like Apple Pay and Google Wallet, combining Cartwheel and other Target apps into one mobile app, and internally consulting Target’s innovation centers, CSC offers Target the most feasible and opportune strategy in advancing its omnichannel vision.

Atlas Consulting would like to thank Professor Darryl Neher for his support and leadership throughout the developmental process of our consulting firm.

Please reach out to us if you have any questions or concerns regarding our proposal. You may contact us via phone at (219) 776-4258 or via email at atlasconsulting@gmail.com. We are eager to provide any resources or assistance helpful to you during this implementation process and look forward to working with you in successfully executing a strategic partnership with CSC!

Sincerely,

Atlas Consulting
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Objectives of the Report

1. Examine and identify key trends in the omnichannel retail market and Target’s status within the market
2. Develop a practical strategy for Target to position itself as the leading omnichannel retailer through enhancing its mobile platform
3. Offer detailed implementation necessary to most effectively execute our strategy

Characterizing the Current Omnichannel Retail Industry

With online and mobile retail sales projected at $1.25 trillion, the need to satisfy demands of omnichannel consumers continues to rapidly increase. One-third of leading retailers recognize that improving a shopping experience across all channels will consume most of senior-level management time this upcoming year. Compared to leading omnichannel competitors Macy’s, Nordstrom, and Walmart, Target ranks last. This current position in the omnichannel industry proves opportunity existing for Target to execute more omnichannel innovation, and Atlas Consulting identified the mobile experience as the most opportunistic omnichannel component for Target to address.

Propelling Target to the Forefront of Omnichannel Leaders

Atlas Consulting believes that a strategic partnership with Computer Sciences Corporation will allow Target to offer a more secure and seamless shopping experience to guests. The security and mobile development services offered by CSC align perfectly with Target’s goals of improving its security perception and providing the best omnichannel experience for guests. We recommend Target hire CSC to connect REDCard with the Target app, integrate ApplePay into the mobile shopping experience, connect all Target apps into a single app, and improve the functionality of Innovation Centers.

By utilizing the services offered by CSC, Target will gain the first-mover advantage among retailers in both offering a single, multi-faceted application and in fully integrating ApplePay into all payment platforms. The increased security credibility coupled with a more seamless mobile platform provide guests the opportunity for a holistic omnichannel experience, and Target will propel itself to a recognized omnichannel innovator as a result.

Stages of Successful Implementation

1. Combine Target App and Cartwheel App into one
2. Allow guests to sign up and use REDCard within the Target App
3. Connect REDCard with Apple Pay and Google Wallet to enable Near Field Communication (NFC)
4. Pilot NFC Point of Sale terminals in CityTarget locations after exclusivity with CurrentC expires
5. Add NFC terminals strategically to more locations as Target upgrades to support Chip and Pin technology and as Apple Pay and Google Wallet penetrate the consumer market
6. Communicate these enhancements with guests, emphasizing an image of *Simplicity & Security*
7. Utilize big data analytics to analyze guest purchase patterns and make recommendations as well as offering automatic reordering or reminders in the future
8. Link CSC’s team with Target’s Innovation Center to make back end improvements to the application as well as apply best practices to current processes
9. Connect CSC’s leadership with Target’s Digital Advisory Board to stay abreast of and capitalize on future market
Target Today, Target Tomorrow

Target Corp.’s founding vision of providing a uniform shopping experience offering high-quality products for the most reasonable prices remains the company’s central goal today. The company’s ability to adapt the successful execution of its omnichannel vision in response to the ever-changing social and technological landscape has positioned Target as the second largest discount and mass-merchandise retailer in the U.S. The Target REDCard program, Target App, Cartwheel App, and an unmatched in-store shopping experience are strategies Target currently executes to enhance the omnichannel experience for guests. The lack of cohesion and unity among the array of shopping platforms offers Target an opportunity to create a more seamless shopping experience.

Omnichannel Performance

Target is the second largest discount retailer in the U.S. with increasing revenue year over year. In 2013 Target was able to boast more than 20% growth in its e-commerce sales, while large competitor Wal-Mart had an increase of 30% in its e-commerce sale (Internet Retailer). Target’s Cartwheel app has millions of users, but it’s shopping application has suffered from bad reviews and less usage.

2013 E-Commerce Sales Growth

Figure 1: 2013 E-Commerce Sales Growth
Adapting to an Evolving Industry

The Influence of the 2013 Data Breach on Target’s Omnichannel Vision

In 2013, the company faced a major roadblock in continuing the success and growth of their omnichannel platform; the data breach that compromised personal information of over 70 million Target guests and REDCard users added 148 million in costs for Target (and still counting) in addition to a broken trust among Target guests. In an effort to combat both the measurable and indirect costs resulting from the data breach, Target recently hired new CEO, Brian Cornell, and appointed a digital advisory council to help repair the company’s negative technological perception while fostering continued growth in the omnichannel retail race. Additional attempts to fix the breach included meeting with the U.S. Justice Department and third-party forensics teams and a 10 percent discount on in store purchases. Regardless of current efforts, Target still seeks to continually repair damage and mitigate risk in regards to its technological perception.

The data breach created a sense of insecurity among Target’s guests and increased difficulty for Target to maintain its loyal consumer base. According to the Target 2013 Annual Report, under item 7, Targets REDCard sales slowed after the data breach. Target credits the slowed sales growth to the illuminating loss of trust between Target and their guests. Additional consequences of the breach include: a drop in earnings by 46% and over 10 lawsuits against Target (McGrath).
Credit Card security continues to be a reoccurring issue, and Target needs to adopt new strategies in enhancing its security platform while simultaneously regaining a positive security perception among skeptical guests. The retail industry anticipates the phasing out of magnetic credit card strips between 2017 to 2020. Looking at the global trend, the majority of European omnichannel retailers transitioned to the chip-and-PIN system for a few years. In response, Target recently switched to the chip-and-PIN system with an embedded microchip to decrease the chances of security hacks. Brian Krebs, a security journalist, credited the data breach Target’s magnetic strips data storage system. While the switch proves to be a smart strategy in improving its security platform, most companies are also making the same strategic transition. Evident opportunity exists for Target to enhance its data security and to prove its investment in premiere security to its guests.

Outperforming Competitors in the Retail Industry

With the number of mobile retail purchases increasing by 6.5% annually, the importance of integrating mobile platforms into guest shopping experiences continues to rise in significance among leading retailers (Bernstein). One-third of retailers cite customer experience across all shopping channels as the initiative that will consume the most time of senior-level management (“Retail Executives”). Competitors are on the move: Walmart continues to maintain its status as the world’s largest omnichannel retailer through its unparalleled execution of WalmartLabs. Nordstrom continues to increase its online business growth each quarter by 20% and has integrated 6,000 mobile points of sale devices in their stores. The Macy’s app allows customers to scan items from catalogs and find those items in the physical store. Omnichannel competitors continue to invest more in omnichannel strategy; enhancing its omnichannel platform needs to be Target’s next strategic step to keep up with competitors and establish its own distinct omnichannel innovation.

Creating an Entrepreneurial Environment

Walmart labs dominate other technology innovation efforts among retail competitors through the entrepreneurial environment they create. Walmart’s engineers and visionaries create an innovative atmosphere and foster vertical and horizontal integration. Target Innovation Centers consist only of 20 team members with no public front.

Walmart offers a website where guests can learn more about what steps the company takes in staying ahead in the retail technology space. Comparatively, the most recent article dealing with updates on Target’s Innovation Center is from 2013, leaving guests wondering how Target plans to catch up to the competition. WalmartLabs assume responsibility for revamping Walmart’s app as well as the Sam’s Club website. Having a strong entrepreneurial spirit in a large company draws in creative minds to work at a large company- minds Target may otherwise be missing.
Opportunity for a More Seamless Experience

The negative reviews of its app among current omnichannel guests bring to light the opportunity for Target to create a more seamless omnichannel experience.

The company frequently receives criticism for its lack of innovation and mobile experience (“Target Data”). The dissatisfaction of Target’s incoherent mobile apps greatly contrasts the gratified embrace of the Cartwheel app among guests. A disconnect exists between maneuvering from application to application, from store to mobile. In order to utilize Cartwheel, Target customers must exit the existing Target application to get the rewards when shopping. Target customers can use few Cartwheel offers online (cartwheel: help center). Beyond the lack of current app integration, Target plans to launch two new, separate applications within the next month. Both have valuable omnichannel features but lack integration with one another and with current functioning Target apps. According to market research, 60% of guests do not want to download multiple applications for the same retailer. Continuing to adopt the best strategies in enhancing the mobile omnichannel experience for guests needs to remain the key focus of Target’s omnichannel vision.

Figure 3: Omnichannel Guests Prefer Single Application
Executing the Security & Simplicity strategy with CSC

In order to simultaneously achieve Target’s goal of emerging as the leader of the retail industry in the omnichannel era and combat Target’s security perception, Atlas Consulting recommends Target implement a multi-pronged strategy and execute key initiatives within the mobile space, stores, and guest communications:

Within the Mobile Space, Atlas Consulting recommends that Target:

- Combine the Target and Cartwheel application into one app to simplify the mobile experience for guests
- Add functionality to sign up for REDcard in the Target app to increase REDcard mobile penetration and drive mobile revenues
- Connect with Apple and Google to add REDcard support within Apple Pay and Google Wallet to align Target with cutting edge mobile payments technology

The successful execution of these initiatives will result in a first-in-class, seamless, and all-encompassing mobile experience – allowing Target guests to browse, purchase, and receive rewards from the convenience of their smartphone.

In stores, Atlas Consulting recommends that Target:

- Pilot Near Field Communication (NFC) POS Terminals in CityTarget locations after the exclusivity contract with CurrentC expires to test usability and develop best practices for the future of the in-store checkout process
- Roll out NFC terminals strategically nationwide in areas of high consumer adoption as Apple Pay and Google Wallet

The successful execution of these initiatives results in a simpler in-store shopping experience embracing the evolution of the constantly connected consumer and serve to establish more touch points between Target and its guests. Furthermore, enhancements will fortify Target’s security moving into the digital age thanks to the next generation security features afforded by NFC technology.
Target Can Execute These Initiatives Via a Strategic Partnership with Computer Sciences Corporation:

Atlas Consulting believes that Computer Sciences Corporation is the perfect partner for Target to implement this multifaceted strategy. CSC has the technical and industry expertise to guide Target through these changes and will serve Target as:

- A passionate technological leader with unparalleled expertise within the retail industry and over fifty years of success
- A partner with the willingness and capability to go beyond developing the technology necessary to complete the project but also collaborating with Target to plan the top to bottom execution of the strategy
- The ability to utilize best practices from previous engagements
- A global network of alliances with over 100 best-of-breed partners to tap into a well of expertise in order to solve complex problems

After implementing these initiatives, we recommend that Target continue the partnership with CSC in order to:

- Leverage big data analytics following guest purchase patterns with possible recommendations and reordering features in the future
- Work with Target’s innovation center to make back end improvements to the application’s usability and speed
- Connect CSC’s leadership with Target’s Digital Advisory board to stay abreast of current market trend
Communicating Strategic Plan to Guests

Target spent $1.62 billion in ads in 2012, leaving them with a huge marketing budget to work with (Austin). To increase RedCard sign-ups and spending through Target’s improved mobile application and partnership with ApplePay, a marketing plan must be implemented.

Atlas Consulting recommends that Target use a marketing strategy specifically targeted towards shoppers already online/on mobile in order to efficiently capture the segment of guests most comfortable with mobile shopping. This is because weekly online shoppers are five times more likely than any other group to be comfortable with mobile advertisements and shopping (Mintel). In addition, it is easier for retailers to increase the spending of their existing customer base rather than trying to draw in customers who have never shopped online before (Mintel).

The main cost incurred from such a simple strategy is the cost of producing a tutorial video accompanying both the press release and email. Successful app and tech ads typically show the user exactly what they need to know to use the new technology, and Target must execute a strategy to excite them and inform them of recent innovations. A conservative cost projection for the marketing video equals roughly $354,000 (“New to”).

Figure 4: Example Marketing Video

• Issue a press release describing and depicting how Target REDcard users will be able to make easy purchases through the Target App as well as reiterating the benefits of REDcard
• Send out an email directed to Target.com shoppers inviting them to join Target on mobile emphasizing the ease-of-use and security of the application complemented with an incentive for them to sign up for the REDcard on mobile device with an additional discount
Improving Payment Security

**CurrentC to Apple Pay: Making the Shift**

The expiring exclusivity contract with CurrentC justifies the need for Target to integrate ApplePay into their omnichannel vision.

CurrentC secure QR code transactions operate across all smartphone and mobile devices, regardless of provider. Such ability eliminates the 2-3% bank fees previously paid by retailers to credit card companies. CurrentC retailers integrate loyalty points and coupons from multiple stores making up the Merchant Customer Exchange (MCX).

ApplePay appeals more to the omnichannel guest concerned with data security. While ApplePay uses a simple and easy “tap and go” system, CurrentC users must open an app and scan a QR code before they can make their payment final. CurrentC lacks the same level of security compared to ApplePay, and their systems recently experienced a major security hack. Due to the consortium of retailers constraint, every time a guest makes a purchase, their information can be shared with all companies using CurrentC. Use of CurrentC weakens the level of security of a mobile payment system and causes unwanted notifications. ApplePay better suits the need for Target to improve its security perception due to the brand power of Apple. Adding ApplePay would be a step in the right direction with regards to rebuilding brand and customer loyalty.

Leading up to CurrentC’s expiring exclusivity contract, Target must collaborate with Apple to have REDCard and ApplePay fully integrated into the new app. Once the contract expires, Target must roll out NFC terminals in CityTarget stores and offer all forms of mobile payment, whether it be ApplePay, CurrentC, or GoogleWallet. Target has the opportunity to gain a first mover advantage through fully utilizing ApplePay, REDCard, and chip and pin technology.
Guests Demand a Seamless Experience

The rapid expansion of multiple shopping channels continues to drastically influence the retail industry. Industry experts predict the surpassing of online retail sales over retail sales overall (Aseada). Mobile commerce, free shipping offers, online exclusive promos, and more extensive product offerings influence the growing trend of online and mobile influence on consumer shopping (“Target Corp”).

Due to the increase in omnichannel opportunity for guests, online and mobile retail sales are worth over $1.25 trillion globally (EBay Report). Industry experts project 60% of smartphone shoppers to make a retail purchase via an app during the next year. The connection between applications and mobile platforms for the omniconsumer continues to rise. Nearly half of retailer consumers are estimated to hold more interest in using an app to shop rather than an online browser (“Mobile Shopping”). Consumers also use smartphones and tablets more frequently. With 80% of shoppers searching via mobile before purchasing items in store, the seamless experience across all technology platforms proves necessary for Target (Steverman). Of even greater importance is the amount of money online shoppers are willing to spend: Multi-channel users spend 82% more than regular retail shoppers (Ekman). Target must not overlook the growing value in an omnichannel experience among guests.

Figure 5: The Omnichannel Purchase Journey

Source: The Omnichannel Opportunity, Unlocking the Power of the Connected Consumer
Established Online Success vs Mobile Opportunity

The successful integration of Target’s online platform into its omnichannel vision justify why future online sales growth is probable. In 2012, Target saw nearly $2 billion in online sales and realized a 20% year-over-year growth in its online sales revenue during the fourth quarter 2013. The sales generated from the Target website can best be attributed to the company’s ability to offer a seamless experience for guests between shopping online and in-store. Target recently launched a program for guests to order items online and pick up in-store, clearly showcasing the ability to fulfill components of its omnichannel objectives. Kathy Tesija, Target Executive Vice President of Merchandising, reported: “30% of store visits to pick up an online order resulted in store shopping on that same trip” The constant innovation of the online and in-store relationship for guests proves crucial to sales success and should remain uninterrupted.

Creating a seamless experience between online and in-store platforms increases measurable success for Target, and seamlessly integrating its mobile platform into its omnichannel structure needs to be Target’s next strategic move.

Figure 7: Projected Mobile Year Over Year Revenue Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected Increase in Mobile Revenue (YOT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$274,357,133</td>
</tr>
<tr>
<td>2014</td>
<td>$382,767,360</td>
</tr>
<tr>
<td>2015</td>
<td>$975,690,240</td>
</tr>
<tr>
<td>2016</td>
<td>$1,068,613,120</td>
</tr>
<tr>
<td>2017</td>
<td>$1,161,536,000</td>
</tr>
</tbody>
</table>

Growth:
- 17% 19% 21% 23% 25%
The success of Target’s most effective mobile platforms paired with the disappointing performance of others prove the importance of omnichannel improvements for Target. Ajay Agarwal, a member of Target’s Digital Council Advisory Board stated, “The hottest trend is the phone as the remote control for your life.” The Cartwheel app provides massive developments to Target’s mobile experience with 7.7 million users and generating more than $84 million in savings for shoppers. Additionally, 2/3 of Target’s online traffic comes from its mobile traffic (“Target Corp”). Such successful performance in light of Cartwheel’s recency verifies the importance of fostering more growth and more innovation within mobile platforms. To fully capture the growth opportunities in the world of e-commerce, Target must focus efforts on augmenting the functionality of its mobile platform and improving the cohesion of payment platforms, mobile applications, and the in-store shopping experience for guests.

**First Follower to First Mover: Gaining an Edge**

Opportunity exists for Target to become the first mover in providing a premiere mobile payment platform among retailers. Successfully becoming a first-mover proves advantageous for two major reasons:

1. **Be the first retailer to satisfy growing guest demands**: The upcoming generations look for convenience and expect the highest quality and usability in the apps they use. “Recent developments signal that widespread adoption of mobile payments may come sooner than we think”, states Todd Albowitz of Internet Retailer. Target can be the first to satisfy the guest demand for a single fully functioning retail app and uniform payment platforms.

2. **Utilize platform analytics as predictive software to strengthen guest connection and lead to increased sales**: Mobile payments use big data analytics that make recommendations based on the purchasing patterns of the users. Kurt Marko of Forbes Magazine states, “Predictive software can often yield double-digit sales increases, more than offsetting the cost”.

Target needs to act and become the first mover in the mobile payment industry. Retreating from their “fast follower” strategy proves to guests their commitment to innovation and establishment of itself as a leading omnichannel retailer.
Strategic Partnership vs Acquisition

Target’s repositioning to the top of the omnichannel retail industry can best result from a strategic partnership rather than an online or mobile acquisition. Acquiring an ecommerce website or regular company does not solve issues Target is trying to overcome in pursuit of its omnichannel vision. These issues include:

1. Consequences of the 2013 data breach
2. Lack of an entirely seamless omnichannel experience
3. Current omnichannel positioning amongst competitors

An acquisition yields unnecessary financial risk and excess complexity in trying to fix the internal causes hindering Target from the successful execution of its omnichannel vision. While an acquisition is beneficial in improving product offerings, it does not solve underlying issues within Target’s strategy. A strategic partnership with a proven industry leader provides Target the creative power to dictate the outcome of such a partnership as opposed to an acquisition. Omnichannel improvements can be accomplished without Target having to marry itself to another company. Restructuring Target’s digital base through a strategic partnership with CSC will propel Target to its deserving position as a leading omnichannel retailer through enhancing Target’s mobile platform and connecting this enhancement to the omnichannel experience for guests.

Establishing a strategic partnership with CSC will result in a fully integrated mobile application on time and budget and reposition Target’s Innovation Centers for future success.

Figure 9: Acquisition Risk

83% fail to create a sustainable competitive advantage
Source: Wharton

66% fail to add shareholder value
Source: Harvard

60% destroy company value
Source: Deloitte

Source: Wordpress Pacquisition 2013
Unmatched Industry Experience

CSC offers excellent exposure to retail solutions and mobile development leaders, and the company’s services are proven to succeed in elevating results for clients specifically in the retail industry.

CSC Successful Retail Clients:

CSC clients in the retail industry include:

1. Aramark
2. British Home Stores
3. Burlington Coat Factory
4. Callaway Golf
5. Campbell Soup Company
6. Coca-Cola Enterprises
7. Diageo
8. Procter & Gamble

CSC recently worked with an undisclosed retailer categorized as one of the “leading retailers in the U.S.”, optimizing the retailer’s application performance by 10% (“Application Support”). CSC improved the application’s system response time load from 14% to 3%, resulting in a boosted experience for the mobile consumer. CSC is proven to implement technology solutions resulting in enriched customer experiences, reduced IT costs, and more reliable applications and technology systems for its retail clients.

CSC’s work with Conforama, a furniture and household goods retailer in France, proves their credibility in the retail industry. Conforama selected CSC as their strategic partner in order to make the transformation towards a more enhanced customer experience. CSC improved consumer access to services by streamlining the process on Conforama’s website and optimizing the physical layout of warehouses and check-out locations in stores. The partnership with Conforama resulted in successful execution of the strategy within eighteen months of the initial conceptualization.
Instantly Improving Security Platform

Target needs more than just a new CISO to combat the effects of the 2013 data breach, and CSC’s widespread scope of successful technological security services offers integral support to current Target CISO Brad Maiorino. CSC’s recurrent services and communication with Target ensure the most aggressive of data security threats continue to be managed consistently. CSC was recently recognized in the IDC MarketScape 2014 Report on managed security services as the “leading provider” in security strategies and global security management services. CSC offers unmatched security platform credibility among app development companies. In addition to their general retail security services, CSC recently conducted extensive analysis of the 2013 data breach through developing a three-step plan to improve Target’s payment system security:

1. Planning in advance to complete incident response activities, working with CSC’s StrikeForce teams to analyze the existing payment card process, and focusing on planning a complete response prior to any future attacks, including digital forensics, threat identification, communications, legal and regulatory compliance, real time changes, and long term changes. CSC’s global disaster recovery and response services hold a 99.6% success rate.

2. Fixing the existing payment card infrastructure with End-to-End encryption and Tokenization enhancements. Tokenization offers Target use of fully encrypted card data functional within all analytics systems, resulting in lower PCI auditing costs. CSC enhancements are compatible with near field communication technology allowing mobile payment systems like ApplePay to work with the increased security.

3. Deploying threat detection systems to continuously monitor for future breaches as a defense mechanism to protect guests and brand equity.

See a detailed analysis of CSC security benefits in Appendix D.
Regaining Trust among Guests

The longevity of a dependable security platform proves advantageous for Target in managing risks and gaining credible among skeptical guests. Guests want to understand Target continues to strategize in enhancing its security platform and minimizing its security threats. Once partnered with CSC, Target will gain continuous exposure to CSC’s trustworthy security services. Target’s technology management and security efforts need to gain credibility through utilizing the trustworthy brand of CSC and making that utilization known to guests. Target must communicate the measures they have taken to ensure shopping safety to guests, rebuild brand equity, and market its mobile payment offerings moving forwards.

Proficiency in Enhancing Application Usability

CSC offers experienced services in improving application usability. Mobile usability testing or mobile ergonomics involves measuring how well test subjects experience application usage in terms of efficiency, accuracy, recall, and emotional response in order to discover errors and areas for improvement. CSC applies usability testing best practices to all mobile projects to ensure application acceptance based on the stated objective. Mobile usability sessions are carried out regularly, and delivered reports are posted regularly. CSC offers six-day mobile usability training sessions which help to substantially enhance product quality and increase user adoption.

CSC’s Usability Testing offers many benefits to both users and application development companies. Benefits to users include increased pace of learning, decreased user task time, errors and increased job satisfaction. CSC clients benefit by having to supply less technical support and training to users. Benefits of web usability include increased sales, increased traffic and improved user productivity and features usage.

CSC’s mobile ergonomics provide Target the certainty that their delivered mobile applications will have a high ROI based on performance, accuracy, recall, stickiness, and emotional response.
Opportunity for a Continued Relationship

The leadership of Target and CSC share the same foresight and understanding of the significance in omnichannel platforms. CSC’s retail solutions mission states: “Our services help our clients to create the new retail value paradigm, where the physical store is just one of the channels through which goods, services and experiences are sold.” CSC’s shared vision of an omnichannel retail enterprise will foster collaboration and ease of implementation throughout the partnership. After working with CSC, Conforama praised CSC’s understanding of developing a technological platform to fit an omnichannel strategy, “CSC was able to understand our customer relations issues and assimilate our corporate culture in order to provide us with support.”

The expertise among CSC’s top-level management provides Target the opportunity to add Dan Hushon, Chief Technology Officer for CSC, as a contributing asset to their new Digital Advisory Council. Target’s Digital Advisory Council seeks to propel faster innovation and execution of the company’s omnichannel strategies. Current companies represented on the Council are: Bain Capital Ventures, Accompani, Orbitz, and Match Group. While current members of the council provide valuable insights necessary for Target’s omnichannel growth, the opportunity to obtain a representative from a solely tech and app development perspective remains present for the Council.

Figure 12: Dan Hushon, Chief Technology Officer for CSC

20 years of experience in driving technology strategies and innovations for EMC Corporation, Sun Microsystems, and CSC

Provides exposure to CSC’s professional network and the 18 experienced executive members in developing technological visions

Widely regarded publicly, privately, and internationally for his expertise within multiple industries
Financial Projections

Primary Revenue Driver: Revenue growth from mobile REDcard signups

Atlas Consulting views the primary revenue driver of this project to be the incremental revenue growth as a result of new REDcard signups. The industry average mobile purchase is $139, thus applying a growth factor of 45% (due to an expected 50% increase in guest purchase size with REDcard less the 5% incremental discount) we can arrive at a $62.55 increase per mobile purchase. After adjusting downwards by 50% to account for Target’s revenue share with TD Bank with respect to the REDcard, Atlas Consulting projects total per-purchase revenue growth of $31.28 for Target.

Figure 13: Financial Analysis of Partnership

<table>
<thead>
<tr>
<th>Revenue Analysis (per-purchase)</th>
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<tbody>
<tr>
<td>Avg mobile purchase</td>
</tr>
<tr>
<td>% increase with REDcard (less 5% discount)</td>
</tr>
<tr>
<td>Avg mobile purchase with REDcard</td>
</tr>
<tr>
<td>$ increase with REDcard</td>
</tr>
<tr>
<td>Total revenue growth (less 50% revenue share with TD Bank)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mobile Guest Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target App Downloads</td>
</tr>
<tr>
<td>Mobile Purchase Penetration (%)</td>
</tr>
<tr>
<td>Target Mobile Shoppers</td>
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</tbody>
</table>

To calculate the number of new REDcard signups, Atlas Consulting estimates 7.5 million total downloads of the Target app and calculates that 34% of guests who have made the download are current mobile shoppers (due to the industry average mobile purchase penetration of 34% in 2012) to arrive at 2.55 million guests. Atlas Consulting estimates that 15% of these guests over the lifetime of the implementation of this strategy will sign up for the REDcard on mobile (based on Target’s 19.3% in-store REDcard penetration). Finally, by multiplying the 382,500 mobile REDcard signups by the per-purchase revenue growth and conservatively assuming an average of six purchases a year, Atlas Consulting believes that this strategy can generate $71.8 million in annual revenues for Target.
Cost Analysis

The primary costs of the strategy will be traced to contractual expenses for the partnership with CSC, capital expenditures for installing NFC terminals in stores, and an increase in SG&A in order to advertise the application enhancements to guests. We estimate the contract (over the lifetime of the strategy) with CSC to be $75 million based on the firm’s divestiture of an entire division on one of their departments. We believe NFC terminal costs will be $10.8 million (arrived at by multiplying the per-terminal cost of $400, an estimated 15 terminals per store, and 1,793 US Target locations). Lastly, Atlas Consulting believes Target can efficiently market the strategy to guests with an allocated budget of $5 million due to the e-advertising strategy.

NPV Analysis

Atlas Consulting calculates a net present value of $186 million to be captured by Target as a result of this strategy. We arrived at this figure by holding revenues constant over a five year timeline, setting the initial expenses equal to the sum of the partnership investment and marketing expense, piloting NFC terminals in CityTarget stores during the first year of operations and strategically rolling the rest across America over the next four years, and using a weighted average cost of capital of 10.93%.
Additional Revenue Drivers

Target will experience a variety of additional revenue drivers as a result of the strategy, including:

- In-store sales growth due to quicker NFC processing
- Additional growth in mobile shopper size as a result of capturing Apple Pay and Google Wallet account holders
- Increase in annual mobile purchases volume by leveraging big data analytics on guest preferences to update them with recommendations

These figures were not included in the financial calculations due to the variable and “early-stage” nature of each one. That being said, Atlas Consulting would be very happy to work with Target to continuously adapt the financial model as more information becomes available.

Risk Mitigation Strategies

The primary risks of the strategy include the risk that CSC does not deliver on the implementation of the application enhancements and the risk that guests do not adopt NFC technology. Target can mitigate these primary risks by:

- Holding an open bidding strategy amongst a variety of app developers in order to reduce the expense of partnering with CSC
- Structuring the operating contract with CSC so that the main contractual award is paid after application improvements have been developed and tested
- Rolling out NFC terminals in areas where consumer adoption rates are high and adjusting the number of terminals installed each year as necessary

### NPV Analysis

<table>
<thead>
<tr>
<th></th>
<th>Y1</th>
<th>Y2</th>
<th>Y3</th>
<th>Y4</th>
<th>Y5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>71,776,125</td>
<td>71,776,125</td>
<td>71,776,125</td>
<td>71,776,125</td>
<td>71,776,125</td>
</tr>
<tr>
<td>Partnership Investment</td>
<td>(75,000,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Marketing Expense</td>
<td>(5,000,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NFC Terminals</td>
<td>(48,000)</td>
<td>(2,701,500)</td>
<td>(2,701,500)</td>
<td>(2,701,500)</td>
<td>(2,701,500)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-$8,271,875</strong></td>
<td><strong>$69,074,625</strong></td>
<td><strong>$69,074,625</strong></td>
<td><strong>$69,074,625</strong></td>
<td><strong>$69,074,625</strong></td>
</tr>
</tbody>
</table>

**WACC** 10.93%  
**Net Present Value** $186,017,377
Assessing Potential Outcomes

**Best:**
- Increase in revenue due to the new features of the mobile app and new universal mobile payment methods
- Gained guest loyalty over other retailers that only accept CurrentC mobile payments such as Wal-Mart, Best Buy, and Sears. (CurrentC shut down NFC payment functionality in their stores to prevent customer use of ApplePay, Google Wallet, and other similar services.)
- Reduced expenses from credit card companies due to successful assimilation between Target and CSC
- Reduced risk of lost profits due to an enhanced omnichannel experience
- Increase app rating to four stars driven by customer satisfaction in response to cohesion between Cartwheel, REDCard, and the app itself
- 10% increase in average mobile retail purchase amounts resulting from a fully integrated app and from educating guests on savings and payment opportunities (Siwicki)

**Base:**
- Successful integrated of REDCard and Target app within one month of partnership, providing flexible negotiation and collaboration timelines
- Increase loyalty and profits through successfully leveraging ApplePay for guests
- Improve app rating to three stars
- 5% increase in the average mobile purchase amount

**Worst:**
- Disagreement among Target and CSC representatives causing time delays and added expenses
- Inability to offer both ApplePay and CurrentC
- Decrease or stagnation of current app rating at one and a half stars
- 0% increase in average mobile purchase amounts due to unawareness of new seamless experience

*Figure 14: Best/ Base/ Worst Case Projections for Average Retail Purchase*
Appendices

Appendix A: SWOT Analysis Prior to Implementation

Strengths
- Strong Merchandising Presence in United States and Canada
- Continual increase in quarterly online sales
- Larger apparel merchandise selection than lead competitors
- Increased customer loyalty from REDCard
- Great appeal to various income classes
- Target’s Expect More. Pay Less offers one stop shop consumer satisfaction

Weaknesses
- Negative security perception for online shopping
- Competitors increasing mobile presence, Target risks falling behind
- Lack of online and in-store integration
- Multiple applications for mobile usage create overlap and codependency
- Competitors have stronger innovation systems

Opportunities
- Vastly expanding online retail market
- Capability to integrate in-store technology systems
- Alternative payment methods becoming readily available
- New pickup and shipment methods (same day delivery, online to in-store pickup)

Threats
- Loss of consumers to more established online retailers and online-only retailers such as Amazon
- Future data breaches from dysfunctional technologies
- Competitors surpassing Target in mobile and online technologies
- Loss of Target experience due to mobile purchasing
Appendix B: SWOT Analysis Post Implementation

**Strengths**

- Seamless online, mobile and in-store shopping experience
- Linked mobile payment and rewards card through Apple Pay and Google Wallet
- Increased RedCard subscriptions leading to increased spending and transaction quantity
- CSC’s security systems combined with easy payment for Target’s one-stop shop
- Easier in-store payment systems and increased average spending

**Weaknesses**

- Less in-store apparel and merchandise sales due to the increased number of online purchases
- Reduced amounts of short term available cash due to CSC’s advisement costs and services
- Lack of appeal to less tech-savvy consumers
- Increased IT maintenance costs

**Opportunities**

- Continually increasing online retail market
- Further social media expansion
- Integrate new Omni-channels to offer more convenient mobile services
- Increase available online product selection
- Further expand Apple Pay and NFC terminals to all of the Target stores in the country

**Threats**

- Competitors stealing revolutionary technology
- Increasing overlap in online product assortment
- Competitors taking a greater social media presence
- Future system security breaches from advanced hacking software
- Competitors increased delivery and customer service response time
Dear Target Guest:

We are excited to announce:

Guests have saved over $128 million using Target’s Cartwheel app. After reviewing guest feedback, we have launched a plan to offer a single Target app that includes the functions of the current Target app with Cartwheel and REDCard. We invite you to join us on your phones by:

1. Sign up and use REDCard on our application to purchase items.
2. Save your REDCard information on your devices
3. Shop in-store, online, or via mobile through ApplePay on your mobile device

Target would also like to offer you an additional 50% discount for your first purchase on your phone! Check out our video to learn more about how Target is making a seamless shopping experience for our guests!

Brian Cornell

CEO
Appendix D: Detailed Benefits of Utilizing CSC’s Security Services

Extending Visibility
• Integration of CSC management security services provides speedy identification of threats in real time, consultation from top-level forensic consultants, and prompt alerts of security threats to mobilize a timely defense.

Increasing Compliance
• CSC’s security platform offers the advantage of staying a step ahead of the increasing number of global regulating bodies which include: FFIEC, FISSMA, HITEPAA, and PCI DSS. Using CSC’s security services allows Target to focus on its most important business management objectives through combating the costly and timely burden of global regulation compliance. Extended compliance also increases overall security credibility.

Responding Rapidly
• Target’s best strategy in responding to security threats and breaches is to invest in the incident response and disaster recovery services offered by CSC. CSC’s global disaster recovery and response services hold a 99.6% success rate. Through the application of reverse engineering, malware analysis, status reporting, incident containment, and leading recovery planning software, CSC security services provide Target the most effective response and retrieval platforms to security threats.

Managing Vulnerabilities
• CSC provides constant and comprehensive process analysis while continuing to propose feasible security solutions to its clients. Through the CSC Elevate security program, Target will gain 18 different security services and features ranging from a Business Intelligent Security Dashboard to managed Firewall analytics, all falling under the responsibility of CSC. CSC’s recurrent services and communication with Target ensure the most aggressive of data security threats continue to be managed consistently.
Atlas Consulting asserts that a strategic partnership with Computer Sciences Corporation is the most feasible strategy to distinguish Target as the premiere omnichannel retailer. A partnership mitigates unnecessary risks associated with an acquisition while driving internal growth and external benefits to guests. The opportunity to fulfill and expand its omnichannel vision aligns perfectly with the services provided by CSC. Through a strategic partnership, Target will realize its vision through enhancing the mobile shopping experience for guests and fostering future omnichannel innovation. Atlas Consulting appreciates the opportunity to recommend this strategy and is eager to provide any assistance necessary in successfully implementing our recommended strategy. Please contact us either via phone at (219) 776-4258 or via email at atlasconsulting@gmail.com
Works Cited


Works Consulted


