Why Target Is Optimistic About the Holiday Season, but Other Retailers Shouldn't Be

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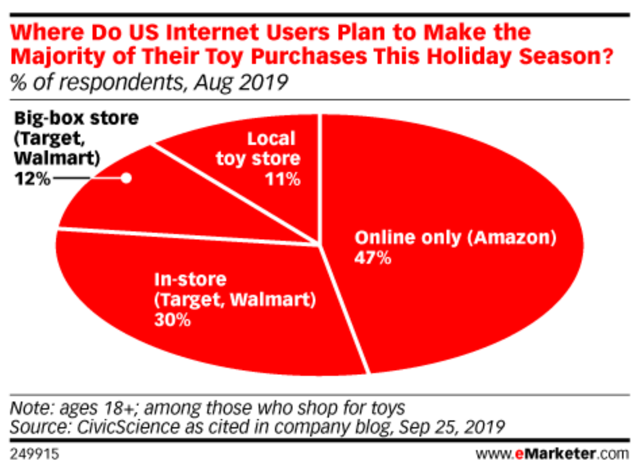
Last Wednesday, Target announced another stellar earnings report that crushed expectations on the top and bottom lines and raised Q4 guidance, causing the stock to pop 14% and CNBC's Jim Cramer to crow about what it signifies about the health of the US consumer. While there's a kernel of truth to this, Target's recent success and near-term optimism has more to do with what the retailer is doing right and less about tailwinds in the consumer economy, especially during the holiday season.

There's no doubt the fundamentals of the consumer economy are strong, at least for now. Unemployment is historically low, the stock market is historically high, inflation remains in check, and consumer sentiment, while a bit wobblier of late, remains elevated.

But retailers are about to run into the buzz saw of a brutal holiday calendar. With Thanksgiving falling on the latest possible date this year, last year's 32-day period between Thanksgiving and Christmas drops to 26 days this year. Despite the likelihood of heavier pre-Thanksgiving retailer promotions to pull spending forward, many consumers simply don't kick into gear until after Thanksgiving. And that will put a damper on holiday spending: Buying gifts will get top priority, while some self purchases will get squeezed. This can hit highly discretionary categories, like apparel, the hardest.

But Target is optimistic because of its uniquely strong position this holiday (perhaps only rivaled by Walmart, which has many of the same things going right), as its business continues to fire on all cylinders. Investments in store upgrades over the past few years are paying off. Same-store sales increased 4.5% in Q3, with in-store traffic rising 3.1%. Target has been, well, on target with its merchandising and providing the feel-good shopping environment that keeps customers coming back.

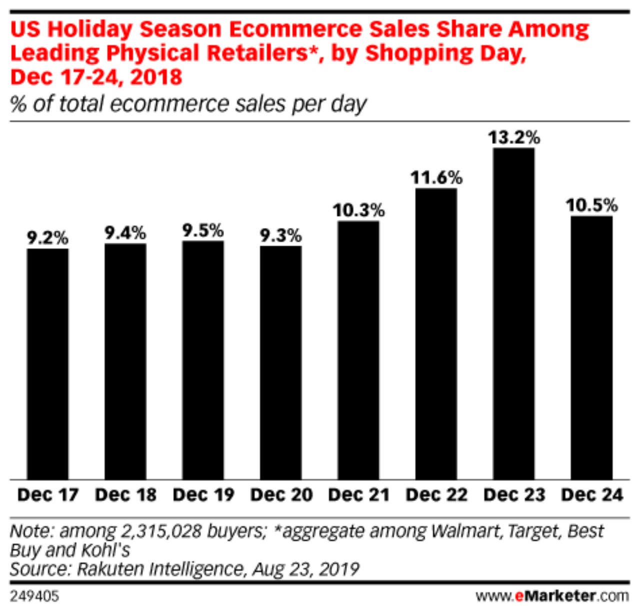
And the tailwinds get even stronger for the holidays as Target takes advantage of the jump ball for toy category spending following the Toys "R" Us bankruptcy. Without a dominant national toy retailer, much of those sales are now spread across Amazon, Walmart and Target. According to CivicScience, 47% of US internet users plan to make the majority of their holiday season toy purchases online vs. the those making them in-store (30%) and at big-box stores like Target and Walmart (17%).



Target will also benefit from its merchandising partnership with Disney and store-within-a-store concept that puts a spotlight on a prestige brand. The retailer pulled off a minicoup by partnering with Toys "R" Us (the post-bankruptcy incarnation now trying to reboot) by providing the back-end and fulfillment purchases made on the ToysRUs.com.

The other phase of Target’s business getting attention is ecommerce, which grew 31% in Q3 2019, with the majority of that growth coming from click-and-collect orders. Target’s curbside pickup has been especially popular, and the holidays should take it to the next level. With the shortened holiday calendar, convenience and efficiency is the name of the game, and Target is well-positioned to take advantage amid the crunch.

December 2018 data from Rakuten Intelligence highlights the importance of click-and-collect for big-box retailers. In the days leading up to Christmas, their collective market share surged from around 9% into the double digits and peaked at 13.2% on December 23, as shoppers relied on click-and-collect for last-minute purchases. The effect will only get exaggerated this year.



Target’s Q3 performance is a great storyline as we enter the peak of the holiday season, but other retailers shouldn’t be lulled into a sense of complacency. It might not be such a merry season after all.