The Economic Club of New York

115th Year
667th Meeting

Brian Cornell
Chief Executive Officer
Target

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In-Person/Hybrid Event

Moderator: Becky Quick
Co-Anchor, Squawk Box, CNBC

Introduction

President Barbara Van Allen

Okay, we're going to go ahead and get started. Good afternoon everyone. Welcome to the 667th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. And it's an honor to be here with all of you. And for those in the room, thank you for attending in person as the city starts its journey back. And, of course, welcome to everyone who is participating virtually.

We're very fortunate this year that we are now hitting our 115th anniversary of the Club. And I hope you will mark your calendars for the fall. We're going to have a nice anniversary gala dinner and there will be more details to come on that.

So, as many of you know, we're the nation's leading nonpartisan forum for discussions on economic, social and political issues. We've had more than 1,000 prominent guest speakers appear before the Club and certainly have established a strong tradition of excellence. A special welcome to members of the ECNY 2022 Class of Fellows – a select group of diverse, rising, next-gen business thought leaders. We now have 55 fellows. This is a program that is in its fifth year and started with 20 fellows back in 2018. We're really proud of how popular the program has proven to be. We also have students participating virtually from the CUNY Graduate Center and the NYU Stern

School of Business. So, welcome to them as well.

I'm honored today to welcome our special guest, Chair and Chief Executive Officer of Target, Brian Cornell. Brian heads the dynamic global team behind Target, which is, of course, a leading omnichannel growth company in American retail. Based in Minneapolis, Target has nearly 2,000 stores covering all 50 states, a headquarters location in India and global supply chain and sourcing offices and employees, more than 400,000 people. Target is actually doing a lot here in New York City, and I think you're going to hear more about that.

Brian joined Target in 2014 and quickly established a strategic direction that was built on the company's strengths as a multi-category mass merchandiser with an excellent reputation for its shopping experience, design expertise, brand curation and development. Brian and his team have made significant investments in digital, data, supply chain capabilities, placing the company's fleet of popular stores at the center of both physical shopping and digital fulfillment. In addition, the 2017 acquisition of Shipt catapulted Target into a leadership position in same-day, store-based fulfillment services, driving the company's strongest growth in its 60-year history.

Brian was named 2022 "Visionary" by the National Retail Federation. In recent years, Yahoo Finance has named Target the Company of the Year, and CNN named Brian the

Top CEO of the Year. Target was also named Retailer of the Year by Mass Market Retailer and is currently ranked second in the country on *Fortune's* Best Big Companies to Work For.

The format today will be a conversation, and we're very fortunate to have Becky Quick, Club Trustee and Co-Anchor of CNBC's Squawk Box, as our moderator. As a reminder, this conversation is on the record and we do have media in the room and online. And now, without further ado, Becky, Brian, the time is yours.

Conversation with Brian Cornell

BECKY QUICK: Good afternoon everybody. First of all, it's really great to be back with everybody. This is the first event that I've gotten to do in person, so it's been a lot of Zoom calls and a lot of seeing everybody. It's really nice to see everybody in person. And Brian, it's particularly great to be here with you. Thank you for taking the time to do this. I know The Economic Club of New York has a special place in your heart because you are a New York boy, from Queens. So welcome home.

BRIAN CORNELL: Always good to be here. It's great to see you.

BECKY QUICK: Let's talk a bit about New York and why it's important to you and why it's important to Target, because you have made investments in New York City. You have pushed to really beef up the Target brand here and opened a lot of stores.

BRIAN CORNELL: Well, first, it's great to be here. And, Barbara, thank you for that introduction. It goes beyond just growing up here in New York. You know, we looked at this as really strategic market, going back to...we've been in New York for 25 years now. But back in 2015 and 2016, we started to realize we had this unique opportunity to begin to open up smaller stores in Manhattan, in Brooklyn, in Queens, in the Bronx.

And it was really driven by a consumer and a guest who said, boy, we love Target, but we don't want to drive an hour to see one of your stores. So we started, Becky, with Tribeca. And we now have 13 locations in Manhattan. We have over 33 in the boroughs. We've opened up 20 new stores going back to 2015 and 2016. And everywhere I go in the city, I get thank yous from the guests. Our teams take great pride. Many of our leaders grew up here in New York. Some of our leaders have been here their entire lives and just really appreciate interacting and providing the value, the assortment we can provide in a Target store.

So this is a really important market to us. We've got almost 100 locations in Greater New York. And we're continuing to invest. I'm really excited that we're going to be opening up a store in the historic part of Harlem, partnering with the National Urban

League. And they'll be our next-door neighbors, we're going to help develop their facility. But it's just another sign of how important New York is for us and our continued commitment to growing our brand in a market like this.

BECKY QUICK: What did Covid mean for that? To be opening all these stores in this urban area where Covid hit hard. It seems some parts of the country there really wasn't a Covid shutdown, but in Manhattan in particular there was.

BRIAN CORNELL: So I was here in the summer of 2020. And actually our District Leader, Thomas Cordara, was with me. We were in a new store that we opened up in the Hell's Kitchen neighborhood. And I'll always remember a couple of guests walked up to me and simply said, you know, do you work at Target? And I said, yes. And they simply said, thank you. And they talked about how important our brand was and our store was to them during the pandemic. It was a place they went to pick up their prescriptions and get the items that they needed to feed their families or household essentials.

So everywhere I've been in the city during the pandemic, you know, I hear those thank yous that, you know, Target's there. It's been a place where they can shop each and every day. We have the assortment they're looking for. And our teams did such an amazing job of maintaining a safe shopping environment. We made some big investments during the pandemic in our team to provide a great shopping environment for our guests, and importantly, we invested in the safety of our team, and it wasn't always that popular.

I remember in March of 2020 – I think you and I talked about this – at the start of the pandemic, when we recognized that we were going to be an essential service, we were going to be serving America during the pandemic, I said the first thing we have to invest in is our team. And we announced that we were going to invest a billion dollars in March of 2020 in the health and welfare of our team, provide them the services and the support they needed to serve America. And that was not a popular decision at that time.

BECKY QUICK: Popular with Wall Street, you mean?

BRIAN CORNELL: With Wall Street and a few of our investors. But we've added over $30 billion of growth since the start of the pandemic. And so much of that was driven by the investments we made in our team because they helped create a safe shopping environment for our guests. We built tremendous trust during the pandemic. And I think we created an even stronger bond with our frontline organizations because they knew that we cared about them. We were going to make the investments to keep them safe and healthy and allow them to continue to support the guests and American families that were shopping with us throughout the pandemic. But I saw that so prominently every time I visited stores in Manhattan and just the reaction we saw from our teams and the guests because of the commitments we had made.

BECKY QUICK: I mean, I think that's an important lesson in leadership. And it's certainly not the only time that you've made decisions that have not been popular with Wall Street. I can think of a few. If we want to take a look back at...Look, I will give you credit. You get out in front of things and you say what you see even when it's not a popular decision. But let's run through it for people who aren't 100% familiar with what's just happened.

Back in May, you guys announced your earnings. It was far below what Wall Street was expecting. The Street was punishing. The stock was down 25%. It was the biggest one-day decline in the stock since 1987 with the Black Friday market crash. Not the only retailer to have this experience. Walmart also had the biggest one-day drop in its stock the day before – because the consumer is changing.

Now, three weeks later, you come out again and you address Wall Street and you say we are going to get rid of all this excess inventory. We're making sure that we clear the decks and because of that we're going to take a bit hit to our profit margins for this quarter. We think it will improve for the second quarter. And the stock is down again, although it recovered by the end of the day. It was not down very much. I mean that had to be an incredibly difficult decision to come to, to see that, hey, we're going to take the pain, we're going to take it right now, and then go announce that to Wall Street. So walk us through that decision. What did you see? What brought you to that? How did you talk your team through it?

BRIAN CORNELL: So I might start with the time you and I spent together on May 18, when we talked about earnings. And, while that was a challenging point in time, one of the things that Becky and I talked about is, you know, the front of the house of our business continued to be very strong. We were lapping over 23% growth the prior year. Our business was up over 3%. We continued to see really strong traffic in our stores and visits to our site. Many of the categories were performing incredibly well – food and beverage, household essentials, beauty. You and I talked about toys as people started to have birthday parties again for the first time in years. So we were seeing really strong category performance in certain areas.

But we also talked, Becky, about the change we saw and just how consumers were kind of living their lives. And, you know, during the pandemic, all things electronics were growing categories. People were putting TVs in every possible room in their homes. Well, now they were back to going to the movies. We talked about the fact that during the pandemic we couldn't build bicycles fast enough. All of a sudden, we're seeing our luggage business growing by over 50%. During the pandemic, for many of us, you know, we learned how to cook two, three, or four meals a day in our homes. All of a sudden, people are back out to restaurants.

So we talked about that morning, a change in consumer behavior. And I talked about, you know, in our first quarter, that put tremendous pressure on our business. Many of those categories that were just pandemic winners started to slow down. But the overall health of the business was really strong. But we also recognized that in the first quarter of the year, we were now forecasting our freight and transportation costs to grow by an incremental $1 billion. And we're all seeing what's happening with fuel prices across the country. We're the second largest net importer in the U.S. We have, I'd say, a significant supply chain. And we were planning for freight and transportation to grow by $1 billion. The number doubled almost overnight as we looked at what was happening with Russia and Ukraine. So we guided down that day.

But I also talked about the fact that inventories were way up. And I left New York and I spent time in different parts of the country, in our stores, in competition, working with our team, looking at a lot of syndicated data. And recognized that, you know, in U.S. retail overall, we were looking at historic highs with inventory levels. And I had the benefit of actually watching you every morning as different retailers reported. And there was one common thread, inventory was up 30%, 40% or 50%.

And I recognized after a few weeks of looking at all the home stores, analyzing our business, looking at competition, and hearing from our team that we had to address this problem upfront. And as opposed to letting it linger quarter after quarter for three or four quarters, we made the tough decision based on what we were seeing in the industry, feedback from our guests, our team, that the best thing to do was let's deal with this upfront and deal with it one time. And I wanted to do that in front of a shareholder meeting we were having in early June.

So we made a difficult decision but it was based on doing the right thing for our guests. And our team spent a lot of time looking at different options. You know, how do we move through this inventory? And we could have started, you know, stacking up pallets on the floor or doing things that are not right for our brand, and are not right for our team. Or we get out in front of it and make the tough decision that I know long-term would be appreciated by our guests, is already being appreciated by our team. They simply said thank you.

We've got too much inventory of items that are not selling, a lot of big, bulky items that were not flowing through our system. And I think long-term it's going to be the right thing for our shareholders. But those are tough decisions, but it was a byproduct of having several more weeks to look at the operating environment, continue to look at consumer behavior, understand the overall state of inventory in retail, and thinking about what was right for our brand, our guests, our team, and ultimately our shareholders. And it led us to make a very difficult decision, but one I have ultimate confidence is the right thing for our brand.

BECKY QUICK: I mean, a very difficult decision. It's tough to explain to investors. It's tough to explain to the Street. How did you prep yourself for that meeting with shareholders? What have you heard back from them? What's been the reaction so far?

BRIAN CORNELL: Well, I have been around the country, and I was in Europe last week talking to investors. I think once you sit down and talk about what we've all faced over the last two and a half years and the byproduct of the pandemic, for us in some ways it's a by-product of enormous growth. Since the start of the pandemic, we've added $30 billion of growth to our business, $30 billion. And for most of the pandemic, we've been chasing inventory. That number actually could have been quite higher had we had some of the inventory we needed.

But I think we all know it's been a very volatile supply chain environment. It's been very inconsistent and we had a bit of a perfect storm. A lot of the inventory that I would have loved to have had in the back half of 2021 arrived late. So we pulled forward inventory for things like back-to-college and back-to-school early to make sure we have it. And we just looked at the, kind of the state of our position and said, alright, this is the right thing to do. But with the confluence of changing consumer trends, inventory that arrived much too late, and then our desire to make sure we're well positioned for the big company holidays.

So, one of the other drivers behind our decision was to say, alright, I can be putting merchandise in front of our guests, our shopper, that they're not looking for right now, or I can clear that up and make sure we win in the important back-to-school season. We're ready for back-to-college. We're ready for the Halloween season, which I think is going to be big across America, and we're ready for the holiday season.

So we had to do the right thing for our guests to make sure when you shop at our stores, we've got the relative merchandise you're looking for. And, you know, I'm betting that we're going to have a big back-to-school season in America and back-to-college will be big. And adults will be having parties for Halloween and kids will be trick-or-treating. So we wanted to make sure we right-sized our inventory to really make sure we're ready for the future.

BECKY QUICK: That's a really important distinction because when you talk about how much inventory there is there, as an old retail reporter, I start thinking, uh-oh, too much inventory means none of these retailers are going to have big inventory for the holiday season. If you don't have it, they can't buy it, and it's a self-fulfilling prophecy. But that doesn't sound like the case with you. It sounds like you are getting a lot of inventory that's going to be coming up for back-to-school, for the holiday shopping season. It's just different stuff. Is that true?

BRIAN CORNELL: It is. So we're going to have the inventory we need. And, you know, we're going to have big promotions and some markdowns and we've cancelled a lot of receipts. We've said, alright, we've got to plan differently for the back half of the year. We'll lean into those categories like those seasonal categories we talked about. We know it's going to be a strong food and beverage and household essential season. Our beauty business is booming. But we'll probably plan discretionary categories more conservatively and make sure that we've got the flexibility in our system to react to any changes in the consumer trends. But I can tell you, if you brought up members of our store teams that are sitting at that table, they applauded the actions.

Anna Mok is here with us, and she has run stores in Bensonhurst. She helped us open up the Columbus Circle store. She now leads operations there. I know she feels a lot better about the environment knowing we're going to clear some of the inventory that hasn't been selling and we're going to be well-positioned with the things that we need to serve the guests as we get into the back-to-school and back-to-college season.

BECKY QUICK: Alright, let's first of all, when you say the changing consumer, that sounds like the average run of the mill changing consumer. You've been doing this for how long? I know you've been at Target since 2014. How long is your career in retail? Because you were at Sam's Club before. You were at Pepsi. What are we talking about?

BRIAN CORNELL: Well, it's probably rounding up to forty years now. So half of my time in the consumer packaging world and about half the time in retail.

BECKY QUICK: So 40 years of watching consumer trends. What is this on par with? Give us like a hard example that says how this is either the same or different than what you've seen in the past with changing consumer decisions?

BRIAN CORNELL: I don't think any of us have ever lived through a time like we have in the last two and a half years. We've never seen a pandemic that forced many of us to work from home and educate our kids from the bedroom next to us. We've certainly, you've been reporting, we've been talking about inflation at a 40-year high. So I've been doing this for a long time. I remember what it was like 40 years ago, but it's been a long time since we saw inflation numbers like we're seeing today. CNBC reports almost every morning the price of gas. A year ago, the average price of gas was $3.00 a gallon. It's $5.00 a gallon right now. And I was in San Francisco a couple of weeks ago. If you're filling up your tank in San Francisco, you're spending $7.00 a gallon.

So I don't know if we've been in an environment where we've cycled through a pandemic, we have a war in Europe. We have 40-year high inflation rates. We have fuel prices that none of us have ever seen before. You know, I think one of the mistakes we all make is kind of use this generalized term "consumer". We all know there is no average consumer in the U.S. And it's going to affect different economic groups very differently. If you're a lower income consumer right now and you're filling up your tank once or twice a week to get to work and then you're trying to feed your family when many food and beverage items have gone up by 15% or 20%, you're looking at a very different environment. I don't think we've seen this before.

So it's why I think agility and flexibility is so important. I put a premium on listening right now. We've got to be listening to consumers and listening to our guests and listening to our team to understand, you know, what is changing right now? And I think we're in an environment that we've never seen before where we have so many different factors. I put a slide up in front of my board at the start of the year, and I had three columns. I had 2020, 2021, and 2022. And I remember the factors down the left-hand side. You know, consumer trends, supply chain, labor, inflation, geopolitical tension, a large list. The boxes on the right-hand side were all red.

And I think that's the kind of environment we're in right now where there's just so much uncertainty and volatility, but it's what we do for a living. We've got to make sure that we can adjust to consumer trends, the needs in our business, and the changes we've made, I think, give us the maximum flexibility to maneuver through the back half of the year and into 2023.

BECKY QUICK: So let's get your best take on the consumer right now starting with when you start slashing patio furniture by 40%, do they buy it? Are you getting rid of all this stuff? Are there buyers at the right price?

BRIAN CORNELL: We're going to move through that inventory and be well-positioned. But we're providing great value. We're going to merchandise our way through this. We're going to have great pricing and promotion out there. We're also going to cancel some receipts. So it was a big decision, but, you know, sitting here we had to make these before. And throughout my, now going into my ninth year at Target, we've had to make some tough decisions.

BECKY QUICK: Alright, let's talk about those and then we'll come back to the consumer. But when you came in, in 2014, one of the huge decisions you made immediately almost was that you were going to shut down all the Canadian stores. And that was a big deal because Target had already invested about $4 billion as part of that international expansion. It was something that was counter to what Walmart and Costco were both doing. They were big on international expansions. Why did you do it? How did you come to that decision? How did the team react?

BRIAN CORNELL: It's a classic case of I think we went too fast. We opened up 133 stores, hired 18,000 team members, flipped the lights on, and didn't have the operating capabilities and fundamentals in place. We hadn't spent enough time understanding the unique traits of Canadian consumers and different provinces across the country. We didn't recognize just how competitive the retail environment was.

And we ended up, in some ways, Becky, not only disappointing the community and consumer, who had shopped in Target stores in the U.S. – we had amazing net promoter scores when we went into the country – but we ended up actually offending people because we didn't have the product they were looking for. We had gaps in our supply chain. The in-store experience wasn't consistent. And I spent a lot of time in the market talking to our team, looking at research, and I recognized that, you know, it was going to take us years.

Back then, in 2015, when we announced it, I said it was going to be 2022 until we were going to break even in that market. And we were going to have to invest several billion dollars of capital to improve our capabilities. We were going to likely lose $700 million or $800 million a year for the foreseeable future. And I recognized that while, when I joined Target just after a data breach, I was focused on restoring confidence with the U.S.

consumer and turning around the Canadian business, but I recognized that if we didn't double-down on the U.S., we might lose on both fronts.

So it was one of the most difficult decisions of my career because there were so many team members who were impacted and people who had come to work every day to try to serve the Canadian guest, but I recognize that we had to focus all of our time and attention and capital on the U.S. business and really make sure that we had the flexibility to put capital into our stores here, to remodel stores, to build new capabilities, to enhance our owned brands, and to invest in our team.

And I don't think we'd be sitting here today as a $106 billion growing company had we tried to manage both Canada and the U.S. But that was an incredibly difficult position for me because I was new to the company. And to go to my board six months after being hired and said, you know, we've got to shut this down, and here's why. Here's what I'm hearing from the consumer, what I'm hearing from the guests. Here's our financial position. That wasn't easy. But I knew it was the right thing for the company overall. And it gave us the freedom and flexibility to put all of our energy back to the U.S.

BECKY QUICK: How long did it take you to convince the board?

BRIAN CORNELL: We had several meetings to walk through this. But facts, data, consumer feedback, it was a really clear and compelling case. And, you know, I was fortunate that the board trusted me and the management team, that we were making the right decision. And I think they recognized how important it was to reinvest in our U.S. business, because we had stopped growing. We were losing share. And we had to make sure we restored this iconic U.S. brand and put all of our energy and focus behind it.

BECKY QUICK: Was it a unanimous vote to go ahead with it or was there a lot of pushback?

BRIAN CORNELL: It was.

BECKY QUICK: So let’s fast-forward now to 2017, and this is another big and difficult decision you had to make. You came out with holiday sales that were not exactly what the Street was expecting. And at the same time, you announced, hey, we’re going to be spending a lot of money, billions of dollars to reinvest in the stores because of what you just said, these are the stores in the United States that you knew needed remodeling. You had a vision for e-commerce, where you wanted the stores to be the hub.

You had other initiatives that you were spending on and investing in, and Wall Street is never thrilled to hear about how they're not going to be getting returns that they might be expecting because it's going to take some time because you're investing now. Those are not easy decisions to come to (a) your board, (b) your investors, and tell them you're going to have to wait. So how did you get around to this? I guess some of the groundwork was set by the decision you made with Canada.

BRIAN CORNELL: Yes, it was an interesting time, I think, for anyone who was in retail. Because if you go back to 2015, 2016, 2017, most of the analysts and the industry experts were saying everything is going to move online and that stores are going to be obsolete. And we kept talking to different consumers, talking to our guests, who kept giving us a different answer. And it was quite different from what the analysts were writing and in some cases, Becky, what the media was reporting at that point.

Because everyone believed it was only a matter of years before 40%, 50% or more of the business was going to be done online. And we kept talking to consumers in different parts of the U.S. that kept saying, no, actually we value retail stores. We like the physical shopping experience. But our expectations are for a great in-store environment, the right needs in the assortment, great customer service, and they wanted us to make it both inspiring and really easy.

So the consumer and the guest led us to a decision and said, alright, we're going to double-down on our physical stores. We will invest, at that point we said $8 billion to begin remodeling stores, to build new stores in places like Manhattan and Brooklyn and Queens, on college campuses. We're going to invest in our owned brands and great national brands. And we made a very bold decision at that point, as many of our retail peers were building big distribution centers for e-commerce hundreds of miles away from the city, we said we're going to use our stores as fulfillment hubs and use those stores to pick and prep and pack online orders and allow people to pick them up in our stores or drive into our parking lots and we'll put it in their trunk or use our stores as that last mile location for FedEx or UPS to deliver.

And it was very counter to what everyone else was doing, but we had confidence in our store base, the capabilities we could establish. And we recognized stores were, along with our team, our two most important assets. So we bet big when others were taking a different approach. And it certainly has now led to, you know, 20 consecutive quarters of top-line growth driven by traffic, significant market share gains. And it's certainly positioned us well for the pandemic. Now we didn't see that coming. But the explosive growth we saw in drive-up and pick-up during the pandemic when Americans were staying home to stay safe but knew they could pull into one of our parking lots and normally within two minutes we put that order in their trunk. They could drive away in a contact-free environment. It drove enormous growth for us. But to my surprise, the more people use drive up, the more time they spend also shopping in our stores, so it was a win-win. But that was a big decision back in 2017 and many doubted us.

BECKY QUICK: That was a couple of years before people, I remember, I forget when it was exactly but I remember an earnings report – I was not talking to you – we saw the earnings, the number came out and it was much better than expected. And it was clear that this was because of the investments you had put into the store. I remember having that conversation with Jim Kramer, I think, on air.

It's still really tricky to, and I'm trying to use this as a leadership lesson where you can explain to people, because it's not fun. It's not just a, oh, boy, this is going to be a doozy. What do you feel like before you go talk to the investors for the first time about this, or your board? I mean you look at your stock price, and I think it's gone from $268 to $138. That's a painful process, especially when you have a management team who is invested alongside you with this and these issues. You know it's right for the long term but a lot of people know what's right for the long term and don't do it.

BRIAN CORNELL: Well, these are tough decisions. And, you know, sometimes this can be a lonely seat to sit in. And I go back to that decision we made in 2017, you know, shortly afterwards our stock was trading at $48 a share, and I'll remember that for a while. It was a lot better when we were at $260. But it was a byproduct of, you know, the confidence we had. And we made a decision not just to invest in our stores, but we also said we're going to invest in our team, and that was also controversial, when we said, back in 2017, we're going to invest in having a starting minimum wage of $15 an hour. We're going to invest in training and development of our team, people questioned that. And we've continued to make big investments in our team.

We announced just recently that that minimum wage is now $15 to $24 depending on the market. Our benefit package looks much different because if you work 25 hours you now qualify for benefits. We have a big debt-free educational program. Ken, you and I have talked about this. We want to be leaders in that space. And we now have 60,000 team members who are taking advantage of it and furthering their education.

So we're making investments for the long term and those aren't always popular in the short term but I certainly have confidence in our long-term strategy, that the investments we're making in our stores and building new stores, the investment in our now $30 billion owned brand portfolio, the investments in our same-day services, but importantly, the investments in our team, will provide the right return for shareholders.

And we had a couple of tough weeks and it's not easy waking up bright and early in the morning looking at the reaction, but we're playing the long game. And I know we're going to have a strong back half of the year and we'll set ourselves up for 2023 and beyond. And I've always tried to take the long-term approach and think about what's right for the consumer we serve, what's right for our brand, what's right for our team, and ultimately it always seems to work out for shareholders.

BECKY QUICK: Is it easier doing it now than it was maybe 2014 when you came in and said we need to shut down Canada? Because the board has some experience with you now. They have seen how some of these decisions have played out.

BRIAN CORNELL: I don't think it ever gets easy, Becky. I would be open and transparent with the group. This last announcement that we made that we were going to proactively deal with inventory, I had spent a couple of days with my expanded leadership team in a conference room in Minneapolis looking at different options, looking at different steps we might be able to take, looking at a lot of the data and the analytics, and I went to bed looking at the slide from the NPD group that just showed the state of retail inventory.

I woke up the next morning at 2:45 in the morning and realized, alright, we can't just kind of work through this quarter after quarter. I had to offer the team an alternative and give them a problem that they could solve. And this was the right solution for the team. And I can tell you all it was tough to make that announcement. I also saw a re-energized Target team and the enthusiasm for, alright, we can executive this. We're going to put this problem behind us, play offense, get ready to win back-to-school, win back-to-college, get ready for the holiday season.

And I know how important that is. I know the role the team plays. And giving them a path that they can execute was really important. So it was difficult and, you know, it's always hard for me and our teams to make decisions that people don't applaud, but you have to have confidence in the long term. And I have enormous confidence in our strategy, our capabilities, our team, and just the way we connect our brand to America.

BECKY QUICK: Did you bolt awake at 2:45 in the morning?

BRIAN CORNELL: I probably bolted awake. I've had a lot of 2:45 wake-ups recently, including when I see you on camera.

BECKY QUICK: Yes, it's not easy to get these messages through and make these decisions, but I get it. Let's talk about the consumer right now because I think a lot of people in this room and a lot of people watching want to know where things stand. You probably have a better pulse of the consumer than just about anybody else in the country. There's maybe three people who know what you know. What are you seeing right now? And I ask because it changed so much in the three weeks between the earnings and then when you came out with this new decision. What's happened since then? Where do things stand? Is the consumer better off, worse off? We hear these consumer confidence numbers coming out that are pretty lousy.

BRIAN CORNELL: I think there's a lot of uncertainty right now. And you and I have talked a couple of times in the last six months. I've used the term "resilience." And I think we have seen a generally resilient consumer. They've come out of the pandemic. They're trying to find something that feels like normal life. And industries outside of retail that I look at, you know, people are going to the movie theaters again and, you know, Top Gun has been a big success.

I looked at the Memorial Day travel numbers really carefully. Airline numbers were up versus 2019. Hotel bookings have been really strong, so the consumer is traveling again. They're out having parties and trying to get back together with family. But they're also looking at rising gas prices and the cost of feeding their family has increased. And I think confidence numbers are starting to move. We've got to watch that really carefully. So I think there's a tremendous amount of uncertainty. And interest rates are rising, to get a 30-year mortgage now, you're paying almost 6%. It was only yesterday you were paying two to three points. So there's a lot of movement.

I think sitting here today, looking at what happens during the July 4th weekend is going to be really important. And, you know, a couple of helpful factoids, July 4th is one of the three biggest food holidays of the year, right behind Thanksgiving and Christmas. I'll be interested to see, you know, how many miles are people willing to drive to visit friends and family during the 4th of July? What do they spend on that 4th of July barbeque and how many people will they invite over? Because they are going to have to figure out, alright, how do I afford to pay for this? So I think looking forward, that's going to be an important milestone to really understand, alright, how is the consumer adapting to higher prices? What is their mindset going forward?

We've got to make sure from a Target standpoint we've got the flexibility and agility to react to a change in consumer environment. But right now I've seen general stability. Our traffic numbers continue to grow. Our comps were solid. We're seeing good growth in our stores and our digital channels. But I want to make sure we're watching this really carefully, and I think uncertainty is the way I'd describe the consumer today. And I think we're all going to need to watch that really carefully over the balance of this year but starting with that 4th of July summer moment.

BECKY QUICK: You talk about the ability to be agile and flexible. How does that work when the supply chain is still so kinked up?

BRIAN CORNELL: Well, I think the supply chain is going to be kinked up, Becky, for the foreseeable future. Supply chains are not getting better. We all know that China, Vietnam have had periodic issues with Covid. They've had lockdowns which affects factories and ports. One of my single biggest concerns right now, and I certainly applaud the work the administration is doing, but we can't afford to have a port strike in the back half of this year. If we want to impact negatively the economy and the consumer, you know, if we had a strike for any period of time, that will be a real challenge. I'm watching Covid trends pretty carefully.

BECKY QUICK: Do you think the port strike could happen? Because most of the people I talk to say it's not going to happen, but clearly you're keeping a very close eye on it.

BRIAN CORNELL: Well, I think we better watch it carefully. And until we have a new agreement in place, it'll be on my list of concerns. But I know the administration is working on this. We've had conversations. Our teams have emphasized how important it is to make sure we resolve any type of outage there. But it's just another variable that we have to manage. So back to uncertainty, you know, I think we're all dealing with uncertainty from a consumer standpoint, from an overall economy, what's happening from a geopolitical standpoint. Those are all factors we have to manage each and every day.

BECKY QUICK: So if the supply chain is not getting any better, if you think it's going to still have all these kinks in it for the foreseeable future, what does that mean about inflation? How are you feeling about inflation? Are you seeing any signs of inflation having peaked?

BRIAN CORNELL: Well, I'll go back to transportation and freight and what's happening with fuel. And as we talk to our advisors and we talk to economists, sitting here today we're planning for these prices, for fuel and transportation to remain with us through the balance of 2023. I haven't talked to anyone who says this is going to be resolved in the next few months or the next few quarters. So I think there will be higher fuel prices for the foreseeable future, and we'll factor that in to some of our planning.

As I think about our plans for the back half of the year, and you and I have talked about this, we think we're going to see robust sales in food and beverage, household essentials, toys, seasonal categories. But we'll plan, and we've been cancelling receipts in some of those discretionary spaces. Now we're not going to zero, but if we're ordering 1,000 items, we might say, you know, we're going to cut that down to 900. We'll modify some of those orders to give us more flexibility when it comes to discretionary categories.

BECKY QUICK: Meaning that you're going to err on the side of being cautious and you're not going to get stuck with a lot of excess inventory.

BRIAN CORNELL: We're going to err on the cautionary side. I think we have to, just because of that uncertainty. But we're going to lean into categories like beauty, because we know people are back out visiting friends. We know certain categories are going to be critically important. I expect, again, lots of trick-or-treating this year. We're going to lean into Halloween. And one of the steps we announced back in the start of June was we're actually finding additional square footage, back to ports, where we can order early and make sure the back-to-college inventory, the Halloween inventory, the holiday inventory is here, we'll store at the port until we flow it into our system.

BECKY QUICK: But to just emphasize that again, I mean you touch the stove, you get burned, you're not going to touch it again. You're not going to get stuck with a lot of inventory coming up because you're pushing through and you're making it this quarter's problem and you're out.

BRIAN CORNELL: That's our plan.

BECKY QUICK: When will you have a better, I mean because it's so hard to see things right now because there's not transparency, when will you have a better idea about whether the profit margins are working out the way you anticipate in the second half of the year? What will be the things that guide you?

BRIAN CORNELL: Sitting here today we expect our back half op profit margins to look a lot like they did pre-pandemic, so get back to a more normalized environment. We're factoring in, we're going to face fuel and transportation pressure. So that's going to put a cap on our ability to earn. But we're going to get back to a more normalized environment where we're delivering solid op profit, and we'll continue to invest in growth. So we're certainly expecting to continue to see strong top-line group, to continue to hold and grow market share, and to see our profits normalize in the back half of the year.

BECKY QUICK: When you say, you keep emphasizing the fuel costs, and I think everybody feels that fuel and transportation, if it's going to be like that for the rest of this year, all through next year, what do you think when you hear some of the plans that get floated by the administration, whether it be to get rid of the gas tax for a while? These are temporary fixes. I don't know that anything is going to help over the long run.

BRIAN CORNELL: Becky, I think we have a classic supply and demand challenge. And in all due respect, you know, a gas holiday, it's only going to fuel demand. It's doing nothing to increase supply. So that's a temporary, almost a mini-stimulus, but it's not going to fundamentally change the supply and demand curves for fuel and transportation. So I think we better find longer-term solutions and figure out, you know, how we get to, get out in the oil fields and figure out what needs to change. How do you incentivize more production? But we have a classic supply and demand situation here that's out of whack right now and increasing demand is not going to help lower those prices over the long term.

BECKY QUICK: There's two ways to fix a supply/demand problem. One is to increase your supplies. The other is to kill demand. And that's what the Fed seems intent on doing right now. You have to be watching that pretty closely. What happens if the fix to this is they put us in a recession?

BRIAN CORNELL: Well, I think the benefit of our business model and our multi-category portfolio is back to being flexible and agile. We'll put more emphasis on those categories that we know, under any circumstance, our guest, our consumer is going to look for.

BECKY QUICK: Like milk and eggs.

BRIAN CORNELL: Like food and beverage. Like core household essentials. Like items for their babies and kids. Even in a recessionary environment, kids get bigger. And the items you had for your three-year old don't fit when they're five, so you've got to come back and buy more Cat & Jack apparel. So there will be categories where we know they're safe havens, they're durable parts of our portfolio no matter what the economic environment is. But we're going to plan on being more cautious and then lean in and chase as necessary. But back to so much uncertainty, we've got to plan for, you know, a more agile environment where we're going to flex based on the economic environment we're operating in.

BECKY QUICK: I hear you that there are certain things that people are always going to buy, whether that be groceries, whether that be their kid's clothes, but those aren't always high margin items. So you could be dealing with, sure, the sales are there, but the profits aren't. And is that the risk if we get into a recession, if we find out we're in one right now?

BRIAN CORNELL: Those are some of the offsets to our business. I love the food and beverage business. I really like the apparel side much more. I'd rather sell a dress versus that gallon of milk. But we do both. In our business, it's all about the "and." It's those household essentials and those discretionary items. It's the things you buy in a store and also the things we sell online. It's our owned brands and our national brands.

So, you know, if there's a downturn, I think actually there's a potential upside for Target because if you're driving fewer miles and you're likely to consolidate the number of places you shop, well, we have a multi-category portfolio. You can get the items for your kids and the clothing you need, items for your home, all your essentials, all your food, your beauty, in one location.

If you're trading out of a national brand because of the price increase, well, I've got a $30 billion owned brand portfolio. I like those margins a lot. And in food and beverage, if someone trades out of a national brand and buys my Good & Gather brand, which, by the way, is a $2 million brand now, that tradeoff for us, from a margin standpoint, is beneficial.

BECKY QUICK: How big is Cat & Jack?

BRIAN CORNELL: It's a $2 billion brand as well. And I think that brand performs no matter what the economic environment because it's great quality, it's great value. The guest actually looks at it as a national brand that you can only find at Target. So there are actually some things that could benefit us if there's a slight downturn in the economy. If you consolidate the number of places you shop, our portfolio works really well. If you trade from a national brand to an owned brand, I actually like those margins. If you're looking for a convenient place to shop, well, I've got 2,000 locations.

And, you know, we also have a membership program, a loyalty program, with Target Circle, where we've got 100 million members. I can continue to make sure I'm reinforcing value through that loyalty program. And we didn't have some of those things in the last Great Recession. Back to our food and beverage business, it's dramatically different than it was back then.

BECKY QUICK: Well, let me ask a question. This came from the audience. There were questions that were sent in ahead of time, and we did get some questions on the grocery business. So someone asked, where do you see your grocery business as a percent of sales one to five years out? How do we get there? Is the company searching for the best tech platforms each and every day considering the rise in competition and new grocery chains being set up in the United States, like Lidl?

BRIAN CORNELL: We've been growing our food and beverage business consistently now for 20 quarters and taking share every single quarter. And it's a byproduct of investments we've been making for years in our assortment, in freshness, in our supply chain, in making sure we actually have a good balance between national brands and our owned brands. And we continue to invest in Good & Gather. We have another brand called Favorite Day that's been a blockbuster success. We launched both of them, kind of just before the pandemic, so it's worked really well. And it's a $20 billion business for us, overall food and beverage, that continues to grow. And we've seen double-digit growth recently.

So I expect that, you know, 20% of our business that's food and beverage today, that's going to grow over time. But the benefit for us with food and beverage is if you come to Target for those food and beverage items, I know you're going to shop other categories. You're going to pick something up in beauty. You're going to grab household essentials.

You're going to grab something for your kids. So it's a traffic driver, but it's also a basket builder. And that's why that category is so attractive to us today and why we spend so much time on building capabilities, bringing experienced leadership into that space and why it's so important in any environment but certainly with an economic downturn, to drive traffic to our stores and visit store site.

BECKY QUICK: I will ask you very quickly. Have you seen consumers doing the things you talked about, that you would anticipate if there was a recession? Trading to different brands, out of maybe the premium national brands into the house brands and things like that. Has that been happening?

BRIAN CORNELL: Our owned brand portfolio has been growing at twice the rate of national brands for over two years now. So that's been a change in trend. And those are all things, Becky, we're looking at really carefully. Our consumer is starting to consolidate the number of places they shop. You know, what is happening with traffic across the industry? Is there a tradeoff between national brands and owned brands? What's happening with discretionary categories? We look at this every week in great detail, across different geographies as well. And that's the work we've got to constantly be doing to make sure we understand the trends and free react and shift accordingly.

BECKY QUICK: Let me ask you one more question from the audience. This is, how do you balance stakeholder versus shareholder capitalism concerning your role as CEO with Target and how does the board oversee that process?

BRIAN CORNELL: Well, we've certainly put a tremendous amount of focus on our Target-forward platform. You know, the things we can do to impact the people, the planet, it's been a tremendous area of focus for us, and we've made some really strong commitments. We balance those commitments with what's right for our shareholders. And the important word is, it's balanced. And we spend a lot of time with our board talking about our commitment to sustainability, our commitment to our team.

And we've made tremendous progress from a D&I standpoint. It's one of the kind of fundamental levers that drives our business is our commitment to creating this inclusive environment where our teams represent the guests we serve, where we have opportunities for everyone to feel a part of the Target bulls-eye and the circle. And that's been a real important driver in our success. So our board looks at it all the time. We balance that with what's right for our shareholders.

But I go back to the points I've made, we always try to balance what's right for our guests, what's right for our team, what's right for stakeholders, and what's right for shareholders. And I think we've done, over the years, a pretty good job of balancing those four factors. And when we do that right, we continue to grow. We deliver great returns, and we think about the long term.

BECKY QUICK: Which clearly you have done through your entire tenure, since 2014 at Target. Brian, I just want to thank you for sharing your thoughts on what's happening, your lessons on leadership. (Applause)

BRIAN CORNELL: It's great to be with you.

BECKY QUICK: It's always great to see you too.

PRESIDENT BARBARA VAN ALLEN: Well, many thanks to you both. That was just a superb conversation. Thank you.

We're pleased to share that we have a number of prominent speakers coming up. This coming Monday, June 27th, we have our Peter G. Peterson Leadership Excellence Award Dinner. That will be right here at the University Club. And we'll be honoring Roger Ferguson and Stanley Fischer. Roger will be actually sharing remarks focused on the future of global capitalisms, plural, so that will be an interesting and exciting dinner for us. On July 13th, back by popular demand, we have Larry Summers and Glenn Hubbard. That will be virtually, the format. And then Sara Armbruster, the President and CEO of Steelcase, will join us also virtually on July 21st, where we'll be talking about what does the office of the future look like. Skipping forward to the fall, and we are still scheduling, by the way, some things in July, additional, but we have David Benson. He's the President and Interim CEO of Fannie Mae, joining us September 12th, and he'll appear virtually. David Malpass will be speaking at a Signature Luncheon event. He, of course, is the 13th President of the World Bank, and former Under Secretary of the Treasury for International Affairs. He'll join us September 19th, and I think we'll learn a lot about some of the activities World Bank has had underway during these difficult days. And then on October 13th, we are delighted to report that The Honorable Joe Manchin, U.S. Senator from West Virginia, will be joining us for a Signature Dinner. And please stay tuned on Arvind Krishna, the Chair and CEO of IBM, as we will be rescheduling him.

And then again, I want to always take a moment to thank our members of the Centennial Society joining us today as their donations to the Club provide the strong financial backbone that's needed to do the programming that we do. And lastly, for our members, please take a moment to email back that post-event survey so we can keep improving our value proposition. Just as I think we just heard, Target keeps doing, we want to do the same thing. So thank you all and enjoy your lunch. And thank you to everybody joining us virtually.