

# BULL'S- EYE

**An inside look** at how **Target**  
**ensures quality** in a complex  
supply chain

by William H. Murphy



**ALL COMPANIES WANT** to build a stronger brand by ensuring customer satisfaction. Along the way, of course, the companies want to make a profit.

A company's ability to achieve these goals hinges on the effective flow of goods and services into and through its organization, coordinated by supply management teams responsible for developing a world-class supply base, purchasing competitively priced goods and services, reducing costs, improving cycle times and accelerating time to market.<sup>1</sup>

These challenges are set against a backdrop of an extraordinarily complex array of factors and forces quality departments must address. Indeed, the issues and challenges many quality managers face today have evolved to include the mission of strengthening their companies' capabilities across entire supply chains.<sup>2</sup>

The story of one major retail chain illustrates many of these challenges while adding to the body of research that supports quality's essential role in value creation through the use of quality tools, processes and procedures.

### In 50 Words Or Less

- To ensure product quality and on-time delivery to stores, retail chain Target has developed a comprehensive system to manage its supplier relationships.
- The system includes strict requirements for suppliers and overseas factories it uses to manufacture store-brand products.
- This system and its global quality program promote and protect Target's brand.



Retailers are faced with an abundance of quality issues as they pursue their mandate of providing quality goods and services to consumers, and they must ensure quality is inherent in the thousands of products lining store shelves. Without quality, there will be long lines at return counters, customer dissatisfaction, the possibility of legal action and customer exodus to competitors.

Another factor adding to the challenges for retailers is the advent of the store brand. Retailers can no longer rely on national brands to ensure product quality or delivery through the supply chain, so they look to manufacture their own products or rebrand private-label goods. Ultimately, inferior product quality and systemic failures in the supply chain assure the demise of any retailer.

## Target's focus on quality

Target Corp. is one retailer that has placed great focus on quality and formed quality groups to play critical roles in supply chain activities and other areas of the company. Launched in 1962 by the Dayton Co. as its entry into mass-market discount merchandising, Target operates nearly 1,750 stores in 49 states with annual sales of more than \$65 billion in 2008. Last year, Target placed 19th on *Fortune's* list of "America's Most Admired Companies."<sup>3</sup>

Without question, Target's ongoing efforts to "strive to exceed our guests' expectations" require an astonishing amount of behind-the-scenes effort from its quality teams.

Kelly Joyce is the group manager of quality assurance for Target Compliance and Production Services (TCPS).<sup>4</sup> Joyce reports to the TCPS director, who also directs Target's global compliance team on social compliance.

Joyce has a team of quality assurance (QA) managers and QA engineers that executes quality for all of Target's hard (nonfabric-based) goods. This includes general consumer goods, toys, furniture, decorative items, school and office supplies, electronics, holiday and party goods, appliances, lighting, sporting goods, kitchen and dining goods, pet products over-the-counter commodities, cosmetics, and health and beauty items.

Coming to Target with an operational and industrial engineering background, Joyce has now been with the company for six years. She had spent 20-plus years in factory settings in industries such as

electronics, automotive, consumer goods and medical devices. Her background includes product R&D, process design, factory design and just-in-time manufacturing.

In this interview, Joyce discussed her group's efforts to ensure quality throughout the expansive and continuously changing network of supply chain participants. She also talked about the global quality program Target uses to ensure best-in-industry performance. Overall, seven recurring themes emerged from our discussions:

1. All employees live the brand promise.
2. Quality is embedded in the entire sourcing strategy.
3. Variability is driven out of the system. When problems are identified, aggressive corrective action steps are taken.
4. Consequence management rules, and procedures are built in and transparent.
5. People are the essential force behind the success of quality.
6. Quality never takes a backseat, and it always takes precedence over other priorities, no matter how pressing they may seem.
7. Quality never rests on its laurels.

The following are excerpts from our series of conversations and correspondence as they relate to these seven themes.

## All employees live the brand promise.

Joyce talked about the brand promise Target makes, bringing it up early in our discussions, again when discussing her team and yet again when talking about Target's global platform for quality. Target does have the advantage of a concise, catchy, customer-focused statement—"Expect More. Pay Less"—that is constantly supported throughout the organization.

But just how central is quality in Target's strategy? Many companies talk quality. Meanwhile, others live quality. This can be reflected in people, processes and financials. Where does quality live at Target?

**Joyce:** Target lives quality through our brand promise, "Expect More. Pay Less." I have always been impressed knowing our brand promise isn't just a buzz word for advertising. It is very well accepted and understood by everyone at Target. In fact, our internal surveys repeatedly result in high scores in the areas of understanding Target's mission and team member con-

# Business is all about **communication, relationships** and finding the **right product in the right place.**

nection to the mission. It may sound trite, but at Target we actually live our brand promise.

## **2** Quality is embedded in the entire sourcing strategy.

In hard-good lines, Target works with more than 3,000 factories. This large network of suppliers and factories requires constant hands-on efforts by Target Sourcing Services (TSS) teams and its TCPS team.

Complexity abounds in this sourcing scenario: New products are constantly being considered, seasonal items add pressure for the team, and at any given time, a factory is responsible for multiple SKUs. As Joyce said, “Walk into a Target store, and look at the breadth and depth of products carried. You can imagine what we are dealing with.”

Joyce stressed Target’s committed drive for total quality. She discussed the top-down commitment to quality at Target, with reporting lines direct to top management. Quality works hand-in-hand with several other Target teams. Quality is ensured before products ever reach the shelves.

**Joyce:** As part of TSS, TCPS strives to enforce our compliance, safety and quality standards around the world. The goal of TCPS is to achieve exceptional in-store product quality for our own branded products. To do this, we validate that our supplier partners operate efficient, safe and ethical factory environments. Teams at headquarters focus on setting policy, creating procedures, administration and enforcement, while overseas teams validate our QA processes at supplier factories. Teams include QA, global compliance and product safety recall.

Every department works toward delivery of best quality and best value. Quality is especially embedded in our sourcing goals: team, speed, quality and global expertise. Quality’s critical execution lies in product implementation by our sourcing, product design and development (PDD) and QA teams. Formal quality

departments exist in the following teams: TCPS, food, packaging and corporate assurance. So, while my group works mostly on product execution, quality programs span all efforts at Target.

For instance, here at headquarters, cross-functional teams work directly with product designers, merchants and sourcing managers, developing processes to ensure more efficient, effective systems from concept to shelf.

Although a major focus of TCPS is proactive (prior to shipment with suppliers), other times, problems are identified at the store level. For instance, there is a reporting system that provides metrics on the number of returns of certain products—whether there have been common complaints about a particular product, patterns related to any claims or personal injury, or concerns related to safety overall.

While multiple groups at Target see and use these reports, our team aggressively sifts through this information. After we have clarity when it comes to the drivers of the issues, information is fed back to the supplier and factory, or to other departments as needed.

Let me give you one instance we dealt with recently. We had a growing number of returns of a particular gazebo. Our investigation of the reports identified a pattern for the returns that did not relate to product quality. Instead, many shoppers had returned the gazebo, saying it had been impossible to set up. Ultimately, what we discovered from our guest reports was that our instructions to build the gazebo had been the underlying cause.

We worked with a usability lab to develop a much more comprehensive set of instructions. Only then did we engage suppliers with the solution. As this suggests, our PDD team and our QA teams often work together to develop an essential component that ensures product quality. At the end of the day, you might say we are involved in executing the whole product—that is, whatever our guests pick up from the shelves has been touched by our teams.

### **Variability is driven out of the system.**

The large number of SKUs Target carries—including store and private-label brands, as well as national brands—creates a huge complexity for quality assurance. With hard-good lines coming from more than 3,000 factories around the world, along with ongoing adjustments made to Target's product mix (whether being driven by design teams or competitive pressures), there are many ways variability can enter the system, with inferior or even harmful products finding their way to store shelves.

Target's systems thinking extends globally, reaching every factory with rigorous requirements, all supported by quality tools as standard operating procedure (SOP).

**Joyce:** Our first non-negotiable requirement is that every factory must meet our global social compliance requirements. As per our contracts, Target is authorized to conduct an unannounced social compliance audit at any time. If a factory expects to continue working with Target, it must pass these audits. We have consequence management procedures stated clearly to our suppliers, which make failing these audits an avoid-at-all-costs proposition to our suppliers and their selected factories. Ultimately, that's the first purpose of our business partner management program.

Of course, QA is essential to our program. When a factory comes online, we evaluate the factory. These evaluations are thorough, including an assessment of the quality of products being produced, documentation, capabilities and capacities verification.

Our teams ask specific questions while using a rating system. The rating system reveals whether a supplier will be allowed to use a particular factory, along with identifying corrective actions needed. We have factory ratings spanning from "pass-excellent," "good to go," "pass—use this factory with caution," to "failing—this factory cannot be used."

The outcome of a single failed factory evaluation doesn't end a supplier relationship. The supplier must seek another fully functioning quality factory for Target. Following any failed factory evaluation, it is up to the supplier to decide whether it continues to work with that factory with other retailers. It [the failed evaluation] just means the factory is unacceptable for Target. Over time, if a supplier repeats poor factory decisions, it will impact Target's willingness to accept the

risk of a continuing relationship with the supplier.

The main processes we execute are factory evaluations, product testing and product inspection. We also have preproduction planning. Our product inspections are definitely based on statistical average quality limit (AQL) tools. Again, we validate quality and have some pretty strong AQL standards and escalation processes we use during inspections. We use corrective action tools if we have product failure, and we quickly determine the origin of the problem and then how it occurred. We identify the steps needed to prevent the failure in the future.

Supporting our factory evaluations are online corrective action tools. Basically, when a factory evaluation is completed, our manufacturing technician handling the evaluation enters the data into these online tools, providing an evaluation summary. While the report automatically generates a corrective action report, our Target technician is responsible for making specific recommendations in that report.

The supplier's factory in question is given deadlines to fix the issues identified in the report. Soon after that deadline, we return to the factory and perform another evaluation based on the previously identified failure points. If the factory has not been able to fix the corrective actions required, the factory can't be used.

Overall, we have been working to standardize many quality principles in our everyday processes. Standards for product, supplier, environmental and social compliance are benchmarked into our policies and procedures. We extensively use quality statistical tools (for example, statistical process control and AQL) in our product quality validation processes.

Target has embraced Six Sigma throughout our business processes and has created 6Sigma@Target, in which the tools of Six Sigma are used in formal project management, problem solving and process improvement. There is a formal Six Sigma department that facilitates the use of Six Sigma throughout the organization.

### **Consequence management rules, and procedures are built in and transparent.**

Target works to put every supplier and factory on a level playing field with no surprises for anyone. Target is also transparent regarding the consequences of failing to meet requirements. Although Target fully supports

suppliers and factories and offers guidance for them to perform corrective actions, there are certain non-negotiables at the core of every relationship.

**Joyce:** Our suppliers are fully aware of our requirements, and we are extremely transparent in these requirements. At the start of all negotiations, suppliers must sign a “standards of supplier engagement” agreement that clearly spells out our requirements. Our global social compliance requirements are the foundation, and we have no tolerance for failures here.

For most areas, however, SOP is our factory rating system. Factories can receive a green, yellow or red score. If a new factory scores in the red zone, the factory is rejected. For factories in existing relationships with suppliers, a red zone score leads to developing an exit plan.

In terms of particular actions, we use a three strikes platform. Severing the relationship occurs only if there are repeated failures despite promises from the factory to improve. Collectively, this is what we refer to as consequence management. Again, Target has a level playing field for all, with the highest of standards being detailed in our negotiations and ensuing contracts.

At the same time, we know how difficult it is to manufacture a product, and we will work with suppliers to be successful. We will definitely make recommendations on how suppliers can improve. Over time, if we see there is no supplier improvement—because of a lack of capabilities or a lack of willingness—we just stop the process with those particular suppliers.

## **5 People are the essential force behind the success of quality.**

The genesis of Target’s quality program is located at its headquarters in Minneapolis, where leadership from TSS, TCPS and their counterparts work. There, about 50 team members (employees) are focused on quality, but other quality-focused team members are stationed around the world. Having Target employees placed globally means everyone pursues quality with the same commitment.

Finding members for the TSS and TCPS teams is a critical component of Target’s strategy. As Joyce noted, TSS employs more than 2,000 team members worldwide, 450 of whom execute QA, working directly with suppliers at their factories. Target leaders feel strongly

that commitment to a global quality program is the best way to ensure quality.

**Joyce:** Nearly all TSS and TCPS QA personnel are Target team members. Target only uses third-party entities in factory quality processes if we do not have a global presence in that country and it isn’t feasible to send one of our team members. Overall, this is a very low percentage.

Our team members are located in sourcing offices all over the world. Most of our people are local to their regions, although there are a small number of expatriates in the system. We’ve found it is much more effective having local people performing the quality-related activities. Business is all about communication, relationships and finding the right product in the right place. Having local people do this is much, much more effective.

Regardless of country, most of our team members are either engineers or quality people, and we seek candidates who have performed quality tasks in at least one factory. Our QA managers are definitely engineers who are highly educated—some with master’s degrees in engineering, and some who have been educated in the United States.

Along with strong educational backgrounds, our goal is to hire candidates who have factory experience in a quality role. Target is fairly unique in the retail industry in that we have this global network with our own people performing QA tasks overseas instead of outsourcing it and managing quality from the United States.

We have an extensive training program for our overseas teams that includes in-person and online training. We also employ trainers worldwide in all of our major overseas offices, giving us locally-based trainers whose sole job is staff training.

All team members have access to our procedures and best-methods database, as well as a learning management system. Wherever we roll out a new process (for example, factory evaluations), there is a sequence of training operations. In addition to formal on-the-job training, we also train employees about Target stores, understanding Target guests and branding so our overseas staff can better understand Target without the benefit of ever having shopped at one of our stores. Finally, all training, procedures and implementation is validated through a formal office assessment program that includes self-assessments and formal audits.

The bottom line is that everyone in our organization receives extensive training and support. Our global team has the same access to all best-method processes being developed. We have a huge database of best methods and procedures that everyone accesses globally.

This arrangement keeps our entire global team aligned with best practices. Any time we develop new supplier or factory processes, we immediately develop training programs. These programs typically include online presentations for trainers to use with teams around the world. We also have headquarters involvement: Either I or other headquarters team members regularly travel to our global offices to train others.

Our online database has a learning management system that is also accessible to our overseas team members. We have a corporate assurance team responsible for auditing the overseas offices and assisting the local offices in making adjustments based on identified opportunities for improvement. Finally, our training efforts go beyond Target personnel by engaging suppliers in training activities. The purpose is to ensure that all parties develop a shared awareness of our drive for total quality and their critical role in making this happen.

## **Quality never takes a backseat.**

Throughout the conversation, Joyce repeatedly discussed total quality as a mandate, despite the many pressures placed on retailers. For instance, pressures can easily escalate as holidays approach, marketing campaigns converge and the urgency to have certain product on the store shelves heightens.

These pressures are real and can have a large impact on the success or failure of businesses if product misses shelf targets—even by a day or two. In these situations, great pressure is often placed on quality teams to let things slide. But best-in-industry performers never lose sight of their priorities, no matter how tempting the short-term opportunity may seem.

**Joyce:** Our QA team is constantly under performance pressures. It isn't just holidays. We are always under pressure. That's why you hire a team of engineering and manufacturing professionals. Every day, we're making risk-based decisions. There is truly no pressure when it comes to safety and regulatory fail-

ures. That's an easy matter, and Target is extremely supportive of those decisions. If we have those types of failures, product will not leave the factory, regardless of what was supposed to be on the shelf.

When we're outside of that failure type, we need to make go/no-go decisions in terms of releasing product to stores. For instance, a factory recently produced an order of spring seasonal wrapping paper. But the blue was a different tint than required. We decided the blue would still be acceptable for our guests.

At the same time, we told the supplier that only the initial shipment would be accepted, and the factory would need to remake all product in the queue. Although color or tint may seem trivial, we work with design themes across product categories, and consistency is essential.

I've found that if any of our colleagues from other groups have ever lived through a product recall or a product withdrawal, it really helps because they become advocates for our work and decisions. Overall, the good news is that we work daily with our merchants and product design groups. They clearly understand what our requirements are, so there isn't this undue pressure by any Target personnel pushing us to pass products through the system that do not warrant acceptance.

## **Quality never rests on its laurels.**

Typically, efforts to create and maintain a rock-solid quality program are accompanied by high work intensity caused by unforeseen challenges or roadblocks. These challenges range from a changing sea of suppliers, factories and product lineups to pending laws and rulings to internal pressures from outside-of-quality teams.

Despite this reality, as quality programs mature, it seems possible that quality leaders might be able to envision a time when everything that quality touches is good-to-go, and there will be a time to sit back, put up their feet and take things a bit easy. I threw this idea out to Joyce.

**Joyce:** Never. There is always, always work to be done. Although we are very satisfied with the progress we've made during the past several years, we are always moving forward. There is so much more improvement that we can make, and that's what makes it exciting.

# Retailers must do **more than merely cope**. They need to assert control so they **maintain their brand promise.**

When people ask me during interviews exactly what it is that I like most about working for Target, my personal answer always addresses the connection to the brand mission we live at Target.

Also, it is never boring. I find it exciting to come to work anticipating exciting challenges ahead and knowing my director and the resources at Target support our efforts at TCPS. I admit there are days when I wish it was boring. But it's never boring. There is always something new we are trying to improve—something we are trying to push forward.

Even now, we're working on strategies that will make a difference and affect change years and years from now. I think any true quality professional would never suggest you can just rest on your laurels. Believe me, continuous improvement processes are alive and well at Target.

## Completing the circle

Joyce made it clear that Target systematically evaluates all stages of supplier relations, beginning with supplier selection. Further, Target team members work with multiattribute templates that include expansive criteria for supplier and factory evaluations and provide global team members consistent and systematic evaluation processes.

Target also has SOP related to steps required by suppliers, accompanied by the full support of Target team members, if substandard evaluations result. Advocating processes and steps to engage suppliers and factories is not new.<sup>5, 6</sup> But you don't necessarily hear about retailers developing and advancing these quality-driven strategies.

At Target, systematic selection processes are transitioned into the ongoing application of total quality management principles and processes, completing the circle for Target and ensuring best-in-class performance.

Target faces an ongoing challenge when it comes to supply base rationalization. Although some may argue a small supply base is needed to build relationships,

major retailers such as Target must work with many suppliers and thousands of factories across hard-goods and soft-goods lines. That challenge is compounded by the new super-store formats that incorporate food lines, pharmaceuticals and other innovative products.

Despite these complexities, retailers must do more than merely cope. They need to assert control so they maintain their brand promise. Target is exemplary in that it has a proactive engagement strategy spanning the world, ensuring its total quality mandate across all supply chain relationships.

Given its success, an aggressive commitment to its mission and a powerful quality program, Target's future seems to be on good footing. The retailer's place on *Fortune's* list of "America's Most Admired Companies" may become a familiar sight in the coming years.

For competitors, reviewing the seven themes Joyce addressed may reveal gaps in their own quality efforts—gaps that must be closed if they wish to keep pace. **QP**

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