Strategic Audit of Kohl's Corporation

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STRATEGIC AUDIT OF KOHL’S CORPORATION

An Undergraduate Honors Thesis
Submitted in Partial Fulfillment of
University Honors Program Requirements
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Abstract

Since its founding in Brookfield, Wisconsin Kohl’s Corporation has managed to adapt and consistently satisfy customer needs. By focusing on customer experience Kohl’s has become a leader within the department store industry capturing $19.1 billion in total sales. However, with recent shifts in the retail and department store industry, it is time to take a step back and analyze its strategy given the current state of the economy.

As such, this report will investigate the current state of Kohl’s Corporation and provide future recommendations. Companies within the department store industry must continue grow and adapt to customer needs and desires in order to succeed in today’s market.

**Keywords:** Kohl’s, Strategy, Technology, Millennials, Department Store
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Background

Founded in Wisconsin, Kohl’s takes a Midwestern approach to put the customer first. Since its founding, Kohl’s has taken a winding path to find its home in the department store industry. By quickly growing and adapting, it has grown into a well-known and respected brand, capitalizing on $19.1 billion in total revenue in 2017. With its extensive store locations alongside a robust e-commerce platform, Kohl’s is a powerful industry leader.

History

The Kohl’s legacy was founded in 1927 when Maxwell Kohl opened a small, corner grocery store in Wisconsin. At the young age of 26, Kohl bet his entire life savings on the operation. Thankfully, Kohl had a knack for business and his grocery chain flourished in the Wisconsin area. Despite diminished spending during the Depression, the Kohl’s Food Store chain grew to 48 locations. While managing the success of his grocery business, Kohl decided to open his own department store. He was inspired by his own difficulties with shopping and believed he could provide a solution for middle-class workers as well. Thus, Kohl’s Department Store was opened in 1962 in Brookfield, Wisconsin. The department store targeted blue-collar workers providing products at lower prices than high-end department stores but at greater quality than discounters.

By 1972, Kohl was in control of 50 grocery stores, six department stores, three drug stores, and three liquor stores. This attracted the interest of the U.S. division of British-American Tobacco (BATUS Inc.) who purchased an 80 percent stake in the company in 1978. After selling the controlling share, the Kohl family left management. BATUS continued to expand department store operations opening 29 stores across Wisconsin, Illinois, and Indiana. Then, in 1983, the grocery store locations were sold to The Great Atlantic & Pacific Tea Company (A&P). In 2003, A&P closed all Kohl’s Food Store locations in hope of reducing debt (Reference for Business).

Despite BATUS’ emphasis on ‘value oriented’ products, it could not compete with other retailers. The Kohl’s brand no longer aligned with its values or vision, so BATUS decided to sell its retail operations. It sold Kohl’s to a group of private investors in 1986. Over the next two years, the investors added 27 store locations and acquired MainStreet, a Chicago-based retailer. This allowed the Department Store to expand into Chicago suburbs, the Twin Cities and Michigan. Under new management, sales flourished, jumping from $388 million to $1 billion from 1988 to 1992 respectively. Their success did not go unnoticed, the firm was ranked the 8th best privately-owned company in Wisconsin, compared to other firms such as Menards or Fiserv (Reference for Business).

Leading into the ‘90s, Kohl’s continued to grow. To gain capital, Kohls held its initial public offering on May 19, 1992, selling 11.1 million shares. Its next mission was to expand to 120-store
locations. But, before the company could expand, it needed to re-engineer and automate its distribution centers. By the end of 1993, Kohls had done just that, decreasing processing time and increasing productivity overall. This enabled the firm to open several more locations as it edged towards its 120-store goal (Kohl's Corporation).

By 2000, Kohls had blown its goal out of the water, and was operating 298 stores across 25 states. It continued this aggressive expansion plan, controlling 542 locations by 2003 (Kohl's Corporation). However, these overzealous plans had led to strategic and competitive oversights. Competition flooded the retail industry as specialty stores and department stores improved their own efforts. After diminished returns in 2003, Kohl's focused on internal operations, reducing inventory levels, store design, and marketing. Perhaps the most lucrative decision was to secure exclusive brands such as Daisy Fuentes, Laura Ashley Lifestyles and Candie’s apparel. These implementations proved beneficial in improving its performance as the company’s net income grew to $730 million with $11.7 billion in revenue in 2005 (Kohl's Corporation).

Current Events

Today, Kohl’s is a leader within the retail industry, hoping to become “one of the best-in-class omnichannel retailers” or deliver satisfaction to customers by integrating different shopping methods such as in-store and online (Reagan, Lovelace 2017). The company operates over 1,100 stores across 49 states which have led to $19.1 billion in total sales during the 2018 fiscal year. This is a 0.7 percent increase in net sales from 2017 to 2018, this number is partially offset “by $170 million of sales in the 53rd week of 2017” (Kohl's Corporation). With a gross margin rate of 36.2 percent and a free cash flow of $1,403 million, Kohl’s was able to pay $2.50 in dividends per share in 2018. During this period, the stock price increased from a low of $35.16 to a high of $57.28 (Yahoo Finance 2019). There has also been a disciplined approach to return capital to shareholders over the last five years. Kohl’s has consistently been providing dividends at an increasing rate as well as repurchasing outstanding stock. The firm is dedicated to providing value for its customers along with its shareholders.

Kohl's has established itself as a family-oriented company, giving back $650 million to communities across the nation. Kohl's hopes its focus on social responsibility will inspire other firms to take steps towards bettering their own social impact. In 2017, Kohl’s pledged to focus on three pillars of environmental advancement: environmental stewardship; customer, associate, and stakeholder engagement; and operational efficiency. Their concentration has led to multiple sustainability awards ranging from Energy Star, Business for Social Responsibility, and EPA WasteWise. The company has invested in over 200,000 rooftop solar panels operating in 163 store locations. Along with reducing waste by more than 83 percent, Kohl’s has proven its commitment to reducing its environmental footprint (Kohl's Corporation).
Vision

Kohl’s Corporation has adopted a new strategic framework built on five pillars: amazing product, incredible savings, easy experience, personalized connections, and winning teams. It believes that by focusing on the customer’s experience and building genuine relationships it can build lasting relationships. This ties directly to the company’s main values of putting customers first, acting with integrity building great teams and driving results. These values have led to customers constantly expecting great things, which Kohl’s is eager to deliver.

Situation Analysis

The following section will analyze both the external and internal factors affecting Kohl’s Corporation.

External

State of the Department Store Industry

The once lucrative brick-and-mortar department store industry has been on the decline for over five years. Revenue projections predict the industry to fall at a rate of 4.1 percent each year (IBISWorld 2018). Those holding the majority of market share within the industry are giants such as Target, Walmart, Macy’s, and Nordstrom. Some of these businesses have expanded into the grocery industry in an attempt to stabilize profits. While the entire industry still racks up $149 billion in sales, the major competitors in the industry have raced to develop e-commerce platforms (IBISWorld 2018). Not only do customers prefer to do their shopping online, but there are cost benefits for the company as well. With the transition to e-commerce, companies can lower the overhead costs of brick-and-mortar locations. This also allows companies to decrease employment of sales associates, further cutting costs.

Another major factor of the industry is the nation’s average disposable income. Because the industry relies on selling luxury products, it is at the mercy of the U.S. economy. In recent years, the “growth rate of real disposable income has slowed”, alongside the real income rate (Conerly 2019). While increasing, this slow rate of growth has led to weak growth in consumer spending. There has also been a 7.3-point decrease in Consumer Confidence recently (The Conference Board 2019). While this may not directly correspond to spending, the metric is a reflection of
“consumer attitudes and buying intentions” (The Conference Board 2019). This means that the department store industry will see stagnation of spending in the coming months.

Overall, it’s estimated that the state of the department store industry will continue to decline. While the industry is not currently at risk of extinction, businesses should consider new opportunities for profit advancement. These opportunities include opening an e-commerce platform, expanding products or further differentiation. However, it is not advisable to retain the same business model given the decreasing rate of spending among consumers.

**Competition**

The competition among department stores is fierce. Kohl’s is competing with well-established firms such as Target, Macy’s and Nordstrom. Similar to Kohl’s, these firms have already developed value chains and have a prominent customer base. Many of these department stores also carry similar national brands such as Nike, KitchenAid, and Columbia.

As a retailer for middle-class, Kohl’s is also challenged by overstock merchandisers such as TJ MAXX, or Ross Stores. These retailers can often sell merchandise at a discount. These stores often market to similar consumers, middle-class workers.

**Porter’s Forces Analysis**

**The Threat of New Entrants**

Overall, the threat of new entrants into the department store industry is low. To enter the industry, one would need to acquire efficient distribution channels. This is highly unlikely because distribution channels appear after years of supplier relationship building. Also, new entrants would need capital to hold the same diverse product line and open locations. Both of these requirements result in a high barrier to entry.

**Bargaining Power of Suppliers**

Within the industry, the majority of suppliers do not have the upper hand. Kohl’s Corporation can buy raw materials from a number of suppliers. However, there are a few dominant suppliers with exclusive products such as Fitbit and Levi’s that can use their brand to force higher prices. This means they can use their positioning to negotiate steep prices which will decrease margins that Kohl’s Corporation can earn from those products. This threatens the overall profitability of the department store and leads to moderate bargaining power on the supplier side.

**Bargaining Power of Buyers**

Today, there is little buyer loyalty in the department store industry. Buyers in this category are willing to shop whenever and wherever to receive the best deal possible. With a large number of
retailers selling similar products, customers have the upper hand. They can search and wait for the best deal to arise which may not always be through Kohl’s Corporation.

The Threat of Substitution

There is a very low threat of substitution for Kohl’s products. The company has worked tirelessly to diversify its product line and continues to add new options daily. Kohl’s is attempting to tackle the core need of the customer which will keep the threat of substitution low.

The Threat of Rivalry

As previously mentioned, the department store industry is saturated with large name retailers such as Macys, Nordstrom, and JCPenney. This intense competition results in price drops in order to gain customers, however, this also decreases overall profitability. With more price-conscious customers, the rivalry among department stores will continue to increase.

Internal

Competitive Advantage

Kohl’s Corporation has been working hard to differentiate itself from other department stores. Recently, Kohl’s has focused on building a technology suite to improve customer experience. The company’s focus in this realm has not been on pushing sales but using technology to improve the user experience. Aside from extensive brick-and-mortar locations, Kohl’s has also leveraged an online e-commerce platform. This allows users to shop when and where they prefer and also provides a variety of options for delivery. Customers can buy online and pick up in store, ship directly from the store, or ship directly to their home (Kohl’s Corporation). There are also countless ways for customers to check their savings or earn more rewards. Through programs such as Kohl’s Cash, Kohl’s Charge, and Yes2You Rewards, Kohl’s has built the “best loyalty platform in the industry” (Mansell CNBC). With over 30 million members, it is “the most effective [program] in retail” (Wahba 2017). Through its focus on customer experience as opposed to pushing sales, Kohl’s has used this competitive advantage to capture a user base.

Additionally, Kohl’s has used its extensive distribution channels to deliver a wide variety of products. The company has chosen a broad differentiation technique which allows them to satisfy a large user base. As shown in the image on the right, Kohl’s offers a diverse mix of brands. By providing products across a range of price points, customers can rest easy knowing they have a worthwhile product at a fair price.
One relatively unknown differentiation technique is Kohl’s dedication to environmental sustainability. During the 2017 fiscal year, the company pledged to improve its environmental stewardship; customer, associate, and stakeholder engagement; and operational efficiency. Over 88 percent of their stores are Energy Star certified and 163 facilities are run using power from 200,000 rooftop solar panels. In 2017, the company had a recycling rate of 83 percent across all location, recycling materials such as plastics, beauty products, dry waste, and fabric scraps. While Kohl’s strong commitment is not well-known among consumers, it has not gone unnoticed by environmental groups. It was recognized as one of Barron’s 100 Most Sustainable Companies in 2019 and was awarded Energy Star Partner of the Year in 2018. Again, Kohl’s responsibility for creating a sustainable tomorrow sets them apart from competitors (Kohl's Corporation).

Comparative Advantage

Aside from providing a wide variety of products from national brands, Kohl’s Corporation has also established a network of proprietary brands. Essentially, Kohl’s has selected a few designers who create products exclusively for Kohl’s locations. These brands include Croft & Barrow, Sonoma, and Jumping Beans. By restricting sales to only Kohl’s locations, the company has created a comparative advantage over other department stores.

Business Life Cycle

Since 2015, the total number of Kohl’s locations has remained constant. Instead of focusing on growing productions, Kohl’s Corporation has focused on adapting operations for e-commerce platforms. Total sales peaked at $19.2 billion in 2015 which was followed by decreased earnings in 2016. However, total sales did bounce back to $19.1 billion in 2017 (Kohl's Corporation). With this in mind, it is assumed Kohl’s has reached the maturity stage. While it is not currently at risk of decreasing returns, the opportunity for growth and expansion has passed.
Leadership

The Kohl’s Corporate leadership team has an impressive array of leadership experience. Each member of the team has more than 15 years of retail industry experience and has a history of company loyalty. The company promotes internally before searching for outside talent, building and valuing the relationship among its employees.

Michelle Gass - Chief Executive Officer

Gass was elected to CEO in October of 2017, after working as Kohl’s chief merchandising and customer officer beginning in 2015. Prior to joining the Kohl’s team, she managed marketing, global strategy and merchandising for Starbucks Corporation. Gass has 25 years of experience in “long-term growth and profitability, along with strategic direction” (Corporate Kohls). During her time with Kohl’s, she has been credited with many strategic partnerships, including the recent partnership with Amazon.com Inc (Lawder 2017). Gass believes in Kohl’s “powerful brand portfolio and [its] differentiated value proposition” which makes her an optimal leader as the company heads into maturity (Lawder 2017).

Sona Chawla - President

Chawla was hired as the chief operating officer in 2015 and was promoted to president in May 2018. Prior to joining the Kohl’s team, she worked with Walgreens, Dell, Inc., and Wells Fargo’s Internet Services Group where she held various senior leadership roles. Now, she oversees “store operations, logistics, and supply chain network, technology, and e-commerce strategy, planning, and operations” for Kohl’s. Given her extensive background in retail operations, she will continue “leveraging technology to make [Kohl’s] more productive” (Lawder 2017).

Evaluation Criteria

This analysis was based on the following metrics: net sales, gross margins, dividends, sales per square foot, consumer demographics, adjusted debt coverage ratio, and sales by department. The selection process for each indicator is outlined in the following sections.

Net Sales

For the 2018 fiscal year, Kohl’s reported a net sales of $19,167 billion. This number represents all revenue “from the sale of merchandise and shipping revenues” (Kohl’s Corporation). Previously net sales were $19,036 and $18,636 billion in 2017 and 2016 respectively. This shows increasing sales over the past few years indicating growth. Kohl’s attributes its most recent growth to a “1.7% increase in comparable sales mostly reflecting higher average transaction values” (Kohl’s Corporation).
Gross Margin as a Percent of Sales

Gross Margin as a percent of sales is the profit after cost of goods sold has been deducted divided by net sales. In the case of Kohl’s, its gross margin has been 36.4 percent, 36 percent, and 35.9 percent in 2018, 2017 and 2016 respectively (Kohl’s Corporation). As one can see, its gross margin as a percent of sales has slightly increased over the past few years meaning that the company retains an additional one-half percent for each dollar of sales since 2016. Within the department store industry, this is a healthy gross margin percentage. For comparison, Target Corporation reported a gross margin of 28.9 percent in 2017 whereas Macy’s reported 39.4 percent in 2017 (Target 2017, Macys 2017).

Dividends

Kohl’s approved its first dividend payout in February of 2011. It has steadily been increasing its payouts from $1.56 per share in 2014 to $2.44 per share in 2018 (Kohl’s Corporation). This indicates that Kohl’s has experienced enough profitability to comfortably increase the dividends per share which makes it a more attractive investment for stockholders.

Sales per Square Foot

This metric compares net sales to the total square feet of retail locations. In 2018, Kohl’s had a sales per square foot of $231 which is up from previous years (Kohl’s Corporation). This means that the amount of net sales Kohl’s is reporting can maintain its brick-and-mortar locations. Compared to other retailers, Kohl’s is a leader in this metric. For example, Macy’s reported a sales per square foot of just $198 for the 2018 year (Macy’s 2017).

Consumer Demographics

The importance of capturing younger generations has become increasingly important for companies hoping to make it big in the 21st century. Kohl’s is no exception. According to data, the average Kohl’s shopper is between 35 and 44 years old (PYMNTS 2018). While this is well below Walmart’s average 51-year-old shopper, it cannot rival with the grasp Target has on younger demographics. To be successful, Kohl’s needs to capture a solid customer base within the Generation Y and Generation Z population.

Adjusted Debt Coverage Ratio

This metric was chosen to analyze Kohl’s ability to pay long-term debts along with examining the cash flow remaining for investment opportunities. The adjusted debt coverage ratio is calculated by adding the net income, depreciation and interest paid divided by interest, capital lease and financing obligation payments added to the reduction of long-term borrowing. The ratio has been adjusted to account for capital lease which would not apply to a traditional debt
coverage analysis, however, this is a major expense for Kohl’s. For the 2018 fiscal year, Kohl’s reported an adjusted debt coverage ratio of 1.51. This proves its operating cash flow can account for annual debt payments allowing Kohl’s to invest in other areas such as technology or merchandise (Kohl’s Corporation).

**Sales by Department**

Kohl’s operates six major lines of business: women’s, men’s, home, children’s, footwear, and accessories. The majority of sales stem from the women’s line followed by the men’s wear. These two lines of business make up nearly 50 percent of sales within the 2018 year (Kohl’s Corporation). Their success in terms of net sales is defined below:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women’s</td>
<td>5,366</td>
<td>5,711</td>
</tr>
<tr>
<td>Men’s</td>
<td>4,025</td>
<td>3,807</td>
</tr>
<tr>
<td>Home</td>
<td>3,642</td>
<td>3,617</td>
</tr>
<tr>
<td>Children’s</td>
<td>2,492</td>
<td>2,475</td>
</tr>
<tr>
<td>Footwear</td>
<td>1,917</td>
<td>1,785</td>
</tr>
<tr>
<td>Accessories</td>
<td>1,725</td>
<td>1,641</td>
</tr>
<tr>
<td><strong>Net Sales</strong></td>
<td>19,167</td>
<td>19,036</td>
</tr>
</tbody>
</table>

**Percentage of Sales by Department in 2018**

- Women’s: 28%
- Men’s: 19%
- Home: 19%
- Children’s: 13%
- Footwear: 10%
- Accessories: 9%

**Strategic Alternatives**

The following section will define a select set of possible strategic implementations. These suggestions will be based on the evaluation criteria outlined in the previous section.

**Establish Brand Partnerships**

Since its humble beginning, Kohl’s has consistently captured successful brand partnerships. While this has created a great user base within the baby boomer generation, it is time for Kohl’s to focus on Generations Y and Z. This means Kohl’s needs to build partnerships with suppliers for younger generations. Some of the hottest millennials brands today include Guess, Michael Kors, Amazon, and Apple.

Provided that Kohl’s is able to capitalize on an exclusive contract with these suppliers, it can continue to entice younger consumers to its stores. However, this is not a novel idea for Kohl’s Corporation. Beginning in September 2017, Kohl’s announced a partnership with tech giant,
Amazon. The contract stated that certain Kohl’s locations will act as a delivery return hub, in turn, Kohl’s locations will display and sell Amazon products such as the Amazon Echo. Since the unveiling, “one group that Kohl’s appears to be gaining growth with is millennials” (Garcia 2018). It’s suggested that this high-profile partnership was able to put Kohl’s on “the radar of the younger shopper” (Garcia 2018).

Its recent successful partnerships are not limited to Amazon, as Kohl’s has also announced a partnership with PopSugar, Under Armour, Lego and Gucci fragrances. Many have raved about the new additions some even boasting it “echoes of Target’s various partnerships with notable brands” (Garcia 2018). While Kohl’s isn’t considered hip and trendy to younger shoppers, CEO Gass believes that “if steered correctly it could be” (PYMNTS 2018).

**Invest in Updated Technology**

It’s no surprise that advanced technology leads to improved process efficiency and increases in productivity. In general, this is an area Kohl’s has excelled in. However, with technology constantly shifting and adapting, Kohl’s cannot settle for mediocre devices. Unlike other retail stores whom “have debt rated below investment grade”, Kohl’s has the operating cash flow necessary to make these advancements (Wahba 2017). Typically, Kohl’s “tends to focus less on showy, eye-catching innovations in favor of back-end improvements to things like checkout and inventory management” (PYMNTS 2018). Although these advancements aren’t visible during the purchasing process, they are likely to positively affect the customer’s experience.

This means Kohl’s must retain this mindset and continue making improvements within their shopping app and mobile payment app. Creating a positive customer shopping experience is critical to “wringing more business out of existing customers and keeping them loyal” (Wahba 2017). Thus, Kohl’s must continue to outpace competitors on the technology front.

**Environmental Marketing Campaign**

As mentioned previously, Kohl’s focuses on environmental responsibility throughout all of its operations. Kohl’s focuses on four main fronts of social responsibility: customers, associates, partners, and community. Having a balanced approach helps stabilize decision making and ensures implementations have a positive effect on all aspects of the company. While social responsibility has been an integral aspect internally, its importance has not been stressed to customers.

Over the past few years, social impact and bettering communities have become more important to Americans. Millennials are “[holding] brands accountable” and forcing businesses to become more socially responsible by implementing practices like ‘going green’ (Carufel 2018). Nearly “81 percent of millennials expect their brands to make a public commitment to good corporate citizenship” (Carufel 2018). While Kohl’s has built a socially responsible foundation of business, it
has not shared its success with shoppers. Aside from a 15-second voice recording that plays occasionally in stores, shoppers are unaware of 88 percent of locations being Energy Star Rated or the Kohl’s Care campaign that has raised 340 million for charitable organizations (Kohl’s Corporation).

To increase net sales and further improve gross margins, Kohl’s should implement an environmentally conscious marketing campaign. Its recent campaigns have focused on giving customers a sense of belonging, through titles such as Give Joy, Get Joy. The newest campaign, How to Kohl’s, will focus on “[highlighting] the ease of shopping at Kohl’s” (Kohl’s Corporation). By combining the value Kohl’s can provide with the ethical benefit of giving back to the community, it can capture a larger portion of the millennial generation, increasing sales and profitability.

Recommendation

Kohl’s has already begun implementing the first and second strategic option: Establish Brand Partnerships and Invest in Updated Technology. As such, the company should continue to pursue these goals and ensure its success. I propose an addition to current and future marketing campaigns to inform consumers about Kohl’s commitment to environmental responsibility (as discussed in the Environmental Marketing Campaign). As previously mentioned, millennials continue to stress the importance of social and ethical responsibility. While Kohl’s has continuously been improving its operations in terms of environmental factors, it has not boasted these metrics to consumers. This in part advanced technology and premium brand partnerships will give Kohl’s an edge with competitors.

Implementation Details

Establish Brand Partnerships

Kohl’s began securing more strategic partnerships in 2016 with the addition of Under Armour to its stores. Then, in 2017 Kohl’s and Amazon announced their unlikely partnership, showing that Kohl’s is still pursuing exclusive partnerships. Since then, Kohl’s has continued adding brands to its product line, including PopSugar within the women’s fashion department and Lego and FAO Schwarz for Toys (Garcia 2018).

However, the company hasn’t stopped here, it has announced a new partnership with EVRI, a “new women’s private-label plus brand” that will launch in 2019. Within the women’s sector it has also added Authentic Brands Group, owner of Nine West. Then, as of Fall 2018, Kohl’s has solidified an agreement with HGTV’s “Property Brother” (Wilson 2018). With this strategy already well underway, it’s suggested that Kohl’s continues this pattern. While seeking out new brands, Kohl’s must ensure that each new partnership aligns with their current values and direction. It
should also consider partnering with Guess or another clothing company to boost declined sales along the women’s business line. Kohl’s should continue looking to expand its partnerships until 2020. At which point, it will need to reanalyze its standings and ensure all current business lines align with its strategies.

**Invest in Updated Technology**

Again, this is a strategy that Kohl’s has already begun to implement. It has continued to update POS systems and ensure that each floor associate has advanced technology to work efficiently and provide value to the customer. For example, it has added Kohl’s Kiosk, which allows a customer to scan an item or barcode to view different sizes or colors and have them shipped to their home. As long as Kohl's continues to invest in the customer’s experience, it will see success.

**Environmental Marketing Campaign**

This is the one strategy recommendation Kohl’s has yet to implement. The company should begin sprinkling in environmental metrics into its advertisements as soon as possible. To successfully implement this style of advertising, Kohl’s should look to other ethically responsible companies such as Patagonia and Everlane. These two brands are well known for environmentally friendly products, which their advertising has proven to users. I suggest that Kohl's immediately begins adding these advertisements into their campaign. Ideally this will spread to millennials before summer sales beginning, hopefully boosting profits.

**Contingency Plan and Trigger Point**

As with any new strategy, the company must create a plan to address failed implementations. This section will outline when and what to do when problems arise from the above recommendations.

As Kohl’s adds more national brands to their product line, it can expect to see declines from gross margin. Many national brands are carried by other retailers, thus, to maintain an edge Kohl's must offer these products at competitive prices. This leads to smaller gross margins or less profit after cost of goods is deducted. To ensure the decline in gross margins does not lead to depletion of cash flow, Kohl’s must reevaluate their strategy if gross margin drops below 32.5 percent. While gross margins between 30-35 percent are health for retailers, maintaining cash flow is necessary for other strategic goals to be successful. As such, if Kohl’s reaches this trigger point, it must reconsider each of its strategic partnerships to ensure they align with company goals in terms of performance and margins.

Kohl’s ability to update and expand its current technology suite relies heavily on cash flow. From 2015 to 2017, Kohl’s was able to invest “$2 billion into its technology,” a goal most department
stores could only dream of (Kohl’s Corporation). The company is not afraid to “make investments for the long term” which can be attributed to its capital structure. Kohl’s has the ability to pay back its annual investments which means it can use additional cash flow to update technology. Nevertheless, Kohl’s must continue to observe the health of its cash flow. Provided that cash flow declines, Kohl’s will have to sacrifice improvements to online and mobile applications.

To evaluate the effectiveness of its advertising campaign, Kohl’s must utilize user interviews. After six months, if there is not an increase in the public’s opinion of Kohl’s environmental impact, it must evaluate its marketing. This could lead to increasing the amount of environmental advertisements or creating an independent campaign. Assuming a new campaign will be made, Kohl’s could use the title *Shopping that Feels and Looks Good,* or another name that sparks ideas of social responsibility.

For these recommendations to be successful, Kohl’s must continue observing the health of the company using various metrics. Overall, Kohl’s is in a powerful position to grow and continue collecting market share if the strategic recommendations are implemented.
References


