

# TARGET CANADA: LESSON FROM FAILURE OF INTERNATIONAL ENTRY

(Case Study)

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## ABSTRACT

Target Corporation, the second largest retailing company in the United States, is well known for their value to guests (customers), continuous innovation, and exceptional guest experience. With a desire of international expansion, Target announced their Foreign Direct Investment (FDI) plans for Target Canada in January 2011. In August 2012, headquarters opened in Mississauga with 124 store openings following throughout 2013.

Two years later an unsuccessful attempt at entering the Canadian retail market resulted in a loss of over \$5.4B. Target Canada rushed into its expansion into the Canadian foreign market and corporation was unable to repeat the successful US concept in Canada for several factors. Target's scale was too large, the timeline was too aggressive, and the entrance method was attractive from a price perspective. As a consequence, Target was unable to efficiently manage the whole supply-chain, resulting in an unpleasant shopping experience for the customers. Finally, the incapability to differentiate itself from other retailers led to an unsuccessful attempt at gaining greater market share from the competition.

Despite the fact that Target does not have a plan to enter back into Canada, this case offers suggestions for Target's location strategy and plausible alternatives when revisiting potential re-entry into the international retail market. Recommendations are given based on what they learned from their first attempt at failed expansion.

**Keywords:** Target Corporation, Canada Retail, International Expansion, Foreign Direct Investment.

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## INTRODUCTION

Target Corporation has promoted itself as a fashionable and contemporary retailer that offers high quality, continuous innovation, excellent value, and guest service. Target wants to be the preferred place to shop while saving money with

discount prices. Their brand, "Expect More, Pay Less" is their assurance to their customers. Target's business model is guided by their mission to provide great value, support diversity and environmental effects, and be involved with the community (Target Through, 2014).

In 2013, Target launched its first international

expansion in Canada, opening 124 stores within the first few months. After initial consumer excitement and promises of first year profitability for investors, Target's performance in Canada was a remarkable failure. In 2013, the company posted a loss of nearly \$1 billion. According to Rob Wilson, a retail analyst, he had never seen a set of expectations so shockingly missed on a rollout (cited in Austen, 2014).

Supply chain issues, high pricing, and empty shelves left consumers disappointed. Canadian shoppers felt that Target Canada failed to meet the expectations set by their US counterparts. In order to turn around failing operations, Target must identify an international business strategy that allows the company to rebuild quality guest experiences and realize an acceptable profit margin for investors.

### BACKGROUND OF TARGET CORPORATION

Target Corporation USA has a long-standing history as being one of the forerunners of the discount retail industry. Target's parent company, The Dayton Hudson Corporation, was founded in Minnesota in 1902 when George Dayton opened a discount store in downtown Minneapolis called Dayton Dry Goods Company. In its first decade operation, company reported strong growth that allowed firm to be positioned as a dependable retailer that generously contributes to the local community. In 1946, Dayton's became the second American company to institute a present amount of annual giving by donating 5% of pre-tax profits back to the community (Target Through, 2014).

The Dayton Company opened its first branch in Rochester, MN in 1954 and expanded to four more branch locations over the next twenty years. In 1961, The Dayton Company felt a need to develop an upscale discount store in conjunction with their high-end department stores. The first Target store was opened in 1962 in Roseville, Minnesota. Three additional stores were opened in that year and firm began expansion outside of Minnesota by 1966. The following year Target released its Initial Public Offering (Target, 2015).

Target continued to expand and outgrew its parent company to become the largest revenue division of the Dayton Hudson Corporation by 1975. The company at the end of 2014 operates 1,916 stores in 49 states. According to Fortune 500 (2015), Target Corp was ranked 36<sup>th</sup> as a

component of the S&P 500 Index in the United States. The company's estimated revenue at the end of 2014 was 72.6 billion dollars.

### TARGET CANADA

In early 2010, Target publically announced its long-term plans to expand internationally. By 2011 the company had announced its intent to purchase lease agreements on up to 220 Zellers stores and to open 100-200 stores by the end of 2013. Target marked this as a major international milestone, being the largest number of store openings ever in a single-year. Its hope was to use this aggressive entrance strategy to capitalize on the Canadian market. In March 2013, Target welcomed the first Canadian guests to three locations in Ontario, which was strategically selected to be close to one of the company's three distribution centers (Target, 2014).

Expansion into Canada represented a new market that was already saturated with discount retailers including competitor Wal-Mart, who began operations in Canada twenty years earlier. Target knew it would have to purchase stores and immediately market themselves directly to the consumers in order to gain a competitive advantage (Kahle, 2014). In 2011, Target began transforming the Zeller locations into new Target stores.

Target's research team found that consumers' characteristics were defined by the following:

- median age of 40;
- median household income of \$64,000;
- approximately 43% had children at home;
- 57% had completed college; and
- a majority were female.

The strategic marketing plan focused on the 4P's: production, competitive pricing, placement, and promotional strategy.

Outsourcing of apparel production lowers costs and makes products available to Canadian consumers who are driven by quality and enjoy low prices. Target felt in order to grip the Canadian consumers they would need to apply a planned strategy of product mixing, which meant offering 2,000 different categories of products, goods, and services. The brand lines would have a variety of products and flavors and would include brands that Canadian consumers would recognize.

Target's low prices and great quality has allowed the retailer to be one of the most

successful major retailers in the US. Its plan was to continue this policy into the Canadian expansion. The pricing strategy Target used to help set the pricing was called “competition-oriented pricing,” which allowed the stores to remain comparable to other competitors and maximize market retail share. The main factors that Target Corporation used in determining pricing strategy were the Canadian economy, demand and supply, cost of goods sold, operating expenses, and competitor’s prices.

The property development strategy was to place Target stores in the large urban areas where the populations are clustered and distribution is readily accessible. Geographically, the targeted Canadian consumer is located around the metropolitan areas of Canada, which are populated with more than 100,000 people. By opening stores in the concentrated areas, Target Corporation could gain an understanding of the current and future spending trends of the Canadian consumer. The spreading out of the new stores would move Target into ten provinces of Canada. It is important to recognize that the majority of new stores were placed not farther than 100 km. along the US border. (Appendix 1, Figure 2).

Target’s promotional strategy was to utilize multiple media channels to advertise to the Canadian market. Target understood they had brand name recognition as a quality retailer. Target’s promotion strategy would make the same low price promises to the Canadian consumer as they do for the American consumers. It would also utilize Canadian celebrities to help promote the store and their products. The company predicted success if the advertising plan reached 90% of the Canadian consumers and if 40% shopped in Target stores (Kahle, 2014).

### First Year Performance in Canada

In the first year, Target’s main goal was to gain a large market share of the Canadian retail market. Target Corporation expected 2013 sales revenue to come in at approximately \$7 billion. Based on Target’s previous U.S. numbers, the projections for Target Canada retail sales indicated an increase of 0.28% annually. The Canadian retail sales in 2010 were \$438,401 million. In 2013, the total sales were expected to increase to \$442,094 million. Target Corporation Canada looked to account for 1.6% of the retail

market share (Appendix 1, Table 2). Target’s central goal was focused on turning a profit; however, losses occurred in the first quarter due to high start-up costs, which were unavoidable (Target, 2014).

After opening 124 stores in one year, Target Canada Corporation was in crisis mode. The retailer was struck with complaints about pricing and the lack of inventory on the store shelves. The Canadian operations lost more than \$1 billion (U.S.) operating revenue in 2013 and into 2014. The Canada expansion continued to hurt profits for the U.S. base retailer. In regards to consumer reviews, an article from the Canadian Business Reporter about customer’s reviews stated that, “after a surge in interest when the first Target stores opened, Canadians stayed away in droves, complaining that prices were too high compared to the U.S., and that there were too many empty shelves. Target admits it has had problems keeping shelves stocked” (Kopun, 2014, p. 47). The data breach also affected millions of Target customers during the 2013 holiday season, when people began their Christmas shopping in the U.S., which affected Canada consumers as well. This was another contributing factor to loss in operating revenue in the first year.

## PROBLEM DEFINITION

### Supply Chain Management

Target’s supply chain inefficiencies have been scrutinized as one of the main reasons for Target’s failed launch into Canada. Target opened an unprecedented 124 stores and 3 distribution centers in Canada. Customers anxiously awaited the opening of the first Target stores, but were immediately disappointed to find a lack of product selection and empty shelves. Workers located in the Canada distribution centers claim that the supply chain problems were a result of poor planning. Mark Schindele, Target Canada’s new President, said “With the benefit of hindsight, if we could do it all over again, we wouldn’t have opened up that many stores, that many DC’s (distribution centers), in that short a time frame. I know that much” (Reuters, 2014, para.4). The poor supply chain decisions and planning were due to an accelerated expansion timeline and enormous scope, which Target simply could not handle in such a limited amount of time and with no prior international experience (Martell, 2014).

One of the problems Target faced was the location of some of their stores, both in the highly populated areas, as well as the less populated areas. Based on the data in Table 1 (Appendix 1) it appears Target likes to have 150,000 to 175,000 in population per store, yet multiple stores were placed in areas with smaller population bases and were as far away as 1,644 km's from a distribution center. This would be the equivalent of supplying a store in Seattle from Minneapolis. Starting with fewer stores may have allowed Target to open the third distribution center in the Province of British Columbia, closer to a port for shipments, expanding to Manitoba and Saskatchewan at a later time.

Target has 26 Distribution Centers(DC) in the United States servicing 1797 retail stores (69 stores per DC) with an assist from 4 import warehouses, 4 perishable food warehouses and 3 DC's to support the online orders. Canada has 3 Distribution Centers initially supporting 124 stores (41 stores per Distribution Center). Two of these DC's are located near Lake Ontario in the Province of Ontario and the third DC is located in the land locked city of Calgary in the Province of Alberta to service the Western side of the country (Target, 2015).

### Impact of Canadian Laws

Political economy stresses that the political, economic, and legal systems of a country are interdependent; they interact and influence each other, and in doing so they affect the level of economic well-being (Megits, 2014) While the Canadian economy is comparable to that of the United States, there are still many different laws, economic structures, and consumer behaviors. Canada has strict packaging laws and protectionist tariffs that create higher costs for foreign companies entering the country. For example, Canadian laws dictate that the product identity must be shown in English and French on any packages, which instantly creates increased costs to accommodate the customized packaging of products. The differences in Canadian packaging laws and protectionist tariffs, as well as the exclusive wholesale arrangements that exist in Canada, prevent American companies from having their own distribution network in Canada (Austen, 2014). As a result, Target hired Eleven Points Logistics to run the operations in their three warehouses in Canada. This goes against Target's strategy in the US where they

own most of their distribution facilities and operation processes (Martell, 2014).

### Data Integrity

Data inconsistency was a key factor that led to the supply chain and distribution issues Target faced in Canada. Many of the shipments of products coming into the warehouses did not match Target's records in the systems, which would create bottlenecks as workers tried to reconcile the discrepancies. According to Schindele, the staff at the distribution centers were initially just pushing inventory through the system, instead of allowing the software to do its job in forecasting demand and allocating products (cited in Reuter, 2014). As a result, the products were coming into the warehouses faster than they were being shipped out and inconsistencies in inventory levels were leaving Target stores with empty shelves. The lack of data integrity within Target's systems made it impossible to keep the stores stocked appropriately. Target and Eleven Points have not commented on whether these errors were due to vendors making mistakes, buyers entering incorrect data, glitches with Eleven Points' computer system, or some combination of all three (Martell, 2014).

### Pricing Strategy

Canada Target's pricing strategy was to be competitively priced with existing retailers in Canada. Tony Fisher, president of Target Canada during the initial launch, stated in an interview, "We built our business model to be incredibly competitive with the lowest-priced leaders in Canada. We're not building our business model as compared to the U.S." (Target Canada, 2013).

This strategy created a problem for Canadian customers who were familiar with the low-pricing in Target's United States stores and expected to find similar prices in the Canada stores. When Target announced their deal with Zellers, about 70% of Canadians were already aware of Target. By 2013, about 92% of Canadians were familiar with Target and a significant number had shopped in the United States Target Stores (Zmuda, 2013). The high awareness and familiarity of Target stores among Canadian shoppers led to high expectations and disappointed shoppers who thought they could "Expect more. Pay less" in Target Canada stores.

According to Mark Schindele, a new Target

Canada President after Tony Fisher, Target's own research has found that their pricing in Canada is very competitive. However, Target understands how crucial pricing is in the Canadian retail market since price is a key driver for consumers. Schindele noted, "You have to be priced right. Pricing is very flexible. Our competition changes. We have to be very nimble and move all the time" (cited in Straus, 2013, p. 23). Target did opt to offer the 5% reward program and price matches in Canada, but so far this has done little to improve the perception of Target as a discount retailer in the Canadian consumers' eyes. However, some of the pricing was out of Target's hands. The high costs associated with the Canadian packaging laws, protectionist tariffs, and wage rates made it impossible for Target to sell their products at the same prices as in the United States (Austen, 2014).

### Culture and Consumer Behavior

The Business Development Bank of Canada (BDBC) conducted a study in 2013 that identified five major consumer trends that are shaping the retail industry in Canada. According to the study, the internet is shaping every aspect of a consumer's purchasing decision. Most Canadians start their purchasing decisions by searching for the product or service online, reading the online reviews, and in a lot of cases end up making the purchase online. Target has not launched their e-commerce site in Canada yet, which is becoming a very important method for generating sales in Canada (BDBC, 2013).

There is also rising health awareness among Canadian consumers, which is prompting them to purchase products that will help maintain and improve their health. Additionally, there is a major trend to buy locally made goods in an effort to support Canada's economy and ensure corporate social responsibility initiatives that preserve the environment. Customization is also becoming a key factor in consumer purchasing decisions in Canada. Finally, the consumer behaviors that transformed during the 2007-2008 recession are becoming the new standard, where consumers expect quality products at a low cost (BDBC, 2013).

Different from U.S. consumers, Canadian shoppers tend to subscribe to a pick and choose model-selecting retailers based on their strengths. This will prove to be a challenge for Target which aims to have customers do "one-

stop shopping."

### Marketing strategy

Target distinguishes itself from major competitors, like Wal-Mart, by positioning itself as a more stylish, design-focused mass merchant (Shaw, 2011). Target leverages their "Expect more. Pay less" platform to speak to their stores' quality products and lower prices. Another unique branding strategy Target employs is to refer to their shoppers as "guests". This helps depict the strong guest service Target aims to provide to every shopper, by making them feel like a guest in their stores. Livia Zufferli, the head of marketing for Target Canada, explained that the focus and goal for Target was to bring forth one global brand in their Canada expansion (Zmuda, 2013). Therefore, Target leveraged the same media cadence as that of the United States and relayed a consistent brand image across borders.

As previously mentioned, Target's brand awareness was already very strong in Canada before the stores even opened. Therefore, instead of focusing on brand awareness, Target focused on engaging Canadian consumers and educating them about the Target brand. Target sponsored a number of events, used guerilla-marketing tactics, and highly leveraged social media as a way to generate excitement for the brand coming to Canada. The company used these methods to lay the groundwork before launching their mass media push closer to the store opening dates.

### Local Canadian Competitors

Wal-Mart is now the largest retailer in Canada and therefore Target's biggest competitor in the market (Austen, 2014). Wal-Mart's "everyday low pricing" strategy has created the illusion of lower prices than Target, but recent studies suggest that Target is actually winning the war on price in Canada. In addition to variance in pricing, much of Wal-Mart's success can be attributed to first-mover advantages. Wal-Mart entered the Canadian market 20 years before Target's international launch. Being first to market, allowed Wal-Mart to more easily capture market share and gain valuable knowledge about operating in a foreign country (First Mover, 2014).

## ANALYSIS OF KEY FINDINGS

According to Megits (2014), economic theory tells us that the efficient functioning of markets depends on an adequate level of competition between producers. For this reason, “timing of entry” is very critical and is the timing of entry into the selected international market. Companies are divided into early entrants and late entrants. Entry is early when a company enters a foreign market before other firms and late when it enters after other companies have already established themselves (Megits, 2014).

When Target began its international expansion into Canada, there were two large issues that contributed to such a soft launch. First, the online strategy did not support such a vast international expansion and second, out of stock items contributed largely to the dying excitement of Target Canada upon the first few months of launch. Target failed to introduce their product in the most effective channels and when introduced, could not back it up adequately with inventory.

While Target marketed its launch through billboards, TV and print ads, it failed to market properly on the internet. A whopping 49% of Canada’s internet users shop online monthly, using internet sites to view the selection, pricing and reviews prior to ordering online or walking into the store to make a purchase (Shaw, 2014). There is a growing retail site, Target.com that not only features product, but interactive shopping, sales, reviews and shipping. However, it does not ship internationally and has a different selection than many of the items that are showing up in the Target Canada stores. Not only does this create a major disconnect for the Target shopper, but in the omni-channel retail environment, the lack of an international online marketing strategy goes a step further to disengage customers from the product and brand.

From Target’s perspective, this comes in wake of a rushed launch of their American website in September 2011. The Target.com president at the time had been told by his IT department that it could complete the website in 4-5 years and he pushed them to move from Amazon’s platform in 2 years. This led to rushed development and even more rushed testing so when the site finally launched, it could not handle the volume of traffic. When Missoni, a popular designer brand, launched a few weeks later, the website could not handle the volume of traffic: “Between 7:47 and 8 a.m. ET Tuesday, the Target.com homepage

was completely down with a connection timeout error, according to AlertSite, a Web performance monitoring business. For most of Tuesday afternoon and evening, the homepage displayed a courtesy page of the Target dog letting visitors know the site was overloaded” (Grinberg, 2011, para 4). The website crashed again under the influx of traffic on Black Friday weekend and for that reason the president of Target.com was “let go” after a board meeting. These failures make it more understandable why Target was hesitant to take on another website endeavor so quickly and in an international market.

Even if it had been able to pull it together, Target’s supply chain was not ready to handle the international expansion from an online shipping perspective. Its current U.S. supply chain is over 50 years in the making with regulations Target understands and it has developed distribution centers in the United States. To introduce an online shipping model to Canada would mean creating an entirely different strategy for distribution center placements and shipping/exporting/importing methods. Lastly, Target was concerned about the potential brand confusion that could be caused through a Target Canada website and a Target U.S. website. How would the brand be managed to create a cohesive experience regardless of shopping location in stores or online? For these reasons they focused on brick and mortar expansion without considering “click and mortar” expansion and this alienated the millennial and increasing online researchers and shoppers from the Target strategy.

With all of this being said, there is an even medium that could be found to neutralize these opportunities. To create an online presence for the Target Canada shopper and show items available for purchase, reviews and prices in Canadian currency, without allowing these items to be purchased or shipped from the online channel, Target can reach its guests in the places where they already are, without risking more supply chain or inventory issues. This would also allow Target Canada and itsr guests to take advantage of the pickup in store option to drive visits and basket size up.

Secondly, Target was not prepared from a supply chain and inventory standpoint to keep its shelves stocked. While the perspective for Business Analysts in Minneapolis is “Just in Time Inventory” to get the product in the warehouses right before it is needed to reduce storage costs, -

that theory did not work in the Canada sector. As John Mulligan, CFO, said on a conference call in November 2013, “While shelves are better stocked in many sections of the stores, the inventory levels are inconsistent and still not where they need to be. Problems persist especially in the home and apparel sections, where overseas merchandise ordering is done with long lead times, giving the retailer less flexibility to re-stock shelves quickly” (Strauss, 2014, para 12).

While this has been an issue since launch, the retailer is implementing strategies for unloading and stocking shelves to get the inventory up on the shelves as soon as it arrives. Employees now have six hours to unload trailers and stock stores back rooms and launched its “98 per cent accuracy” goal to make sure back rooms are 98% stocked (Strauss, 2014). While these are great strategies, it lacks the forward thinking that needs to happen in order to prevent the stores from needing to rush to stock shelves. A better inventory strategy needs to be created for long lead-time items and managed more accurately at Target Canada Headquarters. In addition, teams in the Accessories & Apparel departments should have expectations of their vendors to provide the product within a certain timeframe or monetary penalties would be assessed to the vendor from Target no longer taking the product.

Talking about unresponsiveness towards a local market, the local news company, Gawker, interviewed one former Target Canada employee whom emphasized how the company missed out the opportunity to increase sales by sticking to its planogram. A planogram is a visual diagram, or drawing, that provides in detail where every product in a retail store should be placed. These schematics not only present a flow chart for the particular merchandise departments within a store layout but also show on which aisle and on what shelf an item is located. It also illustrates how many facings are allocated for each SKU (About.com). According to the interviewed employee, shelves, endcaps, and sections were left empty even if they could be filled with inventory on-hand because Target did not want employees to fill them. The company's goal was to execute the planogram 100% flawlessly even if those things on shelves didn't correspond to what the customers need. As a result, “basics like milk, food or consumables that drive repeat business are always out of stock” (Nolan, 2014). As a consequence, this unnecessarily discouraged

guests from going back to the store. This ugly scenario exposed another issue with Target Canada's supply chain. It struggled with “inconsistencies between goods and computer records [which] caused a chain reaction of delays. Problem shipments needed to be unpacked and cataloged, a time-consuming process. They piled up instead of going out to stores, taking over large parts of the massive warehouses” (Martell, Ho, & Taylor, 2014, para 15). Mr. Schindele, Target Canada President in May 2014, complained that “Target Canada also wrestles with mismatched order scheduling between the time its suppliers think an order is due and when the retailer expects it to arrive in the warehouses” (Strauss, 2014, para 11). The increased inventory cost and “data inconsistency in the supply chain appear[s] to have contributed significantly to Target Corp.'s woes in Canada, where losses have already climbed past \$1.4 billion about a year after its first stores opened there” (Norton, 2014, para 1).

Target's Canadian struggles mirror to some extent issues faced by Wal-Mart as they attempted to enter the German, South Korean, Chinese and Brazilian markets. Wal-Mart's international struggles were similar to those of Target, primarily revolving around weak relationships in their new markets and logistical issues. Wal-Mart's attempted expansion into Germany from 1998 until 2006 was considered in the retail industry to be a “template for how not to expand into a country” (Landler, 2006, para 8). Wal-Mart failed to address cultural differences in Germany and the United States, and underestimated the difficulty of managing logistics outside of the United States.

Wal-Mart sold off their German and South Korean business units in 2006 after unsuccessful launches, and has been closing stores in China due to reputational and supply chain issues. While Wal-Mart continues to operate in Brazil, Canada and Mexico, losses have continued for twenty years in Brazil, and analysts from Credit Suisse Group AG in New York have recommended that Wal-Mart spin off all international business except for Canada and Mexico (Dudley, 2014). Wal-Mart's most successful overseas ventures have been in situations where they acquired an existing chain and maintained that chain's name and brand, with Cifra in Mexico being the strongest example.

Target's issues in Canada show that Target did

not study in enough depth the struggles that Wal-Mart had already faced internationally overseas. Wal-Mart's struggles in Germany and other markets revolved around failure to adequately cater to the local market and logistics. Target faced the same two issues in Canada. While Canadian culture is more similar to the United States than Germany, there are still notable differences that must be accounted for. Supply chain issues and lack of warehouse space were also issues that Target faced while they should have realized the importance of logistics planning from Wal-Mart's failures overseas.

Target and Wal-Mart, both realize that international expansion is critical to continued growth once the United States market is saturated. Walter Loeb, a retail analyst for Forbes compiled the following list of recommendations for a successful international retail expansion:

1. Have a clear reason for being. For example, whether it is Sephora or IKEA, customers know exactly what those brands stand for and why they are unique to the market.
2. Listen to customers and be flexible and be willing to change. Every market has a unique local flavor.
3. Consider a joint venture with a local leader. Benefit from his knowledge and talent.
4. Respect local culture and adapt to local customs.
5. Have a well-defined real-estate strategy. Do lots of research.
6. Invest in appropriate marketing and build a strong infrastructure.
7. Develop strong local management that has autonomy to respond to their market.
8. Recognize local competition as a serious threat (Loeb, 2013).

As previously discussed, supply chain and distribution problems have led to empty shelves, resulting in a tremendous decrease in customer satisfaction and sales. Target has three distribution centers in Canada, which are managed by an outside firm. Goods were being delivered to the warehouse faster than the warehouse could turn the product around to stock the stores, causing a large accumulation of inventory. Much of this confusion can be attributed to mismatched barcodes between Target's three distribution centers. Additionally, insiders were reluctant to report these problems

in a timely fashion. "We are still lumpy, we still have levels to clear, but we're getting our arms around that," said Kathryn Tesija, Executive Vice-President of Merchandising and Supply Chain Management. (Sturgeon, 2014, para 4).

One option to improve supply chain issues in Canada would be to implement a physical count of current inventories at all locations in order to recalibrate what the system currently shows. Mismatched barcodes meant that the computers were reporting inventory that didn't match what was in the stores. Resetting the system will allow Target to maintain more accurate data for ordering and shipping.

Target could also consider hiring a supply chain consultant to assist in fixing the current system. Supply chain management is an effort to develop and implement supply chains that are as efficient and economical as possible (Supply, 2014); something Target has clearly missed the mark on. Hiring a consultant would require giving full control of the supply chain to an outside party, but the potential efficiencies to be gained from an expert who knows the Canadian market would be extremely valuable.

Target also has the option of taking over management of its own distribution centers, currently being operated by a third party. Bringing more of the process under one roof could decrease issues around mismatched barcodes and consolidate the ordering process.

Pricing has also been cited as one of Target's major struggles in Canada. Target's challenge is consumers' high expectations for pricing in Canada compared to the US market. According to surveys, while Target's pricing is 15 percent higher than the US on average, Wal-Mart's prices are 0.5 percent lower (Table 5). According to the chart on the follow page, Target's prices on goods are slightly higher than Wal-Mart's in the United States (Appendix 1, Table 5). Table 5 shows Target prices compared to Wal-Mart product categories. According to this table, Target's prices on goods are slightly higher than Wal-Mart's in the United States and Wal-Mart has a significant price advantage compared to Target in Canada. The gap between prices is noticeably wider in the United States.

One option for Target would be to lower prices to compete with Wal-Mart more directly. However, higher tariffs, suppliers' country charges, and fewer economies of scales will make price adjustment difficult. Additionally, Richard



Baker, Chief Executive Officer of Hudson's Bay Co. said "his costs, including labor, are about 35 per cent higher in Canada than in the U.S. Most items are 2 or 3 dollars more than in the U.S" (Straus, Krashinsky, 2013, para 13).

Target could also choose to maintain higher prices and increase profits by improving the guest experience and perception of value. The more value guests place on Target's brand offering, the higher prices Target will be able to maintain. Using this strategy, Target would gain market share by competing on quality rather than price. This will be crucial if Target aims to achieve profitable operations in the near future.

Alternatively, Target could choose to strategically adjust prices on particular items—lowering prices on common, highly purchased items and maintaining, or raising, prices on items with a more premium value association. Mr. Schindele notes, "We know we still have work to do, but the entire Target team is focused on continuous improvement so that Canadian guests will have the Target experience they deserve" (McKinnon, 2014, para 6).

Target's marketing approach will continue to be a vital component of a performance turn around. Target needs to design a marketing strategy that appeals more directly to Canadian consumers and focuses on differentiating the company from domestic competitors. Understanding of regional and cultural difference will be crucial in this regard.

One strategic approach would be to develop and aggressively market exclusive brands for Target Canada. Consumers were familiar with stylish, exclusive brands seen in US stores and were disappointed when many of these brands were not carried in the Canadian market (Austen, 2014). In addition to filling a gap perceived by the consumers, exclusive brands would provide even more value creation for the Target image.

An e-commerce platform would be an additional marketing opportunity to drive increased sales. Online retailers represent a current, and quickly growing, competitor. In addition to added revenues, online shopping provides added convenience for Target shoppers. Target should also consider implementing an order-online-pick-up-in-store model that has successfully driven revenue in the US market.

Once supply chain management is streamlined, Target could drive sales by promoting weekly specials across several media platforms (social

media, television, newsprint). Consumers may be leery of this approach, however, since advertised weekly specials were out of stock at several stores shortly after Target's initial launch.

Consumer demographics show that Canadians like to support their local economy and place heavy importance on corporate responsibility. Target should consider a marketing campaign that focuses on its 5% giving policy, involvement in the community, and corporate responsibility practices. Target could also sponsor local events to create visibility and good will. The company has the unplanned advantage of logo colors that match the Canadian flag, and could consider designing a new mascot that appeals to the Canadian market and sense of pride.

A combined approach of any or all of the above could define the future marketing strategy for Target Canada. Whatever the approach, it would be wise for Target to consider hiring a consultant with expertise in marketing to Canadian consumers. According to Jim Danahy, Chief Executive of a retail-consulting firm in Toronto, Target has been potentially fatal in their assumptions about the Canadian market. A consultant versed in consumer culture and behavior will be able to help Target avoid making the same mistake moving forward (In surprise move, 2015).

## CONCLUSION

### Target Canada: Turn-around approach to-date

Following a dismal performance in the first year, Target Canada is left with many to answer to – disappointed guests, team members, and investors. After promising a profitable return by the end of 2013, Target Canada posted gross margins of only 4.4%, a fraction of the nearly 30% margins seen in the United States market. According to John Mulligan, interim CEO at the time, the company is committed to staying in Canada and is aiming for \$6 billion in annual sales by 2017 (Banjo, 2014). In order to achieve this goal, Target Canada would need to address issues surrounding supply chain and distribution management, pricing, branding, and marketing approach.

As a first step in answering to guest disappointment and negative perception, Target Canada released a public apology via YouTube on June 10, 2014. In the video description, Target has shared the following message:

At Target, we know we have work to do in order to meet the expectations of Canadians who love our brand. We've identified our key challenges, and our entire team, including 20,000 Canadian Team Members, is committed to making improvements. Thanks to all of our guests and fans that continue to show support -- we're focused every day on giving you the experience you deserve (Our Target, 2014).

If inline comments are any indication, the video was not warmly received.

When Brian Cornell, Target's new CEO, took over operations on August 12, 2014. Cornell has made fixing Canadian operations a top priority and has worked with Target Canada president, Mark Schindle, on a strategy that included lowering some prices and resetting systems to get a better handle on inventory (Kumar, 2014). While analysts feel that this strategy is moving in the right direction, a more important factor is whether Canadian shoppers will come back after an initial turn off.

In order to address the stocking problems, Target instituted a program to physically count inventory and reset systems for more accurate ordering. Vendor codes between its three Canadian distribution centers have been also been streamlined to prevent delays in delivery.

As part of their competitive pricing strategy, Target has historically tracked approximately 20,000 items also carried by competitors and priced such items within 1%. Research in Canada, however, uncovered about 1,000 items missing that have now been added to the model (Kumar, 2014). In addition to increased price cuts compared to competitors such as Wal-Mart and Loblaws, Target has expanded its price-matching policy to include certain online retailers (an increased market of competition in Canada and the United States).

Adding to concrete pricing and inventory approaches, the experience gained in the first year of operations—despite lackluster performance—has provided Target Canada with valuable insight into consumer demand. First year sales will help create better predictions for second year orders. Target also learned that consumers want a broader assortment of merchandise. In response, the company is expanding its maternity and plus-size lines as well as adding more selection to its electronics department. Following in the footsteps of its US

partners, Target Canada is also introducing a long-term designer partnership with Sarah Richardson for its home décor department.

Target's actions by the end of 2014 have created a minor improvement in analysts' outlook for the international expansion, but optimism remains tentative. David Strasser, an analyst with Janney Capital Markets believes Canadian operations are "fixable" and highlight a path forward toward improvement, but may not ever return to the profile that had originally been forecast (Kumar, 2014, para 17). According to the New York Times, analysts are not defining the Target expansion as irredeemable, but they are unsure how quickly the company can achieve profitability and what methods they will need to employ to do so (Austen, 2014).

### Future Alternatives

Despite differing opinions regarding Target's future in Canada, the company was committed to continuing, and expanding, operations. Target announced in January that it would add an additional nine stores in 2014, a majority located in Ontario (Target to Continue, 2014). Considering initial struggles with expansion into Canada, further growth will make corrective action vital.

In addition to the responses implemented to date, it was discussed that Target launch an eCommerce platform to provide online sales to Canadian guests as soon as possible. Canadian consumer trends and established success in the United States indicate that online sales will be a crucial factor in establishing and maintaining market share. As a part of eCommerce sales, Target should also implement its order-online-pick-up-in-store option for Canadian consumers. The model has been successful in driving additional sales in the US market (Kopun, 2014). Target could also consider hiring a marketing consultant with strong knowledge of Canadian consumer behavior. As the company struggles to rebuild its image and redefine its marketing strategy, the expertise will be invaluable.

Pricing continued to be crucial as Target moves forward in Canada. Although research has shown that Target is competitively priced against domestic competitors, consumer perception holds Target as overpriced. The board recommended continuing to lower prices on the most bought common items. To make up for potential margin loss in some areas, Target

should consider raising prices on more premium items such as in-house designer fashion lines or furniture. Private brand development will also allow Target to implement even lower prices.

As a final strategy note, Target should implement a team to analyze the number, location, quality, and potential sales of its Canadian stores. According to many analysts, Target Canada got too big, too fast. They stretched organizational resources too thin and the customer experience suffered (Tasker, 2014). Additionally, many of the Zellers locations are smaller than Target's typical US format and are located in rundown shopping centers that are hard to access (Banjo, 2014). Closing some of the less desirable locations could allow Target to better leverage resources at a smaller number of stores, focusing on improving the experience at those locations with the highest potential revenues.

Canada is still an attractive international expansion option for Target. It will remain to be seen if Target bit off more than it can chew in Canada, but it is evident that they face an uphill battle to regain consumer trust and market share. It is the recommendation of our team that Target Canada implement the above strategy for three years before reassessing continued operations in the Canadian market.

Should Target abandon Canada, and instead monitor it closely and wait for the right opportunity to acquire another retailer when the opportunity presents itself? Canada is a competitive, but still very attractive, market to enter. Or, may be Target should use what they learned and apply it in Mexican, European, or Eastern Asian markets with its new small store format or omni-channel or direct-to-consumers strategies? Many options and international retail opportunities still exist.

With the experience learned from their first failure, along with the advantages of being a late mover, there is no doubt Target can develop a winning an international entry strategy into foreign market.

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