

TARGET CORPORATION: A CANADIAN DISASTER*

INTRODUCTION

In March of 2013, Target Corporation expanded operations into the Canadian discount retail market, hastily opening 127 store locations. The store locations were acquired from ailing Canadian retailer, Zeller's. Failure came quickly, due to reduced product selection and higher prices, compared to the company's U.S. locations, with which thousands of Canadians had grown familiar. Along with other issues, these inadequacies caused store traffic and sales to plummet shortly after opening. By the end of April, 2015, all 133 Canadian Target locations had closed, putting 17,600 people out of work and costing the company \$941 million.

TARGET CORPORATION

Target Corporation is an American retailing company, founded in 1902 in Minneapolis, Minnesota. The chain is second only to Wal-Mart as the largest discount retailer in America, with over 1,900 stores. The company netted revenues of \$72.6 billion in 2014 is a component of the Standard & Poor's 500 index and is ranked 36th on the Fortune 500.

Target stores are large (between 95,000 and 135,000 square feet) with variable designs. Some are typical big-box stores while others are multiple stories and more closely resemble traditional department stores. Products offered include hardlines, softlines, some groceries, electronics, toys, furniture, and much more. Many locations also include a photo studio and food outlets such as Pizza Hut and Starbucks.

Target's main competitors include K-Mart and Wal-Mart but Target has differentiated itself by offering more upscale, higher-quality, trendier products at reasonable cost. The concept, as described by the founder's son, Douglas Dayton, is to "offer high-quality merchandise at low margins because we are cutting expenses. We would much rather do this than trumpet dramatic price cuts on cheap merchandise."

Typical Target shoppers differ somewhat from their competitors'. The average age of its shoppers is 41, the youngest among its competitors. Median income of shoppers is roughly \$63,000. Most shoppers are women (76%), roughly half of whom have children at home (45%).

Target stores are designed to be more attractive than competing big-box stores to solidify their upscale perception.

Stores feature wider aisles, drop ceilings, and attractive product positioning, alongside contemporary, understated signage.

DATA BREACH

In 2013, a malware attack breached Target's IT security and compromised the security of over 110 million credit and debit card accounts, the largest breach of private retailer data in history. The attack cost the company over \$60 million and caused a downgrade of its credit rating.

This attack coincided with Target's attempt to expand operations to Canada. The breach was the highest priority for Target's management to handle. This caused a major detraction from the attention that the Canadian expansion should have been given. As the cyber crisis was deemed under control, the company thrust into a new disaster in Canada with new CEO, Brian Cornell at the helm.

WHAT WENT WRONG

Supply Chain. The biggest issue that Target Canada faced was with the supply chain, stemming from opening 124 (eventually 133 in 2 years) stores and three massive distribution centers across the country. Target uses a computer-assisted ordering system that alerts the distribution centers when a store is low on a particular item. The quick expansion into Canada seemed to be problematic for the system as it was unable to notify the distribution centers, leaving many stores without popular products, and the distribution centers packed with items. Due to a different set of taxes and the costs of getting the products into the country, Canadians pay a slightly higher price than Americans, for retailed goods. Target's computer system had difficulties adjusting to the new prices, which caused the system to experience technical difficulties. The system was never able to adjust to Canada and even sent 4th of July items to the stores, filling the shelves with items that Canadians had no interest in purchasing. They also made the mistake of not targeting specific markets in Canada, as many people complained that there were not enough hockey jerseys at the stores. Target was also relying on bringing its American supply chain into Canada. Instead, many of its suppliers were unable to fulfill the new stores requests, forcing Target to offer a limited version of their products. This greatly upset customers who were familiar with American Target. They were angry that they could not find items that were marketed in commercials in the stores. If Target had expanded at a slower rate, they would have realized that they were having computer failure and could have fixed the problem before opening more locations. Target was stretched too thin and had too many issues in trying to stock their shelves.

*This case was prepared by Connor Hardimon, Michael Jeffers, Stephen Leonardi, Christopher Schwab, and Michael Sines of the Fox School of Business at Temple University under the supervision of Masaaki Kotabe of Temple University for class discussion rather than to illustrate either effective or ineffective management of a situation described (2015).

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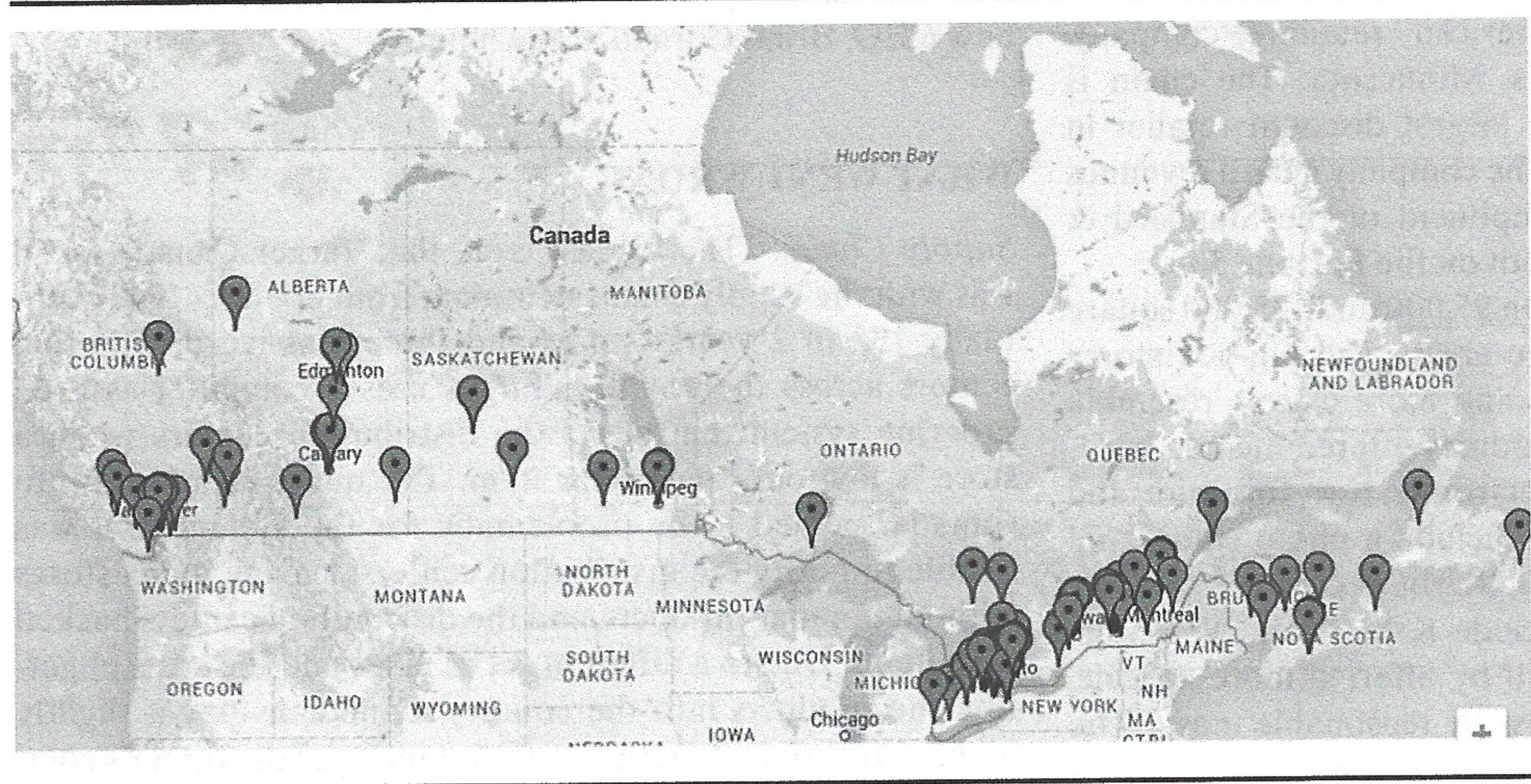
Bad Locations and Empty Shelves. Target expanded into Canada by purchasing stores that were formerly owned by Zellers, a Canadian discount retailer that was going out of business, for \$1.8 billion. Purchasing Zellers proved to be a costly mistake for Target for a number of reasons. To start, Zellers targeted lower-class customers and had built its locations in the areas where its customers lived. Target, which focuses on middle to upper middle-class customers, found itself in less than ideal locations. These locations were frequently out of the way for its target customers and did not offer affordable pricing for the customers who did live in the area.

Zellers offered a large product line and had larger buildings than American Targets. Target stores were faced with having to choose between adding more products to the stores or leaving shelves empty. Target decided to leave the shelves empty giving customers the impression that they had either already run out of stock or did not have enough products to fill all of the locations. Canadian customers quickly started to associate Target to Zellers as both locations featured red storefronts and empty shelves.

Wal-Mart and American Strategy. When Target announced that it was preparing to enter the Canadian market, Wal-Mart decided to slash its prices in order to retain market share. Canadians had been familiar with Wal-Mart since the mid-1990s and the large discount retailer had dominated the market since. As dissatisfied customers left Target, Wal-Mart made sure to offer the same products that were being advertised at Target. Because customers could only buy the items at Wal-Mart, they decided to give up on giving Target a second chance.

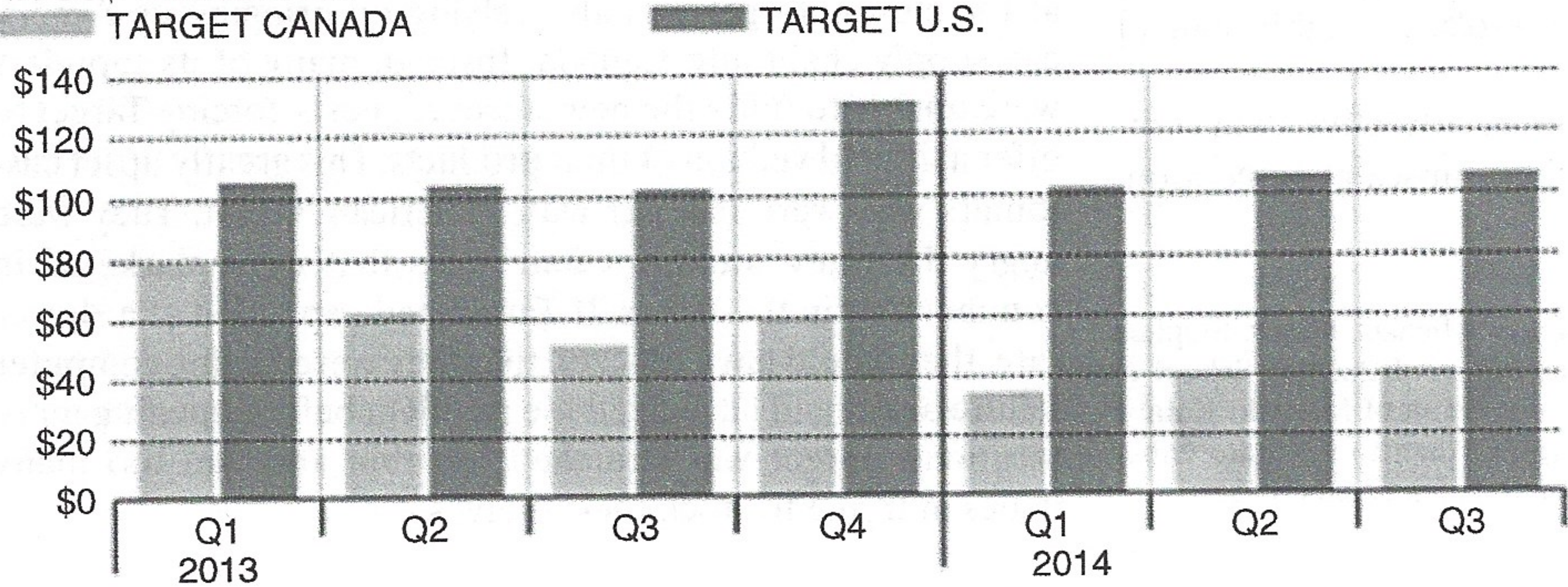
In 2014, Target announced the hiring of Brian Cornell as their new CEO. Mr. Cornell came from outside the company and viewed Target Canada as a failed expansion. As Target Canada was struggling to stay afloat, Target America was hitting record highs in revenue. Mr. Cornell insisted that Target Canada was a sinking ship and that all resources should be directed to revamping and dominating the American market, which had brought in over \$75 billion in revenues. In January of 2015, Mr. Cornell officially announced the closing of Target Canada.

MAP OF TARGET CANADA LOCATIONS



TARGET CANADA'S SALES STRUGGLES

AVERAGE SALES PER STORE PER DAY
IN US\$ THOUSANDS



SOURCE: INTERSTRATICS

JONATHON RIVAIT / NATIONAL POST

TARGET CANADA VS. TARGET AMERICA SALES

Zellers. Zellers was a very popular retailer located throughout Canada and like many others was forced out by Wal-Mart. To better understand Zellers lifespan, a chronological synopsis will be provided. Walter Zeller the founder of the retail chain Zellers started when he purchased 14 stores from Schulte-United. Zeller sold these stores to the company just years before. When the great depression occurred, Shulte-United was crushed and the company had to file bankruptcy. Walter Zeller decided that this was an opportune time to own more stores, and in 1931, Zellers was created. Zeller wanted to start the company with a bang and decided to create a plan in order to expand quickly. Within 25 years, Zeller was able to open 60 stores and was earning over \$43 million a year. Even with World War II hindering Zeller from opening many stores it did extremely well. Zellers expanded into Eastern Canada in 1952 by buying up 5-10-15¢ to \$1.00 Stores. These stores were converted into Zellers stores. Zellers also made a deal with the W.T Grant Co. This deal gave the larger retailer a 10-percent stake of its shares. Later the Grant gained 51 percent ownership, this was a great thing because it allowed Zellers workers to get training at Grant stores and were able to reap benefits of the two companies.

The years from 1952 to 1976 were excellent in sales. At this point in time, Zellers was pulling in \$400 million with approximately 155 stores. In the 1960s, Zellers started opening restaurants and even an auto center. Zellers did a wonderful job in expanding to the suburbs during the baby boom and also ensured to keep its influence in cities as well. The seventies became a time of struggle for Zellers which had to fight potential take over from competitors. In 1978, the Hudson Bay Company became the owners of Zellers. The company kept all Zellers stores the same in order to keep those same customers and to still reach a larger audience.

In the beginning of the 1980s, Zellers was accused of selling counterfeit video games, more specifically Atari games. The games were knock offs of titles that were created by Atari or one of its developers. This led to a lawsuit with Atari and resulted in the ban on selling any Atari games. This started Zellers demise as many customers could not go to the major retailer for video games, which was a large problem as video games were beginning to become extremely popular. Zellers missed out on a great deal of potential sales as video games were in millions of households. As the 1990s approached the Hudson Bay Company acquired 51 more stores from the Towers/Bonimart chain and made them into Zellers outlets. It was at this time that the company began to use the mascots of each company. The new slogan for Zellers was “the lowest price is the law,” reinforcing the idea that Zellers provided its customers with the cheapest of prices. Next, the company started expansion into Western Canada purchasing 21 stores from bankrupt Woodward’s another failing chain. Acquisitions continued and in 1998, Hudson Bay K-mart’s entire Canadian Division. The stores were merged in with Zellers, and these two were made into outlets.

The 2000s marked the real decline for Zellers. In 2006, the company was taken over by Jerry Zucker who was a large southern businessman. An individual Mark Foote, who was once in charge of merchandising at a large company Loblaw, was appointed as president. In just 2 years, he was able to help stabilize the chain although there were still concerns facing its biggest competitor Wal-Mart. Shortly after Zucker’s death,

the company was sold to an NRDC Equity Partners. NRDC is known for its stores Lord & Taylor, which is a high-end retail store. The Hudson Bay was now being marketed as a higher-end store offering more expensive attire; however, Zellers was still struggling and was seen as a strain on the parent company and its American owner.

In 2011, Target purchased the lease agreements of approximately 220 Zellers for nearly \$2 billion. The deal stated that Zellers would sublease the properties and operate them as Zellers for a year. At this time of official closing, nearly 150 stores were to be opened up as Target stores. The rest of the stores were turned into a variety of other retail stores but the Hudson Bay Company created just a few Zellers in very select locations. In the latter months of 2011, 39 stores were sold to Wal-Mart Canada. This began a series of problems for Union workers because of the layoffs of so many Zellers workers who were not being rehired by the takeovers. Many people were shocked as Wal-Mart and Target normally were hiring the same people after the takeovers. In preparing for a Target takeover, Zellers president decided that he should liquidate over 200 stores. The plan was to raise profits by increasing inventory levels on higher returned goods over lesser returned goods. Zellers really wanted to slash costs and began a series of campaigns using Facebook as a major means.

Many speculate why Zellers was not able to sustain its success. The most sound and popular argument as to why Zellers failed was Wal-Mart. Wal-Mart had a much deeper supply chain and was able to provide cheaper prices to its customers. Customer service and quality of employees played a pivotal role for customers. Many Zellers locations were not only understocked but also lacked greeters and a sufficient number of employees to create a positive experience. Zellers attempted to stay alive against the giant Wal-Mart by purchasing up Tower and K-Mart locations but it could not withstand Wal-Mart. Experts claim that if Zellers had not had such cheap leasing contracts, it would have failed many years before. Zellers was only paying \$6.00 a square foot in comparison to the national average of \$14.00 a square foot. Zellers was a company that went through many obstacles and was able to stay around for eight decades.

CANADA BACKGROUND

Cultural Context. The majority of Canada can be regarded as a low-context culture, but unlike their neighbors to the south, Canada has a large enough representation of high-context cultured citizens that it is worth mentioning. As illustrated in the following segment titled, Canadian Demographics, Canada is home to a large portion of French people. These decedents of France make up roughly 15 percent of Canada’s total population. As a result, a culture emerged which is quite different to that traditionally found throughout the country, as noted in the upcoming segment, Regional Differences.

Canadian Demographics.

First Language	Population (2011)	% of Total Population (2011)
Single language responses	32,481,635	98.1
Official languages	25,913,955	78.2
English	18,858,980	56.9
French	7,054,975	21.3
Nonofficial languages	6,567,680	19.8

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Perhaps one of the most notable differences between America and Canada is that Canada has two official languages, French and English. The table above depicts roughly one in five Canadians with French regarded as their first language. Another interesting takeaway from the table is the bottom statistic, which reveals nearly 20 percent of the population as speakers of a nonofficial language, whether that be Spanish, German, or one of the many native tongues passed down through generations. In conclusion, just over half, 56.9 percent of Canadians regard English as their mother tongue, making a communication method that is effective across the entire population more difficult.

The following table illustrates the demographics of Canada. Most notably are the first five groups. Nearly half of Canada's population, 48 percent, are British (England, Scotland, and Ireland). In addition, as previously mentioned, approximately 15 percent of the population is French. Also worth mentioning, only 1.13 percent of Canada's population is American. This table demonstrates that the makeup of Canada's population is

Ethnic Origin ^[Note 1]	%	Population	Area of Largest Proportion
Canadian	32.2	10,563,805	Quebec (59.1%)
English	19.8	6,509,500	Newfoundland and Labrador (43.4%)
French	15.4	5,065,690	Quebec (29.1%)
Scottish	14.4	4,714,965	Prince Edward Island (39.3%)
Irish	13.8	4,544,865	Prince Edward Island (30.4%)
German	9.8	3,203,325	Saskatchewan (28.6%)
Italian	4.5	1,488,420	Ontario (7.0%)
Chinese	4.5	1,487,580	British Columbia (10.7%)
North American Indian	4.2	1,369,115	Northwest Territories (37.0%)
Ukrainian	3.8	1,251,170	Manitoba (14.9%)
East Indian	3.6	1,165,145	British Columbia (6.3%)
Dutch (the Netherlands)	3.3	1,067,245	Alberta (5.1%)
Polish	3.1	1,010,700	Manitoba (7.3%)
Filipino	2.02	662,605	Manitoba (5.2%)
British, not included elsewhere	1.75	576,030	Yukon (2.4%)
Russian	1.7	550,515	Manitoba (4.3%)
Welsh	1.4	458,705	Yukon (2.8%)
Norwegian	1.4	452,710	Saskatchewan (6.9%)
Métis	1.4	447,655	Northwest Territories (6.7%)
Portuguese	1.3	429,850	Ontario (2.3%)
American	1.1	372,575	Yukon (2.2%)
Spanish	1.1	368,305	British Columbia (1.4%)
Swedish	1.0	341,845	Saskatchewan (3.2%)
Hungarian	1.0	316,760	Saskatchewan (2.8%)
Jewish	0.94	309,650	Ontario (1.4%)

much different than that of America's. America is considered to be a melting pot, Canada, on the other hand, can be considered a mosaic, for the groups do not intertwine as much as one may think, as revealed in the following section, Regional Differences.

REGIONAL DIFFERENCES

Canada is the second largest country in the world in terms of size, which isolates groups from coast to coast and makes their differences more noticeable and significant. Similar groups are paired together and given the term region in order to appreciate the group across provinces. Over time, six major regions have emerged, British Columbia, The West, Ontario, Quebec, Atlantic Canada, and The North, all drastically different from each other.

British Columbia is the farthest to the West, as the Pacific Ocean gives this region a long coastline. Home to the renowned city of Vancouver, this region is seen by Canadians as the "land of the future." People of this region have more in common with the American citizens in Washington State than with those of Toronto.

Moving east, the next region is dubbed The West. The West is made up of three provinces; Alberta, Saskatchewan, and Manitoba. Residents of this region are often more open, relaxed, and friendly than residents of any other region. Comparisons are often made with people of the Western United States.

Ontario is the most populated region in Canada, home to the internationally recognizable city of Toronto. As a result, it is the country's economic, political, and cultural hub. Residents of this region are often considered more business-like and conservative than anywhere else in the country.

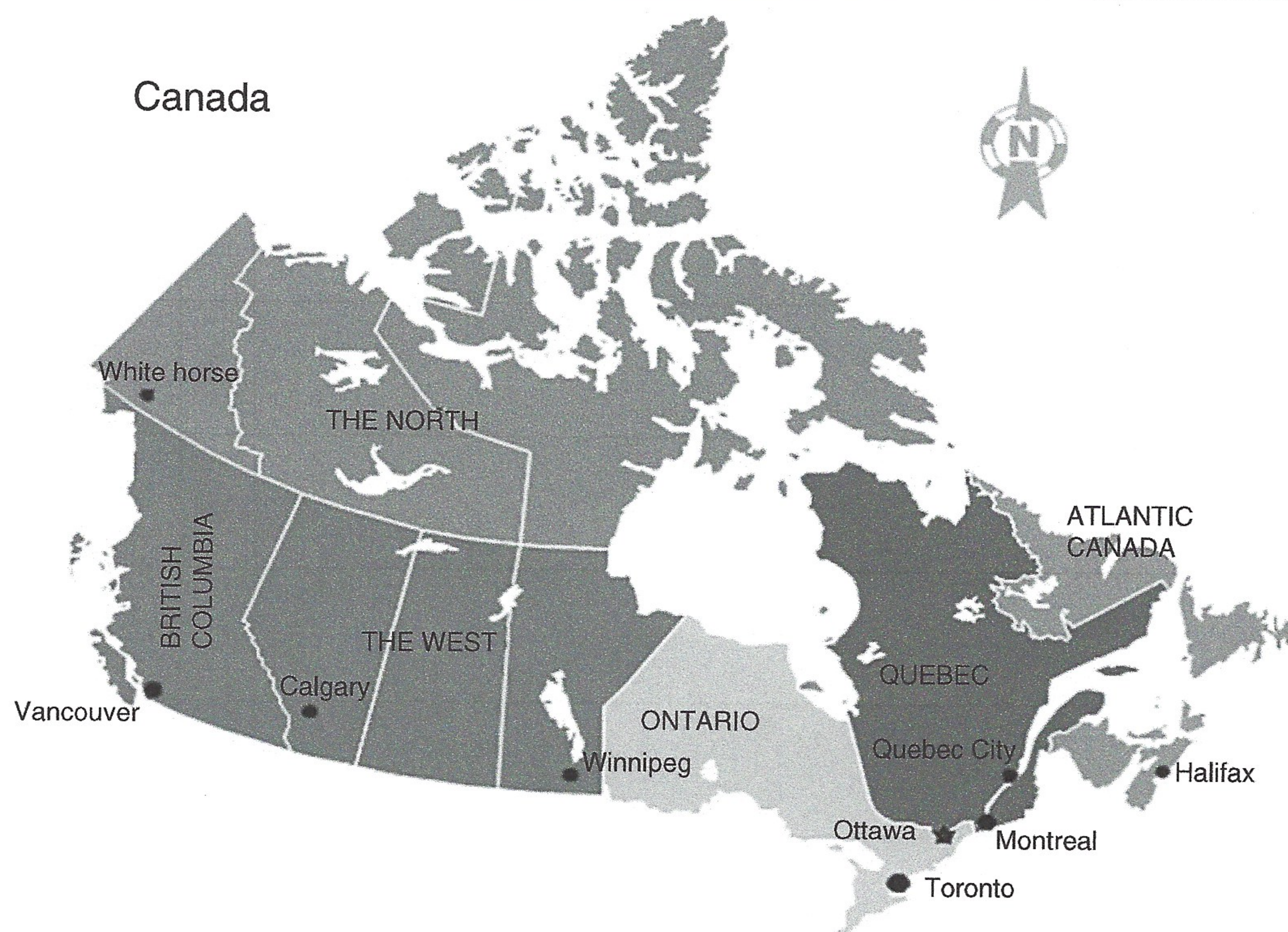
Quebec is in the stronghold for French-Canadians. As a result, the region is nicknamed, "The defenders of French civilization in North America." Residents here have a very strong sense of cultural identity and are proud of their heritage. European influences are strongly felt throughout Quebec.

Atlantic Canada is the easternmost region of Canada and includes Nova Scotia, New Brunswick, Newfoundland, and Prince Edward Island. Residents of this region are primarily of British descent. They are generally more reserved and old-fashioned. Unfortunately, this region is usually less prosperous than others. People here share a unique dialect and culture that can be closely related to that one may find in western England.

The final region to mention is The North. The North is made up of the Yukon Territory, the Northwest Territories, and Nunavut. Residents are sparsely populated and seen as "rugged embodiments of the Canadian pioneer spirit."

CANADIAN VS. AMERICAN BUSINESS CULTURE

The business culture between America and Canada is similar in some aspects but in most others, much different. In general, when doing business in America, there is a much more significant importance placed on the reliance of facts and numbers. A scientific approach is often regarded as the method for decision-making in America. Contrary, in Canada, a group-oriented approach is generally preferred when doing business.



Communication styles differ across the border as well. Americans prefer blunt speech, getting right to the point, probably a symptom of their low-context culture. In Canada though, it is okay to take a more indirect, subtle approach without being seen as wasting time. In addition, Canadians often use a self-deprecating humor that Americans would likely misinterpret.

What norms one may find in a meeting would also vary depending on what side of the border one is on. Americans love their egalitarian culture, where everyone is encouraged to speak up and where passionate confrontation between different levels of the organization is acceptable. Canadians conduct more reserved business meetings, perhaps because of the integration of both high- and low-context cultures. Throughout Canadian business meetings, expansive gestures are discouraged. Harmony and consensus are sought after as everyone gets their turn to speak and disagreements are always respectful.

Management styles between the two countries at times are similar but mostly different. American managers are more individualistic as they can be held personally accountable for decisions. They typically believe that any consensus will fall apart once a problem arises which makes them less likely to compromise or “play politics.” Canadian management style is more informal. As reaching a consensus is highly valued, Canadian managers are likely to be seen gathering input from

numerous stakeholders, which in return guards against authoritarianism. At the end of the day, “Canadians value decisiveness over flip-flopping.”

RE-ENTRY INTO CANADA

Target made clear mistakes when entering into the Canadian market the first time by expanding too quickly, opening stores in poor locations, not differentiating the Target brand from the Zellers brand, and having a poor supply chain. If Target plans on entering back into the Canadian market, it must make sure that it does not repeat these mistakes or it will have the same problems that plagued it when it first entered the market. There are steps that it can make to improve its brand as a whole to ensure that Canadians are given the same quality service that Target gives its American customers.

DISCUSSION QUESTIONS

1. Did Target follow a proper entry strategy?
2. Should Target have bought out Zellers or build its own stores?
3. What should Target have done differently to ensure its supply chain was successful?
4. What should Target do if it decides to move back to Canada?

