How Supply Chain Management Problems Killed Target Canada

CASE STUDY

Target is one of the world's most successful general merchandise retailers, with 1,801 retail store locations and a powerful brand image as a fashion-forward discounter. It is not as big or far-flung as Walmart, with $74 billion in annual revenue compared with $482 billion for Walmart, and all of its stores are located in the United States. (Walmart has 11,600 all over the world.) Target is very good at what it does and, ideally, would to like to grow like Walmart. In 2011 it decided to make its first foray into global expansion by opening up retail stores in Canada. That year Target acquired the leaseholds of 189 locations operated by Hudson's Bay Company's Zellers discount chain for $1.8 billion, hoping to open Target stores in 124 of these sites by the end of 2013. This was a very ambitious—and possibly unrealistic—timetable.

Target opened its first Canadian stores in March 2013. Target's expansion into Canada was highly anticipated by consumers and feared by rivals, but it failed miserably. On January 15, 2015, Target Canada filed for bankruptcy protection, announcing that it would close all of its 133 Canadian stores, and began liquidating their inventory. All Target Canada stores were closed by April 12, 2015. Some experts consider Target Canada a case study in what retailers should not do when they enter a new market.

Target quickly moved to build three new gigantic distribution centers in Canada. (A distribution center is where all the products from thousands of vendors are sorted and prepared for shipment to individual stores.) Unfortunately, Target Canada was unable to keep track of its products or make sure that the right amounts of products were being ordered, stored, and shipped. At first too few products were arriving at the distribution centers, leaving store shelves bare and Canadian customers empty-handed. Later the distribution centers became overwhelmed with too much product. Target's information systems could not properly compute shelving locations. Target had the stock, but it was stuck in the distribution centers and store shelves still remained empty. Making matters worse, the retail store checkout system was unreliable and didn't process transactions properly. And Target Canada also had higher product prices and less product selection than U.S. Target stores. Canadian sales never took off, and Target had to end its business in Canada.

How could this have happened? First, Target's business was geared to operating domestically in the United States. To operate in Canada, its information systems would have to be able to calculate prices in Canadian currency, which is worth about 72 percent of a U.S. dollar, with the conversion rate constantly fluctuating. Canada also uses the metric system, so the system would have to convert inches and feet into centimeters and meters as well. Knowing the size of an item and the size of packaging is essential for stocking shelves and inventory management. Target's supply chain management and pricing software would have to be modified to handle multiple measurement systems and currencies. Adding to the complexity, products for Target's Canadian market might have different dimensions from those for the United States. A box of shower curtain hooks for the U.S. market might be 12 inches long but only 11 ½ inches for Canada, expressed in centimeters. In other words, internationalizing systems takes a great deal of work and planning.

Target's U.S. operations used custom-built systems for ordering products from vendors, moving goods through warehouses, and stocking store shelves. These systems worked very well, and Target's IT staff and business end users were highly experienced in using them. Target's management had to decide whether to customize these domestic systems so they could work abroad or move to completely new systems for Canada. Because it would require considerable time and effort to internationalize these systems, Target's management opted for a new ready-made software package solution, thinking that it could be implemented faster, even if the company had little experience actually using the new system.

SAP was selected because of its functionality in enterprise resource planning (ERP) and supply chain management as well as capabilities for supporting different languages and currencies. Data on the products in Target's Canadian stores would be fed from the SAP system to other systems to forecast demand for products, manage its distribution centers, and replenish stock in the stores. Target hoped that eventually it could replace its custom homegrown systems with SAP so that the entire company would have the same set of systems worldwide. However, SAP implementations in large companies typically

take a long time—often three to five years—and many millions of dollars. Target wanted to go live with SAP in only two years. This was exceedingly, if not unrealistically, ambitious, but management thought using consultants from Accenture who were highly experienced in SAP implementations would speed things up.

In 2012, once Target began ordering items for its pending Canadian launch, items sourced overseas with long lead times were stalled. Products weren't fitting into shipping containers as expected, and tariff codes were missing or incomplete. Other items weren't able to fit properly onto store shelves. The data used by Target's supply chain software was full of flaws, and the system required correct data to function properly and ensure products moved as anticipated Product dimensions were in inches, not centimeters, or entered in the wrong order. Sometimes the wrong currency was used. Important information was missing, and there were numerous typos.

Target's rush to launch pressured suppliers to enter data quickly into SAP for roughly 75,000 different products. The data had to either be imported from other systems or entered from scratch. A record for a single item might have dozens of fields to fill out, such as fields for the manufacturer, the model, the dimensions, the weight, and how many units can fit into a shipping case. Much of the data were entered incorrectly. Widths were entered instead of lengths, and prices and item descriptions were entered incorrectly as well. Young merchandising assistants in charge of obtaining the details from suppliers were often not experienced enough to challenge vendors on the accuracy of the product information they provided. Information in Target's system was estimated to be only 30 percent accurate, compared with an accuracy rate of 98 to 99 percent for similar data in U.S. firms.

It also turned out that Manhattan, the company's software for running its warehouses, did not communicate well with SAP. For example, an employee at headquarters might have ordered 1,000 toothbrushes but mistakenly entered into SAP data that the shipment would be packaged as 10 boxes of 100 toothbrushes each. But the shipment might actually be configured differently as four large packages containing 250 toothbrushes each. Target's distribution system would treat this shipment as if it didn't exist and couldn't process the information. It would identify the shipment as a "problem area." These kinds of problems crop up at any warehouse, but at Target Canada, they occurred way too often.

Target had purchased a sophisticated and highly regarded system from JDA Software for supply chain forecasting and replenishment. However, this software typically requires years of historical data before it can provide accurate sales forecasts. Lacking such data to feed the system, Target's buying team instead used wildly optimistic projections, which assumed Canadian store sales from the start would be as high as operational stores in the United States even though Target Canada was not yet that well established.

Adding to Target Canada's system woes, the point-of-sale (POS) system was not working properly. Terminals for cash payments took too long to boot up and sometimes froze, items wouldn't scan, the self-checkout stations gave incorrect change, or the POS system would not provide the correct price. Target Canada had purchased POS software from an Israeli company called Retalix. Unlike SAP, Retalix is not an industry standard. It is believed that Target chose this software package because of touted capabilities for processing payments on mobile devices. Target Canada didn't have time to replace this software and kept going with all these bugs.

By fall of 2013, Target's three distribution centers were overflowing with goods. Target had to rent additional storage facilities to accommodate the inventory overflow, making it even more difficult to track down items. Target stores might end up with too much of some products and too little of others. The auto-replenishment system, which kept track of what a store had in stock, wasn't functioning properly, either. Target Canada's system required data about the exact dimensions of every product and every shelf in order to calculate whether employees needed to fill an empty rack. Much of the data were still incorrect, so the system couldn't make accurate calculations. The auto-replenishment system performed so badly that Target shut off the system at its three test stores and had employees replenish shelves manually. Auto-replenishment wasn't reinstated until months later.

There was another reason for the discrepancies between what items appeared to be in stock at headquarters and were actually missing from stores. Target Canada's replenishment system had a feature to notify distribution centers to ship more product when a store ran out. Some of the business analysts responsible for this function, however, were purposely turning it off. These business analysts were judged based on the percentage of their products that were in stock at any given time. When the auto-replenishment switch was turned off, the system

wouldn't report an item as out of stock, so the analyst's numbers would look good on paper. To prevent further gaming the system, Target's IT team built a tool that reported when the system was turned on or off and determined whether there was a legitimate reason for it to be turned off (for example, if an item was seasonal.) The analysts were denied access to these controls.

In 2014 Target's IT staff was finally able to install an automatic verification tool to catch bad data before they could enter SAP. The system wouldn't allow a purchase order to proceed until an employee entered product code data that were correct. The problem was that the verification tool was deployed too late. On January 15, 2015, Target Canada announced it was filing for bankruptcy protection. The company had already spent $7 billion on expanding into Canada and was not projected to show a profit until 2021 at the earliest. All of Target Canada's 133 stores were closed, and 17,600 employees lost their jobs.

Sources: David Gewirtz, "Billion Dollar Mistake: How Inferior IT Killed Target Canada," *ZDNet,* February 11, 2016; Joe Castaldo, "The Last Days of Target," www.canadianbusiness.com, accessed February 12, 2016; www.target.com, accessed March 1, 2016; and Marc Wulfraat, "The Aftermath of Target Canada's Collapse," Canadian Grocer, March 10, 2015.

CASE STUDY QUESTIONS

9-13 How important was supply chain management for Target Canada? How did it relate to its business model? Explain your answer.

9-14 Identify all the problems Target Canada encountered that prevented it from becoming a successful retailer. What were the management, organization, and technology factors that contributed to these problems?

9-15 How much of Target Canada's problems were technology based? Explain your answer.

9-16 How responsible was management for Target Canada's problems? Explain your answer.

9-17 What things should Target Canada have done differently to be successful?