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Target Corporation's International Expansion: Canadian Entry, Exit and Re-Entry

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Abstract

In an era of globalization, companies can enter a market, conduct business there, and exit if their initial objectives are not met. When entering a new market, firms must perform due diligence and conduct market research to understand the institutional, cultural, economic, administrative, and political differences, selecting an effective business strategy that ensures success in the new market. They need to consider whether the strategies used in their home market can be applied or if new strategies should be developed for the new market. This case illustrates how Target, Inc. operated in Canada and failed to recognize the differences between the Canadian and U.S. retail markets. It also demonstrates how a firm can effectively manage its departure from a market, learn valuable lessons, and aim to return with improved strategies.

Keywords: Market Entry, Market Research, Market Exit, Crisis Management, and Revamp Strategy.

1. Introduction

It was 7:00 a.m. on a blustery day in mid-January 2015, and Target Corp.'s CEO, Brian Cornell, was exercising in the company gym. A few days earlier, he had announced the company's decision to close Target's Canadian subsidiary after just two years in the Canadian market. Recent analysis indicated that the Canadian subsidiary would not be able to achieve profitability until at least 2021. Keeping the Canadian stores open would have resulted in a continuous drain on profits from the rest of the organization, which could negatively impact the firm's stock price.

Brian Cornell had joined Target Corporation as its CEO on August 12, 2014, so he had not been involved in the 2013 launch of Target Canada. However, he knew urgent action was needed to stop the financial drain from the Canadian subsidiary. While difficult, announcing the decision to close Target Canada was only the first step. Brian knew the company needed a solid plan to ensure that the departure from the Canadian market occurred in an orderly fashion. He also knew that, in the short term, Target Corp. would need a plan to re-focus its efforts on the US market in order to ensure a quick return to profitability.

Brian wondered whether pulling out of the Canadian market so abruptly would have an impact on any future attempts the company might have at entering international markets. Could future international expansion opportunities exist in Mexico, Europe, or Asia? Would it ever be possible to enter the Canadian market again? Many U.S. retailers were planning international expansions. Would Target be left behind if it did not undertake another try at international expansion? These were all those questions that required substantial thought and planning, to ensure that Target Corporation could maintain profitability and growth into the future.

2. Company History and Profile

To understand Target's entry into the Canadian market, it is helpful to review the history of the company. The first Target store in the United States opened in Roseville, Minnesota, on May 1, 1962, and by the end of 1962, Target Corporation had opened three additional Minnesota locations. The company expanded outside of Minnesota when it opened a location in Denver, Colorado, in 1966 (Target Corporation, 2015). This was followed by a decade of significant growth, in which Target Corporation transformed from a regional department store company to a national U.S. retail chain.

By 2001, Target had emerged as a dominant player in the retail landscape of the United States, with over 1,000 Target stores across 47 states (Target Corporation, 2015). In 2002, Target's sales reached $40 billion, surpassing those of its rival Kmart for the first time, thus making Target the second-largest discount department store in the U.S. (Hays, 2002). However, even with annual sales of $40 billion in 2002, Target still accounted for only a small fraction of its major competitor, Wal-Mart, which boasted worldwide annual sales of $430 billion that same year (Hays, 2002). When discussing the differences between Target and Wal-Mart, Robert J. Ulrich, Target Corporation's CEO in 2002, explained it this way:

> "People who are oriented toward quality and design do more of their shopping at Target. People who are focused on price tend to go to Wal-Mart" (Hays, 2002).

Throughout the next decade, Target Corporation continued to experience sales growth, maintaining its place as the second-largest discount department store retailer in the United States, with 2013 sales of $72 billion (Target Corporation, 2015).

Target's retail stores were best known for offering cheaper fashion-forward merchandise. Target's growth and success in the U.S. have been primarily attributed to its "cheap chic" strategy, which made it a major consumer shopping destination (Wahba, 2014). Two key factors were important in this growth. First, Target differentiated itself from other discount department stores by selecting affordably priced fashion merchandise. Collaborating with designers to produce exclusive lower-priced collections, Target offered a combination of "cool" quality items and low prices to support its slogan of "*Expect more. Pay less.*" (Wahba, 2014). Second, Target built up its image with unique marketing communications, which included "distinctive, arty ads" (Hays, 2002), thereby creating "the notion of a store somehow different, more vital, more fun than its rivals" (Wamica, 2012).

To distinguish itself, Target typically allocated approximately 2 percent of its annual sales revenue to advertising. In contrast, Wal-Mart allocated only 0.4 percent of its annual sales revenue for the same purpose (Shaw, 2011). By spending more on advertising, Target effectively avoided direct competition with Wal-Mart by appealing to a customer segment that values fashion and is less sensitive to price. Target's branding efforts focused on providing an alternative to Wal-Mart's low-cost approach by offering product quality, competitive pricing, upscale discounting, and innovative advertising. Instead of concentrating solely on low prices, Target emphasized quality fashion merchandise, the shopping environment and experience, store cleanliness, and shorter checkout lines. This strategy successfully positioned Target as a more upscale discount department store (Boyle, 2012).

3. How Target Entered Canada

Target has evolved into a highly successful retailer in the United States, employing nearly 350,000 individuals and operating 1,800 discount department store outlets. However, as growth began to slow and the company sought new opportunities, Target Corporation announced in 2011 that it would enter the Canadian market in 2013 (Zimmerman & Talley, 2011). U.S. retailers commonly believed that the many similarities between the Canadian and U.S. markets would facilitate a relatively easy international launch in Canada. U.S. retailers often regarded Canada as the "51st state of retailing" (Fairchild, 2014).

Entering a new country for retail businesses requires substantial resources to establish a network of stores (Swoboda, Elsner, & Olejnik, 2015). Target addressed this challenge by using a full-control entry mode, investing $1.8 billion to acquire the leases of 220 defunct Zellers locations previously operated by the Hudson's Bay Company across Canada (Wamica, 2012). The Hudson's Bay Company (HBC) owned several retail chains, including The Bay and Zellers. The Bay was a chain of middle-class department stores in major Canadian cities, both downtown and suburban malls, offering a wide range of fashion merchandise and designer

brands. Zellers was a discount department store chain in both large and small Canadian cities, many of which needed modernization. HBC acquired the Zellers chain in 1978 (HBC, 2015), but Zellers' sales revenue faced increasing pressure following Walmart's entry into Canada in 1995. The primary reason Zellers managed to persist in the face of Walmart competition was its extremely favorable leasehold rates in shopping mall anchor locations, significantly reducing costs (Ladurantaye & Waldie, 2011). With a shrinking customer base at Zeller stores, it became clear to HBC that the Zellers chain would not sustain long-term viability. By shutting down the Zellers chain, HBC could focus its efforts and resources on The Bay stores, representing its core strength. Consequently, HBC was strongly incentivized to sell the Zellers locations to Target Corporation.

On top of spending $1.8 billion to acquire the 220 Zellers leaseholds, Target spent a further $1 billion to renovate more than 130 of these Canadian locations into new Target stores (Wamica, 2012). The remaining unused locations were returned to the market to lease to other retailers. In discussing the renovations, Tony Fisher, Target's CEO at the time, said:

> "Construction has already begun on our first set of stores, and we are excited to see the transformation as the Target brand comes to life in Canada. We have stores spanning from coast to coast, and we cannot wait to open our doors in Canada and deliver on our *Expect More. Pay Less.* Brand promise" (Target Corporation, 2012).

Target Canada opened its first Canadian store in March 2013, and by January 2015, there were 133 locations across Canada. While ambitious, this pattern of rapid store openings was not unique to Target. Previously, when Target entered some areas of the United States, it followed a similar pattern of opening many new store locations in a short period.

4. Retailing in Canada at the time of Target's Entry

To understand Target's situation when it made the 2011 decision to enter the Canadian market, it is helpful to have an overview of Canada's economy and retail sector. The brick-and-mortar retail sector has long played a significant role in the Canadian economy. In 2011, the retail sector accounted for 12% of total employment in Canada and generated $458 billion in annual sales (Industry Canada, 2013). This included sales of $100 billion in the food and beverage category and $58 billion in the general merchandise category (Industry Canada, 2013).

The Canadian retail industry had continued to evolve as foreign retailers expanded their businesses in Canada over the decade leading up to 2010. In 2011, foreign-based companies controlled 40% of retail sales in Canada, and American retailers accounted for 95% of this amount. American retailing giants such as Wal-Mart and Costco dominated the Canadian general merchandise category, while Best Buy and Future Shop were the leaders in the electronics and appliances sectors. Table 1 shows the top 10 retailers in Canada in 2011. Notably, four of these companies are U.S.-owned.

Table 1. Top 10 retailers in Canada in 2011

	Retailer	Revenue in millions $CDN	Percentage of total retail sales	No. of Employees	Retail Sector	Owner-ship
1.	Weston Group	31,705	10.61	137,163	Food	Canada
2.	Wal-Mart Stores Inc.	23,551	7.89	90,000	Dept. Store	USA
3.	Empire Company Ltd.	16,055	5.37	97,997	Food	Canada
4.	Costco Canada Inc.	13, 867	4.65	21,764	Dept. Store	USA
5.	Metro Inc.	11,431	3.82	65,000	Food	Canada
6.	Shoppers Drug Mart Inc.	10,459	3.50	52,714	Pharmacy	Canada
7.	Canadian Tire Corp. Ltd	8,437	2.83	73,199	Speciality	Canada
8.	Rona Inc.	6,800	2.28	30,221	Speciality	Canada
9.	Safeway Inc.	6,707	2.24	22,684	Food	USA
10.	The Home Depot Inc.	6,426	2.15	26,621	Speciality	USA

Source: Daniel and Hernandez, 2012.

International retailers have been drawn to Canada over the years due to its geographic proximity to the United States, robust economic performance, skilled labor market, and abundant natural resources. During the global financial crisis from 2007 to 2010, when the U.S. and other industrialized nations faced considerable challenges, the impacts in Canada were significantly milder, with the Canadian retail sector growing by 17.1% from 2006 to 2011 (Industry Canada, 2013). By mid-2011, Canada's retail market reached a per capita level that matched the American retail market for the first time, achieving US$13,000 in per capita retail sales. As a result, global retailers have come to see Canada as a safe and profitable place to conduct business. With one of the highest internet penetration rates globally, more Canadian consumers are shopping online. Major retailers such as Staples and Future Shop provide their products and services through omnichannel retailing, utilizing a blend of in-store and online formats (Smerdon & Bell, 2013). This enables consumers to explore a broader variety of merchandise at competitive prices through both in-store and online channels. Canadian shoppers have come to anticipate that retail outlets will offer a diverse selection of products online.

5. Strategy of Target's Canadian Operations

Target announced its Canadian launch plans in early 2011 in a relatively stable Canadian retail environment. Target Canada gained immediate access to major mall locations by acquiring Zeller's retail store locations from HBC. Tony Fisher, president of Target Canada, stated:

> "Target is excited to take another meaningful step toward our expansion in Canada. We look forward to delivering a superior shopping experience for our guests throughout Canada and building on our strong reputation as a good neighbor and partner in our business communities" (Target Corporation, 2011).

With 133 locations to renovate and open in just over a year, Target Canada faced immense pressure. However, by the end of 2013, it had opened 124 stores and achieved a presence in all

10 Canadian provinces (Warzecha, 2014).

Target put in significant effort to generate enthusiasm for their Canadian store openings. For instance, Target hosted a single-day event in downtown Toronto featuring a pop-up store showcasing its limited edition Jason Wu fashion collection. Lisa Gibson, a Target employee, described the pop-up store as follows:

> “The shop will give Canadians a taste of what the Target brand is all about. The Jason Wu collection is a great example of Target’s commitment to providing great design at a low price point” (Maloney, 2012).

The event generated significant media hype and attracted 1,500 shoppers eager to buy high fashion at bargain prices (Yelaja, 2012). The 2,500 pieces of merchandise sold out in just a few hours, and shoppers were limited to three items each. To manage its marketing strategy, Target chose a Toronto-based Canadian advertising agency. Its first Canadian TV ads featured the Target mascot dog in hockey gear, a sport close to Canadians' hearts (Shaw, 2011). The red and white colors of the Target logo coincidentally mirrored those of the red and white Canadian flag.

By the end of its first quarter of Canadian operations, the new Target stores had generated better-than-expected sales of $86 million; however, overall profits were lower than anticipated (Warzecha, 2014). By the end of the second quarter, total earnings remained below expectations. Moreover, the store opening costs were substantial, with $2.3 billion spent on renovations (Sorensen, 2015). It was estimated that each Zellers-to-Target conversion cost approximately $10 to $12 million in renovation expenses, about double what had been expected (Warzecha, 2014).

Target Canada’s level of sales per square foot was far below the desired level, achieving only about $140 US per square foot compared to the $250 U.S. per square foot needed to break even (Sorensen, 2015). In order to reach its annual sales goal of $6 billion by 2017, Target Canada needed to more than double its sales per square foot to $300 U.S., the level achieved by most of its U.S. stores.

Some of Target’s problems in Canada were attributed to opening too many stores too quickly. Stores appeared to have insufficient merchandise on the shelves and a serious lack of inventory control. Other problems were attributed to a lack of understanding of the Canadian market. Canadians were annoyed that Zellers staff members were not retained and were resentful that Target’s Canadian prices were substantially higher than their U.S. prices. While many Canadians initially visited a Target store when the stores first opened, there was insufficient repeat business.

By 2014, Target Canada had lost close to $1 billion (Hansen, 2014). The company was aware that there had been many mis-steps, and released a 2-1/2 minute apology video on YouTube. The video explained Target’s commitment to the Canadian market and how it planned to fix some of the problems the company had encountered. In the video, corporate counsel Damien Liddle said:

> "Maybe we didn't put our best foot forward when we entered into Canada…. We had some disappointments. Certainly we think we've disappointed our guests" (Hansen, 2014).

Canadians are well-known for being apologetic, and some suggested that this video apology was the first sign that Target understood what it meant to be Canadian (Hansen, 2014).

6. Target's Exit from Canada and Crisis Management

On the Saturday before Christmas in 2014, Brian Cornell unexpectedly visited the Montreal area to assess Target stores (Wahba, 2015). Typically, this day marks the peak of the retail season, but Cornell noticed that the aisles at Target were largely empty of shoppers. He reluctantly concluded that significant investments of time and money would be necessary to boost Canadian sales and profits to acceptable levels. Shortly after this visit, Brian Cornell, CEO of Target Corporation, stated:

> "When I joined Target, I promised our team and shareholders that I would take a hard look at our business and operations to improve our performance and transform our company. After a thorough review of our Canadian performance and careful consideration of the implications of all options, we could not find a realistic scenario that would get Target Canada to profitability until at least 2021. This was a tough decision, but it was the right decision for our company" (Scott, 2015).

Unable to withstand six more years of Canadian losses, Target Canada declared insolvency on January 15, 2015 (Sturgeon, 2015). Target Canada announced that it would close all 133 of its Canadian locations over the next five months, putting 17,600 people out of work (Sturgeon, 2015). In discussing the decision, CEO Brian Cornell said:

> "The Target Canada team has worked diligently to enhance the fundamentals, improve operations, and foster a stronger relationship with our guests. We had hoped that these efforts in Canada would result in a successful holiday season, but we did not observe the necessary step-change in our holiday performance. Undoubtedly, the coming weeks will be challenging, but we are committed to managing our exit in a respectful and orderly manner" (Target Corp., 2015).

When Target Canada declared insolvency, it sought court protection under the Companies' Creditors Arrangement Act (Strauss, 2015). This Canadian insolvency law was originally intended to help companies restructure their finances and remain in operation, yet Target Canada's stated goal was to close all of its Canadian stores. Target Canada owed its creditors hundreds of millions of dollars, with its largest creditor being its parent company, Target Corporation, which it owed $1.9 billion for leasing agreements (Strauss, 2015).

Target Corporation announced it would take a $5.4 billion US write-down on this closure (Sturgeon, 2015). In addition to these losses on the discontinued Canadian operations, Target Corporation expected the shutdown's cash costs to exceed $500 million (Kopun, 2015). During the court-supervised liquidation period, Target's Canadian stores cleared out their merchandise,

with some remaining open for up to four months (Kopun, 2015). Target also sought the court's approval to voluntarily contribute $70 million U.S. toward providing displaced Canadian employees with at least 16 weeks of wages and benefits (Kopun, 2015).

Due to the store closures, Target vacated approximately 20 million square feet of retail space in Canada. The departure of this major anchor tenant caused difficulties for many smaller malls that depended on a significant anchor to attract visitors (Kopun, 2015). It typically takes up to five years to find new tenants for large retail spaces of this scale, meaning some of the abandoned mall space is likely to remain vacant for several years.

Relieved of its Canadian responsibilities, Target Corporation planned to focus instead on modernizing its U.S. stores and building up its online channels. In describing the decision, Target CEO Brian Cornell said:

> "This is a difficult day for all of us at Target, but we believe this decision is in the best long-term interest of our business and shareholders" (Kopun, 2015).

Financial analysts generally seemed to agree. For example, a Credit Suisse retail analyst was reported to have written in a note to clients:

> "We see the exit as the right thing to do. … The venture into Canada was poorly thought out and executed, and diverted significant resources and management attention from the U.S. business that represents 97% of revenue" (Scott, 2015).

Target shares rose 3% after the announcement of the closure of Canadian stores, suggesting that investors applauded the decision.

7. Why Target Failed in Canada

While Target did some things right during its Canadian store openings, it did many wrong. Its downfalls include the timing and scale of entry, the cost of doing business in Canada, supply chain issues, the lack of an online presence, and a failure to understand Canadian consumer tastes and preferences (McMahon, 2015).

7.1 Timing and Scale of Entry

The Canadian retail industry experienced a slow growth rate of 2.4 percent from November 2013 to November 2014 (Statistics Canada, 2015). In the supermarket and grocery store category, an important part of Target's business, total Canadian retail sales decreased by 1.0 percent year-over-year in November 2014. Unfortunately, Target's entry into Canada in 2013 occurred during this period of volatility in the retail sector, when Canadian household debt climbed to record levels and household spending declined significantly. Target had decided to enter Canada in 2011, when the retail sector seemed much more buoyant. By the date of its actual entry in 2013, the outlook for the Canadian retail sector was much less rosy.

Another key issue was the scale of entry. Target chose to enter the Canadian market significantly by opening 133 stores in one year. However, evidence from other international retail market entries indicates that companies with smaller-scale entry tend to be more successful in their international launches. For example, Crate and Barrel and Lowe's are two

American companies that expanded into Canada with a gradual but solid approach (Hanuka, 2014). Nordstrom also adopted a slow growth, small-scale strategy for its entry into Canada (Strauss, 2014). A small-scale entry enables a firm to learn about a foreign market through experience over time, significantly reducing risks compared to a large-scale entry. Target's large-scale entry into Canada required a substantial commitment of resources and was costly to reverse. It's important to note that a large-scale international entry restricts a firm's strategic flexibility by concentrating entirely on one country while leaving other opportunities unexplored. In Target's case, this turned out to be a costly error.

7.2 Cost of Doing Business in Canada

Global retailers must recognize that cost structures in Canada are higher than in the United States, particularly concerning real estate, distribution, transportation, wages, and tax rates. Logistics costs in Canada are significantly steeper than in the U.S. For instance, a container of merchandise imported by Target Canada through the Port of Metro Vancouver would be delivered to 19 Target locations in British Columbia, which has a population of 4.4 million (Kennedy, 2015). In contrast, a similar container imported via the Port of Los Angeles could be distributed to 248 Target stores in California. While California has nearly 39 million residents spread across 164,000 square kilometers, Canada has a total population of 36 million over almost 10,000,000 square kilometers—resulting in low population density that limits economies of scale and scope in Canada.

When Target entered Canada in 2013, the federal minimum wage in the United States was about $7.25. In contrast, all provincial minimum wage rates in Canada surpassed those in the U.S., ranging from $10.00 in the Northwest Territories to $11.00 in Ontario and Nunavut (Retail Council of Canada, 2015). Since retail employees are usually paid minimum wage, this significant disparity indicates that operating in Canada is more expensive than in the U.S. While Target must provide up to 12 weeks of maternity leave for its employees in the United States, Canadian employers are required to offer a mandatory leave of between 15 and 52 weeks, with up to 15 weeks paid (Mohr, 2012). Thus, maternity benefits make business operations costlier and less flexible in Canada. Additionally, packaging and labeling expenses were higher in Canada than in the United States. Canada's packaging laws required bilingual labeling, which further increased the cost of operating there (Kennedy, 2015). To sell the same products from U.S. Target stores in the Canadian market, the items needed new bilingual packaging, leading to significant costs.

A weakening Canadian currency also negatively affected Target Canada's business. In 2013, the Canadian dollar was worth about 20% less than the U.S. dollar. Target purchased merchandise from around the world in U.S. dollars and sold it in Canada at Canadian prices, which made the Canadian prices seem less attractive. Ultimately, Target was criticized for charging higher prices in Canada because it could not offer the same prices in the United States.

Over 30% of Canadians engage in cross-border shopping in the United States to enjoy a wider variety and selection of merchandise at lower prices. Canada's three largest cities are all within a one-hour drive of the U.S. border, making cross-border shopping a common practice for Canadians. Target assumed that since many Canadians had visited their U.S. stores, they would

also flock to the new Target locations in Canada, but this assumption proved to be incorrect. Canadians' familiarity with U.S. Target stores simply meant they were more disappointed with the Canadian version of Target.

The inability of Target to offer low prices in Canada highlights an issue many Canadian retailers face. According to the report from the Standing Senate Committee on National Finance (2013), it has been typical for Canadian retailers to pay higher prices to suppliers compared to their U.S. counterparts. This can be partly attributed to geographic logistics and a lack of substantial economies of scale. For example, Table 2 illustrates the average price paid by Canadian and U.S. retailers for 10 identical products:

Table 2. Wholesale price paid by Canadian and U.S. retailers for 10 identical products

Item Description	**Price paid by Canadian retailers**	**Price paid by U.S. retailers**	**Difference**
Soap – 16 pk	$8.98	$6.99	28%
Shampoo – 1.5L	$12.46	$9.33	34%
Automobile Tires	$169.69	$128.21	32%
46 inch LED TV	$1,001.00	$888.75	13%
Printer	$171.99	$116.65	47%
Coffee Maker	$167.19	$127.76	31%
Aspirin 81mg low dose – 350ct	$21.78	$10.16	114%
Ketchup – 2.5 L	$6.90	$3.92	76%
Laundry Detergent – 5L	$13.94	$11.27	24%
Orange Juice – 7.56L	$12.66	$10.01	26%

Source: Standing Senate Committee on National Finance (2013)

For all the commonly used products in Table 2, there are significant differences in wholesale prices between Canada and the U.S. Canadians generally recognize these discrepancies, but they could not overlook Target's failure to have their Canadian stores match the prices offered in their U.S. locations.

7.3 Supply Chain Issues

Target encountered significant supply chain challenges right from the beginning of its Canadian operations. Customers frequently struggled to locate advertised products in stores, and many shelves were poorly stocked. According to retail consultant Doug Stephens, "At the grand opening, their stores had empty shelves. That was something that should have been addressed immediately, but there was a tendency to posture and make excuses: 'Oh, we're tinkering to get the right products for Canadians.' But for everyone else, all they saw were bare shelves" (quoted in Scott, 2015). Anecdotal evidence suggests that employees were often unsure about what to expect when a tractor-trailer arrived at the store for deliveries (Hansen, 2014). Target acknowledged that it didn't "buy deep" for the Canadian launch and that it was cautious in its ordering quantities (Warzecha, 2014). This lack of product variety and availability left

Canadians feeling disappointed with Target's merchandise offerings. Target Canada also faced a worsening relationship with its suppliers. For instance, to cope with extreme competitive pressure, Target Canada's suppliers were requested to provide a uniform two percent discount. This made the vendors very unhappy and led to complications in merchandise negotiations (Pirouz & Hong, 2015).

7.4 Canadian Consumer Tastes and Preferences

Canada and the United States are significant trading partners, deeply connected through market conditions, cultural influences, and shared demographic factors. Additionally, American retailers benefit from the considerable spillover of their advertising into Canada, driven by Canadian audiences watching U.S. television networks and reading U.S. magazines. The perceived similarities between Canada and the U.S.—such as a common language and shared popular culture—lead to Canada being viewed as a low-risk international market for American retailers. However, Target completely failed to grasp the unique nuances of the Canadian retail sector and the behavior of Canadian consumers.

Big retailers rely on repeat consumers. After acquiring the Zellers stores in Canada, Target shut down the locations for two to three months for remodelling (Pittis, 2015). During this time, consumers who previously visited Zellers every week had to change their shopping habits, switching to alternative retailers like Wal-Mart, Canadian Tire, and Real Canadian Superstore. This meant that when Target locations were opened, Canadian consumers would need to make another major shift in their regular purchasing habits to become Target customers.

By comparison, when Walmart entered Canada in 1994 by purchasing the Woolco chain, it kept most store locations open during renovations. Walmart also retained all the Woolco employees, benefiting from their expertise in knowing regular customers and the local market. In contrast, Target Canada opted to start with a new set of employees. It chose not to rehire most of the Zellers managers and staff, who could have leveraged their experience with previous customers and the local retail scene. Canadians were not favorable toward this approach, which led to disappointment that Zellers employees were not retained in the new Target stores.

Target adopted an ethnocentric approach for its Canadian subsidiary by hiring American executives for most upper-level positions. The American executives dispatched to the Canadian market faced cultural myopia and found it challenging to understand the distinct nuances of Canadian consumers' tastes and preferences. For instance, Target Canada opted for Starbucks as its in-store coffee shop, bypassing a partnership with the iconic Canadian chain, Tim Hortons. Retail consultant Mark Satov remarked on Target's entry strategy, stating, "They arrived with a teaching mentality rather than a learning mentality" (Pittis, 2015). Target executives seemed hesitant to learn about the Canadian market and recognized that it differed somewhat from the U.S. market. Ultimately, Target struggled to identify the right customer segment in Canada. In the U.S., Target and Walmart cater to distinctly different markets, with Target attracting a somewhat more upscale and fashion-conscious audience than Walmart. However, Canadian Walmart stores are slightly more upscale than many U.S. Walmart locations, featuring more appealing store layouts and a wider range of fashion merchandise. Canadian Walmart stores were already meeting the market needs of potential Target customers, making it more

challenging for Target to find a suitable customer segment to serve.

Target Canada struggled to offer a sufficiently wide variety and assortment of merchandise in its new stores. Customers complained that store shelves were either empty or poorly stocked. This was especially problematic for food and grocery items, which were somewhat surprisingly supplied by Sobeys, a major Canadian retailer and potential competitor. Moreover, Target didn't understand the Canadian consumer's enthusiasm for U.S. sports teams. For example, the Greater Vancouver area is only a two-hour drive from Seattle, and many shoppers in Vancouver are eager to purchase logo sports merchandise for the Seattle Seahawks football team. However, the Target stores in Vancouver only provided logo sports merchandise for the local Vancouver Canucks hockey team.

8. Brian Cornell Joins Target

During the 2013 holiday season, Target Corporation faced a significant security breach involving its U.S. credit card information, potentially exposing the personal data of over 40 million customers in the U.S. and Canada (Riley, 2014). In response to this incident, then-CEO Gregg Steinhafel accepted responsibility and resigned on May 5, 2014. John Mulligan, Target Corporation's Chief Financial Officer (CFO), served as interim CEO while searching for a new CEO (Wahba, 2014). On August 12, 2014, Brian Cornell was appointed as the new CEO of Target Corporation.

Brian Cornell was a former senior executive at PepsiCo and had been CEO of Sam's Club (Wahba, 2015). He grew up in a single-parent household in a working-class neighbourhood in Queens, NY, and from a young age, he did odd jobs like shoveling snow and mowing lawns to earn spending money (Wahba, 2015). He described his background as follows:

> "I had to scramble and scratch for everything I have… I probably still wake up every day wanting to make sure I don't end up battling some of those same things I did when I was a kid. I'm still my toughest critic" (Wahba, 2015).

Brian Cornell described his new job as CEO at Target Corporation as a "dream job" (Wahba, 2015).

9. A Final Thought on the Canadian Retail Industry

Over the past few decades, several U.S. retailers have significantly influenced the Canadian retail landscape, including Walmart, The Home Depot, Staples, Costco, and Starbucks. However, not all U.S. retailers have succeeded in Canada. Some American companies that attempted to enter the Canadian market but ultimately failed include RadioShack, Kmart, Big Lots, Sam's Club, and Columbia House (QMI Agency, 2015).

Going global allows retailers to enter new markets for profit maximization. However, Target was a latecomer to international retail, opening its first store outside the United States in 2013. As a later entrant in the Canadian retail sector, Target missed the advantages typically gained from entering a market early. For instance, when Target expanded to Canada, the retail industry was already in the mature stage of its life cycle. Major retailers like Walmart, Costco, Sears, Loblaws, Canadian Tire, and Shoppers Drug Mart left little room for Target to achieve a break-

even point in market share. Additionally, Target Canada's competitors, such as Walmart, already enjoyed a cost advantage due to their strong sales volume and experience curve benefits.

To be successful in the Canadian retail market (or, indeed, in any international market), retailers need to have a deep understanding of the market and its consumers' tastes and preferences. Retailers must develop strategies to better satisfy the needs and wants of the new market by offering competitive pricing, superior quality, a wider variety and assortment of merchandise, and exceptional customer service. To succeed and remain profitable in a competitive marketplace, retailers must provide a higher perceived value than actual value (Maurino, 2013). There is speculation in the Canadian retail industry that Target might return to the Canadian market, but whether it will return under its own brand name with new business models or by forming strategic alliances with other retail companies is yet to be disclosed.

10. Conclusion

As Brian Cornell wrapped up his early morning workout, he reflected on the topics he would discuss with his senior executive team later that day. At the top of the agenda was formulating a plan to facilitate Target's orderly exit from the Canadian market. What steps needed to be taken? What costs could arise? Would withdrawing from the Canadian market impact Target's U.S. sales? The next critical task was to devise a strategy to boost the profitability of Target stores in the U.S. Which departments or products should take priority? What kind of service were their guests anticipating? Were there still lingering consequences from the data breach, and how could that negative publicity be managed?

Finally, what are Target Corporation's prospects for future international expansion? Could there be another attempt to enter the Canadian market—and if so, when and how would re-entry take place? Are there other international markets worth considering, and if so, what types of entry plans should be explored? With Target stores approaching saturation in the U.S., is international expansion still feasible? If so, what should the Target 2.0 strategies be in the Canadian market? Or should it first target the Mexican market before trying Canada again? Brian Cornell knew the answers to these questions would lay the framework for decisions in the coming weeks and months. He hoped that his executive team was ready to roll up its sleeves and undertake the hard work that would be required.

11. Assignment and/or Discussion Questions for the Case Analysis Participants

A) Why did Target Corporation enter the Canadian market? What factors made Target Corporation think they would be successful in Canada?
B) What factors are different when comparing the U.S. and Canadian retail markets? What factors are the same?
C) What mistakes did Target Corporation make in its handling of the Canadian market?
D) What impact will the withdrawal from the Canadian market have on Target Corporation?
E) How will Target's withdrawal from the Canadian market affect the Canadian economy and its retail sector?

F) Can Target Corporation rethink its strategies and reenter the Canadian market? Why or why not?

G) If Target Corporation were to consider re-entering the Canadian market in 20 years, how would they need to approach this?

H) Is it feasible for Target Corporation to consider other international markets for expansion? Which markets would you recommend, what are the pros and cons of entering these markets, and what timing would be advisable?

I) What differentiated strategies would you adopt if you were Target's CEO?

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