Is Target Missing the Mark in Canada?

Description

Since **Target** (NYSE:TGT) entered into the Canadian market it has not been the “turn key” experience the company was expecting. Now 124 stores strong, the U.S. retailer has learned many lessons about Canada the hard way.

Back in November the retailer revealed a drop in net income of 47%, mainly due to expansion costs in Canada. And it has recently come to light that Target is going to post a loss this year in its Canadian operations.

Canadian losses

On Friday, January 10, Target said it now anticipates a US$0.45 per share loss in its Canadian segment, which is up from earlier forecasts of a US$0.22 to US$0.32 per share loss. The exact amount of damaged suffered won’t be fully realized until the Q4 report comes out on February 26.

This projected loss once added to a less than stellar Christmas faced by most Canadian retailers. That was a far cry from what Target expected in its great Canadian rollout. But there have been other issues facing the retailer in recent months.

Inventory backlash

Another harsh lesson learned by Target was miscalculation in its inventory and purchasing plans. When Target originally began preparations to open in Canada it made many (mostly overseas) commitments to bulk up inventories. Many of those projections were based on higher sales expectations.

After stores began to open, the reality set in that sales were far behind expectations. This left Target overstocked and needing to clear out inventory at low prices, cutting even deeper into its margins. And yet many stores were also experiencing empty shelves lasting months. For example, my local Target was one of the first opened in Western Canada and it was only two-thirds stocked for the first seven months.

Target Corp. CEO Gregg Steinhafel has reassured investors that the company has the inventory problems “under control” and that this issue won’t recur going into 2014.

“It’s just not the same as down south”

The continuing “millstone” that has been dragging down Target has been the poor consumer reaction to the Canadian version of the US retailer. Consumers who were expecting similar products and better prices were left disappointed at the offerings of the retailer. It will prove very difficult for Target to reengage many Canadians.

Foolish bottom line

The greatest lesson Target has learned so far in Canada has been that Canadians don’t shop the same as Americans. Americans are more prone to engage in one-stop shopping, while bargain-hungry Canadians are more adept at shopping at multiple retailers. Time will tell whether Target can learn from these lessons and turn its operations around in 2014 to meet its goal of $6 billion in Canadian revenues by 2017.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)

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