7 Reasons Why Target Corporation Flopped in Canada

Description

Target Corporation (NYSE:TGT) has checked out of Canada.

On Thursday, the U.S. department store disclosed plans to shut down operations across the country, a move that will see 133 stores close and affect more than 17,500 employees.

The retailer rolled out across Canada back in March 2013. However, poor sales plagued the company's expansion. And after the chain's money-losing stores failed to turn themselves around, management is now pulling the plug.

"We were unable to find a realistic scenario that would get Target Canada to profitability until at least 2021." Brian Cornell, Target's chief executive, said in a press release.

What went wrong? Here are seven reasons why Target's Canadian expansion was a flop.

1. Target locations were less than ideal

In 2011, Target bought more than 120 Zellers locations from Canadian department store **Hudson's Bay Co**. However, many of these stores were in rundown shopping centers that were hard to access. These were not the places where the company's high-end but cost-conscious customers usually shop.

2. Target overestimated the Canadian shopper

In 2009, American retailers looked to Canada as the retail promise land. Today, however, the Canadian shopper is mired in debt and stagnant wage growth. That's why the market can quickly become oversaturated with new stores

3. Target was overambitious

Target set out to open over 100 stores and three massive distribution centres across the country. That was an impossibly tall logistics order, leaving store shelves empty while warehouses were bursting. If Target had simply gotten a few test stores up and running first, it may have been able to recognize and troubleshoot problems.

4. Target did not adapt to local tastes

The company was out of touch with shoppers. This was sorely evident when Target vendor-partners sent fourth of July merchandise to Canadian stores, not knowing that holiday isn’t celebrated north of the border. Subtle differences between countries need to be taken into account

5. Target gave the competition a two-year head start

Target’s rivals — like **Walmart**, **Loblaws**, and **Canadian Tire** — sharpened their game in anticipation of the company’s arrival. Competitors renovated stores, lowered prices, and brought in new products. That made it tough for a new upstart to break in.

6. Target failed to deliver on its brand promise

Target’s motto is “expect more and pay less”. In Canada, neither happened. Target set prices considerably higher than its U.S. stores in all categories. Combined with empty shelves and bad locations, the company exhausted all of the goodwill it had with customers before arriving.

7. Target had no online presence

Canadian retailers have not exactly been on the forefront of e-commerce. However, Target lacked much of an online presence in Canada. This came at a time when rivals have started expanding their internet shopping experience.

What’s next?

Target’s flop is a lesson for other American retailers looking north. Upscale department store chain **Nordstrom, Inc** (NYSE:JWN) will make its much anticipated debut in Calgary this fall. However, the company has taken notes from Target’s failure, dialing back expansion plans to concentrate on only six new full-line stores.

For investors, the takeaway is to be wary of growth stories. Expansions, going north or south of the 49th parallel, are no easy task. Shareholders of high-octane growth stocks like Target need to watch operations on a daily basis, or face the consequences.

CATEGORY

1. Investing

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1. NYSE:JWN (Nordstrom)
2. NYSE:TGT (Target Corporation)

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