# R.I.P. Target Corporation Canada

## Description

It is hard to believe that two short years ago the word **Target** (NYSE:TGT) sent shivers through the Canadian retail market. Many incumbent companies such as **Loblaw** and **Wal-Mart** feared that the expansion of Target into Canada would have a dramatic effect on their bottom lines. Consumers were eagerly awaiting one of their favorite cross border destination to set up shop here in Canada.



Then with much fanfare Target began to open the first of its 133 stores in rapid succession from coast to coast. People came, at first. Then, the empty shelves, prices that were higher than competitors, and a selection that was only a fraction of what Target offered in the U.S. drove customers away. The fanfare faded, complaints mounted from consumers and investors alike, and Target found itself in Ontario provincial court seeking bankruptcy protection.

### A miscalculated risk

When Target began to tout its coming northern expansion, executives simply expected that Canadians would flock to their stores without a second thought. This was a sentiment that came off as arrogant and presumptuous at the time and in the end consumers had the final say. Part of the rationale for abandoning Canada was the fact that Target projected that it would take until 2021 to finally turn a profit in its Canadian operations. This is a far cry from its initial projections that each location would be in the black 12 months after opening.

It is expected that Target will be reporting a US$5.4 billion pre-tax loss because of its decision to leave Canada, of which $70 million has been set aside for severance packages for its 17,600 employees. Target's bottom line (Canada and U.S. operations combined) is projected to post a loss of US$275 million.

### The winners

Wal-Mart may benefit the most from the sudden availability of floor space, and already purchased 39 unwanted stores from Target shortly after the purchase of Zellers. The question is not if Wal-Mart expands, but how many locations are large enough to comply with Wal-Mart's expansion into the grocery market.

**Hudson's Bay** is another likely candidate to pick up some locations but it could be more limited in which locations would suit its needs. Traditionally, Hudson's Bay performs better in a mall setting but it may see this as the right time to bring Saks Fifth Avenue to Canada.

Loblaw could use the space to push its Joe Fresh clothing brand in standalone stores, which would be similar to its current marketing strategy in Europe and the Middle East.

**The losers**

The biggest losers in this situation are Target investors, who have just witnessed over $7 billion disappear from the company. Target is also struggling in its home market in the U.S.

Short-term investors in Target could be considered winners as it is believed that investor sentiment had a sizeable impacted on the announcement to leave Canada. The stock price should see some positive traction based on sentiment alone, but as the true cost of what is perhaps the biggest failure in Canadian retail history begins to emerge, any hopes of stock growth could be as empty as the shelves in Target's Canadian stores.



**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. NYSE:TGT (Target Corporation)

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**Date**
2025/06/30
**Date Created**
2015/01/16
**Author**
cameronconway