

TARGET CANADA¹

Steven Sang Kil Hong wrote this case under the supervision of Professor Dante M. Pirouz solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On May 21, 2014, Mark Schindele began his first day as head of Target Canada. Schindele was most recently the senior vice president of Merchandising and Operations at Target Corporation (Target), the parent company of Target Canada, based in Minneapolis, Minnesota. Schindele replaced Tony Fisher, a 15-year veteran of Target Corporation, who, as the previous president of Target Canada, had led the disastrous launch of Target in Canada and the subsequent loss of \$941 million on sales of \$1.3 billion for fiscal year 2013.² Schindele came from the United States, where he had worked his way up from being a buyer at Macy's.

Because of the precipitous loss in Canada, revenue for Target Corporation fell in 2013 to \$21.5 billion from \$22.7 billion the previous year.³ The company earned \$0.81 per share in 2013, which was significantly less compared with the \$1.47 per share a year earlier, and the stock price had tanked. The huge losses at Target Canada had contributed to the firing of Target Corporation Chief Executive Officer (CEO) Gregg Steinhafel in May 2014. Steinhafel was replaced by Target Chief Financial Officer John Mulligan as the interim CEO until a permanent replacement could be found.

Schindele needed to turn Target Canada around quickly and dramatically or risk the complete implosion of the first international launch for Target. He did not want to be at the helm of one of the biggest failures Target had ever experienced. The task at hand was to carefully analyze which strategy to pursue to provide the highest return in the short term and the best strategic positioning for Target Canada in the long term.

TARGET CANADA LAUNCH

Target's entrance into Canada seemed like an obvious opportunity. Since 2011, Target had worked out extensive plans to expand internationally beyond the United States and had decided to enter the Canadian market as its first test of its international strategy.⁴ This market entry strategy seemed like a complete "slam dunk" certain to succeed. The United States had yet to fully recover its spending after the precipitous financial crisis and subsequent recession of 2008. These events had dampened Target's forecasts within the United States. Growth in a seemingly low-risk international market such as Canada was sure to please investors. Canada was part of the North American Free Trade Agreement; it was just

north of the United States; no major political issues existed, such as imminent immigration or trade agreements; and Canadian consumers seemed similar to American consumers, at least that was the assumption by many in the United States. Canada and the United States were two of the most interconnected nations in the world, in terms of both market relations and cultural influence. Moreover, both countries had overlapping demographic features, such as high levels of education, growing citizen affluence, smaller households, emerging cohorts of ethnically diverse younger generations and an increasing population of senior citizens.⁵ In 2013, Canada's population was estimated at 35.2 million, growing at a 1.1 per cent annual rate, which had been the growth rate for the last 30 years. Data from Statistics Canada showed that same-day car trips to the United States from Canada were steadily increasing, with an estimated 30 per cent of Canadians cross-border shopping to take advantage of lower prices and increased number of available stock keeping units and brands available in the United States. The median household income in Canada was \$82,000 USD per year; 25 per cent of Canadian households had high incomes, of more than \$100,000 per year with another 30 per cent in the middle-income bracket between \$50,000 and \$100,000.

Target Corporation expected revenues of \$1 billion annually from Target Canada immediately and \$6 billion annually by 2017. In addition, it expected a positive profit margin after the initial launch year. In 2013, 124 Target stores were operating in Canada (see Exhibit 1). Target had no expertise in expanding globally, and Canada was its first international market. In addition, very few local Canadians staffed the higher-ranking positions during the launch. The results of Target in Canada were a slow-moving train wreck and painfully disappointing for the executives, who, in October 2013, were forced to admit that the entrance into the Canadian market had been a failure. Also consumer buzz had died down substantially since the opening of the first store.⁶ Many stock analysts were concerned that Target's Canadian launch would decrease the company's profit temporarily, but it was revenue that had suffered more than anticipated.⁷

In response to the underperformance of the Canadian division, some in the company thought that the push should be to reshape the habits of Canadian shoppers. It was believed both that Canadians hadn't fully adopted the "one-stop shopping" concept that was so popular in the United States and that Target had the potential to reform the shopping culture in Canada.⁸

COMPANY HISTORY

Target Corporation was the fourth-largest retailer in the United States, operating 1,767 stores in 47 states.⁹ The firm originally started off as Dayton Dry Goods Company, which later became simply Dayton Company. George Dayton, the founder of the company, had no prior experience of running a retail business but his principles of thrift and sobriety, coupled with his connections as a banker, helped the company to grow quickly. Another unique approach the business implemented was the strict Presbyterian guidelines it indoctrinated in its work environment. This conservative approach did not slow down the business but rather led to success for Dayton. After George's death in 1950, the company went through a series of radical changes to reform the conservative management style into a younger and aggressive style of management. During this time, the first Target discount chain opened in 1962, in Roseville, Minnesota. The company also acquired many businesses around this time, including the J. L. Hudson Company department store chain, which led the company to become Dayton Hudson Corporation. In the 1990s, the Target division, only one of many retail brands in the company's portfolio and a retailer that focused on the budget-conscious customer, became so successful that it was the company's biggest money-maker. In response to Target's success, the company decided to expand the

Target division. Target outperformed all other divisions within the corporation including Mervyn's and Marshall Fields; as a result, the company renamed itself Target Corporation in 2000.¹⁰

THE RETAIL LANDSCAPE IN CANADA

Some of the notable companies to enter the Canadian market included Amazon.ca, which was planning to deliver food and automobile parts; Nordstrom; and Saks Fifth Avenue, now owned by Hudson's Bay Company. However, household debt levels were near record levels in Canada, which added to the pressure to offer the deep discounts to financially strapped consumers. In addition, retailers needed to continually improve the shopping experience to attract new customers.

On January 13, 2011, Target Corporation decided to launch in the Canadian market. To do so, Target paid \$1.8 billion to purchase the store leases of Canadian discount retail chain Zellers Inc. from the U.S. investor who owned the Hudson Bay Co. assets.¹¹ Tony Fisher, who, since 1999, had been a vice president of Merchandise Operations at Target, was selected to head the Canadian operation.¹² Following the acquisitions, the executive plan was to slowly convert 100 to 150 of the Zellers' locations to Target stores by 2013 and 2014. Steinhafel was certain about the expansion, as 70 per cent of Canadians surveyed were familiar with the Target brand and 10 per cent had shopped in Target stores in the past 12 months. Steinhafel strongly believed that Target would see success in Canada, similar to the successes in many of the states where Target had launched its business; he believed that Target's discount, upscale strategy would once again be effective.¹³

Target Canada estimated that it would cost, on average, \$5 million to remodel an acquired retail location in Canada (see Exhibit 2). Furthermore, it was expected to take six to nine months to fully renovate the design and the structure of the stores to meet Target's standard.¹⁴ On the other hand, it would cost nearly double that amount to build a new Target Canada store from scratch.

Target hired 27,000 new employees across Canada and planned to create a Target Team consisting of 150 to 200 members who would be guided by 15 team leaders. The directors for each store, many of them recruited in the United States, received two months of intensive training in the United States and Canada.¹⁵ Unlike its competitor, Walmart, Target did not guarantee the jobs for the former employees of its acquired company, Zellers. Some people voiced criticisms and complaints regarding Target's treatment of the former Zellers' employees.¹⁶

Some of Target's key operations deviated significantly in Canada. For example, Sobeys Inc. and Target Canada entered into a long-term wholesale distribution arrangement, allowing the Canadian food retailer to supply Target stores in Canada with select food and grocery products. This contract leveraged both firms' distribution networks to mutually reduce transportation expenses.¹⁷ One of Target Canada's surprising decisions was to choose Starbucks over Tim Hortons as its in-store coffee store. Many business experts anticipated Target would choose Tim Hortons, which would have helped its entrance into the Canadian market.¹⁸ Target did incorporate some Canadian modifications into the store; for example, it signed a merchandising partnership agreement with Roots, a Canadian clothing brand.¹⁹ Recently, however, Target Canada asked for a 2 per cent price discount from suppliers for new merchandise shipped to its stores. Many vendors were extremely unhappy with this request, which led to tension in negotiations.²⁰

According to a recent report by TD Economics, Americans spend more per capita than Canadians on retail shopping overall (\$17,900 versus \$17,000).²¹ However, Canadians spend \$1,200 per capita more on

food and beverages and \$317 per capita more on beer and wine than Americans do.²² It was estimated that a Canadian Target shopper would shop at a Target Canada store eight times per year. Although Canadian customers tended to shop at mass merchandisers such as Target less often than U.S. customers, they tended to be more loyal. It was estimated that the average Canadian Target shopper would stay a customer for at least 10 years (see Exhibits 3 and 4).

In terms of pricing, Fisher stated that cost disparity between the stores in the United States and those in Canada was mostly the result of Canada's higher operational costs in terms of transportation, distribution, fuel, wage rates and tax rates. He also suggested that the difference in population density between the United States and Canada also contributed to the different cost structures.²³ It was estimated that Target Canada had budgeted \$400 million annually to launch, market and manage each of the Canadian stores (see Exhibit 5). This budget was a big reduction from the \$1 billion spent in the previous 12 months to launch and market the initial rollout.²⁴

Schindele wondered whether Target's value proposition had worked in Canada. Target had focused on a few key segments in the United States, including the "design stylish mom," "the active, busy family," and "the moving single person including university and new careerists." Recently, however, these segments had become increasingly disenchanted with the low turnover of Target merchandise, the lack of on-trend brands, and the designers and merchandise that had been critical to the "Tar-Jay" brand image that had developed over the years. Target in the United States had built its differentiation on being known as the "Tar-Jay" (a play on the French pronunciation of Target) of big-box retailers. This image reflected the perception of U.S. shoppers that Target stores represented a higher-class version of the big-box stores. Target sold staples (e.g., paper towels and shampoo) that offered something special for everyone, "the newlyweds, the bargain hunter and the tech savvy and everyone in between."²⁵ In addition, Target was known for leveraging unique and edgy designs in its clothing and housewares departments; continually turning over new merchandise on the shelf; and creating a well-organized, coordinated social media coverage that spoke directly to the shopper who didn't fit with Walmart's rural, penny-pinching image. This positioning gave Target the highest return-visit percentage and loyalty among the big-box retailers.²⁶

However, the recent cost-cutting strategies had reduced the turnover velocity of new merchandise, designer relationships and new product innovations. Meanwhile, as Target Canada was trying to implement this same positioning, Target U.S. had lost much of its cachet in consumers' minds. American Target shoppers were excited to shop stores for the chance to snatch up new exciting clothing, accessories and housewares that they couldn't find anywhere else at a remarkably low price. In contrast, the Walmart shopper was more likely to live in a rural area, have lower education and be considered a lower-income bargain shopper. The Target shopper was more likely to be a fashionista, be highly educated, earn a higher income and be looking for unique, special items that responded to the shopper's love of design, fashion and "cheap chic."

Although most inside Target believed that the retailer fit within the general merchandise retail sub-sector, it was not clear whether there were other sub-segments where Target Canada might also compete successfully (see Exhibit 6). If there were other suitable sub-segments, then Target Canada would need to decide whether its competitive focus was best aimed at Walmart, Costco or Canadian Tire or whether other competitors could offer an opportunity for Target Canada to steal market share (see Exhibits 7 and 8).

Another important consideration was how to encourage potential customers to use the online store, Target.ca. It wasn't clear whether such online sales would cause the cannibalization of store sales rather than encouraging incremental new customers or new purchases by current customers. Cannibalization of

sales from the U.S. Target stores had been estimated by asking current customers their likelihood to buy online versus in store.

Sourcing merchandise was a critical problem for Target Canada. Food, along with other grocery items, was being sourced by Sobeys, a potential competitor.²⁷ Because of this reliance on distribution partnerships with other Canadian retailers, Target Canada was unable to stock some of the products it wanted to stock. For example, instead of stocking merchandise representing Detroit sports teams in the Windsor store, which fit with the local customers' tastes, the only sports merchandise available to stock were products representing teams like the Toronto Maple Leafs.²⁸ Target Canada experienced significant problems keeping shelves stocked with a minimum amount of merchandise.²⁹ Big problems were also experienced in the replenishment system, especially for perishable food products such as milk. According to some reports, shelves were sometimes without stock for as long as three weeks.³⁰ In addition, social media complaints focused on the slow checkout process and the length of checkout lines, which could be due to deficiencies in training and/or hiring.

In addition, many Canadians, especially those who liked to cross-border shop, found the pricing at Target Canada to be much higher than the prices at Target in the United States. The company claimed the higher prices were due to higher duties, higher costs for transportation and higher labour costs. Even with the high prices to shoppers, gross margins (which were calculated as gross sales minus the cost of goods sold) for Target Canada were not strong. In 2013, Target Canada's gross margins were estimated to be a mere 14 per cent. In comparison, Costco received, on average, a gross margin of 12 per cent, but also commanded an annual sign-up fee. Walmart's gross margin was close to 24 per cent, and high-end retailers such as Tiffany's achieved gross margins of up to 55 to 60 per cent.

Target Canada had attempted to develop relationships with Canadian brands in an effort to tailor the product offering and create buzz. For example, "glamping" (i.e., glamorous camping) product lines were introduced with top Canadian Pinterest pinners, bloggers and style influencers as Joy Cho of Oh Joy!, Jan Halvarson of Poppytalk and Kate Arends of Wit & Delight. These newly designed "limited time only" product lines would include party décor, paper products and serving pieces all priced under \$25.³¹ The launch party for the Poppytalk for Target collection was held at the Vancouver Art Gallery. In addition, Canadian Roots clothing was featured in Target stores for a limited time to communicate to customers that Target was sensitive to the unique Canadian culture. Pricing for many of the Roots products were lower — by up to half — than their cost at a Roots store.³²

The real push was to get Canadians to change their shopping behaviour. Target Canada originally wanted to be the "one-stop shopping" destination for Canadians, where people shopped not only for their large stock-up items, such as toilet paper and paper towels, but also for food, furniture, clothing, music and electronics.³³ Another strategy would be to get customers to shop more often even if doing so meant a lower spend per shopping trip. In this strategy, customers would browse Target for new items and specialty items on a weekly or daily basis, more like a boutique experience than shopping to stock up on household staples. Target Canada could reach this goal in several possible ways. For example, Target Canada could focus on increasing one or all of the following: the number of stores, the number of customers coming through the doors or the dollar amount that each customer spends per purchase occasion. Each of these alternatives was associated with certain costs and risks along with opportunities. A recent public statement from an analyst at Credit Suisse urged Target to consider divesting from Canada rather than investing more and to focus on solely developing its U.S. stores: "If Target exits Canada in 2015, he estimates it will incur US\$3.5-billion in charges, but generate US\$1-billion in cash proceeds. Target is expected to see a roughly 10% dip in shareholder's equity as a result, and the largest decline in free cash flow since 2007."³⁴

EXHIBIT 1: TARGET CANADA STORES OPENED, 2013

Opened March and April 2013	Ontario	1. Ajax – Durham Centre 2. Aurora – Aurora Shopping Centre 3. Brampton – Shoppers World Brampton 4. Burlington – Burlington Mall 5. Burlington – Millcroft Centre 6. Brampton – Trinity Common 7. Cambridge – Cambridge Centre 8. Fergus – Gates of Fergus 9. Guelph – Stone Road Mall 10. Hamilton – Centre Mall 11. Kawartha Lakes – Lindsay Square Mall 12. London – Masonville Place 13. London – Westmount Shopping Centre 14. Milton – Milton Mall Shopping Centre 15. Mississauga – Square One Shopping Centre 16. Newmarket – Upper Canada Mall 17. Orillia – Orillia Square Mall 18. Toronto – Centrepont Mall 19. Toronto – Cloverdale Mall 20. Toronto – East York Town Centre 21. Toronto – Shoppers World Danforth 22. Waterdown – Flamborough Power Centre 23. Whitby – Taunton Road Power Centre 24. Windsor – Devonshire Mall
Opened Spring 2013	British Columbia	25. Campbell River – Discovery Harbour Shopping Centre 26. Coquitlam – Coquitlam Centre 27. Cranbrook – Tamarack Mall 28. Delta – Scottsdale Mall 29. Kamloops- Sahali Centre Mall 30. Prince George – Pine Centre 31. Langley – Willowbrook Shopping Centre 32. Nanaimo – Nanaimo North Town Centre 33. Vernon – Village Green Mall 34. Victoria – Tillicum Centre
	Alberta	35. Calgary – Chinook Centre 36. Calgary – Forest Lawn Shopping Centre 37. Calgary – Market Mall 38. Calgary – Shoppes at Shawnessy 39. Edmonton – Bonnie Doon Shopping Centre 40. Edmonton – Mill Woods Town Centre 41. Edmonton – West Edmonton Mall 42. Grande Prairie – Prairie Mall 43. Red Deer – Bower Place 44. Sherwood Park – Sherwood Park Mall 45. St. Albert – St. Albert Centre
	Manitoba	46. Brandon – Shoppers Mall 47. Winnipeg – Kildonan Place Shopping Centre 48. Winnipeg – Southdale Centre
Opened Summer 2013	British Columbia	49. Courtenay – Driftwood Mall 50. Kelowna – Orchard Park Plaza

EXHIBIT 1 (CONTINUED)

	Alberta	51. Calgary – Signal Hill 52. Medicine Hat – Medicine Hat Mall
	Saskatchewan	53. Regina – Northgate Mall 54. Saskatoon – The Mall at Lawson Heights 55. Saskatoon – Centre at Circle & Eighth
	Ontario	56. Ancaster – Meadowland Power Centre 57. Brampton- Bramalea City Centre 58. Chatham – Thames Lea Plaza 59. Hamilton – South Hamilton Square 60. Kingston – Cataraqui Town Centre 61. Kitchener – Laurentian Mall 62. Niagara Falls – 7190 Morrison Street 63. North Bay – 1899 Algonquin Avenue 64. Oakville – Hopedale Mall 65. Oshawa, Ontario – Five Points Shopping Centre 66. Stoney Creek – Queenston Place 67. Thunder Bay – Intercity Shopping Centre 68. Welland – Seaway Mall
Opened Fall 2013	Quebec	69. Anjou – Galeries D’Anjou 70. Boisbriand – Faubourg Boisbriand 71. Brossard – Place Portobello 72. Gatineau – Les Galeries Gatineau 73. Laval – Mega Centre Autoroute 13 74. Joliette – Les Galeries Joliette 75. Levis – Galeries Chagnon 76. Montreal – Place Alexis Nihon 77. Montreal – Place Versailles Shopping Centre 78. Montreal – Place Vertu 79. Quebec City – Place Fleur De Lys 80. Rimouski – Le Carrefour Rimouski 81. Saint-Bruno-de-Montarville – Les Promenades Saint-Bruno 82. Saint-Georges – Carrefour Saint-Georges 83. Sainte-Foy – Place Laurier 84. Saint-Jerome – Carrefour Du Nord 85. St. Eustache – Carrefour St-Eustache 86. Trois-Rivieres – Les Rivières Shopping Centre
	Ontario	87. Kanata – Hazeldean Mall 88. Orleans – Place D’Orleans 89. Ottawa – Billings Bridge Plaza 90. Smith Falls – County Fair Mall
	Nova Scotia	91. Bedford – Bedford Place 92. Dartmouth – Mic Mac Mall 93. Halifax – Bayers Lake Power Centre
Opened Winter 2013	British Columbia	94. Abbotsford – Abbotsford Power Centre 95. Burnaby – Metropolis at Metrotown 96. Chilliwack – Cottonwood Mall 97. Maple Ridge – Haney Place Mall 98. Richmond – Lansdowne Centre 99. Surrey – Surrey Place/Central City

EXHIBIT 1 (CONTINUED)

	Alberta	100.Calgary – Sunridge Mall
	Manitoba	101.Winnipeg – Grant Park
	Ontario	102.Bowmanville – Clarington Town Centre 103.Mississauga – Westdale Mall 104.Nepean – Meadowlands Shopping Centre 105.Pickering – Pickering Town Centre 106.Richmond Hill – Hillcrest Mall 107.St. Catharines – Pen Centre 108.Stratford – Stratford Mall 109.Sudbury – Sudbury Supermall 110.Waterloo – Conestoga Mall
	Quebec	111.Lasalle – Carrefour Angrignon 112.Laval – Centre Laval 113.Longueuil – Place Longueuil 114.Pointe Claire – Terrarium Shopping Centre 115.Quebec City – Les Galeries De La Capitale 116.Saint-Jean-sur-Richelieu – Carrefour Richelieu 117.Sherbrooke – Carrefour De L’Estrie
	Nova Scotia	118.Sydney – Sydney Shopping Centre
	New Brunswick	119.Fredericton – Uptown Centre 120.Moncton – Northwest Centre 121.St. John – Mcallister Place
	Newfoundland	122.Corner Brook – Corner Brook 123.St. John’s – Cabot Square
	PEI	124.Charlottetown – Charlottetown Mall

Source: Target Website, <http://pressroom.target.com/news/target-set-to-complete-canadian-store-openings-for-2013>, accessed January 25, 2014.

EXHIBIT 2: COST OF LAUNCHING AND OPERATING A TARGET CANADA STORE

		PURCHASE AND REMODELING COSTS PER STORE	GREENFIELD BUILD
LAUNCH COSTS	Site Lease Agreement	\$8.3 million	\$0
	Build/Remodelling costs	\$56.53/square foot	\$62.77/square foot
	Average square footage/per store	80,000 square feet	130,000 square feet
	Average number of SKUs/per store	10,000 SKUs	80,000 SKUs
TOTAL BUILD/REMODEL COSTS PER STORE		\$5 million	\$8 million
OPERATIONAL COSTS	Rent	8%	10%
	Administrative (Payroll services, travel, etc.)	2.5%	2.5%
	Supplies (Bags, boxes, etc.)	2.5%	2.5%
	Accounting and technology (IT systems, etc.)	5%	5%
	Staffing (Employee salaries, training, benefits, etc.)	15%	20%
	COGS	45%	30%
	Marketing costs (Store advertising, flyers, POP, etc.)	8%	10%

Notes: SKUs = stock keeping units; IT = information technology; COGS = cost of goods sold; POP = point of purchase. These costs were estimated by the case authors. Greenfield build refers to building a freestanding Target store from scratch without an existing structure remodel. Source: Marianne Wilson, *Costs Going Up: Annual Study Tracks Cost of Building and Outfitting Stores*, www.chainstoreage.com/sites/chainstoreage.com/files/ConstructionSurvey_2013.pdf, accessed April 23, 2014.

Purchasing and remodelling costs are based on the cost of acquiring 220 stores purchased from Zellers for \$1.8 billion. Average square footage per store is similar to the average size of a Target store in the United States. Marketing costs are based on the percentage of revenue that Target U.S. spent on advertising, January 8, 2013, Source: Ron Margulis, "Here Comes Target," *Canadian Grocer*, January 8, 2013, www.canadiangrocer.com/uncategorized/here-comes-target-19864, accessed August 26, 2014.

EXHIBIT 3: SELECTED CUSTOMER BEHAVIOUR DATA FOR U.S. AND CANADIAN TARGET CUSTOMERS

	U.S.	Canada
Percent who have engaged in Canadian/American cross-border shopping	5%	30%
Percent who prefer to shop online instead of in store	20%	50%
Percent who prefer to shop at retail chains that are locally owned	30%	30%
Average \$ amount spent per square foot	\$175	\$75
Average number of customers transacting per day/per Target store	2,000	550
Average \$ amount of transactions per store visit	\$213	\$118
Percent of customers returning to Target within 30 days	40%	10%
Percent of Target customers who would prefer to shop online at Target.com/Target.ca	10%	20%
Number of stores	1,793	124
Average \$ sales per store per day	\$130, 927	\$59,777
Annual sales in 2013	\$71.179 billion	\$1.317 billion
Operating profit/loss	\$1.971 billion	-\$941 million
Gross margin rate	20% (est.)	14.9%
Average square foot per store	200,000	100,000
Average # of shopping visits per customer/per year	15	8

Source: Ian Austen, "Target Push into Canada Stumbles," *The New York Times*, February 24, 2014, www.nytimes.com/2014/02/25/business/international/target-struggles-to-compete-in-canada.html?_r=1, accessed April 23, 2014.

EXHIBIT 4: DEMOGRAPHICS OF CANADIAN CONSUMERS, BY PROVINCE AND TERRITORY, 2013

	ANNUAL GROWTH RATES OF POPULATION, 2013	PERCENT OF TOTAL POPULATION	TOTAL CANADIAN POPULATION IN 2013
Ontario	0.9%	38.5%	
Quebec	0.9%	23.2%	
British Columbia	0.8%	13.0%	
Alberta	3.4%	10.9%	
Nunavut	2.5%	0.1%	
Saskatchewan	1.9%	3.1%	
Manitoba	1.2%	3.6%	
Nova Scotia	-0.5%	2.8%	
New Brunswick	-0.1%	2.2%	
Newfoundland and Labrador	0.0%	1.3%	
Prince Edward Island	0.0%	0.4%	
Northwest Territories	-0.2%	0.1%	
Yukon	1.2%	0.1%	
			35,158,300

Source: Statistics Canada, 2014, "Canada's Total Population Estimates, 2013," www.statcan.gc.ca/daily-quotidien/130926/dq130926a-eng.htm, accessed August 26, 2014.

EXHIBIT 5: FINANCIAL SUMMARY, TARGET CORPORATION, 2008 TO 2013

	2013	2012(a)	2011	2010	2009	2008
FINANCIAL RESULTS (IN MILLIONS)						
Sales	\$72,596	71,960	68,466	65,786	63,435	62,884
Credit card revenues	–	1,341	1,399	1,604	1,922	2,064
Total revenues	75,596	73,301	69,865	67,390	65,357	64,948
Cost of sales	51,160	50,568	47,860	45,725	44,062	44,157
Selling, general and administrative expenses (SG&A)	15,375	14,914	14,106	13,469	13,078	12,954
Credit card expenses	–	467	446	860	1,521	1,609
Depreciation and amortization	2,223	2,142	2,131	2,084	2,023	1,826
Gain on receivables transaction	–391	–161				
Earnings before interest expense and income taxes (EBIT)	4,229	5,371	5,322	5,252	4,673	4,402
Net interest expense	1,126	762	866	757	801	866
Earnings before income taxes	3,103	4,609	4,456	4,495	3,872	3,536
Provision for income taxes	1,132	1,610	1,527	1,575	1,384	1,322
Net earnings	\$1,971	2,999	2,929	2,920	2,488	2,214
PER SHARE						
Basic earnings per share	\$3.10	4.57	4.31	4.03	3.31	2.87
Diluted earnings per share	\$3.07	4.52	4.28	4.00	3.30	2.86
Cash dividends declared	\$1.65	1.38	1.15	0.92	0.67	0.62
FINANCIAL POSITION (IN MILLIONS)						
Total assets	\$44,553	48,163	46,630	43,705	44,533	44,106
Capital expenditures	\$3,453	3,277	4,368	2,129	1,729	3,547
Long-term debt, including current portion	\$13,782	17,648	17,483	15,726	16,814	18,752
Net debt (b)	\$13,779	17,518	17,289	14,597	15,288	18,562
Shareholders' investment	\$16,231	16,558	15,821	15,487	15,347	13,712
US SEGMENT FINANCIAL RATIOS						
Comparable growth (c)	–0.4%	2.7%	3.0%	2.1%	–2.5%	–2.9%
Gross margin (% of sales)	29.8%	29.7%	30.1%	30.5%	30.5%	29.8%
SG&A (% of sales) (d)	20.0%	19.1%	19.1%	19.3%	20.0%	10.0%
EBIT margin (% of sales) (d)	7.0%	7.8%	8.0%	8.0%	7.4%	7.0%
OTHER						
Common shares outstanding (in millions)	632.9	645.30	669.30	704.00	744.60	752.70
Cash flow provided by operations (in millions)	\$6,520	5,325	5,434	5,271	5,881	4,430
Revenue per square foot (e)	\$298	299	294	290	287	301
Retail square feet (in thousands)	254,243	237,847	235,721	233,618	231,952	222,588
Square footage growth	6.90%	0.90%	0.90%	0.70%	4.20%	7.00%
Total number of stores	1,917	1,778	1,763	1,750	1,740	1,682
General merchandise	289	391	637	1,037	1,381	1,441
Expanded food assortment	1,245	1,131	875	462	108	2
SuperTarget	251	251	251	251	251	239
CityTarget	8	5				
Canada	124					
Total number of distribution centers	40	40	37	37	37	34

(a) Consisted of 53 weeks.

(b) Including current portion and short-term notes payable, net of short-term investments of \$3 million, \$130 million, \$194 million, \$1,129 million, \$1,526 million and \$190 million, respectively. Management believes this measure is an indicator of our level of financial leverage because short-term investments are available to pay debt maturity obligations.

(c) See definition of comparable sales in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

(d) Prior period segment results have been revised to reflect the combination of our historical U.S. Retail Segment and U.S. Credit Card Segment into one U.S. Segment.

(e) Represents U.S. revenue per square foot, which is calculated using rolling 13-month average square feet and a rolling four quarters of average revenue. In 2012, revenue per square foot was calculated excluding the 53rd week in order to provide a more useful comparison to other years. Using total reported revenues for 2012 (including the 53rd week) resulted in revenue per square foot of \$304.

Source: Target Corporation Shareholders Report, 2013.

EXHIBIT 6: DEPARTMENT SALES FOR TARGET U.S., 2013

TOTAL U.S. SEGMENT SALES FOR TARGET: \$71.3 billion

Key Segments for Target

- Household Essentials = 25%
- Food and Pet Supplies = 21%
- Apparel and Accessories = 19%
- Hardlines = 18%
- Home Furnishings and Décor = 17%

Source: *Target Corporation Shareholders Report, 2013*; Hardlines = hardware, automotive, sporting goods, electronics.

EXHIBIT 7: MARKET CONCENTRATION IN CANADA BY RETAIL SUB-SECTOR, 2011

Retail Sub-Sector Category	2011 Sales (millions)	Top Retailers in Each Sub-Sector with Market Share
Furniture and Home Furnishing	\$15,028	1. Sears (10.7%); 2. The Brick (10.2%); 3. IKEA (8.5%)
Electronics and Appliances	\$14,982	1. Best Buy (40.2%); 2. Apple (4.7%); 3. Bell Canada (3.7%)
Home Improvement	\$27,037	1. Rona (23.9%); 2. Home Depot (23.8%); 3. Home Hardware (17.6%)
Grocery/Food	\$104,134	1. Weston Group/Loblaws (30.0%); 2. Empire Company/Sobeys (15.1%); 3. Metro (10.4%)
Pharmacy and Personal Care	\$32,848	1. Shoppers Drug Mart (31.8%); 2. Katz Group/Rexall (16.7%); 3. Jean Coutu (12.2%)
Clothing and Accessory	\$26,049	1. TJX Companies/Winners (7.7%); 2. Reitman Group (3.9%); 3. Canadian Tire (3.8)
Hobby Store	\$11,155	1. Canadian Tire (15.1%); 2. Indigo Books (8.3%); 3. Toys 'R' Us (7.2%)
General Merchandise	\$56,770	1. Wal-Mart (41.5%); 2. Costco (24.4%); 3. Canadian Tire (10.2%)
Miscellaneous	\$10,696	1. Staples (28.4%); 2. PetSmart (2.9%); 3. Roark Capital/PetValu (2.3%)

Source: Daniel, A., and Hernandez D. (2012). *Canada's Leading Retailers – Latest Trends and Strategies* (9th Edition). Toronto, ON: Centre for the Study of Commercial Activity; *Canada's Changing Retail Market*, Industry Canada, 2013, [www.ic.gc.ca/eic/site/oca-bc.nsf/vwapj/CTU-2013_Q2_Canadas_Changing_Retail_Market-eng.pdf/\\$file/CTU-2013_Q2_Canadas_Changing_Retail_Market-eng.pdf](http://www.ic.gc.ca/eic/site/oca-bc.nsf/vwapj/CTU-2013_Q2_Canadas_Changing_Retail_Market-eng.pdf/$file/CTU-2013_Q2_Canadas_Changing_Retail_Market-eng.pdf), accessed January 25, 2015.

EXHIBIT 8: COMPETITION IN CANADIAN BIG-BOX RETAILING

There are numerous retailers competing in Canada, including Loblaw's, Canadian Tire and Shoppers Drug Mart but Walmart is without a doubt the biggest competitor for Target Canada. Since its launch, Walmart has established itself as the second-largest retail chain in Canada. Walmart entered Canada by buying 122 discount department stores from the Canadian subsidiary of Woolco in March 1994.³⁵ Currently Walmart is operating 391 retail units in Canada: 259 supercentres and 132 discount stores.³⁶

Walmart's average basket total was \$124.23 compared with Target Canada's average basket total of \$124.02. The biggest price difference came from edible groceries: the items from Target Canada were priced 8.6 per cent higher than the edible groceries from Walmart. Whereas Walmart focused on food in the price war, Target emphasized its health and beauty aids and non-edible grocery items.³⁷ In general, Target Canada prices are 0.2 per cent higher than Walmart's. Target is unable to offer the same price it offers in the United States because of higher costs and tariffs and fewer economies of scale; this price discrepancy has affected Canadian shoppers' perception of value for money at Target Canada.³⁸ Walmart was successful in entering Canada but it had its own bitter moments in the past when it tried to enter other foreign markets. For instance, in South Korea, the company did not heed local preferences and failed to become a major force in the market.³⁹ Japan was another market where Walmart struggled to penetrate, as many Japanese customers associated lower prices with cheap quality.⁴⁰ It was now clear that Walmart needed to develop individually tailored global strategies for different countries.

Loblaw Companies Limited is the biggest grocery chain in Canada.⁴¹ Loblaw offers Canadians groceries, pharmacy items, health and beauty products, apparel, general merchandise, banking, and wireless mobile products and services. It boasts 2,300 corporate, franchised and associate-owned locations and employs approximately 192,000 full- and part-time employees, making it one of Canada's largest private-sector employers.⁴² Loblaw reacted to the intensifying market competition in Canada by acquiring Canada's largest retail pharmacy chain, Shoppers Drug Mart in July 2013. The acquisition cost was projected to be \$12.4 billion in a deal that would merge the country's largest grocery retailer with Canada's largest pharmacy chain, resulting in combined revenue of \$42 billion annually. The acquisition also meant that Loblaw would be able to expand its services in what it sees as a growing sector: health, wellness and nutrition.⁴³ The merger would also offer many more opportunities for Loblaw. For instance, the acquisition would allow the company to sell many products with higher margins, such as pharmaceutical products. In addition, the merger would open up co-branding opportunities in private labels and loyalty programs. Furthermore, Loblaw would own more downtown stores across small-town Canada, providing a key real-estate edge in managing socio-demographic shifts. Some experts speculate that this deal will be transformational for Canadian food retailing.⁴⁴

In addition, Sears Canada is planning on selling all of its real estate and stores, to focus on the ecommerce side of the business. Grocery retailers in Canada have also seen big changes. Sobeys Inc. purchased Canada Safeway to compete against discount retailers such as Walmart.⁴⁵

ENDNOTES

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Target Corporation or any of its employees.

² All dollar figures are in U.S. dollars unless otherwise noted.

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