TRANSCRIPT

Target’s Supply Chain Fail

Michael Madsen:

Hi, I'm Michael Madsen, International Liaison Partner for BDO Canada. Welcome to Bored at the Airport with Mike. This show is about doing business globally. Whether your business has international presence, is considering an international expansion, or if you're in the middle of revising your expansion plan, then this show is for you.

Clip:

Target didn't understand the Canadian customer. Except for the sign, it looked like Zellers, smelled like Zellers. The only thing, they couldn't even keep it in stock like Zellers.

Michael Madsen:

Today, we will share the story of what happens when you take the supply out of the chain. How one of the largest department store chains in the US completely fumbled their expansion into Canada.

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A huge deal is reshaping the country's retail landscape. Target stores are coming to Canada.

Narrator:

Target traces its roots back to Daytona Dry Goods, which was founded by George Dayton near Minneapolis in 1902. Over the past 100 years, Target has grown into the second largest domestic retailer behind Walmart. The $70 billion titan operates over 1,800 locations in the United States. The chain has carefully cultivated its brand image, specializing in sheet products at affordable prices, and is known for efficient organization and has a highly admired corporate structure.

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Teamwork that works.

Narrator:

Target decided to expand into the Canadian market, partly because Canadian shoppers already enjoy American Targets. In fact, cross border shopping in Canada is very popular due to duty free exemptions.

Compared with the United States, the Canadian retail market is significantly smaller. In 2020, Canadian retailers generated $606 billion in total sales. That same year, US total retail sales surpassed $5.5 trillion. Target announced an uncharacteristically bold international expansion plan in hopes to take the Canadian market by storm. The company purchased the ailing department store chain Zellers for $1.8 billion dollars in 2011. Target hoped to renovate those stores, and formulated a plan to open 124 locations by 2013. Not only that, but the chain expected to be profitable within its first year.

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We built this business model to be competitive in Canada.

Narrator:

Target originally purchased 220 Zellers stores to expand their footprint in Canada. These locations were in rundown shopping centers that were hard to access. The stores were smaller than Target's typical US formats, and took more money than expected to expand and convert into its trademark red and white layout. Many of the stores were also in low traffic areas, far away from their target audience. In Canada, it is critical to understand complexities of the small population base and build a coherent store density plan that caters to the major metropolitan areas. Additionally, companies need to understand the unique geographical and linguistic differences in Canada. Companies need to build marketing plans that account for the diverse population. The differences between French speaking Montreal and English speaking Vancouver cannot be overstated. Fast forward to January, 2015, two years after Target entered the Canadian market. The American retail giant announced it would be exiting the Canadian market resulting in net losses of $2 billion and 17,000 jobs.

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What happened? They bit off more than they could chew. I mean, that bullseye dog was a good mascot, but they came into Canada with so many things they thought to their advantage.

Narrator:

One of the many reasons they missed the mark is supply chain plus logistics. Target's rush to expand was faced with one challenge after another. Differences in Canadian packaging, protectionist tariffs, and exclusive wholesale arrangements forced Canadian Targets to develop an entirely new logistic network to support the Canadian stores since they could not be serviced from the company's American distribution network. As a result, the company needed to build new distribution centers. Typically, a distribution center takes several years to complete and integrate into an overall system. Target planned to build three distribution centers in less than two years.

On top of this, Target purchased an unfamiliar off the shelf inventory system because they didn't have enough time to customize their existing system for the Canadian market. Their American inventory system was not compatible with the Canadian dollar, or even French language characters. This new internal reporting system did not interface well or at all with the other Target systems. It forced some stores to manually process and verify every single piece of data, drastically slowing efficiency and profitability.

Target's international expansion into Canada is a cautionary tale, underscoring the importance of having a solid strategic plan before expanding into a new market.

Michael Madsen:

Joining me to discuss Target's failed expansion into Canada is Charmaine Goddeeris. Charmaine leads BDO's Customs and International Trade Practice, providing consulting services to clients in a wide range of industries. Charmaine, welcome to the program.

Charmaine Goddeeris:

Thanks, Michael. How are you doing today?

Michael Madsen:

Doing fantastic. I remember this story real well, as many others. There was a Zellers in my community here in the suburbs of Vancouver, so pardon the pun. How did Target miss theirs?

Charmaine Goddeeris:

I see what you did there. Very clever. I believe Target's failure was a result of not educating themselves on the intricacies, complexities and additional costs of importing and shipping into a foreign country. And in the case of Target, their startup plan in Canada was very, very, very aggressive. And you can see that they didn't take a lot of these factors into play. They were inexperienced with the timing delay and additional cost, and it did show up with the bare shelves and the higher prices than the normal Target customer was used to.

Michael Madsen:

Clearly, supply chain issues were a key piece of the Target story. What can we learn from Target when it comes to their supply chain issues?

Charmaine Goddeeris:

Michael, I always say knowledge is power. I probably say that five times a day as I'm talking to new clients or new prospects that are looking to set up shop or enter the Canadian market. And what that means is the company needs to fully understand the laws and regulations of the country that they're importing into. Let's look at what products you're bringing in, where you're bringing them in from.

Michael Madsen:

It seems here in 2022, every day the crisis in around supply chain is cited as a top challenge facing business and pandemic and the Suez Canal and labor shortages and the impact of conflict and a myriad of other things. And there's so much to unpack here, I realize that. But can you just summarize for our listeners what's happening and perhaps even what the future holds?

Charmaine Goddeeris:

Companies need to have inventory in Canada, just in case of another trade dispute, just in case of another pandemic, just in case of another war. COVID continues to wreck havoc around the world, as we saw recently with the backlog of cargo ships in China, because they were back in lockdown and they had no workers. So what ends up happening there is the ships sit. They're full or semi full, and they're sitting there. And then people are ordering and that's all landing in the warehouse. There's only a certain amount of workers. There's only a certain amount of ships and there's only a certain amount of warehouse space. It doesn't matter which country you're in.

So the backlog happens in China. They go to lockdown and they start releasing ships. And those ships come into Canada. Those ships come into the United States. Well, they're backlogged as well because they're not designed to handle this amount of cargo ships that are landing there, and they don't have enough workers. And it's on and on and on.

In Canada, we're starting to see and feel the effects of rising fuel costs. Anyone that's been to a grocery store lately sees that. I almost tripped over my cart the other day when it was 8.99 for a watermelon. That's rising fuel costs. If we're paying at the pumps, the truck drivers are paying it at the pumps.

Michael Madsen:

As a business owner, how can I mitigate my risk relating to supply chain?

Charmaine Goddeeris:

Knowledge is the key. Knowledge is power. For many, many companies and business owners and CEOs and on and on and on, supply chains customs has really kind of been a black hole. But they haven't seen the global unrest that we've seen before. They haven't seen the trade disputes. They haven't seen, for a lack of better term, weaponizing duties and tariffs. So, if they want to continue to operate and be successful with their business, they need to know what's going on in a global stage. And they need to know how all of those unrests could impact their bottom line and make contingency plans.

Michael Madsen:

So, with our existing supply chain, any tips or strategies you might suggest in and around safeguarding what already is in place?

Charmaine Goddeeris:

The first thing that we talk about is reevaluating your existing contacts and your purchase orders. Know your business on the global stage. Really take a deep dive into your industry, know what's going on. Know which countries your suppliers are located in. And what I'm really talking about, Mike, is getting a globe and plotting out where everybody is and looking at the cost associated with using that vendor in that country.

Michael Madsen:

If our audience is currently experiencing issues with supply chain or duties or any number of things, can you tell us how you and your team might be able to help?

Charmaine Goddeeris:

We can help with documenting their supply chain from cradle to grave. That includes what happens in their purchasing area of their business, their finance area of their business, all the way through their vendors. Giving ideas on how to vet vendors, or how to establish relationships with vendors. What to look for in freight companies and the tips and traps of freight companies. And then I pick it up at this point in time where I specifically look at the duty impact of your goods. What is the duty impact? What are the costs associated with your goods coming into Canada? Give them insight into what their current process is, and then help them do their contingency planning for catastrophes that we know can happen. And I'm at the point now where I look out the window and a pig could fly by and I would go, "Yep. That's okay."

Michael Madsen:

Well, on that note, this has been wonderful. I mean, clearly an issue that in a global business environment impacts so many of our listeners and is a critical factor to their success and success of their business. Supply chain challenges are here to stay. Clearly, a lot of complexity. And your advice around managing risk and adopting plans to address the uncertainty are so very insightful and practical. Thank you again.

Charmaine Goddeeris:

Thank you very much.

Michael Madsen:

Thanks for being part of Board At The Airport With Mike I'm. Mike Madsen. If you liked this episode, subscribe to our podcast and connect with us on our LinkedIn group page, Bored At The Airport.

Narrator:

On our next episode...

Clip:

No waving of the arms. Two taps of a finger is all it takes to hail a taxi virtually. Hailo is shaking up the local taxi scene.

Narrator:

We'll explore how UK ride base sharing app Hailo went toe to toe with Uber and Lyft. Board At The Airport With Mike is powered by BDO Canada. BDO provides tax, audit, and assurance advisory and business outsourcing services to companies across all sectors of the economy. We operate from 125 offices across Canada, covering all major business centers so we can be close to your clients. We are a key member of the BDO global network that provides business advisory services in 167 countries. And this allows us to meet the needs of clients who are growing and trading internationally. Visit us at bdo.ca.

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