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## Target Looks North for a Lift

*Canadian Stores to Open Soon; Sales Boost Needed, but Timing Isn't Perfect*

By ANN ZIMMERMAN and KAREN JOHNSON

TORONTO—After an uneven year of sales in the U.S., [Target](#) Corp. is pinning its hopes for growth on Canada, where it plans to open its first two dozen stores in the next few weeks.

Canadians have been traveling over the border for years to shop at U.S. Target stores. More than 30,000 Canadian customers already carry the retailer's credit card. But the Minneapolis-based chain is taking little for granted in its first international expansion, which this year will add 124 stores, or 7%, to its overall footprint. The company has plowed more than \$2.7 billion into the venture, and plans to spend an additional \$1.5 billion this year, the company said when it reported quarterly earnings Wednesday.



Published Credit: Karen Johnson/The Wall Street Journal

A Target in Toronto awaits its opening. The U.S. retailer plans its first international expansion in Canada.

"After more than two years of efforts, our Target Canada team is eager to welcome their first guests and start generating sales," Target CEO [Gregg Steinhafel](#) said in a conference call with investors Wednesday, when it reported a 2% decline in fiscal fourth-quarter profit.

In addition to the "cheap chic" brands it is known for, Target plans to stock local Canadian favorites like dill-pickle-flavored potato chips and clothing from Roots, which is based in Toronto.

Despite such local flourishes—and prime retail locations—Target faces hurdles in Canada, experts say. One challenge: entrenched competition from American rivals [Wal-Mart Stores Inc.](#) and [Costco Wholesale Corp.](#), which beat Target to the country by more than a decade.

"Even with an aggressive real-estate strategy and established brand, we expect Target to have a tougher time cracking the Canadian retail market than most expect," said Joe Thacker, chief strategist at Toronto-based Fusion Retail Analytics.

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With only about two-thirds the shopping center space per person that the U.S. has, Canada still offers an appealing opportunity for retailers. And when Target

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announced its expansion plans in January 2011, Canada's economy was the most robust in the developed world, insulated against the worst of the global economic crisis because of the resilience of its banking system, housing sector and energy and mining industries. But the once-vibrant economy has started to slow. Fourth-quarter GDP data are expected to show annualized economic expansion of less than 1% when the figures are released on Friday, compared with 2.1% a year ago. Canada's jobless rate fell to 7% in January, a four-year low, but economists say the drop reflected discouraged workers leaving the labor force and masked a surge in job losses.

Although Canada is similar to the U.S. in many ways, rents and labor costs are higher north of the border. And there are expensive logistical hurdles to serving a population the size of California spread out over the second-largest land mass in the world.

To absorb the higher cost of doing business, some U.S. retailers price goods higher at their Canadian outposts, which doesn't always sit well with savvy Canadian shoppers. Target plans to price its goods to compete with local discounters in each Canadian market, according to John Morioka, senior vice president of merchandising at Target Canada.

That will please Patricia Thomas, a stay-at-home mother from Winnipeg who has already applied for the Target credit card. She looks forward to no longer driving 3.5 hours to the Target in Grand Forks, N.D., where she has stocked up on clothes for her children, age 3 and 6.

"The price points are right but the clothes are not cheaply made," she said.

Target plans to quietly open its first wave of stores in Ontario in March, followed by formal ribbon-cuttings in April.

Target is spending more on its Canadian venture than investors expected when it announced two years ago that it was leasing and remodeling old stores run by the [Hudson Bay](#) Co.'s Zellers chain, and that spending is likely to crimp earnings this year. On Wednesday, Target forecast it would earn between \$4.40 and \$4.60 share this year, well below the \$4.82 cents Wall Street analysts estimated. Shares of Target finished down 1.5% in Wednesday trading, at \$63.12.

Fiscal fourth-quarter profit slipped 2% to \$961 million, from \$981 million a year ago, Target said on Wednesday. Sales rose 6.8% to \$22.4 billion, but sales at stores open at least a year were flat.

While capital expenditures have pressured earnings for several years and Target said the store remodeling took longer than anticipated, the retailer said it still expects its Canadian investment to be profitable by the fourth quarter of 2013.

That is achievable, Wall Street analysts say, provided Canadian shoppers continue spending even in a slower economy.

The chain's U.S. sales were uneven this year, particularly slowing toward the holidays as cash-strapped U.S. shoppers stuck to buying basics and searched for bargains at rivals and on websites such as [Amazon.com](#) Inc.

Target's recent designer fashion collaboration with luxury retailer Neiman Marcus fizzled. Hoping gift items from 24 designers would boost shopper traffic after Thanksgiving, Target instead wound up marking a mountain of the Neiman Marcus items down 50% the week before Christmas. It also discounted slow-moving winter clothes. Those promotions contributed to Target's decline in fourth-quarter profit.

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