



# Lessons learned from international expansion failures and successes



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**Abstract** Many retail and restaurant companies adopt international expansion as a strategy to take advantage of business opportunities presented by target markets. Common objectives include increasing revenue, escaping a hypercompetitive or saturated home market, entering an emerging or lucrative market, and leveraging domestic capabilities in a bordering country. Success in international expansion is not guaranteed, however; the business world is littered with failures. In this article, we examine the international expansion failures of five service companies that opened physical facilities in a foreign country: Target, Tim Hortons, Best Buy, Tesco, and Walmart. While a variety of factors led to these failures, some common causes have been identified. These include a lack of understanding of the purchasing characteristics of consumers, underestimation of the local competition, supply chain issues, and poor strategic decisions regarding facility location and the rate of expansion. Not all international expansions are failures, though, and herein we also present the success stories of Aldo, Carrefour, and Nordstrom. These companies understood customer preferences and focused on location issues and their supply chains. Based on the aforementioned failures and successes, we offer guidance for companies looking to expand their business operations via a physical presence in a foreign country.

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## 1. Business expansion to foreign markets

As documented throughout history, humans exhibit the inherent drive to expand, conquer, and exert superiority (Brinckmann, Read, Mayer-Haug, Dew, &

Grichnik, 2013). This trend continues today, and is ever-prevalent in the business environment (Botha, Kourie, & Snyman, 2008). Companies compete to gain the largest customer base, produce the highest sales, and obtain the leading market share in their industry (Patatoukas, 2011). Companies that hold supremacy and dominate markets are no longer based in a single location, or even one country for that matter. Instead, they are multinational corporations with locations around the globe (Moran, 2013).

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This international expansion phenomenon has been made possible through the driving force that is globalization, which allows for the integration and exchange of products and money as well as cultural activities (Jonsson & Foss, 2011). Globalization has been facilitated by rapid technological advancements such as computers, the Internet, cell phones, high-capacity cargo ships, and high-speed planes and trains (Gnyawali & Park, 2011). Adding to this, economies have become tightly integrated, which has led to the decrease of trade barriers (Langdana & Murphy, 2014). Countries now trade with one another and compete on a global scale when buying and selling goods and services. They are motivated to compete in the global arena to increase sales, improve profits, remain competitive, diversify their market and customer bases, and gain market share (Khorana & Servaes, 2012).

However, even though international expansion is extremely alluring and necessary in order for large companies to remain competitive, it is accompanied by a significant amount of risk (Bromiley, McShane, Nair, & Rustambekov, 2015). Not every international expansion is successful, and some lead to headline-making failure. Many factors contribute to unsuccessful international endeavors (Koksal, 2014), such as not understanding consumer preferences (Rosebaum, Derby, & Dutta, 2015), supply chain issues (Zinkewicz, 2007), bad timing (Hamrick & Okrent, 2014), doing too much too fast (Pierce & Aguinis, 2013), and not listening to the voice of the customer (Ashley, Oliver, & Rosen, 2015). Oftentimes it is not one single factor that leads to failure, but rather a combination of different components.

In this article, we illustrate via case studies the international expansion failures and successes of eight global service industry companies. Each case study focuses on a single target country in order to illustrate cultural aspects of the host country. First we identify the factors that led to withdrawal from or retraction within the target country for Target, Tim Hortons, Best Buy, Tesco, and Walmart. Then we present the expansion success factors for Aldo shoes, Carrefour, and Nordstrom. We conclude our article by discussing the pitfalls and best practices of international expansion.

## 2. International expansion failures

### 2.1. Target Canada

The most recent high-profile example of an international expansion failure is Target's withdrawal from the Canadian market. Founded in 1902 and headquartered in Minneapolis, Minnesota, Target is the

second-largest discount retailer in the United States and in direct competition with market leader Walmart. Given its overwhelming success in America, Target announced in 2011 its first international expansion into Canada. Over \$4.4 billion was invested into the expansion, and expecting a rapid recoup of its investment, the company stated its Canadian stores would become profitable by 2013 (Peterson, 2015). However, this was not the case. An internal analysis of the Canadian operation indicated there was no way possible Target Canada stores could become profitable before the year 2021. Hence, on January 15, 2015, Target announced it was abandoning Canada and would close stores in a planned manner (Wulfraat, 2015). This poses the questions: How did Target Canada get itself in this situation when Target is such a huge success story in America? And what factors led to the failure?

First, rather than elect to build its own facilities in carefully selected locations, Target decided to purchase 133 pre-existing stores from the Canadian department store chain, Zellers. While buying pre-existing locations sounds in theory like a great way to cut costs and save money, it was a major issue for Target. The Zellers stores were not ideal. Much smaller than Target's American stores, the Zellers locations required extensive expansion and refurbishing, which turned out to be more costly than Target originally anticipated. The pre-existing stores were also not conducive to attracting customers. Many of the locations were off the beaten path, making it an inconvenience for customers to go out of their way to shop there. Moreover, the locations were not favorable in regard to receiving products from the Target distribution centers (Malcolm & Horovitz, 2015). This directly correlates to the next problem for Target Canada: its supply chain.

Customers entering Target locations in Canada were met with empty shelves due to supply chain problems. One Target employee told of "having to fill half an aisle with Tide detergent" because there was no other merchandise with which to stock the shelves (Peterson, 2015). This happened because Target tried to do too much, too fast. It opened 124 of its stores and 3 distribution centers within 10 months—an extremely difficult task to execute properly, especially for a company engaged in its first international expansion (Wulfraat, 2015). In addition, Target's computerized ordering system was not effective. The technology implementation encountered a wide array of glitches, leading to empty shelves in stores while inventory sat overflowing in Target's warehouses. In the words of Marc Wulfraat (2015), president of MWPVI

International Inc., Target “just completely lost control of inventory.”

Target Canada’s problems were not limited to its failed entrance strategy and disjointed supply chain; indeed, Target was unable to gain a loyal customer base because it did not appeal to the Canadian consumer. Many customers expected to find low prices and discount items such as those found in the United States. This was not the case, however. Instead, Canadian Target shoppers found overpriced items that they could easily buy for less at Walmart, which successfully entered the Canadian marketplace 2 years before Target (Wulfraat, 2015).

Target’s failure in Canada not only hurt the company financially, but also had a negative impact on the Canadian economy. Over 17,300 people lost their jobs and have to find new ones (Wulfraat, 2015). As for Target, it amassed over \$5.4 billion in pretax losses due to the Canadian operations (Peterson, 2015). Target is only the most recent example of a major international expansion failure, though, and many other companies have struggled similarly.

## 2.2. Tim Hortons USA

Tim Hortons, a Canadian-based donut and coffee chain, opened its doors in the United States in 1984. Although it enjoys great success in Canada, being named one of the six most influential brands in the country (Hiebert, 2014), Tim Hortons has struggled in the U.S. marketplace. Since entering the market, Tim Hortons has opened 804 stores in 11 dispersed states including Rhode Island, West Virginia, and Michigan (Murphy, 2013). Unlike Target, it has not done so in a rapid manner, taking 27 years to open its first 500 U.S. stores (Cowan, 2013). Part of the company’s U.S. expansion strategy included the 2004 purchase of the bankrupt Best Eaton Donut Flour Company and its 48 restaurants located throughout the northeast United States (Kopun, 2014). After 6 years of losses, including \$4.4 million in the first three quarters of 2010, Tim Hortons decided to close 36 stores and 18 kiosks in the New England region—this in addition to 15 stores it previously closed. The decision entailed a complete exit from Connecticut, Massachusetts, and Rhode Island, a failure blamed on market saturation by numerous competitors (Smith, 2010).

Despite an investment of \$664 million in U.S. operations between 2002 and 2012, Tim Hortons has failed to gain traction with American consumers. Though 18% of all Tim Hortons stores are now located in the United States, only 5.3% of total sales for the company actually came from its 804 locations in the United States; and while Canadian stores generate an annual average of \$182,000 in operating

profit, U.S. locations average only \$20,000 per store (Murphy, 2013).

Many see the U.S. expansion as stagnant and not worth the money that has been invested. Currently, Tim Hortons holds only 2.7% of the U.S. market share within the coffee industry (Murphy, 2013). If the company hopes to grow and produce more sales, it is going to have to redesign its marketing campaign to gain more loyal customers in an American society that is very much committed to competing brands. Up until 2008, Tim Hortons tried “the Canadian angle, and it failed, because Americans showed zero interest in what Canadians like,” said spokeswoman Brynn Burton (Hiebert, 2014). Although well known in Canada, where it enjoys a strong brand identity centering on nationalism and hockey, Tim Hortons remains an underexposed brand in the United States. It has not been able to foster the same appeal with American consumers, and this hinders the company’s name recognition and expansion. When faced with a decision of which coffee chain to choose—either Dunkin Donuts, Starbucks, or Tim Hortons—the typical U.S. consumer will likely choose Dunkin Donuts or Starbucks, given the option (Wile, 2014).

The future of Tim Hortons in the United States remains unknown. Only 22 new stores were opened in the U.S. in the last quarter of 2013 (Cowan, 2013), and this slow U.S. growth could create a long-term problem for Tim Hortons as it approaches a saturation point within the Canadian market (Murphy, 2013). In order to continue to grow, Tim Hortons needs to figure out how to make its American expansion successful. It needs to alter its marketing strategy and tailor it to the U.S. consumer, as well as develop a strategy that will allow it to gain a loyal customer base. The December 2014 acquisition of Tim Hortons by Burger King Worldwide (Zacks Equity Research, 2014) should help Tim Hortons improve its marketing efforts in the U.S. and facilitate the expansion of its U.S. operations.

## 2.3. Best Buy China

The American-based, multinational electronics corporation Best Buy operates retail locations in the United States, Puerto Rico, Mexico, and Canada. It attempted to infiltrate the Chinese market, too, but was ultimately unsuccessful. Best Buy launched its Chinese expansion efforts in 2006 by paying \$180 million for a stake in Five Star, a Chinese firm that sold washing machines, air conditioners, and other household appliances. After a few years, Best Buy bought out the other stakeholders of Five Star to become sole owner of the company; shortly after this purchase, Best Buy announced the opening of its

own stores in China (Berkitt, 2014). Only nine locations debuted in the market, however, as Best Buy quickly realized its entrance strategy of focusing on large flagship stores was a mistake. The nine stores remained in operation for 5 years, but after struggling, Best Buy China was forced to close its doors in 2011 (Groth, 2011).

Why did Best Buy fail in China? To begin, Best Buy was unable to find its footing and gain traction in the booming Chinese marketplace, which was rife with stiff competition from stores and e-commerce sites vying against one another. Best Buy was also seen as too expensive; consistently the company offered the same products as local vendors, but at higher prices. While the local vendors were able to cut their costs by having pre-established supply chains and paying less for salaries, benefits, and rent (Rein, 2011), Best Buy did not share these competitive advantages.

Another problem was the failure of management to fully integrate Best Buy and Five Star. Each brand had its own IT and finance departments, and each deployed separate supply chains (Skariachan, 2013). Best Buy also neglected to consider the rampant counterfeiting that occurs in China due to that country's slack piracy laws. The value of electronics in the market has been severely compromised because of this, as Chinese consumers are not used to paying a fair market price for home entertainment and appliance products. To remain competitive, Best Buy would have to significantly reduce its costs.

In addition to the crippling effect of its higher prices, Best Buy did not take into account the preferences of Chinese consumers. It built large flagship stores similar to what it would build in the United States. However, this format did not align with the buying tendencies of the Chinese consumer. Although many people in China own cars, Chinese consumers typically prefer to shop at small stores that are relatively close to their homes or near public transportation due to the shortage of parking spaces and the extreme amount of traffic congestion in many Chinese cities. In the case of Best Buy China, this meant that consumers were often unwilling to make a special trip to shop in one of the company's few locations. If Best Buy had considered this, it could have been more successful by opening up a large number of small stores that were easily accessible to many people.

After shuttering its nine Best Buy stores in China, Best Buy decided to focus on its 184 Five Star locations since that name was already well known to Chinese consumers. When Best Buy acquired Five Star, the latter was the fourth-largest retail chain in China (Berkitt, 2014). However, just 3 years after closing its flagship stores in China, Best Buy

announced that it would sell Five Star to a real estate firm, the Jiyuan Group. Though the Five Star venture was said to be profitable, its market share fell 14.3% in 5 years while its direct competitors made massive strides, attaining 29.3% of the market share (Jourdan & Young, 2014). After 8 years in the Chinese market, Best Buy's expansion only accounted for 4% of the company's total sales. Instead of riding things out, Best Buy decided that it would focus on expanding its market share in the United States.

## 2.4. Tesco USA

Tesco is a very successful British multinational grocery retailer. The company dominates the supermarket sector within the United Kingdom, with an industry-leading market share of 29.4% (Butler, 2015). The grocery giant has 7,599 stores worldwide in 12 different countries including Ireland, Poland, India, and Malaysia. Even though Tesco has experienced tremendous success internationally, it too has struggled in some markets. In 2007, Tesco launched in the American marketplace by rapidly building 199 Fresh and Easy stores (Pfeifer, 2013) located throughout California, Arizona, and Nevada (Morris, 2013). Even with its international experience, Tesco made several critical errors.

The Fresh and Easy stores first ran into problems due to timing. Tesco decided to enter the U.S. marketplace in 2007, right before the 2008 financial crisis. Consumers were then quite discretionary about their spending and bought only essentials, not unnecessary purchases. Exacerbating this, Tesco failed to embrace Americans' love of coupons (Bateson, 2012). This is a classic example of not understanding cultural differences. In the European countries in which Tesco operates, coupons are often looked down upon; however, in the United States, couponing is a way of life for many people, especially during times of recession. Moreover, Tesco did not implement a reward card system until the last operational year of Fresh and Easy (Sonne & Evans, 2012). This proved to be a major mistake, as it is common practice in the U.S. grocery industry to have some incentive/reward/loyalty program that allows cardholders to receive special discounts on gas or future purchases.

Adding to its issues, Tesco opted to use a store model that catered more toward European shoppers. American grocery shoppers prefer large stores where they can purchase everything needed in one stop, but Tesco's Fresh and Easy stores were only around one-fifth the size of the average American grocery store and stocked items inappropriate for the typical American consumer (e.g., British-styled

ready meals, items packaged in small quantities). Unlike Europeans, American consumers do not go to the grocery store daily or every other day; instead, they usually make weekly trips to the store. Due to this, U.S. customers prefer to buy in bulk, not in small amounts (Sonne & Evans, 2012).

When Fresh and Easy first opened, customer checkout was conducted solely via self-service cashier machines. While this is standard practice in Europe, American grocery shoppers tend to favor face-to-face interaction. Such customer service aids in loyalty generation among U.S. consumers. When a consumer receives good customer service, he or she is more likely to make return trips to that business. Furthermore, as previously mentioned, the American consumer is very much brand oriented. Fresh and Easy made the major misstep of supplying a lot of Fresh and Easy products, foregoing name brands. This ultimately resulted in fewer customers and less sales for the company.

Another major issue plaguing the Fresh and Easy stores was location. Tesco chose to open the stores along the West Coast where things are much more spread out, as opposed to the East Coast where the population activity is very much condensed and centralized. Even though people on the West Coast are accustomed to driving, many Fresh and Easy stores were located a couple of minutes farther away than other similar retailers (Morris, 2013). If proper research had been conducted, Tesco could have possibly picked more ideal locations for its operations as well as make better decisions about the placement of its distribution centers. Since the West Coast is so geographically dispersed, it also took longer for items to get from the distribution centers to the store shelves, resulting in higher transportation costs. Finally, some locations were not optimal for the company because they were located in low-income areas that could not afford Fresh and Easy prices. This meant that without coupons, loyalty cards, or major discounts, it was extremely hard to generate adequate sales in those Fresh and Easy locations.

After 5 years of losses and amassing \$1.6 billion in debt, Tesco decided to leave the American marketplace, abandoning its 199 Fresh and Easy stores (Sonne & Evans, 2012). Though billionaire Ron Burkle's Yucaipa Companies acquired 150 of the stores, the deal was not financially favorable to Tesco since it had to lend Yucaipa tens of millions of dollars to complete the transaction. And, Tesco still had to lay off hundreds of employees when it closed the remaining 49 stores (Heffernan, 2013). What seemed like just another international expansion for Tesco turned into one of its largest failures and led to extreme losses for the company.

## 2.5. Walmart Germany

International retail powerhouse Walmart is yet another company that met its match in the global marketplace. Walmart is a well-known, American-founded discount retailer with massive reach in the world arena: it operates over 11,000 locations throughout 28 countries—including Mexico, Brazil, South Africa, Nigeria, the United Kingdom, India, and China—and employs over 2.2 million sales associates. Needless to say, Walmart knows what it is doing on the international stage. However, this was not the case for Walmart Germany. It tried for nearly a decade to gain customer loyalty and become the ideal shopping destination for Germans, but ultimately its efforts proved futile. Walmart found that its formula for success in the United States does not translate to every culture (Landler & Barbaro, 2006). Indeed, what makes the chain successful in the United States and other countries globally actually caused Walmart to fail in the German market.

Walmart entered Germany with a degree of ignorance. Similar to Target's Canadian expansion, Walmart purchased stores from pre-existing chains Wertkauf and Interspar, which had undesirable locations. In a country like Germany, where many people utilize the convenient public transportation systems, driving to the locations Walmart bought was somewhat unrealistic to expect of German consumers.

Along with this, while Walmart is reputed for having the lowest prices and being able to save its customers money, this was not the case in Germany. Germany enjoys the lowest grocery item prices in Europe, and it was extremely hard for Walmart to compete with local retailers that had pre-established relationships with suppliers. And, the discount retail market is full of steep competition from German powerhouses such as Aldi and Lidl (Schultz, 2006).

Walmart also did not adapt its products or strategies to accommodate the German culture. For instance, walking into a Walmart store in the United States, it is common practice to be greeted by a smiling associate at the door and then encounter another smiling face at the checkout counter. This same demeanor was expected of employees and implemented as practice in Germany. What Walmart did not consider was that due to a major cultural difference in Germany, many people feel uncomfortable being greeted with a smile by someone they do not know (Macaray, 2011). It took a while for Walmart to realize this and actually effect changes, ultimately allowing its employees to not smile at customers.

In stocking its shelves, Walmart Germany largely featured the branded Sam Walton products that are so popular in Walmart stores around the globe. Unpredictably, and unfortunately for the company,

Germans did not prefer the Sam Walton branded items (Landler & Barbaro, 2006). This led to the loss of potential sales due to not stocking the products desired by consumers. Also, Walmart decided to sell prepackaged meat when it is commonly known that Germans prefer to get their meat fresh and directly from the butcher.

After accruing over \$1 billion in losses, Walmart finally left Germany in 2006. Although it made many mistakes, Walmart views this costly failure as a learning lesson. It no longer stocks as many Sam Walton products in its foreign stores, and it has learned to try and adapt to the consumers in a market. Moreover, the company has learned that its model cannot be used in every location (Schultz, 2006).

### 3. International expansion successes

#### 3.1. Aldo USA

Headquartered in Montreal, Canada, Aldo is an international leader in the retail shoe industry. Aldo entered the United States market in 1993 and, following advice from consulting firm McKinsey, rapidly opened company-owned stores across the country (Strauss, 2010). Prior to its expansion into the U.S. market, however, Aldo built a presence there by providing shoes to the entertainment industry. Credits at the end of numerous TV shows mentioned “Shoes provided by Aldo,” which created a positive perception of the company (Van Praet, 2012). Due to a low-cost pricing strategy designed to undercut rivals, Aldo had a limited marketing budget. In order to make the most of its advertising money, Aldo bought billboard space at just one high-profile location in each city it entered. For example, in New York City the billboard was located near the trend-setting Soho district, where it created the perception that Aldo was a major shoe retailer. And since low prices might convey a discount image, Aldo ensured its stores were fashionably designed (Strauss, 2010).

Aldo excels at fast design, supplier management, and understanding its customers’ preferences. Company designers stay abreast of the latest trends by observing street fashions and runway hits at major fashion shows (Strauss, 2010). Sales data are reported on an hourly basis to headquarters, so that management can quickly identify hot products that need restocking and poor sellers that need to be discontinued. This understanding of the customer allows Aldo to localize product assortment. And since fashions and consumer tastes are constantly changing, Aldo replaces its shoe line every 3 months. Approximately 5,000 sample drawings are made by

the design team; then, a cross-functional team of buyers, designers, and executives selects about 500 of these for production (Cousineau, 2012). The shoes are made in Asia, Brazil, Eastern Europe, and Italy, and by managing supplier capability and capacity, Aldo is able to get product from the design phase and into stores in 5 to 12 weeks. In sum, Aldo practiced fast fashion before the term was even created (Strauss, 2010).

#### 3.2. Carrefour China

Carrefour of France is a major global grocery retailer and is considered the innovator of the hypermarket format. Carrefour entered the Chinese market in 1995 through a joint venture with a Chinese consulting firm and within 10 years became the largest foreign retailer in China and the sixth-largest overall in the country (Cambra-Fierro & Ruiz-Benitez, 2011). But this growth did not happen overnight. Carrefour’s expansion started slowly, and by 1999 it had only 17 stores in six major coastal cities such as Shanghai, Beijing, and Guangzhou. The slow expansion was planned so that Carrefour could take time to learn about the preferences of Chinese shoppers (Child, 2006). Instead of considering China as one homogeneous market, Carrefour understood there were vast differences in customer preferences based on geography (Cambra-Fierro & Ruiz-Benitez, 2011). Therefore, Carrefour utilized local partners in the cities it entered (Child, 2006) and deployed a decentralized management system. Carrefour empowered its store managers to take on a variety of responsibilities, including hiring, deciding on product mix, procurement levels, and supplier management. Carrefour even designed its Chinese stores to accommodate local tastes such as outdoor markets for fresh produce (Cambra-Fierro & Ruiz-Benitez, 2011).

Carrefour’s main competitive strategy in China was to offer a variety of products at low prices. In order for this strategy to be successful, Carrefour had to develop a reliable supply chain that supported local customer preferences. Early on, Carrefour decided to purchase the majority of its products from local vendors. This helped to ensure product freshness and mitigated ethnocentric problems associated with unknown products (Cambra-Fierro & Ruiz-Benitez, 2011). Approximately 95% of the commodities sold in Carrefour China stores are sourced locally (HighBeam Business, 2004). However, local sourcing was not without its problems, as Chinese suppliers did not maintain optimum inventories, changed the product size, and did not understand performance measures such as service levels. To resolve these problems, Carrefour set up

different training programs for its vendors, with the focus on efficient business practices. Carrefour even provided its suppliers with computers and software for inventory management purposes (Cambra-Fierro & Ruiz-Benitez, 2011).

During its time in China, Carrefour has been challenged to adjust to the changing preferences of Chinese shoppers. Initially, Carrefour opened hypermarkets in city centers, where there was easy access to public transportation. But in 2006 Carrefour began opening hypermarkets in major suburban shopping malls (Cambra-Fierro & Ruiz-Benitez, 2011). Carrefour has recently been faced with a decline in sales at its Chinese stores due to several factors, including a consumer preference to shop at a variety of more specialized stores (Zhuoqiong, 2015), slowing consumer consumption, and the government crackdown on excessive spending (Reuters, 2015). The growth of e-commerce has also cut into sales (Kuo, 2013). To counter these factors, Carrefour has begun opening smaller, more convenient stores called Easy Carrefour. These stores are smaller than the hypermarkets but larger than typical convenience stores and offer fresh foods and services. Carrefour is also in the process of opening an e-commerce site that sells food products to be collected at or delivered from an Easy Carrefour location (Retail Analysis, 2015).

### 3.3. Nordstrom Canada

Nordstrom is an upscale retailer headquartered in Seattle, Washington. Nordstrom opened its first full-line international store in Calgary, Canada, on September 19, 2014. The store is located in the Chinook Centre, an established mall offering shoppers a variety of price options. Over 2,000 people visited the Calgary store on its opening day, and prior to the opening Nordstrom held a 'Beauty Bash' during which shoppers received free bags of sample products. Top Nordstrom executives—including President Blake Nordstrom and family patriarch Bruce Nordstrom—attended the opening, signaling the commitment and support of management for the Canadian expansion (González, 2014). Earlier plans for a Canadian expansion entailed opening 15 to 20 lower-priced Nordstrom Rack stores, a decision driven by U.S. sales data indicating that Rack stores outperformed full-line Nordstrom stores. However, market research found that Canadian shoppers wanted the full Nordstrom experience (Covert, 2014), hence the opening of Rack stores has been postponed until fall 2017 (Strauss, 2014).

Nordstrom selected Canada for international expansion for several reasons. To begin, the luxury

retail sector in Canada is underserved, with Hudson's Bay Company and Holt Renfrew as the major competitors. In addition, Canadian customers are familiar with the brands Nordstrom carries, and Canada is the top international destination for Nordstrom.com. Nordstrom plans to have a Canadian e-commerce site in the near future. Calgary was chosen as the initial location because it boasts the highest median family income among Canadian metropolitan areas; the personal disposable income of \$41,000 (US) per year in Calgary is 70% higher than Canada's average (González, 2014). In order to avoid supply issues and customer dissatisfaction, Nordstrom overstocked the Calgary store and its supporting distribution center. This put pressure on profit margins but allowed Nordstrom to learn how to operate its Canadian supply chain; inventories at future stores will be kept lower (Strauss, 2014). Finally, Nordstrom localized its operations in two ways: (1) most store managers are local residents who spent 9 weeks training at a Seattle store, and (2) product mix reflects local tastes. As an example of the latter, since the surrounding area is cattle country, the Calgary store stocks a wide variety of cowboy boots (González, 2014).

Nordstrom is taking a go-slow approach to its Canadian expansion. A second store was opened in Ottawa on March 6, 2015 (Strauss, 2014), with future stores planned for Vancouver (September 2015) and Toronto (two stores in 2016 and one store in 2017). All of these stores are located in established shopping centers. This slow growth strategy is the opposite of Target's Canadian approach, and only time will tell if Nordstrom's international expansion into Canada is truly successful. Sales per square foot at the Calgary store are higher than the U.S. average of \$372 (US), and Nordstrom still plans to open Rack outlets in 2017 (Strauss, 2014). According to Erik Nordstrom, who was very involved in the Canadian expansion, Nordstrom "is committed to providing as much quality, variety, and customer service in Canada as it does in the U.S." (González, 2014).

## 4. Lessons learned

Table 1 presents a summary of the main reasons for the failed international expansions of Target, Tim Hortons, Best Buy, Tesco, and Walmart. Although these companies did not fail for the same reasons, some common factors existed between the failures. These recurring issues should be noted by other companies and carefully explored before expanding internationally. For example, all five companies struggled in one way or another to better understand their customers. Knowledge of local cultures

Table 1. Reasons for international expansion failure

Company	Headquarters	Expansion Country	Reason for Failure
Target	U.S.A.	Canada	• Store locations (purchased pre-existing locations)
			• Rapid expansion
			• Supply chain issues
			• Stiff competition
			• Prices were too high
Tim Hortons	Canada	U.S.A.	• Did not understand the customer
			• Purchase of Best Eaton Donut Flour Co.
			• Stiff competition
			• Poor marketing campaign
			• Slow, dispersed geographic expansion
Best Buy	U.S.A.	China	• Did not understand the customer
			• Continued separate operation of Five Star
			• Stiff competition
			• Higher operating costs than competitors
			• Higher prices
Tesco	United Kingdom	U.S.A.	• Bad timing
			• Did not understand the customer
			• Store location issues
			• Stiff competition
Walmart	U.S.A.	Germany	• Supply chain distribution distances
			• Store locations (purchased pre-existing locations)
			• Stiff competition
			• Did not understand the customer
			• Difficulties in establishing a reliable supply base
			• Higher prices

and consumer preferences is critical, especially when entering a culture with large psychic distance from that of the home market (Evans & Mavondo, 2002; O'Grady & Lane, 1996). For instance, Best Buy operated successfully in Puerto Rico, Mexico, and Canada, but failed in China. The cultures of the 'success' countries are more similar to that of the United States than was Chinese culture. Chinese consumers preferred a different store design, had no problems with copyright infringement, and wanted different locations. Ignoring these cultural variables led to large financial losses for Best Buy. Tesco made a similar cultural mistake while entering the United States. It did not utilize coupons, opened small stores, and reduced to a minimum face-to-face interaction with customers. Unless the service concept is revolutionary and difficult for competitors to replicate, a firm entering a foreign market should not expect consumers to change their buying habits. In order to attract and retain customers, the entering firm needs to tailor its offerings to local preferences and economic conditions.

All five companies also underestimated their competition. When entering a new market, companies need to look beyond their traditional competitors and identify small local businesses that are highly appealing to the target demographic. For example, Best Buy underestimated the appeal of small electronics stores to Chinese consumers, and Walmart did not factor in the local butcher as a threat.

Location was an issue for several companies. Target and Walmart both started off at a disadvantage due to purchasing pre-existing structures, while Tesco struggled with locations that were a little too inconvenient for customers (Bateson, 2012). Best Buy failed to build up any geographic scale when it opened only nine large locations in China, and Tim Hortons' slow and dispersed expansion spread marketing resources too thin. Growth should be controlled, not too rapid (e.g., Target's 124 Canadian stores and 3 distribution centers in 10 months) and not too slow (e.g., Tim Hortons taking 27 years to open 500 stores).



Table 2. Reasons for international expansion success

Company	Headquarters	Expansion Country	Reason for Success
Aldo	Canada	U.S.A.	• Built presence before entering the market
			• Low-cost, value strategy
			• Understands its customers – product localization
			• Fast design process
			• Flexible and responsive supply chain
Carrefour	France	China	• Top management focus and commitment
			• Understands its customers – product localization
			• Slow start but concentrated geographic expansion
			• Local sourcing
			• Local management and business partners
			• Supplier development/training
Nordstrom	U.S.A.	Canada	• Adaptive store format
			• Listened to its customers – no entry with Rack
			• Understands its customers – product localization
			• Underserved market niche
			• Store locations linked to customer financial status
			• Local management
			• Top management focus and commitment

Target was plagued by supply chain fulfillment issues. Walmart was unable to develop a low-cost supply base. And Tesco's distribution channel was too costly due to geographic distances between its distribution centers and stores. Finally, timing is key. If market entry takes place during a financial crisis or global recession (e.g., Tesco), all best efforts might be in vain: consumers are less likely to try new brands or alter their shopping habits.

A summary of the reasons for the successful international expansions of Aldo, Carrefour, and Nordstrom are shown in Table 2. All three companies listened to and understood their customers' preferences. They made sure to stock their stores with local products (Carrefour) or with products that were preferred by their customers (Aldo and Nordstrom). Carrefour's slow expansion was orchestrated upon the firm's realization that vast differences in consumer preferences existed across China's expansive geographic footprint; Carrefour took measures to understand the unique desires of these regional customers. In order to execute a localized strategy, Carrefour sought out local business partners and empowered store management to make almost all decisions regarding store operations. Nordstrom is currently executing a slow growth strategy in Canada as it, too, is looking to better understand the Canadian consumer and local tastes.

The successful companies also focused on their supply chains. Aldo's rapid design process was facil-

itated by a flexible and responsive supply chain that allowed the shoemaker to manage supplier capability and capacity around the globe. Carrefour had to help its suppliers develop sound business processes, so it provided them with training and the technology necessary to meet Carrefour's performance requirements. Nordstrom chose to overstock its stores in order to avoid stockouts while it learned how to run its Canadian logistics operations.

Finally, both Carrefour and Nordstrom have been willing to change their strategies to better accommodate their customers. For example, Carrefour moved its Chinese store locations from city centers to suburban areas and is currently opening up smaller Easy Carrefour stores that will be linked with its new e-commerce site. And feedback from Canadian consumers concerning their shopping preferences prompted Nordstrom to change its entry strategy from Rack stores to full-service stores.

## 5. Conclusion

International expansion of physical facilities can have great benefits. It can help companies expand into new markets, generate larger customer bases, and improve sales. At first glance, it seems like international expansion is a strategic necessity for large companies. However, it is accompanied by a large amount of risk. Even the most experienced

companies can make costly mistakes that lead to failure and the loss of millions or perhaps billions of dollars. It is even more critical for small to medium-sized companies to be successful at an international expansion because many times these companies do not have access to extensive financial resources; one mistake could finish the business entirely. No matter the size of the company, an international expansion failure can lead to degraded business operations. Funds that otherwise could have been used for product/service innovation, process improvement, and marketing campaigns are no longer available. Extraction from the target country is a distraction from running the business, and the company's image can be tarnished by negative press. Contrary to common belief, there is no set plan or diagram outlining how to expand successfully. A wide array of factors can contribute to the failure of a prominent company internationally, as exhibited by the failures of Target, Tim Hortons, Best Buy, Tesco, and Walmart. These firms did not fail due to one particular reason; they all struggled with multiple, different factors that led to unexpectedly disappointing performance. Likewise, a variety of factors were responsible for the international expansion successes of Aldo, Carrefour, and Nordstrom. However, these three firms did share one common and critically important denominator: an understanding of the preferences of their customers in a given geographic location. Yes, the allure of international expansion is great, but companies must also be aware of the inherent risks. Companies need to conduct extensive research, analyze the risks and their impacts, and do their best to fully understand the marketplace they are entering.

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