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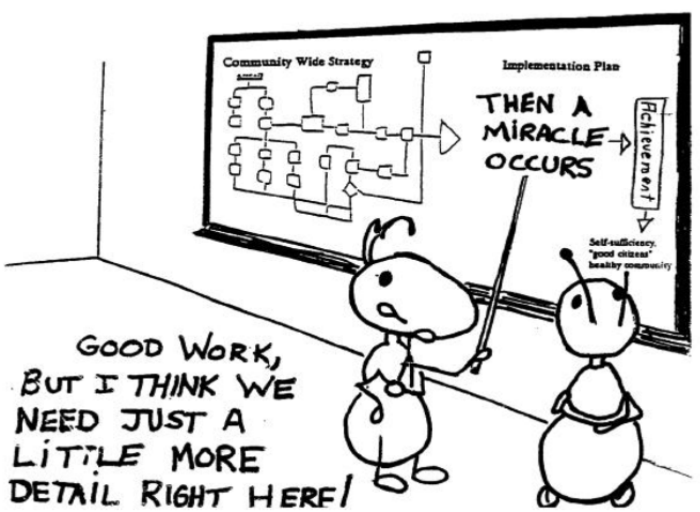
Execution vs. Miracle

Target recently announced its exit from Canada. In 2011, Canadians cheered when Target announced its purchase of Zellers' leases and there began its entry into the Canadian retail space. The opening of 125 stores in a short period of time is no small feat. The result, as indicated by consumers, was a lack of product selection and higher prices than they wanted to pay. A statement made by former Target President, CEO, and Chairman Gregg Steinhafel in May 2013 is telling as to the aggressiveness of this strategy:

"We plan to open more Target stores in our first year in Canada than we opened in our first 10 years in the United States."

It reminded me of the cartoon below which I first saw in a Tim Horton's presentation outlining the risks of not having a good strategy.



Source: Sydney Harris, Science Cartoons Plus

This cartoon hangs above my desk to remind me that all companies set high expectations, whether it is cost cutting, revenue increases, or a variety of other targets. Our job as research analysts is to determine whether that plan seems reasonable in the context of their market and what is the probability of success. Do they need a miracle?

Canadian Tire is a long time holding. I cannot say it is flawless in its execution, but I can say that it has operated very successfully and added significant value through acquisitions such as the Forzani Group.

In 2011, Canadian Tire acquired Forzani to get exposure to higher performance sporting goods. The post-acquisition strategy was to have Canadian Tire retail stores continue selling only the introductory equipment. Sport Check and Sport Experts banners would be for those that are getting more serious into a sport. Sales have grown more than 35% over the last three years, and FGL Sports (the Forzani division) has and continues to add considerable square footage.

How did we know that this acquisition would be a great fit with Canadian Tire? It is difficult determining in a meeting or conference call which company will succeed in its strategy. We have many management teams come into our office and tell us they have the best people, best assets, and the best systems to successfully execute their strategy. But we ask, how can everyone have the best assets? Who is holding the mediocre assets? History of execution and operational excellence is our measuring stick; not promises.

If we go back to our Canadian Tire example, there was much skepticism when it acquired Mark's Work Warehouse. The obvious question was, 'what does Canadian Tire know about selling clothes and boots?' The answer was they know the customer because they are the same people that shop at the Canadian Tire stores. They also stated they know good real estate and how to run a retail operation. The result has been extremely successful. The sales are up 10 times over the 14 years it has been owned.

There are rumors that Canadian Tire might be looking at another acquisition and potentially one in the United States. If it was another operator, we may be concerned, but its past performance gives us comfort.

Frequently, we are asked what a strong management team looks like. It may not always be the same individuals together, but if we look at each of the members of the management team and their individual records, we can gain confidence in their abilities. We look for a combination of things; good execution on operating the business and discipline in making acquisitions. We don't want to wait for a miracle.