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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.

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 (Rosenbaum, 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 MWPVL