

The canadian tire corporation marketing essay



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The Canadian Tire Corporation was officially founded in 1922. The company grew its network into the fastest growing industries like general merchandise, retail stores, gas stations, financial services and a chartered bank. The company holds a respectable position in the Toronto Stock Exchange, with its growing network; its market capitalization has inflated to over \$7 billion and is known to be one of the most respected companies in Canada.

In 1936, Canadian Tire opened its store in the province of New Brunswick in Sussex. In 1950, the company took a strategic step to capture large scale market by introducing Canadian Tire Money which could only be used to make purchases at the company's outlets. As the company was advancing further it introduced the money to be used in the retail sector. In 1994, the company had another strategic move where it launched its e-commerce website offering a wide choice of over 15, 000 products with the most consumer friendly format. By the end of 1997 the company's outlets reached nearly 85 percent of the Canadian population as its widespread network of over 1, 100 stores across Canada. In 2002, the company acquired Mark's Work Warehouse and opened 39 more stores. The outstanding growth of the company acquired the firm with an agreement between Canadian Tire and NAPA Canada. The following year the company further expanded with an extraordinary move by doing a tie-up with NASCAR and TSN to bring adventure and excitement to the motor sport in the country.

In 2006, Canadian Tire replaced its President and CEO with Tom Gauld. Canadian Tire's strategic move also included the launch of a new type of retail banking with high interests on savings accounts, fixed mortgages and

guaranteed investments. In 2008, the company sold its retail properties in Canadian real estate trusts amounting to C\$164. 6 million. The historical move in the company's history was when it had to recall the sold windshield washing fluids and 12 V heated seat cushion due to defects in its manufacturing.

During the middle of 2008, The CEO was succeeded by director Stephen Wetmore. The company expanded further and launched its GENCO distribution center which was sized at 1. 5 million square feet. The company is consumer friendly hence it ensured all of its 475 retail stores are chip compatible.

Current Situation:

Canadian tire at current snapshot is in a firm position with over 58000 employees. As per the reports published by Financial Post Infomart the company is ranked at 44th according to the statistics of its sales and 83rd as per the assets held by the company.

Canadian tire's ratio analysis also supports the above statistics and the company's strong position in the Canadian market.

The Current Ratio for two years has been consistent in a row at 1. 99 which indicates the company can pay off any of its obligations if they come due at any point. Moreover, consistency in the current ratio reflects the company to be at good standing and the debtors will not hesitate to oblige the company in future if needed.

The hike in the Acid Test Ratio since 2003-2009 depicts there has been drastic change, the firm has been paying off all its current liabilities on time and has the funds to do so if any may arise in the future. It can also be seen the acid test ratio is not much lower than current ratio which means the company is not dependent on its inventory. Usually retail stores are sufferer's of this problem.

The Earnings Yield shows since 2007 the company has increased its spending to obtain more stock and regardless of the economic downturn the company continues to do so. In 2007 the earning yield percentage was 6.60 which have grown up to 8.29 by the end of 2009.

The Dividends Per Share has been increasing significantly from the year 2003 starting at 0.40 have now grown to 0.84 in 2009. It shows company has been paying out to dividends consistently for years till date.

The Cash Flow of the company had a slow down during the economic downturn in the year 2007 - 2008 but has picked up well in the year 2009 and continues along.

The Profitability and efficiency of the company has consistently increased since 2003 its operating margins have been gradually moving up and are now stabilized at 10.06 percent. Net Profit Margin had its variations and has dropped to level of 3.86 percent from the high of 4.84 percent. Return on equity has declined since the last year by more than 2 percent. Return on assets was moving upwards in the economic boom but has declined since then with a change of over 3 percent. Lastly operating revenue has hiked by

3 percent in the previous year showing a quick recovery after the economic decline.

The business environment is the major factor that impacts all the businesses. Projecting the business based on the historical data would make the forecast more accurate. There are many factors that influence the business environment, such as Political outlook, Economic policy outlook and Economic forecast.

Political outlook: In 2010, it is projected that the prime minister, Stephen Harper will run the office until the next general elections that is scheduled for October 2012. However, the country could potentially face threats from Afghanistan as the Canadian army troops still reside in Afghanistan. The risk would only recede if the troops are withdrawn from Afghanistan which is intended to take place in 2011. Also, the extremism connected to foreign conflicts represents the most serious threat to the public security of Canada which also majorly impacts the business environment. International relations impact Canada as it is an export based economy. Bilateral ties with the United States of America are of vital importance as its majority of exports go to the U. S. However, Canada is trying to reduce its dependency on the US economy by strengthening trading ties with China and The European Union by 2011. Another contributing factor to Canada's economy would be the defense of territorial claims in the Arctic which are known to be rich of natural resources.

Economic Policy Outlook: The optimistic forecast of corporate tax revenue has led the finance minister to estimate the federal budget deficit for

2010/2011 at C\$ 45. 4 billion. The government also forecasts the GDP growth of 3. 2% for 2011. The GDP growth forecast appears optimistic and the economic department is taking a more cautious view. The government is seeking to put aggressive spending cuts and is bound to not raise taxes. Whereas the monetary policy is concerned, the government continues to hike the interest rates into later half of 2011 to cover up the withdrawal of fiscal stimulus in Canada as well as its trading partners. The recent moves by the Bank of Canada are to limit the inflation rate which seems under control until 2012. Canada still continues to promote credit creation despite an economic pull back due to recession by lowering the interest rates.

Business Outlook: The quality of overall Canadian business is to worsen slightly during the years (2010-2014) compare to that in (2005-2009). Canada is expected to drop to forth position in global rankings as other countries are expected to stabilize or improve faster. There is deterioration expected in economic stability, foreign trade and exchange regime, private entity policy. These downsides are expected to offset by improvements in market opportunities, tax regime and the labour market.

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Economic Outlook: The slowdown in the economy of the US and end of government stimulus packages in Canada will see the deceleration in growth to 2. 1% from 2. 7% in 2011. The economy is expected to return to a more consistent rate by the end of 2014. Canada benefits from its sound financial system as it was in better shape than the US going into recession. The

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Canadian economy is undergoing a decent recovery rate after the contraction in 2009 it is expected to settle at the average rate of 2.4% in 2011-2014 which is slightly lower than 2.5% achieved in prior two decades. Companies have started and some are expected to restructure the projects which were cancelled due to global crisis.

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Market opportunities: Canada is third in the rank if market opportunities due to its high level incomes. Canada is small compared to the US or China due to its less populous factor. This is an impediment factor for some businesses, which are willing to target more populous market than Canada. The Canadian household will have less spending power due to high level of debt held by them.

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Long term outlook: The economy is expected to grow at an average of 2.5% per year in real terms in 2011 to 2030 which is slower than the usual 2.9% growth. The economic growth was evidently strong in the past due to the Canada's close ties with the US but now since the US faces a period of slow growth it gives Canada an opportunity to get exposure of China and other emerging markets to drive its growth. The access to Asian markets has been improving as federal government is spending C\$ 1 billion under the Asia Pacific Gateway with its completion in 2013 drastic change in export trends is expected.

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Inflation and Interest rates: The inflation will remain subdued due to low utilization and high level of unemployment. In 2013-2014 the Bank of Canada is expected to tighten its monetary policy to prevent domestic demand growth from creating inflationary pressures. Labour productivity is expected to fall which once grew at a constant rate of 0.7%. Rising labour costs, minimal labour productivity increase and tough market conditions will make Canada's exporters more prone to hiring new staff.

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Business Activity: The sales volumes are expected to rise by the end 2010 driving up the figures in 2011. Goods sector are mainly the firms which are still awaiting recovery and have seen only modest improvement in the sales statistics. Forty six percent. Firms are likely to increase their investments in machinery and equipment, many firms report to return to normal spending levels with an increase in focus to enhance productivity. Drastic decline seen in 2009 in employment levels seems to have changed in 2010 and is expected that thirty nine percent of firms are likely to increase employment.

Strengths

Canadian Tire's biggest strength in its current position is its brand strength and its vast reach among Canadian Markets. This has made it possible for the corporation to expand widely across Canada and to make their services

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convenient and accessible for Canadian consumers, which has provided them with client loyalty from this range of population, as it is evident from the statistics that about 60 percent of Canadian households purchase products from the company's retail stores every month, and one out of every five households owns a Canadian Tire Credit Card. As Canadian Tire has diversified into different segments of products and services, it differentiates itself from its main competitors. Also, among non-food retailers, Canadian Tire ranks fourth. The company captures 18 percent of the market share in auto parts, as well as services. Canadian Tire Petroleum services are among the largest in Canada. The company has also diversified into apparel and footwear targeting industry workers. The company has earned its market position and it has established itself as a strong brand, as it maximizes its reach to its customers. The company ranks among the best ten brands in the country.

Canadian Tire is planning to expand their retail stores using the lowest amount of capital possible, while aiming for optimal performance. These expansions cost no more than C\$264, 087, whereas building a new store would cost around C\$8. 8 million; they are expected to generate 6-8 percent same growth in sales for the first year. They also have the potential to expand into outdoor space when needed seasonally. Most of the Small Market stores contain a Mark's store and have a petroleum gas bar. This allows Canadian Tire to expand its retail division to markets that have been underserved in the past, possibly attracting new clients. The company has estimated about 100 of these markets, with 4, 000-10, 000 house holds in

their communities, in which this building format of 14, 000-19, 000 square feet would be highly successful.

This success can be seen in the recognition the company has received in 2009. “ The Retail Council of Canada recognized the company’s new Smart store with the Retail Store Design Award in recognition of innovative, original and visually enticing layout and store design.” Mark’s was also awarded “ the Multi-Channel Retailing Award” for satisfying the increasing customer appetite for channel choice of retail. These formats have been received well by customers and have outperformed traditional stores. For example, in 2009 there was a sales improvement of over 25 percent, in the five new Smart Stores, so it can be said that the company’s concentration on the new formats has been a positive contributor to sales growth. As the extensions continue, the Small and Smart stores will start to contribute more and more to the overall sales, thus having a positive impact on the growth of sales throughout the company.

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(absolutely needs to be cited because I used the exact same, but no worries, I put quotations around it, so it should be fine)

Canadian Tire is a retailer of products designed to meet the consumer’s everyday needs; gas company, clothing, and auto parts and services. Furthermore, Canadian Tire provides savings with high interest and as well as credit card services and products. There is high importance and value on the strategy that each of the business units proceed to develop and grow,

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therefore aiding the success of the core business. Canadian Tire secures over one million customers per week on its petroleum services and products, and the company's customer service and loyalty programs will continue to maintain credit card receivables; also an increase in sales on credit cards and average balances will be visible. The company's Financial Services play a main role in the development of a loyalty program that makes it possible for Canadian Tire to offer better rewards for each valued consumer.

Canadian Tire's loyalty program ranks among the most successful in Canada, with a 90 percent rate of redemption in its Canadian Tire Money program. The purpose of this program is to persuade more and more customers into loyalty to the firm. For example, consumers can purchase gas at the petroleum centres, and charge the amount on their Canadian Tire credit card, which allows them to collect points in Canadian Tire Money, eventually redeemable at the company's stores. Canadian Tire distributes over \$100 million in rewards for Canadian Tire Money each year. The incentives of these offerings flow back to the company in sales segments, therefore enhancing consumer loyalty. Also, the revenue of the Financial Services unit experiences an increase, seeing that 31 percent of petroleum gas is purchased on the company's credit cards. Observations also show that when customers purchase their gas at Petroleum, the frequency in shopping at Canadian Tire increases by over 25 percent. Canadian Tire has a unique position in the Canadian Market, having differentiated and diversified itself from its main competitors, through its many offerings of products and services, as well as the highly efficient loyalty programs.

Weaknesses

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Canadian Tire's performance was affected by the oppressive market conditions in 2009, which led to a loan losses increase. Also, there was an increase in net write-offs (6.34 - 7.58 percent) which is the highest rate since 2005. The difficult economic environment and high unemployment levels led to customer bankruptcies, which highly affected the company's loans portfolio and increased the rate of net write-offs.

This resulted in the company's return on receivables falling to 3.6 percent, as opposed to the targeted 4 - 5 percent. Additionally, there was a significant decrease in earnings before taxes in 2009 compared to 2008; the primary reason being an increase in losses on loans and high risk of consumer bankruptcy.

The overall industry saw a Compound Annual Growth Rate of 5 percent, whereas Canadian Tire was behind, at 4.3 percent in the last five years. During this time, Canadian Tire stores have underperformed Wal-Mart at a 2 percent rate, and it has been visible across several divisions. The Compound Annual Growth Rate of the home division at Canadian Tire was 4 percent, as opposed to 5.7 percent of the overall industry. Also in the segment of leisure, the overall industry grew at 4.8 percent, Canadian Tire was 4.3 percent. During the early 2000's, when the housing industry was at its peak, Canadian Tire did not have too much improvement in sales, for the simple reason that it provides more maintenance and repair products than home improvement. Canadian Tire is left more vulnerable to conditions of the economy because of its unique products portfolio, even though the company does offer a certain mix of merchandise.

Mark's earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) margin was 11 percent in 2009, as opposed to Gap's up to 16.8 percent. Taking into consideration the last five years, Mark's underperformed its competitors' such as Gap, Reitman by 3.6 percent on average. Also its growth in revenue has been slow in this time period, especially during the backdrop of the economy. Low margins in growth indicated Canadian Tire's lower profits, as well as a competitive disadvantage in the market.

Opportunities

The Clothing and Accessories sections had the highest growth per month, which in February 2010 reached a 4.3 percent growth as well as an increase in sales for the third chronological month. In the last few years, mark's has been outperforming the industry. Mark's women's clothing line was the least affected by the slowdown of the economy in 2009; sales managed to grow by 4.2 percent. Mark's has a strong emphasis on its products of private label, which has made it possible for the company to grow and increase its share in the market, by ensuring customer satisfaction above all. The private level in Canada represents \$11.4 billion secured by national sales in July 2010, and Mark's has established its presence in the front of the private label and is positively positioned to improve the share it currently has in the market. Canadian Consumers are price sensitive and products of private label are very appealing to this consumer base. These products also have high margins, which benefit Mark's profits and will boost the company's apparel sales in clothing and accessories.

There is a substantial amount of potential in the segment of credit cards that could increase clientele in the financial services division. On average, Canadians own two credit cards per household, in comparison to six in the United States. Referring to a study by a loyalty marketing firm for research, Colloquy, there are 86 percent Canadians who collect rewards from their credit cards as opposed to 51 percent in the United States. Canadians seem to have more patience in accumulating points that entice free store merchandise as travel miles, which reinforces the seriousness of loyalty programs, and the comparative advantage of Canadian Tire in its own program.

Threats

It has been evident in the last five years that consumers in Canada have tightened their spending, causing the overall recovery to slow down. There was a severe damage in household balance sheets when a decrease of more than 13 percent was noted in home prices, after the Toronto Stock Exchange Composite deteriorated by more than 40 percent. It is concerning that while the assets' value decreased significantly in 2009, there was still a continuous grow in liabilities, which caused the ratio of assets-to-liabilities to also go down. There are implications related to this, since consumption in the future is projected to be frustrating for Canadian customers rebuilding their balance sheets, therefore implying the need to borrow less, and try to save as much as possible. It is also expected that savings rates will steadily go up to about 6 percent by 2011, which will have a moderate impact on consumer spending growth. According to observations, a correlation of 45 percent between growth of GDP and retail sales of Canadian Tire is present. Also, <https://assignbuster.com/the-canadian-tire-corporation-marketing-essay/>

there is a correlation between sales and rate of unemployment of 65 percent. Corresponding to consumer spending in a negative trend, the revenues of the company will be severely affected, seeing that CT Financial Services and CTR are directly dependent on the Canadian consumer's health and well being, as well as the economy, and together, they contribute more than 80 percent of all earnings.

It has been noted that there is a significant decrease in the amount that Canadians spend on vehicle maintenance, as they count more on reliable vehicles in order to save money in the long term. Spending on maintenance and repair decreased to \$9.8 billion in 2010, in comparison to 2009, which was \$11.2 billion. Reasons why vehicle owners may choose to delay expenditures or maintenance can include difficult economic conditions, as well as the notion that they can rely on their vehicles to perform better for a longer period of time and don't need to constantly maintain and follow up on repairs. Canadian Tire's growth plans can likely be impaired by the consumers' low spending, even though it has formed strategies to strengthen the retail segment.

Consumer bankruptcies have witnessed an increase, which has caused the Financial Services Segment to suffer losses. There has been a 31.2 percent increase by November 2009 in consumer bankruptcies in Canada, while the growth of Financial Services Bankruptcy has gone up to 23.6 percent. Bankruptcy rates are predicted to remain eloquent in 2010 and afterwards, because of the difficult economic environment. Reports in the industry predict that it will be "normal" for loss rates to reach 5 - 6 percent, as

opposed to 3 - 4 percent before the recession. Bankruptcy rates that are rising will affect the financial services division by having higher risk of losses.

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Differentiation

The, "Canadian Tire Corporation offers goods and services that meet life's everyday needs", according to the Canadian Tire corporate website. It offers everyday services and products to about 90 percent of Canadians. They have been in business for 88 years; this helped build a great trust between the Corporation and its customers in Canada. The difference between Canadian Tire and its top competitors is that Canadian Tire is involved in a wider range of industries; a broader variety of services and products which puts them in advantage when compared to its competitors. Canadian Tire does not only sell tires, instead their business includes automotive parts, home, accessories, sports, clothing and leisure products. It owns a number of stores including, Canadian Tire Retail stores, Petroleum gas stations, Mark's Work Warehouse clothing store, Part Source, and Canadian Tire Financial Services. The first Industry include the Canadian Tire Retail which are the most shopped merchandise retailers, they are operated by dealers. There is the Canadian Tire Petroleum which is one of Canada's largest petroleum retailers of gasoline. Also Mark's Work Warehouse which operates under Canadian Tire is the leading clothing and footwear retailers. Mark Work Warehouses sell both men and women wear along with industrial wear. CTR are responsible for all automotive categories, which falls under Part Source

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stores. The last section of Canadian Tire is Canadian Tire Financial Services Limited which markets Canadian Tire branded credit cards. Also markets personal loans and credit lines and insurance. Canadian Tire is doing something that not a lot of other companies are doing; they are expanding their business capabilities through opening specialized stores. For example, Canadian Tire created Part Source, which is an automotive store with the goal of bringing automotive parts closer to professional mechanics and the do-it-yourselfers. Canadian Tire has a strong market position compared to its competitors because they have over 1, 200 stores and gas bars throughout Canada. These stores are located very conveniently to serve the Canadian population. Even though top competitors like Hudson's Bay, Sears Canada and Wal-Mart Canada do sell a variety of products and service, they do not share the same broad range of products like Canadian Tire. They also lack the distribution of Canadian Tire, because none of the competitors exceed 600 stores around the country. This shows the dominance of Canadian Tire over its top competitors. Strength of Canadian Tire is strong operating cash flow; they have been able to generate a great deal of cash flow through all their sections of the Canadian Tire Corporation. This enables them to pay dividends to shareholders.

Corporate Level Strategy

Definition : Specifies actions a firm takes to gain a competitive advantage by selecting and managing a group of different businesses competing in different product markets.

Company Wide Strategy

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Canadian Tire's competitive advantage is produced through the power of five businesses. The first is Canadian Tire's core business, Canadian Tire Retail, one of Canada's most-shopped general merchandise retailers. With 479 stores across Canada, Canadian Tire Retail is the Canadian market leader in its three main product divisions, automotive, home and leisure. PartSource is a Canadian Tire chain of 26 franchise and 61 corporate specialty automotive stores, focusing mainly on the automotive sector. Canadian Tire financial services Limited is a wholly owned subsidiary of Canadian Tire and is primarily engaged in marketing and promoting Canadian Tire branded financial products and services. They currently hold 4 million accounts and includes the Canadian Tire Loyalty program. Canadian Tire Petroleum is one of Canada's largest independent gasoline retailers with 272 agent operated gas bars, 267 convenience stores and kiosks and 73 car washes. Canadian Tire customers are also given Canadian Tire money with every purchase. Lastly, Mark's Work Warehouse is owned by Canadian Tire with 378 stores across Canada. Mark's sells men's and women's work, work related, casual and active-wear clothing and footwear as well as health care and business-to-business apparel.

Strategies

1. Strengthen Canadian Tire Retail along with a strong Automotive division
 - Develop a redesigned and enhanced loyalty program : targeted offers, promotions and value-added services that will be useful for customers and savor their loyalty to Canadian Tire.

- Performance Improvement Program: enhance customer experience at underperforming stores.

- Automotive : increase customer satisfaction with broader inventory collection, better technology foundation

- Part Source Stores: bringing auto parts closer to customers so they can receive them faster by opening more Part Source stores.

2. Deliver Strong Performance

- Expanding : opening more Petroleum units across the country.

- Mark's Clothes: developing more work clothes to enhance the brand.

3. Financial Services

- Credit Card: focus on credit card risk management

- Growth - pursue growth in receivables and earnings while supporting the core Canadian Tire retail business.

- Insurance: developing new card issuance and warranty products that will enhance the Canadian Tire brand.

- Technology: upgrade the technology infrastructure that supports Canadian Tire Retail, PartSource, and Petroleum to increase functionality, reduce risk, lower operating costs

In conclusion Canadian Tire ended the year 2009 in a strong financial position. Developing and following new strategies will drive Canadian Tire

performance through growth, operating efficiencies and managing financial flexibility. By following these strategies they will enhance customer loyalty as well as generate increasing cash flow.

Appendix C graphs and tables