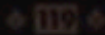


BAD IDEA: TERM LIMITS // MBAS ON THE CLOCK // GREEN BONDS ATTACK
PLUS B-SCHOOL PROFS SOLVE FIVE CORPORATE ISSUES THAT SHOULD BE TOP OF MIND

GO LEAFS GO



TORONTO MAPLE LEAFS



SPORTCHEK

SPORTCHEK

MBA ALL-STARS

CANADIAN TIRE CEO
MICHAEL MEDLINE
HAS A SIMPLE GAME PLAN:
'GROW OR DIE'

FINANCIAL POST MAGAZINE

BY ANDY HOLLOWAY

MBA ALL-STARS

MICHAEL MEDLINE

MICHAEL MEDLINE HAS A PRETTY SIMPLE BUSINESS PHILOSOPHY: "YOU GROW OR YOU DIE," SAYS THE NEW CEO OF CANADIAN TIRE CORP. LTD. "FOR A 93-YEAR-OLD COMPANY, I CAN'T BELIEVE HOW MUCH GROWTH WE HAVE LEFT."

Such a pronouncement from a bricks-and-mortar stalwart that, even by its own estimation, has had trouble cracking the e-commerce challenge may seem a bit over the top, but Medline is steadfast in his belief and it's led to some pretty eye-opening growth targets. And why shouldn't he be confident? Canadian Tire successfully — some might even say easily — fought off Target Corp.'s entry into Canada, an effort now about to start its second month of liquidation sales. But Canadian Tire's growth targets were established even before Target decided to close up shop. Its plan for the next three years calls for it to grow earnings per share by 8-10%, add two million square feet of new retail space, grow sales by 3% (9% at FGL Sports, which includes the Sport Chek and Hockey Experts chains among others) and spend \$400 million this year alone on share buybacks. On top of that, though, is a plan to spend an annual average of \$575 million on business improvements, primarily in the digital realm, although a higher amount will be spent in 2015 to finish the technology building blocks its strategy requires.

Yes, you heard that right: Canadian Tire is going to try to tackle the digital world — again. Its first effort,

of course, flopped, with the store's e-commerce site being shut down in 2009. It was subsequently relaunched, but consumers can still only order online and pick up their goods at one of Canadian Tire's nearly 500 stores. "It's absolutely key we move this company from the old world to the new world," Medline says. "There's no doubt in our minds that we can fight anyone and beat them with bricks and mortar and the old world of retail. We've proven that." Now he's going to try to prove it in the digital world.

It's a tall order, but Canadian Tire is serious. Three days after the 14-year company veteran took over at the beginning of December, he held an all-day session with the company's senior executives and digital team and, in his words, "burned the books." They committed to having world-class digital offerings and, hopefully, having the best e-commerce sites in the world by the end of 2017. That's three years away, but in the meantime they're committed to getting better and making customers happier. He won't reveal the secret behind how Canadian Tire is going to do that, but if it succeeds, it will go a long way towards meeting those growth targets, including a 9% return on invested capital.

"We try to set aggressive but doable targets. I don't like putting numbers up that we cannot hit," Medline says. "It really puts our feet to the fire because unless we grow sales and are as productive as we can be, it will be difficult to reach 9% ROIC from where we are today."

Fortunately, it's not like Canadian Tire is starting from scratch. While Medline isn't proud of the company's e-commerce capabilities or how customers are able to interact on their smartphones, he believes it is as good as anyone in the other two digital areas. One is the use of digital in-store displays; the other is digital marketing — something Canadian Tire is one of the best at, according to marketing expert Sheryl Sandberg. But there's room for improvement even there. Medline foresees a day soon where if it's snowing in Toronto, an online ad promoting shovels, boots and other winter gear will automatically run.

As for the company's oft-maligned website strategy, which is still not where Medline wants it to be, a lot of back-office infrastructure for future plans is now in place. "A lot of the heavy lifting, not all of it, has already been invested behind the scenes without a big show, which allows us now to do the more creative things to excite our customers," he says. "Those that aren't great at the entire digital experience are not going to do well. The ones that do it the best are going to thrive. It's going to be winner take all and we have no interest in not being one of the winners."

There's certainly no shortage of competitors trying to pick away at Canadian Tire's various product segments. Aside from the big-box all-purpose chains such



CEO AND
PRESIDENT,
CANADIAN
TIRE CORP.
LTD.;
COLLEGE
OF WILLIAM
AND MARY
MBA

as Walmart, Costco and Sears, Canadian Tire faces three national hardware chains, countless independents and, of course, Target, which failed — and that's just in its core business. Marks Work Wearhouse, despite a niche target audience, still has to compete with all the clothing stores out there, and while Sport Chek is by far the dominant sports store chain in the country, there are still strong competitors, mostly on a regional basis. All told, it's hard to compare Canadian Tire directly against any competitor or any category. Technically, Statistics Canada classifies it, alongside combination chains Walmart and Costco, as "other general merchandise stores," one of the categories determined by the North American Industrial Classification System, which is a NAFTA standard. But there is a further breakdown that is only used in Canada called "home and auto supplies stores" — essentially a category that's only there to classify Canadian Tire.

"You really can't compare Canadian Tire to anything, because there are no other retailers quite like it, not even in the U.S.," says retail consultant Ed Strapagiel. "Canadian Tire's unique product mix is... a mixed blessing. Regardless of who might come after them, they have another line of business to fall back on. On the other hand, they have to partially compete with many other retailers on different fronts."

That means Canadian Tire needs to be as good as or better than just about every other retailer in Canada in just about every facet of its business. Upping its digital capabilities, therefore, is necessary since it currently lags on the e-commerce side. But any improvements should also go a long way to satisfying one of its other goals, appealing to a younger demographic, although which demographic depends on which one of Canadian Tire's banners you're thinking of. At the self-branded stores, Medline is looking to appeal to the 30-49-year-old crowd, with a particular emphasis on young families. The chain has already slightly changed its advertising, such as showing a dad with his young son staining a treehouse, rather than staining a deck alone. Sport Chek, meanwhile, goes after the 18-34-year-old demographic, while Mark's targets 35-50-year-old males, again trying to appeal to younger fathers.

Of course, Canadian Tire's long association with sports is part of that strategy. Older folks may remember the "Albert" commercials from the 1980s, but Canadian Tire has considerably ramped up its efforts more recently. It has a charity called JumpStart that has helped more than 900,000 kids become more involved in sports. It's one of the biggest sponsors and supporters of the Canadian Olympic team. It sponsors hockey's World Junior Championships, soccer's upcoming FIFA Women's World Cup, individual athletes, five of the six Canadian NHL teams and it has naming rights



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to the Ottawa Senators' arena. "Sports has always been part of our DNA. But in just three years, we have become the biggest supporter of sports in this country. It really gets the employees going," says Medline, who is honorary chair of Canada's Sports Hall of Fame. "If you're putting up good numbers on the board, you get to do a lot of things that make a company great."

The key will be tying all these things together through 1,700 stores, including 500 Canadian Tire stores, its digital offerings and, potentially, new acquisitions including, if the right opportunity comes along, ones outside Canada. Target's failed entry into Canada may sour some on the idea of international retail expansion. And some may even recall Canadian Tire's attempt to expand in the U.S. in the early 1980s after it bought a chain of Whites stores in Texas. That foray lasted three years and cost more than \$300 million. "It is possible to expand across your borders if you have a good strategy and you execute and you mitigate your risks," Medline says. "Target is a good warning to companies to take these things extremely seriously and to think about the risks involved and really understand the market that you're entering."

That said, Target's exit isn't a bad thing for Canadian Tire or its investors. "While general merchandisers felt little impact from Target's entry into Canada, given the noticeable product line overlap, we expect Target's exit to be of net benefit to Canadian Tire," noted RBC Dominion Securities Inc. analyst Andrew Calder. He thinks Canadian Tire may even be one of the retailers that take over a few of Target's locations once the U.S. giant vacates the country, as do analysts at Desjardins Capital Markets.

Either way, Medline has choices. "It's not like I'm starting when the cupboard is bare. In fact, the cupboard is very full," he says. "We have more financial flexibility, so we have more cash on hand or more ways to raise cash. We will look for the right acquisitions as we did when we purchased Mark's and the Forzani Group. If that takes a while to find the right thing, we'll do dividends, we'll buy back shares, we'll do all the right things by our shareholders, but our goal is to grow." Investors and customers alike will be watching just how he does it, because the alternative isn't imaginable at this point.

CLASS OF '91

WHY DID YOU WANT TO GET AN MBA?

I was articling at a law firm at the time and realized that I was enjoying the business aspects of the work actually better than the strictly legal work. I felt that I needed more formal training in areas like finance, strategy and operations. I wish I had realized that



earlier as I could probably have done a joint law/MBA program and saved a year in school.

WHY DID YOU CHOOSE WILLIAM AND MARY?

I wanted a strong MBA program and the experience of living in different places. I was interested in the southern U.S. It was a good choice. The school was great, and the professors and fellow students were excellent.

WHAT WAS THE MOST IMPORTANT TAKEAWAY?

The process of going through an MBA reshapes how you evaluate problems. It exposes you to layers of complexity in decision-making that weren't immediately obvious before you go through the program. The MBA helped me understand two things better: in any era of business, talented people and culture are the linchpins of success; and, having the right strategy is key, but everything rests on the execution — every single day — of that strategy. The most important takeaway for me has been a framework I've carried with me for critically thinking and evaluating business problems throughout my career.

WHAT CHALLENGES DID YOU HAVE TO OVERCOME?

I didn't have much experience back then in finance and quant. But they ended up being my favourite courses with superb professors; I use what I learned there still. I loved the case study approach to learning and there were some heated exchanges in the class — you had to be on your toes. I didn't know a soul when I got there, but I'm a pretty big sports fan and that certainly helped me meet a lot of interesting people right away.

WHAT DO YOU THINK IT DID FOR YOU AND YOUR CAREER?

I wouldn't be in my job today if it weren't for those two years. Look, an MBA isn't for everyone. Some of our strongest leaders at the Tire don't have an MBA. But for me, it was crucial. It rounded me out and especially made me think about strategy, people and growth in a more balanced manner. It formed the way I think and lead today.

WHAT ADVICE DO YOU HAVE FOR PROSPECTIVE STUDENTS?

Make sure you're interested in getting an MBA for the right reasons. Not just to say you have one. What holes are you trying to fill? How will it make you a better manager, a better leader? Like anything, you only get out of it what you put into it. If you're there just for the three letters, you may coast through. But you're taking the seat of someone who probably deserves it more. If you're not prepared for every case study and not willing to put your views out there and defend them, well, I wouldn't recommend the degree. Also, looking back, I could have profited from even more work experience to set a better context. Having real world experiences — good and bad — will enrich your MBA or EMBA learning.