

# Target invests \$100 million to speed up its ecommerce deliveries

## Article

**The news:** Target [plans](#) to spend \$100 million to expand its network of sortation centers to speed up and lower the cost of delivering online orders.

- The retailer, which currently has nine sortation centers across six states, plans to build at least six additional facilities by early 2026.

**The strategy:** The sortation centers are part of Target’s “stores-as-hubs” strategy in which it uses employees in its roughly 2,000 stores to pick and pack the vast majority of its online orders. For example, 96.8% of the retailer’s ecommerce orders were fulfilled via a store in fiscal Q3.

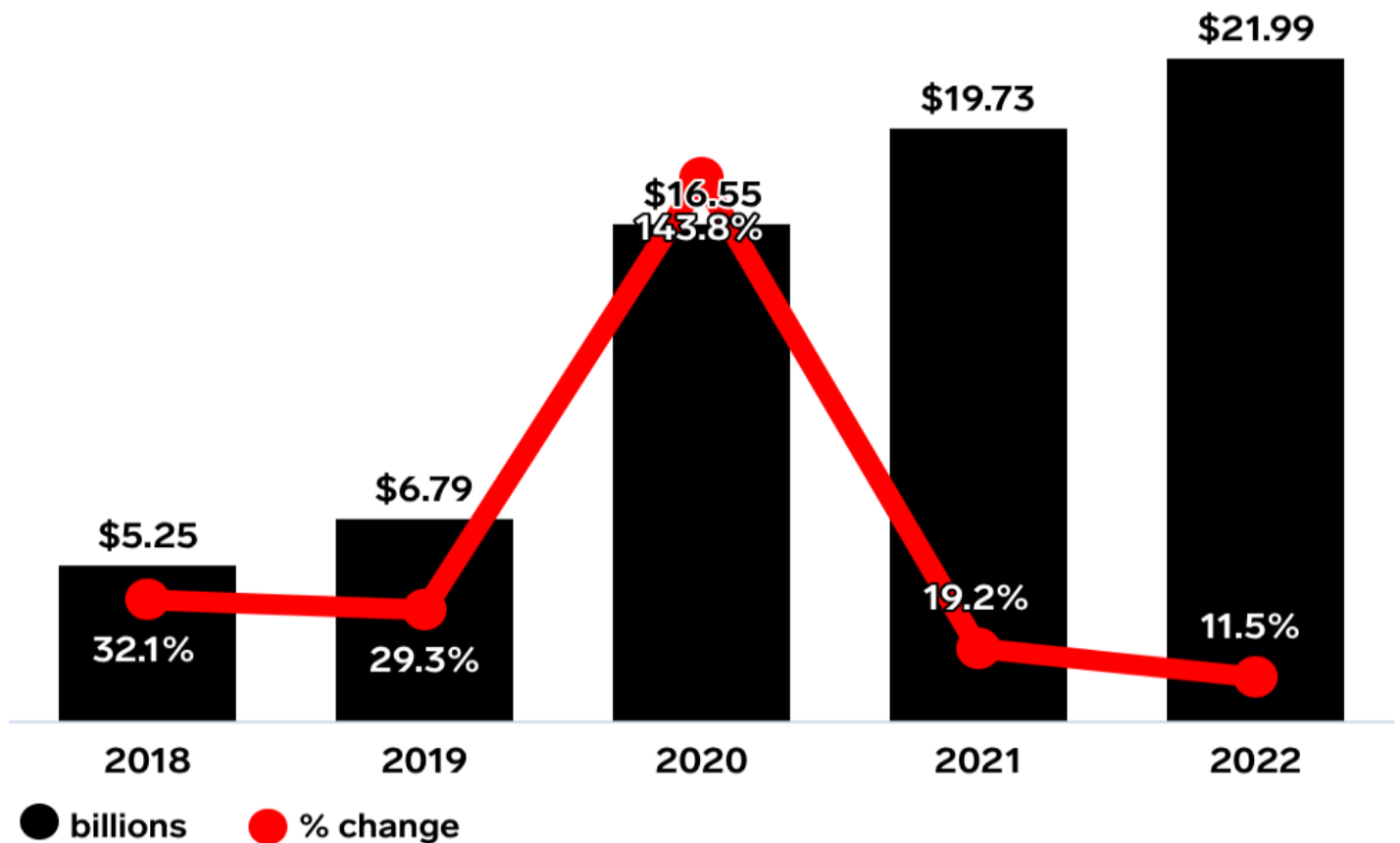
- The facilities aim to streamline online order fulfillment by collecting orders from up to 40 stores, then grouping them by delivery routes to ensure that whoever delivers the packages (either a third-party carrier or Shipt driver, depending on the lowest-cost option) has the densest route possible.
- Target expects sortation centers to deliver roughly 50 million packages this year, which would be nearly double the 26 million packages it delivered last year.
- In addition to expanding its sortation center network, Target is also rethinking how its stores can be better used to accommodate consumers who shop across channels. For instance, it recently rolled out a new **store format** that is roughly 150,000 square feet (about 20,000 square feet larger than the chain average), and features backroom fulfillment space five times larger than at previous stores.

**A long-term bet:** Target is making a long-term bet on ecommerce sales growth even though its online sales decelerated last year and it is currently struggling with a glut of inventory and slowing sales.

- The retailer **lowered** its Q4 outlook in November and announced plans to trim up to \$3 billion in total costs over the next three years.
- It will report its Q4 earnings and fiscal 2023 outlook next week.

## Target Retail Ecommerce Sales

US, 2018-2022



Note: represents the gross value of products or services sold on Target.com (browser or app), regardless of the method of payment or fulfillment; excludes travel and event tickets

Source: eMarketer, November 2022

eMarketer | InsiderIntelligence.com

**Growing competition:** Target's push to speed up delivery stems in part from growing competition from many retailers such as **Amazon**, which recently expanded the reach of its [Buy with Prime service](#) that allows other merchants to leverage the retail giant's fulfillment network to offer shoppers free delivery (as fast as the next day) and easy returns.

- **Shopify** also recently rolled out its own Shop Promise service that guarantees next-day and two-day delivery.

- Retailers can leverage companies like **Instacart** and **DoorDash** to offer consumers quick delivery.

**The big takeaway:** Target is demonstrating confidence in its strategy, despite several near-term headwinds.

- While the retailer will likely face some near-term challenges due to consumers pulling back on discretionary spending and the “[slower-growth new normal](#)” for ecommerce, its investments to ensure that it can meet or exceed online shoppers’ expectations will pay off over the long term.

**Go further:** Read our report [The Future of Last-Mile Delivery](#), which explores the role of companies such as Instacart and DoorDash in helping retailers compete on delivery.

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