

Target doubles down on its ecommerce strategy

Article

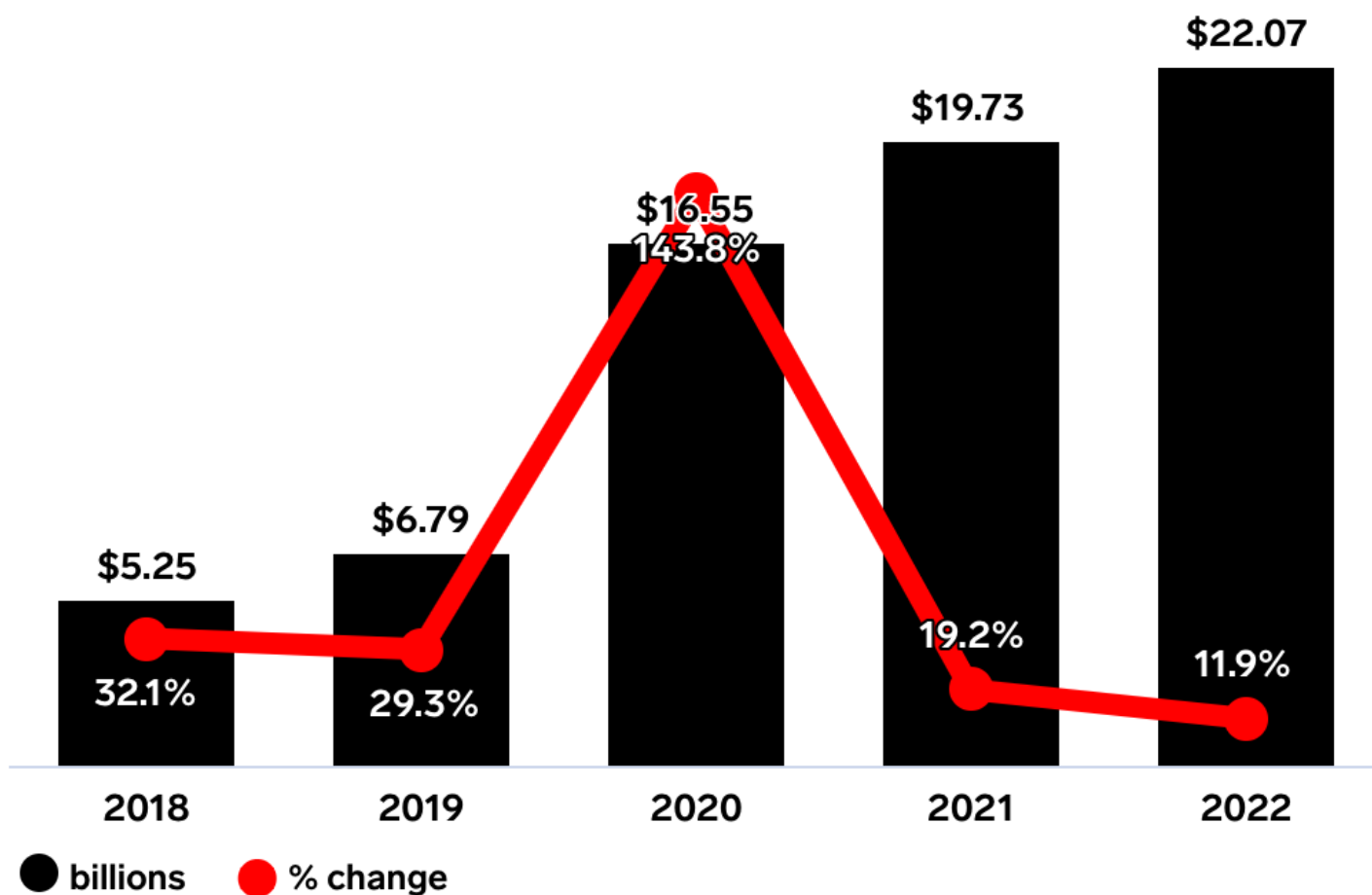
The news: Target is adding three new package sorting centers with more planned in the coming years to speed up its online delivery and reduce its shipping costs. Two of the new facilities are in the Chicagoland area and the third is near Denver.

- **Fulfilling online orders from stores saves Target about 40% per package compared with shipping them from big distribution centers**, per Bloomberg. Sorting centers further reduce the retailer's costs by taking orders packed in local stores and sorting them for local deliveries.

- Target's ability to effectively leverage its stores to fulfill online orders has been the not-so-secret weapon that has helped **grow its retail ecommerce sales from \$6.79 billion in 2019 to \$19.73 billion last year.**
- We expect Target's retail ecommerce sales will increase 11.9% to \$22.07 billion this year.

Target Retail Ecommerce Sales

US, 2018-2022



Source: eMarketer, June 2022

eMarketer | InsiderIntelligence.com

Focused on the bottom line: Target's so-called "store-as-hub" strategy has improved the efficiency of its online order fulfillment, allowing the retailer to speed up local delivery times

and avoid the complications that often make online orders less profitable than in-store sales.

- **Target currently operates six sortation centers** where packages are sorted and grouped together to create dense delivery routes. The three new centers are expected to open by the end of January.
- Target is also working with **Shipt to test large-capacity delivery vehicles** in Minneapolis. The vehicles can hold up to eight times more packages per route, increasing flexibility to deliver even faster and make room for growing order sizes.
- In addition to implementing sortation centers that facilitate online deliveries, **Target has proven adept at driving online shoppers to pick up items at its stores via its Drive Up and in-store pickup options**, which save the retailer about 90% of the cost of shipping an item from a distribution center, said **Mark Schindele**, executive vice president and chief stores officer, during the company's Q4 earnings call.

The new model: Target isn't alone in looking for ways to make ecommerce more efficient, profitable, and faster to better compete with **Amazon**.

- For example, **Walmart** last month announced plans to build four high-tech fulfillment centers that include an automated system that retrieves items from storage and brings them to packing areas for employees to put them into custom-fit boxes.
- **Kroger** is in the midst of building out a hub-and-spoke fulfillment strategy to regions across the US, per Grocery Dive.

The big takeaway: Despite short-term challenges due to its failure to foresee the abrupt shift in consumer spending habits, Target remains focused on its long-term ecommerce strategy that builds on its existing assets. That approach should put the retailer in a strong position to thrive as ecommerce grows its share of overall sales.