

# In New Contrarian Strategy, Target Begins Rolling Out Large-Format Stores

Move Aims To Enhance Retailer's Online Fulfillment, Allow Grocery Expansion



The Target outside Houston, Texas, features a large drive-up canopy for order pickup. (Target)

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Discount retailer Target has tried going small. Now it's going big.

The [Minneapolis](#)-based company plans to roll out larger-format stores, featuring expanded space for online fulfillment services and a greater selection of groceries — an offering where it lags behind rival Walmart — across the nation. Target's new-format stores will be nearly 150,000 square feet, which is more than 20,000 square feet larger than the chain's average, the retailer said Thursday in a statement.

Target, which has nearly 2,000 brick-and-mortar locations, will continue to open stores of all sizes, but it plans to focus on the larger-footprint format during the next few years. The retailer

will bring its updated store design, which has a more-open layout than its current sites, to future remodels as well as new stores across its chain. The first one, a newly redesigned Target at 22165 Farm to Market Road 529 in Katy, Texas, which is outside of Houston, has already debuted.

"Target's stores are at the heart of how we deliver for our guests, whether they browse the aisles, shop online or stop by for same-day services like order pickup and drive up," John Mulligan, Target executive vice president and chief operating officer, said in a statement. "With our re-imagined store design and larger-store footprint that better supports our same-day services, we can give guests more of what they love while incorporating features that build on our commitment to sustainability, community and helping all families discover the joy of everyday life."

Target's new initiative goes against the recent trend of retailers — [even Target itself](#) — opening smaller-format stores in order to less expensively increase their physical footprint or to get a beachhead in tight urban markets where large space isn't available. Target has stores that range in size from under 20,000 square feet — its small-format foray— to around 200,000 square feet, according to a company spokesman.



Target's first larger-format store is located in Katy, Texas, a suburb of Houston. Many more are expected to follow. (Target)

But the pandemic, and its forced store closures, prompted traditional retailers to swiftly improve their omnichannel capabilities to compete with their e-commerce rivals. For not only Target but

chains such as Macy's, stores became mini fulfillment centers and hubs of distribution. During the COVID-19 outbreak, customers were able to order goods online and pick them up curbside at stores, and later on go in and get them from inside brick-and-mortar locations. That consumer behavior continued after the peak of the pandemic for retailers such as Target, which need more space on-site to store and fulfill online orders.

## Five Times More Fulfillment Space

Starting next year, more than half of Target's roughly 200 full-store remodels and almost all its 30 new stores will include elements of the new design. Beginning in 2024, all of Target's remodels and new stores will feature the majority of the reimagined store design elements, according to the retailer.

The new store layout includes backroom fulfillment space that's five times larger than previous stores of a similar size, according to Target. That additional space will help support the digital growth Target has experienced, with its stores fulfilling more than 95% of its digital orders and same-day services accounting for more than 10% of its overall sales.

"Target appears to be further leaning into the merchandising and experience upgrades that helped propel its success over the past five years," Brandon Svec, national director of U.S. retail analytics for CoStar, said in an email Friday. "Thus, while on face it looks to be bucking the trend of smaller footprints, it's really Target rightsizing stores to handle the significant volume of at-home and curbside business and leaning into the areas of the business that have been successful."

The retailer said it "leveraged years of research" to craft the new larger-format store design.

"What Target is doing is highlighting the second reason for physical retail to exist, which is this blurring of lines of what is the actual function of the retail box in an omnichannel world," David Silverman, a senior director at Fitch Ratings, told CoStar News. "These retailers' boxes are functioning as both places where consumers can shop and complete entire purchases in-store but also are elements of the company's overall supply chain and distribution strategy."

## More Merchandise

Neil Saunders, managing director of GlobalData, doesn't see it as a contradiction for Target to be embracing both large- and small-format stores. And in his view, the bigger stores aren't necessarily an attempt to beat Walmart at its own game.

"I don't think this is Target chasing Walmart, this is more about Target iterating its store designs so that they are able to meet the needs of modern retail," Saunders said in an email. "For example, Target's collection and drive-up services for online orders have proved so popular that many stores find it difficult to cope in terms of storage space and adequate parking bays. These newer, larger stores address this as they provide a lot more back-of-house space for fulfillment."

Target's rollout of larger stores "does seem opposed to a lot of the narrative," according to Saunders.

"However, that's simply because a lot of the chatter around online reducing the need for stores and so forth is plain wrong," he said. "From Target's point of view, online is intimately connected to its stores and there is a need for those stores to be rightsized to cope with all the demands on them. The larger stores don't signal a move away from the smaller formats Target has been rolling out in urban areas. This isn't an either/or — it's about having a range of formats that can fit into different markets and circumstances."

These larger Target stores will offer a full assortment of merchandise, including expanded food and beverage items, exclusive brand partnerships and a curated mix of the retailer's owned as well as national brands. Groceries have been an area where Target has lagged far behind competitors such as Walmart.

"I have not seen the actual blueprints, but ... it seems that the vast majority of additional space will be used for fulfillment, so not necessarily moving the back wall forward, as some retailers have done, but extending beyond it," Svec said. "Otherwise, the space growth appears to be primarily focused on grocery, a growing part of their business. And while it's low margin, grocery has the obvious benefits of stability and ability to draw shoppers in who will likely shop in higher-margin areas of the store."

## Warehouse Club Challenge?

Chuck Lanyard, president of the retail brokerage Goldstein Group, was among those who pointed out that Target's strategy to go bigger is contrarian, saying many large retailers are looking to downsize their store footprints due to the high costs of brick and mortar. And in his view, Target is stepping up its effort to compete against Walmart.

"It appears that Target hopes to penetrate Walmart and the warehouse clubs like Costco and BJ's [Wholesale Club]," Lanyard said in an email. "I think it's a big risk unless they are able to not only carry the additional items that added floor space provides, but most importantly, are able to be strongly competitive, price-wise. If not, the store size won't matter because in today's economy, families are always shopping around for the best deal; and that also includes staples like food and gas."

The new Target store design will feature larger windows and a more open layout that will bring in more natural light, also incorporating plants and regionally sourced reclaimed wood. The updated stores will also have localized design features, ranging from native-plant landscaping outside to localized product offerings. Target's future new stores and remodels will include updates such as natural, or carbon dioxide, refrigerants to help lower emissions and electric vehicle charging stations for patrons.

And for employees, there will be flexible rooms that can be rearranged to serve the team's needs and furniture options such as booth seating.

