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William B. Cassidy, Senior Editor | Sep 23, 2020 5:36PM EDT



Target is transforming its stores into fulfillment hubs offering same-day delivery. Photo credit: Target Corp.

The future of retail may not include stores at all, the chief supply chain and logistics officers of one of the largest US retailers said Tuesday. Instead, the logistics process itself may be the successor to brick-and-mortar store locations, **Arthur L Valdez, Jr., executive vice president of Target**, told the Council for Supply Chain Management Professionals (CSCMP) Edge Conference.

Target's stores are not disappearing. But the retail chain's nearly 1,900 locations are increasingly functioning as micro-distribution hubs, with same-day deliveries from stores increasing 273 percent year over year in the second quarter, and drive-up pickups at stores more than 700 percent, according to the company's most recent earnings report. In-store pickups of online orders rose more than 60 percent.

That would not have been possible without the "orchestra" Valdez said coordinates inventory management and transportation for Target with a high degree of precision. It is the precision required by customer demand that will reshape retailing — and, in turn, logistics and transportation — in the future, he told executives at the online event.

Valdez sees logistics processes and experts increasingly at the core, not the periphery, of enterprises, a shift that is being accelerated by the rapid growth of e-commerce during the COVID-19 pandemic and the resulting emphasis on time-specific customer service. This trend will continue to transform supply chains as

customized shopping experiences designed for individual consumers become king.

“Manufacturers are going to figure out how to go directly to the consumer more and more,” Valdez said. “If you can imagine 25 years from now, you’ll have a digital screen on your computer or in the air with all the places you like to shop from. But you won’t want 25 things arriving from 25 different vendors” at the exact same time.

There will have to be “a consolidator, or some type of logistics process that does that consolidation for you”, Valdez said. “You determine the experience you want at the location of your choice. It may not be a store anymore, but a logistics process that does all the inbound delivery from vendors and locations, consolidates it, and presents it to you.”

A need for more than speed

That concept may have seemed outlandish 10 or 20 years ago, before Jeff Bezos and his online bookstore Amazon changed the retail world forever, and in doing so spurred a transformation in the transportation and logistics sector that continues today. Valdez has been in charge of the supply chain transformation at Target since 2016 as the retailer, with \$77.1 billion in revenue last year, responds to the online challenge.

Valdez joined Target after a career at Amazon that began in 1999 and ended with him being vice president of operations for international expansion, with responsibility for the company’s supply chain, fulfillment centers, and transportation. His remarks at the CSCMP conference illustrated a focus on customer experience he likely absorbed from his former employer.

“Everything [in the supply chain] is centered around experience, and the individual customized experience,” he said. “This is where we are headed and it will only grow more and more.” Physical stores have to become the “hub” of “guest experience” to remain relevant, Valdez said. In other words, the retail store is not just a place to sell and buy stuff anymore.

“Thirty years ago, a retailer could put any merchandise they liked in a brick-and-mortar store and people would come to shop,” he said. “Then about 20 years ago, it became more about the vendor and the manufacturer, and the guest was looking for specific products. Over the last 10 years, the focus shifted to convenience, speed, the ability to get products fast.”

The current focus is not just getting products to consumers fast, but getting merchandise to the correct locations to avoid shortages or excesses in inventory. That is increasing the complexity of supply chains by an order of magnitude. “Target built a beautiful supply chain very focused on speed, and now we’re focused on changing it to get the right products to the right place at the right time,” Valdez said.

The inventory challenge

Target’s focus was tested in the second quarter, as the COVID-19 pandemic and resulting recession ripped through the global economy, forcing many retailers to shut down, at least temporarily. As a source of essential goods, Target not only remained open but saw increases in both online and in-store purchases. Comparable in-store sales increased 10.9 percent year over year during the quarter, while digital sales skyrocketed 195 percent.

Even so, physical store locations enabled more than 75 percent of those digital sales, Target executives said in an [earnings call](#) in August, with the majority of digital demand driven by items already in stores. In-store and online channel numbers alone do not reflect Target’s efforts to position its stores as digital fulfillment hubs. That effort has required changes in how Target manages inventory and works with vendors, the executives said.

“I think the biggest challenge we’ve experienced is managing one inventory for multiple experiences, whether the digital experience or the in-store experience. The transition that Target has made to manage one inventory has unlocked our competitive advantage,” Valdez said, adding that training associates to

manage multiple experiences “was a task”.

Inventory management has been even more challenging in the past six months, with many vendors facing production constraints owing to the COVID-19 pandemic. In the August earnings call, Target executives said demand at stores outpaced supply in many categories. That requires greater coordination with vendors and more accurate forecasting.

Once Target knows where and when it will need inventory, speed of transportation becomes the key requirement, Valdez said. “Traditionally, transportation has been a place you try to take costs out. Well, we’re investing in transportation because the speed with which we pick something up and get it to where it belongs is more important than waiting until a truck is full.”

The logistics “orchestra” could not carry a tune, however, if Target did not pay attention to the needs of its team, Valdez said. “I look back to [the terrorist attacks of] 9/11, when I was leading a fulfillment center. There was so much panic that day. Getting the team together and making sure they understood what was happening was important then, and it is still important today.”

Management across the board at Target is becoming more personal than it was before the COVID-19 pandemic, and that is a change that is likely to last. “We’ve figured out how to help our teams work from home; we make time for human nature. I’m making time to ask, ‘How are you, how’s your family, what do you need?’” Valdez said. “I wish I had been better at this before.”

In another lasting change, logistics will never again be considered a back-office function. “People are starting to see the importance of the supply chain,” Valdez said. With logistics increasingly critical to corporate success, “I expect many more CEOs will come from the supply chain and logistics field over time. There will be many more C-suite opportunities for supply chain leaders.”

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