

Will 2021 spell doom for department stores?



On January 25, the saga of long-established British department store Debenhams came to an end: Boohoo bought the brand - but not the retail chain, with its 124 branches. On January 7, US group Macy's announced a plan for the closing down of over 30 branches of the Macy's and Bloomingdale's department stores in 2021. After 2020 proved to be one of the most difficult years ever for the department store sector, these are signs that another very tough year is on the cards for these retail giants.

PUBLISHED
Jan 28, 2021



UK department store group Debenhams

The latest shake-ups are only residual tremors in the market earthquake blighting department stores worldwide, affecting some truly long-established distribution giants.

Last year, Onuma, founded in Japan in 1874, and Lord & Taylor, which first opened in New York in 1826, both defaulted; while Debenhams in the UK, as well as JC Penney (with nearly 850 branches) and Neiman Marcus (with some 60 branches) in the USA, all filed for receivership.

In Germany, Galeria Karstadt Kaufhof has announced it is closing 51 of its 172 branches. In Switzerland, Manor (with 53 branches) has decided to close down 5% of its department stores. In Spain, the management of El Corte Inglés has hinted at a plan to close at least 15 branches.

The Covid-19 crisis has struck leading department stores in France too. Nicolas Houzé, boss of Galeries Lafayette, reported earnings losses of over €1 billion last year, and a reorganisation is under way at the department store group's headquarters. At Galeries Lafayette's main rival, Le Printemps, they are busy preparing for seven branch closures between Le Printemps and Citadium in the coming months.



Le Printemps's flagship on boulevard Haussmann, Paris - Printemps

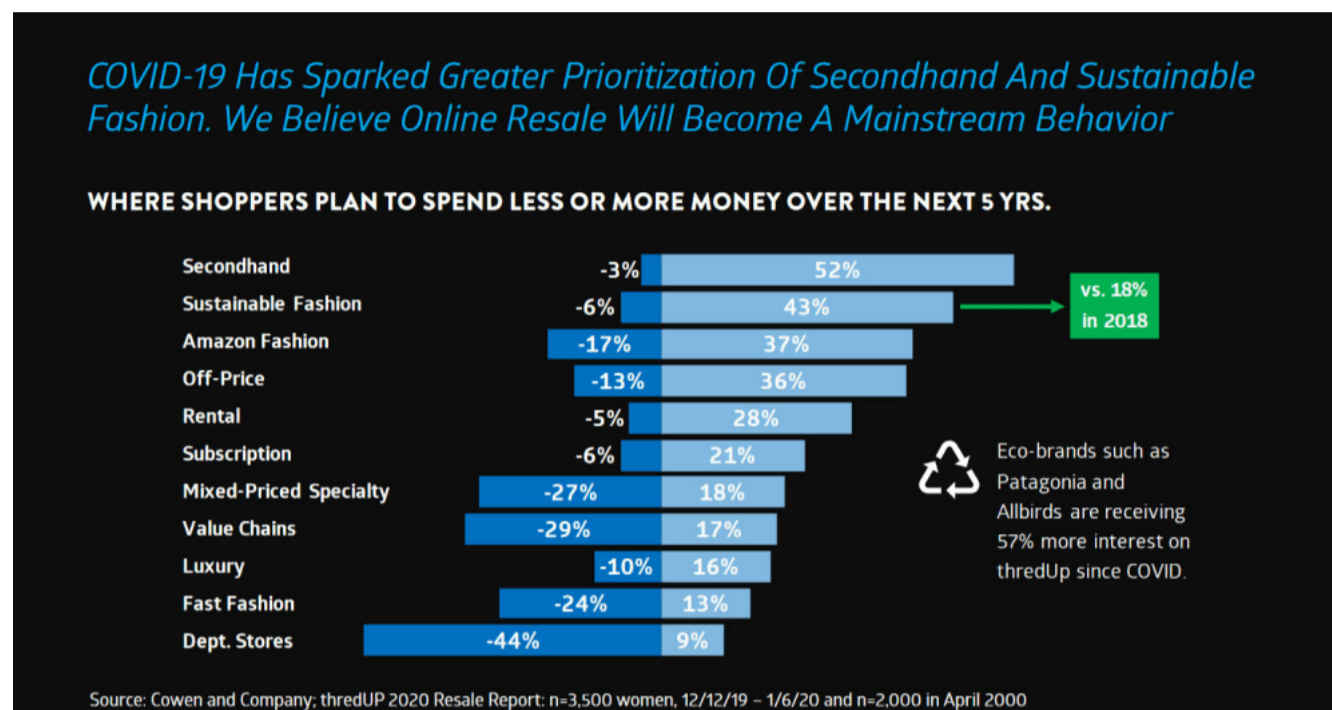
At the start of 2021, between strict closure rules, threats of new lockdowns all around the world, mandatory social distancing in enclosed spaces, consumers that are increasingly turning towards online shopping, the expansion of the resale market and the impossibility of overseas travel, department stores appear to be still greatly under threat.

In the USA, a number of analysts are even predicting their complete demise. In America, according to real estate specialist Green Street Advisors, half of the department store branches operating in shopping malls are expected to close down.

Nearly one American in two plans to spend less in department stores

Last September, at a conference on the future of retail, Jeff Genette, CEO of Macy's, analysed the impact of the trade's transformations on the group's branches. "Some stores will benefit in the short term from competitors' closures, but a number of competitors dropping out of a shopping mall might reduce traffic, and this could have a long-term impact on these malls' appeal," said Genette. "We therefore plan to change the composition of our core branches, shifting from shopping-mall stores that over time will have been closed, to new, smaller branches located away from malls, with a budget retail concept or with a mini-Macy's and mini-Bloomingdale's one," added Genette.

These changes are necessary since, according to consulting firm Cowen, 44% of American consumers envisage spending less in department stores in the next five years, as opposed to only 9% who are prepared to stay loyal them. Conversely, second-hand and sustainable fashion products, as well as [Amazon Fashion](#) lines, are highly coveted.



According to a study by Cowen, US consumers are planning to shop less in

Despite the devastating impact the Covid-19 pandemic has had in 2020, it merely acted as an accelerator of the problems faced by department stores.

A study by [Morgan Stanley](#) has estimated that, on the US market, department stores accounted for 24% of apparel sales in 2016, but will account for no more than 8% in 2022. In the USA, department stores started to struggle commercially in the 2010s, and chains like JC Penney and [Sears](#) defaulted well before the Covid-19 outbreak.

In Japan, in the 20 years between 1998 and 2018, the revenues of department stores (numbering no more than 200 branches in the country today) fell by over JPY9 trillion, down to JPY5.9 trillion, a shortfall of over one third.

"The pandemic did not trigger the crisis, but caused it to worsen more quickly," said Selvane Mohandas du M n l, managing director of the International Association of Department Stores, with dozens of members in Latin America, Asia and Europe. He underlined that "in English-speaking markets, there has been a drive towards gigantism, artificial growth fostered by extensions in retail area, carried out by groups often supported by pension and investment funds. South-East Asia instead was the arena of Japanese operators. This drive also led to [department store] openings in shopping malls that weren't particularly successful, concealing plunging margins and the fact that no real advance had been made on the e-tail front."

Lagging behind on e-tail

E-commerce is the Achilles heel of several department stores. Some of them, for example Le Printemps in France, started going down the e-tail route only very recently, having long regarded the channel as unprofitable. Crucially, the web continues to siphon away department store customers, especially now that consumers cannot travel.

In addition to the competition by ubiquitous online giants like Amazon, [Zalando](#) and [Tmall](#), and by brands that now have their own e-shops, department stores have had to deal with an increasing number of outlet stores, and have been sucked into the discount race, launching a spate of commercial initiatives. Rail stations and airports too have turned into retailers, snatching from department stores the status of primary contact point between labels and customers.

With consumers increasingly inclined to shop for second-hand items and to curb their expenditure, is a retail apocalypse inevitable? Will Covid-19 deal the final blow to department store chains and their long-established flagship stores in the world's capitals?

"At [French department store] Le Bon March , in the 1990s, they were already wondering about the future of the channel," said Christophe Anjolras, president and founder of the [Volcan Design](#) agency, a consultant to brands and retailers on store-concept evolution. "I fully believe department stores have a future. In the USA, [Nordstrom](#) is deploying some interesting new formats, and in China, SKP Beijing is clearly winning over new customers. But globally, like every other distribution channel, [department stores] must undergo an in-depth transformation. The shopping mall-based model is clearly losing traction," he added.



In Paris, the Galeries Lafayette's Champs-Élysées branch has been hit by the absence of tourists.

In cities like Paris and London, the strength of department stores stemmed from the international appeal of their flagships, featuring exceptional products and a shopping experience in lavish buildings. A reputation that benefited all their national and international branches, but which gradually led to a business model in which profitability was dependent on tourists' expenditure in the chains' flagship stores.

“Their main asset, which has become a weakness, was that a brand that entered a department store flagship was visible to tourists coming from all over the world,” said Mohandas du Ménil. He added that “this has generated a dichotomy between the reality in Paris and that in branches outside the capital. Tourists are not expected to return in numbers before 2023-24. This is forcing department stores to re-think how they target local customers. Nowadays, flagships are so large they play a disproportionate role in the groups' overall results. But if you look closely at the trends and revenues generated in provincial branches, the latter are holding on.”

An issue that union representatives are bitterly emphasising nowadays, having for many years sounded warning bells about the risk of jettisoning the stores' local clientèle. Indeed, the local clientèle's resilience means flagship stores can still remain optimistic about their future.

Lower sales the future, says Selfridges

“We will probably end up selling less,” said Anne Pitcher, managing director of the Selfridges Group, cited in the McKinsey survey on the fashion industry's outlook in 2021. “The throwaway [purchase] is definitely slowing down. Department stores are lucky, because they are by necessity big, open spaces. There's still so much art, food, culture, conversation, relevance. There's a lot more that people can do in a space than just buy stuff. For anyone to go out, there needs to be a purpose, and that's how we need to think about the way we do business,” said Pitcher.

The challenge for department stores is reinventing themselves. And not just in digital terms. “Digital tools aren't a panacea, not if the overall concept isn't attractive,” said Anjolras. “Macy's announced a closures plan, without indicating if [the chain] would end up with 300 or 200 branches - when it used to operate 800 - but what format does it propose to adopt? Including other chains, integrating them with existing ones, redesigning a curated product range and the customer experience, are ways of optimising the retail area available while boosting credibility. What is extremely difficult for these players is that they need to handle simultaneously a downsizing process, a store and customer experience transformation, and an expansion of their digital capabilities. Each of them must find the right balance, with unique features and a distinctive retail element,” added Anjolras.

The notion of a curated product range seems essential. Reliance on a locally relevant range appears to be a driving factor, as do a selection of second-hand items and showcasing brands that are available exclusively on the web. In the US, the Neighborhood Goods concept, introduced in 2018 in Texas and based on a regular rotation of lifestyle, fashion and beauty labels culled from Instagram, seems to be a success.



In the USA, Neighborhood Goods exemplifies a new generation of retail.

At a time when profitability is the watchword, chains are also assessing the trade-offs involved in selling retail space to other operators, or renovating extensively.

However, department store groups need resources to carry out all these projects, at a time when their profitability is shrinking, and their ability to attract investors is hampered by the global crisis and the reduced prospects of heretofore driving categories like fashion and beauty.

“We are all aware that now is the time to invest,” said Mohandas du Ménéil, adding that “digital capabilities aren't an object in themselves, but a rallying cry. After the first lockdown period, Switzerland's Manor group started a radical transformation programme, Thai operator The Mall stepped up the pace of its store renovation/opening plans while digitalising its operations, and El Corte Inglés recently opened the Castellana luxury hub in Madrid, while investing in a new app and taking direct control of its marketplace logistics. Digital tools are means to better sales. If your returns rate is 70%, it will play havoc with profitability. If you can't reach the desired level of profitability via the [online] channel itself, tapping digital tools will allow you to optimise your operational set-up in order to reach it.”

Re-energising department store brands

Mohandas du Ménéil cited Chilean group Falabella which, over a number of years, has created an interconnected system of digital solutions, and the SM Store group which, during the lockdown period, deployed a local delivery service via its own organisation, responding to its customers' phone requests. An instance of retailers becoming event organisers and service providers. But the human touch will have a role to play in the future of department stores too. During the pandemic, a great deal of consumers are turning towards home-made and second-hand products, and are also making their way back to neighbourhood retailers. “Addressing your clientèle with precision is essential,” said Anjolras. “Department stores have very powerful brands at their disposal, brands with a stunning capacity for bouncing back. With high-performing websites and social media channels, they can become hugely popular,” he added.

A major transformation effort is required, and there still remains the question whether department stores will have the financial capability, with the help of state aid in some countries, to rise to the challenge without crashing. A transformation seems impossible without a good deal of restructuring and reorganisation. Yet, in a market from which some players are likely to disappear, the coast might well be clear for those able to navigate successfully through these straits. Provided department stores are able to establish a viable web presence, they might be able to leverage their long-standing reputation and prime commercial locations, becoming key players in phygital retail.