

## "No retail apocalypse for department stores"

During the corona crisis, luxury department stores proved surprisingly agile. Now they need to become stronger brands, by focusing on new services and storytelling. "Digital is a tool, not a goal," says Selvane Mohandas of sector organisation IADS (International Association of Department Stores).

## "No choice anymore"

"The CEOs of department store chains like **Galeries Lafayette** or **El Corte Inglés** have been aware for years that they need to adapt to changing market conditions. But 2019 was their best year ever, with record tourist numbers and unprecedented sales, so they kept putting off those decisions. Now they can't: the corona crisis has made change urgent. The good thing about this pandemic is that now they have no choice." So says Selvane Mohandas du Ménil, managing director of the International Association of Department Stores (IADS), which represents 12 members operating in 19 countries with a combined turnover of 32 billion euros. The managing director himself has a history with big names such as **Louis Vuitton**, **Yves Saint Laurent** and **Sonia Rykiel**.

"Many of our members are family businesses, they have the luxury of thinking in the long term. All of them immediately realised the seriousness of the crisis, but at the same time saw the light at the end of the tunnel. That is a different approach compared to hedge funds that want to see immediate results. Therefore, I do not agree with the many doomsday reports about a retail apocalypse coming. We have learned from this crisis that our department stores are - a little unexpectedly perhaps - truly agile."

## "Need for physical experience"

The crisis mainly means an acceleration of evolutions that were already going on before, Selvane Mohandas thinks. "It is a natural market evolution. The weaker players will go, but I don't believe that department stores will disappear: they are places of encounter and discovery. Nobody is happy staying at home. We now meet via Teams or Zoom, we buy online, but we feel lonely without the physical experience. We become more familiar with digital services, but we remain human beings, we need that encounter. The day we become robots, maybe we will be happy in an online reality, but not now."

Of course, department stores are seeing a boost in online sales. "All our members are seeing online sales double or even quintuple. At **Falabella** in Chile they were already doing 30% of their sales online, in 2020 that was 60%. They even managed to grow slightly last year, despite the store closures. I always emphasise that e-commerce may represent 23% of transactions, but that digital already weighs more than 50% if you look at the complete customer journey. Digital does not just mean opening a web shop, it means using technology to enhance the customer journey. Digital is a tool, not a goal."

## "It's show business"

Department stores must therefore seek the right balance between offline and online. "At **Galeries Lafayette**, they are now super happy with their live shopping app that they launched in October. That

app gives customers access to the entire shop. That is a strong tool to maintain the connection with the customers. The best example is **Breuninger**: during the lockdown, they kept in touch with their VIP customers via Facetime and WhatsApp. That points to a strong level of intimacy."

"Because what we need to understand in relation to digital is that it is about a new way of interacting with customers. You can think of digital very literally as opening a web shop or selling on a marketplace, but then you start competing with **Alibaba, Net-A-Porter, Amazon and Google**." But digital also opens up new ways of telling your story and creating a connection with your consumers, like **Manor** using social media to emphasize its local roots. "If you only sell stuff, there will always be someone cheaper. But as Jeanette Aaen of **Illum** says in your book: it is show business. I would add: it is showbiz for a carefully selected and curated audience, who share the same values as you, wherever they are. If you do it right, why not find a group of people in Shanghai or Delhi who share the values of Galeries Lafayette, for example?"

"Build a community"

In other words, marketing after Covid will be different from marketing before Covid? "Definitely. When you used to open a shop in a department store as a luxury brand, you knew you were going to lose money. But you were willing to make that sacrifice because it was a form of advertising. Today, luxury brands can invest millions in online channels, why would they want to work with a department store? Unless that department store appeals to a specific audience: the sum of 1 + 1 then becomes 3. That is the future for brands and for department stores: that they build their own audience to remain relevant tomorrow."

"One of the big questions we are working on now is: how do you turn your name into a brand? If you ask people if they know Galeries Lafayette, the answer will be yes. But will they want to wear a T-shirt with that logo on it? Being a brand provides certain opportunities, for example in the area of private label. But strategically, a brand means above all that you are building a community that will be your strength tomorrow."

"Local customers return"

What is happening in tourism now is a disaster for department stores in major cities. Last year, Paris fell from the most popular destination in the world to fifth place. That made Galeries Lafayette realise once again the importance of local customers. Are new audiences now coming back to the flagship stores?

"The main lesson for Galeries Lafayette and El Corte Inglés during the pandemic was that their flagship stores remained empty, due to the lack of tourists, while the regional shops held their own: we also saw this at **Magasin du Nord**, at Breuninger... Local customers remained loyal to their stores. And when Galeries Lafayette in Paris could reopen briefly, at the beginning of November, they really attracted big crowds, there were record numbers of local customers – because there were no tourists. That showed two things. Firstly, that people craved the physical shopping experience. Secondly, that Galeries Lafayette managed to appeal to its customers in a new way."

"Focusing on smart services"

Companies like Galeries Lafayette or El Corte Inglés may be very big, but they are also very local, he stresses. "If you go to London, you visit **Harrods**, **Liberty** or **Selfridges**, because you only find them there. If you go to Madrid, you want to see the new El Corte Inglés Castellana, because you know it's special. In Paris, you visit Galeries Lafayette. Their local existence is their essence. That is why they offer different answers to this global pandemic. That just makes them stronger."

In what way will department stores change, after Covid? "We are organising online workshops to learn from each other. I think the '*smart department store of the future*' will offer more services, such as subscription services and also non-retail services. At **Palacio de Hierro**, they now have a cosmetics concierge: she does a skin analysis and then directs you to the right brands. In this way, they show their expertise and maintain the customer relationship. Magasin du Nord decided to reduce the cash desk area by 35%. Not in order to be able to display more products, but in order to open a new service area where customers can speak to a personal shopper, for example."

"Don't downsize, but rightsize"

The 'smart' department stores survive, but what will happen to the others? Aren't there too many stores? What should happen to the real estate? A group like **Galeria Karstadt Kaufhof** has already had to close dozens of stores and they still have too many... "We believe our members should think about their square footage. That does not necessarily mean closing. The good news is that most of our members own their premises, so they have more freedom. It is not about downsizing at any cost, it is about '*rightsizing*'. Because the role of the store is changing: it is not just a place where you sell things. You have to offer an experience, surprise, but also convenience. You have to give your customers reasons to come back."

"Magasin du Nord, for example, enlarged its click & collect zone to open it up to other brands - and not just their own: customers can also come there to collect their package from Amazon. They do this because a lot of people who come to collect a parcel still come into the shop and buy something. At **SM** in the Philippines, they launched a new service they call 'Call to Deliver': a very simple system where customers can contact the store by phone, Facebook Messenger or SMS to place an order. A personal shopper prepares the order or delivers it to their home the same day. For this, they allocate 5% of their selling space. It was so successful that they immediately rolled it out to all 65 stores."

In short, optimism prevails at IADS: "None of our members stopped their expansion plans during the crisis. El Corte Inglés opened its new Madrid shop as planned, Magasin du Nord continued to renovate its stores... That is the luxury of family businesses: they have that long-term vision."