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THE RADICAL REINVENTION OF THE DEPARTMENT STORE

Of all the retail formats, department stores have probably been impacted the greatest amount by the pandemic. But it has merely exacerbated structural challenges that have been building for years. Selvane Mohandas du Mènil, Managing Director of the International Association of Department Stores (IADS), sets out the findings from their latest white paper on how the format has to reinvent itself to become smarter¹.

Department stores are decathletes. This sentence encapsulates the challenges embedded at the core of any department store in the world: their model concentrates a vast array of complex activities and, in these days of omnichannel competition and digital unbundling, they have to be good at each of them. This permanent necessity has translated into constant adaptation and the acquisition or generation of new and appropriate competencies. While such transformations have been relatively invisible from the customers' point of view, each new iteration has left its mark on companies' organisations. To study this permanent adaptation, the IADS has put together, in this year's white paper, snapshots of store organisations during four key dates: 1928, 1994, 2015 and 2021.

In 1928, when the IADS was created, department store structures were already extraordinarily complex in order to address the number of categories and products sold. In addition, all stakeholders were taken into consideration (customers, employees, partners, shareholders), leading to the juxtaposition of many activities and competencies. This created a fertile ground for subsequent complexification: with time, the c-suite progressively increased according to managerial evolutions and technological progress, without significantly altering a template that became increasingly anachronistic. With time, organisations became costly, complicated and difficult to transform.



This became particularly visible after 1994, the year when **Amazon** was created. While a few companies foresaw the danger and followed suit by launching ecommerce ventures (**Macy's** in 1997, **Nordstrom** in 1998 and **John Lewis** in 2001), the rest of the department stores were still trying to solve the space productivity equation through a highly centralised organisation at the buying level. Even though a few IADS members looked for other approaches, this struggle persists today and partly explains why adapting to a digital, highly fragmented and individualised world has taken so long for department stores.

2015 is the year that most iPhones were sold in volume to this day. It triggered the development of m-commerce, a complement to ecommerce, adding to the difficulties of those retailers who were struggling to keep up with customer behaviour changes. Despite this, organisations remained mostly unchanged, with four to six direct reports to the CEO covering 'traditional' areas of activity (finance, merchandising/buying, real estate, operations/sales, marketing and HR). It is striking that digital capability (whatever its name: digital, ecommerce, omnichannel) was not considered as a strategic feature per se at the time, but was rather integrated into a broader department. This difficulty of acknowledging ecommerce from an organisational point of view is a reason why one IADS member already had a Chief Transformation Officer, a fairly unique position at the time, to address this challenge.

The COVID-19 pandemic and the total reset of the retail industry that took place in 2021 accelerated a rapid change within department stores. They responded to the increased complexity of operations by increasing the number of direct reports to the CEO, with one company for example increasing from 11 reports in 2015 to 18 in 2021. This organisational inflation also reflects a lack of clarity about the meaning of 'digital transformation': the answer will be radically different if approached through each of its components (platforms,

channels, technology, products...) rather than through a more holistic approach.

Should organisations have an individual dedicated to digital change or re-engineer their structure into a 'digital mindset'? The fact that different solutions are adopted by department stores is a signal that companies are probably in transition mode. Each of them has to make defining choices, between transforming the organisation as a whole or contenting itself with the customer-facing structures only, and between creating a dedicated position at the top or seeking to digitally pivot the whole organisation (and if so, how?).

However, this time, marginal improvements might not be enough. Historically, department store organisations have been responding to immediate problems, by trying to adapt to the current 'iceberg', perfectly aware that others were coming but, understandably, unable to dedicate the necessary resources to deal with all of them at the same time. Even though their margin structure has allowed them to avoid icebergs so far, the market-changing conditions are now putting department stores at risk of running out of possibilities if they do not manage to radically reinvent themselves.

This radical reinvention requires courage and obstinacy from the leading teams as it involves long-term vision (strategic planning), radical questioning (unbundling of century-old activities) and the capability to change machine-like organisations into more organic social bodies.

To order a copy of the Smarter Department Store Organisations white paper from IADS,
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