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ANNOUNCEMENT

Department stores' human organisations: their historical and constant capability to adapt to an increasingly complex world might only partially answer the need of their radical reinvention

In its "Smarter department store organisations" White Paper, the IADS offers an unprecedented review of department stores' internal organisation evolution from 1928 to the current digital age.

This structural dissection aims to look at how these complex business models have adapted to successive market evolutions. At a moment when department store organisations are in the midst of digital transformation, and already anticipating the adaptation to a more sustainable world, this study suggests that continuous structural re-engineering is intrinsically at the core of their model. Department stores answer to an increasingly complex world by an increased C-suite specialization and organisational inflation.

However, recent evolutions, both theoretical and implied by new digital business models suggest that more radical changes might be needed in the mid-range to stay competitive.

Organic reinvention has been an organisational feature central to department stores from their inception, helping them to deal with an increasingly complex world

"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 every one 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.

While organisation charts are not an exact reflection of how companies work, they provide insight into a company's perception of itself, as well as its formal internal power structures. They also allow comparisons, and the tracking of change over time. This is why the IADS has put together snapshots of store organisations during 4 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 a 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 e-commerce 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.

The temptation to answer complexity with increased specialisation and organisational inflation

2015 is the year most iPhones were sold in volume to this day. It triggered the development of m-commerce, a complement to e-commerce, adding to the difficulties of those retailers who were struggling to keep up with customer behaviour changes and the end of the boomer generation majority. Despite this, organisations remained mostly unchanged, with 4 to 6 direct reports to the CEO, covering "traditional" areas of the activity (Finance, Merchandising/Buying, Real Estate, Operations/Sales, Marketing and HR). It is striking that digital capability (whatever its name: digital, e-commerce, 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 e-commerce 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 the need for department stores to change and rapidly acquire the new competencies needed to thrive in an omnichannel world. It explains why 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.

Does structure always follow strategy? The digital transformation case

Should organisations have an individual dedicated to digital change, or re-engineer their structure into a “digital mindset”? Examples from other industries (mass distribution, water supply, luxury) suggest that a digital transformation officer position is easier to implement than totally resetting and transforming an often century-old structure. However, the scope of these new positions rarely includes resetting the organisation as a whole, and often consists merely of injecting technological innovations, only contributing to increased complexity or worse, the creation of an additional silo.

The fact that different solutions are adopted 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 solely focusing on the customer-facing structures, and between creating a dedicated position at the top, or seeking to digitally pivot the whole organisation (and if so, how).

Two IADS members have set up a new approach to this question in 2021, by addressing the problem from the customer-journey perspective. Both of these approaches are radically different. The first one delegates the power to change organisations at the store level, by creating a new position with increased prerogatives and possibilities to change operational methodologies. The second one has created a new position at the HQ level, whose role is to detect potentially interesting ideas from within the company and implement them in a test & learn process, allowing, when successful, the definition of a new customer journey.

These examples suggest that there is a middle way and a soft method to answer this question. It also confirms that there is room for organisational innovation within the existing frameworks.

Simplifying organisations is key, but may not be enough in the future

These marginal improvements might not be enough. The recent new appointments at the Macy's board of directors, namely the CEO of The Michaels Companies and the president of Zipcar, both experienced in organisational transformation, shows that department stores are well aware of the difficulty. Historically, department store organisations have been responding to immediate problems, by trying to adapt to the current “iceberg”, perfectly aware that other ones were coming but, understandably, unable to dedicate the necessary resources to deal with all of them at the same time.

This never-ending race is impossible to win. 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.

About IADS

The IADS is the most exclusive and oldest professional department store think tank in the world. Its uniqueness lies in the close relationship between its member CEOs, making it a very powerful asset for decision-making at the highest level.

Today, the Association gathers a group of 12 members across the world, all leaders or key players on their respective markets, and represents more than €31bn cumulated annual turnover, achieved through more than 490 stores with 233,000 associates in 19 countries.

Members are: Centro Beco (Venezuela), Beijing Hualian Group (PRC), Breuninger (Germany), El Corte Inglés (Spain), El Palacio de Hierro (Mexico), Falabella (Chile), Galeries Lafayette (France), Lifestyle International Holding (Hong Kong), Magasin du Nord (Denmark), Manor (Switzerland), The Mall (Thailand), SM (Philippines).

The wide variety of business models and cultures represented provide the Association and its members with a richness in the exchange which is all the more valuable for the solutions and thought-provoking debates that it generates.

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