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ANNOUNCEMENT

While Shoes are recovering faster than Leather Goods from Covid, two trends are being observed: logos for locals, and the need to balance niche and blockbuster brands.

The IADS and NellyRodi regularly take stock of retail trends through a series of product category workshops. Their last one was dedicated to Leather Goods & Shoes categories, a key category for retailers. It is all about attracting local customers via a renewed brand mix, special services or partnerships, and the ability to react quickly.

Greatly suffering from lockdowns, the Leather Goods category saw its share of the total business slump from 10% in 2019 to 8% in 2021. Even though e-commerce sales tripled in the same period from 2% to 6% of the category business, it did not help compensate for the business lost due to the lack of touristic clientele in department stores. However, the luxury segment (including the affordable luxury offer) remained the biggest segment in 2021, with 36% of the sales, followed by the mid-range price point products (33%).

On the contrary, the Shoe category resisted better during the pandemic and remained at the same level in 2019 and 2021 (6% of the total business), even noting a slight increase in 2020. Similar to the Leather Goods category, e-commerce sales increased, doubling from 5% in 2019 to 10% of the category business in 2021. Luxury products were less important in terms of share of the business for this category, since the majority of the business was done with the mid-range segment (55%), the luxury segment being second with 23% of the total category business.

The challenges department stores are facing are mainly related to the business and traffic decrease. In such circumstances, their strategic priorities revolve around attracting more local customers, especially the younger generations. To that end, finding the right brand mix and matching new consumer trends is key, which, in the case of Leather Goods, is not easy given the weight of the global and well-established brands.

Leather goods: looking for the right balance between volume-driving and niche brands

Since there is not much brand renewal in the Leather Goods department, especially for Mid-Range and Premium brands able to generate large volumes (such as **Michael Kors** once did), local brands offer an interesting option to draw local customers' attention, especially in terms of price point and at a time when tourism hasn't fully resumed.

But introducing new or niche brands is a challenge for department stores as they are usually hardly profitable. Still, they are necessary to enhance the overall store offer, balanced with the usual players known by everyone and help the store differentiate from competitors. To be more efficient, department stores tend to gather niche brands in multi-brand areas, mixing them with other product categories (shoes, ready-to-wear and other accessories), such as the Le Labo space at **Galleries Lafayette**.

Another option to differentiate is to team up directly with brands to present exclusive products, such as the collaboration between **El Palacio de Hierro** and **Versace**, presented in dedicated popup spaces.

NellyRodi presented its exclusive selection of up-and-coming brands in the category: Yuzefi, Destree, My Style Bag, Medea, RSVP, Bonastre, Audette, Camille Vost, Michino, Ozias, Talel Paris, Studio Reco, Aswad, Aesther Ekme, Verwicht.

Shoes: sneakers and show-off are the new normal

In terms of trends, casual is still key in the Shoe department, with the sneakers category driving the business. But this trend also brings issues with **Nike** and **Adidas** withdrawing from department stores to fulfil their Direct to Customer strategies. Besides, department stores usually do not have access to the most attractive styles. In such circumstances, they have to find replacements: **Asics**, **New Balance**, **Veja** and **On Running** are listed as successful or promising brands. An interesting option could also be to partner with third-party vendors selling top-tier and

collectible sneakers: this is what **Manor** is currently doing with local partner **HideOut**. In addition, such an initiative also represents a great opportunity to attract Gen Z consumers.

In parallel, as people are going out again, they are more prone to show off by wearing styles bearing logos. **NellyRodi** witnessed that the demand for such products is supported by local consumption and growing +8% compared to 2019. In the logical continuity, it is expected that occasion pieces will also rise as customers are eager to dress up again.

NellyRodi presented its exclusive selection of up-and-coming brands in the category: Miista, Hereu, Reike Nen, Rombaut, Claris Viro, Vibi Venezia, Viron, Jacques Soloviere, Yume Yume, Ilio Smeraldo, O.T.A, Moea, Tabitah Ringwood, Umoja, MLLN.

New customer's needs, adapted answers

With Covid, consumers got used to shopping distantly with the help of personal shoppers. Such a new habit is still flourishing now and the turnover generated by personal shopping continues to grow: for instance, **El Palacio de Hierro** more than doubled this business, while also making the store more appealing thanks to this service. It is also a way to compensate for the increased competition from both lower price point pure players (such as **Farfetch**) and the growing direct-to-customers online activity from larger luxury brands.

Interestingly, for these categories, sustainability is not a marketing argument to GenZ customers: for bags and shoes, the demand for sustainable products is still small, and not coming from the younger generation, but from the 25-to-35 year-old customers.

When it comes to the price point, leading in most cases to the private label business, most department stores are greatly suffering from supply chain disruptions. On top of the costs increase in raw materials and transportation, and the longer delivery delays, they are now facing additional woes due to the recent lockdowns in China. As a result, they are looking for alternatives to China for the production of private label products.

For both categories, the light at the end of the tunnel is close, but stores are not there yet

To increase the Leather Goods and Shoe business and draw more traffic in-store, finding the right brand mix able to generate high volumes and balance niche and big brands remains a head-scratcher for buyers. Department stores are also dealing with new trends induced by Covid: the sneakers trend is still very strong and more brands are needed to answer consumers' appetite.

While Covid is not over and is still a source of concern, its consequences are still very much impacting the business: the supply chain disruptions represent a threat to the business, whether it's about the costs increase, the delivery delays and the stock availability. The war in Ukraine only adds uncertainties and concerns.

About NellyRodi

NellyRodi is a consulting agency in Business and Creative Intelligence. Based in Paris, Tokyo and New York, it is a global reference for foresight applied to industries and services. Our business, based on understanding new consumer standards and new uses, is to support brands, investment funds and institutions on their desirability and performance levers.

Backed by our international future-forward expertise, we not only provide strategic support at the highest levels, i.e. to senior management and investors, but also at the field and operational level.

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About IADS - International Association of Department Stores

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 in 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).

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