

RETAIL

How to fix the problem in department stores

July 9, 2019



Nordstrom celebrated the launch of Lancôme's Chiara Ferragni capsule collection at the Nordstrom Century City store in Los Angeles. This was influencer Ms. Ferragni's first beauty collection, choosing to make the debut in a department store. Image credit: Nordstrom

By [Pamela N. Danziger](#)

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No two ways about it, department stores are in a heap of trouble.

From 2007 to 2018, sales in United States department stores, excluding discount department stores, declined a whopping 32.4 percent, dropping from \$76.9 billion to \$52 billion in 2018. Only stationery and office supply (-47.4 percent) and bookstores (-40.2 percent) declined more, according to the U.S. Census Bureau's Retail Trade Survey.

And to add insult to injury, other general merchandisers, including warehouse clubs and superstores, rose 53.1 percent and electronic shopping increased 167 percent in the same time period.

Retail detail

Despite the shuttering of Bon Ton and massive closures of Sears stores, the U.S. remains over-inventoried in department stores.

[Green Street Advisors](#) estimates that department stores take up more than 350 million square feet of mall space, which alone would fill 350 average-sized malls.

Since 2015, Macy's entire store fleet, including all nameplates, has declined from 870 to 680 stores. J.C. Penney has shrunk from 1,021 to 861 stores, according to its most recent filing.

The state of department stores has given [Cowen's Oliver Chen](#) pause, resulting in a recent research note entitled, "Cowen on Why Department Store Earnings Were So Bad."

Bullish on Target, Walmart and Costco, Cowen sees even more trouble ahead for Kohl's, Nordstrom, J.C. Penney and Macy's. Specifically, Mr. Chen foresees "new difficulties in driving demand, marketing, and loyalty programs."

It is ironic that Cowen's "shining star" in the sector was Macy's, with a +0.6 percent first-quarter comparable sales improvement. Since when was +0.6 percent growth something to crow about? Relative to Kohl's -3.4 percent, Nordstrom's -3.5 percent and J.C. Penney's -5.5 percent slips, it is something, but nothing compared with Target's 4.8

percent and Walmart's 3.4 percent advance in the quarter.

In pondering what steps department stores can take to fix the mess they are in, I reached out to [Jeffrey McNulty](#), CEO of New Retail Ethos and author of *The Ultimate Retail Manual*, which is being adopted in retail academic circles.

With the utmost respect for leaders and executive teams running department stores, Mr. McNulty calls on department store leaders to get out in front of the changes facing them today. Given department stores' greater size and scope, taking a long view is even more of a priority.

"These are really big companies and we all know that it is really hard to turn that ship around," Mr. McNulty said. "But they need to get ahead of the curve.

"Right now, they are just reacting and that is a death sentence in retail today," he said. "They need to be proactive."

The turning point for department stores came at the dawn for the 21st century.

In 1999 segment sales reached their peak at \$96.7 billion, and have been on the decline ever since. It also coincided with the rise of Amazon.

As the century progressed, the foundations on which department stores were built started to shift. For consumers, the idea of going shopping became disintermediated from the act of buying. As customers could readily buy products online anywhere and anytime, shopping in a department store became a choice, not a necessity.

Department stores have been painfully slow recognizing and adapting to the shift.

Indeed, department store retailing is a people business. It is not a product business anymore. What department stores sell now is less important than how they sell it: the shopping experience.

Here are four ways for department stores to align with the people-first retail

Staff for excellence and expertise

Customers will be drawn back to department stores for the experience of shopping there.

Yes, they want great products priced right, but that is not near enough. They want to actually enjoy the time they spend there.

It takes "shop people" to deliver an exciting and engaging department store shopping experience.

Therefore, department stores need to invest more in their people assets, putting enough and the right people on the floor to service customers in the most helpful and enthusiastic way.

Mr. McNulty calls on department stores to revamp their full-time/part-time employee mix to favor more full-time associates who have "skin in the game."

Not that part-timers cannot be valuable employees, but too many are simply marking time till they find a better gig. And too often department stores do not invest in the kind of training and career development for part-timers that will pay off long term.

Further, pointing to his experience with The Home Depot, Mr. McNulty also believes department stores need to put product experts into their many departments.

"Home Depot staffs real experts in each department who can walk a customer through the product selection," Mr. McNulty said. "So, in the plumbing department, you find someone who knows plumbing, often a retired plumber."

Why should not a customer in J.C. Penney's women's department find a stylist to help put her look together?

"I just don't see that happening in department stores," Mr. McNulty said. "Everybody keeps talking about it, but nobody's really doing it.

"When I talk to store managers, they say, You are right on, but my hands are tied. I don't have the hours or budget allocated," he said. "They are being handcuffed at the local-store level."

Think showrooms, not just departments filled with stuff

As an antidote to shoppers showrooming department store products to find them cheaper online, Mr. McNulty suggests that department stores ought to borrow strategies from real showrooms.

Showrooms are highly curated places where the best and brightest products take center stage and where customers expect more personalized service.

Today's department stores are still operating as a big box with a bunch of over-stuffed little department "boxes" within. Mr. McNulty contrasts that to a showroom experience you might find at a luxury boutique, an interior design showroom or a car dealership.

"When I worked as a district store leader, I took my staff over to a Cadillac dealer," Mr. McNulty said. "What you saw when you first walked in was a brand new CT6 model in pristine condition. You didn't see all the other stuff they sell hanging around."

Adopting a showroom mentality would address the persistent over-inventoried position that is dragging down the performance of department stores across the board. And all that stuff on display does no service for the customer who has to spend valuable time searching through it to find that special something.

Under a showroom model, if the specific item desired is not on the floor, the experts manning their departments can tap inventory throughout the chain and have it delivered to the customer's home in a day or two. Or even better, they can guide them to a suitable alternative from the locally curated collection in their department.

Store-within-a-store and popup collaborations

A showroom mentality will also enable another strategy that Mr. McNulty thinks will attract more shoppers to department stores: store-within-a-store collaborations.

Digitally native brands are on the prowl for promising spaces to implement bricks-to-clicks strategies. Green Street Advisors estimates there are some 600 stores nationwide crossing over from their digital roots.

This is an opportunity that is only going to get bigger, and department stores can be a major player in the trend.

Department stores are not necessarily dragging their feet in this area as J.C. Penney has partnered with Sephora, Nordstrom with Top Shop and its Pop-In concept, Kohl's with Aldi and Amazon, Macy's with its B8ta, The Market, Story and Bloomingdale's Carousel concepts.

But the key to successful partnerships and collaborations is openly sharing expertise, perspectives and experience between the partners.

In this Mr. McNulty wonders if department store executives are so willing to be schooled by their upstart-retail partners.

"People in the C-suites of department stores are too often insulated from what is going on at the store level," Mr. McNulty said. "Too much information flows down from them, and too little flows back up."

Digitally native brands have a unique perspective on what it takes to be successful in retail today. They are not captive to conventional wisdom that circulates throughout many legacy retailers.

Department stores need a new way of looking at their role in the lives of their customers. Learning through collaborating with digitally native partners could give them that.

Create think tanks to drive innovation

Innovative retail ideas do not originate from analysts' spreadsheets or executives focused on the macro-economic factors impacting the business. It comes from store managers, department leaders and staff associates who are rubbing shoulders day-in, day-out with customers.

"There is a huge disconnect between what the analysts see going on, and what's really happening inside the store," Mr. McNulty said. "You talk to a store manager and they have a completely different picture than what is coming from the spreadsheets, the charts and graphs."

C-suite executives need both the macro and micro-perspective about their business to make the right forward-looking decisions. Too often, they are missing the communication originating from the shop floor.

"Bernard Marcus, the founder of Home Depot, always said the store managers are the most important people in the company because they really know what is going on," Mr. McNulty said.

To facilitate the bottom-up flow of information, Mr. McNulty recommends department stores create think tanks within the company that include a mix of employees at different organizational levels.

"C-suite executives are like generals," Mr. McNulty said. "They may be the best when it comes to strategy, but they can't be great generals without the perspective of people on the front lines, too."

"When I managed districts, I got phenomenal ideas from the think tanks I organized," he said.

Mr. McNulty further advises these think tanks should be separate and distinct from formal new business and strategic planning organizations. But, most importantly, the top brass needs to be open to new ideas.

"There is too much information that keeps being regurgitated and re-circulated from the CEO down, without being informed by the ground-up experience," Mr. McNulty said. "The best retail ideas come from the shop floor."

MR. McNULTY AND I both agree that department stores are in a precarious state. They still largely operate on an early 20th-century business model that simply does not work anymore.

While they have cobbled-on Internet strategies and tried to change with the times, their massive infrastructure and debt have hampered them from making the kind of long-term decisions and investments in forward-looking innovations that are needed to achieve success today and tomorrow.

Mr. McNulty draws an analogy from football to explain the problem.

"If you are a defensive back covering a wide receiver and you are running along side him, you are already behind because the receiver knows where he is going you don't," Mr. McNulty said.

"The same applies to retail," he said. "Leaders must be able to foresee the future before it hits. Right now, department stores have been left behind."

Mr. McNulty points to plenty of big retailers that have not been left behind, such as Target, Home Depot, Best Buy and Costco. They share qualities that have enabled them to thrive, adapt and evolve from the past and into a profitable future.

"Department stores must become extremely nimble, resourceful and be able to pivot much faster to changing customer preferences," Mr. McNulty said.

"Everyone in the company has a stake in this game," he said. "To realize the department stores' potential, company leaders need to develop the potential in each of their employees, from the stock room to the C-suite."



Pamela N. Danziger is president of Unity Marketing

*Pamela N. Danziger is Stevens, PA-based president of **Unity Marketing** and Retail Rescue, and a luxury marketing expert. Reach her at pam@unitymarketingonline.com.*

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