Abstract: Much noise has been made about department store downsizing in the U.S., but how is the sector faring on the other side of the Atlantic? This article considers the challenges facing department stores and how different market fundamentals and dynamics have underpinned the resilience of the sector in Europe. As a result, the best operators can capitalise on the trends of convenience, experience and service by way of innovative strategies and concepts providing a seamless omni-channel journey across brands.

Department Stores Have Struggled to Adapt to New Market Realities

By offering an extensive range of goods across broad product categories, these so-called ‘cathedrals of commerce’ have a wide demographic base, making it extremely difficult to meet shoppers’ varied and evolving needs and desires. Furthermore, competition for consumers’ time and money has expanded rapidly. Supermarkets, variety stores and specialty retailers, particularly fast-fashion retailers such as H&M, Zara and Uniqlo, are taking a greater share of the traditional department store market, and the exponential growth of online retailing has encouraged ‘showrooming’ — a practice that department stores are particularly susceptible to.

The size and scope of the operation and management of department stores and the complicated concession business model have arguably limited the sector’s ability in recent years to adapt to changing market conditions with the speed and flexibility necessary to capitalise on the evolving trends and opportunities.

European Operators More Resilient to Structural Change

Table 1 shows that, though department store sales have clearly been under a lot of pressure on both sides of the Atlantic, the U.S. has significantly underperformed since 2012 compared with Western Europe. This trend is forecast to continue until 2022 with department store sales set to fall by another 30% in the U.S. compared with only -3% across Western Europe as a whole.

The reasons for this are fourfold:
1) There are fewer square footage issues in Europe, as a more restrictive planning system has curtailed development and town and city centres have been protected from a retail expansion boom. According to a 2017 analysis by Cistri/

Lessons Learned

- The size and scope of department store management and operations have hindered their ability to adapt to changing market conditions with speed and flexibility.
- The market dynamics and fundamentals in Europe are more favourable to the department store sector than in the U.S., with fewer square footage issues, less reliance on department stores as anchor tenants, a more premium offering and a rich heritage and cultural affection towards many operators.
- Operators are investing heavily in their digital capabilities, particularly in the fast-growing mobile channel, and are benefitting from the popularity of click-and-collect services.
- The sizeable and flexible footprint of department stores allows for greater spectacle and entertainment-led concepts, as well as a range of services, which drive footfall and dwell time.
- Many department store operators are reviewing and restructuring their management and operations to be more collaborative and cross-functional.

* Manager of International Research, ICSC
1 The practice of browsing products in-store and buying online from a different store or pure-play retailer.

19 April 2018

Why the Future Looks Bright for Europe’s Department Stores—If They Play Their Cards Right

How Innovative Strategies Can Transform the Sector

From Surviving to Thriving

SARAH COLE *
### Table 1
Department Store Sales Growth, 2012-2017 and 2017-2022

<table>
<thead>
<tr>
<th>Region</th>
<th>2012-2017</th>
<th>2017-2022 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>-26.3%</td>
<td>-29.7%</td>
</tr>
<tr>
<td>France</td>
<td>-1.2%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Germany</td>
<td>-17.0%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Italy</td>
<td>-10.9%</td>
<td>-13.7%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-15.0%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>12.3%</td>
<td>15.4%</td>
</tr>
<tr>
<td>U.K.</td>
<td>-7.3%</td>
<td>-17.0%</td>
</tr>
<tr>
<td>Western Europe Average*</td>
<td>-4.6%</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>

*The Western Europe average includes data for 16 countries.

Source: Euromonitor International

Urbis, 46% of GLA in larger centres in the U.S. is devoted to department stores, compared with a global average of 30% and 27% in the U.K., and U.S. department store sales productivity is on average less than half those achieved in Europe.2

2) Larger European shopping centres, unlike those in the U.S., are commonly anchored by grocery stores, which has reduced the reliance on department stores and maintained a consistent and reliable flow of weekly footfall. The U.K. is the exception, as shopping centres do tend to be anchored by department stores; however, the sector is, on the whole, relatively healthy as poorer-quality operators, such as BHS and TJ Hughes, have already departed. Those that remain—the likes of John Lewis—are arguably being successful at combining online and physical channels.

3) The core European department store sector provides a more premium offering with fewer off-price department stores and discounting. It has been reported that in the U.S., some department stores have “pursued aggressive and highly self-destructive strategies that have marginalised them and reduced the pricing power for their brands.”3 As a result, some brands have exited department stores as they feel that persistent discounting is diluting their cachet and they would rather maintain a direct relationship with consumers through their own stores and online channels.

4) Europe benefits from a longstanding cultural affiliation for department stores, many of which have significant historical landmark value and are iconic locations with considerable tourist draw, such as Harrods and Selfridges in London and Galeries Lafayette in Paris.

As a result of these underlying market dynamics, rather than pulling back on their physical presence, a number of department store operators are even expanding their store portfolios in Europe:

- The Canadian chain Hudson’s Bay opened its first store outside Canada in September 2017 in the centre of Amsterdam, as part of an ambitious programme to expand beyond its current total of 10 Hudson’s Bay stores in the Netherlands with two Saks OFF 5TH stores and a further five Hudson’s Bay stores planned for this year.

- Elsewhere, in the U.K., John Lewis opened a 120 000-square-foot store in Oxford’s new Westgate centre in October 2017 and is anchoring the £600-million, 740 000-square-foot extension of Westfield London with a new four-storey, 230 000-square-foot store that opened in March 2018. The latter store hosts more than 20 services, ranging from personal styling, home design, spa treatments, an in-house optician and smart home product advice, alongside over 1,000 brands. Another new store is underway in Cheltenham, which is set to provide 115 000 square feet of shopping space over two floors when it opens this autumn.

### Capitalising on Three New Retail Trends

Operators now have the opportunity to embrace their status as cultural icons and maintain their traditions, while elevating the shopper experience by employing contemporary and creative elements. Far from being the dinosaurs of the modern retail landscape, department stores are actually extremely well-placed to capitalise on the latest trends of convenience, experience and service, as these characteristics have always been central to the department store philosophy.

A) Convenience:

Department stores enable convenience-craving customers to browse and buy most of their requirements under one roof without needing to go from one shop to another. This desire for ease and efficiency has led to strong growth in click and collect, which enables shoppers to purchase or reserve items online and pick them up in the physical store, merging e-commerce and physical retail outlets together. It can often make the shopping journey more convenient for consumers: purchasing an item from the comfort of their own home, and collecting it at the most convenient time for them, instead of paying for the merchandise only to be out when it is delivered, or waiting for it to arrive.

Click-and-collect services are particularly popular with department store customers, who are twice as likely to use these services compared with the U.K. average for all shoppers, according to research by the technology service company CACI.4 Operators are taking advantage of this trend by implementing agile logistics processes to offer a seamless online/offline experience across a wide range of brands. Consumers benefit by only needing to place one order and visit

---

3 Scott Malkin, founder and Chairman of Value Retail, quoted in Bisnow, ‘Five Reasons The U.K. And Europe Won't Feel America's Retail Pain, And Two Why It Might,’ www.Forbes.com, 22 June 2017.
one store (or in some cases even a drive-through location) to pick the items up. The benefits for the brands, of course, are eliminating the expense of shipping directly to the consumer and ancillary footfall and selling opportunities in store when an item is picked up. As a result, retailers, such as John Lewis, House of Fraser and El Corte Inglés, have invested heavily in their digital capabilities, particularly in the fast-growing mobile channel, in order to strengthen their omni-channel customer experience.

B) Experience:

   To encourage consumers in-store, physical retail needs to provide services and experiences that cannot be replicated online. That leads to another advantage that department stores have over other retailers: space—a sizeable and flexible footprint that allows for greater spectacle and entertainment-led concepts, often short-term pop-up initiatives, such as performance spaces, exhibitions and events like catwalk shows, cookery classes or make-up tutorials.

   Like shopping centres, department stores are diversifying their offer to provide a range of services, including food and beverage, health and wellbeing and other personal services, in an attempt to drive footfall and extend dwell time. In its new Westgate Oxford store, John Lewis is offering 21 services, including personal styling, beauty treatments and a home design service. A ‘brand experience manager’ will staff its ‘experience desk,’ which the department store has described as a ‘concierge-style’ service to help customers organise their day. The store will have a range of daily events, and the desk will also manage bookings for the rooftop Scandinavian restaurant.

   An important element of experience is discovery. To differentiate themselves from other retailers, department stores have the opportunity to develop a carefully crafted merchandise assortment. It can focus on categories that benefit from a concentrated browsing-and-trial environment that department stores are best suited to (e.g., shoes, handbags, cosmetics or premium food), and to offer exclusive brands, products and deals (e.g., John Lewis has just announced that it will launch U.S. denim brand Madewell in the U.K. in its new Westfield London store). The development and expansion of private label brands, such as Brummell at Printemps and Harrods at Harrods, also add to the uniqueness of the offer.

C) Service:

   Research by CACI in the U.K. reveals that department stores remain integral to retail destinations as they attract wealthy, high-spending shoppers (over a quarter of department store shoppers are in the most affluent Acorn demographic category). A department store shopper spends 28% above the CACI Shopper Dimensions average on a trip, making these consumers key drivers of sales and footfall, so it is important that these stores satisfy their desires and retain their loyalty.

   By focusing on their core customer base and analysing their behaviour data, department stores can develop a deep relationship and understanding of their preferences to anticipate their needs and personalise messaging and offers to address their specific interests. In-store personnel should be highly trained to provide in-depth knowledge and advice on the product range.

   In order to achieve this high standard of service, however, many department store operators need to review and restructure their management and operations to be more collaborative and cross-functional, whilst prioritising digital and technology and marketing functions to ensure that communication and service are focused on the individual and are consistent across all channels.

How is the Sector Reinventing Itself?

Technology is a theme which runs across all three retail trends in the prior section. By integrating the latest technology and innovation, such as virtual/extended reality, artificial intelligence, interactive fitting rooms, smart shelves, beacons, robots and 3D printers, department stores can elevate the consumer experience. They can do so not only by creating a more exciting and stimulating environment, but also by enabling a more effective, efficient and personal service, which, in turn, provides greater

---


6 Acorn, developed by CACI Limited, is a segmentation tool which categorises the U.K.’s population into demographic types. It has been built by analysing significant social factors and population behaviour to provide precise information and in-depth understanding of the different types of people and communities across the U.K. Acorn segments households, postcodes and neighbourhoods into 6 categories, 18 groups and 62 types.

7 Minnett, ‘Department Stores: The Battle for Reinvention.’

8 CACI’s ‘Shopper Dimensions’ database of over 600 000 consumer interviews carried out over 200 U.K. locations provides a comprehensive understanding of shoppers, what motivates them and what drives engagement.

Case Study

Selfridges, London, U.K. (Continued)

The huge investment in both the in-store experience and the company’s digital capabilities is producing results. The retailer posted a record performance in 2016, enjoying strong growth in Selfridges.com and opening the first phases of a new 60 000-square foot accessories hall, making it the largest destination for luxury accessories in the world.

Not content with focusing on the London flagship, Selfridges is investing up to £20 million revamping its Manchester store to coincide with its 20th anniversary. The Trafford Centre masterplan will transform most departments within the store. In particular, an overhaul of its beauty hall, to be completed later this year, will add 50% more space and a range of new services, including Face Gym, which offers non-invasive facial workouts, and on-the-go treatments, as well as a new personal shopping suite, which will launch next season.

Figure 1
The Boxing Gym, Selfridges, London, U.K.

Case Study

WEPUBLIC, Istanbul, Turkey

Boyner’s new department store concept WEPUBLIC opened in Istanbul’s Akmerkez shopping centre in September 2016. The four-storey, 8 000-square-metre (86 111-square-foot) shop offers over 500 brands, 100 of which are new to Turkey, and has been designed to be a ‘retail playground’ quite literally, as a key feature of the store is a 14-metre high spiral chute enabling visitors to slide down the floors.

WEPUBLIC offers a ‘living, dynamic and extraordinary world’ with Petra Coffee, Giano Chocolate and Chado Tea lifestyle areas, an iPad zone, technology and audio book corners and regularly renewed pop-up areas. The store features the largest shoe department in Turkey and a perfume zone that is designed on a British library. The ‘We Create’ personalisation area, positioned right in the middle of the street fashion department, offers customers the chance of adding unique touches to the products they purchase.

Case Study

Browns, London, U.K.

In October 2017, London’s luxury department store Browns opened its first new brick-and-mortar store in 20 years in a former print factory in Shoreditch. Browns East, which is designed to complement the original Browns flagship store on South Molton Street in the West End, is backed by parent group Farfetch’s Store of the Future technology, enhancing the consumer experience through augmented reality. Shoppers can view purchases in different settings, see recommendations and link their digital wish list with the store. An ‘infinite shelf’ feature means every store associate has access to the full Browns product offering.

The two-storey store also serves as the launch point for Browns Nomad project, a semi-permanent, roving retail concept, which offers a reason for customers to keep coming back for new experiences. Browns East launched with 45 brands; however, the products are presented in a gender-fluid space, where the lines between menswear and womenswear no longer exist. Additional features include an ‘Immersive Experience Room,’ which allows visitors to check in for a meditation session; a rotating café; and an art gallery incorporating a curated selection of multimedia artwork by artists including Polly Morgan, Juno Calypso and Lauren Baker.

convenience for consumers. The best department store operators are embracing and investing in the trends outlined above. The following examples highlight some of the most innovative and pioneering strategies that department stores are employing in Europe to ensure that the sector not only survives in today’s retail landscape but also thrives.

Conclusion

In many cases, years of stagnation and underinvestment in both the in-store and digital environment have led to a critical need for department stores to do something radical, strategically and structurally, to remain relevant and avoid being outmanoeuvred by competing formats. As such, the sector across the globe is in the midst of a major business update as it reimagines its offering and approach to meet the needs of the modern consumer.

Fortunately, the priorities of these consumers for convenience, experience and service have always been at the heart of the offer of the department store sector. When combined with the latest technology and digital innovation, department stores can exploit and elevate these trends to their advantage by offering an inspirational in-store experience and a seamless omni-channel journey across brands. At the end of the day, department stores should not forget that their long-term advantage—a large, well-located ‘playing field’—gives them more options than ever.

Sarah Cole is Manager of International Research for the International Council of Shopping Centers. For further information related to this article, she can be reached at: +44 20 7976 3103, or scole@icsc.org.