

Department stores hope to recapture appeal, be destinations

August 11 2016, by Anne D'innocenzio



In this Thursday, March 10, 2016, photo, a man looks at shirts and neckties that are part of a "Buy One Get One for a Penny" sale at a J.C. Penney store. J.C. Penney, Nordstrom, Macy's and Kohl's are reinventing themselves amid stiffer competition from online and discount stores like T.J. Maxx. The changes are the most dramatic in the department stores' storied history. Penney now says it will be less reliant on clothing. (AP Photo/Mark Lennihan)

Department stores trying to recapture their appeal to consumers are

making plans to provide more experiences like spas and restaurants, and offer exclusive selections to transforms the store into more of a destination.

With shoppers increasingly buying online or from niche retailers and discount stores, the onetime pillars of retail are trying to rethink their business to keep up with consumers who want a different experience in stores than they find on their phones. That includes more attentive sales staff, pampering guests with beauty treatments and bringing in new kinds of merchandise.

"It's all about creating the experience in the store," said Saks Fifth Avenue president Marc Metrick. "They'll shop here. They'll eat here. They'll get their hair done here. They'll meet their friends here."

Macy's announced plans Thursday for "re-creating Macy's physical store presence" to adjust to customer tastes. It reported another quarter of falling profits and sales, though it said some moves like sprucing up its fine jewelry area and adding back some sales staff are helping. It also said it'll close 100 stores early next year on top of the 40 it closed this spring.

The company, which is preparing for a new CEO to take over, has also launched its own off-price chain and is testing an artificial intelligence tool that would free up sales assistants to provide higher levels of customer service.

"We operate in a fast-changing world, and our company is moving forward decisively to build further on Macy's heritage as a preferred shopping destination for fashion, quality, value and convenience," said Terry J. Lundgren, chairman and outgoing CEO of Macy's Inc.



In this Thursday, March 10, 2016, photo, a sales clerk arranges towels that are part of a "Buy One Get One for a Penny" sale at a J.C. Penney store, in New York. J.C. Penney, Nordstrom, Macy's and Kohl's are reinventing themselves amid stiffer competition from online and discount stores like T.J. Maxx. The changes are the most dramatic in the department stores' storied history. Penney now says it will be less reliant on clothing. (AP Photo/Mark Lennihan)

Macy's had been a stellar performer after the Great Recession but has seen slower sales growth in the past year and a half. Under Lundgren, the company looked for growth opportunities like buying upscale beauty brand Bluemercury and is adding services like same-day delivery.

The changes come against the backdrop of declining sales and customer traffic.

Kohl's Corp., which saw total second-quarter sales drop 2.1 percent even as cutting expenses helped its profit, is similarly testing off-price stores,

smaller-format stores, investing more in e-commerce and sprucing up its beauty business.

Nordstrom, which reported revenue of \$3.65 billion for the second quarter, meeting Wall Street forecasts, has invested in online services and is trying to differentiate itself by opening a Tesla electric car boutique in one of its own Los Angeles-area stores. And J.C. Penney, set to report Friday, is bringing back major appliances, after abandoning that category 30 years ago, to lessen its dependence on clothing.

Saks Fifth Avenue is renovating its Manhattan flagship location, with a new layout that encourages more browsing and that makes room for expanded beauty offerings such as brow bars. Elements of that renovation will be incorporated across other stores, Metrick said.

Ken Perkins, president of research firm Retail Metrics, says the latest reports are somewhat encouraging, but department stores have far to go.



In this July 10, 2015, file photo, shoppers walk into a Macy's department store at the Hanover Mall in Hanover, Mass. Macy's reports financial results Thursday, Aug. 11, 2016. (AP Photo/Stephan Savoia, File)

"All the problems they're facing are not going away anytime soon," he said.

Sales at department stores have been falling since the early 2000s. Government figures show they hit their peak in January 2001, when monthly sales came to \$19.9 billion. In June of this year, that figure had dropped 34 percent to \$13.2 billion, government data show. And adjusted for inflation, the statistics show sales falling 50 percent—from \$27 billion in January 2001 to \$13.4 billion in June.

Long reliant on clothing sales, department stores have been squeezed as off-price retailers like T.J. Maxx add stores and lure shoppers with discounted designer brands and fast-fashion retailers such as H&M offer trendier items. Shoppers are buying more and more clothing online, and Amazon.com is expected to unseat Macy's next year as the largest online clothing seller.

Overall, shoppers are spending less on apparel and shifting their discretionary dollars elsewhere. U.S. apparel sales have grown only 1 percent annually over the past 15 years, in part due to price deflation, according to Morgan Stanley estimates. Per unit, apparel prices have shrunk 13 percent since 2001 to \$20.22, Morgan Stanley said. For the back-to-school season, children's clothing shipments dropped 13 percent from a year earlier, according to Panjiva, a research firm that analyzes imports.

"The department stores in the beginning were known for big box stores that had the best selection in each of the categories they sold," said C. Britt Beemer, chairman of consumer research firm America's Research Group. "Now, they don't stand for anything."

Productivity has also deteriorated. From 2006 to 2015, sales per square foot at department stores dropped from \$200 to \$165, according to a real estate research firm Green Street Advisors.



In this Nov. 27, 2015, file photo, shoppers push a cart of items as they leave Kohl's in Corpus Christi, Texas. Kohl's reports financial results Thursday, Aug. 11, 2016. (Courtney Sacco/Corpus Christi Caller-Times via AP, File)

More and more, department stores have depended on big discounts to lure shoppers—a move that hurts profits. And now, major luxury brands

like Coach and Michael Kors that were a key attraction are starting to snub department stores as they worry that constant [sales](#) and promotions are diluting the value of their brands. Ralph Lauren also plans to become less-reliant on department stores.

Analysts believe more brands could follow, and that also more stores will close.

Perkins believes it's likely because there is such a saturation of retail square footage. Green Street Advisors released a report this past spring saying department stores need to close about 800 stores to recoup their productivity, about 20 percent of all anchor real estate at U.S. malls.

Metrick, standing Wednesday evening near Saks' new outdoor cafe that overlooks Manhattan's Rockefeller Center, says there is plenty of hope for department stores that make themselves essential.

"Bad department stores are dead," he said. "Great ones ... that's where it's going to be."

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