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Time is running out' for department store recovery: Bain

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In North America, department store sales have declined at a compound annual rate of 6 percent from 2018 to 2023. Image credit: Bain & Company

By ZACH JAMES

While wholesalers throughout North America struggle to find their footing, global consulting firm Bain & Company is outlining a path forward.

Consumer interest in department stores continues to wane: the segment's sales declined at a compound annual rate of 6 percent from 2018 to 2023, surpassing the 5 percent lost from 2012 to 2017. Experts state that all avenues have yet to be exhausted however, sharing that hope still exists for those willing to embrace industry trends as part of a "fresh transformational push."

"Once the cradle of retail innovation, U.S. department stores have entered survival mode," said Aaron Cheris, partner at Bain & Company and co-author of the report, in a statement.

"Despite the odds stacked against them, many retailers have defied early predictions of their demise," Mr. Cheris said. "They are in a moment of reckoning, and while the current environment is challenging, there is a ripe opportunity for these retailers to innovate, rethink, and reset to meet the needs of today's consumers.

"Winning retailers will use this moment in time to refocus on the customer value proposition and take advantage of the consumer insights at their disposal."

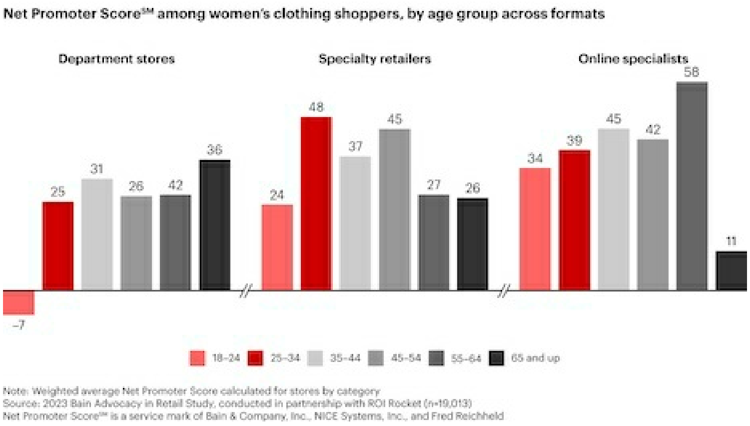
The "U.S. Department Stores: It's Time for a New Day One" white paper was published by Bain & Company in collaboration with Denver-based market research firm ROI Rocket. In the report, the duo draws upon internal figures, sales performances from department stores' earnings reports and Net Promoter Score (NPS) surveys a metric of consumer loyalty ranging from -100 to +100, with a higher figure representing a better average public opinion.

Downward trends

Bain's survey data shows that consumer interest in multibrand stores is falling off.

Consumers' shift away from bricks-and-mortar chains, it outlines, has impacted the segment's total sales and exacerbated cash flow constrictions in recent years.

As a result, Bain shares that from legacy players such as Macy's to newer entrants, including Nordstrom (see story), monetary constraints on retail businesses are growing tighter.



Nearly every age group surveyed granted higher NPS points to digital options. Image credit: Bain & Company

Consumers in 2024 have negative opinions of department stores, with the sentiment worsening over time. Despite industrywide slowdowns predating the COVID-19 pandemic, the women's clothing boutique market had four wholesalers rank in the top 10 in the NPS rankings in 2018; the number had declined to one in 2023, with the storefront landing in eighth place.

In the women's clothing category, shoppers aged 18 to 24 presented department stores with an NPS of -7, showcasing the group's opposition to visiting what used to be retail hotspots. The demographic had more favorable opinions of specialty shops and online purveyors, with NPS point totals of 24 and 34, respectively.

Older audiences have a heightened preference for women's fashion retailers; those aged 65 or above responded with a positive NPS result of 36. Bain & Company states that if the industry wants to recover, it needs to think big-picture with younger shoppers in mind, paving a path toward long-term brand loyalty.

American high-end retailers Macy's and Neiman Marcus have tried various small-scale reinventions that proved somewhat successful, namely the former's management of Bluemercury beauty specialty stores and the latter's abandoned luxury boutique concept Cusp.

If department stores want to buck the trend of declining figures, especially in the high-end space (see story), the firm has a few pointers companies could take into consideration.

Retail rising

The report's authors position that in order to draw shoppers back, wholesalers need unique, modern and appealing customer value propositions.

Moving up the value chain is imperative for boutiques wanting to succeed in today's digital-first market. Image credit: Saks

According to a 2023 survey, apparel, beauty and homeware department stores rank in the middle of the pack among all storefronts in their respective assortments of items available, value provided and overall shopping experience.

Easing current financial restraints is key to injecting life back into these large-scale retail businesses, with the firm pointing to consolidation, such as the recent acquisition of Neiman Marcus and Bergdorf Goodman by Saks parent organization Hudson's Bay Company (see story) and the use of emerging "profit pools," including consumer data monetization, retail media networks and generative AI, as potential ways to lessen monetary loads.

Nearly a quarter of NPS survey-takers cited "assortment-related concerns" as the key reason behind their low scores. Bain & Company suggests making their stock the star of the show by reducing product type overlap, moving away from only selling items from brands that offer attractive revenue splits and giving upstart labels a shot on the shelf.

Improving customer experiences hinges on personalized and high-quality service across the board. Adding on community activities, such as fitness classes and fashion showcases, is also encouraged to garner further engagement with local talents, brands and customers.

Enhancing department stores' value comes down to simplifying markdowns, coupons and loyalty deals, as many remaining big box retailers cater to "coupon clippers" in search of a deal, alienating mainstream consumers in search of a fair price.

Simple, personalized and modern storefronts are predicted to have the most consumer appeal. Image courtesy of Neiman Marcus Group

Reversing fortunes will be labor and cash-intensive, but big swings are required to win back clientele that have moved on to specialty options and digital retailers in the past several years, but it can be done.

Recent findings from global retail foot traffic analytics platform Placer.ai showed that malls are regaining a foothold following a prolonged downturn during the pandemic (see story).