

RETAIL

Omnichannel can help alleviate pressure on luxury department stores: L2

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Nordstrom is one department store that has been keeping afloat. Image credit: Nordstrom

By DANNY PARISI

Department stores are in a tough spot, continuing to struggle with attracting new customers in a world that is heavily slanted toward ecommerce.

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This is particularly true for high-end department stores that are facing issues with underperformance in implementing in-store digital tools and competition from online and direct-to-consumer sales from brands. This data comes from L2's Department Stores 2017 Report, which also ranked Macy's the number one department store in terms of innovation, edging out last year's number one Nordstrom.

"Luxury department stores face significant headwinds from pure-play retailers with digital sophistication like Farfetch and Net-A-Porter who continue to innovate what it means to provide a personalized, integrated experience across channels," said Dan Yelin, retail research lead at **L2**, New York.

"In addition, many of the brands that sell into luxury department stores are getting increasingly sophisticated with their direct to consumer offerings, so they're being squeezed from both sides," he said.

"Overall, luxury department stores continue to underperform their mass-market peers in implementing advanced customer service features on-site, and these retailers should be concerned."

Department store crisis

Since 1999, annual department store revenue has decreased by \$75 billion.

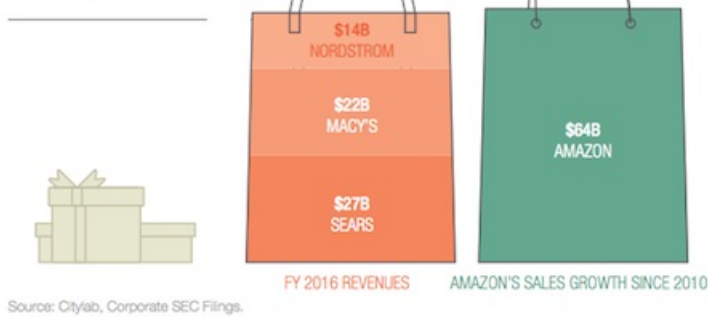
This decline can be attributed to a number of factors, but one of the biggest is the rising competition from online retailers, most notably Amazon.

In the past decade, Amazon has become an absolute juggernaut in the retail world, dominating many industries with its massive catalogue and far reach.

Department stores have struggled to compete with Amazon and other online options. One way online retailers have been winning so much is through the use of discounts.

FY 2016 Department Store Revenues vs. Amazon's North American Sales Growth Since 2010

2010–2016



Amazon has outpaced most physical retail. Image credit: L2

Fifty-two percent of online orders of apparel were sold at a discount last year, which is up by almost 20 percent from 2015.

Luxury stores do not have that tool mainly, as price is a major factor in the appeal of luxury goods.

L2 notes that omnichannel can be a saving grace in this competition, an area where luxury department stores have historically fallen behind their mass-market counterparts.

"Mastering omnichannel is essential to this task, combined with a really compelling in-store experience," L2's Mr. Yelin said.

"Fewer than a quarter of luxury department store brands let customers see an item's availability in-store—a huge missed opportunity, especially when targeting a consumer who highly values their time," he said. "Assortment, cross-selling and accurate product information are also crucial."

Omnipresent solutions

Luxury department stores are in a dire situation. In addition to their competition with Amazon, those retailers are facing dwindling interest from profitable young customers.

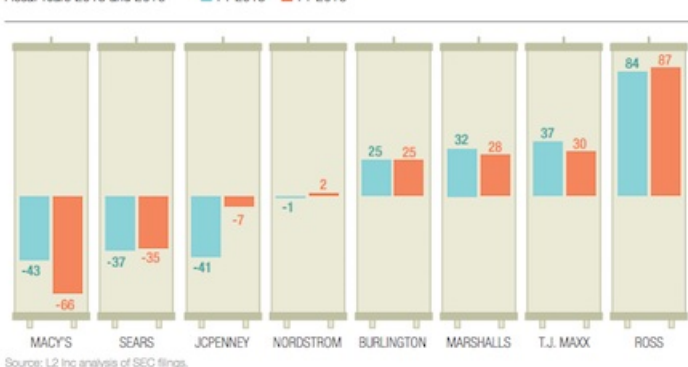
Research is showing that Gen Z and millennials are uninterested in shopping at luxury department stores, a trend that will become increasingly problematic for high-end retailers as the demographic ages.

Crowdsourcing savings platform Dealspotr released a survey on generations and their shopping habits, which showed luxury department stores becoming increasingly unpopular amongst all age groups. However, Nordstrom remains a strong retailer with Generation X- and baby boomer-aged consumer ([see story](#)).

But omnichannel can help alleviate some of this pressure and bring back some of department stores' lost customers.

Department Stores: Change in Number of Retail Locations

Fiscal Years 2015 and 2016



Change in number of retail locations. Image credit: L2

Department stores such as Nordstrom are seeing the most success by leveraging an omnichannel strategy but digital retailers such as Amazon and Asos are giving mass merchants a run for their money by offering greater capability.

Retailers need to be sure the digital products they are advertising live up to the experience in real life or risk losing customers to younger companies that do it better ([see story](#)).

"Luxury retailers will continue to face competitive pressure from all angles, and must cultivate customer loyalty by providing personalized and seamless digital experiences across platforms," L2's Mr. Yelin said. "A consumer's definition of luxury is also increasingly changing.

"Exclusive designers, exclusive partnerships and exclusive access to items will be more important than ever," he said. "This needs to be combined with a customer-centric service strategy, both in-store and online."

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