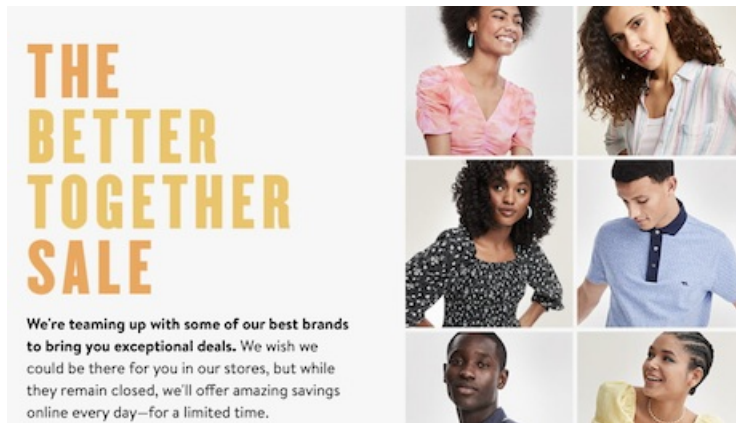


RETAIL

US department stores, in survival mode, offer deep discounts to boost online sales

April 16, 2020



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Nordstrom online sale. Image credit: Nordstrom

By DIANNA DILWORTH

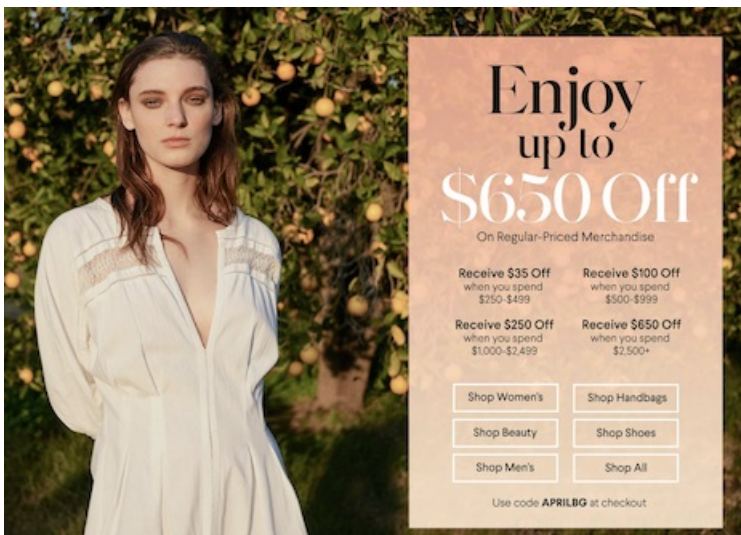
U.S. department store chains are hungry for revenue, offering consumers tantalizing online discounts to keep the lights on in an extremely dark period as government-mandated COVID-19 lockdowns threaten the stability of an already perilous business model.

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Retail sales in the United States suffered massive drops in March and output at factories dropped to 1946 levels. With bricks-and-mortar closures set to continue this month, department stores around the country are offering major discounts to shoppers online to make up for the loss from the dominant retail channel.

"Department stores need money," said Kellan Terry, senior manager of communications at **Brandwatch**, New York. "This pandemic is closing brick-and-mortar locations and keeping consumers home. As a result, sales are falling off a cliff. These heavy discounts are an attempt at generating revenue.

"The discounting will directly affect profit margins, if there are any profits to be had at all," he said. "Industries are focused on surviving this pandemic, and the idea of business as usual isn't a reality at this time."



Bergdorf Goodman online sale. Image credit: Bergdorf Goodman

Deep discounts

Upscale retailers are relying on email and site visitors to promote massive sales in hopes of generating some revenues during these difficult times.

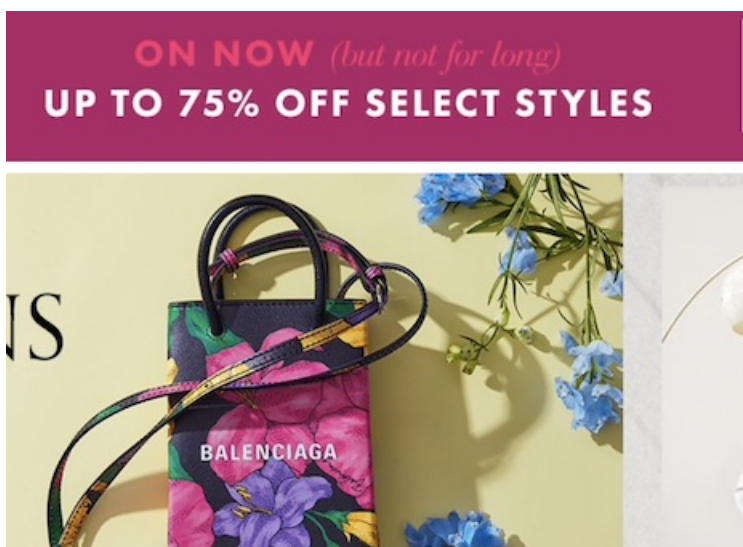
Saks Fifth Avenue is offering up to 75 percent off on apparel and shoes.

Neiman Marcus is giving shoppers up to 40 percent off of men's and women's apparel.

Nordstrom is running The Better together sale, offering up to 40 percent off with the tagline "Small Screen, Big Style."

Bloomingdale's is offering \$25 off of every \$100 spent and a \$25 gift card for loyalty members who spend \$100, as well as discounts on jewelry.

Bergdorf Goodman is offering up to \$650 off of \$2,500 in sales.



Saks online sale. Image credit: Saks Fifth Avenue

"The current pandemic has caused a sudden disruption of incoming revenue and foot traffic, at a time when buyer orders from last year are coming in and being fulfilled, assuming supply chain hasn't disrupted," said Brian Lee, managing vice president at **Gartner**, Washington.

"Foot traffic to physical store locations is down as consumers respond to various stay-at-home orders," he said. "Discounting could help boost traffic to a brand's digital storefront as their physical locations remain shuttered."

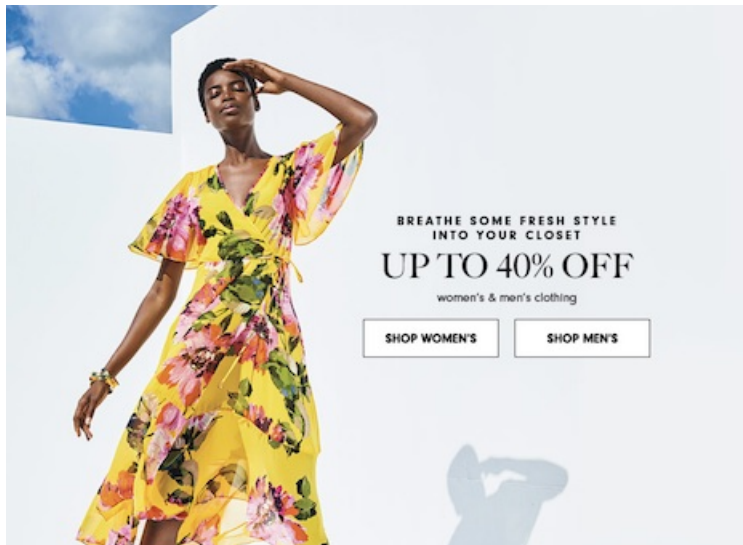
Interestingly, European department stores are not doing much discounting.

France's Le Bon Marche's online store is offering 15 percent off of orders over \$200.

French department store Galeries Lafayette and U.K. department stores Selfridges, Harrods and Harvey Nichols, as well as online retailer Net-A-Porter are not currently promoting any promotions.

Canadian department store chain Holt Renfrew and Hong Kong's Lane Crawford are also not promoting sales on

their Web sites.



Neiman Marcus online sale. Image credit: Neiman Marcus

Pros and cons

The upside of offering these deep discounts is ensuring short-term survival.

"The benefit of offering steep discounts is the possible increase of transactions and cash flow," Mr. Terry said. "Again, businesses are in survival mode - much like human beings - and sacrifices are being made in an attempt to weather this crisis."

If retailers can build cash flow to stay afloat and emerge from this pandemic and recession without going through bankruptcy, they are better poised to survive the discount erosion. After all, they have been here before with the 2008-09 recession.

Additionally, these sales offer a way to prevent stagnant inventory.

"Discounting could help increase inventory turnover rates," Mr. Lee said. "Right now, there's likely a great deal of inventory stuck in warehouses or in physical retail locations that are not moving. This is particularly important for luxury department store brands, and apparel retailers in general, where seasonality of product has to be kept current."

Still, historically, luxury brands have taken issue with discounting. It has become a point of contention in brand-retailer relationships.

"When customers come to you on price, they're willing to leave you on price, too," Mr. Lee said. "We've seen accessible-luxury brands steadily shift away from discounting over the past few years in an attempt to restore brand cachet, and this discounting may cause some brands to rethink their wholesale relationships post-pandemic.

"Department stores doing this outside of their normal sales periods not only reduces their bottom line for short-term gains, but runs the risk of longer-term brand damage," he said.



Bloomingdale's private sale. Image credit: Bloomingdale's

Post-pandemic outlook

It is much too early to imagine what the new normal will look like for retail after the pandemic passes.

"Certain doctors are saying that people should never shake hands ever again," Mr. Terry said. "As far as retailers are concerned, this may condition consumers to avoid crowded stores."

Online sales may become a larger source of revenue, that is if the department stores can survive the fallout.

Discounting could be an early signal of bigger liquidation strategies that luxury department store brands have planned.

For example, Neiman Marcus issued a halt-operations order effective March 18 and is said to have started mulling Chapter 11 bankruptcy proceedings on March 24.

"Discounting for them could be the start of a big going-out-of-business sale and everything must go," Mr. Lee said.

It is likely that several major department stores will close as a result of the crisis.

"The ones that do survive will probably rethink their store footprint, closing down stores that are underperforming or rethinking the role of the store entirely," said Evan Mack, senior research specialist for retail at Gartner for Marketers, New York.

"Digital operations, and the digital experience that support them, will become core components of whatever reset strategy these brands deploy as the spread of COVID-19 wanes," he said.

"Outside of marketing, supply chains will probably have to be reassessed after this to be more resilient and agile in times of boom and bust," he said.

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