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Can luxury brands thrive without department store wholesale support?

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Exterior of The Shops & Restaurants at New York's Hudson Yards. Image courtesy of Related Companies

By DIANNA DILWORTH

Department store chains are facing hurdles like never before with the COVID-19-induced lockdowns.

Not surprisingly, luxury brands that use these bricks-and-mortar stores to showcase their products maybe rethinking their approach to selling and marketing through the wholesale channel.

"They will have more focus on their DTC brands," said Sucharita Kodali, vice president and principal analyst at Forrester Research, Charlotte, NC. "Many of the most powerful ones have been less dependent on department stores anyway. Louis Vuitton always had shops-in-shops anyway.

"There will likely be some department stores that survive, but they will just be much smaller," she said. "You'll have another reincarnation of a store like Barneys or even Scoop, no doubt in the future."

The future of the department store is a discussion particular to the United States, exacerbated by the stringent COVID-19 retail lockdowns nationwide that threaten already fragile business models and finances. Key players in the high-end segment include Neiman Marcus, Saks Fifth Avenue, Nordstrom and Bloomingdale's.

Bloomingdale's flagship department store in New York. Image credit: Bloomingdale's

DTC will reign

Retail sales in the United States suffered massive drops in March and output at factories dropped to 1946 levels. With store closures continuing for the near future, luxury brands are looking to plot their course in new ways than they have before.

Neiman Marcus, Bergdorf Goodman, Nordstrom and Bloomingdale's have been relying on deep discounting via ecommerce to grasp for revenues, but these efforts may not be enough.

Reports are already circulating that Neiman Marcus is contemplating imminent bankruptcy filing and it is only a matter of time before others are added to the growing list of retailers considering their survival options.

In these trying times, luxury brands are pushing their digital presence to increase sales from their own Web sites.

"There isn't much option but direct-to-consumer," Ms. Kodali said. "Take a brand like Brian Atwood. It was launched in department stores. What happens to designers like that in the future?

"They have to pursue other distribution channels and likely rely on direct to consumer sales," she said. "They will be dependent on social channels like Instagram and YouTube videos."

Not merely window dressing: Saks Fifth Avenue in New York is the crown jewel in Hudson's Bay Company's portfolio. Image credit: Saks Fifth Avenue

Online luxury department stores such as Farfetch and Net-A-Porter may also be more influential in the future, as brands seek alternatives to struggling bricks-and-mortar department stores.

"There will be some of the online luxury aggregators like Farfetch and Net-A-Porter that should gain some share," Ms. Kodali said. "Some of the most desperate brands that didn't find their footing will sell on Amazon.

"But that will become a signal for what is a dying brand," she said. "Sell on Amazon and that means the company isn't doing well enough to be able to avoid Amazon. Luxury is sort of like this expression: you don't want to be part of any club that will have you as a member."

Nordstrom flagship department store in Seattle. Image credit: Nordstrom

Legacy will last

Strong brands with a name and heritage will be able to survive the demise of the department store. Long-time denizens of luxury such as Louis Vuitton, Chanel, Rolex, Herms and Gucci are not going anywhere.

Most of them are more than 100 years old and have weathered economic recessions, depressions and even world wars and have come back the stronger for it.

"It would take complete mismanagement of their CEOs for those brands to go away," Ms. Kodali said. "Those brands are so steady, they are almost investment grade bonds.

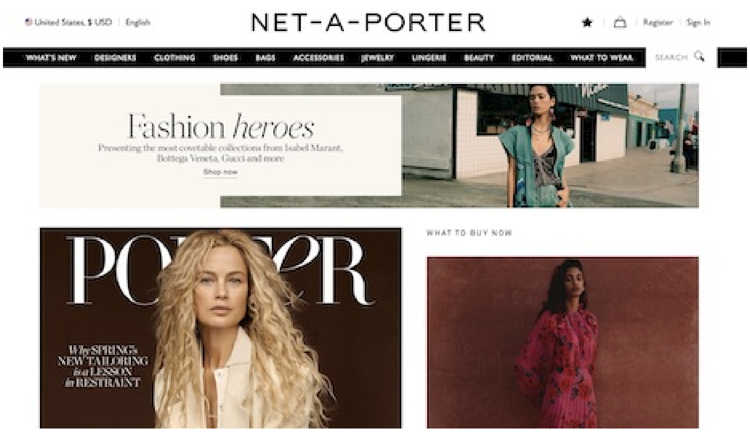
"But then every year there are new upstarts hoping to be the next big high-end brand," she said.

"They will come and go. I struggle to think of a really high-end brand that is relatively new. Maybe Christian Louboutin? But the revolving door of hot high-end brands doesn't stop people from buying whatever is the hot trend in a given year."

The smaller, emerging luxury brands will likely face challenges without having department stores to help curate and showcase their products.

"They will be much, much more challenged to get introduced to customers," Ms. Kodali said. "I just don't know what their distribution model becomes in the future. I suppose they will rely on social and word of mouth.

"Maybe a company like Neighborhood Goods becomes stronger over time," she said. "Nordstrom will likely stay. If Neiman's goes out of business, maybe a few of the Nordstrom stores become extremely high-end to absorb that void."



Net-A-Porter offers luxury brands an alternative option to department stores to showcase new products. Image credit: Net-A-Porter

Evolving outlook

Social networks such as Instagram, Pinterest and YouTube will continue to be important to luxury brands looking to connect with consumers with few department store options.

Influencers on these networks will continue to exert their influence and offer luxury brands a stage to showcase products.

Trunk shows will likely make a comeback. The high-end Tupperware parties will serve as a way for brands to stimulate word-of-mouth marketing among influencers.

High-end magazines will also likely still resonate among affluent readers looking for style curation.

Travel, which has historically been a way to acquire even traditional luxury brands, will no longer be as beneficial to luxury brands if consumers are not as mobile cross-border as they were prior to the pandemic. Travel retail may take a direct hit.

"A focus on direct-to-consumer will need to take its place," Ms. Kodali said.