

COMMERCE

Are direct-owned branded luxury shops crowding out department stores?

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By RACHEL LAMB

Luxury distribution has undergone a significant shift in that direct-owned stores have outshined department stores by more than 50 percent in year-over-year growth, leading experts to wonder whether or not premium brands would actually do better on their own.

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Direct-owned luxury stores have seen an increase of 14 percent, more than doubling department store sales, according to a study by Bain & Co. However, luxury brands may not have the muscle to make it on other channels, such as ecommerce, where they are still struggling.

“The recession had a huge impact on luxury retail strategy,” said Courtney Albert, consultant on marketing and branding for **Parker Avery**, Atlanta. “Across the board, high-end department stores launched very aggressive promotions and markdowns in an attempt to increase revenue.

“However, this practice created a more incentive-driven consumer,” she said. “This new expectation was not seen greeted positively in the eyes of luxury brands that perceive sales and price reductions of their goods as a crack in their image.

“Additionally, more and more department stores are repositioning themselves not only to

serve a wider array of customers, but expanding their presence in the outlet shopping and discount retail realm. This means that exclusive luxury items are being sold alongside mid-to-lower-tier goods.”

Pillar of strength

The overall luxury market saw a 10 percent increase from last year at this time, according to Bain's study.

Retail saw a 14 percent growth year over year, where wholesale saw an increase of 9 percent.

In fact, directly-owned retail stores gained 1 percent in total luxury sales since last year, from 27 percent to 28 percent.

Luxury brands have been opening stores at a steady rate.

There were approximately 500 new store openings in 2010, mainly in the United States and Asia.

For example, British brand Burberry celebrated the opening of its newest and most technologically-advanced flagship store in Beijing with a multifaceted event that combined animation, live models and music at Beijing Television Centre in April ([see story](#)).

Also, Mulberry opened its largest and third retail location in New York in September and now offers its entire collection in-store in the U.S. for the first time ([see story](#)).



The Mulberry flagship store in New York

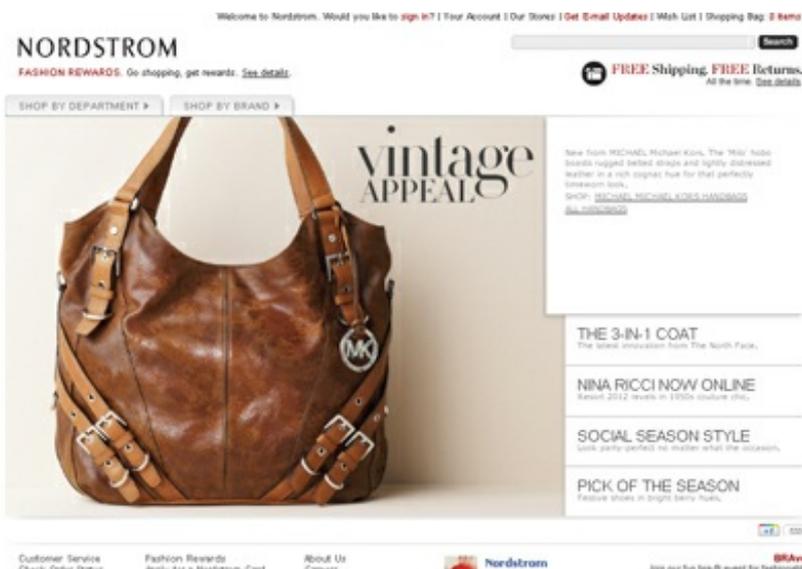
In addition to the added store presence, retail saw a strong organic performance of existing stores, according to Bain.

The one medium where luxury brands are struggling is ecommerce. Beside this, luxury retailers are thriving.

Social media and digital marketing initiatives are also helping to improve customer experience and positively affect online sales of luxury goods. Luckily, most luxury brands have a strong social media presence.

However, multi-brand sites are especially very powerful in increasing loyalty in terms of

convenience, strong editorial content and excellent service levels, per the study.



Nordstrom's site offers free shipping and is the pinnacle of customer service

"The most successful luxury brands have developed a hybrid approach to retailing," Ms. Albert said.

"This involves looking at the scope of the entire brand portfolio and deciding which categories will be sold at department stores such as aspirational items – [such as] perfumes, beauty, handbags and accessories and even shoes – while maintaining a closer grip on clothing and limited-edition items carried in their own boutiques, online sites or select upscale retailers," she said.

Room for improvement

Despite this resurgence in independently-owned stores, luxury-focused department stores are still holding a majority market share.

"For brands that are not yet well-established, the benefit that they get from affiliation with the name, distribution channels and marketing capabilities of a department store are invaluable and make it less appealing to go at it alone," said Rachel Lewis, Fort Worth, TX-based senior strategist at iProspect.

"For more established brands with diverse product lines and a broad clientele, there may be momentum enough to stand alone, but they will still benefit from department stores' financial and marketing resources," she said. "Severing those ties could create a new set of marketing and logistical challenges that negatively impact a brands ability to succeed."

Retailers such as Bergdorf Goodman, Saks Fifth Avenue, Harrods, Nordstrom, Neiman Marcus, Bloomingdale's and Barneys New York have all seen growth in revenue over the past year.

Even luxury brands that have their own independent stores use department stores as another touch point in which to engage with consumers.

Additionally, luxury retailers such as Chanel, Prada, Gucci, Ralph Lauren, Giorgio Armani and Marc Jacobs have their own alcoves and boutiques inside of luxury department

stores, creating a private environment for brand loyalists but still reachable to other consumers.



Chanel's boutique in Bergdorf Goodman

On the other hand, some luxury brands are not available in department stores.

For example, LVMH darling Louis Vuitton cannot be found in most department stores, except Saks and Nordstrom. Nor can Hermes – except for the aforementioned branded boutique.

Furthermore, even though luxury brands might give input on how they want their products to be displayed and sold, they do not always make the ultimate decision on floor space and how visual representations are maintained, according to Parker Avery's Ms. Albert.

"Department stores go to great lengths to maintain standards within their own stores, but unfortunately this does not always align with individual brand standards," Ms. Albert said.

Other problems also include department store sales associates not being as trained in brand or product history as mono-branded boutiques, and independent brands not having access to customer databases and information.

Directly-owned luxury boutiques may be doing better right now in terms of growth, but it is implausible to think that a spurt in independent retailers will put department stores off the map.

"Intrinsically, brands and department stores can't survive without one another," iProspect's Ms. Lewis said. "Luxury brands forgo the marketing resources, distribution capabilities and reach of department stores should they elect to go it alone.

"Department stores add value by introducing brands to consumers and help those brands establish the clientele they rely on for traffic to standalone stores," she said.

Final Take

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