



Department-Store Decline: It's *Not* The Economy

For all the lamenting that retailers have done about slowed consumer spending, a new study reveals that consumers have been shunning mainstream department stores not because of prices, but because these stores are increasingly out of touch with what shoppers want.

Only 6% of consumers did most of their shopping in stores like Macy's, JC Penney or Dillard's this year, compared to 15% in 2000. And the tens of millions of ad dollars spent trying to hype Black Friday, and get shoppers to spend earlier in the season? The "Ninth Annual National Shopping Behavior Study" finds that it had practically no impact.

"The problem is that these stores have relied too heavily on the things shoppers care least about, like coupons, loyalty programs, delayed payments and contests," says John Rittenhouse, chairman of Cavallino Capital, which sponsored the study. "And they've neglected the basic rules--the things consumers say always matter, like having the merchandise they expect in stock, having helpful people staffing the store, and a customer-friendly return policy."

As a result, shoppers avoided stores: Only 51% visited any department store this holiday shopping season, compared to 57% last year, 60% in 2006 and 63% in 2005.

In this climate, Rittenhouse says, consumers are more interested in finding fair everyday prices. That means that many of the gimmicks department stores routinely rely on, including "hi-lo" pricing--when an item is artificially marked up so that it appears to be selling at a greater discount--and the kind of extensive discounting many retailers used this season, have backfired. "The markdown cadence was so intense this season, it makes people feel as if they may have been cheated in the past," he says.

Another interesting finding is that despite the intense efforts of stores to lure customers into shopping early, spending heavily on both marketing and deep discounts on Black Friday traffic builders is a waste of time. "In fact, we've found that people are *less* likely to be stimulated early, and there's been a lot more business between Christmas and New Year's," Rittenhouse says.

The study also found that as the department store channel has lost share overall, it has lost more ground among the affluent shoppers it needs most. "The kind of customers they do attract with things like coupons, layaways and delayed payments are the most unprofitable customers. Department stores have a large, expensive real-estate footprint, and they've got a lot of overhead--their gross margins have to be stronger than other stores." Instead, the study finds that upscale consumers are increasingly likely to shop from catalogs or the Internet.

And, yes, the weak economy did put a considerable dent in spending, with 55% of respondents saying they spent less than they did last year, and only 18% saying they increased the amount they spent on the holiday. And it has also affected motivation: For the first time in nine years, respondents named price as the No. 1 reason for switching stores, not selection.

But Rittenhouse doesn't believe the department store model is broken. "Instead of panicking, overreacting and spending so much money trying to change the timing of when people shop, retailers just need to focus on the basics. As long as stores have merchandise that is differentiated and it's what people want, and if they can drive people to their stores, they will be successful."