

Department Stores Fail to Make the Grade

Tuesday December 30, 2008

For the sixth year, department stores are seeing a downward trend in sales this year, and not just because of the tough economic times. According to a recent survey, shoppers are turning away from department stores because of dissatisfaction in merchandise selection, fair everyday pricing, easy return policies and helpful employees.

The survey called The National Shopping Behavior Study measures shoppers' actual purchases, not intent to shop. This year's study was conducted nationwide through random telephone interviews with 815 shoppers between December 6 and December 15.

Shoppers answered carefully crafted questions that showed how the current economic environment has affected what motivated them to shop, where they shopped and what mattered to them most when making a purchase.

All store data was collected by specific store name, catalog or website. One key finding is that department stores' share of consumer spending continues to deteriorate.

For example, nearly 25 percent of those surveyed reported that they visited Macy's less in 2008 than 2007, while only seven percent visited the store more. And while the conventional wisdom is that consumers had less to spend this holiday season, the actual story is that department stores' way of doing business also has less appeal to consumers.

"It appears that it is not the department store business model that's broken, it's the current execution," said John Rittenhouse, chairman of Cavallino Capital, sponsor of the study. "The issues are directly related to management not following customers' 'rules.' Shopping at stores that carry overpriced branded merchandise, use hi-lo pricing, coupons and loyalty programs have limited appeal according to consumers interviewed in the study."

When analyzing where shoppers' spent the most money during the past six holiday shopping seasons, department stores' share declined from 11 percent to six percent. And even more distressing for department stores, their appeal to the more affluent customers is also on the decline. These customers are moving their shopping to catalogs and the Internet to find the selection they want.

Other key findings from the study include:

- Nearly 20 percent of shoppers spent more than a year ago, while 54 percent reported spending less.
- For the first time in the nine-year history of the study, price over selection was the reason for why customers changed the store where they made purchases.
- For the first time in many years, Walmart was more effective in attracting new customers than Target.
- 54 percent gave more practical gifts.
- 30 percent relied more on cash as gifts.
- 54 percent shopped closer to home.
- Economic conditions and retailer advertising had little effect on when during the holiday season shoppers shopped.

The findings of the National Shopping Behavior Study apply not just to the Holiday shopping season and the current economic conditions.

Selection and Fair Pricing Wins Customers

"Over the nine-year history of the study, shoppers' rules for shopping at one store over another have been constant," said Rittenhouse. "These findings are consistent with data from the Back-to-School Study conducted in 2004 and The Goldman Group 2008 Retail Trend Tracker studies."

Rittenhouse went on to say, "Selection of merchandise the consumer wants is the main driver of purchasing. When the economy turns around, those retailers that offer products shoppers want to buy at fair, everyday prices will have sustained, profitable growth. However, those retailers that rely on gimmicks such as contests, meaningless loyalty programs and hi-lo pricing will see their market share continue to erode."

Back to Basics

You would think that department stores would have mastered the basics of offering to their shoppers a great selection at the best prices, but apparently they need to reassess where they are focusing their energies. Spending more money in training employees, bringing in the right merchandise at a price the average shopper can afford and rewarding their loyal customers with additional savings and services may be their only road to survival.