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THE FUTURE OF DEPARTMENT STORES : A GLOBAL VIEW

How can one define a Department store ? This question may seem ludicrous. A department store is a store built around departments! However the idea is not to define, describe or draw the spotlight on its mechanisms, even if the subject is mainly restricted to those department stores which, in their towns, have attained iconic caliber. It ponders over the value embedded in the elements of a department store, as well as in the subsets which the latter make up and in the global set which is its envelope, in order to shed the most universal light possible on the evolution prospects of the type. The see the situations and countries which are of interest to anybody requires a local transposition, but the objectives of this paper are to be as global as possible.

What does delineate the global value of an existing and familiar department store ? Can it be defined by the sum of the values of its parts or does it exceed these ? How can one stimulate or optimise those values ? How can one manage the complexity in the optimization process deriving from the heterogeneity in « fluidity » of the partial values belonging to the various value types contained in those very elements ? What links bind the measurable values of the elements and the engaged resources that underlie them ? The economic model of the department store has changed tremendously. It was in the past closely linked to a social and economic model, to the extent that an American university work was entitled « Le Bon Marché: Bourgeois Culture and the Department Store » (Miller, Princeton University Press, 1981). These models opened up under the pressure of competition, technology, sociology, demographics, habitat, and of the state of wealth. The department stores experienced periods of prosperity and stability followed by periods of transformation, as common in the life of many phenomena. It seems they are again in a period of knots and tangles. Certain American specialists claim it is possible that within 10 years department stores may have all but disappeared from the map, although obviously they evoke their world, and the fate that awaits Neiman Marcus or Nordstrom which have a « wealthy » positioning may perhaps not be the same as that of JC Penny whose positioning is more « mass ». Is this situation mirrored in

Europe ? What are the prospects for reorganization, wake-ups, survival, and, why not, development ?

A department store is a complex system, which lends itself perfectly to what is termed today systems analysis. Its subsets are easy to decipher. One can list its customers and its staff ; its walls and its location ; its economic situation and its history ; the values deriving from its name and from its stocks of merchandise ; its image and its shareholders ; its bankers and its suppliers; the community to which it belongs and all the directly and indirectly involved stakeholders. Each of these subsets is naturally endowed with a value, which is reflected in that of the whole, but these values do not belong to the same dimension, as is said in physics. There are men and money, stone and immateriality... In its globality, it is the heritage of its owners, but also of the city which welcomes it and of those who share an emotional mark with it, which makes it a highly involved urban player since it has even, in a way, acquired a genuine existence, as that of the « dear old thing » which a grand flagship is considered to be. The diversity of its dimensions and the abundance of the interactions contribute to the complexity of the system. The values embedded in the various types of its elements are objectively constantly evolving, whereas their level is not certain at any given time, and striving to specify them is often disruptive and has an impact on the value of the whole. As is the case for all firms, it is therefore a tough task to undertake a global assessment and optimise its value, yet for a department store, as for all retailing, there is moreover this obsessive fixation : location, location, location.

When one visits those « historical » department stores throughout the world, one is struck by their similarities, but also by their differences. It is therefore interesting to observe how they have evolved and what stage they have reached. As often, the USA shows prospects that Europe cannot ignore, yet Europe displays an entanglement of elements whose complexity is much greater. As far as the European department stores are concerned, the question is whether we are heading towards a simplification of this entanglement, that is to say towards a massive projection of all values on the financial dimension type, a dimension that is perceived culturally by many Europeans as being too simplistic, and socially hard to tolerate, since it is too prejudicial for some of the stakeholders, mainly the city and the workers, or can one « invent » an evolution of the model leading to a different optimum, either through a game of different external constraints, representing in a manner an encompassing zone of European-style economic policy, or through a different consensus on

the balances the economic players involved must observe in order to reach and maintain a sufficient level of efficiency to ensure their common prosperity ?

Naturally, we are all acquainted with the fact that Aristide Boucicaut « invented » the large-scale store divided up into departments and that 19th century France thus created a model by building those cathedrals of trade as the French social writer Emile Zola then coined them. However, in the years that directly followed, they developed massively in the United States and though they treaded down the same path, their incorporation into towns was different since the relationship that binds Americans to their cities was different from what generally prevails in Europe. The first thing that strikes one is that the American pioneers christened their creations with their names. Joseph Hudson, Rowland Macy, George Dayton, Joseph Bloomingdale, David May, Marshall Field, or William Filene were all actual people, and though there also were counterexamples, those were not the rule. A store such as Zion in Salt Lake City was named so because the Mormons did not want to depend on non-Mormons, and is in a way a collective exception ; moreover Le Bon Marché in Seattle owes its name to a European immigrant who had gone through Paris. Of course, one must not forget that the English gave their names to their department stores just as they did in America, but in continental Europe more often than not department stores were given the names of their neighborhood, names relating to their targeted customers, or symbolic names that conveyed positive values, thus giving the founders the opportunity to demonstrate that, by withdrawing behind their store, they believed their child should follow its own destiny. The will to build more beautiful and bigger in the city was shared in all countries, under the pressure of competition and to proclaim the praise of the founders. Therefore, the architecture, which was innovative in its technique and splendor, and the structuring impact of the department stores on the evolving cities, established themselves universally in the eyes of observers, in Paris, London or Philadelphia. Department stores thus became the rallying spot of the social day life. However, in order to debate its future, the American mystic has well and truly remained the patrimonial value to the shareholders, while for many Europeans, it is the mystic of the value to the city that prevails, and for the Japanese it is the respect of the entanglement of relationships. The degrees of freedom in the management of this heritage therefore differ.

The first stages of the evolution were similar in the United States and in Europe, even if these were not simultaneous for reasons of the « state » of society and its environment. As early as the mid-50s, the rise of mass urban consumption, the advent of cars for all and the suburban developments led to the appearance of the first regional shopping centers structured around department store, and to the theorizations and experimentations of the great urban planning architects such as Victor Gruen. Unlike department stores, these shopping centers were often given geographic names which testified to their actual existence independently from the stores: Northland, Eastland... one catered commercially speaking to specific areas, levels of wealth and isochrones. Then the saturation and the evolution of the lifestyles and values created an opportunity for new forms of competition to emerge. In the face of the « category killers » and the « sharks », the images often became blurred. The department stores, whose fixed costs were too high and whose physical inflexibility was too great, have everywhere begun to withdraw from suburban shopping centers. Their model of growth being in disarray, they have been experiencing a permanent crisis for quite a while, at least 30 years in the case of the United States. The decline has been temporarily curbed by a succession of redeployments of the partial values of the elements of the system : purchases, logistics, services... but also by a fundamental effort on the appeal of the store and on market segmentation, on strategy and positioning, on the lack of flexibility and the flows. This work was undertaken thanks to improved management, increased professionalism, and a better-perfected «department store management science». Then came the time of mergers in order to carry on optimizing the famous « supply chain », a source of competitiveness. Finally, in order to optimize marketing costs after mergers, the issue of consolidation of the store names, implying dropping and changing store names, some of them locally famous, raised the question of the value of these names, and therefore placed under the spotlight the question of the brand, not in terms of the name put on what they sold, but on that of the “house”, of the container.

This question of the value of the brand remains very much on the agenda in the value analysis process. The positioning theorists have always claimed that what mattered occurred in the minds of the customers. And these minds are not only subjected to constant enticements, they are also today richer in experience, more autonomous, more capable of « adventures » in terms of consumption, therefore more capable of foregoing loyalty. For the historical flagship department stores, the question of the evolution of the type will always

be raised with increasing acuteness. How can one maintain customer desire in a volatile environment in which one is no longer indispensable ? How can one maintain in one sole physical location the pursuit of discretionary consumption and the solutions for compulsory consumption of households and individuals ? How can one remain or become once more a magical place in which one can forget why one had initially come ? But furthermore how can one remain the best choice of investment for one's shareholders ? To these questions, one can answer « within the framework » or « outside of the framework ».

Within the framework, there are still many profitable possibilities for reorganizing or injecting new resources in order to safeguard the future of department stores. Naturally, their balance finds itself affected by this; they no longer are truly "general stores"; they remain nonetheless multibrand and « layered » with themes. Yet they must be capable of transforming in a wink, physically in their shell as well as mentally, since one is aware that the long-term future is today the result of a succession of partial and unstable successes. Physically speaking, it is a matter of logistics ; while mentally it is a matter for the management. Throughout the world, one has been witnessing the same evolutions and one can safely state that, when they have been skillfully accomplished, the same reorganizations have led to slowdowns in decline, new heights were gained and the results of "oxygenization" were visible. However the crisis that affects department stores is still by and large structural and serious. Not only, as we have seen, do they disappear from the suburban shopping centers whose diamond in the crown they used to be, and in which it was often sufficient to open several in order to multiply their appeal tenfold, but they also tend to disappear from historical city centers, where, if they sometimes rise from their ashes, they also occasionally crumble to dust. They are challenged as they strive to capture the dreams and the magical labyrinths of the journey of the customers by the virtuality and the congeniality of internet home shopping, and in terms of their material foundations by a whole bunch of new retailers that have walked all over them by dividing up the departments, enriching the concepts and compartmentalizing creatively. There is therefore an emergency, but in the face of relentless adversity, those that are still firmly holding their ground are proof that they are capable of regenerating, even to the extent of feeding off themselves; and this emergency can give their chance to visionaries who would not have had a saying in the quietness of prosperity. The last few decades have therefore also demonstrated that the department stores could under certain conditions display a strong resilience factor.

Evolving outside the framework is altogether different. One returns to the following fundamental strategic question : with the same assets and potential resources on hand, can one accomplish more by doing the same thing differently or by doing something else altogether ? And even if an owner is fond of his champion, there remains the moral issue for its management and its shareholders, whether in the case of a family company or not : does evolving outside the framework in order to enhance its assets equate changing business sector, and even « betraying » the legacy and the mission bequeathed by the founders to the stakeholders ? For department stores the underlying question : « does one always physically need department stores ? » is universal, but is most certainly not raised in the same context all over the world. For, behind it, there is the question of the opportunity cost, which might translate into : to the benefit and detriment of whom are the « degrouping » and redeployment of the partial values of the original store creating or destroying value from that basis, and what is the outstanding balance after the change ? For these famously numerous stakeholders, the question is, in order to determine the global value, which will then be their yardstick for comparisons: what are the dimensions of valorization of the partial values of the different types, and what is the level of valorization of the elements on these dimensions, and, also, what is the weight given to each of these elementary values in the global combination. It is the issue of constraints and optimizations in which context the process operates. It originates from economic, social and political aspects. It refers to cultural and civic philosophy concerns.

In the case of a heavy pre-existing situation, which naturally applies to department stores, the question of the opportunity cost of change always triggers that of the « sunk cost », more explicitly of the value that disappears for good in the aftermath of an action, even if that action is, overall, creating value. In the case of department stores, it appears that the main crystallization point is the valorization of the location, on one hand because it is the historical heart of a « physical » department store and since its evolution in this place is a signal; and, on the other hand, because that is where the discrepancy between the interests of the stakeholders is potentially the greatest, as the probability that the owners will grant considerable weight to non financial considerations in its valorization process is not the first on the long run in the cases of chaotic evolutions. Valorizing signifies reading and asserting a sole value by fundamentally reducing the dimensions of value that are relevant to what then becomes the main component on which one projects all the other dimensions. In our developed societies, the « cash » resource is the main dimension of projection of values. This enables the free flow, the exchange, the comparison, and the rationality of investment choices,

by providing a unique and universal measurement tool. However, if the choice of the dimension of valorization is the same in all countries, the valorization which is based on this dimension, that is to say on the determination of the financial equivalent of what is not money, as well as the constraints in which this valorization process is undertaken and which determines its final level, depend very much on the culture and the civic philosophy of each of us, and they themselves are decisive in the elaboration of the regulations, which, in return, has an impact on the value of opportunities. It is at this crossroad of the interests of the stakeholders that one can renew with the heterogeneity of the "fluidities" of values that, in an identical situation, will create a different complex of degrees of freedom and a different global valorization. Consequently the optimization of the redeployment of resources cannot be identical through time in all countries.

When the redeployment of the elementary values is no longer sufficient in ensuring a satisfying yield for the whole, there is broad consensus in the United States to transform those values into re-usable resources, which leads to issues of transfer, of change in business, of redeployment of the values linked to location, and bring one back to the issue of the brand value. The renowned « doughnut » theory by Victor Gruen, holding that cities grow in rings with a growingly emptier residential center, had led him to build for Hudson the first suburban shopping center in the mid-50s, in place of the simple decentralized department store the family had requested. This theory seems to have peaked a quarter of a century later with the commercial collapse of inner city department stores. One could even read in the Detroit Free Press that the desertion of the massive JL Hudson department store in the early 80s had signed the death warrant of the Detroit city center. Massive it definitely was : it filled an entire block, 25 floors, 92 lifts sang its praise. As the Americans have the sense of the value of show business, its destruction in 1998 after years of leading a ghost life was celebrated as the greatest implosion of a city center in the world. However the Americans no longer give up the city centers alongside their business skyscrapers as they used to do. They renovate them too, sometimes by preserving the façades and by rebuilding the inside. One is then closer to the Goum in Moscow than to the Macy's model in Manhattan. The shells can thus easily become residences or offices, the ground floors trendy shops or restaurants, and the undergrounds parking lots, or the freed land become urban gold mines. But the changes in the social weaves linked to a financial or real estate reconversion remain substantial. The valorizations that occur outside of the framework generally affect the jobholders, and even if, when one has done all counting, their final figure is significant and the shared purchasing

power is on the rise, the human issue is very serious since by definition a large stores divided up into departments in a city center requires numerous players.

Europe would never have culturally accepted the « doughnut » theory. By the standards of the values of European towns, their center is their heart, and has been so since medieval times and the city walls that protected them. Can one consequently, and notwithstanding the gloomy American prospects, reasonably hope for an enchanted future for old world department stores ? Indeed one should also have mentioned the Japanese department stores. Their model is specific, but in Japan too the « doughnut » theory was historically inconceivable. If the crystal ball only presupposes a visionary talent, wanting to explain the probabilities of the advent of a given future brings back to the value analysis process. And one can see some trump cards in this game.

A city center department store feeds on a tremendous and sprawling network of flows, to massively place the men, goods, services and competences in the same spot. For a department store, the daily « passenger count » amounts to tens of thousands, like in a big airport. Hubs of high frequency, high passenger flows and wide schedule amplitude in public transports are an essential key for the physical future of department stores. Europe has these. For department stores to stay in city centers, the global equation must demonstrate that it is the best option. Numerous factors can contribute to this, including the regulations regarding urban planning, transportation of wares, opening hours... The public will is a key factor in balancing the system. Yet, as it is also political, public expectations and anticipations are fundamental. These expectations and anticipations can be left to lie fallow, or sustained, or even fed royal jelly, with obviously differing consequences. A city center department store that is successful in the world today is always located at the heart of a harmonious, vibrant and characteristic neighborhood, which in addition is easy to fill and empty. This is admittedly not sufficient, since neighborhoods also have their positioning, their juxtapositions and their inflexibilities, but though it is unfortunately quite likely that all department stores will not survive, the impact on their fate of a favorable environment is such that one cannot despair for their future by invoking the fate of a time ogre which sweeps everything away. Moreover, they can no longer thrive amidst the complex of the forces of competition without having a first rate quality of interface with their customers. There again, if this is heterogeneous or lacking, the eventual impact on their destiny is not only up to fate. This however raises abundant questions pertaining to human resources management, to the quality

of relations between the services and the leadership, to the capacity the management has of sharing a common vision and to passing on what is requisite to training, motivation...

In the end, a successful department store is also and foremost a brand, and if its physical sheath has been and can carry on being its center, consumption is one of the places for social display and transposition in the post-modern world. A department store that wishes to survive must not only accept that its brand partly evades it in the appropriations made by its customers, it must also, in all likelihood, undertake everything to assist this probing into their intimacy. For that, one should probably do more than simply not disappoint them. Department stores are too expensive and complex to survive a weakness in what goes on post-purchase in the minds of customers. Highly involving brands are built on cognitive foundations and defend themselves in terms of the residual cognitive dissonance they generate. The brand is the future of department stores.