Delaying Departure: Struggles and Strategies of Department Stores

The Department Stores industry (IBISWorld report G47.190) has struggled in the face of increasingly dominant online retail, and operators’ responses have been met with varying levels of success. Strong competition from external sources has caused department stores to struggle over the past five years. IBISWorld analyst Raajan Rai highlights that ‘competition from online-only retailers has intensified over the past few years due to the growing popularity of convenience and home delivery, and due to the simplicity of having a wide range of products available on one platform.’ Department stores had traditionally been the ‘one-stop-shop’ for retail, and the convenience of internet shopping has considerably undermined their appeal. As a result, industry revenue is expected to grow at a compound annual rate of just 0.2% over the five years through 2018-19 to £18.4 billion.

The continued rise of e-commerce has resulted in the growing dominance of online-only retailers, which have increasingly drawn demand away from operators in the Department Stores industry. Furthermore, the ongoing supermarket price war has placed increasing pressure on companies at the lower end of the market. Rai states that ‘supermarkets are expanding their product ranges and dedicating more shelf space to general merchandise such as clothing, homeware and electrical appliances.’ Due to their large buying power and economies of scale, these retailers can offer lower prices and numerous deals to attract consumers.

With varying degrees of success, department stores have introduced a number of measures in order to fight back, including expanding their own online operations and introducing click-and-collect services. Many of the industry’s largest companies have placed an increasing focus on these areas, with Debenhams reporting that click-and-collect orders satisfied 30% of all of online orders in 2017, compared with 26% in 2015.

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Department Stores in the UK

Annual growth 14-19

0.2%

Revenue

£18.4 billion

Amid subdued trading conditions, competition from external retailers has intensified, limiting the industry’s growth.
Whilst embracing the online sphere has supported performance to a degree, the industry is still facing considerable competitive pressure, as indicated by the recent high-profile struggles of House of Fraser. Poor performance and escalating costs led to the company entering into administration on 10 August 2018. Though it was later purchased by Sports Direct for £90 million, ensuring its continued operation, the new parent company is assessing its store portfolio, and several closures are expected. Further illustrating the industry’s woes, major player Debenhams issued a series of profit warnings in 2018, and subsequently reported an 88.5% decline in operating profit over 2017-18. Though Debenhams has recently received a £40 million cash injection from lenders to help keep it afloat, concerns for the company’s future persist.

Despite this, opportunities for growth are expected to remain. Online retailing is likely to continue to grow in popularity over the coming years, and department stores that are able to further expand their online operations are expected to fare the best. Major player Marks and Spencer is a notable example of a firm that is increasingly focusing on this area; the company has commenced a rapid series of store closures and intends to take at least one-third of sales online. The introduction of click-and-collect services has blurred the line between in-store and online shopping, supporting demand from time-poor consumers, and further expansion in this area is expected to support the industry’s performance over the coming years.

Department stores have traditionally had a more social function than other retail outlets, and plans to increase footfall are expected to focus on improving customer service and the consumer experience. As a result, industry employment is anticipated to grow over the next five years, despite forecast declines in enterprise and establishment numbers. This customer-facing focus is expected to support stronger growth than over the past five-year period.