

THOUGHT PIECE 2

The city centre and online department store

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Along with other types of retailers on the 'high street' of many cities in the western world, the department store has been under pressure recently, not immune from the wider changes in consumer choice and behaviour, and the underlying economics of high street property.

At the start of 2019, Macy's the New York store which epitomises the concept of the department store saw its share price drop dramatically as it predicted future performance to be difficult. In the UK, a few months earlier the well-publicised and controversial buy-out of House of Fraser to Sports Direct also signalled the pressures faced by the traditional brick and mortar department store, whilst department store chain Debenhams has is closing 50% of its stores and is seeking to cut rent in the remainder (Retail Gazette, 2019). And in Australia, to name but one other country, a similar picture is painted of "the department stores are on the nose with consumers" (Financial Review, 2018).

In the case of one of our four city centres explored as part of the AHRC research project, Newcastle upon Tyne, the flagship store Fenwick too has seen its position under threat. Although it continues to offer what their website says is "everything from food to fashion over five floors of the iconic Newcastle city centre building", including eateries and personal shopping sessions, in October 2019 the company announced a £44.2m loss over the previous year.



Globally, once one of the mainstays of the city centre retail experience, and one which was specifically a feature of larger cities, the department store concept is no longer in vogue. Viewed in the mid to late 19th century as the 'palaces of consumption', the department store has of course evolved alongside changes in consumer choice and behaviour over the decades, but its core offering of a 'bazaar' of individual merchants housed in a single building has remained a defining feature. Although the gradual decline of the department store is documented – see for example Vicki Howard's (2015) 'From Main Street to Mall: the rise and fall of the American department store' – the pressures on them in the last few years is more intense than that of the past.

But are accounts of the death of the department store exaggerated?

One interpretation is that the department store has moved online. Writing in The Herald newspaper, published in Scotland, Doug Gurr the UK Country Manager for Amazon (The Herald, 9 August 2019) argued that like predecessors on the high street who have been innovative in providing greater consumer and customer benefits, Amazon's decision to sell products of other retailers alongside their own had been ground-breaking.

Certainly from the perspective of the UK, the sales figures appear to demonstrate that this decision, controversial at the time, has been positive – both for Amazon and for independent retailers. Gurr notes that more than half (58%) of physical gross merchandise sales on Amazon are from independent third-party businesses, and that more than 10,000 Scottish brands reach a global market through Amazon. In the UK alone, he argued "Tens of thousands of British small businesses now sell their products on Amazon's global sites, helping to support 80,000 UK jobs and achieving more than £2.5bn in export sales in 2018".



Amazon's online offering, of own produced alongside those of other competitors, of course is not new. Nor is the retail concept that in providing an opportunity to browse across a wide range of products you can create commercial advantage and change the notion of 'shopping. These were (are?) core aspects of the appeal of the department stores of the mid to late 19th century.

Amazon may not have the same architectural and physical 'splendour' of Fenwick, Macy or House of Fraser stores but it and other online shopping platforms have the contemporary IT equivalent benefits – speed of searching, comparisons of products, and ease of ordering/collecting.

But it does lack some aspects of the (at least) early department stores, famed for their additional services which made the shopping a much wider social experience – restaurants, reading and writing rooms, and sales assistants to help guide the shopper (and in more recent times to undertake the shopping!).

So where does this takes us in considering the future for the modern city centre where department stores were and continue to located?

Gurr argued that the online department stores such as Amazon can co-exist with the physical presences in the city centres. Customers he argues continue to choose both. As long as both focus on meeting the customers' needs - convenience, choice and competitive prices – he believes that both can continue to have a niche in the retail market.

However, the realities of the 'high street' appear to suggest a very different picture, as department store chains are struggling.

One key difference between the online and offline department stores is their ability and control (and commercial power) to be competitive in pricing. Whilst Amazon owns and can shape the platforms it uses, that is no longer true for many of the high street stores. They were either sold off or are rented

from those who own the land and buildings, with the department stores tied into long-term contracts to rent. And online platforms don't have to pay business rates set by national and local government. This lack of control over key parts of the balance sheet means that the two forms of department stores have differing abilities to manage costs and thus do what Gurr argues is required to offer competitive prices.

That said, there remains scope for the physical retail store to be reimagined and reinvented to harness changes in consumer consumption and expectations – presumably what Sports Direct the new owners of House of Fraser envisaged.

And in so doing, they need to be mindful on the 'online department store'.

This might for example include the creation of 'omnichannel retail' (Alexander and Cano, 2019) which emphasises the interplay between channels and brands, much as the early department stores sought to do. Or it might be another phase of evolution as the department stores finds new ways to emphasis customer sensory experience alongside retailing, and the creating of a 'urban buzz' around their cultural heritage (see Kourtit et al (2019) for a wider discussion of urban buzz).

In the short term, however, the evidence from the city centre project is that high street department stores may have much loved physical presence on the high street, but their past glamour is insufficient to ensure that they form key parts of the future of the city centre.

References

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