



Candezent in Conversation

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with Alan Treadgold, Founding Partner, Candezent Advisory

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Selvane, Welcome. Please introduce yourself and the International Association of Department Stores (IADS)

My background is in luxury brands, so I've worked with department stores rather than having a background in department stores. IADS is a think tank, an exclusive club for department stores CEOs and their teams. It was founded in 1928 by a group including Filene from Boston, A l'Innovation (known today under the name Galeria Inno) from Brussels, Printemps from Paris, Nordiska Kompaniet (NK) from Stockholm, later joined by Harrods from London and Magasin du Nord from Copenhagen –who is still a member. The original goal was to apply modern management methods, largely out of the US, to department stores which were at the time largely family-owned businesses.

Today we have 12 members – 5 in Europe, 3 in South America and 4 in Asia¹. Our members have different positionings, offerings and business models. Sogo, for example, is 95% a concession business, whereas other members are far less.

Today we have, let's say, 3.5 big areas of activity – the 'point five' is an emerging area for us! The first focus is to make sure ideas and best practices circulate at all levels. We do this through a series of activities:

- Diffusing and co-creating ideas and working methods through a series of meetings at CEO level every quarter. We bring people from outside the department store sector to present at these meetings so that we are exposing members to new thinking and methods. For example, we will shortly be hearing from the CEO of FNAC² to talk about digital transformation.
- Merchandising meetings every month at buyer and chief buyer level to exchange ideas about brands and categories – what's hot, what's changing and so on. Brand owners are invited to these meetings. There's no pressure for anyone to buy or sell in these forums – they exist to exchange ideas.
- Cross-functional meetings with the goal of breaking down silos that so many businesses still have. For example, in January 2021 we addressed the question of space productivity and invited SBM³ (Société des Bains de Mer) from Monaco who operate hotels and casinos there. We have also invited Showfields⁴ from the USA to talk to our members about new revenue opportunities. Our next focus will be on making the department store's name itself a desirable brand.

Our second focus is on benchmarking, data mining and sharing KPIs. We have created a sales index for members and a business monitor which gives members the ability to measure the strength of their recovery from the pandemic and lockdowns. We have also just released the IADS 100 department stores monitor which tracks the performance of 100 department stores globally.

The third focus is the Academy, a 25 years-old initiative that brings together talents from our members' teams, who work collectively on a complex question. This year, the topic is "what are the needed KPIs for the omnichannel P&L chart?"

- The 'point five' activity which we are currently developing is a new digital platform to help department store buyers to find new brands and products.

¹ For a full list of IADS members, see iads.org

² FNAC, now FNAC Darty, is one of Europe's largest retailers of household appliances, electronics and entertainment products. Both brands began in France and now have substantial international operations. The group has a strong focus on omnichannel retailing. See fnac.com

³ SBM operates some of the most iconic hotels, casinos and restaurants in Monaco. See montecarlosbm.com

⁴ Showfields in the US describes itself as redefining retailing and the ultimate curator of home, fashion and beauty products sourced from all over the world and presented in "the most interesting stores in the world" in New York City and Miami. See showfields.com

How have your members responded to the pandemic and to lockdowns?

In October 2020, we surveyed our members to look at how they had responded to the pandemic and to lockdowns so that we could share insights across our members. This became a white paper which is available from IADS⁵.

We found that all our members had common concerns:

- How best to support their local communities
- How best to take care of their customers
- How best to take care of their staff
- How best to take care of their suppliers

Every member is taking their own specific actions. For example:

- El Corte Inglés (Spain) and El Palacio de Hierro (Mexico) gave a lot of support to frontline health workers. El Corte Inglés rented a hotel in Madrid to provide accommodation for doctors and nurses. In Mexico City, El Palacio de Hierro bought food from local farming families to support their businesses and then provided that food for free to people in need.
- Our members were all very creative in taking care of their customers to, firstly, ensure that customers felt safe. For example, SM in The Philippines telephoned a lot of their customers just to check in with them and make sure that they were OK. A lot of those customers said, yes, they were fine but were unable to go out to buy the things they needed. This led SM to create very quickly a whole new channel for them called “Call to Deliver”. Customers call a number and place an order for anything they need. This proved especially valuable to senior citizens.
- All our members were focused on taking care of their staff. All CEOs of our member businesses were strongly focused on supporting their staff and their families. Many set up weekly remote calls to their staff.
- We saw a lot of solidarity between our members and their suppliers. For example, Manor in Switzerland set up a weekly meeting with suppliers to transparently discuss all issues around availability, payments and so on.

The positive outcome of the pandemic is that not only do department stores really now understand that they have to change and move with urgency, but also that this is possible! Until 2019, they knew they had to change but, really, there was not the urgency that there is now. For example, in Venezuela our member, Beco, launched their e-commerce operation in September last year. This was all done from scratch in 6 months. Manor [Switzerland] has opened its own marketplace. Galeries Lafayette [France] has developed an app for live streaming of shopping events and so on. These and other initiatives show that all of our members are resilient, fast and adaptable.

⁵ The IADS White Paper “Global Pandemic, Local Department Stores” is available from IADS

Looking forward, what's your view on the future of the physical department store?

As last year progressed it became clear to our members that the lockdowns were not going to be one-off events that would be over quickly. Many of our members have been through 1, 2, 3 even 4 lockdowns. For example, in Denmark, Magasin du Nord was given just two hours' notice that they would have to close on 17th December last year and they were then closed for 126 days! So if you were not in good shape before, it was going to be very difficult to survive lockdowns of such severity and loss of trading.

I believe we will re-emerge with a healthier model for department stores. Less emphasis will be put on the size of store networks and more focus will be on the role of the store in the customer journey and the purpose of the physical store.

The store used to be the final destination for the purchase but today for a lot of customers that is obviously no longer the case. We need to see the physical store as part of an ecosystem of physical and digital points of engagement with the shopper. This is something that we urge our members to reflect on and to really focus on what they stand for; what their values are; what is the vision. You then have to deliver on this vision to all of your target customers in a frictionless way. This is not achieved by having the biggest network of stores. It is achieved by having the most efficient ecosystem and ensuring everything works together in a frictionless way.

As Benedict Evans says, customers don't think in terms of online or offline, they think about what they want to buy and the best way for them to get it.⁶ I think that our members really understand this now.

Department stores – and not just our members – have been exemplary in putting their focus on keeping the customer safe in their stores. All of our members are putting a lot of focus on monitoring customer numbers in stores. Some also have guides making sure people are not congregating in groups in their stores.

But beyond this, department stores must not be bland, they must be special. This comes back to defining what the store stands for and who it's aiming to engage with. This must be translated into an experience and a reason to come to our stores. Look at what Galeries Lafayette is doing with BHV in Paris to give customers a reason to visit or El Corte Ingles with their new store in Castellana in Madrid. They are not just selling 'stuff' anymore because if you're just selling stuff then you're dead. Or outside of department stores, look at Canada Goose in Toronto where they opened their latest store in August 2020. You cannot buy any products. It's all about experience – big screens of the North Pole and recreating the extreme cold. But you can't buy their jackets in this store – you can order there and then have the product delivered to your home. This is an effective omnichannel strategy.

⁶ Benedict Evans is a London-based tech analyst and writer who sends out a free weekly newsletter to, currently, about 160,000 people. Sign up at ben-evans.com

How do you expect department stores to be impacted by new working and living arrangements, especially in city centre locations?

You have to give customers good reasons to keep coming into these stores. Selfridges in London is doing a great job in this regard. Even if you live in London you always have reasons to keep coming back, because they are always doing something new.

Looking forward, there probably will be less customer traffic in a lot of cities because of different working patterns and perhaps also people leaving the city entirely. Our members are already seeing some of this. When some of our members have been able to reopen, traffic has often been 10 to 15% less than pre-pandemic. But average basket size has been at least as high and sometimes a little higher.

My personal feeling is that people still crave physical experiences. Yes, online can be more convenient but it won't give the experience that the store does. Retailers need to understand this and understand what their customers want and be efficient and consistent in how they deliver these experiences.

What skills are your members going to need in their businesses to ensure their success in the medium term?

Digital and technology will be critical, but in a broad sense. This is not just about having an e-commerce capability. Department stores have to transform deeply so that technology is not just delivering a better customer experience, it is also helping them to work in a different manner and earn a few points of productivity because customers' expectations on value are not going to change and margins are going to continue to be under pressure and e-commerce operations are costly. So technology has to be used to drive efficiency and to optimise the business.

The pandemic has made it clear to our members that it is in fact possible to work in very different ways. Falabella (Chile), for example, is now using Artificial Intelligence in its career planning function through an HR portal. Magasin du Nord (Denmark) does something similar. This is about using technology to work in faster and more targeted ways. We need also to rethink and reset the role of the salesperson because the old definition of that role is dead now that the customer is often better informed than the salesperson. They are now psychologists reassuring the customer on safety, brand specialists, entertainers, even doctors sometimes. All of these new elements of the role will be supported by technology and this is exciting.

How optimistic – or not – are you for the future of the department store as you look forwards the 100th anniversary of IADS in 2028?

There is still a lot of hard work and sleepless night for our members, but I do believe that the future really is going to be super-exciting. We have more ability and opportunity to find new ideas and make them real. This is going to be a game changer. I am excited to be where I am now!

Key Take-outs:

- IADS members have all had common concerns during the pandemic and lockdowns – how best to support their communities, customers, staff and suppliers. All have responded in individual ways.
- The physical department store has a bright future provided it is a place of stimulation and experience and gives shoppers reasons to continue to visit. Selling ‘stuff’ is no longer enough.
- Operators need to see their physical stores as part of an ecosystem with the customer at the centre of a variety of digital and physical points of engagement. Less emphasis will in future be put on the size of store networks. In fact, further reductions seem likely.
- Digital capabilities will be at the heart of successful department store operators. Digital should not be seen solely as an engagement channel for the shopper, but also as integral to the ability of department store operators to deliver on their ecosystem ambitions with the efficiency needed in environments where margins will continue to be under severe pressure.
- To secure their futures, department stores need to think hard about their rationale and reason for being – who they are trying to engage and how they want to position their brands.
- There has been an inevitable shakeout in the department store industry globally as already weak businesses could not survive lockdowns. For those that remain, the future can be bright – the need for change is now clearly understood and the best operators have shown themselves to be resilient and innovative. The changes forced on their businesses by the pandemic and lockdowns will provide stronger foundations for their businesses as the world moves into a ‘new normal’.

