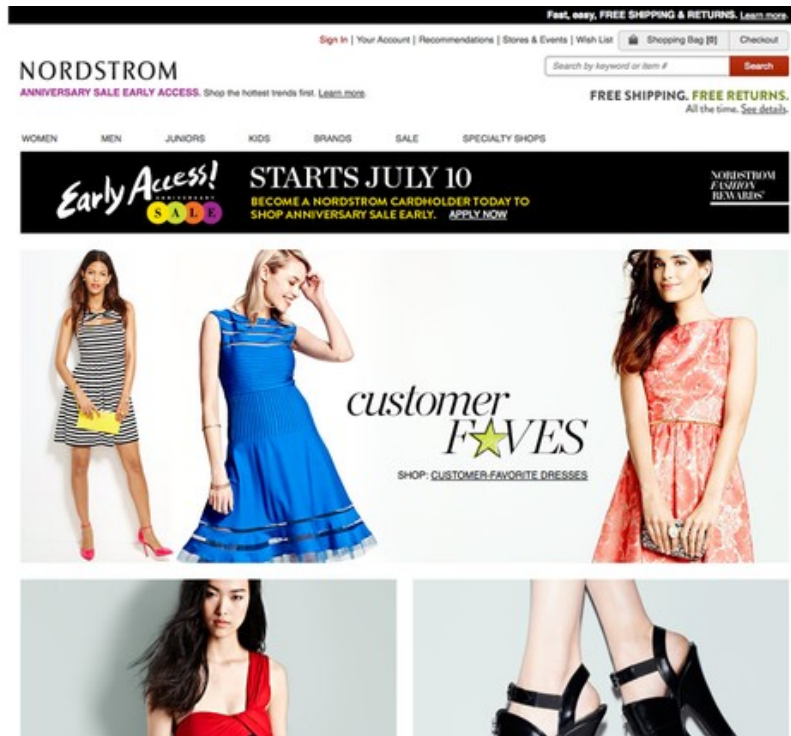


July 10, 2013

Nordstrom Tops Digital Department Store Study

By RACHEL STRUGATZ



The Nordstrom home page.

Photo By Courtesy Image

NEW YORK — Nordstrom is leading the way for department stores in the digital space.

The Seattle-based retailer took the top spot in a study by New York University think tank Luxury Lab, or L2, which ranked 40 global department stores using metrics from their Web sites, digital marketing, mobile and social media efforts.

Nordstrom was one of four organizations to receive a “Genius” label — Macy’s followed in second place and Saks Fifth Avenue and Marks & Spencer tied for third. Neiman Marcus, Bloomingdale’s, Net-a-porter, House of Fraser, Bergdorf Goodman and John Lewis rounded out the top 10, with the latter pair tied for ninth. The study was released Tuesday and counted online retailer Net-a-porter as a department store.

RELATED CONTENT: WWD Research Roundup >>

Maureen Mullen, L2 director of research and advisory, told WWD that department stores are “a format under attack and the organizations pulling themselves out are the ones that have realized they have to win online, and winning online doesn’t just mean making robust e-commerce investments, but making investments online that drive traffic to the brick-and-mortar business. If you look at the guys at the top of the list, they are making huge

capital commitments, upgrading operations and making inventory more flexible — and that is because they have to compete with the likes of Amazon and live up to the expectation of two-day fulfillment and almost boundless inventory.”

A “bigger is better” mentality also applies to department stores — and Mullen said it is a myth that the Internet is a “level playing field” for these retailers. Nordstrom, Macy’s, Saks and Marks & Spencer, combined, have average online revenues per year of \$1.7 billion.

Eighty-five percent of the stores in the study maintain an e-commerce business (France’s Printemps, Canada’s Holt Renfrew and Russia’s GUM still don’t sell online) and a quarter have implemented live-chat functionalities into their sites. Ninety-eight percent of those examined by L2 have a Facebook page, even though just 2 percent of overall Web traffic for department stores comes from social media. Surprisingly, less than half of the stores have video content on their sites — with only 18 percent integrating video on product pages.

Saks and Lord & Taylor are the only two retailers in the study to auto-detect a user’s location based on their IP address.

Mullen attributed success in the space to significant investments in enhancing offline presence to aid in quicker online fulfillment, updated mobile apps that facilitate the sharing of product reviews and knowledgeable in-store associates equipped with iPads.

In Nordstrom Inc.’s first-quarter earnings call in May, chief financial officer Mike Koppel reiterated the retailer’s plans to pump about \$900 million into the company’s e-commerce and digital programs through 2017.

“Approximately one-third of that \$900 million relates to our fulfillment capabilities, largely through expanding capacity,” Koppel said. “The remaining two-thirds represent technology investments to improve the customer experience and to strengthen our infrastructure to support the growth of the business and the accelerated pace of change.”

On the same call, Nordstrom president Blake Nordstrom said that over 100 new features were added to nordstrom.com during the first quarter. He acknowledged that personalization is an area the department store is just beginning to explore.

“We’re still in the early stages in the area of personalization — in essence, customizing the experience on our site, providing product recommendations and building tools that help with fit and style,” Nordstrom said. Investing in robust search and behavioral targeted marketing is key, too. According to Mullen, search drives 45 percent of the stores’ Web traffic on average — including paid and organic searches — with e-mail driving 6.3 percent of traffic. Social media has consistently decreased in terms of the weight it carries within L2’s studies (it comprised just 10 percent of the ranking), and Mullen calls it more of a brand awareness and customer acquisition tool and less of a driver of traffic and/or commerce.

RELATED STORY: Nordstrom Touts Merchandise With Pinterest >>

In addition to large-scale technology investments that integrate point-of-sale systems with e-commerce fulfillment centers, the advantage department stores have — particularly those in major shopping cities — is plum real estate. Using your digital properties to drive consumers into your store — arguably the biggest asset for retailers like Printemps, Harrods or Bergdorf’s — is an enormous opportunity, especially for retailers constrained by location.

For Sucharita Mulpuru, vice president and principal analyst at Forrester Research, extended assortment of product online is the most important function to succeeding. This and related store inventory elements, like the ability to order from specific locations or pick up online purchases in-store (Nordstrom began doing this in 2008 and a shared inventory platform with seamless fulfillment online and in-store was introduced the following year), are where the lion's share of omnichannel investments are focused. She's not sure if same-day delivery makes sense for most retailers, but the next step is mobile points of sale or scheduling store visits using Web-enabled data.

"The future of multichannel is pretty open. Right now, companies are just focused on the inventory piece, which is critical. Then they'll focus on mobile and communication with customers or remote sales associates using some type of video chat," Mulpuru said.

Macy's Inc.'s chief marketing officer, Martine Reardon, called the leveraging of inventory online and offline "critically important" to the department store. Fulfillment centers can be considered stores in addition to warehouses and distribution centers, and in June the retailer introduced functionality that allowed 500 of its stores to act as distribution centers.

Additionally, the retailer has repeatedly garnered attention in the space for what Reardon refers to "branded entertainment." Recent examples include a Black Friday app created expressly for the shopping holiday, special content corresponding with the Macy's Thanksgiving Day Parade and the ability to purchase items featured on the second season of NBC's "Fashion Star" as they came down the runway on a mobile device. The latter resulted in 50 percent greater online sales than the year prior, when consumers had to wait until midnight to purchase on macys.com.

"In year two [of 'Fashion Star'] we recognized how important the second screen was to the viewer," Reardon said. "Even though it was a fun marketing element, it also drove a lot of sales."

While department stores are still the preferred channel for consumers to purchase luxury brands, there is increasing competition from the brands themselves.

"Michael Kors was roughly a \$300 million business in 2009, with a third of sales coming from direct [to consumer]. Now half is direct sales, which makes the battleground even tougher for the department stores," Mullen said.

She noted that for the first time in 2012, Compagnie Financière Richemont conducted more than 50 percent of its sales through vertical channels — a combination of operated and owned boutiques and e-commerce. The latter business is mainly driven by Net-a-porter, seventh place in the study.

"Historically, [Richemont's] been a wholesale business. When you look at other luxury brands and products that department stores sell, they are doing more and more sales direct," Mullen said of mounting obstacles for department stores, a sector she said has been in decline for "the better part of the last 15 years."

Mobile also remains a priority — and department stores especially have the scale to get shoppers using mobile apps or even pilot in-store mobile programs. For Mullen, an area greatly untapped from a tactical standpoint is tablet optimization. The only retailer on the list with a fully optimized tablet site is Netherlands-based de Bijenkorf (ranked 16).

In a separate study conducted by the Luxury Institute last month, Nordstrom also nabbed the top spot as the retailer wealthy consumers turn to most often for purchases. Luxury Institute chief executive officer Milton Pedraza cited technology and the retailer's Web site as a contributing factor.

"They've been able to cultivate a significant amount of sales online," Pedraza said. "They are probably as good as

Amazon in that regard. They don't sell everything that Amazon does, but they make it so easy to use that it's highly competitive."

Top 40 Department Stores Ranked By Luxury Lab's Digital IQ

STORE	DIGITAL IQ	STORE	DIGITAL IQ
Nordstrom	155	Lane Crawford	92
Macy's	154	Galleries Lafayette	88
Saks Fifth Avenue	152	Century 21	87
Marks & Spencer	152	Harvey Nichols	82
Neiman Marcus	139	Jelmoli	81
Bloomingdale's	132	Hudson's Bay	81
Net-a-porter	129	Le Bon Marché	78
House of Fraser	127	Tsum	76
Bergdorf Goodman	124	El Palacio de Hierro	73
John Lewis	124	Von Maur	73
Harrods	119	Intermix	71
Barneys New York	117	Daslu	67
Dillard's	111	Brown Thomas	64
Selfridges	108	Holt Renfrew	63
El Corte Inglés	107	Printemps	63
De Bijenkorf	105	KaDeWe	63
Lord & Taylor	100	Fenwick	53
Liberty	94	Ogilvy	42
The Galleria	93	La Rinascente	42
Bon-Ton	92	Rym	28