Will Department Stores Recover or Transform?

Post-COVID-19 recovery in full swing

Department stores, which had lagged the most in the retail industry, have finally entered a full-fledged recovery phase amid the prolonged COVID-19 pandemic. The reason for this was the start of nationwide travel support in October 2020 and the drastic relaxation of border measures. As a result, people started to move more readily, and department stores benefited from the rapid decrease in the yen, the economy began to regain its vitality, mainly in the consumption of high-priced goods.

National department store sales have been on a downward trend since peaking at 9.7 trillion yen in 2011. And it is said that the COVID-19 pandemic triggered a decade’s worth of changes all at once, with sales disappearing by 1.2 trillion yen a year in 2020. The shrinkage of the department store market is due in part to macroeconomic factors such as a declining population and the collapse of the middle class due to increasing bipolarization, as well as intensifying competition across industries, including the rapid expansion of e-commerce, which makes the store look outdated, mainly in the consumption of high-priced goods. This has exposed the deadlock in business models that out, all aspects of consumption and business are rapidly moving online. This has exposed the deadlock in business models that

Content will evolve with business model conversion

First, we took two directions to build a new department store business model.

One is a choice “not to operate as a department store.” That is to say, we converted some stores to a 100% real estate business without adopting department store’s traditional transaction formats of kaitori and shoka shiire. Its typical example is GINZA SIX, a luxury mall which was created in 2017 by developing the two blocks including the former site of the Matsuzakaya Ginza store as one.

The other is to build a “hybrid model” that combines real estate rental with kaitori and shoka shiire under the “department store brand.” Its typical example of a large-scale flagship store is the new main building of the Daimaru Shinbashibashi store, which opened in 2019. Some understores stores also attract new crowds through business model conversion. For example, the Daimaru Suma store introduced a library in 2020 and the Matsuizakaya Shizuoka store installed an aquarium in 2022.

The advantage of shoka shiire is that we can seek greater return through sales growth. On the other hand, the advantages of fixed-term lease are not only to realize stable revenue and the reduction of operation costs but also to increase the variety of tenants to strengthen the response to service consumption and experience-based consumption, which makes the store look fresher. Furthermore, the Daimaru Tokyo store developed new content named “asumise” based on commission income with the concept of “a store that does not sell.”

Innovation of customer experience through the digitalization of touch points

What has happened most apparent during the recent COVID-19 pandemic is the delay in responding to digitalization. As for the direction of our digitalization, we focus on digitalizing touch points through “app” rather than expanding e-commerce. The app allows us to connect with our customers 24 hours a day. This deepens communication with our customers and dramatically improves the accuracy of purchase forecasts, which can lead to more sophisticated CRM.

Another reality revealed by the COVID-19 pandemic is how precious and irreplaceable the real experience value obtained from the five senses is. Our main task is to increase the value we deliver through people-to-people communication, which is our strength. We will expand human power using digital technologies. Its starting point is in physical stores. From now on, the locality of each store will become more important.