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ECONOMY

Stores Suffer From a Shift of Behavior in Buyers

By **HIROKO TABUCHI** AUG. 13, 2015

As Americans spend more money on doing things, not buying things, department stores are losing out.

A rebound in overall spending at retailers, which grew 0.6 percent in July from the previous month, has eluded department stores, where sales dropped 0.8 percent.

Department stores made up one of just two categories tracked by the Commerce Department where spending declined, the latest in a choppy performance from them this year. Spending at electronics and appliance stores also fell 1.2 percent in July.

Data released by the Commerce Department shows that American consumers are putting what little extra money they do have to spend each month into eating out, upgrading their cars or fixing up their homes, as well as spending on sports gear, health and beauty. Spending at restaurants and bars has jumped more than 9 percent this year through July compared with the same period last year, and on autos by more than 7 percent, according to the agency.

Analysts say a wider shift is afoot in the mind of the American consumer, spurred by the popularity of a growing body of scientific studies that appear to show that experiences, not objects, bring the most happiness. The Internet is bursting with

the “Buy Experiences, Not Things” type of stories that could give retailing executives nightmares.

Millennials — the 20- and 30-something consumers whom marketers covet — would rather spend their hard-won cash on out-of-town vacations, meals with friends, gym memberships and, of course, their smartphones, many surveys suggest.

Even back-to-school sales are failing to spur a summer shopping frenzy, though consumers may have delayed their spending this year after a number of states pushed back their three-day sales tax holidays from July into August.

“It’s becoming more and more about the experience — whether it’s going to a festival or sharing a car ride or going to a new city,” said Richard E. Jaffe, a retailing analyst at Stifel Nicolaus, the investment firm.

“The religion of consumption has proven to be unfulfilling,” he said. “The ‘pile it high and watch it fly’ mentality at department stores no longer works.”

The shift in consumer mind-sets, especially among younger consumers, is hurting major department store chains like Macy’s and Kohl’s, which both reported tepid quarterly earnings this week.

Macy’s pared back its annual sales growth forecast this year to zero after sales at stores open for at least a year, a commonly used retailing metric, fell 2.1 percent. Kohl’s squeezed out a 0.1 percent growth in same-store sales, far below analyst expectations, and it missed sales and profit forecasts. The chain attributed part of the decline to the delay in back-to-school spending.

The picture at a higher-end department store chain, Nordstrom, has been much prettier, underscoring how the economic recovery has benefited the nation’s wealthiest, while income growth for the middle class has been more elusive. Nordstrom’s profits topped estimates as comparable sales jumped nearly 5 percent, sending its share price soaring.

But even upscale retailers are facing some trouble. Foreign tourists are spending less in the United States, their purchasing power crimped by the strong dollar, which has risen by as much as 20 percent against major currencies like the euro and yen.

China's recent devaluation of its currency is likely to reduce spending by Chinese tourists, who have become big spenders, especially in major cities like New York or Los Angeles.

"And when they are here, they're not spending in our categories," Terry J. Lundgren, Macy's chairman and chief executive, said on CNBC on Wednesday, referring to Chinese tourists.

"Where the consumer is spending," Mr. Lundgren said, "is in automobiles. It's in housing. It's in health care. It's in certain apps that they're downloading."

Of course, Americans have not stopped spending on goods — far from it. But when they do, they are increasingly buying online.

Amazon's Prime Day, despite a clunky rollout and much-ridiculed product selection, most likely stole consumer dollars away from brick-and-mortar stores this summer, analysts said. Online sales jumped 1.5 percent in July.

Discount stores like T. J. Maxx, Ross Stores and Burlington are also taking a bigger share of shoppers' dollars, prompting department stores to jump into the same lower-priced space.

This fall, Macy's will open the doors to four off-price outlet stores, called Macy's Backstage, in and around New York City, joining Nordstrom Rack and the Saks Fifth Avenue Off 5th stores, both discount spinoffs. Kohl's also unveiled its first off-price store, Off-Aisle by Kohl's, in June.

That is a risky strategy that could both cannibalize and devalue the department store chains' full-price offerings, analysts say. But the race into the off-price space, not to mention an increasingly packed sales calendar, shows just how hard it has become to persuade American consumers to buy more stuff.

"Retailers are discounting in so many ways now. And if one does it, they all have to do it," said Chris G. Christopher Jr., director of United States and global consumer economics at IHS Global Insight. "That's driven retail goods prices into negative territory."

Department stores are striking back with other strategies besides discounting. Kohl's has been bolstering its sportswear offerings, with plans to open up new N.F.L., N.C.A.A. and M.L.B. stores at Kohl's locations. The retailer is also expanding its yoga-wear selection, as well as the outdoor Columbia brand.

And the stores themselves are focusing on transforming shopping into the kind of experience that they say today's consumer craves. Macy's, for example, is rolling out beacons at its stores that beam deals and other information to shoppers' smartphones, and offer points for checking into different parts of the store, to create a more gamelike shopping experience.

Still, selling more goods will only get harder as the economy recovers, said Rajiv Lal, professor of retailing at Harvard Business School.

"With affluence, people have so much stuff in their closet," he said, adding that consumers are not looking to buy more material products but something that will strike their imagination.

"And if they don't see anything in stores they fancy, they'll seek out experiences," he said. "It's experience versus the mundane."

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