Department Stores Losing 'Retail' Identity

Little Differentiation Deprives Shoppers of Enjoying Diversity, Better Deals

By Jane Han
Staff Reporter

Korean department stores generally have three things in common: brands, prices and services. This means that you can expect to buy the same pair of Adidas sneakers at Shinsegae, Lotte and Hyundai at a roughly equivalent price under a nearly identical atmosphere. The only difference may boil down to which offers the best parking lot.

"It's a very antiquated and draconian structure only used in Korea and Japan," Morgan Parker, the president of Taubman Asia, a global shopping center developer, told The Korea Times, Monday.

"In fact, local department stores are more of a real estate company and less of retail."

He said Korean shopping centers simply lease space, provide an operating framework for brands and supply staff and cash collection.

"Brands don't even get to keep the cash at the end of the day," said Parker, explaining that a lot of retailers have sales trapped for 14 to 45 days. At the end of the month, operators like Shinsegae, Lotte and Hyundai net off the rent, electricity and utility payment and hand over the remaining amount to their tenants.

"Brands are held hostage by department stores," he said. "When you take away businesses' right to manage cash flow, you're taking away the essence of their business."

The longstanding structure here also smothers brand recognition by not providing them an opportunity to effectively present brands, says Robert Hwang, executive director of Cushman & Wakefield, a global real estate services firm.

Sebastian Skiff
Managing Director of Cushman & Wakefield

Morgan Parker
President of Taubman Asia

He said a typical department store totals about 35,000 square meters, with each maker taking up about 35 to 50 square meters. This allows an average emporium to house about 200-250 brands, leaving a brand cycle of about six months to one year depending on its performance.

"This isn't enough space and time to completely express their identity," said Hwang.

Parker agreed, stressing that the world of retailers are now very brand-centric. They no longer feel the need for a wrapper.

"If you want a Louis Vuitton bag, you can go straight to their store. You don't need Lotte to sell it for you," he said.

These are reasons why more brands are wanting to open flagship stores or enter U.S. style shopping malls instead, the two explained.

Space, freedom and better presentation are reasons why they want out of those big structures.

Malls vs. Dept. Stores

A mall and a shopping center are two different concepts, says Parker. U.S.-based Macy's, Neiman Marcus, Saks and Nordstrom are examples of malls that have their own signature brands, buy merchandise and offer their own touch of something.

"Comparing these giant malls to Korean department stores are like comparing bicycles to motorbikes," he said. "They're just different."

He said Korean department stores are gradually shedding its retail identity because it is choosing not to buy merchandise.

"Buyers are considered the most important people in department stores," he said. "But local shopping centers are not taking the inventory risk to aggressively make purchases in major fashion shows. They just lease space and collect sales."

When you look at print ads on certain fashion magazines, explained Hwang, you can see that a pair of pants are from Prada, shoes are from Ferragamo and scarf is from Hermes.

"Department stores in the U.S. and U.K. present more editorial concept to shoppers. The retailer is showing off its own color by delivering its taste," he said. "That's the differentiation local department stores lack."

Now, then, are big department stores here more of a shopping center?

Probably, but not completely. An example of a real shopping center is the Central City Mall in Banpo and COEX Mall in Samsung-dong, according to Sebastian Skiff, the local managing director and regional head of retail at Cushman & Wakefield.

Brands are given generous space to express their identity so that their stores become a separate entity within the mall.

Because these key characteristics are missing, what South Koreans consider "malls" or "department stores" are actually something caught in between, a unique distribution channel that charges a hefty commission.

The country's top three department stores are known to take about a 30 percent commission on sales, which many argue gets passed on to shoppers.

However, Skiff explained that the price of goods aren't much different those inside and outside of department stores shops because these large distributors actually help brands, particularly the smaller ones, cut costs.

"For first time makers in Korea, department stores would be a good test market," he said, adding that it is less expensive to build a flagship store and easier to start out being a tenant under a major roof.

But once brand awareness and consumer demand climbs, turning to other retail options would be ideal, says Skiff, who exemplified the case of his company's most recent client.

Luxury jewelry maker Cartier is currently building a five-story flagship store in the affluent neighborhood of Cheongdam-dong to meet the ongoing growth of demand.

The retail property experts advised that domestic department stores' transition into regaining their "retailer" identity will help Korean shoppers get better products and a more enjoyable shopping experience.

Major local department stores lack private brands under their own name comparatively, which is one less thing these players can go against, said Skiff.

However, Parker said the status quo is not likely to change because the current business model already works well for the "retail giants."

jhan@koreatimes.co.kr