

ROOM FOR REGIONALS

By Allison Zisko

Despite Bon-Ton Stores' recent demise, industry observers believe there are opportunities for other retailers, particularly regional department stores, to thrive.

Bon-Ton's fate does not sound the death knell for an entire retail channel, they said, provided the remaining players work hard to remain relevant and responsive to their local customer base with targeted assortments, data-driven marketing strategies and strong loyalty programs. Home furnishings can play a big part in that, they said, particularly in certain categories, such as top-of-the bed, tabletop and home décor.

After filing for bankruptcy in February, Bon-Ton failed to find a savior via auction in April and was scooped up by two liquidation firms. The company, headquartered in York, Pa., and Milwaukee, operated 251 stores including nine furniture galleries and four clearance centers in 23 states under the Bon-Ton, Bergner's, Boston Store, Carson's, Elder Beerman, Herberger's and Younkers nameplates. It was saddled with debt.

"While we are disappointed by this outcome and tried very hard to identify bidders interested in operating the business as a going concern, we are committed to working constructively with the winning bidder to ensure an orderly wind-down of operations," said President and CEO Bill Tracy last month.

The closure puts thousands of people out of work. "With Bon-Ton shuttering its stores, the merchant population there [Bon-Ton executives and buyers] that chooses to remain in that region might find Shopko a resource for opportunity," said executive recruiter Elaine Hughes, CEO of E.A. Hughes & Co.

"It's very challenging in the regional department store arena," said Helaine Suval, a partner in the retail advisory company Collective Growth Partners and a former Macy's executive who helped build macys.com from the ground up. "So many consolidations have taken place and the inability to get economies of scale, combined with the change in consumer [buying] behavior, creates a more challenging financial burden on these stores."

"As the country becomes more nationally focused in their shopping habits, it is becoming harder for regionals to compete, which is unfortunate as this is still an important area for housewares," agreed Mary Rodgers, director of marketing communications for Cuisinart. "Regional stores are highly invested in their communities and they know their customer base very intimately; they have the ability to position themselves to better serve those customers."

Some retail competitors will gain what Bon-Ton—whose stronghold was in Pennsylvania, the Mid-Atlantic and the Northeast and whose home sales accounted for 17 percent of its total business—lost, according to Cristina Fernandez, director and senior research analyst for hardlines, discounters and supermarkets at Telsey Advisory Group. "Those with the most store overlap will see a benefit,"

Despite strong competitive headwinds, regional department stores can thrive if they press their local advantage



Reading, Pa.-based Boscov's is known for its strong textiles collection, including top-of-bed.

BOSCOV'S

Number of Locations: 47

Est. 1914

HQ: Exeter Township, Penn.

Other nameplates: Ports of the World Outlets

Slogan: Did you Boscov today?

Region: MidAtlantic, Northeast

she said. "Likely beneficiaries could be midtier department stores like J.C. Penney, Kohl's and Macy's. All these retailers generate between 15 and 20 percent of their sales from the home category."

By comparison, home sales generate 26 percent of Boscov's business, 4 percent at Dillard's and 9 percent at Belk, Fernandez said.

Each regional department store has a different financial structure, but the critical issue they all must address is relevance, said retail analyst Steve Goldberg, president of The Grayson Company. "All of them will have to fight real hard to be relevant."

"In the case of regional retailers, I think they have a huge opportunity, but somebody at the helm has to see it," said Hughes, who has worked with numerous retailers, as well as home furnishings vendors. "The regional stores that still have cash need to do what everyone else is doing—one, they have to get good data, and from that comes a strategy, and two, they have to make a commitment to being a home resource and then let their constituents know about it."

"Stronger regional department stores can remain relevant in their markets if they can differentiate themselves through product offering, marketing and e-commerce capabilities," Fernandez said. "Some have differentiated themselves more than others. The Boscov stores our team has visited seem like a very scaled down J.C. Penney with product always on sale, an unappealing store and an older clientele"—in other words, not resonant with younger customers.

Ramping Up Relevance

Other regional department stores have been far more effective in understanding and cultivating their local market. Belk, with its "Modern. Southern. Style." mantra, is the first to come to mind. "Belk strategy is one of relevance," Goldberg said. It has carefully crafted the southern style message to its local customer, which is evident in its color palette and private-label business, he said. "It's subtle in many ways, but overt in the messaging they use."

Belk, which is privately held and headquartered in Charlotte, N.C., has also stayed focused on home with a full presentation of categories, particularly textiles, tabletop and home décor. "Those are areas they have kept their eye on," Goldberg said. "They've done a good job understanding their strength in those categories."

"Our private brands serve as a point of differentiation from our competitors, and we introduced three new private brands earlier this year—Madison,

Wonderly and Lightning Bug," Belk spokeswoman Tyler Hampton told HFN. "We've also expanded some of these collections into our portfolio of private brands available in home [such as] Crown & Ivy, Biltmore and Lightning Bug with fun bedding sets for kids."

This year marks Belk's 130th anniversary, she said, and the company is building on that legacy through Belk: Project Hometown, a five-year, \$15 million commitment announced last year that pledges to support local organizations, such as a recent Habitat for Humanity build.

"We also want to be there for our customers, no matter when or how they want to shop with us," Hampton said. "Last year we launched a new web platform, we're currently rolling out a new point-of-sale system and we'll be releasing a new mobile platform this fall—a total investment of more than \$30 million."

Belk is investing in its brick-and-mortar stores as well. Last year it spent \$40 million to renovate stores and open two new ones. This year, it is investing \$30 million in renovations and planning a grand opening in Hagerstown, Md., in the fall.

Little Rock, Ark.-based Dillard's also plays up its southern roots, through its partnership with Southern Living magazine, for example, which is translated into exclusive product. "Everyone knows it and is familiar with it," Suval said.

Dillard's, which is publicly traded, follows a strategy similar to Nordstrom, according to Fernandez, offering more exclusive and differentiated product. "Dillard's has worked hard to carve out their niche," Goldberg added. As an aspirational store, however, its challenge is succeeding in that niche, positioned between Macy's and luxury-oriented retailers, he said. Dillard's did not respond to an HFN interview request.

Boscov's, a family-owned department store chain headquartered in Reading, Pa., is "the last guy standing in their regions, to some extent," Goldberg said. The chain operates 46 stores in Pennsylvania, New York, New Jersey, Delaware, Maryland, Ohio and Connecticut. Its biggest home furnishings strength is in decorative home. "It is battling head to head with Bed Bath & Beyond in so many things that they do," he said. But its top-of-the-bed assortment is stronger than Bed Bath's, he added. "They've kept their eye on that category."

Boscov's did not return an interview request for this story, but in a June 2016 interview with HFN, CEO Jim Boscov said, "We've always believed that competition makes us better in both customer service and assortment. We just have to be more promotional and exciting to win customers, focusing on service, assortment and pricing."

DILLARD'S

Number of Locations: 292 | Est. 1938

HQ: Little Rock, Ark.

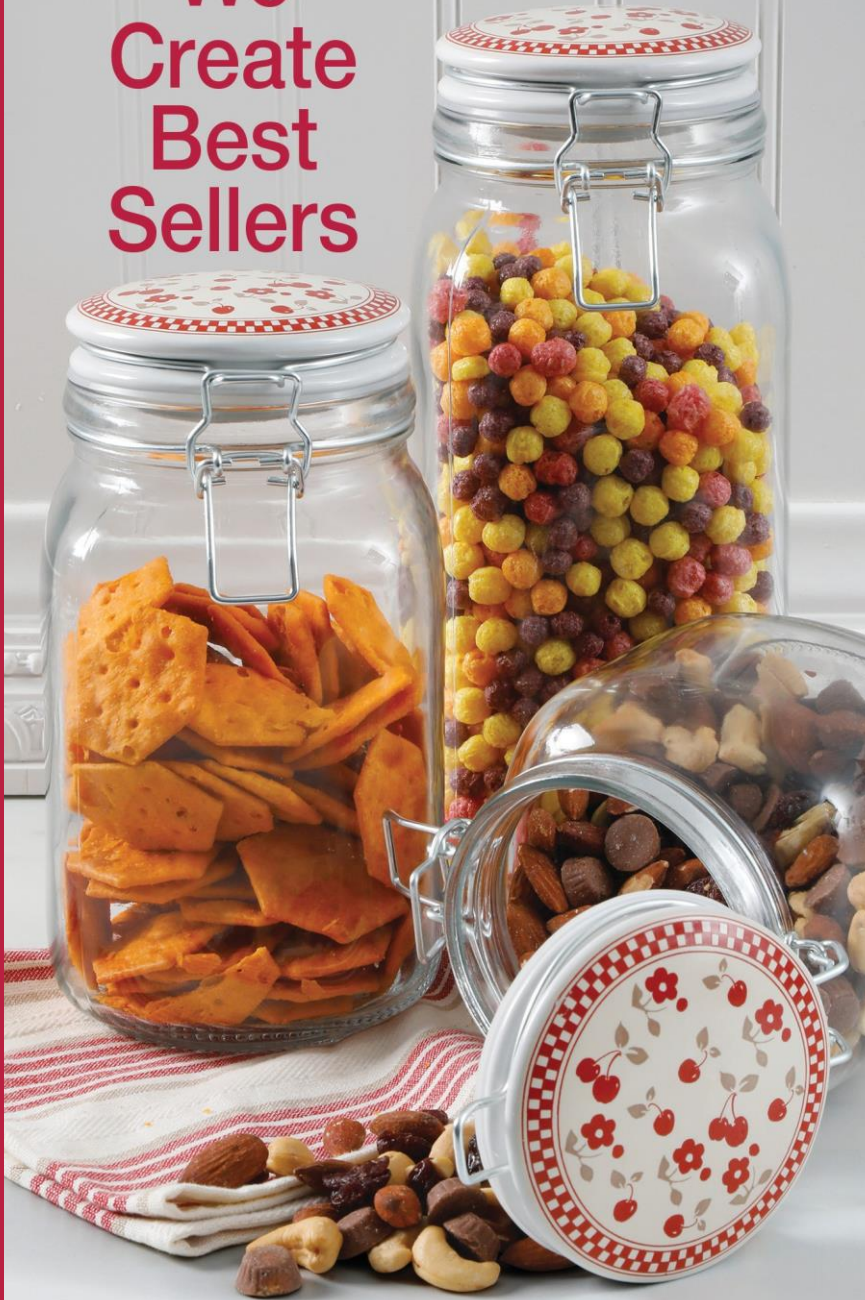
Slogan: The Style of Your Life

Region: South



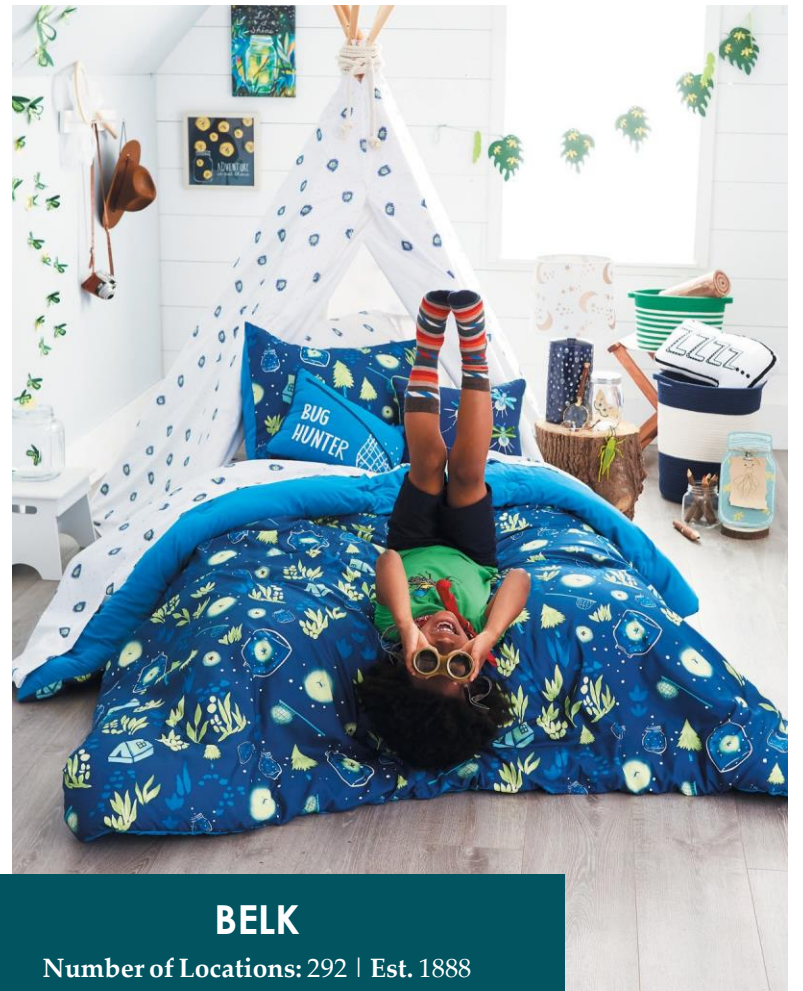
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BELK

Number of Locations: 292 | Est. 1888

HQ: Charlotte, N.C.

Owner: Sycamore Partners, New York

Slogan: 2010: "Modern. Southern. Style."

Region: South

Outside of their local specialties, regional department stores collectively can do more to grab market share.

"Regional department stores are very important to our product category," said Schari Paul, brand and marketing manager for small appliances company Kalorik. "As long as their prices are aggressive and have an array of selection, they can accumulate growth. The success of department stores lies in how well they focus on what works well in the market in addition to how innovative they are at choosing to be the first to carry new innovative products."

"They need to find products that give consumers a reason to shop in their stores, items that set them apart from online and low-price retailers," said Scott Bial, group president, tableware, for Lifetime Brands.

"They need to make the shopping experience more fun with fresh, new product assortments on a more frequent basis, and need to execute their assortments faster."

Personalized marketing is also important. Customers do not want to be treated like commodities, Suval said. "Ensure that you have a mechanism in place to know your audience and what they want."

Hughes had similar advice. "In a smaller venue, you should be more nimble. They're dealing with a smaller platform. Do the data science. Then be on that consumer."

Above: Lightning Bug kid bedding is part of Belk's private-label program.

Right: Crown & Ivy is one of Belk's private-label home brands, available in dinnerware and accessories.



Loyalty programs are another good tool for strengthening a customer base. Bloomingdale's has one of the best loyalty programs because you don't have to use the Bloomingdale's credit card to gain loyalty points, according to Suval. It gives back cash as well as access to percentage discounts on certain days. Other regionals have loyalty programs, but they are often tied to that store's credit card. "Younger people are not interested in having a Belk or Dillard's credit card. They want to use Apple Pay, or some other way," she said. "Regional stores have to build loyalty within their communities. But I didn't see it really called out on anyone's website."

Socially responsible retailers also earn the respect of loyal, local shoppers, Suval added. Regional stores know what is important to their communities, and consumers want retailers to align with their own values. That's particularly true with younger consumers, she said, and "home is an area where there is an opportunity to identify with these things."

Boscov's has held local charities luncheons to learn about the community's needs and a Charity Day, selling \$5 fundraising tickets that earn customers a free item and allows them to shop the new store the day before it officially opens. Customers can also designate the local charity of their choice for their charitable contribution.

Sizing up the Competition

Regional department stores are competing for customers on multiple fronts: against Kohl's, J.C Penney and Macy's in the department store arena; Walmart for its sheer size and scope; Bed, Bath & Beyond as a killer in bed basics and appliances; and Amazon and other online-only players because their product options are only a click away.

"There's an opportunity to garner marketshare from Bed, Bath & Beyond," Hughes said. "I don't think it's a good store experience and not particularly attractive."

"People buy from Amazon because it's convenient," Suval said. If you want to browse or don't know what you want, that's an opportunity for regionals. They can align with their consumers and what's important to them, "those things that resonate with consumers and [make them think], 'This is my store.'"

A retailer's digital footprint is critical—how it invests in technology, acquires and connects with customers, and competes online, Goldberg said. "The importance of that can't be overstated."

It all comes down to the savvy buying, merchandising and marketing of differentiated assortments. "There is whitespace opportunity in content," Goldberg said. "It's the basics of being a good merchant."

—Joanne Friedrich contributed to this story ●



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