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Retail Slump Shows Amazon Effect

Online retailer may be taking foot traffic away from stores



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Kohl's Corp. posted an 87% drop in profit and an unexpected decline in sales. *PHOTO: LUKE SHARRETT/BLOOMBERG NEWS*

By
SUZANNE KAPNER

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Department stores are in a funk and executives at some of the country's biggest chains are struggling to explain why consumers aren't spending more time and money in their stores.

But analysts have a familiar culprit: [Amazon.com](https://www.amazon.com) Inc.

A day after [Macy's](https://www.macys.com) Inc. [reported its worst quarterly sales](#) since the recession, rival [Kohl's](https://www.kohls.com) Corp. and upscale chain [Nordstrom](https://www.nordstrom.com) Inc. both posted sharp drops in profit and sinking sales at existing stores. Each company relied on big markdowns to clear out unsold inventory in the quarter.

Kevin Mansell, chief executive of Kohl's, said Thursday the 1,100-store chain is still figuring out how much a recent drop in foot traffic was related to issues he can address with changes in inventory and marketing, and how much was related to the economy or broader changes in consumer habits.

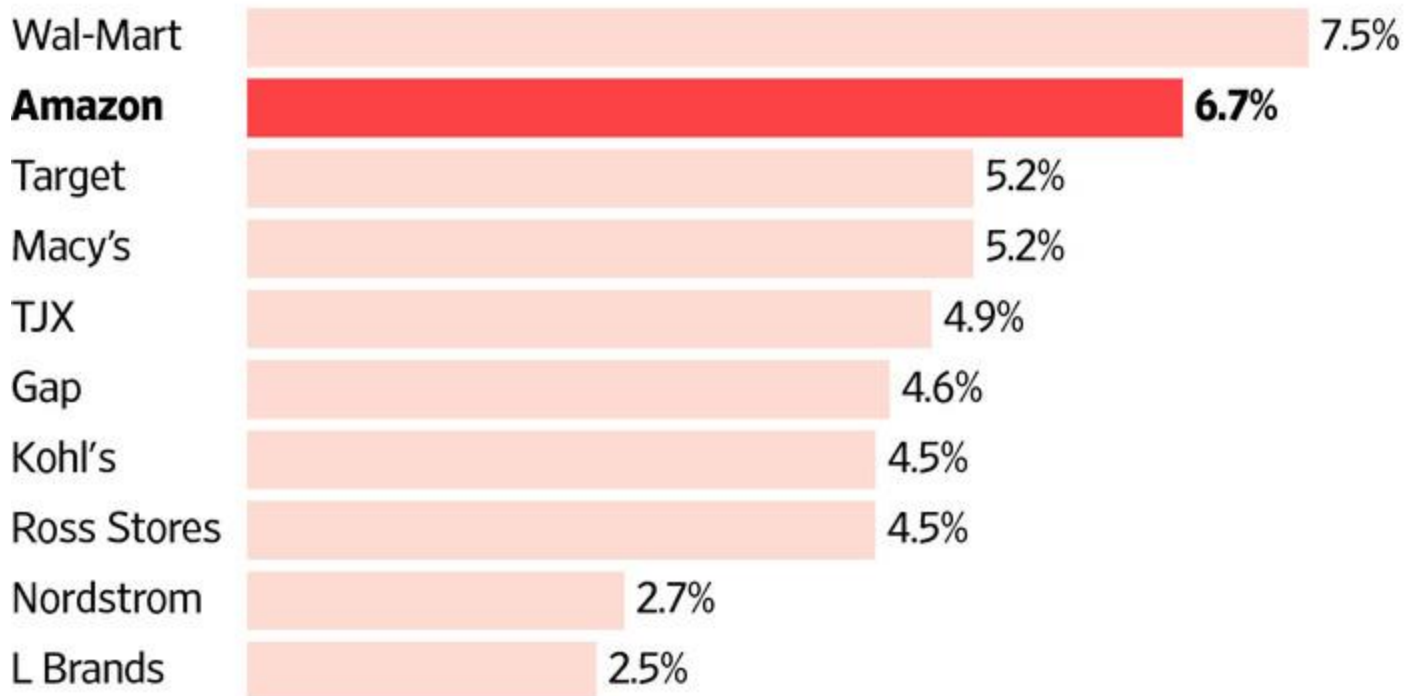
"I think we're still grappling a little bit with that," he said on a conference call. "We're definitely not in a position that we're putting a stake in the ground and saying hey, this one is the big driver."

Analysts, however, argue that Amazon, [which has made an aggressive push into apparel and fashion](#), is starting to take significant market share from traditional department stores. In a research note Thursday, [Morgan Stanley](https://www.morganstanley.com) analysts estimated that Amazon already accounts for about 7% of the overall U.S. apparel market and will reach 19% by 2020. By their estimates, the online superstore is already selling more apparel than all U.S. retailers but the biggest, [Wal-Mart Stores](https://www.walmart.com) Inc.

Asked on the earnings call whether Kohl's was losing share to Amazon, Mr. Mansell said, "We have been able to hold our share but not gain in our share." Kohl's and Macy's have taken steps to compete with the online retailer. They have closed weaker locations to divert more spending to upgrade their websites and provide options that allow shoppers to order goods online and pick them up at a local store.

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Amazon is estimated to be the second largest apparel retailer in the U.S. Share of total U.S. apparel sales, by retailer



Sources: Euromonitor, Forrester, Morgan Stanley

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On Thursday, Nordstrom reported that sales at existing stores fell for the first time since 2009, and lowered its financial forecasts. Mike Koppel, the company's chief financial officer, said he expects the uncertainty in sales trends to continue through the balance of the year. Blake Nordstrom, one of the company's co-presidents, said customers "are being more deliberate with their purchases."

Nordstrom, which already gets one-fifth of its sales from the Internet, said it was committing one-third of its capital to investments in technology. On a conference call, Mr. Koppel said

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Nordstrom was seeing a transformation in its business model, as e-commerce took a greater share, and mall traffic continued to decrease.

Most brick-and-mortar executives argue that consumers are simply spending money on restaurants and travel and less on the clothes that fill much of their stores. “They are not buying apparel. That’s the simple answer,” said Wes McDonald, Kohl’s chief financial officer.

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Shares of Kohl’s dropped 9% to \$35.15 Thursday. In after-hours trading, Nordstrom shares fell more than 17% and [Dillard’s](#) Inc., which also reported a quarter of falling profit and revenue, was off 5.8%. Shares of struggling rival [Sears Holdings](#) Corp., which recently set plans to close another 78 stores, fell 11% to the lowest level in 13 years. Those four department-store companies have lost more than 40% of their value in the last 12 months.

For the first quarter ended April 30, Kohl’s reported a profit of \$17 million, down from \$127 million a year earlier. Sales fell 3.7% to \$3.97 billion, while sales at Kohl’s stores open for at least a year declined 3.9%.

Nordstrom’s earnings for the same period were \$46 million, compared with \$128 million a year earlier. Total sales rose 2.5% to \$3.2 billion, but sales excluding newly opened or closed stores fell 1.7%.

As traditional retailers have struggled, chains that sell name brands at discount prices have been gaining share. Sales at Nordstrom Rack stores, the company’s off-price chain, open for at least a year rose 4.6% in the period, but much of that growth came from orders placed online.

[Ralph Lauren](#) Corp., which sells much of its clothes at department stores, reported Thursday that its profit plunged 67% in its latest quarter and revenue fell 1% to \$1.9 billion.

Stefan Larsson, who became CEO in November and is conducting a strategic review, said the luxury brand hasn’t focused enough on developing its core offering, described its cost structure as inefficient and said it isn’t “nimble enough in the marketplace.” Mr. Larsson plans to lay out his strategy to revive growth at an investor day in June.

Write to Suzanne Kapner at Suzanne.Kapner@wsj.com