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Department store and Consumerism in the Modern Era

Summary of the publication „Die wunderbare Welt von HERmann TIETz“



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Fig. 1: Hertie advertising slogan „good is not good enough for us,” 1991

Introduction

Today, department stores are almost a thing of history. There are still a few, admittedly, but their complete end seems only to be a matter of time, aside from the luxury department stores like KaDeWe in Berlin, Harrods in London, or Bergdorf in New York. Yet between the last third of the 19th century and the 1980s, department stores were the highly visible, radiant symbols of the mass consumer society, finally establishing themselves throughout Europe after 1945 and decisively helping to shape the aesthetic and architectural face of inner cities. Indeed, without them, modern mass consumerism would not have been possible in the first place, meaning they were more than just its symbols. As of the late 19th century, the department store became the necessary and trend-setting interface between industrial

mass production and ongoing mass sales, two factors that were mutually dependent and mutually determining. And it was business logic that created stores such as Karstadt, Hermann Tietz (Hertie), Leonhard Tietz (Kaufhof), and Wertheim, which defined the characteristics of this interface on which both mass production of affordable goods and their mass sale relied – namely, large-scale procurement, the presentation of goods in groups, the lack of any compulsion to buy, payment in cash for goods that were on average favorably priced, service, and the related swift flow of goods, and finally “advertising” in order to guarantee the constant flow of goods and to balance the different seasonal highs and lows. All of this called for a new form of organization, for careful calculation methods, but also for aesthetic sensitivity and a good feel for the respective attractive

consumer group. Since the 1970s, these days have been well and truly over. Initially, it was structural change in retailing that made the major department stores look like dinosaurs; then online trading did its bit and immediately made the unbeatable business models of their day look dead on their feet.

The lifetime of the department store group founded by Hermann Tietz, later known as Hertie, between the 1880s and the 1990s thus symbolizes much more than a simple company history with all its ups and downs, its problems and successes, and (inevitably in the German case) its dramatic sides during World War II and during the Third Reich. For the Hertie group stands for an entire chapter in consumer history and can therefore be placed at the heart of the emergence of modern societies which, since the 1950s at the latest, have been one thing above all: mass consumer societies. The history of the Hertie group thus not only highlights the development of a company between the days of the Kaiser and those of German reunification and all the various players involved, but it also vividly outlines the links, roots, and intertwining with everyday life, with politics, and the dramatic events of two world wars and a dictatorship, in the course of which the department stores were two things at once: victims and actors. However much politics instrumentalized the department stores for economic policy ends, however much they abused the Jewish Tietz family who owned the group, and indeed finally squeezed the family out, the “Aryanized” management at Hertie thereafter continued to search for opportunities to survive, making it prone to opportunism and to exploiting political options for action. Finally, the example of the department store group Hermann Tietz and later Hertie also demonstrates the interconnection of mass consumerism and social change that was already nascent during the days of the Kaiser,

only to be curbed by the world wars and the economic crises between 1914 and 1948. Not until the 1950s did mass consumer society finally gain sway in Germany, and the gleaming shop windows of department stores in the 1950s and 1960s then formed the calling card of the economy of the West during the Cold War. At that time, the department stores functioned as the true symbols of “affluence for all,” which is why, as of the end of the 1950s, they also became the butt of a critique of consumerism. The function of department stores as a symbol of mass consumerism was something that slowly came to an end after 1973, when their decline gradually started, only to really head downwards in the 1980s as new retailing business models with more favorable cost structures made ever increasing inroads into their market share. This process persisted in the 1990s, when mergers reduced the number of large department store corporations from four to two and Hertie disappeared from the market as an independent company. In the final analysis, the decline of the department store corporations was also a long-term consequence of their success in establishing the mass consumer society. The history of Hermann Tietz and later Hertie thus constitutes a truly paradigmatic example of the development of the department store segment and mass consumer society in Germany.

Foundation and expansion of Hermann Tietz: 1882–1914

The department store itself was not the result of some perfect, ready-to-go idea, but the product of young businesspeople who successively developed the store as a business model “on the job,” as it were. The early days of department store corporations were by no means concentrated in the large consumer centers, but in provincial towns such as the Hanse towns of Wismar and Stralsund on the Baltic coast. The



Fig. 2: Interior view of the Gera flagship store in the 1890s

Hermann Tietz corporation, for its part, was established in the up-and-coming town of Gera in east Thuringia, an area with many textile factories and where Oskar Tietz was given financial assistance by his uncle Hermann Tietz to open a small textiles business for linen, curtain trims, and haberdashery on March 1, 1882. When it came to developing the new business model of the department store, it was Oskar Tietz's sales principles that were more important than the size of his business, as he limited himself to slender margins and low fixed prices. Moreover, he insisted on immediate payment in cash. These principles could only be applied successfully if he achieved a high turnover, which inevitably meant he had to extend the range of goods he offered. Gera provided a good base for this undertaking, not only given the large working-class population, but also because from the outset Oskar Tietz was able to procure directly from the local textile factories and thus deploy

another of his business principles. By sidestepping wholesalers and at the same time buying in large volumes at favorable purchase prices, he was able to offer not only low sales prices but also to onboard shelf-warmers from the factory owners.

These business principles swiftly generated large sales for Oskar Tietz and enabled him to set up his first branch office in Weimar in 1887, followed by further branches in Karlsruhe, Munich, Stuttgart, and Strasbourg between 1888 and 1891. In addition, Oskar Tietz, who had paid back his debts to his uncle Hermann shortly after he founded his company, collaborated with his brother Leonhard Tietz and other relatives (Wronker, Julius Tietz, and others), who likewise ran several textile businesses, in order to secure even lower purchasing prices from factory owners through joint procurement, and he passed on the advantage to his customers in the form of lower prices.

All of these branches were still essentially extended linen businesses, but in Munich, which Oskar Tietz had chosen as the company's new domicile, he offered an ever-greater range of goods. In addition to fabrics, in the early 1890s, his outlet in the Stachus pedestrian zone was already selling shoes, toys, porcelain, furniture, and carpets. The business, which made great use of advertising from the get-go, grew swiftly. The building on the Stachus was soon too small, a result of allowing clients to simply view goods with no compulsion to buy, meaning it attracted so many that the display of goods had to be completely reorganized in what was basically a first structure by department.

Even if the German founders – the nucleus of German department stores was a haberdashery shop opened by Abraham Wertheim



Fig. 3: Oskar Tietz (1858–1923)

in Stralsund in 1875 – took their cue from France, England, and the United States, the department stores in those countries were not direct role models. This was because most German department stores did not cater to the luxury needs of the upper classes, with the exception of Wertheim in Berlin. Rather, the German stores offered a broad range of goods for working- and middle-class clients, as was also the case with Oskar Tietz's enterprises. Since his first department store proper, namely the one on the Stachus in Munich, swiftly became too small to cope with the wealth of goods and the immense throng of potential customers, in 1895 he had new premises erected on exactly the same spot. The new building had a central atrium and was, architecturally speaking, now typical of a department store, and it became the model the other Hermann Tietz branches followed. Oskar Tietz's thirst for expansion did not stop, however, at enlarging his existing stores, but also included setting up new branches – for example in Hamburg in 1897 (on Grosser Burchard street) and, finally, the first Berlin branch on Leipziger Strasse, on the corner of Dönhofsplatz, which both far exceeded the size of his previous stores. This was followed in 1905 by a new store on Berlin's Alexanderplatz, and in



Fig. 4: So-called "workers' branch" on Frankfurter Allee, Berlin



Fig. 5: Hertie branch at Dönhoffplatz, Berlin

1908 by one on Frankfurter Allee in the eastern half of the city. At the same time, Oskar Tietz relocated his Munich department store in 1905 to a position directly opposite the central railway station, and in 1911 the Hamburg branch was moved to Jungfernstieg. These new builds not only involved larger business premises, but also always constituted architectural landmarks in terms of their urban design. On the back of these new branches and with the takeover of Julius Tietz's department store in Plauen in Saxony in 1905, the Hermann Tietz corporation owned a total of 13 department stores by 1914: in Berlin, Hamburg, and in southern central and southern Germany.

This rapid expansion of Hermann Tietz prior to World War I was part and parcel of the success of this retail business model. Indeed, Karstadt, Leonhard Tietz (who had an agreement with Hermann Tietz that they would never create competition for each other at any of their respective locations), Schocken, and other corporations opened department store branches

nationwide. Before the outbreak of the Great War, this new type of store accounted for only five percent of total retail sales and therefore held no noteworthy market share, but the spectacular successes of the large corporations were a source of envy, and, given that countless department stores had Jewish owners, also led to a swath of anti-Jewish resentment. Since their infancy, the department stores had offered all manner of trashy goods and ran aggressive advertising campaigns, prompting medium-sized retailers and the trades to call for a special tax on such stores. This special tax was indeed introduced in countless states after 1900, but it failed to dampen the department stores' success since they had become indispensable to the goods manufacturers as a sales vehicle and were a source for favorably priced articles for city-dwellers. Moreover, the tax created entrance barriers for potential rivals, meaning that the existing department stores in fact benefited indirectly from the tax. At any rate, by about 1914 the rudiments of a mass consumer

society had already emerged, with the department stores as an innovative business model constituting a key factor driving this process. By offering products “tailored to demand,” the department stores were able to transform existing consumer desires into real consumer opportunities. Moreover, by offering mass consumer goods in various quality and price segments, they were also able to provide goods for the lower and middle classes in the rapidly growing industrial cities – people whose pockets were not deep and who had to cover their everyday needs through the agency of the market.

Hermann Tietz’s expansion more or less financed itself, and this was the case at other rival corporations, too. Given the three-month supplier loans, goods were sold when payment was due to the supplier, meaning procurement was financed from cash flow – with the exception of seasonal spikes. The expansion of the large premises for the department stores, specifically new buildings for the new branches, was financed by long-term mortgage loans from major banks and involved a variety of methods. While in 1905 Leonhard Tietz transformed his corporation into a joint stock corporation with his family as the major shareholder, Oskar Tietz forged ahead as sole owner and, thanks to his innovative ideas and despite short-term liquidity problems during the 1901 banking crisis, succeeded in keeping the company as a commercial partnership on its expansion track through 1914. The interior outfit of the stores was changed, for example, and the internal company supply chain system altered. In addition to the idea of atriums, customer and freight elevators were installed in the buildings, electrical lighting introduced, customer flows structured, and ever larger shop windows with striking decorations installed – all of which fascinated the urban population. Moreover, advertising was perfected, primarily in the form of newspaper ads and special ad campaigns

for exclusive sales, fashion shows with Parisian models, and the “White Weeks” when linen and laundry was featured. This was an innovation that Oskar Tietz launched in Germany, drawing on foreign role models, as a means to offset seasonal fluctuations in sales in February, when business tended to be slow. The sale of new products such as tomatoes at extremely favorable prices not only caused a city-wide stir, but in 1909 also familiarized the simple strata of the Berlin population with the fruit for the very first time. Furthermore, a large range of food offerings and so-called “refreshment rooms” (hospitality outlets) were a fixed feature of all Hermann Tietz stores, and their low prices meant they attracted a steady stream of customers to the stores and thus boosted sales in other departments of the stores, too.

The development of the Hermann Tietz corporation in the period before World War I was ultimately the achievement exclusively of Oskar Tietz, who had completely tailored management to his needs. Tietz chose the corporate strategy and took all staffing decisions, delegating individual tasks to long-standing managers whom he trusted fully. The managers of the individual branches were comparably independent in their decision-making and were controlled primarily through the assignment of sales and profit targets they had to meet. The purchasing officers and department managers in the individual stores likewise had ample decision-making scope, as the small Berlin head office was responsible only for the strategic development of the stores and providing the financing. It likewise managed all in-house products (predominantly fabrics), legal matters, and central procurement for all the branches.

Staff fluctuation rates were low – first and foremost among the female sales personnel and the women who ran the cash tills, but also at the management level in the head office and in the individual stores. This trend was specifi-



Fig. 6: Hertie branch in Munich, ca. 1910

cally buttressed by the policy of enabling such staff to advance to become deputy managers, manageresses, and department heads, as these were among the very few opportunities for female employees to make a career for themselves in the days of the Kaiser. Their income consisted of low fixed salaries and sales bonuses, added to which there were comparatively good in-company welfare benefits (company pensions, company health insurance, vacation pay) and other advantages of the kind that often did not accrue in retailing, such as Sundays off and fixed working hours. On top of this, in 1906 Hermann Tietz opened a vocational college and concluded collective bargaining agreements with the free trade unions.

Hermann Tietz during World War I and the period of hyperinflation: 1914–1924

World War I, which started in August 1914, did not initially dent the department stores' successes; although they had to forego export business, given the latent inflation they were able to double turnover through 1918. However, overall business conditions changed completely in the course of the war as the government imposed an increasing number of bureaucratic regulations on retailing, such as compulsory rationing of textiles and food stuffs, stipulations on pricing,

and even the prohibition of special sales. Nevertheless, the department stores proved their worth as efficient nodal points in the goods supply and distribution chain – indeed, they provided an indispensable service to the state's management of the economy. Moreover, they benefited from supplying the military, in part with products the companies made themselves (military shirts, field hospital smocks, underwear, etc.), which after 1915 made up for the shortfall in purchases by the general population. Oskar Tietz in his role as the representative of the federation of department stores was also involved in the war economy as an expert adviser.

During the war, the department stores fared better than the small retailers thanks to their good business relations with suppliers, but they, too, faced problems. In addition to accusations of price gouging and extraordinary war profits, their relationships with suppliers became difficult as the latter felt they had a stronger hand given the shortfall in goods and opted for cartels to push through supply terms to their advantage. Before 1914, the department stores had been the ones to set such conditions and now saw discounts being discontinued or price increases that clearly violated the underlying contracts.

This turnaround in who had leverage continued after the end of the war and during the period of extreme inflation, and this hit the department store business harder even than the political revolutions that led to rioting and stores being plundered in 1919, above all in Berlin and Munich. Like the other corporations, in the branches less affected Hermann Tietz booked good sales. The relationship with staff also changed after the end of the war. Alongside strikes, which in Berlin were swiftly concluded with agreements on wage increases, there were conflicts over working hours, the newly introduced principle of co-determination, and the

role of staff representatives. However, in a continuation of the pre-war policy, the department store segment maintained collective bargaining agreements, and inflation meant it was able to offset the impact of wage increases.

Keeping the stores supplied with goods was a taller order, especially as the ongoing blockade by the Allies meant that imports became possible only gradually and countless state regulations remained in force. Distribution stipulations, price caps, and prohibitions (for example of clearance sales) were only annulled slowly and replaced by a liberalized retailing sector. Not until August 1919 was the rationing of woven and knitted fabrics discontinued. The higher tax load in the wake of Finance Minister Erzberger's radical centralization and reform of the Reich's tax and financing system cut into profits compared with the days of the Kaiser, something that did not change even with the reform eliminating the regional tax on department stores. Retail responded to the tough overall conditions by founding Hauptgemeinschaft des Deutschen Einzelhandels, the main federation of German retailing, in March 1919, a development in which Oskar Tietz was decisively involved.

Interestingly, the rapid inflation did not impede the department store business to any greater degree for some time, as price increases could be passed on to customers given the pent-up demand. Since goods had to be paid for immediately in cash, the department stores booked large liquidity surpluses and also had the option of hoarding goods, a tactic that was used above all in 1923. That said, the greater power of the suppliers meant the department stores had to absorb ongoing increases in purchasing prices and worse payment modalities. On the other hand, the department store companies were able to use their excess liquidity to acquire real estate and to repay mortgage debts, so in many instances they had paid off

all their debts by the time of the 1924 currency reform. Because German exports boomed until 1922, the companies generated a considerable volume of foreign exchange and were able to duck the impact of hyperinflation. The department stores not only supplied considerable volumes of goods to foreign partners and/or facilitated the latter procuring from German suppliers, but they also catered to the large number of foreigners who procured goods in German cities at the time – if they were paid in foreign currency.

In light of this agreeable business position, until 1922 the department store companies continued to book good profits. Unlike Karstadt and Leonhard Tietz, who pursued swift expansion through mergers and a wider branch network and also pressed the pedal on in-company production in their newly acquired production facilities, Oskar Tietz took a far more conservative approach during the inflation years. The Hermann Tietz department store corporation expanded the number of its branches, but it did not opt to boost in-company production and instead strengthened its own procurement clout, among other things by founding its own purchasing companies, such as Bergische Textilgesellschaft mbH in 1921. In addition, Oskar Tietz relied on wholesaling, on low stockpiles, and swift goods turnaround as well as cooperation with US department stores and foreign importers of German goods, whom he supported not just in brokering deals, but also with invoice processing and settlement.

The situation for the department stores and for Hermann Tietz deteriorated considerably in 1923 with hyperinflation. Procurement from abroad, for which they had long acted as the intermediary, collapsed. They were frequently only able to procure goods in exchange for gold and/or hard currency but were not allowed to invoice for these. Retail remained forced to sell for the plummeting German Mark, which meant that

the stores were increasingly caught between suppliers who exploited their position of power and impoverished customers – and in summer 1923 the supply chains eroded accordingly.

It was in this difficult situation that Oskar Tietz suddenly died of heart failure. With his personal style of management and a corporate organization designed solely to support him, his death tore a huge hole in the company, despite his move back in 1919 to bring his sons Georg and Martin and his son-in-law Hugo Zwillenberg into the management of Hermann Tietz OHG, the new corporate entity he had introduced.

Hermann Tietz's expansion and the Great Depression: 1924–1933

Georg and Martin Tietz were well-prepared for the task ahead, both in terms of their education and having worked at different locations inside and outside Germany; Zwillenberg had a doctorate in law and had joined the company after marrying Tietz's daughter Else. He took over financial management, while Georg Tietz was responsible for PR and the company's participation in the various industry associations; Martin handled the branch outlet system and the statistics. The three new managers were supported by the old guard of experienced commercial officers, but they did not succeed in replacing Oskar Tietz. Initially this was not a problem, as the corporation had emerged from the period of hyperinflation relatively unscathed thanks to the conservative corporate strategy and had opted neither for vigorous expansion nor for greater in-company production.

Nevertheless, the department store corporation faced completely different market structures in the wake of the currency reform, as inflation had eaten into the middle classes' purchasing power and demand for high-end goods – which had previously been the big money-spinners – ceased to exist. Directly after the successful introduction of the Reichsmark

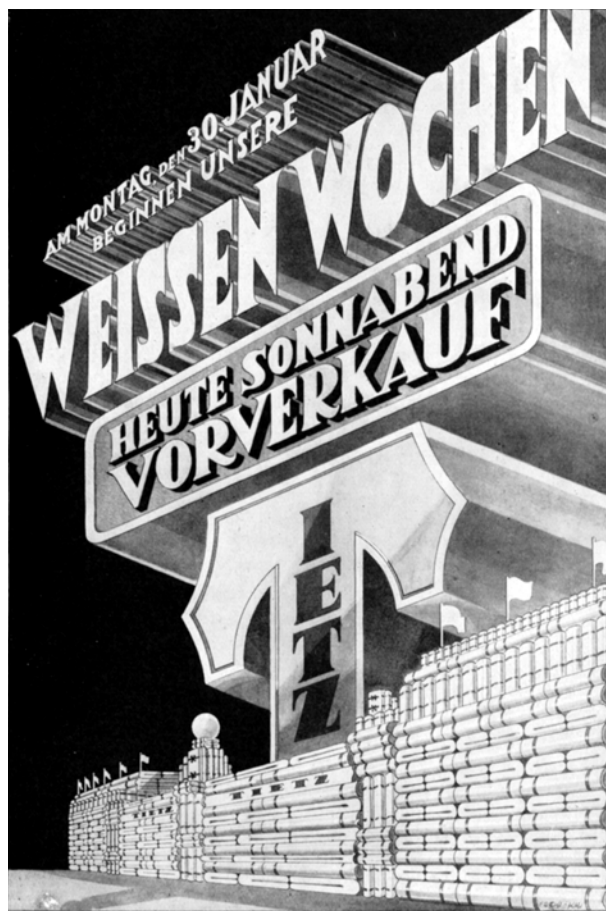


Fig. 7: Advertising poster for the “White Weeks,” 1928

in 1924 the impact was minor, as there was still massive pent-up demand for everyday goods. However, the population's limited purchasing power swiftly sparked a fierce price war, especially as the number of smaller retail companies had mushroomed and competition had intensified. After a brief boom, retail sector fortunes fluctuated compared to pre-war years until the onset of the Great Depression in late 1929, and there were tougher parameters. Alongside higher procurement prices, particularly for textiles, deterioration in payment terms, and a significantly higher tax load, demand shifted increasingly toward goods with a lower price tag and bargain-basement offers. Moreover, high interest rates made it harder to source capital to modernize old branch buildings and fit out new ones. And higher wage costs eroded prof-

its, even if the department stores and Hermann Tietz continued to be amicable towards the trade unions and upheld the collective bargaining agreements as the department store operators welcomed anything that shored up the population's purchasing power.

What, by contrast, worked in their favor was the fact that the large department store companies had largely repaid all their debt during the inflation years while at the same time boosting their net asset value by acquiring real estate and raising equity capital levels, meaning that after 1924 there was still enough financial scope for further expansion. However, the more intense price competition forced the department stores to optimize their operational workflow and minimize costs (for example by partly relinquishing in-company production and securing the lowest possible purchasing prices) while at the same time boosting turnover. The stores therefore almost all started expanding their ranges of favorably priced goods and from 1926 onward also set up cheap and low-price chains. To raise turnover, they extended their branch network into the suburbs and provincial towns, which resulted in turnover doubling in real terms on the pre-war level. The survival and success of department stores evidently depended on their achieving sufficient turnover with an impoverished client base at as low a cost as possible, and this translated into competition becoming even fiercer. The existing problem of a low return on sales thus became far more acute. Only an enduring rise in absolute turnover and goods turnaround offered a way out of the problem; without it, the department stores would be on a fast track towards ruin.

By the early 1930s, expansion by the large department store corporations had led to concentration in the segment. Hermann Tietz responded to the credit-financed expansion of the branch networks and the merger of Karstadt and Leonhard Tietz, as well as to their

establishing small district outlets – which were themselves a response to Woolworth entering the German market. Hermann Tietz initially only expanded and modernized the Berlin department stores, but at the end of 1926 it acquired five department stores and the KaDeWe store from Adolf Jandorf for about 50 million Reichsmarks, which it financed with loans from several major banks. The acquisition of the five Berlin Jandorf stores, which were all geared to the consumer needs of the simple population, meant Hermann Tietz did not have to set up its own low-end chain. And by 1930, the corporation also acquired department stores in Magdeburg and in Dresden, and in 1927 boosted its purchasing power when the Conitzer group (which had 22 stores) joined its purchasing association, enabling it to almost match market leader Karstadt's turnover and meaning it could proudly describe itself as Europe's largest owner-managed department store corporation.

In addition to the ten department stores in Berlin and the seven in the provinces, the corporation owned several purchasing and real-estate companies as well as a few small textile firms, which it needed to achieve turnover on the corresponding scale and to service its ongoing commitments. Hermann Tietz also shored up turnover by always offering favorably priced products and approving immense advertising outlays – which covered things like clearance sales, White Weeks, shop window decorations, and special campaigns as well as exhibitions and favorable service offerings. The latter included travel agencies, photo studios, beauty and hairdressing salons, and hospitality outlets offering cheap meals, which meant not only retailers and tradesmen, but also innkeepers joined the battle of small enterprise against the department stores. In the retail sector proper it was the low-price segment that grew above all, eventually accounting for about one third of the stores' turnover.



Fig. 8: Hertie store on Berlin's Alexanderplatz, 1930

Organizationally speaking, following the death of Oskar Tietz little changed at the Hermann Tietz corporation. The corporate headquarters in Berlin continued to consist only of the central procurement, central advertising, and central accounting and treasury functions. Moreover, there was a central sales section dedicated primarily to supervising and coordinating the individual department stores. Both Hermann Tietz OHG, with its procurement and fabrication companies, and the real-estate companies, in the form of stock corporations among others, were the property of the Tietz family. The individual department store branches, for their part, continued to have their own management and largely acted independently.

Despite the extreme animosity from medium-sized competitors, the department store segment was in a good position when the Great Depression started at the end of 1929, as it had spent the previous five years considerably boosting not only turnover but also its share of the market. Nevertheless, the situation could

change swiftly if turnover were to collapse and the companies were thus unable to service their immense debts, so things were by no means stable. Unlike Karstadt and other department store companies, Hermann Tietz did not initially feel the squeeze of generally dwindling turnover as of 1930. In the course of 1932, however, when its own turnover slumped dramatically, the Tietz corporation was no longer able to cover its costs from current sales and therefore had to resort to bank loans to finance ongoing operations. Since the corporation now found itself in arrears with payments to suppliers and creditors, it also gradually lost the advantages of purchase discounts, which led in part to far higher procurement costs. Moreover, the growing impact of anti-department store campaigns waged by the medium-sized companies – largely instrumentalized by the Nazi party – battered them and above all led them to fear the worst should the Nazis come to power.

In January 1933, the fear became a reality: The Nazi party's Hago organization, which rep-

resented the interests of medium-sized businesses, felt it was close to achieving its objective of eliminating the department stores. The Nazi boycott campaigns now assumed such a scale that even the Nazi government started to get cold feet, and with Hitler's support Reich Minister of the Interior Frick ordered that the boycotts be discontinued. This lessened the violence in the streets but not the inimical treatment of the department stores, which took the form of all kinds of harassment, official requirements, and prohibitions. In spring 1933, for example, the department stores were forced to close down crafts operations such as hairdressing salons and restrict the range of hospitality spaces they offered.

The political upheaval caused the Hermann Tietz corporation's turnover to plummet from

a figure of 270 million Reichsmarks in 1930 to less than 150 million Reichsmarks in 1933. As a result, the corporation's commercial viability was under threat, especially as in mid-1933 it still bore the burden of about 33 million Reichsmarks in debt. The situation was so dramatic because of the banks' refusal to continue extending credit to the department stores, despite an uncontroversibly feasible business model, against the backdrop of the Nazis' policies.

As was the case at Karstadt and the other major department store firms, the Hermann Tietz business model also entailed a credit-finance expansion and modernization of the stores, something that drove up turnover and improved cost structures so that the interest and redemption payments could easily be ab-



Fig. 9: The entrance hall of KaDeWe during the "White Week," 1932

sorbed. Given the extremely fierce competition since 1924, the large corporations' room for maneuver was largely exhausted, however, and so costs grew even as turnover fell. Costs had accounted for one fifth of turnover in 1927, but had risen on average for all the stores to 32 percent by 1933: It was hardly conceivable to continue the department store business under such conditions, as the business results no longer covered ongoing loan costs and the current credit lines required to maintain the stores and their offerings melted away, a factor also influenced by the value of the properties plummeting in the Great Depression. This was another reason why, as of 1932, the Hermann Tietz corporation was eating away at its reserves and in 1933, following a further massive drop in turnover, it no longer had the resources to survive.

In the summer of 1933, the corporation's rescue depended not just on the banks approving liquidity injections, but also on the Reich government's decision. In June of that year, Hitler and Schacht had refused the idea of the creditor banks saving Hermann Tietz from bankruptcy, but only one month later they agreed, as the company's collapse would have rendered the 17,000 staff members unemployed and left 60,000 employees without jobs at supplier companies. Moreover, the bankruptcy would have deprived the Reich Treasury of 12.4 million Reichsmarks in taxes and social insurance contributions and might have triggered a renewed banking crisis. The reason for this was that the Hermann Tietz corporation possessed bank debts of more than 30 million Reichsmarks and that all the department stores, whose future was then likewise in doubt, held a further figure in excess of 650 million Reichsmarks. Given this scenario, Kurt Schmitt as the new Reich Minister of Economic Affairs won the day, especially as a sharp increase in unemployment and a banking crisis would have

threatened the Nazi party's position in power, which it had only just gained. It bears noting that at the same time Rudolf Hess, as Hitler's deputy, forbade any acts of violence against department stores, something that the local party organizations with affiliations to the world of smaller business chose sometimes to ignore.

The change in Nazi government policy enabled the creditors of the Hermann Tietz corporation (which included not only ten banks but also a total of 17 mortgage banks, insurance companies, and private persons) to commence negotiations on saving the corporation. The Reich government tied its willingness to approve new loans to Hermann Tietz to the condition that its owners, the Tietz/Zwillenberg family, would subsequently withdraw from the company. Yet there were legal obstacles to this, as the owners of a general partnership were jointly and severally liable for it, meaning that if they withdrew then the company would have had to go into immediate liquidation. Thus, initially only Hugo Zwillenberg, as managing owner, withdrew from Hermann Tietz OHG, and the creditors founded Hertie Beteiligungs-GmbH, which in August 1933 acquired 60 percent of the shares in the general partnership. Georg and Martin Tietz therefore continued to hold stakes in the corporation for the time being.

Restoration of the financial health of Hertie Waren- und Kaufhaus GmbH: 1933–1935

In the summer of 1933, the creditor consortium granted two loans totaling 14.5 million Reichsmarks, while a standstill clause for 33 million Reichsmarks ensured the hard-hit department store corporation received the liquidity it so urgently required. Nevertheless, the enduring unsatisfactory state of turnover led to additional liquidity bottlenecks and a need for further credit, with the reasons being the continual violent actions waged by Nazi party organizations against the department stores, par-



Fig. 10: Advertising card from 1933

ticularly in the smaller towns. This was slightly assuaged by the company being renamed Hermann Tietz & Co. in July 1933 and “Deutsches Geschäft” (German firm) being officially added to the name with public permission as of September of that year, although customers continued to view the corporation as “Jewish.” Changes in the names of the branches, however, did lead to turnover picking up appreciably, with one example being the Weimar branch, which was renamed Hans Kröger am Markt GmbH. On repeated occasions, though, the company was refused permission to rename other branches (in Gera, Karlsruhe, and Stuttgart).

The sluggish turnover and the resulting losses also meant the new management faced difficulties restoring the corporation to financial health, especially as the high interest load posed

a squeeze. Initially, the financial restoration plan focused on reorganizing the central administration (in particular, the chaotic accounts department) and on cost-cutting, with the specific aim of reducing the payroll. This primarily involved Jewish staff members – among other things, in order to meet the demands of the Nazi foremen in the stores and the Nazi party itself. Yet the management was not able to get by without a lot of its Jewish managers and purchasing officers, as there were no suitable replacements in the recruitment market. All in all, between 1934 and 1936 about ten percent of all salaried staff were fired.

Although the multi-million injection of liquidity enabled Hermann Tietz & Co. to considerably lower its liabilities owed to suppliers, the corporation remained in a precarious position given that turnover was still too low. In spring 1934, this led once again to liquidity problems, which could only be allayed by the decision to take further loans from creditors. The difficult business situation did not improve after the tussle with the Tietz family over ownership of the assets, which was not resolved until the summer of 1934 and only after prolonged negotiation, since no agreement had been reached on the valuation of the real estate portfolio. On the basis of the August 1934 partition agreement, the Tietz family partners finally quit Hermann Tietz OHG, and their shares in all the companies in the group were assigned to Hertie Kaufhaus-Beteiligungs-GmbH, which also acquired two properties and securities privately owned by Betty Tietz. The Tietz/Zwillenberg family was left with only its private residences, a few Berlin and Munich “company properties,” and the Berlin group member company Mefa Bleicherei, Färberei und Apparatur Textilhandels AG. On the basis of a waiver approved by the Reichsstelle für Devisenbewirtschaftung (Reich Office for Foreign Exchange Management) and from the financial authorities, the family was ex-

empted from paying Reich Flight Tax and was permitted to transfer foreign currency abroad on a certain scale via exports. Nevertheless, in the partition agreement they had to forgo a sum of some 16 million Reichsmarks in order to at long last escape liability for the corporation's debts.

After the tussle, the family's assets totaled only about 2.5 million Reichsmarks and it was no longer able to emulate its past business successes; indeed, even the export transactions did not bring in much. Between 1936 and early 1939, the family members emigrated, though prior to moving to the Netherlands Hugo Zwillenberg spent two weeks imprisoned in the Sachsenhausen concentration camp after the November 1938 pogrom. The other family members left Europe via Switzerland, heading for the USA or Cuba. The Zwillenberg family only avoided deportation from the Netherlands to a death camp because Hugo Zwillenberg had become Honorary Consul of Nicaragua and in May 1944 was exchanged in Spain for German POWs.

After the Tietz family had withdrawn from the corporation the situation nevertheless remained tense, not helped by the fact that in January 1935 its name was changed again, this time to Hertie Waren- und Kaufhaus GmbH. The name Hertie referenced the former in-company "Hertie" brand, a contraction of Hermann Tietz, the company name. The corporation continued to post losses, with turnover still too low and a hefty debt load – the two core problems facing the new Hertie management, which since 1933 had been made up of Reichsfreiherr von und zu der Tann-Rathsamhausen and Georg Karg. Von der Tann was a lawyer who had previously worked at Dresdner Bank and was supposed to represent the interests of the major shareholders at the corporate management level; he was primarily responsible for the finances and for negotiations with the Tietz family. Mean-

while, businessman Georg Karg was the department store expert in the new Hertie management board. Karg had started his career at the Adolf Jandorf department store firm and soon emerged as manager of its Wilmersdorfer Strasse branch. And he swiftly climbed the ladder in the Hermann Tietz corporation, too; in 1929, he was appointed head of procurement for fabrics, linen, and haberdashery. He was not active politically and had a good relationship with both Jandorf and the Tietze family, and he was the youngest and only member of the Hermann Tietz management not to be of Jewish descent, which is presumably why the banks chose him as managing director of Hertie Kaufhaus-Beteiligungs-GmbH in the summer of 1933. He quickly set up a new management team consisting of reliable staff members from his close circle, but neither he nor von der Tann were particularly trusted by the creditor banks in their first few years on the job.

In 1935 government restrictions in the form of special taxes or the restriction of promotional sales prevented department store turnover from recovering, as did the persistent acts of violence perpetrated by various Nazi party organizations against both "Jewish" and "non-Jewish" department stores.

Faced with sagging turnover and further liquidity problems, in 1935 the Hertie management was once again forced to take up short-term loans, yet these did not suffice to meet all obligations to suppliers. The company was not even able to fully meet interest payments and commissions due; it only avoided insolvency by selling items from the corporation's real estate portfolio and taking other measures to bolster its finances. Although an external profitability analysis showed clearly that Hertie would be able to consistently bag discounts in procurement and thus save 1.5 million Reichsmarks if it had greater liquidity at hand, the representatives of the creditor banks on the Hertie advi-

sory council ignored the recommendations and voted against a capital increase: The creditors refused to have any active involvement in restoring the corporation to financial health and insisted simply on repayment of the loans they had granted. In early 1936, they again rejected the corresponding plan tabled by new Advisory Council Chair Erich H. von Berger of Deutsche Bank, so in spring 1936 Hertie was confronted by a more than uncertain future: Insolvency remained a possibility, although Hertie's operations were once again turning a profit. Surprisingly, one of the two managing directors, namely Georg Karg, used the stalemate to propose something that led to Hertie having a new ownership structure and a new board.

Karg's takeover of the Hertie corporation and the department store business: 1936–1945

Karg proposed to Dresdner Bank that it grant him a loan with which he could acquire 51 percent of the Hertie shares. At the same time, he guaranteed the sellers of the shares ten percent of profits for a multi-year period, with his condition being a five-year moratorium and the Hertie board being made independent of the advisory council. Given the meager equity of only 2.5 million Reichsmarks, 51 percent of the shares at a nominal of 50 percent would have cost him "only" 637,000 Reichsmarks, a figure he could shoulder with his private assets; Karg by this time possessed three department stores of his own in Berlin, Lower Lusatia, and East Prussia, obtained through "Aryanization."



Fig. 11: Tobacco department at KaDeWe, mid-1930s

After negotiations, Karg came to an agreement with the main creditors. At the end of November 1936 part of the Hertie debts were converted into a loan to Karg and the other part into equity capital, which was thus raised to 7.5 million Reichsmarks. The remaining liabilities were deferred, as the creditors approved a further moratorium until April 1941. In the years that followed, Karg ran the company as an owner-managed company with a sole shareholder; von der Tann therefore moved to join the company's advisory council.

Karg had chosen the right moment for the takeover, as not only did Nazi attacks on the department stores wane after 1936, but the retail business also picked up appreciably. Indeed, the Hertie corporation's operating results had improved since the beginning of the year, and in business year 1936–7 Hertie was able not only to generate an overall profit but also to meet all its interest and redemption payment obligations again in 1937. By 1938–9 turnover rose by as much as a third, while overall costs remained low, and with liquidity improved by loans and the approval of secure long-term financing, the company's reorganization was easier to undertake. Karg gradually acquired further shares, which he also financed by selling items of real estate not required for the department stores proper, and as early as June 1940 he held all the shares in the corporation's equity, which for fiscal reasons he held through his participations in Paul Held Nachf. GmbH and Deutsche Boden AG.

Karg's objective of a family-run corporation with a total of 19 department stores hit considerable obstacles with the outbreak of World War II. In the retail sector, the outbreak of war meant that important consumer goods such as food and textiles were immediately subject to rationing, but the German department stores still did good business through 1942 and usually posted profits – in the absence of documentation, we can only assume this to have been

the case with Hertie, too. The reason for the good earnings was first that the department stores had adapted better to the additional red tape and the administration of ration cards than did small retailers. Second, they benefited from special orders from the government for provisioning the general population when it came to both distributing goods and procuring them within/from the territories occupied by the German military. Finally, the large department store corporations also received orders to equip soldiers with uniforms. Yet turnover still declined, because as early as 1940 there were bottlenecks in goods supplies and the stores were forced to rely on stockpiled goods.

The decrease in sales did not translate into losses, however, as the costs borne by the department store corporations fell on a par with the decline in turnover, and the payroll fell



Fig. 12: Georg Karg at the Hertie Christmas party in 1938



Fig. 13: Christmas party in 1938 with Hitler salute

sharply owing to Wehrmacht conscription and staff being mandated to perform handling tasks in the war economy. The reduction in warehoused goods also helped the department stores post a profit in the first few years of the war. The large liquidity pool that was accumulating prompted Georg Karg, like other department store corporations, to now attempt to buy out several department stores in Bohemia and Moravia as well as in the Netherlands, but he failed. Karg did succeed, however, in gaining a foothold in Strasbourg in Alsace in 1940, where he acquired the Magmod department store that operated until 1944 as Kaufhaus Union and as a member of the Hertie group. Another option for using the surplus liquidity was to repay liabilities, and by the end of the war almost all the department store companies had largely redeemed their debts.

In the second half of the war, the department store corporations no longer posted profits, something attributable above all to the considerable damage wreaked by bombing raids and the subsequent closure of stores. Of the 19 department store branches in the Hertie group, ten had been completely destroyed; only the two large stores in Munich and Hamburg as well as smaller department stores in Plauen, Gera, and three smaller Berlin branches had sustained tolerable damage. As far as possible and for all the destruction, sales continued during the war, above all in fallback premises or in provisionally created sales rooms in the damaged stores. However, in early 1943 additional stores had to close, which in Hertie's case meant the large branch in Munich.

The supply bottlenecks posed just as great a problem, as did the massive restrictions im-

posed on consumers, particularly regarding textiles, and the management of the department store companies and individual department stores therefore tried their very best to obtain goods and maintain selling activities. In the Hertie group, the Alsterhaus is known to have bought confiscated private property for sale in 1943, probably export goods that had got stuck in the Port of Hamburg when the war started. Moreover, the Hamburg branch took receipt of clothes, coats, and men's suits from the administration at the Litzmannstadt Ghetto, all of which had been made by the ghetto inhabitants.

Georg Karg's involvement in the Zentrallagergemeinschaft für Bekleidung (ZLG, Central Storage Association for Clothing) can probably also be attributed to his interest in securing textiles to ensure due provisioning of his department stores. ZLG's task was to procure clothes in the occupied territories in eastern Europe and redistribute them in Germany. Despite

their having jointly set up ZLG, Georg Karg left management completely to Josef Neckermann.

Irrespective of the company's financial position, in early 1945 Karg started preparing the corporation for the end of the war and Allied occupation. In January 1945, he therefore transferred ownership of the department stores to several independent regional companies, each with its own management and accounts, thus protecting the group as a whole, in particular against the Soviet occupation forces. In fall 1945, under the umbrella of Hertie GmbH-Zentralverwaltung in Berlin, Hertie consisted of a total of 11 operating companies.

New beginning amidst ruins and expropriations: 1945–1952

Regardless of Karg's efforts to restructure the corporation, at the end of the war business meant operating from the midst of rubble and ruins. Not only had department stores been destroyed, but there had also been considerable



Fig. 14: Ruins of the branch on Alexanderplatz, Berlin

losses of goods, and yet the early summer of 1945 already saw Georg Karg trying to get business going again from his base in Berlin's Mitte district – the head office, which had likewise been heavily bombed. Business meant not just sales in those stores which had only been partially destroyed but also selling goods from the basements of those buildings that had been razed to the ground, or in ground floor outlets, or in huts. Although Karg was not encumbered by Nazi affiliations, his branch offices in the western zones of occupation were placed under trusteeship in 1946 because the US Military Administration said that the change in ownership in 1933–4 should be classified as “Aryanization,” and Georg Karg as the subsequent purchaser was deemed to therefore jointly hold responsibility. These branches were nevertheless still operated by the Berlin head office and management provided by the central accounting section, which relocated to Hamburg in 1946. In the Soviet zone of occupation, the branches were sequestered at the end of 1945 and the Hertie group was stripped of control of them. They were later expropriated, with the loss of the assets of the 11 department stores in the Soviet zone and of several purchasing companies and warehouses estimated at a value of 32 million Reichsmarks.

Until the currency reform of 1948, Hertie business activities in the west were characterized by an effort to erect temporary outlets and, above all, by difficulties in procuring goods. At the end of 1947 Georg Karg launched the first construction measures for branch stores, such as that on Wilmersdorfer Strasse in Berlin. All in all, the company had managed to significantly boost sales before the currency reform took place. However, it was not until after the currency reform of June 1948 that there could be any talk of a real new beginning, as from that point onwards turnover in the existing business premises truly exploded, with the stores in southern



Figs. 15–18: Reopening of KaDeWe, 1950

Germany playing a decisive role. The business expansion was now financed from profits and write-downs, and given the population's great demand for consumer goods, in spring 1949 Karg acquired his Stuttgart rival "Kaufhaus für Alle" and thus his first new branch after the war.

A major hurdle to any further expansion was the pending claims brought by the Tietz/Zwillingen families, as in June 1948 the Tietz family had filed three restitution applications on the basis of the Military Government's Law No. 59, namely for the stores in Munich, Stuttgart, and Karlsruhe. After negotiations between Karg and the family's representatives and following fiscal concessions by the Bavarian Ministry of Finances, an agreement was reached in fall 1949, under the terms of which Karg returned the three stores in southern Germany to the Tietz heirs and took out a long-term lease on them with immediate effect. By way of rent, the family received a percentage of sales and in exchange waived further restitution claims in the western zones of occupation and West Berlin, as a result of which the Hertie corporation was released from supervision by trustees. Moreover, Georg Karg and the Tietz/Zwillingen families agreed that Hertie would not be permitted to open new department stores in Munich, Stuttgart, and Karlsruhe without the express permission of the Tietz family.

It was quite easy for Georg Karg to fulfill the terms of the agreement with the Tietz family because sales were surging, and he was therefore able to raise the requisite funds. Furthermore, having regained full control of the company, Karg was now able to start thinking about further expansion of the branch network. Between the end of 1949 and 1952, Hertie acquired department stores and supermarkets in Hamburg's Bergedorf district, in Frankfurt's Hoechst district, in Nuremberg, Göppingen, Bamberg, Wuppertal's Elberfeld district, and in Berlin in Neukölln and at the Zoo. In addition, dur-

ing this time he set up new department stores in Braunschweig, Neumünster, Landshut, and Geesthacht, and at the same time the existing store buildings in West Germany and West Berlin were being repaired. This can be seen from the example of KaDeWe in Berlin: In July 1950, a sales area of 5,000 square meters was opened on its ground floor and first floor. Work continued progressing upwards to the sixth floor and expanding the overall sales area to reach the pre-war status of 44,000 square meters and was completed by 1956.

Karg invested all the group's profits in the new branches, and as a result the Hertie branch network had reached the old figure of 19 stores by mid-1952. This also meant that, as in the past, the group was able to book better procurement terms given the greater sales volume. At the end of 1952, Karg then succeeded in taking over both Hansa AG in Frankfurt/Main, which had three department stores (in Mannheim, Frankfurt, and Hanau) and AWAG. The latter corporation consisted solely of the real estate portfolio of the former department store corporation Wertheim AG. In subsequent years, Karg then opened department stores of his own on these sites, but under the old name of Wertheim. In this way, Hertie emerged in Berlin as the undisputed market leader in the department store segment.

In the period 1949 to 1962, Hertie boosted turnover by 271 percent, or roughly at the same speed as its traditional rivals Karstadt and Kaufhof, both of which likewise strongly increased the number of their department stores in the wake of 1948. All three companies benefited from the nascent economic upturn and also stayed on track for expansion even after a fourth rival elbowed its way into the market in 1957, namely Horten. Until the early 1990s, these four department store conglomerates continued to dominate the West German market segment.



Fig. 19: Entrance hall of KaDeWe at its reopening in 1950

Inexorable expansion during the West German “economic miracle”: 1952–1972

In 1952, a change gradually took place away from a sellers’ to a buyers’ market; the first wave of pent-up demand had been met and sales growth per square meter of sales space stagnated. The department stores, and with them Hertie, responded to this trend first by expanding their ranges and including higher quality goods in their lines, and second by establishing further branches. This expansion in the store network persisted until the early 1970s.

In the fall of 1952, Georg Karg also started reorganizing his corporation. He began in the summer of 1953 by transferring the business shares in the group member companies to a family foundation in order to protect Hertie against takeovers. Karg made certain he was appointed chairman of the foundation for life and made his two children his successors. In

addition to the majority stakes the family foundation held in the subsidiaries, Georg Karg also controlled the group through shares he and his children personally held in the property portfolio, and by granting himself special voting rights. Thus in 1951, despite his very small share of only two percent in the company, he held no less than 96.8 percent of the voting rights in Hertie Waren- und Kaufhaus GmbH, while the two children each had a share of 49 percent in the company but together owned only 3.2 percent of the votes. These percentages remained unchanged with each capital increase.

Establishing the Karg’sche Familienstiftung foundation marked only the beginning of his efforts to restructure the corporation. The two joint stock corporations the group had acquired (Hansa and AWAG) were both transformed into limited liability companies and now functioned like the other department store companies

(Union, KaDeWe, etc.) as subsidiaries of Hertie Waren- und Kaufhaus GmbH, which was in charge of the operations side of the department store business. By contrast, the family foundation functioned as a holding company and managed the countless property companies. After the Berlin Wall was erected, Hertie founded Kaufhaus Hertie GmbH in April 1963, to which the lion's share of the Berlin participations and nine department stores was assigned. By the early 1960s, the structure of the Hertie group was thus in place, with Georg Karg undisputedly playing first fiddle until his death in 1972 – among other things because he was able to rely until the very end on his son Hans-Georg and long-standing staff members in the company's management. Group head office relocated at one point from Hamburg back to Berlin, but in 1961 became domiciled in Frankfurt/Main once and for all.

Irrespective of this, Hertie continued to expand its branch network in the 1950s and

1960s – like the other department store corporations, this enabled it to bag an ever-greater share of the retail market overall. Although the pace of growth slowed at times in response to the nascent crisis in middle-class circles, the conditions for creating a larger branch network remained truly ideal during the “economic miracle” in West Germany, even in mid-sized towns and suburbs. Given the cost advantages when it came to procurement, the department stores continued to take market share from conventional retailers, and until well into the 1960s, opening new store branches did not involve much risk as the investments swiftly paid off. Unlike the period before 1953, now Karg chose not to take over existing supermarkets or department stores but consistently had new premises built, and in this way, he doubled the group's total sales area as the new houses were always bigger and existing ones were extended.

There was no discernible strategy behind the expansion in the branch network until 1972,



Figs. 20 and 21: Hans-Georg Karg in his younger years and his father Georg Karg in later years



Fig. 22: Berlin Mehringdamm branch in 1952

but Hertie did not start increasing the number of its stores in North Rhine-Westphalia until the mid-1960s, presumably because Karstadt, Kaufhof, and Horten were traditionally strongly represented there. In 1972, Hertie ran 101 department stores and Bilka branches in almost all the major cities, and in southern Germany it also had countless branches in medium-sized towns such as Esslingen, Lörrach, and Böblingen. In 1964, Hertie was the first of the four major department store corporations to open a department store in a shopping mall – namely the Main-Taunus-Zentrum outside Frankfurt/Main, Germany's second shopping mall.

At a considerably earlier point, in 1952 the Hertie group opened its first Bilka brand supermarket at Kottbusser Damm in Berlin, which fielded small price-tag goods like its rivals at Kepa, Kaufhalle, and Woolworth and was designed to sell in big-city suburbs and mid-sized

towns. By 1972, the Bilka branch network had grown to 29 stores in 22 cities and offered not only a pared-back range of fabrics and everyday items but also food. However, the planned opening of a Bilka market in Munich in 1955 also triggered a long-standing dispute with the Tietz family, who pointed to the clause in the restitution agreement that said Hertie was not allowed to open competition for its own Munich department store branch without the family's permission. A final settlement was reached in 1963 and the Tietz family received a slice of the profits from the future new stores in Munich, Stuttgart, and Karlsruhe. After the expiry of the 1949 restitution agreement, in July 1970 Hertie then exercised his call options and acquired those three properties, too.

These larger sales areas had become necessary in order to be able to increase the range of goods offered, as new types of goods were

continually being added to the assortment – from car accessories through to pet supplies. Huge stores such as KaDeWe or the Hertie in Munich now had over 100 departments, each of which offered far more articles per goods segment than in the past. The total number of different articles on offer in all the branches had risen for the large department stores to 120–130,000 by the early 1970s, as the group set itself the yardstick of presenting the entire and ever-larger consumer world in its stores. Hertie, like its rivals, was endeavoring to shed the fusty image of a cheap mass-market operator and opted to trade up, with the inclusion of higher-end articles and brand-name items bringing the quality of goods more on par with the specialist retailers. This trend was nevertheless undermined by that of self-service, which had picked up speed since the mid-1950s. As with other innovations, Hertie was hesitant in its approach here compared to the other department-store big guns, which led to it being regarded as conservative.

In addition to expanding its product ranges in the mid-1950s, Hertie, like its rivals, also increased the range of services it offered. Traditional services such as clothing alterations were now supplemented by key-cutting facilities or hairdressers. Starting in 1965, simple property insurance policies were on sale, and in 1970 Hertie was the first department store group to introduce its own customer credit cards with a view to boosting customer loyalty.

In West Germany, promotional sales remained legally prohibited outside the winter and summer sales, so other special campaigns were required to attract customers, such as exhibitions of popular art, fashion shows, or autograph hours with celebrities, and these could even involve social events that caused a real stir. Although the department stores were far less aggressive with both their ads in newspapers and their pricing strategies, they always



Fig. 23: Christmas at the Mehringdamm branch in 1958

reacted to rivals' undercutting them and passed the lower procurement prices they achieved compared to the mid-sized retailers on to customers in the form of cheaper sales prices. In the 1960s, however, the department stores lost their edge in price-making, with other retail business models gaining the upper hand, such as the emerging self-service department stores and chain stores as well as the food discount stores. On top of this, the new rivals' locations on the edge of town meant they often had better carparking to offer and were a more convenient option for large shops by car – setting up multistory carparks in downtown locations was an expensive matter for the department stores.

It was precisely due to the new rivals offering more favorable prices that the department stores – and with them Hertie – continued to prioritize procurement. However, Hertie increasingly procured its goods outside Germany; as of the 1960s, it relied ever more on suppliers in East Germany and above all Asia. But favorable procurement was hardly enough to offset the cost pressure the company was feeling. In the 1960s, the personnel costs alone rose disproportionately to both the payroll size and turnover. Sales growth in the late 1960s and early 1970s was deceptive, as it was driven to a large extent by price increases. Real growth could only be

achieved with further expansion of store sales space, which did nothing to ease cost structures. Since Hertie continued to post sufficient profits and Georg Karg consistently reinvested them, this conservative balance-sheet policy enabled the corporation to establish considerable silent reserves, thanks above all to the constant write-downs on its real estate portfolio.

A comparison with the other three major department store corporations shows that Hertie's performance between 1952 and 1972 was typical as regards the policy of expanding the branch network, the strong growth in turnover, the cautious balance-sheet policies, and the department store architecture. Given the fact that its stores in East Germany had been expropriated, it took Hertie until the end of the 1960s to make up the ground lost to Kaufhof and Karstadt, and in 1972 its total turnover placed it behind Karstadt and in front of Kaufhof in the league table. All four corporations grew far faster than the retail sector per se, which is why the

department stores doubled their market share from 5.1 percent at the beginning of the 1950s to slightly over 10.2 percent by the end of the 1960s. However, their great success led the management of the big four to underestimate the competition the fast-emerging self-service department stores and other retail outlet business models posed.

Georg Karg likewise overlooked the importance of the new rivals, although he continued to devote himself to many matters of detail such as the specifics of goods presentations and the fit-out of his stores. Management continued to evaluate the corporation and the individual stores solely in terms of the turnover figures and the procurement limits set, which is why the Frankfurt head office relied on a comparatively small team of staff and central functions. To the end, Karg trusted not only his son Hans-Georg and his nephew Dietrich Karg, but above all long-standing staff members, whose loyalty he rewarded with the security of long-term em-



Fig. 24: Opening of Bilka department store, Frankfurt am Main, November 15, 1961



Fig. 25: The Hertie and Bilka branch network, 1972

ployment and countless in-company career development measures, as well as good salaries.

Between loss-making, rationalization, and diversification: 1972–1989

The transition to Karg's son Hans-Georg taking over as chairman of the family foundation, the name of which was formally changed at the early date of September 1971 into "Hertie-Stiftung," and as chair of the supervisory board of Hertie Waren- und Kaufhaus GmbH happened swiftly and smoothly. Hans-Georg was not the person to don the mantle and act as a patriarchal leader. The Hertie-Stiftung continued to hold 98 percent of the shares in the Hertie group, while the remaining two percent were held in equal parts by Hans-Georg and his sister Brigitte Gräfin von Norman. The board of the foundation consisted of seven people and new members were appointed: Hans-Georg and his sister were supported by five outstanding figures from the business community whom Georg Karg had selected in advance.

At the end of 1974, the (Familien-)Hertie-Stiftung also set up the non-profit Hertie-Stiftung, which served exclusively and directly to support scholarly enterprise, specifically in the fields of education, adult education, and vocational education. The family foundation transferred to it 97.5 percent of the shares in Hertie Waren- und Kaufhaus GmbH, which was slightly more than half the total assets held by the family foundation and had a value of about one billion Deutschmarks. The reason for this move was the introduction of inheritance tax applicable to family foundations that ran at 35 percent every 25 years. The family foundation nevertheless retained control of the Hertie group, as it still held the majority voting rights at the partners' meeting of Hertie Waren- und Kaufhaus-GmbH, and both Hans-Georg Karg and his sister belonged to the above-mentioned seven-member board of the non-profit Hertie-Stiftung for life.

In the first few years after Georg Karg's death, despite the writing being on the wall for weak growth prospects in the department store segment, group management continued with the existing corporate strategy of increasing gross sales area and turnover by opening new branches. By 1980, a total of 11 additional department stores were opened, although in 1977 the company had been forced to close department stores, and group profits, on the down since 1972, crunched completely in 1976, with the year closing with a consolidated loss on operating activities. Hertie pressed the pedal even harder when it came to opening new Bilka outlets, although the low-price subsidiary had been making a loss since 1972 and Karstadt, for its part, had closed down its low-price Keba outlets.

Hertie management reacted to the collapse in business in 1973–4 and the gradual change in consumer behavior somewhat hesitantly in another regard, too. It retained its classical department store approach, did not diversify, and was always at the back of the pack when it came to introducing new selling methods, such as shop-in-shop systems, setting up themed fashion boutiques, or reducing the very high proportion of textiles in its lines. The sole response to the deteriorating operating profits was to slash the payroll by almost a quarter of the staff through the end of the 1970s and to standardize the ranges, centralize procurement, and boost cost-effective articles imported from Asia. Measures such as the attempt after 1977 to avoid price competition with self-service department stores, specialist markets, and discounters by trading-up the product lines were not successful. The negative return on sales from 1976 onwards translated into operating losses and was only offset by allocations from the hidden reserves, sale of properties, and other extraordinary income, meaning that the Hertie group's considerable equity capital started to contract for the first time.

In addition to the deteriorating economic climate and consumers being more price-conscious, the Hertie group's problems were also the result of its own management's vacillations and lack of clear strategic thrust. Hans-Georg Karg had not succeeded in defining a strategic focus for management to follow that would have enabled the Hertie department stores to find their place in a market that was increasingly becoming polarized between cheap offerings of simple articles and expensive personalized items. The problem for the department stores was their high costs, which meant they could not try and emulate the prices of the outlets offering cheap wares, and the need to sell larger volumes meant nor could they try and emulate the specialist stores. Meanwhile the new business models of self-service greenfield department stores or even specialist retailers such as Saturn-Hansa were bagging an ever-increasing slice of their market share and sales. Another fundamental problem the department stores faced was that it had become impossible to present the entire world of consumer desires "under one roof." Although by the end of the 1970s the stores, which were constantly being expanded, were already offering customers as many as 250,000 different articles, they could not compete with specialist supermarkets or what the latter could offer.

Diversification constituted a successful response to the new specialist retail outlets, as it meant a shift away from the exclusive concentration on classical department store business, for example with entry into the tourism market or with specialist stores for sports or technical items. This path was taken by Karstadt and Kaufhof, but Hertie did not go down it; the management evidently did not sit up and take notice of the structural change underway in retailing until it was too late, and for too long stuck to the traditional policy of enlarging gross sales area by opening new branches, even though the very

fact that the new branches were not economically viable had served only to render the problem more acute as of 1966. Moreover, managers simply busied themselves copying the rivals' successful projects, but usually too late and only half-heartedly, and in doing so neglected cost management. Given the poor results, in 1979 management was restructured; now, alongside their older peers, younger members joined and set about implementing the UK80 financial restoration program developed by the Chief Human Resources Officer Hans-Ludwig Gröschow, with the goal being to cut costs of 192 million Deutschmarks and thus to be back in the black as early as 1982. Despite great successes in cost-cutting in early 1981, Hans-Georg Karg appointed industrial manager Bruno Lippmann as the new chair of management. The latter proceeded in the midst of the renewed economic downturn to opt not for cost-cutting but for a trading-up strategy that led to sharp declines in turnover through 1984. This, in turn, resulted in the group posting high operating losses, which were offset by sales of real estate and in particular the sale-and-lease-back transactions with department store properties.

Lippmann did not manage to achieve any enduring improvement in the overall consolidated financial figures and was fired. The remaining members of management immediately corrected Lippmann's trading-up pricing policy, and after a sharp upturn in turnover, in early 1986 Karg appointed Head of Sales Jürgen Krüger as the new spokesman for the board and that same year retired from his position as chairman of the supervisory board due to old age. The role was then taken on by Guido Sandler of Dr. August Oetker KG, although Karg's position as chairman of the family foundation meant he continued to play a role in deciding the fate of the Hertie group.

In addition to the more aggressive pricing policy, part of the strategy to restore the group's



Fig. 26: Wertheim department store on Berlin's Kurfürstendamm in 1972

financial health as of 1985 included closing 15 loss-making outlets and other cost-cutting steps, which led to the payroll falling to as low as 25,000 staff members. The experiments in introducing so-called “selective department stores” with a limited range of goods were less successful, as was the spin-off of the loss-making food departments to form the wholly owned subsidiary NuG Optimus. Efforts to restore the Bilka chain to financial health also failed, and as a result the Hertie management board resolved in 1989 to sell most of the branches to Woolworth and Kaufhalle and closed the remaining outlets; only the five branches in Berlin were maintained.

Despite the process of financial restoration not being complete, at the end of 1986 the management board decided to abandon the existing concentration on department store business and place the group on a broader footing through diversification, aping the example of

Karstadt and Kaufhof and opting for other retail business models. To this end, in 1987 and 1988 the group swiftly acquired the WOM music media retail chain, electrical and electronic goods specialist markets Schürmann, Schauland, and Becker, textiles retailer Wehmeyer, and shoe mail-order company Vamos. However, with the exception of WOM and Wehmeyer, the acquisitions proved to be management-induced mistakes and caused many years of losses. Management also made mistakes when it came to the swift expansion of the branch network, as market analyses were not performed, and the internal branch projects were also riddled with errors: Not only did it cost millions to establish the branch chains for toys (Wir Kinder), stationery (Funny Paper), sports goods (Sports-World), and other specialist outlets, but these also failed to post a profit at any point and yet remained in operation for many years.

In the final instance, the diversification strategy came to nothing, mainly because the Hertie management board simply had no real concept; its only strategic achievement was to copy rivals' existing projects, doing so in long since saturated markets. Potential synergies with the department stores business – for example, pursuit of a joint procurement strategy or operation of shared warehouses – were not tapped with regard to either earnings or savings. The diversification strategy led not only to immense losses but also to the group's core business being neglected, which prompted a raft of pent-up modernization projects. The one or other success in setting up high-earning own brands, lucratively renting out sales areas, or increased procurement from the Far East did nothing to change the overall situation and failed to make up for the multi-million-Deutschmark mistakes, such as the introduction of an IT-supported goods inventory system.

On the back of all the failures, the group only posted minor profits despite consistently increasing sales from 1985 to 1988, and in 1989 was able to boost the return on sales to 1.8 percent only thanks to the mass purchases by East Berliners when the Wall came down. The Hertie group's improved finances were ultimately attributable to classic balance-sheet window dressing, as the new management board regularly sugarcoated the annual losses by factoring in extraordinary earnings. In addition to selling off items from the portfolio of fixed assets, the board continued to rely on its policy of sale-and-lease-back agreements for department store properties, which squeezed future profits given the rent that had to be paid going forwards; in most cases, the management board sold properties to real estate companies that were members of the Karg'sche Familienstiftung.

Financial difficulties and dwindling market share meant that the gap between Hertie and its two main rivals, Karstadt and Kaufhof, grew

further. At the end of the 1980s, even Horten was in a better position than Hertie, as it focused on its "Galeria" concept and an expanded shop-in-shop system, and thus a department store program that had the best prospects for the coming decade. By contrast, Hertie was experimenting with diversification projects and several different department store concepts without any real thrust and without establishing a strategy that promised successes, something that was also the product of a now hopelessly divided management board. Yet both Sandler and Hans-Georg Karg as the chairs of the supervisory board and the family foundation chose not to fire the board. Weighed down by this ballast, Hertie moved into the 1990s.

Brief boom and swift end: 1989–1997

The start of the new decade was nevertheless favorable, as the inflow of new customers from the former East Germany persisted in 1990 and 1991, bringing Hertie record sales in its Berlin branches in particular, and for the first time in a long while it booked operating profits on a sufficient scale. In addition, the branches managed to offload stockpiled wares and appreciably lower inventory levels. However, in mid-1992 the retail sector's prospects started to dim again.

As early as spring 1990, Hertie started cooperating with several "Centrum" department stores – namely at Berlin's Ostbahnhof, in Erfurt, and in Schwedt. Hertie's targets for acquisition were larger department stores, and there were also efforts to ensure the restitution of its own department stores that had originally been expropriated by the Soviet military administration and/or East German government – an endeavor that did not prove particularly successful. Of the four major department store corporations, Hertie thus posted the lowest sales in the new eastern German market.

Even less successful were the management board's efforts to set up joint ventures in Po-

land, Czechoslovakia, and Croatia in order to gain a foothold in retailing there, as it was soon forced to sell off all the relevant projects. What proved more than just problematic was the acquisition in September 1992 of ten Quelle department stores, for which a sum in the triple-digit millions had to be paid. Instead of the expected sales and synergies in procurement and logistics, the small department stores, which essentially resembled the old Bilka outlets, together posted a loss well in excess of 250 million Deutschmarks.

Although a few large stores were indeed modernized, the problem remained the unmodern and loss-making smaller branches and the unfit inventory management system. Wage costs rose on the back of high collective bargaining agreements and ate into sales, even if the latter continued to climb. The return on sales fell as a

result, to as little as 0.1 percent in 1993, forcing the management board to sell further properties in order to balance the books for the year. Such results in 1990 and 1991, which were otherwise outstanding years for retailing, made it abundantly clear to the management board, the supervisory board, and the advisory council of the family foundation that the group's structures and current composition meant it would hit massive problems in times when the retail sector was not flourishing. This culminated in firm ideas to sell the group. As Hans-Georg Karg, who was a champion of Hertie's independence, retired in January 1993 from the supervisory board of the family foundation, Supervisory Board Chairman Sandler now pressed the pedal on selling Hertie to Karstadt. In summer 1993, an agreement was reached with Karstadt CEO Deuss that the Karstadt group would acquire Hertie.



Fig. 27: Opening of the Erfurt branch in 1991

After due diligence on the value of Hertie fixed assets and an assessment of whether the sale would comply with the statutes of the two foundations, a three-way deal was agreed.

Thus, all the partners in Hertie Waren- und Kaufhaus GmbH (meaning the Gemeinnützige Hertie-Stiftung with a share of 97.5 percent, the family foundation with 0.5 percent and the Gesamthandsgemeinschaft Karg/von Norman, who jointly owned two percent) sold their shares to Karstadt and received in return the purchase price of 1.6 billion Deutschmarks. Gemeinnützige Hertie-Stiftung then passed its portion of the purchase price on to the family foundation by way of a loan, and the foundation together with the Karg/von Norman family acquired 30 percent of the Karstadt shares from Commerzbank AG and Deutsche Bank AG. With the deal structured this way, almost everyone involved benefited: Karstadt gained further

market share in the department store segment and now had a far denser store network in south Germany and Berlin, while the Karg/von Norman family and the family foundation were able to shed the loss-making corporation and received a large stake in the profitable market leader. In addition to the Karstadt dividends, they were also able to look forward to rental payments on the department store properties that were now paid by Karstadt. On the loser's end of the Hertie takeover by Karstadt were Gemeinnützige Hertie-Stiftung, which received an agreed annual payment of only eight million Deutschmarks for its loan of 1.6 billion Deutschmarks, which translated into interest of 0.5 percent, and the staff of the Hertie department stores and central head office that were then closed in the years that followed.

With the acquisition realized in March 1994, the history of Hertie and Hermann Tietz as an



Fig. 28: KaDeWe after renovation in 1996



Fig. 29: Advertising poster for the takeover of Hertie by the Karstadt Group, 1993

independent corporation came to an end, but not that of the Hertie department stores, which continued for some years under the Hertie and Wertheim brands and were operated as a separate division of the Karstadt group. However, the new Hertie management board imposed by Karstadt did not manage to get the department stores back in the black, which meant that many of the profitable Hertie department stores were transformed into Karstadt branches, while the other loss-making stores closed. In 1995, the remaining 76 Hertie department stores were subdivided into division outlets or project outlets, with the 36 project outlets being branches that needed to be modernized or closed – or, if they were not closed, they were then run as special-purpose department stores, for example for sports or technical goods. Karstadt also sold and closed the loss-making Hertie participations; only WOM and Wehmeyer remained part of the Karstadt group. A total of 16 Hertie branches changed sides in 1996 and forthwith functioned as Karstadt department stores, meaning the Hertie branch network had dropped to only 48 stores by the end of 1996. In 1997 the remaining Hertie sales outlets were incorporated into the various Karstadt divisions, depending on their size, and gradually renamed as Karstadt stores; the last two department stores operating under the Hertie brand were those in Neukölln (Berlin) and the long-standing store opposite the Munich central railway station, that was not renamed until 2007. After that, the name Hertie disappeared once and for all from the world of German department stores.

A department store history lasting more than a century: An epilogue

Today, it is above all the name “Hertie” that remains of Warenhaus Hermann Tietz in the collective memory. The name still exists online as a brand – even if it had lost a lot of its former

shine well before it was incorporated into the Karstadt group in 1996, as the last few decades had been tainted by crises and its dwindling aura. For a very long time, shopping in a Hertie department store was an experience cherished by many Germans. The store gave a sense of participation in and the promise of affluence, something that had not existed for many years prior to 1948, although in the period before 1914 department stores had already been palaces of consumerism with the presentation and seductive delights they offered. Before World War I, they harbored the promise of minor prosperity for all and were indeed perceived in that light: The large stores, particularly in Berlin, were famous and doubled up as tourist destinations; their modern character, open to allcomers, was evident from the very outset in their modern architecture and advanced technical facilities, with artistic interior design and presentations and a highly efficient workflow. Compared to conventional retailing of the day and traditional downtown architecture, the department stores actually functioned as the shop windows advertising modernity and mass consumerism.

Even before 1914, shopping was a general leisure-time pursuit: Given the clear advantages of modern stores, viewing and buying items was something that appealed even to people who could hardly afford the expensive consumer offerings. That said, there were even products aimed at them, as most of the department stores were also geared to the needs of the less wealthy members of the population in terms of favorably priced fabrics, household goods, and food. There was also differentiation within the product lines: Wertheim continued to offer high-end goods in its “shopping temples” and thus served higher society, while most of the Hermann Tietz department stores were aimed at a target group of lower-salaried staff and blue-collar workers.

Important in this context were the new selling methods (fixed prices, immediate payment, no compulsion to buy), which appealed primarily to less-wealthy customers. Oskar Tietz, the founder of Hermann Tietz, believed high turnover through mass sales – mainly of simple articles at low prices with meager margins – was a clear recipe for success, and he therefore located his department stores in downtown traffic intersections to make them more accessible. Founded in Gera, Hermann Tietz expanded via Munich to Berlin, where its department stores became places that fired the imagination and desires, but also functioned as stores offering wares that covered everyday needs. The department stores as the counterpart of nascent industrial mass production were what first made mass consumerism possible in the fast-growing big cities, and they not only employed their own staff but also created jobs for countless employees of their thousands of suppliers.

Small and medium-sized retailers, many of whom were unable to compete, criticized the department stores fiercely, protested against them, and resorted to anti-Semitic clichés as the majority of the department stores were owned by Jews. This did not stop the department stores being successful, but through political lobbying led to the introduction of a special tax on the large department stores and other measures to combat them.

World War I dented the department stores' success story, and the war-related rationing soon gave way post-Armistice to hefty inflation, the Great Depression, and the Nazis' wide-ranging attacks on the stores. It was not until after 1948 that they were able to resume the upward trajectory characteristic of the period before World War I.

As in their heyday pre-1914, most of the department stores – with Hertie among them – catered in West Germany to all consumer strata, from the lesser earners through the broad mid-

dle segment to the luxury groups, while luxury “temples” like Berlin's KaDeWe or Hamburg's Alsterhaus were the exception to the rule. Both the architecture and the interior fit-out of the stores were now less opulent, and all extravagant things were carefully avoided. With its strategy of selling sound, affordable, and pragmatic articles, Hertie acquired a reputation of being staid, something that by no means got in the way of its long-standing business success, which persisted until the death of Georg Karg in 1972.

After 1973 when overall economic conditions deteriorated, the department stores' success story in West Germany took a hit, and in particular that of Hertie. New business models that entailed lower costs such as self-service department stores, specialist retailers, and discount stores all managed to poach sales and market share from the established downtown department stores as consumers were much more price-conscious and preferred easy shopping in malls outside town where there were plenty of parking spaces free of charge. As a consequence, from the early 1970s onwards the department store corporations found themselves essentially sandwiched between the specialist retailers and the “cheaper” retail outlets. The thirst for consumer goods that had characterized the first post-war decades had been allayed, and the problem now was that the department stores were no longer able to offer the entire consumer world “under one roof,” given the differentiation of consumer wishes. The department store as a business model became ever more precarious and it became ever harder to finance further growth from sales, leading to Hertie, for example, increasingly having to plunder its hidden reserves, meaning its massive property portfolio. Hertie also suffered from innumerable management mistakes and frequent changes in executives and strategy; until the early 1990s, and despite bring-

ing considerable financial reserves to bear, the management board proved incapable of getting the corporation sustainably back into the black through modernization and reorganization of department store operations. As the hidden reserves dwindled, so the possibilities for action fell, and in 1994 the corporation was sold to its Karstadt rival. Yet this failed to bring the decline to an end, since the structural problems faced by both the Karstadt and Kaufhof corporations persisted all the same.

With the end of the Hertie corporation in 1994, not only did one of the flagships of the German department store segment go under, but the segment's second glory days in Ger-

many likewise came to an end. Even if, as with other department store corporations, Hertie's history was emphatically influenced by strong entrepreneurial figures such as Oskar Tietz and Georg Karg, it was the underlying structural parameters that for a time enabled the department store to constitute the core and symbol of modern mass consumerism before new retail business models took over as the intermediaries between mass production and mass consumption. The history of the Hertie and Hermann Tietz corporations between 1882 and 1997 is a prime example reflecting this rise, crisis, stabilization, and fall.

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In their study *Die wunderbare Welt von HERmann TIETz. Warenhaus und Massenkonsum in Deutschland in der Moderne*, Werner Plumpe and Ralf Banken examine the entire history of the Hertie company for the first time. The book covers both the development of the corporation itself and the development of the entire German department store industry, which is also placed in the context of German consumer history since the German Empire. The study is funded by the Karg Foundation. The book was published by Siedler on March 6, 2026.

Plumpe, Werner/Banken, Ralf (2026): *Die wunderbare Welt von HERmann TIETz. Warenhaus und Massenkonsum in Deutschland in der Moderne*. Munich: Siedler Verlag.

