

COMMERCE

Do seven recent Saks closings foretell dip in luxury spend?

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By RACHEL LAMB

Although Saks Fifth Avenue has announced the closure of its seventh retail location since July, industry experts seem to think that it is beneficial for a luxury brand to know when to cut its losses.

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Despite the short-term hit that is taken when closing a branch, some think that it's better for the brands to close them down instead of making little profit. However, it makes one wonder if the closing of retail locations mean a decline of luxury sales in general.

"All great brands know when to prune," said Milton Pedraza, CEO of the Luxury Institute, New York. "Saks discounted too much during the recession, but now its correcting itself."

"It admitted its mistakes, is fixing them and will hopefully grow from here," he said.

Cutting to grow

Although it seems that brands need to expand in order to be successful, the shoddy economy has definitely hit the luxury industry, which it is still rebounding.

According to a press release, the company closed its Saks Fifth Avenue stores in Mission Viejo and San Diego, CA; Southampton, NY; Portland, OR; Charleston, SC; and Plano, TX

in 2010 in addition to the Denver, CO store to be shut down in March.

“If there has been a contraction in the luxury market, it’s more important for a brand to refine its strategy and reduce its losses in underperforming stores,” said Doug Fleener, president and managing partner at Dynamic Experiences Group, a retail and customer experience consulting firm in Lexington, MA.

“There are a lot of retailers that stick with underperforming stores and hope that it turns around, but if stores are lower-volume then it’s not worth it,” he said. “I’m sure that Saks is just allocating resources.”

How much is too much?

In the plight of the recession, luxury brands took hard hits from an economic standpoint, but some seem to have fallen even further.

With the cuts, Saks now has 47 Saks Fifth Avenue stores, as well as 57 Off-Fifth Stores which offer discounts on luxury items.

Although these locations are profitable for the brand, it’s hard to say whether or not these discount stores add to the brand’s value in the luxury sector.

Luxury Institute’s Mr. Milton said that having that number of outlet stores definitely takes away uniqueness and exclusivity, which can affect the value of a luxury brand.

However, the Saks outlets are still a branded name which lends a bit of luxury superiority over non-branded retail outlets.

Closure of both full-price and discounted retail locations do not necessarily foreshadow economic decline, especially for huge luxury brands.

“There is an optimization between being a premium brand and a luxury brand, true-blood luxury brands have to be small,” Mr. Pedraza said. “However, strong premium and luxury brands like retailers have to have outlets and offer discounts if they want to be large scale.

“In that case, growth is required,” he said. “Most luxury brands are hybrids of the two, meaning that they should find a medium ground that will make them grow and profit handsomely.”

Final take

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