

RETAIL

Saks brand makes European debut through off-price business

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Image courtesy of Saks Fifth Avenue Off 5th

By SARAH JONES

Hudson's Bay Company, the parent of department store chain Saks Fifth Avenue, is expanding internationally with planned store openings in the Netherlands.

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Within the next two years, HBC plans to open up to 20 Saks Off 5th and Hudson's Bay stores in the European nation, with the first stores launching in the summer of 2017. While Saks Fifth Avenue boasts a handful of international locations, this will be the first European stores for the brand, serving as an introduction for potentially unfamiliar local clientele.

"What seems obvious is that Hudson's Bay Company believes and is betting that the Hudson's Bay banner has more prestige and reach than the Saks Fifth Avenue brand," said Gustavo Gomez, director of research and methodology at [Envirosell](#), New York. "If anything, they are showing commitment to building a global luxury department store chain.

"For Saks that means that it could easily go down as an off-price brand in Europe," he said. "The Saks brand seems to be going in the Saks Off 5th banner direction from a global standpoint.

"It may very well be that the world will know Saks Off 5th more than Saks Fifth Ave. It will be like how Filene's Basement was more recognized than Filene's department store in some parts of the United States.

"There is room for off-price retail in Europe and this may not be a bad business move if Hudson's Bay succeeds in becoming a luxury global department store brand."

Mr. Gomez is not affiliated with Hudson's Bay Company, but agreed to comment as an industry expert.

[Hudson's Bay Company](#) did not respond before press deadline.

Making an introduction

HBC says that it has found desirable high street locations and is working on finalizing long-term leases for retail spaces that will operate under the Hudson's Bay and Saks Off 5th banners. While the landlords will be in charge of building out the spaces, HBC will invest in merchandising and personnel.

With these openings, HBC anticipates creating 2,500 store positions and 2,500 construction jobs in cities.

In a statement, Jerry Storch, CEO of HBC, said, "We believe that in the Dutch retail market there is unmet demand in

both the premium department store and off-price segments. The Hudson's Bay and Saks Off 5th banners, tailored for the Dutch market, will introduce our all-channel retail model to the Netherlands with a combination of exciting retail destinations and a best in class ecommerce presence.

"The situation is similar to the one we capitalized on in Canada with Hudson's Bay. We introduced a new, innovative format offering relevant brands and excellent service," he said. "We will use our proven playbook based on our success with fantastic department stores combined with local management expertise to create innovative retail destinations."

Hudson's Bay Company has been talking of European expansion since it acquired German retailer Galeria Kaufhof from Metro Group last June. The \$3.3 billion deal gave HBC ownership of 103 stores in Germany, of which 59 are in prime city locations, and 16 Galeria Inno stores in Belgium.



Galeria Kaufhof store

Giving it a further strategic presence in Europe, HBC inherited the Kaufhof headquarters in Cologne, Germany as well as warehouses and other properties. HBC's existing European infrastructure will be leveraged in these new openings, which the company says will make it the only omnichannel nationwide premium retailer in the Netherlands.

At the time, Mr. Storch told [Fortune](#) that he could see bringing Saks Fifth Avenue to Germany or Belgium in the future.

"The risk that Off 5th damages the Saks brand is real," said Chris Ramey, president of [Affluent Insights](#), Miami. "Saks Fifth Avenue gives credibility to Saks Off 5th. Does the latter matter without the awareness of the former?"

"Saks Fifth Avenue has low brand awareness outside the United States," he said. "You can't damage something that doesn't exist."

"Clearly, HBC sees Hudson's Bay brand as the stronger of the two brands."

The Netherlands was a natural fit, since the nation has had a lengthy relationship with Canada, the country where HBC is based. HBC is also looking toward Luxembourg, which would give it a presence across all Benelux countries.

"The advantage of establishing Saks Off 5th as an off-price retailer is that it's less likely that it will cannibalize Hudson's Bay market," Mr. Gomez said. "As two brands, they keep their distance in the consumer's eye."

"Introducing both Saks 5th Ave and Saks Off 5th to the Netherlands has the potential of confusing consumers and Saks Off 5th could penetrate the target market of the Saks Fifth Avenue banner."

Off-price overseas

Within North America, luxury brands' off-price businesses have taken off, adding store locations at a much faster rate than their mainline counterparts.

Department stores have been aggressively expanding their outlet retail footprints to capture discount sales from aspirational consumers, but are these off-price stores doing more harm than good?

Discount stores enable a retailer to reach more consumers at varying price points, but a growth strategy that favors off-price bricks-and-mortar may in time hurt the full-line store's luxury image. This requires a delicate balancing act for retailers to retain their branding, positioning and pricing strategy ([see story](#)).

With this move, HBC has bypassed some of the more popular destinations for retail expansion.

Asia Pacific has become a top priority for retailers looking to expand their global footprints, with 18 of the top 50 most attractive cities for cross-border retail located within the region, according to a recent report from JLL.

For its "Destination Retail Report 2016," the retail real estate firm indexed cross-border retail activity in 50 prime cities and found that while Asia Pacific dominates the leaderboard, London is ranked in the number one spot. While luxury retailers are increasingly embracing ecommerce, having the right retail location in key cities remains a top concern ([see story](#)).

"Brand is sacred," Mr. Ramey said. "Every luxury retailer has to be ever vigilant.

"Iconic luxury brands tend to have more elasticity," he said. "For example, Saks, Mercedes and BMW.

"U.S. retailers should never assume their brands have the same elasticity as an iconic European luxury brand."

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