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RETAIL

HBC making "tough decisions" to combat challenging retail environment

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Image courtesy of Saks Fifth Avenue

By STAFF REPORTS

Hudson's Bay Company, the parent company of Saks Fifth Avenue, is focusing on efficiency and cost-saving measures as it aims for growth amid a difficult retail climate.

Saks' comparable sales were up a mere 0.1 percent in the fourth quarter of fiscal 2016 ended Jan. 28 when measured at constant exchange, reflective of the overall hit to HBC's banners from a promotion-heavy retail environment. For 2016, HBC has recorded a net loss of $384 million for the year, which the company plans to turn around by reducing its costs.

Changing course

While HBC remains optimistic about the outlook for its off-price businesses Saks Off 5th and Gilt, this category saw sales decline 5.9 percent in the fourth quarter.

For Saks Off 5th, HBC attributes the decline to its roll out of more modestly priced inventory. The retailer will be making over its product mix to focus more on the top end, which HBC expects to grow cart sizes and foot traffic when it launches later this year.

In the fourth quarter, HBC had an $86 goodwill impairment charge, lowering its original expected earnings from its off-price brands.

While HBC's comparable sales were down, total retail sales across HBC were up 2.5 percent. This was driven partly by the acquisition of Gilt, which closed last February (see story), as well as store openings.

Saks in downtown New York

A bright spot in HBC's results were its comparable digital sales, which rose 8.1 percent. Saks is expected to benefit from increased digital selling, including the upcoming roll out of click-and-collect this fall.

"In 2016 we took important steps to position all of our businesses for industry leadership," said Richard Baker, HBC's governor and executive chairman, in a statement.

"Our team remains focused on our all-channel model, anticipating our customers' evolving needs and adapting to our customers' expectations both in store and online," he said. "We executed on the organic growth of our existing store base and substantially increased our investment in digital."

Going forward, HBC plans to optimize the productivity of its operations, including at the store level. Efficiency measures are expected to save the retail company about $56 million.

"The past year was a disruptive one for the retail industry," said Jerry Storch, CEO of HBC. "While the department store sector remains challenging, we are taking decisive action and making the tough decisions to ensure continued performance should the current environment persist.

"We are cutting expenses, rationalizing and reallocating our capital spending, strengthening our balance sheet, and taking other necessary actions," he said. "Rest assured, as we remain focused on the continued growth of our company, we are aggressively positioning HBC to adapt to the changing retail environment."